

IMO 03 EAD

INDEPENDENT AUDITOR'S REPORT

ANNUAL ACTIVITY REPORT

ANNUAL FINANCIAL STATEMENTS

31 DECEMBER 2017

CONTENTS	Page
Independent auditor's report	
Annual Activity Report	1-3
Annual Financial Statement	
Statement of comprehensive income	4
Balance sheet	5
Statement of changes in shareholder's equity	6
Statement of cash flows	7
Notes to the financial statements	8-26



Independent Auditor's Report

To the Shareholder of Imo o3 EAD

Our Opinion

We have audited the financial statements of Imo o3 EAD (the "Company") the balance sheet as at 31 December 2017, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (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 Company 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.

Material Uncertainty Relating to Going Concern

We draw attention to Note 2.1 to these financial statements, which states that as of 31 December 2017 the Company's net assets had a negative value of BGN 10,437 thousand and the Company's registered share capital exceeds its net assets which is not in compliance with the Bulgarian Commercial Act. These matters, as described in Note 2.1, indicate the existence of a material uncertainty which may cast significant doubt about the ability of the Company to continue as a going concern as its continued existence is dependent on the capital support by the parent and liquidity support by Eurobank Private Bank Luxembourg. Our opinion is not modified in respect of this matter.

PricewaterhouseCoopers Audit OOD, 9-11 Maria Louisa Blvd., 1000 Sofia, Bulgaria
T: +359 2 9355200, F: +359 2 9355266, www.pwc.com/bg

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

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



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*, 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.

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, we have also performed the procedures added to those required under ISAs in accordance with the "Guidelines Regarding the New and Enhanced Auditor Reporting and Communication by the Auditor" of the professional organisation of registered auditors in Bulgaria, i.e. the Institute of Certified Public Accountants (ICPA). 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 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 Activity Report for the financial year for which the financial statements have been prepared is consistent with those financial statements.
- b) The Annual Activity Report has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.



Responsibilities of Management 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 Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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 Company'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 Company'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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



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

Milka Damianova
Registered Auditor
15 June 2018
Sofia, Bulgaria



Jock Nunan
PricewaterhouseCoopers Audit OOD

**IMO 03 EAD
ANNUAL ACTIVITY REPORT
31 DECEMBER 2017**

ANNUAL ACTIVITY REPORT

The Directors present the report and the financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union (“IFRS”), for the year ended 31 December 2017. The financial statements have been audited by PricewaterhouseCoopers Audit OOD.

GENERAL INFORMATION

Imo 03 EAD (the Company), UIK 175434111, is a single-stock company registered in Bulgaria on 18 December, 2007. The address of its registered office is as follows: 260 Okolovrasten pat Str. 1766 Sofia, Bulgaria. Company has no branches.

The sole owner of the capital is Neu 03 Property Holdings Limited a private company incorporated and existing under the laws of Cyprus, entered into the Ministry of Energy Commerce Industry and Tourism – Department of Registrar of Companies and Official Receiver, Nicosia, under registration number HE326948. The Company does not have branches in the country or abroad.

The Company’s owner is Eurobank Ergasias S.A. (see also note 13).

The Company was registered with the principal activity execution of all types of real estate transactions: sale – purchase, renting, leasing and engineering activity, preparation of investment projects, real estate consultancy, services, project management, valuation services, real estate brokerage and intermediary services, technical consultancy services, architectural, real estate development and engineering studies.

The Company does not carry out research and development activities.

SHARE CAPITAL STRUCTURE

As at 31 December 2017 the total authorized number of ordinary shares was BGN 125,000 with a nominal value of BGN 1 per share.

BOARD OF DIRECTORS

As at 31 December 2017 the Board of Directors consists of the following members:

Emil Pilafov – Chairman of the Board of Directors and Executive Director
Mariana Hristova – Member of the Board of Directors and Executive Director
Michalis Stamou – Member of the Board of Directors

The total annual remuneration of the members of the Board of Directors

In 2017 the members of the Board of Directors did not receive remuneration from the Company in their capacity of Board of Directors members.

Shares and bonds of the Company that are acquired, owned and transferred by the members of the Board of Directors during the year

No member of the Board of Directors has owned or transferred shares or bonds of the Company.

GENERAL INFORMATION (CONTINUED)

The Board of Directors member's rights to acquire shares and bonds of the company

No member of the Board of Directors holds special rights of acquisition of shares or bonds of the Company.

The Board of Directors members' ownership in other commercial enterprises, as:

Partners with unlimited liability

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

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

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

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

Emil Pilafov

- IMO Property Investments Sofia EAD, Bulgaria – Chairman of the Board of Directors and Executive Director;
- IMO Central Office EAD, Bulgaria – Chairman of the Board of Directors and Executive Director.

Mariana Hristova

- Bulgarian Retail Services AD, Bulgaria - Member of the Board of Directors and Executive Director;
- IMO Central Office EAD, Bulgaria – Member of the Board of Directors.

Michalis Stamou

- ERB Leasing EAD, Bulgaria – Member of the Board of Directors;
- ERB Property Services Sofia AD. , Bulgaria – Member of the Board of Directors;
- IMO Property Investments Sofia EAD., Bulgaria – Member of the Board of Directors;
- IMO Central Office EAD., Bulgaria – Member of the Board of Directors;
- Eurobank Property Services S.A., Romania – Member of the Board of Directors;
- IMO Property Investments Bucuresti S.A, Romania – Member of the Board of Directors;
- IMO II Property Investments S.A., Romania – Member of the Board of Directors;
- NEU BG Central Office Limited, Cyprus - Member of the Board of Directors.

The Contracts under Article 240b of the Commerce Act

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

OVERVIEW OF RESULTS

Financial results for the current period

The financial result before tax for 2017 is loss in the amount of BGN 728 thousand. The main part of the expenses is related to the financial cost - BGN 599 thousand.

Investing activity

In December 2013 the Company acquired through public auction one property in Varna situated in St. Nikola area. The property is Regulated land plot with existing constructions of residential project. The Management is in process of examining different sale strategies.

MAIN OBJECTIVES FOR 2018

For 2018 the Company does not plan more acquisitions. The main target is to complete the sale of the acquired property.

FINANCIAL RISK MANAGEMENT

The Company is exposed to variety of financial risks. Detailed description of those risks and the policies and procedures applied by the Management are set out in Note 3 of the financial statement as at 31 December 2017.

EVENTS AFTER THE BALANCE SHEET DATE

There are no events after the Balance Sheet date as defined by IAS 10.

MANAGEMENT RESPONSIBILITIES

The Directors are responsible for the preparation and fair presentation of the enclosed financial statements in accordance with International Financial Reporting Standards as adopted by the European Union.

This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

The Directors confirm that they have complied with the above responsibilities in preparing the financial statements for the year ended 31 December 2017.

The Directors also confirm that to the best of their knowledge the Company will continue on a going concern basis in the foreseeable future.



Emil Pilafov
Executive Director and Chairman of Board of Directors

Date: 15 June 2018



**IMO 03 EAD
STATEMENT OF COMPREHENSIVE INCOME
31 DECEMBER 2017**

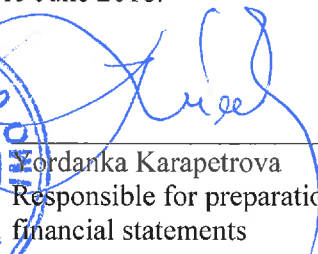
(All amounts are presented in BGN thousands unless otherwise stated)

	Notes	Year ended 31 December	
		2017	2016
Expenses related to investment property	5	(118)	(155)
Administrative expenses	6	(11)	(8)
Operating loss		(129)	(163)
Financial costs	7	(599)	(540)
Loss before income tax		(728)	(703)
Income tax expense		-	-
Loss for the year		(728)	(703)
Other comprehensive income for the year		-	-
Total comprehensive income for the year		(728)	(703)

The Financial statements were authorised by the management on 15 June 2018.



Emil Pilafov
Chairman of the Board of Directors and
Executive Director

Jordanka Karapetrova
Responsible for preparation of
financial statements

Initialed for identification purposes in reference to the audit report:



Milka Damianova
Registered auditor




Jock Nunan
PricewaterhouseCoopers Audit OOD

Date: 15 -06- 2018

Date: 15 -06- 2018

IMO 03 EAD
BALANCE SHEET
31 DECEMBER 2017

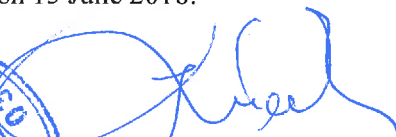
(All amounts are presented in BGN thousands unless otherwise stated)

	Notes	As at 31 December	
		2017	2016
Non-current assets			
Investment property	9	17,971	17,971
Total non-current assets		17,971	17,971
Current assets			
Cash and cash equivalents	10	470	225
Trade receivables and other assets		-	1
VAT receivable		3	3
Total current assets		473	229
Total Assets		18,444	18,200
Current liabilities			
Borrowings	11,14	28,871	27,897
Trade and other payables	12	10	12
Total liabilities		28,881	27,909
Equity			
Share capital	13	125	125
Accumulated loss		(10,562)	(9,834)
Total equity		(10,437)	(9,709)
Total equity and liabilities		18,444	18,200

The Financial statements were authorised by the management on 15 June 2018.



Emil Pilafov
 Chairman of the Board of Directors and
 Executive Director

Yordanka Karapetrova
 Responsible for preparation of financial
 statements

Initialed for identification purposes in reference to the audit report:



Milka Damianova
 Registered auditor



Date: 15 -06- 2018



Jock Nunan
 PricewaterhouseCoopers Audit OOD

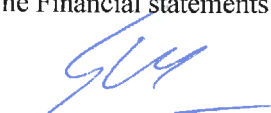
Date: 15 -06- 2018

IMO 03 EAD
STATEMENT OF CHANGES IN EQUITY
31 DECEMBER 2017

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

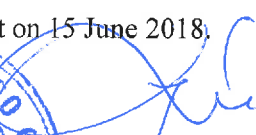
	Share capital	Accumulated deficit	Total
At 1 January 2016	125	(9,131)	(9,006)
Loss for the year	-	(703)	(703)
Other comprehensive income	-	-	-
At 1 January 2017	125	(9,834)	(9,709)
Loss for the year	-	(728)	(728)
Other comprehensive income	-	-	-
At 31 December 2017	125	(10,562)	(10,437)

The Financial statements were authorised by the management on 15 June 2018.




 Emil Pilafov
 Chairman of the Board of Directors and
 Executive Director



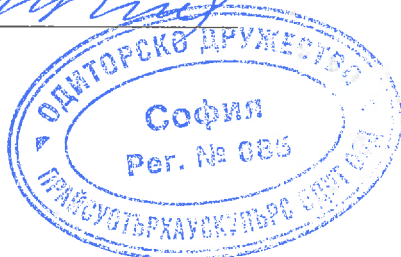


 Yordanka Karapetrova
 Responsible for preparation of financial
 statements

Initialed for identification purposes in reference to the audit report:



 Milka Damianova
 Registered auditor





 Jock Nunan
 PricewaterhouseCoopers Audit OOD

Date: 15 -06- 2018


Date: 15 -06- 2018

IMO 03 EAD
STATEMENT OF CASH FLOWS
31 DECEMBER 2017

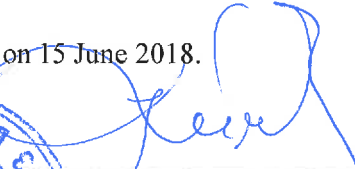
(All amounts are presented in BGN thousands unless otherwise stated)

	Notes	Year ended 31 December	
		2017	2016
Operating activities			
Payments to suppliers and other creditors		(138)	(192)
VAT related with purchase of Investment property		20	30
Other operating cash flows		(12)	(1)
Net cash flows used in operating activities		(130)	(163)
Financing activities			
Borrowings received		978	489
Interest paid		(603)	(549)
Net cash flows from/(used in) financing activities		375	(60)
Increase/decrease in cash and cash equivalents		245	(223)
Cash and cash equivalents at the beginning of the year		225	448
Cash and cash equivalents at end of year	10	470	225

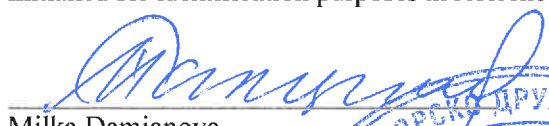
The Financial statements were authorised by the management on 15 June 2018.


 Emil Pilafov
 Chairman of the Board of Directors and
 Executive Director




 Yordanka Karapetrova
 Responsible for preparation of financial
 statements

Initialled for identification purposes in reference to the audit report:


 Milka Damianova
 Registered auditor



Date: 15 -06- 2018


 Jock Nunan
 PricewaterhouseCoopers Audit OOD

Date: 15 -06- 2018

IMO 03 EAD
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
31 DECEMBER 2017

1. General information

Imo 03 EAD was established on 18 December 2007 as a joint-stock company with trade name EFG Securities Bulgaria EAD. Its first subject of activity was performing investment services and activities.

On 4 February 2011 the sole owner issued Resolution for change of the name and the Company's scope of activity. The sole owner of the capital resolved on the change of the Company's trade name from EFG Securities Bulgaria EAD to IMO 03 EAD and resolved on the scope of activity to be changed to property investment activities, namely purchase, building and construction of real estate property for the purpose of rent and sale.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of the financial statements are set out below:

2.1 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).

Going concern of the Company

Financial statements are prepared on the principle of going concern which implies that the company will continue operations in the foreseeable future. IMO 03 EAD finances its activities through a revolving short term borrowing by Eurobank Private Bank Luxembourg and its capital base. As of 31 December 2017 the Company had negative equity and it relies on the future support and financing by the Group to continue its operations as a going concern. The current credit line is renewed till 28 June 2019.

IMO 03 EAD has negative equity of BGN 10,437 thousand and is in breach of article 252, para (1), item 5 from Bulgarian Commerce Act as its registered capital exceeds net assets.

Based on the above the financial statements are prepared on the going concern principle.

Position of the Group

Greece's real GDP grew by 1.4% in 2017, according to the Hellenic Statistical Authority's (ELSTAT) first estimate from -0.02% in 2016, while the real GDP growth consensus forecast for 2018 is at 2.1% (compared to an official target of 2.5%). The unemployment rate in December 2017 was 20.8%, based on ELSTAT data (31 December 2016: 23.5%). On the fiscal front, Greece's primary surplus for 2017 is expected at 2.44% of GDP, according to the 2018 Budget data, outperforming the respective Third Economic Adjustment Program (TEAP) primary balance target of 1.75%. According to Bank of Greece and ELSTAT data the current account deficit decreased at -0.8% of GDP in 2017 (2016: -1.1 %).

2. Summary of significant accounting policies

2.1 Basis of preparation (continued)

Position of the Group (continued)

Greece, following the conclusion of the TEAP second review in June 2017 and the consequent release of the € 8.5 bn loan tranche, reached a staff level agreement with the European institutions on the policy package of the third review on 4 December 2017 and implemented all prior actions by early 2018, which paved the way for the disbursement of the first sub-tranche of € 5.7 bn in the second half of March 2018. The second sub-tranche of € 1 bn will be disbursed in the second quarter of 2018 subject to positive reporting by the European institutions on the clearance of net arrears and the unimpeded flow of e-auctions. On the back of the aforementioned positive developments, Greece returned to the financial markets through the issue of a € 3 bn five-year bond at a yield of 4.625% on 24 July 2017 (for the first time since July 2014) and a € 3 bn seven-year bond at a yield of 3.5% on 8 February 2018. The proceeds of the bond issues are used for further liability/debt management and for the build-up of a state cash buffer that would facilitate the country's market access after the end of the program in August 2018.

The completion of the fourth and final review of the TEAP, which will be carried out by June 2018 according to the implementation plan, an expected significant rise in investments (2018 Budget estimate at 11.4% compared to 9.6% increase in 2017), and a forecasted strong tourism season support expectations for a further improvement in domestic economic activity in 2018. The decisive implementation of the reforms agreed in the context of the TEAP, the implementation of further debt relief measures in accordance with 24 May 2016 Eurogroup decisions, the mobilization of European Union (EU) funding to support domestic investment and job creation, the attraction of foreign and domestic capital and the adoption of an extrovert economic development model will 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 strong and sustainable growth path.

The main risks and uncertainties are associated with (a) the possible delays in the implementation of the reforms' agenda in order to meet the next targets and milestones of the TEAP, (b) the possible delays in the agreement of the post-program relation between Greece and the Institutions, (c) the impact on the level of economic activity and on the attraction of direct investments from the fiscal and social security-related measures agreed under the reviews of the TEAP, (d) the ability to attract new investments in the country, (e) the timing of a full lift of restrictions in the free movement of capital and the respective impact on the level of economic activity, (f) the possible slow pace of deposits inflows and/ or possible delays in the effective management of non-performing exposures (NPEs) as a result of the challenging macroeconomic conditions in Greece and (g) the geopolitical conditions in the broader region and the external shocks from a slowdown in the global economy.

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 European Stability Mechanism (ESM) program. The gradual stabilisation of the macroeconomic environment, following the completion of the second and the third review of the TEAP, has enhanced Greece's credibility towards the international markets, improved the domestic economic sentiment and facilitated the return of deposits as well as the further relaxation of capital controls. The successful completion of the fourth review of the TEAP and an agreement on the post-program relation of Greece with its official creditors will help further reinstating depositors' confidence and thus accelerate the return of deposits, and it will positively influence the financing of the economy.

The Group monitors closely the developments in the Greek macroeconomic environment taking into account its direct and indirect exposure to sovereign risk. A key priority is the active management of NPEs, with the aim to substantially reduce their stock in accordance with the Bank's operational targets and taking advantage of the Group's internal infrastructure, the important legislative changes and the external partnerships that have taken or are expected to take place.

2. Summary of significant accounting policies

2.1 Basis of preparation (continued)

Position of the Group (continued)

In parallel, the Group recorded a net profit attributable to shareholders of € 104 million for 2017. In the context of its strategic plan, the Bank has undertaken significant initiatives towards the fulfillment of the remaining commitments of the restructuring plan and it proceeded with the redemption of the preference shares by issuing Tier 2 bonds at early 2018, which count in its total capital adequacy ratio. The Group's Common Equity Tier 1 (CET1) ratio stood at 17.9 % at 31 December 2017, while the respective pro-forma ratio with the redemption of preference shares/issue of Tier 2 bonds and the completion of the sale transaction in Romania would be 15.8%. The impact of the adoption of IFRS 9 on Group's CET1 as at the end of 2018, according to the transitional arrangements for the 5-year phase in period, will be 16 bps.

Eurobank, along with the other three Greek systemic banks directly supervised by the European Central Bank (ECB), undergoes the 2018 EU-wide stress test launched by the European Banking Authority (EBA) on 31 January 2018. The results for the Greek systemic banks are expected to be published in May 2018.

Within an environment of positive growth, the Group is well on track to achieve the 2018 NPE reduction targets, maintain profitability, continue the creation of organic capital and strengthen its position in the Greek market and abroad.

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

In November 2015, following the completion of the Bank's 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 the Bank. 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, the Bank 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 (NPLs) management framework and of the Bank's performance on NPLs 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 and are conducted on an arm's length basis. These include loans, deposits and guarantees. In addition, as part of its normal course of business in investment banking activities, the Group at times may hold positions in debt and equity instruments of related parties.

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

Amendments to standards adopted by the Company

The following amendments to standards, as issued by the International Accounting Standards Board (IASB) and endorsed by the European Union (EU), apply from 1 January 2017:

IAS 7, Amendment-Disclosure Initiative

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. In the year ended 31 December 2017, the change in the Company's liabilities arising from a financial activity is in relation to the payment of interest on borrowed funds (Note 11) amounting to BGN 603 thousand, of which non-monetary changes during the year include accrued interest amounting to BGN 22 thousand.

IAS 12, Amendment-Recognition of Deferred Tax Assets for Unrealized Losses

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 deductible temporary differences, (c) the estimate of probable future 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 difference. 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 had no impact on the Company's financial statements.

Annual Improvements to IFRSs 2014-2016 Cycle

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

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

A number of new standards, amendments to existing standards and interpretations are effective after 2017, as they have not yet been endorsed by the European Union or have not been early applied by the Company. Those that may be relevant to the Company are set out below:

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

New standards, amendments to standards and interpretations not yet adopted by the Company (continued)

IAS 19, Amendment –Plan Amendment, Curtailment or Settlement (effective 1 January 2019, not yet endorsed by EU)

The amendment clarifies that when a change to a defined benefit plan i.e an amendment, curtailment or settlement takes place and a remeasurement of the net defined benefit liability or asset is required, the updated actuarial assumptions from the remeasurement should be used to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. Additionally the amendment includes clarifications about the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.

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

IAS 28, Amendment – Long Term Interests in Associates and Joint Ventures (effective 1 January 2019, not yet endorsed by EU)

The amendment clarifies that IFRS 9 'Financial Instruments' including its impairment requirements, applies to long term interests in associates or joint ventures that form part of the entity's net investment in the associate or joint venture but are not accounted for using equity accounting.

According to the amendment, any adjustments to the carrying amount of long term interests resulting from the application of IAS 28 should not be considered when applying the IFRS 9 requirements which apply to long term interests before applying the loss allocation and impairment requirements of IAS 28. The adoption of the amendment is not expected to impact the Company'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 Company's financial statements

IAS 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 granted and 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 Company's financial statements.

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

IFRS 4, Amendment—Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective 1 January 2018)

The amendment addresses the accounting consequences of the different effective dates of IFRS 9 ‘Financial Instruments’ and the forthcoming new insurance contracts Standard. It 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 Company’s activities.

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: amortized 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 amortized 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 through 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 recognized in profit or loss, unless this would create or enlarge an accounting mismatch.

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

IFRS 9, Financial Instruments (effective 1 January 2018) (continued)

The Company has assessed the impact of the new standard and no significant effect on the financial statements is expected

IFRS 9, Amendment–Prepayment features with negative compensation and modifications of financial liabilities (effective 1 January 2019, not yet endorsed by EU)

The amendment changes IFRS 9 requirements in order to allow measurement of a financial asset at amortized cost or at FVOCI, depending on the business model, even in the case of prepayment options which could result in the party that triggers the early termination receiving compensation from the other party (negative compensation). Therefore, measurement of these financial assets will be regardless of the event or circumstance that caused the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination. Applying IFRS 9 before the amendment would probably result in the measurement of these financial assets at FVTPL.

The amendment also confirms the modification accounting of financial liabilities under IFRS 9. In specific, when a financial liability measured at amortized cost is modified without this resulting in derecognition, a gain or loss, calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate, should be recognized in profit or loss

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

IFRS 15, Revenue from Contracts with Customers and IFRS 15 Amendments (effective 1 January 2018)

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'); and
- 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 (i.e. the ability to direct the use of and obtain the benefits from them), is obtained by the customer. For services provided over time, such as management fee income earned for asset management services provided and variable performance fee income based on the return of the underlying asset at a particular date, consideration is recognized when the service is provided to the customer provided that it is probable that a significant reversal of consideration will not occur. Extensive disclosures will be required in relation to revenue recognized and expected from existing contracts.

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

IFRS 15, Revenue from Contracts with Customers and IFRS 15 Amendments (effective 1 January 2018) (continued)

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

The Company, is currently in the process of finalizing the impact assessment of IFRS 15, however the adoption of the standard is not expected to have a significant impact on the Company's consolidated financial statements as net interest income, which is a primary revenue stream of the Company, is not impacted by the adoption of IFRS 15 and the existing Company accounting treatment for revenue from contracts with customers is generally in line with IFRS 15.

IFRS 16, Leases (effective 1 January 2019)

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 Company is currently assessing the impact of IFRS 16 on its financial statements, which is impracticable to quantify as at the date of the publication of these financial statements.

IFRS 17, Insurance Contracts (effective 1 January 2021, not yet endorsed by EU)

IFRS 17, which supersedes IFRS 4 'Insurance Contracts' provides a comprehensive and consistent accounting model for insurance contracts. It applies to insurance contracts issued, all reinsurance contracts and to investment contracts with discretionary participating features that an entity issues provided it also issues insurance contracts. Financial guarantee contracts are allowed to be within the scope of IFRS 17 if the entity has previously asserted that it regarded them as insurance contracts.

According to IFRS 17 general model, groups of insurance contracts which are managed together and are subject to similar risks, are measured based on building blocks of discounted, probability-weighted future cash flows, a risk adjustment and a contractual service margin ('CSM') representing the unearned profit of the contracts. Under the model, estimates are remeasured in each reporting period. A simplified measurement approach may be used if it is expected that doing so a reasonable approximation of the general model is produced or if the contracts are of short duration.

Revenue is allocated to periods in proportion to the value of expected coverage and other services that the insurer provides during the period, claims are presented when incurred and any investment components i.e amounts repaid to policyholders even in the insured event does not occur, are not included in revenue and claims. Insurance services results are presented separately from the insurance finance income or expense.

IFRS 17 is not relevant to the Company's activities.

2. Summary of significant accounting policies (continued)

2.2 Foreign currency transactions

(a) Functional and presentation currency

The functional currency and the presentation currency is 'Bulgarian lev'(BGN). The financial statements are prepared in BGN. All amounts in the financial statements are rounded to the nearest multiple of thousand.

(b) Transactions and balances

Foreign currency transactions are accounted for at the 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 at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

2.3. Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and provision for impairment, where required.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation on items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Gains and losses on disposal are determined by comparing proceeds with carrying amount. These are included in profit or loss.

2.4 Investment property

According to IAS 40, Investment property is a property, land or a building or part of a building or both held to earn rentals or for capital appreciation or both and that is not occupied by the Company. Investment property is recognised as an asset when it is probable that future economic benefits that are associated with the property will flow to the entity, and the cost of the property can be reliably measured.

After the initial recognition, investment properties are presented as non-current assets and are measured at cost less any accumulated depreciation and any accumulated impairment.

All acquisition costs are accumulated in the book value of investment property. An investment property is measured initially at its cost. Transaction costs are included in the initial measurement. The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure. Directly attributable expenditure includes, for example, professional fees for legal services, property transfer taxes, and other transaction costs. The real estate assets acquired, where further construction or development is necessary before they become ready for sale, can be treated as "qualifying assets" and in this case, the borrowing costs directly attributable to the acquisition and construction/development are eligible for capitalization.

2. Summary of significant accounting policies (continued)

2.4 Investment property (continued)

Buildings recognized as investment properties are depreciated for a period of 50 years. The annual depreciation rate is 2%.

Land recognized as investment property is not depreciated.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

When an entity uses the cost model, transfers between investment property, owner-occupied property and inventories do not change the carrying amount of the property transferred and they do not change the cost of that property for measurement or disclosure purposes. According to IAS 40 and the Company's policy, IMO 03 EAD has to perform an impairment analysis of the acquired properties closer to the year-end reporting date.

2.5 Trade receivables and other assets

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established, when there is an objective evidence that the entity will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited to profit or loss.

2.6 Cash and cash equivalent

Cash and cash equivalents are carried at amortized cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and excludes restricted cash accounts.

2.7 Trade payables and other financial liabilities

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.8 Accounting for operating lease contracts

Assets leased out under operating leases are included in investment property in the balance sheet. Rental income (net of any incentives given to lessees) is recognized on a straight-line basis over the lease term.

Operating lease payments are recognized as expenses in the statement of comprehensive income on a straight-line basis over the lease term.

2. Summary of significant accounting policies (continued)

2.9 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method, unless it is capitalised under IAS 23.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.10 Interest expense

Interest expenses for borrowings are recognized within 'finance costs' in profit or loss using the effective interest rate method, except for borrowing costs relating to qualifying assets.

The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts throughout the expected life of the financial instrument, or a shorter period where appropriate to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees 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.

2.11. Revenue recognition

Fee income

Fees and commissions are generally recognized when the service has been provided.

2.12 Deferred tax

Taxation has been provided for in the financial statements in statement of comprehensive income in accordance with Bulgarian legislation currently in force. The charge for taxation in the income statement comprises the current tax and changes in the deferred tax.

The 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 recognized as an expense in the period in which profits arise. Taxes other than on income are recorded within operating expenses.

The 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.

2. Summary of significant accounting policies (continued)

2.12 Deferred tax (continued)

The 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 investment property.

Deferred tax assets are recognized where it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized.

3. Financial risk management

The Company's activities expose it to a variety of financial risks: market risk (including currency risk and cash flow interest rate risk), credit risk, liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. The risk management is executed by the management as its policy is approved by the parent company.

3.1. Market risk

(a) Currency risk

The Company's policy is not to hold monetary assets, denominated in a currency different from BGN or EUR. The Company has insignificant exposure to currency risk since FX rate EUR/BGN is pegged at 1.95583.

(b) Interest rate risk

As the Company has no significant interest-bearing assets, its income and operating cash flows are substantially independent of changes in market interest rates.

The Company's interest rate risk arises from short-term borrowings (Note 11). Borrowings issued at variable rates expose the Company to cash flow interest rate risk. Interest re-pricing period of the borrowings is on a monthly base, thus mitigating to some extent the interest rate risk.

The Company's cash flow and interest rate risk is periodically monitored by the Company's management and by the parent Company (i.e. the Group management). As the borrowings are provided by the Eurobank Private Bank Luxembourg S.A., the exposure of the Company to interest rate risk is reviewed individually for each new facility provided.

Trade and other receivables and payables are interest-free and have settlement dates within one year.

The Company is not exposed to the price risk with respect to financial instruments as it does not hold any equity securities.

Impact on liquidity

The Company is not exposed to price risk in respect to financial instruments, as does not have capital securities.

IMO 03 EAD
NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)
31 DECEMBER 2017

3. Financial risk management (continued)

3.2 Credit risk

Credit risk arises from cash and cash equivalents and bank deposits, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

The table below shows balances of cash and cash equivalents and deposits with banks as at 31 December 2017 and 2016 as follows:

Contractor	31 December 2017		31 December 2016	
	Credit rating	Balance	Credit rating	Balance
Eurobank Bulgaria AD	BB+ (BCRA)	470	BB+ (BCRA)	225
		470		225

The Company has not suffered losses due to default of the contractor. The market value of these assets is not materially different from their carrying value

3.3 Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and availability of funding through an adequate amount of committed credit facilities. The liquidity risk is strictly monitored by the Management.

The table below analyses the company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Up to 1 month	Between 1 and 3 months	Between 3 and 12 months	Total
As at 31 December 2017				
Other payables	9	1	-	10
Borrowings	22	-	28,849	28,871
Total financial liabilities	31	1	28,849	28,881
As at 31 December 2016				
Other payables	12	-	-	12
Borrowings	26	-	27,871	27,897
Total financial liabilities	38	-	27,871	27,909

3. Financial risk management (continued)

3.4. Capital risk management

The company's objectives when managing capital are to safeguard the company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. Total capital is calculated by the management as "equity" as shown in the balance sheet.

4. Critical accounting estimates and judgments

Estimate of fair value of investment properties

The fair value of the investment properties, accounted at cost model in accordance with IAS 40 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 properties 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 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 valuation company at the end of the 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.

The fair value estimations of the external appraiser company are based on estimates such as:

- (i) current prices in an active market for properties of different nature, condition or location, adjusted to reflect those differences;
- (ii) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and
- (iii) discounted cash flow projections based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The investment properties are categorized into three levels of the fair value hierarchy as of 31 December 2017 based on whether the inputs to the fair value are observable or unobservable, as follows:

Level 1 – Investment properties measured based on quoted prices in active markets for identical assets that the company can access at the measurement date.

Level 2 – Investment properties measured using valuation techniques with the following inputs: i) quoted prices for similar assets in active market, ii) quoted prices for identical or similar assets in markets that are not active, iii) inputs other than quoted prices that are observable for the assets, iv) inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Investment properties measured using valuation techniques with significant unobservable inputs.

IMO 03 EAD
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
31 DECEMBER 2017

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

4. Critical accounting estimates and judgments (continued)

Estimate of fair value of investment properties (continued)

The fair value hierarchy categorisation of the company's investment property carried as cost is presented in the following table:

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

Class property	Fair value 31/12/2017 in BGN thousands	Valuation technique	Significant Unobservable Input	Range (weighted average) 2017 in BGN	Connection between the unobservable input and FV A significant increase in price per m2 would result in a higher fair value
Residential	17,790	Market comparison approach	price per m2	563 – 800 (760)	

In line with IAS 40, IMO 03 EAD has obtained a new market valuation at the end of the year. The new market value was BGN 17,790 thousand. Net book value as at 31 December 2017 is BGN 17,971 thousand. The difference between the market and the book value is insignificant and the Company found no grounds for impairment as at 31 December 2017.

5. Expenses related to investment properties

	2017	2016
Maintenance	(118)	(155)
	<u>(118)</u>	<u>(155)</u>

6. Administrative expenses

	2017	2016
Audit fees expenses	(9)	(7)
Miscellaneous	(2)	(1)
	<u>(11)</u>	<u>(8)</u>

7. Financial costs

	2017	2016
Interest expense	(597)	(539)
Others finance costs	(2)	(1)
Total financial costs	<u>(599)</u>	<u>(540)</u>

IMO 03 EAD
NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)
31 DECEMBER 2017

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

8. Deferred tax income

	2017	2016
Loss before income tax	(728)	(703)
Tax calculated at a tax rate applicable to profits 10% (2016:10%)	(73)	(70)
Tax effect of expenses not deductible for tax purposes	73	70
	<u>73</u>	<u>70</u>

Deferred income taxes are calculated at the tax rate that will be effective at the time when they are expected to be realised. The tax applicable for 2017 is 10% (2016: 10%).

The tax loss for 2017 is BGN 131 thousands. The tax loss for 2016 is BGN 164 thousands.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and the deferred income taxes relate to the same fiscal authority.

Tax authorities can at any given time carry out revision of the accounting registers within 5 years after the reporting period, where it is possible to levy additional tax or impose fines. Management does not believe that there are circumstances, which could lead to significant tax obligations of the abovementioned nature.

Tax losses carried forward for which no deferred income tax asset was recognised, and the year of their expiry are as follows:

Year of expiry	2017	2016
2017	-	-
2018	11,309	-
2019	22,083	11,309
2020	120,461	22,083
2021	110,145	120,461
	<u>263,998</u>	<u>153,853</u>

9. Investment property

Carrying amount as at 31 December 2016	<u>17,971</u>
Additions	-
Impairment	-
Carrying amount as at 31 December 2017	<u>17,971</u>

10. Cash and cash equivalents

	As at 31 December	
	2017	2016
Cash in BGN	-	8
Cash in EUR	470	217
Total cash in bank	<u>470</u>	<u>225</u>

IMO 03 EAD
NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)
31 DECEMBER 2017

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

11. Borrowings

The Company's loan is with a floating interest rate and is denominated in Euro. The loan has not been collateralised.

	As at 31 December	
	2017	2016
Bank loans	28,849	27,871
Accrued interest	22	26
	<u>28,871</u>	<u>27,897</u>

The carrying amounts of the borrowing approximates its fair value at the balance sheet date. The loan is contracted with floating rate (1M EURIBOR) plus margin of 2.00%. There are no covenants included in the loan agreement.

The current credit line was renewed on 08 May 2018 with new maturity date 28 June 2019.

12. Trade and other payables

	As at 31 December	
	2017	2016
Audit fees payable	7	7
Other payables	3	5
	<u>10</u>	<u>12</u>

The fair value of the above financial liabilities does not significantly differ from their carrying amount.

13. Share capital

	Number of shares	Nominal value of one share (BGN)	Value
As of 1 January 2016	125,000	1	125
As of 1 January 2017	125,000	1	125
As of 31 December 2017	125,000	1	125

All shares are owned by Neu 03 Property Holdings Limited, and are fully paid.

14. Related parties transactions and balances

In November 2015, following the completion of the Bank's 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%.

IMO 03 EAD
NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)
31 DECEMBER 2017

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

14. Related parties transactions and balances (continued)

Despite the aforementioned significant decrease of its percentage, the HFSF is still considered to have significant influence over the Bank. 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, the Bank 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 (NPLs) management framework and of the Bank's performance on NPLs 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 and are conducted on an arm's length basis. These include loans, deposits and guarantees. In addition, as part of its normal course of business in investment banking activities, the Group at times may hold positions in debt and equity instruments of related parties.

The management is compensated by virtue of a decision of Board of Directors. There is no key management compensation for the year ended 31 December 2017 and 2016.

The Company had the following transactions and balances with related parties:

	As at 31 December	
	2017	2016
Borrowings		
Eurobank Private Bank Luxembourg S.A.	28,849	27,871
Accrued interest		
Eurobank Private Bank Luxembourg S.A.	22	26
Cash and cash equivalents		
Eurobank Bulgaria AD (Note 10)	470	225
Interest expenses		
Eurobank Private Bank Luxembourg S.A.	597	539
Commissions and fee expenses		
Eurobank Bulgaria AD	2	1
Payables to related parties		
ERB Property Services EAD	2	-
Expenses related to investment properties		
ERB Property Services EAD	2	2

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)
31 DECEMBER 2017

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

15. Contingent liabilities and commitments

The management has not identified any significant contingent liabilities and commitments valid as at 31 December 2017.

16. Events after the Balance Sheet date

There are no events after the Balance Sheet data as defined by IAS 10.