

**ERB LEASING EAD
INDEPENDENT AUDITOR'S REPORT
DIRECTORS' REPORT
SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

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Independent auditor's report

To the sole owner of the "ERB LEASING" EAD

Report on the Financial Statements

We have audited the accompanying financial statements of "ERB Leasing" EAD which comprise the balance sheet as of 31 December 2013 and the statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

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

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the “ERB Leasing” EAD as of 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

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

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

In our opinion, the Annual Report set out on pages 1 to 7, is consistent with the accompanying financial statements of the Company as of 31 December 2013.



Milka Damianova
Registered Auditor



Stefan Weiblen
PricewaterhouseCoopers Audit OOD

3 July 2014
Sofia, Bulgaria



**ERB LEASING EAD
DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2013**

The directors present the annual report and audited financial statements for the year ended 31 December 2013.

BUSINESS DESCRIPTION

ERB Leasing EAD (the Company) was registered in 2004. ERB Leasing EAD provides a comprehensive range of leasing products for light and commercial vehicles, equipment and real estate, to corporate clients and individuals.

BUSINESS OVERVIEW

As of the end of December 2013, the outstanding loans and finance lease receivables before provisions amounted to BGN 244,300 thousand. This places ERB Leasing among the leaders on the Bulgarian market of leasing services. This performance is attributed both to the strong support from Eurobank Ergasias Leasing, and to the beneficial cooperation with Eurobank Bulgaria in the area of car financing and corporate banking.

The Company's total outstanding portfolio remained stable, compared to the end of 2012. The products that the Company offers include direct leasing, sale-and-lease back, real estate leasing, sub-leasing, stock leasing, and operating leasing. Real estate has the largest share in the lease portfolio – 52 %, followed by vehicles with 24 % and industrial equipment with 23 % share.

As of year-end, the Company employed 23 people. It operates in Sofia and Plovdiv, Varna, Bourgas, Stara Zagora, Rousse, Pleven, Veliko Tarnovo, Gabrovo, Blagoevgrad, Sliven and Haskovo through its branches.

The ongoing global economic crisis which commenced in the middle of 2007 has resulted in a lower level of capital market funding, lower liquidity levels across the banking sector, and higher interbank lending rates and very high volatility in stock markets. The uncertainties in the global financial markets affect the banks and companies in Bulgaria at the end of 2008 and have influenced considerably their businesses over the past 5 years. Indeed the full extent of the impact of the ongoing financial crisis is proving to be impossible to anticipate or completely guard against.

In view of the difficult conditions, the main strategic priorities of the Company for 2013 were focused on preserving the quality and profitability of its existing portfolio, grow through new business development in target markets, efficient cost management and prudent risk management.

SHARE CAPITAL STRUCTURE

The Company is a wholly owned subsidiary of Eurobank Ergasias S.A which is listed on the Athens Stock Exchange.

The share capital of the Company amounts to BGN 250 thousand, split in 250 thousand registered shares fully owned by Eurobank Ergasias S.A.

In May 2013, following its full subscription in Eurobank's recapitalisation of € 5,839 million, the HFSF became the controlling shareholder and a related party of Eurobank. On 19 June 2013, HFSF acquired 3,789,317,358 Eurobank's ordinary shares with voting rights, representing 98.56% of its ordinary share capital.

**ERB LEASING EAD
DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2013**

SHARE CAPITAL STRUCTURE (CONTINUED)

Following the issuance of 205,804,664 new ordinary shares in July, as resolved at the Annual General Meeting of the Shareholders on 27 June 2013, the percentage of the voting rights held in Eurobank by HFSF decreased to 93.55%. Following the share capital increase approved by the Extraordinary General Meeting of 26 August 2013, the controlling percentage of HFSF increased to 95.23%.

Following the completion of Bank's share capital increase fully covered by private, institutional and other investors, the percentage of the ordinary shares with voting rights held by the HFSF decreased from 95.23% to 35.41%. In addition, in the context of the Law 3864/2010 (the 'HFSF Law') as recently amended by Law 4254/2014, the HFSF's voting rights in the Bank's General Assemblies are no longer full but have been switched to restricted ones. As a result of the above, the HFSF is no more the controlling shareholder of the Group but is considered to have significant influence over it, remaining therefore its related party.

Pursuant to the provisions of the Credit Institutions Act ("the CIA"), promulgated in State Gazette, issue 24 of 31.03.2009 the Company is considered financial institution (ref. Art. 3, Para1, item 1 of the CIA) and as such was duly registered in a special register maintained by the Bulgarian National Bank under reg. No BGR00114 (ref. Art. 3, Para 2 of the CIA).

BOARD OF DIRECTORS

As at December 31, 2013 the Board of Directors consisted of the following members:

1. Stefan Vasilev – Chairman of the Board of Directors and Executive Director
2. Zacharias Vlachos – Deputy Chairman of the Board of Directors
3. Gergana Gerdzhikova – Member of the Board of Directors and Executive Director
4. Theodoros Karakasis – Member of the Board of Directors
5. Konstantios Kanakis – Member of the Board of Directors
6. Efthymios Zois – Member of the Board of Directors
7. Dimitrios Strongylopoulos – Member of the Board of Directors

Ms. Petia Dimitrova, Mr. Anthony Hassiotis and Mr. Ioannis Vouyioukas were members of the Board of Directors until 1 February 2013.

Mr. Stefan Vasilev and Mr. Dimitrios Strongylopoulos became members of the Board of Directors on 1 February 2013.

In 2013 the members of the Board of Directors have not received compensation in their capacity of members of the Board of Directors.

No shares or bonds of the Company have been acquired, owned and/or transferred by the members of the Board of Directors during the year.

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

**ERB LEASING EAD
DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2013**

BOARD OF DIRECTORS (CONTINUED)

In 2013 none of the Board members participated in other commercial enterprises, as unlimited liability partner or as an owner of more than 25% of the capital of another company, except for Anthony C. Hassiotis as a Sole owner of the capital of Investments AMK Ltd.

The following members of the Board of Directors participated in the management of other companies as procurators, managers or board members, as follows:

Participation in the capital and in the management of other companies or cooperatives as procurators, managers or boards members:

Zacharias Vlachos

ERB Leasing IFN S.A., Romania – Member of the Board of Directors
ERB Leasing a.d. Beograd, Serbia – Member of the Management Board

Gergana Gerdzhikova

ERB Auto Leasing EOOD, Bulgaria – Manager

Theodoros Karakasis

Bancpost S.A., Romania – Deputy Chairman of the Board of Directors
ERB Retail Services IFN S.A., Romania – Member of the Board of Directors
ERB Leasing IFN S.A., Romania – Member of the Board of Directors
Eurobank Property Services S.A., Romania – Chairman of the Board of Directors
ERB Property Services d.o.o. Beograd, Serbia – Chairman of the Supervisory Board
Eurobank A.D. Beograd, Serbia – Chairman of the Management Board
Eurobank Bulgaria AD, Bulgaria – Chairman of the Supervisory Board
ERB Property Services Sofia AD, Bulgaria (former name EFG Property Services Sofia AD, date of change 25/3/2013) – Chairman of the Board of Directors
Bulgarian Retail Services AD, Bulgaria – Chairman of the Board of Directors (effective as of 19.07.2013)
CEH Balkan Holdings Limited – Member of the Board of Directors
ERB New Europe Funding B.V., The Netherlands – Managing Director A (effective as of 01.02.2013)
ERB New Europe Funding II, The Netherlands – Managing Director A (effective as of 01.02.2013)
Eurobank Ergasias S.A., Greece – Advisor
Greek-Serbian Chamber of Commerce – Deputy Chairman of the Board of Directors
Hellenic-Romanian Chamber of Commerce and Industry – Member and Secretary General of the Board of Directors (until December 2013)

**ERB LEASING EAD
DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2013**

BOARD OF DIRECTORS (CONTINUED)

Konstantinos Kanakis

Eurobank Ergasias Leasing S.A., Greece – Chief Executive Officer and Member of the Board of Directors

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

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

Efthymios Zois

ERB Auto Leasing EOOD, Bulgaria – Manager (effective as of 10.06.2013)

Dimitrios Strongylopoulos

IMO Property Investments Bucuresti S.A., Romania – Member of the Board of Directors (effective as of 25.01.2013)

IMO Property Investments AD Beograd, Serbia – Member of the Supervisory Board

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

NEU Property Holdings Limited, Cyprus – Member of the Board of Directors

NEU II Property Holdings Limited, Cyprus – Member of the Board of Directors

NEU III Property Holdings Limited, Cyprus – Member of the Board of Directors

Bulgarian Retail Services AD, Bulgaria – Member of the Board of Directors (effective as of 19.07.2013)

IMO Property Investments Sofia EAD, Bulgaria – Member of the Board of Directors (effective as of 04.02.2013)

Anthony Hassiotis (Member of the Board of Directors until 01.02.2013)

Bancpost S.A., Romania – Chief Executive Officer

Eurobank Bulgaria AD, Bulgaria – Member of the Management Board and Executive Director (until 25.02.2013)

Investments AMK EOOD, Bulgaria – Manager

Ioannis Vouyioukas (Member of the Board of Directors until 01.02.2013)

ERB Auto Leasing EOOD, Bulgaria – Manager (until 10.06.2013)

Eurobank Bulgaria AD, Bulgaria – Member of the Management Board (until 25.02.2013)

**ERB LEASING EAD
DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2013**

BOARD OF DIRECTORS (CONTINUED)

Petia Dimitrova (Member of the Board of Directors until 01.02.2013)

Eurobank Bulgaria AD, Bulgaria – Chairperson of the Management Board and Chief Executive Officer

Bulgarian Retail Services AD, Bulgaria – Chairperson of the Board of Directors and Executive Director (until 19.07.2013)

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

IMO Property Investments Sofia EAD, Bulgaria – Member of the Board of Directors and Executive Director (until 04.02.2013)

IMO Rila EAD, Bulgaria – Deputy Chairperson of the Board of Directors and Executive Director (until 24.06.2013)

IMO Central Office EAD, Bulgaria – Deputy Chairperson of the Board of Directors and Executive Director (until 06.06.2013)

IMO 03 EAD, Bulgaria – Member of the Board of Directors and Executive Director (until 07.06.2013)

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

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

State-owned enterprise Communicative construction and rehabilitation, Bulgaria – Member of the Board of Directors (until 03.04.2013)

Confederation of Employers & Industrialists in Bulgaria, Bulgaria – Member of the Management Board (effective as of 05.12.2013)

The Company has not entered into contracts specified in Article 240b, paragraph 1 of the Commerce Act during 2013.

GROUP STRUCTURE AND BRANCH NETWORK

In 2010 ERB Leasing EAD registered seven branches, through which the Company provides services to clients in Plovdiv, Varna, Bourgas, Pleven, Rousse, Stara Zagora and Veliko Tarnovo. In 2013 ERB Leasing EAD further extended its branch network by registering four new branches in Gabrovo, Blagoevgrad, Sliven and Haskovo.”

Branch Manager of all registered branches in Mr. Svetoslav Maximov Kalo, who manages and represents the branches always jointly with an Executive Director of ERB Leasing EAD.

ERB Leasing EAD is the sole-owner of ERB Auto Leasing EOOD, established in January 2005.

With its seven branches, ERB Auto Leasing EOOD provides services to clients in Plovdiv, Varna, Bourgas, Pleven, Rousse, Stara Zagora and Veliko Tarnovo.

**ERB LEASING EAD
DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2013**

FINANCIAL RISKS

ERB Leasing EAD's activities expose it to a variety of risks, including interest rate risk, currency risk, credit risk.

The interest rate risk is mitigated by monthly re-pricing of the lease contracts (currently the interest periods of the Company's financing do not exceed 1 month and the interest rate applied is based on EURIBOR/Sofibor).

To prevent the exposure to currency risk, the Company concludes the lease contracts with clients in the same currency (Euro) in which it receives its financing. In case of payment in Bulgarian Lev, the Company applies the fixed exchange rate of the Bulgarian National Bank.

The credit risk is taken into account by monthly monitoring of clients' receivables and applying provisions in accordance with the Group's provisioning policy, as well as undertaking preventive measures ensuring the Company interest is protected.

The Company's overall risk management policy seeks to minimize potential adverse effects on the financial performance of the Company.

BUSINESS OBJECTIVES FOR 2014

Anticipating certain signs showing a recovery of the economy, in 2014 ERB Leasing EAD shall focus mainly on generating a healthy new business, while maintaining and improving the quality and profitability of its existing portfolio. In terms of new business the Company shall focus on its key vendors and corporate clients of the Group. The close cooperation with Eurobank Bulgaria and the other subsidiaries of Eurobank in Bulgaria will be further developed.

In order to achieve this goal, we will continue to invest in training and development of the existing staff. This will allow them to maintain customer satisfaction, assume additional responsibilities and grow the business in a reasonable manner. With a team of motivated employees and strong support from both Eurobank Ergasias SA and Eurobank Bulgaria AD, the Company is well-positioned to achieve this goal and meet the challenges that it will face in 2014.

In 2014 ERB Leasing will continue working towards becoming the leasing company of choice for the corporate segment and a partner of choice for the car vendors.

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 separate financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The Directors confirm that suitable accounting policies have been used.

**ERB LEASING EAD
DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2013**

MANAGEMENT RESPONSIBILITIES (CONTINUED)


The Directors also confirm that applicable International Financial Reporting Standards (IFRS) have 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.

By order of the Board:

Gergana Gerdzhikova
Executive Director

ERB Leasing EAD
2 July 2014



31 DECEMBER 2013

(All amounts are shown in thousands of Bulgarian Lev unless otherwise stated)

Separate statement of comprehensive income

	Notes	2013	2012
Interest income	5	10,805	12,806
Interest expense	5	(5,815)	(6,306)
Net interest income		4,990	6,500
Other operating income	6	1,732	578
Foreign exchange (loss), net		(65)	(3)
Other operating expenses	7	(1,644)	(1,876)
Gains from sale of repossessed assets	8	230	184
Provisions for impairment	11	(5,947)	(22,048)
Loss before income tax		(704)	(16,665)
Income tax (expense)/credit	9	(25)	1,665
Loss for the year		(729)	(15,000)
Other comprehensive income		-	-
Total comprehensive loss		(729)	(15,000)

The financial statements were authorised on 2 July 2014




Gergana Gerdzhikova
Executive Director



Radoslav Yordanov
Finance Manager

Initialed for identification purposes in reference to the audit report.



Milka Damianova
Registered Auditor
3 July 2014



Stefan Weiblen
PricewaterhouseCoopers Audit OOD
3 July 2014

The accompanying notes set out on pages 12-52 are inseparable part of these financial statements.

31 DECEMBER 2013

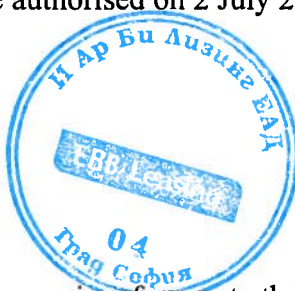
(All amounts are shown in thousands of Bulgarian Lev unless otherwise stated)

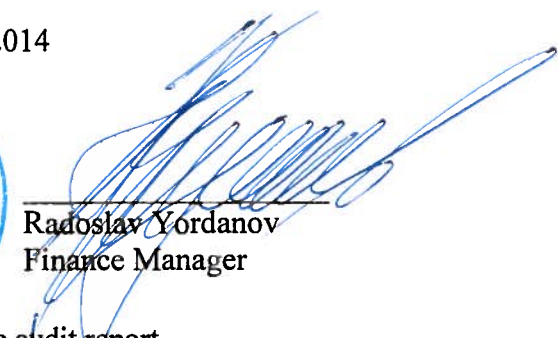
Separate balance sheet

	Notes	As at 31 December	
		2013	2012
Assets			
Cash and bank balances	10	897	10,889
Finance lease receivables and other loans	11	204,875	212,150
Deferred income tax assets	12	1,711	1,736
Corporate tax recoverable		381	381
Other assets	13	9,553	8,276
Equipment	14.1	2,985	785
Intangible assets	14.2	391	361
Investment in subsidiary	15	250	250
Total assets		221,043	234,828
Liabilities			
Borrowings	16	218,020	230,843
Payables to suppliers and clients	17	424	383
Other liabilities	18	230	504
Total liabilities		218,674	231,730
Shareholder's equity			
Share capital	19	250	250
Other reserves		25	25
Retained earnings		2,094	2,823
Total shareholder's equity		2,369	3,098
Total liabilities and equity		221,043	234,828

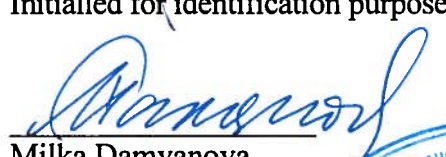
The financial statements were authorised on 2 July 2014


 Gergana Gerdzhikova
 Executive Director

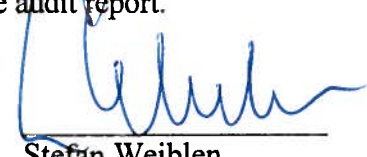



 Radoslav Yordanov
 Finance Manager

Initialed for identification purposes in reference to the audit report.


 Milka Damyanova
 Registered Auditor
 3 July 2014




 Stefan Weiblen
 PricewaterhouseCoopers Audit OOD
 3 July 2014

The accompanying notes set out on pages 12-52 are inseparable part of these financial statements.

31 DECEMBER 2013

(All amounts are shown in thousands of Bulgarian Lev unless otherwise stated)


**Separate statement of changes
in shareholders' equity**

	Share capital	Other reserves	Retained earnings	Total
Balance at 1 January 2012	250	25	17,823	18,098
Loss for the year	-	-	(15,000)	(15,000)
Balance at 31 December 2012	250	25	2,823	3,098
Balance at 1 January 2013	250	25	2,823	3,098
Loss for the year	-	-	(729)	(729)
Balance at 31 December 2013	250	25	2,094	2,369

The financial statements were authorised on 2 July 2014


Gergana Gerdzhikova
Executive Director





Radoslav Yordanov
Finance Manager

Initialed for identification purposes in reference to the audit report.


Milka Damianova
Registered Auditor
3 July 2014




Stefan Weiblen
PricewaterhouseCoopers Audit OOD
3 July 2014

The accompanying notes set out on pages 12-52 are inseparable part of these financial statements.

31 DECEMBER 2013

(All amounts are shown in thousands of Bulgarian Lev unless otherwise stated)

Separate statement of cash flows

	Notes	2013	2012
Cash flow from operating activities			
Interest received		12,909	8,968
Interest paid		(5,637)	(6,312)
Other income received		754	578
Proceeds from sale of repossessed assets		3,153	2,398
Payments to employees and suppliers		(1,412)	(1,691)
Changes in operating assets and liabilities:			
- Decrease/(Increase) in finance lease receivables		1,417	(9,559)
- (Increase) in other assets		(6,197)	(4,836)
- Increase/(Decrease) in payables to clients and suppliers		41	(45)
- Decrease in other liabilities		(274)	(483)
Cash used in operating activities		4,754	(10,982)
Cash flows from investing activities			
Purchase of equipment		(2,527)	(396)
Dividend received		782	-
Cash proceeds used in investing activities		(1,745)	(396)
Cash flows from financing activities			
Repayment of borrowed funds		(13,001)	(9,786)
Cash used in financing activities		(13,001)	(9,786)
Net decrease in cash and cash equivalents		(9,992)	(21,164)
Cash and cash equivalents at the beginning of the year		10,889	32,053
Cash and cash equivalents at the end of the year	10	897	10,889

The financial statements were authorised on 2 July 2014

Gergana Gerdzhikova
Executive Director

Radoslav Yordanov
Finance Manager

Initialed for identification purposes in reference to the audit report.

Milka Damianova
Registered Auditor

Stefan Weiblen
PricewaterhouseCoopers Audit OOD

3 July 2014

3 July 2014

The accompanying notes set out on pages 12-52 are inseparable part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts are shown in thousands of Bulgarian Lev unless otherwise stated)

1. General information

ERB Leasing EAD (the Company) was established on 28 September 2004. As of 31 December 2013 the total share capital of the Company is BGN 250 thousand. The Company is a wholly owned subsidiary of Eurobank Ergasias S.A. which is listed on the Athens Stock Exchange.

The Company is governed by the Board of Directors consisting of seven members. The Company is represented jointly by the two Executive Directors.

ERB Leasing EAD is part of the Eurobank Group (the Group). In accordance with Group guidelines all local subsidiaries receive full support from the local bank part of Eurobank Group. This support covers all main areas, such as Risk Management, Client Relations, Finance, Legal, HR.

Position of Eurobank Group**Eurobank Ergasias S.A. share capital increase**

On 14 November 2013, Eurobank Ergasias S.A. announced the initiation of the process to raise approximately € 2 bn through a capital increase. On 14 January 2014, Eurobank Ergasias S.A. and the Hellenic Financial Stability Fund (HFSF) announced that the transaction timetable will be adjusted to allow for the finalization of the assessment of forward looking capital needs of the Greek banking sector and the new recapitalization framework.

On 8 April 2014, the BoG following a) the assessment of Eurobank's capital needs amounting to € 2,945 million under the baseline scenario, concluded on 6 March 2014 and b) the capital enhancement plan submitted by the Bank on 24 March 2014, whereby the Bank: i) revised its capital actions providing for an additional positive impact on regulatory capital of € 81 million and proposed to adjust the restructuring plan accordingly and ii) stated that it intends to cover the remaining capital needs through a share capital increase, notified the Bank that its Core Tier I capital should increase by € 2,864 million.

On 12 April 2014, the Extraordinary Shareholders' General Meeting approved the increase of the share capital of the Bank up to € 2,864 million through payment in cash or/and contribution in kind, the cancellation of the preemption rights of the Bank's ordinary shareholders, including HFSF, and the only preference shareholder, namely the Greek State, and the issuance of up to 9,546,666,667 new ordinary registered shares, of a nominal value of € 0,30 each. The proceeds will be used to increase the Tier I Capital according to 8 April 2014 resolution of the BoG.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(All amounts are shown in thousands of Bulgarian Lev unless otherwise stated)

1. General information (continued)**Position of Eurobank Group (continued))****Eurobank Ergasias S.A. share capital increase (continued)**

On 29 April 2014, the Bank announced that both the public offering of new ordinary registered shares to the public in Greece and the private placement of new ordinary registered shares to investors outside Greece were oversubscribed. The new shares have been listed on the main market of the Athens Exchange and their trading commenced on 9 May 2014. The successful completion of the Bank's capital increase constitutes a step towards further strengthening its capital position and enhances its ability to support the Greek economy.

As at 31 March 2014, the Common Equity Tier I ratio of Eurobank Ergasias S.A. (proforma with the completion of the share capital increase and the implementation of Basel II IRB credit risk methodology to New TT Hellenic Postbank's (NHPB) mortgage portfolio) stood at 17.7%, well above the statutory limit.

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

In May 2013, following its full subscription in Eurobank's recapitalisation of € 5,839 million, the HFSF became the controlling shareholder and a related party of Eurobank. On 19 June 2013, HFSF acquired 3,789,317,358 Eurobank's ordinary shares with voting rights, representing 98.56% of its ordinary share capital. Following the issuance of 205,804,664 new ordinary shares in July, as resolved at the Annual General Meeting of the Shareholders on 27 June 2013, the percentage of the voting rights held in Eurobank by HFSF decreased to 93.55%. Following the share capital increase approved by the Extraordinary General Meeting of 26 August 2013, the controlling percentage of HFSF increased to 95.23%.

Following the completion of Bank's share capital increase fully covered by private, institutional and other investors, the percentage of the ordinary shares with voting rights held by the HFSF decreased from 95.23% to 35.41%. In addition, in the context of the Law 3864/2010 (the 'HFSF Law') as recently amended by Law 4254/2014, the HFSF's voting rights in the Bank's General Assemblies are no longer full but have been switched to restricted ones. As a result of the above, the HFSF is no more the controlling shareholder of the Group but is considered to have significant influence over it, remaining therefore its related party.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(All amounts are shown in thousands of Bulgarian Lev unless otherwise stated)

2. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these 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) issued by the IASB, as adopted by the European Union and in particular with those IFRS standards and IFRIC interpretations issued and effective or issued and early adopted as at the time of preparing these statements. The financial statements are prepared on going concern basis.

The policies set out below have been consistently applied to the years 2013 and 2012 except as described below. Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

(a) The following new standards and amendments to existing standards, as issued by the International Accounting Standards Board (IASB) and endorsed by the European Union (EU), applied from 1 January 2013:

IAS 1, Amendment - Presentation of Items of Other Comprehensive Income

The amendment requires entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The adoption of the amendments did not have a material impact on the presentation of other comprehensive income in the Company's financial statements.

IAS 12, Amendment - Deferred tax: Recovery of Underlying Assets

The amendment provides a practical approach for measuring deferred tax assets and deferred tax liabilities when investment property is measured using the fair value model in IAS 40 "Investment Property". The amendment has no impact on the Company's financial statements.

IAS 19, Amendment - Employee Benefits

The amendment has no impact on the Company's financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(All amounts are shown in thousands of Bulgarian Lev unless otherwise stated)

2. Summary of significant accounting policies (continued)**2.1 Basis of preparation (continued)****IFRS 7, Amendment - Disclosures, Offsetting Financial Assets and Financial Liabilities**

The amendment requires disclosure of the effect or potential effect of netting arrangements on an entity's financial position. In particular, it requires information about all recognised financial instruments that are set off, according to IAS 32 "Financial Instruments: Presentation", as well as about those recognised financial instruments that, although they are not set off under IAS 32 "Financial Instruments: Presentation", are subject to an enforceable master netting arrangement or similar agreement. The amendment has no impact on the Company's financial statements.

IFRS 13, Fair value measurement

IFRS 13 establishes a single framework for measuring fair value, provides a revised definition of fair value and introduces more comprehensive disclosure requirements on fair value measurement. The disclosure requirements of IFRS 13 do not require comparative information to be provided for periods prior to initial application (1 January 2013). There was no material impact on the financial statements of the Company from the prospective adoption of the measurement requirements of IFRS 13. New disclosures and enhancements to existing disclosures are provided in notes 4.4 Fair value of financial assets and liabilities.

Annual Improvements to IFRSs 2009–2011 Cycle

Improvements to IFRSs comprise amendments to a number of standards aiming to clarify:

- the requirements for comparative information in IAS 1 "Presentation of Financial Statements";
- when certain types of equipment are classified as property, plant and equipment in IAS 16 "Property Plant and Equipment";
- the accounting for the tax effect of distributions to holders of equity instruments in IAS 32 "Financial Instruments: Presentation"; and
- interim financial reporting requirements regarding total segment assets and liabilities in IAS 34 "Interim Financial Reporting"

The above improvements to IFRSs did not have a material impact on the Company's financial statements.

(b) A number of new standards, amendments and interpretations to existing standards are effective after 2013, as they have not yet been endorsed for use in the European Union or have not been early applied by the Company. Those that may be relevant to the Company are set out below:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(All amounts are shown in thousands of Bulgarian Lev unless otherwise stated)

2. Summary of significant accounting policies (continued)**2.1 Basis of preparation (continued)****IAS 19, Amendment- Defined Benefit Plans: Employee Contributions (effective 1 January 2015, not yet endorsed by EU)**

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

IAS 27, Amendment - Separate Financial Statements (effective 1 January 2014)

The amendment is issued concurrently with IFRS 10 Consolidated Financial Statements and together they supersede IAS 27 'Consolidated and Separate Financial Statements'. The amendment prescribes the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The adoption of the amendment is not expected to have any impact on the Company's financial statements.

IAS 28, Amendment - Investments in Associates and Joint Ventures (effective 1 January 2014)

The amendment replaces IAS 28 'Investments in Associates', prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The adoption of the amendment is not expected to any impact on the Company's financial statements.

IAS 32, Amendment - Offsetting Financial Assets and Financial Liabilities (effective 1 January 2014)

The amendment clarifies the requirements for offsetting financial assets and financial liabilities. The adoption of the amendment is not expected to have a material impact on the Company's financial statements.

IAS 36, Amendment - Recoverable Amount Disclosures for Non-Financial Assets (effective 1 January 2014)

The amendments restrict the requirement to disclose the recoverable amount of an asset or cash generating unit only to periods in which an impairment loss has been recognized or reverses. They also include detailed disclosure requirements applicable when an asset or cash generating unit's recoverable amount has been determined on the basis of fair value less costs of disposal. The adoption of the amendment is not expected to have a material impact on the Company's financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(All amounts are shown in thousands of Bulgarian Lev unless otherwise stated)

2. Summary of significant accounting policies (continued)**2.1 Basis of preparation (continued)****IAS 39, Amendment - Novation of derivatives and continuation of hedge accounting (effective 1 January 2014)**

The amendment provides relief from discontinuing hedge accounting when, as a result of laws and regulations, a derivative designated as a hedging instrument is novated to effect clearing with a central counterparty and specific criteria are met. The adoption of the amendment is not expected to have any impact on the Company's financial statements.

IFRS 9, Financial Instruments (effective date to be determined by IASB)

IFRS 9, Financial instruments, is a new standard for financial instruments that is ultimately intended to replace current IAS 39 Financial Instruments: Recognition and Measurement in its entirety.

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. It requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. Under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment which is not held for trading, in other comprehensive income, with only dividend income generally recognized in profit or loss.

IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities, as well as derecognition requirements, IFRS 9 requires that, in cases where a financial liability is designated as at fair value through profit or loss, the part of a fair value change due to the reporting entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Fair value changes attributable to a financial liability's credit risk are not subsequently reclassified in profit or loss. According to IAS 39 which currently applies, the amount of the change in the fair value of the financial liability designated as fair value through profit or loss is recognized in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(All amounts are shown in thousands of Bulgarian Lev unless otherwise stated)

2. Summary of significant accounting policies (continued)**2.1 Basis of preparation (continued)**

Based on IFRS 9 and IFRS 7 Amendments, Mandatory Effective Date and Transition Disclosures, issued in December 2011, entities were required to apply IFRS 9 for annual periods beginning on or after January 1, 2015, with earlier application permitted. Additionally, IFRS 9 should be applied to all financial instruments outstanding as of the effective date, as if the classification and measurement under IFRS 9 had always been applied, but comparative periods do not need to be restated.

IFRS 9 was amended in November 2013 with IFRS 9 Financial Instruments: Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39 to include a new general hedge accounting model that will better reflect reporting entities' risk management activities in the financial statements and some related amendments to IAS 39 and IFRS 7. The amendments also allow entities to early adopt the provision in IFRS 9 as issued in 2010, related to the presentation of changes in an entity's own credit risk within other comprehensive income without applying the other requirements of IFRS 9 at the same time. In addition, the January 1 2015 mandatory effective date is removed and a new mandatory effective date will be set upon completion of the impairment phase of the accounting for financial instruments.

Entities that adopt IFRS 9 as amended in November 2013 can choose an accounting policy of either adopting the new IFRS 9 hedge accounting model now or continuing to apply the hedge accounting model in IAS 39 for the time being.

As IFRS 9 is an ongoing IASB project, which has not yet been finalized, it remains impractical to quantify its effect, as at the date of the publication of these financial statements.

IFRS 10, Consolidated Financial Statements (effective 1 January 2014)

IFRS 10 replaces the part of IAS 27 'Consolidated and Separate Financial Statements' that deals with consolidated financial statements and SIC 12 'Consolidation-Special Purpose Entities'. Under IFRS 10, there is a new definition of control, providing a single basis for consolidation for all entities. This basis is built on the concept of power over the investee, variability of returns from the involvement with the investee and their linkage, replacing thus focus on legal control or exposure to risks and rewards, depending on the nature of the entity.

The adoption of this standard is not expected to have a material impact on the Company's financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(All amounts are shown in thousands of Bulgarian Lev unless otherwise stated)

2. Summary of significant accounting policies (continued)**2.1 Basis of preparation (continued)****IFRS 11, Joint Arrangements (effective 1 January 2014)**

IFRS 11 replaces IAS 31 'Interests in Joint Ventures' and SIC-13 'Jointly Controlled Entities- Non – monetary Contributions by Venturers'. Under IFRS 11, there are only two types of joint arrangements, joint operations and joint ventures and their type is determined by focusing on the rights and obligations of the arrangement, rather than its legal form. The equity method of accounting is now mandatory for joint ventures. The option to use the proportionate consolidation method to account for joint ventures, which is not applied by the Group, is no longer allowed. The adoption of this standard is not expected to have a material impact on the Company's financial statements.

IFRS 12, Disclosure of Interests in Other Entities (effective 1 January 2014)

IFRS 12 specifies the disclosures required to enable users of financial statements to evaluate the nature of and risks associated with the reporting entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. The adoption of the standard is expected to result in expanded disclosures in the Company's financial statements.

IFRS 10, 11 and 12 Amendments - Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (effective 1 January 2014)

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

IFRS 10, 12 and IAS 27 Amendments - Investment Entities (effective 1 January 2014)

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

- (a) obtains funds from one or more investors for the purpose of providing those investors with investment management services;
- (b) commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- (c) measures and evaluates the performance of substantially all of its investments on a fair value basis.

The amendments also set out disclosure requirements for investment entities.

The adoption of the amendments is not expected to affect Company's financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(All amounts are shown in thousands of Bulgarian Lev unless otherwise stated)

2. Summary of significant accounting policies (continued)**2.1 Basis of preparation (continued)****Annual Improvements to IFRSs 2010-2012 Cycle (effective 1 January 2015, not yet endorsed by EU)**

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

- Definition of vesting condition in IFRS 2 "Share – based Payment";
- Accounting for contingent consideration in a business combination in IFRS 3 "Business Combinations";
- Aggregation of operating segments and reconciliation of the total of the reportable segments' assets to the entity's assets in IFRS 8 "Operating Segment";
- Short-term receivables and payables in IFRS 13 "Fair Value Measurement";
- Revaluation method—proportionate restatement of accumulated depreciation in IAS 16 "Property, Plant and Equipment";
- Key management personnel in IAS 24 "Related Party Disclosures"; and
- Revaluation method—proportionate restatement of accumulated amortization in IAS 38 "Intangible Assets";

Annual Improvements to IFRSs 2011-2013 Cycle (effective 1 January 2015, not yet endorsed by EU)

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

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

IFRIC 21, Levies (effective 1 January 2014, not yet endorsed by EU)

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

The adoption of the interpretation is not expected to have a material impact on the Company's financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(All amounts are shown in thousands of Bulgarian Lev unless otherwise stated)

2. Summary of significant accounting policies (continued)**2.1 Basis of preparation (continued)**

The financial statements have been prepared under the historical cost convention.

These financial statements have been prepared on a stand-alone, non-consolidated basis.

The Company is a fully owned subsidiary of Eurobank Ergasias S.A. and used the exemption from consolidation under IAS 27.10.

Eurobank Ergasias S.A. is incorporated in Greece and resident of Greece. The Bank's consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and issued for public use.

The Company maintains its accounting books in Bulgarian Lev (BGN), which is accepted as being its presentation currency. The data in the financial statements and the notes thereto is presented in thousands of Bulgarian Lev (BGN'000) except where it is explicitly stated otherwise.

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 items presuming a higher level of subjective judgment or complexity or where the assumptions and accounting estimates are material for the financial statements, are disclosed below.

2.2 Foreign currency translation

Items included in the financial statements of the Company are measured using Bulgarian Lev (BGN), which is the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("the measurement currency").

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(All amounts are shown in thousands of Bulgarian Lev unless otherwise stated)

2. Summary of significant accounting policies (continued)

2.2 Foreign currency translation (continued)

Foreign currency transactions are translated into the measurement currency using the exchange rates prevailing at the dates 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. As of 31 December 2013 the monetary assets and liabilities are denominated using the official rate of Bulgarian National Bank – EUR 1= BGN 1.95583 (2012: 1.95583).

2.3 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 yield method based on the actual purchase price.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. 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.

2.4 Other income and expense

Other income and expense are recognised on an accrual basis when the service has been provided.

2.5 Equipment

All equipment is stated at historical cost less accumulated depreciation. Depreciation is calculated on the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives, as follows:

	2013	2012
Computers	5 years	5 years
Vehicles	1-4 years	1-4 years
Machinery and equipment	6-7 years	6-7 years
Other fixed assets	5-10 years	5-10 years

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(All amounts are shown in thousands of Bulgarian Lev unless otherwise stated)

2. Summary of significant accounting policies (continued)**2.5 Equipment (continued)**

Equipment is periodically reviewed for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposal of equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Repairs and renewals are charged to the income statement when the expenditure is incurred.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

2.6 Impairment of financial assets

The Company 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, and only 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 (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Company about the following loss events:

- (i) Significant financial difficulty of the issuer or obligor;
- (ii) A breach of contract, such as a default or delinquency in interest or principal payments;
- (iii) The Company granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- (iv) It becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- (v) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
 - Adverse changes in the payment status of borrowers in the group; or
 - National or local economic conditions that correlate with defaults on the assets in the group.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(All amounts are shown in thousands of Bulgarian Lev unless otherwise stated)

2. Summary of significant accounting policies (continued)**2.6 Impairment of financial assets (continued)**

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

If there is objective evidence that an impairment loss on leases and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement.

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(All amounts are shown in thousands of Bulgarian Lev unless otherwise stated)

2. Summary of significant accounting policies (continued)**2.7 Leases***Finance leases – the Company as a lessor*

When assets are held subject to a financial lease the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. The lease income is recognised over the entire lease period using the method of effective yield rate so as to obtain a constant periodic rate of return on the outstanding lease principal balance.

Operating leases- the Company as a lessor

Lease income (excluding receipts for services provided such as insurance and maintenance) is recognised on a straight-line basis over the lease term. Costs, including depreciation, incurred in earning the lease income are recognised as an expense.

Operating leases- the Company as a lessee

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

2.8 Repossessed collaterals

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.

2.9 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 entity intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss; (b) those that the entity upon initial recognition designates as available for sale; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

2.10 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 3 months maturity from the date of acquisition including: cash and amounts due from banks.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(All amounts are shown in thousands of Bulgarian Lev unless otherwise stated)

2. Summary of significant accounting policies (continued)**2.11 Borrowings**

Borrowings are recognised initially at fair value 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 yield method.

2.12 Current and deferred income tax

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

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

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

2.13 Share capital

Ordinary shares are classified as equity which is stated at its nominal value according to a court decision for the registration of the Company.

(a) Share issue costs

Incremental costs directly attributable to the issue of new shares or options or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

(b) Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company's shareholders.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(All amounts are shown in thousands of Bulgarian Lev unless otherwise stated)

2. Summary of significant accounting policies (continued)**2.14 Investments in subsidiaries**

Investments in subsidiaries are measured at cost less impairment, if any, in accordance with IAS 27.

2.15 Employee benefits**(a) Social, pension and health funds.**

The Company 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 related to current salary expenses and are recognized as an expense in the period to which those relate. The Company has no further payment obligations once the contributions have been paid.

(b) Pension 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 Company for at least 10 years.

At the end of every reporting period the Company estimates and recognizes the provision for its pension obligations. In calculating the provision the Company estimates the present value of its future pension obligations considering the probability of the employees retiring while employed in the Company.

3. Critical accounting estimates and judgements in applying accounting policies

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(All amounts are shown in thousands of Bulgarian Lev unless otherwise stated)

3. Critical accounting estimates and judgements in applying accounting policies (continued)*(a) Impairment losses on loans and advances and finance lease receivables*

The Company reviews its loan and finance lease portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Company makes judgements 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 and finance leases 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 and lessees 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.

(b) Fair value of repossessed assets held for sale

The Company determines the fair value of repossessed assets held for sale from market-based evidence by appraisal that is undertaken by professionally qualified valuers. The Company follows its accounting policy to revalue the assets every four months. Based on the accounting policy of the Company the revaluation of repossessed assets was performed by a qualified independent valuer.

The main valuation approaches used to determine the fair value were *income, cost and sales comparison approaches*.

4. Financial risk management and fair value

ERB Leasing EAD's activities expose it to a variety of financial risks, including credit risk, liquidity risks, and the effects of changes in foreign currency exchange rates and interest rates. The Company's overall risk management policy seeks to minimize potential adverse effects on the financial performance of the Company.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(All amounts are shown in thousands of Bulgarian Lev unless otherwise stated)

4. Financial risk management and fair value (continued)

The main purpose of the risk management is the control and analysis of the Lease portfolio, updating the leasing rules and procedures in order to be in compliance with Group's requirements, the supervision of their proper implementation, monitoring the completeness and correctness of leasing documentation, as well as compliance with internal and external regulations and reporting on lease portfolio to the Bulgarian National Bank, to internal and external auditors. The Risk officer prepares periodic internal and external reports, as required by the Bulgarian National Bank, insurance companies, Eurobank Bulgaria AD, Eurobank Ergasias Leasing S.A., in order to determine and update the credit rating of corporate clients, to calculate provisions for corporate and retail clients, to provide to Corporate Banking timely information on forthcoming annual reviews, to monitor the development of legislation that affects the activities of leasing companies and advise the General Manager of relevant changes. The main activity of the risk officer includes also the implementation of internal system of credit rating and provisioning.

Risk management is carried out under the supervision of the Board of Directors.

4.1 Credit risk

The Company assumes exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. Impairment provisions are provided for losses that have been incurred at the balance sheet date. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Leasing Company's portfolio, could result in losses that are different from those provided for at the balance sheet date.

The Company 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 the geographical and industry segments. Such risks are monitored regularly. Limits on the level of credit risk by product and industry sector are approved by the Board of Directors.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and reviewing these lending limits where appropriate. Exposure to credit risk is managed in part by obtaining collateral.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(All amounts are shown in thousands of Bulgarian Lev unless otherwise stated)

4. Financial risk management and fair value (continued)**4.1 Credit risk (continued)**

The Company uses a credit rating system according to which wholesale borrowers are assigned to a risk category: satisfactory credit performance, potentially problematic entities, watch listed and loss making cases that are fully provided for. The criteria used to assess the credit rate include:

- Financial data for the client, the sector and the market;
- Information on the client's management;
- The clients past credit history either with the Bank or with other banks;
- Existence of detrimental information;
- Type and size of collateral offered;
- History of changes in ownership and
- History of changes in assets.

The Company assesses the credit quality of the wholesale loans on a case-by-case basis using standard grading system and based on a profound analysis of a set of qualitative and quantitative factors.

Corporate clients are rated in 11 categories. The Company groups wholesale clients categorized from 1 to 6 in the grade acceptable risk and these categorized with 7 - in the watchlist area. The Company presents the wholesale clients in the category from 8 to 11 as individually impaired loans based on individual impairment analysis.

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.)

According to Group Guidelines, exposures to wholesale clients rated in categories 1 to 7 are presented as "Neither past due nor impaired" if they are regular and "Past due but not impaired" if they are up to 179 days past due. If they are between 180-359 days past due exposures to these clients are presented as "Impaired". All exposures to wholesale clients above 360 days past due and all exposures to wholesale clients rated in categories 8 to 11 are presented as "Impaired". All terminated wholesale exposures are presented as "Impaired".

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(All amounts are shown in thousands of Bulgarian Lev unless otherwise stated)

4. Financial risk management and fair value (continued)

4.1 Credit risk (continued)

Regarding restructured wholesale loans to clients rated in categories 1 to 6 are presented as “Neither past due nor impaired” if they are regular and in category “Past due but not impaired” if they are up to 179 days past due. If they are between 180-359 days past due these clients are presented as “Impaired”. The clients rated in category 7 are presented as „Past due but not impaired” if they are up to 360 days past due. All exposures to wholesale clients above 360 days past due and all exposures to wholesale clients rated in categories 8 to 11 are presented as “Impaired”. All terminated wholesale exposures are presented as “Impaired”.

According to the Group guidelines regular exposures are loans not in delay or with amounts in delay not exceeding internally set grace amount.

The Company considers that delinquencies should not be the only reason for downgrading; the "case by case" rule should always prevail. Delinquencies over 90 days should always constitute a reason for downgrading, however provisioning rates have to be determined on a case by case basis assessment taking into consideration all risk factors as well as the market value of the leased assets, expected cash inflows, the existing collateral etc.

4.1.1 Exposure to credit risk

Credit risk exposures relating to on-balance sheet assets are as follows:

	Balance at 31 December	
	2013	2012
Cash and bank balances (Note 10)	897	10,889
Finance lease receivables from customers (Note 11):	202,703	210,882
<i>Consumer lending</i>	9,596	6,137
<i>Small Business lending</i>	18,341	12,341
<i>Corporate lending</i>	174,766	192,404
Other loans (Note 11)	2,172	1,268
Total	205,772	223,039

	Balance at 31 December	
	2013	2012
Neither past due nor impaired	115,586	46,899
Past due but not impaired	15,179	145,343
Impaired	111,363	61,659
Gross	242,128	253,901
Less: allowance for impairment (Note 11)	(39,425)	(43,019)
Net	202,703	210,882

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(All amounts are shown in thousands of Bulgarian Lev unless otherwise stated)

4. Financial risk management and fair value (continued)

4.1. Credit risk (continued)

4.1.1. Exposure to credit risk (continued)

Other Loans are summarized as follows:

	Balance at 31 December	
	2013	2012
Neither past due nor impaired	2,172	1,268
Less: allowance for impairment	-	-
Net	2,172	1,268

(a) *Finance lease receivables and other loans - 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 2013 can be assessed by reference to the internal standard grading system. The following information is based on that system:

	Balance at 31 December	
	2013	2012
Acceptable risk	81,783	29,742
<i>of which renegotiated</i>	<i>32,371</i>	<i>47</i>
Watch list	35,975	18,425
	117,758	48,167

These finance lease receivables are secured by promissory notes for the gross amount of the contracts (incl. interest and management fees) The Company has legal title over assets leased under finance and operating lease.

(b) *Finance lease receivables and other loans past due but not impaired*

31 December 2013	Consumer Lending	Small Business Lending	Corporate Lending	Total
Past due up to 29 days	782	1,453	2,883	5,118
Past due 30 – 89 days	174	889	8,998	10,061
Past due 90 days – less than 1 year	-	-	-	-
Total	956	2,342	11,881	15,179
of which: Other loans past due 90 days – less than 1 year	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(All amounts are shown in thousands of Bulgarian Lev unless otherwise stated)

4. Financial risk management and fair value (continued)

4.1 Credit risk (continued)

4.1.1. Exposure to credit risk (continued)

31 December 2012	Consumer Lending	Small Business Lending	Corporate Lending	Total
Past due up to 29 days	680	1,037	28,453	30,170
Past due 30 – 89 days	213	1,099	103,537	104,849
Past due 90 days – less than 1 year	-	-	10,324	10,324
Total	893	2,136	142,314	145,343
of which: Other loans past due 90 days – less than 1 year	-	-	-	-

(c) Finance lease receivables impaired

For individually assessed accounts, finance lease receivables are treated as impaired as soon as there is objective evidence that an impairment loss has been incurred. The criteria used by the Company 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 reorganisation;
- a downgrading in credit rating by an external credit rating agency.

Impairment charges are calculated as the difference between the assets' carrying amount and the present value of the estimated future cash flows. Fair value of collateral is the estimated current market price of leased equipment.

The individually impaired finance lease receivables as at 31 December 2013 were BGN 105,764 thousands (2012: BGN 55,007 thousands) and all of them are Corporate Lending.

The breakdown of the gross amount of all impaired loans and advances by class is as follows:

31 December 2013	Consumer Lending	Small Business Lending	Corporate Lending	Total
Impaired leases	206	5,654	105,503	111,363
Number of leases	13	213	424	650

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(All amounts are shown in thousands of Bulgarian Lev unless otherwise stated)

4. Financial risk management and fair value (continued)

4.1 Credit risk (continued)

4.1.1. Exposure to credit risk (continued)

31 December 2012	Consumer Lending	Small Business Lending	Corporate Lending	Total
Impaired leases	29	5,531	56,099	61,659
Number of leases	5	198	518	721

Management considers the finance lease receivables as impaired despite being covered by assets owned by the leasing company because experience shows that there are significant administrative and legal difficulties in obtaining the leased asset mainly due to new consumer lending legislation, fraud, etc. The impairment provisions reflect the probability that management may not be able to enforce its rights and repossess the leased asset on defaulted loans.

(d) Allowance for impairment (Note 11)

	Consumer Lending	Small Business Lending	Corporate Lending	Total
Balance as at 31 December 2011	14	2,498	20,256	22,768
Charge to profit or loss	6	856	20,238	21,100
Loans written off during the year as uncollectible	-	(40)	(809)	(849)
Balance as at 31 December 2012	20	3,314	39,685	43,019
Charge to profit or loss	18	787	2,949	3,754
Loans written off during the year as uncollectible	-	-	(7,348)	(7,348)
Balance as at 31 December 2013	38	4,101	35,286	39,425

4.1.2. Repossessed assets

Repossessed assets are sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness. Repossessed assets are classified in the balance sheet within other assets. During the year, the Company repossessed assets for the amount of BGN 5,511 thousands (2012: BGN 7,533 thousands).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(All amounts are shown in thousands of Bulgarian Lev unless otherwise stated)

4. Financial risk management and fair value (continued)

4.1 Credit risk (continued)

4.1.3. Concentration of risks of financial assets with credit risk exposure

Industry sectors

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

	Commerce and services	Private individuals	Manufact uring	Constru ction	Other	Total
Finance lease receivables						
-Consumer lending	-	10,203	-	-	-	10,203
-Small business lending	12,105	-	3,081	1,460	7,032	23,678
-Corporate lending	152,385	-	35,894	7,274	14,866	210,419
31 December 2013	164,490	10,203	38,975	8,734	21,898	244,300
31 December 2012	173,604	6,808	49,495	10,252	15,010	255,169

The Company portfolio by type of assets leased is as follows:

	2013	2012
Industrial equipment	23%	25 %
Real Estate	52%	55 %
Vehicles	24%	19 %
Other	1%	1 %
	100%	100.00 %

4.2 Market risk

The Company takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate and currency, both of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(All amounts are shown in thousands of Bulgarian Lev unless otherwise stated)

4. Financial risk management and fair value (continued)**4.2 Market risk (continued)**

The factors that generate market risk are the interest rate risk and foreign exchange risk.

The interest rate risk is the risk of potential loss from adverse changes in interest rates. These include pricing risk, yield curve risk, basis risk, spread risk, volatility risk.

The foreign exchange risk is the risk of potential loss from adverse changes in foreign currency exchange rates, against the base currency. It includes outright risk, volatility risk and conversion risk.

The Company's Market Risk Policy is maintained by Risk Division of Eurobank Bulgaria AD and approved by the Board of Directors of the Bank. The Market Risk policy is reviewed at least annually and submits changes to the Board. The Market Risk Policy applies to the control of market risk arising on all Company's assets, liabilities and off-balance sheet positions; it therefore covers Treasury and non-Treasury activities that are subject to market risk. The Market Risk Policy is in compliance with the mother company Risk Guidelines, which pertain to market risk.

The objectives of market risk control and supervision are to

- Protect the company against unforeseen market losses;
- Contribute to more stable and predictable earnings;
- Develop transparent, objective and consistent market risk information as the basis for sound decision making.

4.2.1. Market risk measurement techniques

The Company has to include all positions that are exposed to market risk in the measurement system.

The risk factors that generate market risk and have to be included in the market risk measurement system consist of, but are not limited to:

- Foreign Exchange rates
- Interest Rates

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(All amounts are shown in thousands of Bulgarian Lev unless otherwise stated)

4. Financial risk management and fair value (continued)**4.2 Market risk (continued)****4.2.2. Foreign exchange risk**

The Company is exposed to the effect of fluctuations in the prevailing foreign currency exchange rates and may register a loss / respectively a profit / from the exchange differences.

The Leasing Company receives financing mainly in Euro from Eurobank Private Banking – Luxemburg. To prevent the exposure to currency risk, the Company concludes the leasing contracts with the clients in the same currency- Euro. In case of payment in BGN the company applies the exchange rate of the Bulgarian National Bank.

In case of import and a payment to foreign supplier in currency, different from EUR, to prevent the loss, the Leasing company invoices to the Lessee the amount of the exchange difference.

Currently the exchange rate of the Bulgarian Lev is fixed against the EUR at 1.95583 BGN/EUR via Currency board which is not expected to be amended in the near future.

Foreign exchange risk – sensitivity analysis

	<u>2013</u>	<u>2012</u>
Sensitivity of income statement		
1) -25% depreciation of local currency	(526)	(900)
2) 20% appreciation of local currency	421	720

Foreign exchange risk sensitivity has been calculated directly on the total net open foreign exchange position as of 25% depreciation / 20% appreciation of the local currency against all foreign currencies.

4.3. Cash flow and fair value interest risk**Interest rate sensitivity of assets, liabilities and off-balance sheet items**

The Leasing Company 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 reduce or create losses in the event that unexpected movements arise.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(All amounts are shown in thousands of Bulgarian Lev unless otherwise stated)

4. Financial risk management and fair value (continued)

4.3. Cash flow and fair value interest risk (continued)

Interest rate sensitivity of assets, liabilities and off-balance sheet items (continued)

As of 31 December 2013 and 2012, the Company's liabilities under interest-bearing instruments are from instruments with floating interest rates.

The Management and the Managing Board constantly monitor interest rate levels and conduct an active policy of adjusting interest spreads. In 2010, in view of general market trends for increases in the levels of interest rates, the Company started using variable interest rates in all financial lease contracts. The objective of the Company's policy on interest rate risk management is to minimize potential losses due to negative impacts from changes in market interest rates.

Interest rate risk sensitivity has been estimated by applying a parallel yield curve shift to all relevant on- and off-balance sheet positions.

	2013	2012
<u>Interest Rate Risk – sensitivity analysis</u>		
1) +250 bps shift in interest rate curves (all currencies)	17	45
2) -250 bps shift in interest rate curves (all currencies)	(17)	(45)

A parallel yield curve shift in all currencies will bring no direct P&L or equity reserves effect. The figures in the table above represent the long-term effect of a parallel yield curve shift of +/-250 bps on the Company's net worth (the change in the net present value of its assets and liabilities).

4.4 Fair value 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(All amounts are shown in thousands of Bulgarian Lev unless otherwise stated)

4. Financial risk management and fair value (continued)

4.4 Fair value of financial assets and liabilities

The estimated fair values of financial instruments have been determined by the Company using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. While Management has used available market information in estimating the fair value of financial instruments, the market information may not be fully reflective of the value that could be realised in the current circumstances.

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:

	31 December 2013			Total Fair Value	Total Carrying amount
	Level 1	Level 2	Level 3		
Financial assets					
Finance lease receivables (Note 11)	-	-	205,760	205,760	204,875

The levels in the fair value hierarchy are determined as follows:

a) Level 1 – Financial instruments measured based on quoted prices in active markets for identical financial instruments. 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, as well as equity and derivative instruments traded on exchanges.

b) 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.

c) 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).

The assumptions and methodologies underlying the calculation of fair values of financial instruments not carried at fair value on the balance sheet date are as follows:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(All amounts are shown in thousands of Bulgarian Lev unless otherwise stated)

4. Financial risk management and fair value (continued)

4.4 Fair value of financial assets and liabilities (continued)

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 Company makes assumptions on expected prepayments, product spreads and timing of collateral realisation. The discount rates incorporate inputs for expected credit losses and interest rates, as appropriate.

b) For borrowed funds, cash and cash equivalents and loans and advances to banks, which are either short term or re-priced at frequent intervals, the carrying amounts represent reasonable approximations of fair values.

4.5 Liquidity risk

Liquidity risk is managed at group level, utilizing financing mainly from Eurobank Private Bank Luxemburg. The revolving credit facility is utilized on the basis of expected outflows for purchase of equipment to be leased.

The table below analyses the liabilities of ERB Leasing into relevant maturity groupings based on contractual cash flows and the remaining period at balance sheet date to the contractual maturity date.

Maturities of financial liabilities

As of 31 December 2013

	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Liabilities						
Borrowings (Note 16)	782	1,098	26,246	199,802	-	227,928
Payables to clients and suppliers (Note 17)	424	-	-	-	-	424
Other payables (Note 18)	230	-	-	-	-	230
Total liabilities	1,436	1,098	26,246	199,802	-	228,582
Total assets held for managing liquidity	13,332	6,098	39,349	140,191	99,992	298,962

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(All amounts are shown in thousands of Bulgarian Lev unless otherwise stated)

4. Financial risk management and fair value (continued)

4.5 Liquidity risk

As of 31 December 2012	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Liabilities						
Borrowings (Note 16)	434	869	3,909	230,788	-	236,000
Payables to clients and suppliers (Note 17)	383	-	-	-	-	383
Other payables (Note 18)	504	-	-	-	-	504
Total liabilities	1,321	869	3,909	230,788	-	236,887
Total assets held for managing liquidity	10,889	8,326	46,930	63,283	136,630	266,058

4.6 Capital management

ERB Leasing's objective when managing capital is to maintain a capital structure which safeguards its ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits to other stakeholders. The Company uses the ratio of net debt to total capital. Net debt is defined as the sum of total borrowings and payables to clients and suppliers less cash and bank balances. Total capital is defined as the sum of shareholders equity and net debt.

The Company relies on a continued financial support from the Eurobank Group, which is a stable and reliable Financial Institution, to cover the risk from the existing liquidity gap. This policy was adopted in 2006 and will continue in the foreseeable future, and at least until 31.12.2014.

The table below summarizes the Company's capital structure:

	2013	2012
Borrowings (Note 16)	218,020	230,843
Payables to suppliers and clients (Note 17)	424	383
Total borrowed funds	218,444	231,226
Cash and bank balances (Note 10)	(897)	(10,889)
Net debt	217,547	220,337
Shareholder's equity	2,369	3,098
Total capital	219,916	223,435
Net debt / Total capital	99%	99%

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(All amounts are shown in thousands of Bulgarian Lev unless otherwise stated)

5 Net interest income	2013	2012
Interest income		
Finance lease receivables	10,769	12,774
Interest on bank deposits	36	32
	10,805	12,806
Interest expense		
Interest on bank borrowings	5,815	6,306
	5,815	6,306
6 Other operating income	2013	2012
Commission income insurance brokers	148	137
Other services	184	172
Income from operating leases	388	234
Maintenance fee income	34	35
Dividends	978	-
	1,732	578
7 Other operating expenses	2013	2012
Staff costs (Note 7a)	570	817
Expenses related to repossession, storage and repairs of assets	326	225
Consulting services	29	36
Operating lease rentals	129	132
Office maintenance	168	148
Advertising	23	6
Courier services	11	15
Depreciation (Note 14)	289	185
Other expenses	99	312
	1,644	1,876

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(All amounts are shown in thousands of Bulgarian Lev unless otherwise stated)

7a Staff costs	2013	2012
Salaries	488	666
Social security costs	82	151
	570	817

8 Gains/(losses) from sale of repossessed assets	2013	2012
Proceeds from sale of assets	3,153	2,398
Net book value as of date of sale	(2,923)	(2,214)
	230	184

9 Income Tax

The tax on the Company's profit before income tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	2013	2012
Loss before income taxes	(704)	(16,665)
Tax (expense)/credit calculated at a tax rate of 10 %	70	1,666
Non-taxable income	97	-
Non-recognised deferred tax asset	(191)	-
Permanent differences (tax effect)	(1)	(1)
Income tax (expense)/credit including:	(25)	1,665
Deferred income tax (charge)/credit (Note 12)	(25)	1,666
Current income tax expense	-	(1)

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 tax assessments and penalties. The Company's management is not aware of any circumstances, which may give rise to a potential liability in this respect.

10 Cash and bank balances	2013	2012
Current accounts with banks	897	10,889
Included in cash and cash equivalents	897	10,889

Current accounts and overnight deposits are held in Eurobank Bulgaria. The credit rating of the bank assigned by BCRA is BB+.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(All amounts are shown in thousands of Bulgarian Lev unless otherwise stated)

11 Lease receivables and other loans	2013	2012
Finance lease receivables		
Corporate entities	210,052	232,088
Small Business Lending	22,442	15,655
Consumer Lending	9,634	6,158
	242,128	253,901
Less: provision for impairment	(39,425)	(43,019)
Total net finance lease receivables	202,703	210,882
Loans	2,172	1,268
Less: Provision for impairment	-	-
Net loans	2,172	1,268
Total net finance lease receivables and loans	204,875	212,150

The position other loans includes prepayments by the Company for leasing contracts that will be delivered in 2014. Those amounts are net of clients' downpayments and the Company accrues interest until delivery. The amounts are fully secured with promissory notes and mortgage and/or pledges on receivables/inventory.

Gross investment in finance leases and loans, receivables:	2013	2012
Up to 1 year	99,996	55,371
Between 1 and 5 years	101,309	69,423
Over 5 years	88,713	181,405
	290,018	306,199
Unearned future finance income from finance leases	(45,693)	(51,030)
Net investment in finance leases	244,325	255,169

Net investment in finance leases is analysed as follows:

Up to 1 year	90,941	89,563
Between 1 and 5 years	78,663	81,074
Over 5 years	74,721	84,532
Net investment in finance leases	244,325	255,169

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(All amounts are shown in thousands of Bulgarian Lev unless otherwise stated)

11 Lease receivables and other loans (continued)

Movement in provisions was as follows:

	<u>2013</u>	<u>2012</u>
Balance at the beginning of the year	43,019	22,768
Charge to profit or loss	3,754	21,100
Receivables written off during the year as uncollectible	(7,348)	(849)
Balance at end of year	39,425	43,019
	<u>2013</u>	<u>2012</u>
Provisions for impairment		
Increase in provisions for lease impairment	3,754	21,100
Recoveries from written off lease receivables	-	51
Impairment of repossessed assets (Note 13a)	2,193	897
Total provision for impairment	5,947	22,048

The future minimum lease payments receivable under non-cancellable operating lease agreements are as follows:

	<u>2013</u>	<u>2012</u>
Not later than 1 year	764	298
Later than 1 year but not later than 5 years	1,342	475
Later than 5 years	-	10
Total	2,106	783

12 Deferred income taxes

	<u>2013</u>	<u>2012</u>
Deferred tax asset at beginning of year	1,736	70
Income statement (charge)/credit (Note 9)	(25)	1,666
Deferred tax asset at end of year	1,711	1,736

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(All amounts are shown in thousands of Bulgarian Lev unless otherwise stated)

12 Deferred income taxes (continued)

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

	31.12.2012	Increase	Decrease	Net change	31.12.2013
Revaluation of repossessed assets	146	29	(18)	11	157
Provisions for staff remunerations	12	-	(10)	(10)	2
Other temporary differences	(10)	29	(55)	(26)	(36)
Tax losses carried forward	1,588	-	-	-	1,588
Deferred tax asset balance	1,736	-	-	-	1,711
Income statement credit/(charge)		58	(83)	(25)	

13 Other assets

	2013	2012
Repossessed assets	10,672	9,486
Provision on repossessed assets (Note 13a)	(2,250)	(1,459)
Dividend receivable	196	-
Prepayments	216	18
VAT receivable	626	-
Other	93	231
	9,553	8,276

13a Provision on repossessed assets

	2013	2012
As of 1 January	1,459	639
Impairment of repossessed assets (Note 11)	2,193	897
Accumulated impairment of assets sold	(1,402)	(77)
As of 31 December	2,250	1,459

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(All amounts are shown in thousands of Bulgarian Lev unless otherwise stated)

14.1 Equipment

	Furniture, equipment and motor vehicles	Computers, hardware and software	Total
At 1 January 2012			
Cost	958	57	1,015
Accumulated depreciation	(406)	(56)	(462)
Net book amount	<u>552</u>	<u>1</u>	<u>553</u>
Year ended 31 December 2012			
Opening net book amount	552	1	553
Additions	396	-	396
Disposals (Net of depreciation)	(8)	-	(8)
Depreciation charge (Note 7)	(156)	-	(156)
Closing net book amount	<u>784</u>	<u>1</u>	<u>785</u>
At 31 December 2012			
Cost	1,332	57	1,389
Accumulated depreciation	(548)	(56)	(604)
Net book amount	<u>784</u>	<u>1</u>	<u>785</u>
Year ended 31 December 2013			
Opening net book amount	784	1	785
Additions	2,448	8	2,456
Disposals (Net of depreciation)	(8)	-	(8)
Depreciation charge (Note 7)	(247)	(1)	(248)
Closing net book amount	<u>2,977</u>	<u>8</u>	<u>2,985</u>
At 31 December 2013			
Cost	3,772	65	3,837
Accumulated depreciation	(795)	(57)	(852)
Net book amount	<u>2,977</u>	<u>8</u>	<u>2,985</u>

The category of vehicles includes vehicles leased by the Company to third parties under operating leases with the following carrying amounts:

	<u>2013</u>	<u>2012</u>
Cost at 31 December	3,408	1,011
Accumulated depreciation at 31 December	(488)	(307)
Net book amount at 31 December	<u>2,920</u>	<u>704</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(All amounts are shown in thousands of Bulgarian Lev unless otherwise stated)

14.2 Intangible assets

	Software	Total
At 1 January 2012		
Cost	477	477
Accumulated depreciation	(113)	(113)
Net book amount	<u>364</u>	<u>364</u>
Year ended 31 December 2012		
Opening net book amount	364	364
Additions	26	26
Transfers	-	-
Disposals (Net of depreciation)	-	-
Depreciation charge (Note 7)	(29)	(29)
Closing net book amount	<u>361</u>	<u>361</u>
At 31 December 2012		
Cost	503	503
Accumulated depreciation	(142)	(142)
Net book amount	<u>361</u>	<u>361</u>
Year ended 31 December 2013		
Opening net book amount	361	361
Additions	71	71
Disposals (Net of depreciation)	-	-
Depreciation charge (Note 7)	(41)	(41)
Closing net book amount	<u>391</u>	<u>391</u>
At 31 December 2013		
Cost	574	574
Accumulated depreciation	(183)	(183)
Net book amount	<u>391</u>	<u>391</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(All amounts are shown in thousands of Bulgarian Lev unless otherwise stated)

15 Investment in subsidiary

Investment in subsidiary represents a 100% participation in the share capital of ERB Auto Leasing EOOD which was incorporated on 24 January 2005. The investment is measured at cost.

16 Borrowings

Short-term	2013	2012
Bank borrowings	217,787	230,788
Accrued interest	233	55
Total	218,020	230,843

The Company uses revolving credit facility, which is re-priced on a monthly basis, from Eurobank Private Bank Luxembourg S.A. and since 2013 – also from Eurobank Bulgaria EAD, members of Eurobank Group. The Company is not subject to covenants related to its borrowings.

17 Payables to clients and suppliers

	2013	2012
Deposits from clients	210	12
Liabilities to suppliers	214	371
	424	383

18 Other liabilities

	2013	2012
Prepayments from clients	131	292
Personnel and social security	16	123
VAT payable	-	24
Other	83	65
	230	504

19 Share capital

As at 31 December 2013 the total share capital of the Company was BGN 250 thousand (2012: BGN 250 thousand). The Company's sole-owner is Eurobank Ergasias S.A. The registered capital of the Company is divided into 250,000 shares with a nominal value of BGN 1 each. All shares give equal voting rights and are fully paid.

Pursuant to the provisions of the Credit Institutions Act (the CIA), promulgated in State Gazette, issue 24 of 31.03.2009, the Company is considered financial institution (ref. Art. 3, Para1, item 1 of the CIA) and as such was duly registered in a special register maintained by the Bulgarian National Bank under reg. No BGR00114 (ref. Art. 3, Para 2 of the CIA).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(All amounts are shown in thousands of Bulgarian Lev unless otherwise stated)

20 Related party transactions

ERB Leasing EAD is owned by Eurobank Ergasias S.A.

In May 2013, following its full subscription in Eurobank's recapitalisation of € 5,839 million, the HFSF became the controlling shareholder and a related party of Eurobank. On 19 June 2013, HFSF acquired 3,789,317,358 Eurobank's ordinary shares with voting rights, representing 98.56% of its ordinary share capital. Following the issuance of 205,804,664 new ordinary shares in July, as resolved at the Annual General Meeting of the Shareholders on 27 June 2013, the percentage of the voting rights held in Eurobank by HFSF decreased to 93.55%. Following the share capital increase approved by the Extraordinary General Meeting of 26 August 2013, the controlling percentage of HFSF increased to 95.23%.

Following the completion of Bank's share capital increase fully covered by private, institutional and other investors, the percentage of the ordinary shares with voting rights held by the HFSF decreased from 95.23% to 35.41%. In addition, in the context of the Law 3864/2010 (the 'HFSF Law') as recently amended by Law 4254/2014, the HFSF's voting rights in the Bank's General Assemblies are no longer full but have been switched to restricted ones. As a result of the above, the HFSF is no more the controlling shareholder of the Group but is considered to have significant influence over it, remaining therefore its related party.

Since the foundation of the Company, its owners have provided financial support, so that the Company is able to continue its operations. The Company's ability to meet its obligations and to continue as a going concern is dependent on the funds provided by the owners. The Company's parent confirms that it is its current policy to ensure that ERB Leasing EAD is in the position to meet its debts and capital expenditure commitments as they fall due. The Company's parent also confirms that they will provide support to ERB Leasing EAD as to ensure that it will have adequate funds to meet its liabilities when they fall due.

A number of transactions are being entered during the normal course of business. These transactions are being carried out on commercial terms and at market rates. The volumes of related party transactions, outstanding balances at the year end, and relating expense and income for the period are as follows:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(All amounts are shown in thousands of Bulgarian Lev unless otherwise stated)

20 Related party transactions (continued)

	<u>2013</u>	<u>2012</u>
Assets		
Current accounts (Eurobank Bulgaria AD)	897	10,889
Other assets (IMO Central Office EAD)	25	-
Liabilities		
Bank borrowings (Eurobank Private Bank Luxembourg S.A.)	196,365	230,788
Interest payable (Eurobank Private Bank Luxembourg S.A.)	212	55
Bank borrowings (Eurobank Bulgaria AD)	21,422	-
Interest payable (Eurobank Bulgaria AD)	21	-
Other liabilities (ERB Property Services AD)	-	2
Other liabilities (IMO Central Office EAD)	-	1
Income/(expense)		
Interest income (Eurobank Bulgaria AD)	36	32
Interest expense (Eurobank Private Bank Luxembourg S.A.)	(5,736)	(6,000)
Interest expense (Eurobank Bulgaria AD)	(29)	-
Interest expense (Eurobank Ergasias S.A.)	(50)	(306)
Foreign currency exchange (Eurobank Bulgaria AD)	(59)	-
Other operating expenses (IMO Central Office EAD)	(174)	-
Sale of assets (IMO Central Office EAD)	20	-
Other operating income (ERB Auto Leasing EOOD)	25	24
Other operating expense (ERB Auto Leasing EOOD)		(13)
Other operating income (Eurobank Bulgaria AD)	326	222
Other operating expenses (Eurobank Bulgaria AD)	(16)	-
Other operating income (Eurobank EFG Factors AD)	-	11
Other operating income (ERB Property Services AD)	5	-
Other services (ERB Property Services AD)	(29)	(17)

There are no transactions during the year or balances at year end with the parent and the ultimate parent companies.

Key management compensation for year ended 31 December 2013 amounted to:

	<u>2013</u>	<u>2012</u>
Management compensation	201	162

Management personnel (the executive directors) participate also in the management of EFG Auto Leasing EOOD.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(All amounts are shown in thousands of Bulgarian Lev unless otherwise stated)

21 Contingent liabilities and commitments

Operating lease commitments - the Company as a lessee

The Company leases office premises and vehicles under non-cancellable operating lease agreements.

Non-cancellable operating lease rentals are payable as follows:

	<u>2013</u>	<u>2012</u>
Not later than 1 year	88	151
Later than 1 year but not later than 5 years	-	566
Total	<u>88</u>	<u>717</u>

22 Events after the balance sheet date

The developments about share capital increase of Eurobank Ergasias S.A. after the balance sheet date are presented in Note 1 General information - Eurobank Ergasias S.A. share capital increase.

In May 2014 the Company extended its loan facility from Eurobank Private Bank Luxembourg S.A. (Note 16 and 20) till 31 July 2015.

The company plans to legally absorb its subsidiary ERB Auto Leasing EOOD and following the legal procedure, a contract for legal transformation was signed between the two entities on 10 June 2014. The absorption is subject to a decision of the owners.