

# **IMO 03 EAD**

**INDEPENDENT AUDITOR'S REPORT**

**ANNUAL ACTIVITY REPORT**

**ANNUAL FINANCIAL STATEMENTS**

**31 DECEMBER 2016**

<b>CONTENTS</b>	<b>Page</b>
<b>Independent auditor's report</b>	
<b>Annual Activity Report</b>	1-3
<b>Financial Statement</b>	
Statement of comprehensive income	4
Balance sheet	5
Statement of changes in shareholder's equity	6
Statement of cash flows	7
Notes to the financial statements	8-27



## *Independent Auditor's Report*

***To the Shareholder of Imo 03 EAD***

### *Our Opinion*

We have audited the financial statements of Imo 03 EAD (the "Company") the balance sheet as at 31 December 2016, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies.

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

### *Basis for Opinion*

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

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

### *Independence*

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

### *Material Uncertainty Relating to Going Concern*

We draw attention to Note 2.1 to these financial statements, which states that as of 31 December 2016 the Company's net assets had a negative value of BGN 9,709 thousand and the Company's registered share capital exceeds its net assets which is not in compliance with the Bulgarian Commercial Act. These matters, as described in Note 2.1, indicate the existence of a material uncertainty which may cast significant doubt about the ability of the Company to continue as a going concern as its continued existence is dependent on the capital support by the parent and liquidity support by Eurobank Private Bank Luxembourg. Our opinion is not modified in respect of this matter.

---

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

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

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

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

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

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

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

We have nothing to report in this regard.

### *Additional Matters to Be Reported under the Accountancy Act*

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

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

Based on the procedures performed, our opinion is that:

- a) The information included in the Annual Activity Report for the financial year for which the financial statements have been prepared is consistent with those financial statements.
- b) The Annual Activity Report has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.



### *Responsibilities of Management for the Financial Statements*

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

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

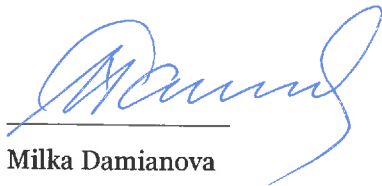
### *Auditor's Responsibilities for the Audit of the Financial Statements*

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

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

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

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



Milka Damianova

Registered Auditor

Date: 07.06.2014

Sofia, Bulgaria



Stefan Weiblen

PricewaterhouseCoopers Audit OOD



## **ANNUAL ACTIVITY REPORT**

The Directors present the report and the financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union (“IFRS”), for the year ended 31 December 2016. The financial statements have been audited by PricewaterhouseCoopers Audit OOD.

## **GENERAL INFORMATION**

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

The sole owner of the capital is ERB NEW EUROPE HOLDING B.V. a private company incorporated and existing under the laws of the Netherlands, entered into the Dutch Chamber of Commerce, under registration number 34192535.

The Company’s ultimate parent is Hellenic Financial Stability Fund (see also note 14).

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

The Company does not carry out research and development activities.

## **SHARE CAPITAL STRUCTURE**

As at 31 December 2016 the total authorized number of ordinary shares was BGN 125,000 with a nominal value of BGN 1 per share.

## **BOARD OF DIRECTORS**

**As at 31 December 2016 the Board of Directors consists of the following members:**

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

Mr. Dimitar Shumarov was Member of the Board of Directors and Executive Director of the Company until September 9<sup>th</sup>, 2016, whereas on the same date Ms. Mariana Hristova was appointed as a member of the Board of Directors and Executive Director of the Company.

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

In 2016 the members of the Board of Directors did not receive remuneration from the Company in their capacity of Board of Directors members.

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

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

**GENERAL INFORMATION (CONTINUED)**

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

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

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

**Partners with unlimited liability**

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

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

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

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

**Emil Atanasov Pilafov**

- IMO Property Investments Sofia EAD, Bulgaria – Chairman of the Board of Directors and Executive Director;
- IMO Central Office EAD, Bulgaria – Chairman of the Board of Directors and Executive Director;
- IMO Rila EAD, Bulgaria – Chairman of the Board of Directors and Executive Director (until September 28<sup>th</sup>, 2016).

**Mariana Hristova**

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

**Michalis Stamou**

- ERB Leasing EAD, Bulgaria – Member of the Board of Directors;
- ERB Property Services Sofia AD. , Bulgaria – Member of the Board of Directors;
- IMO Property Investments Sofia EAD., Bulgaria – Member of the Board of Directors;
- IMO Central Office EAD., Bulgaria – Member of the Board of Directors;
- IMO Rila EAD., Bulgaria – Member of the Board of Directors (until September 28<sup>th</sup>, 2016);
- Eurobank Property Services S.A., Romania – Member of the Board of Directors;
- IMO Property Investments Bucuresti S.A, Romania – Member of the Board of Directors;
- IMO II Property Investments S.A., Romania – Member of the Board of Directors.

**Dimitar Shumarov**

- Eurobank Bulgaria AD – Member of the Management Board and Executive Director;
- IMO Rila EAD, Bulgaria – Member of the Board of Directors (until September 28<sup>th</sup>, 2016);
- ERB Leasing EAD, Bulgaria – Chairman of the Board of Directors (until September 2<sup>nd</sup> 2016);
- Chief Financial Officers Club, Bulgaria – Member of the Management Board

**The Contracts under Article 240b of the Commerce Act**

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



## **OVERVIEW OF RESULTS**

### **Financial results for the current period**

The financial result before tax for 2016 is loss in the amount of BGN 703 thousand. The main part of the expenses is related to the financial cost - BGN 540 thousand.

### **Investing activity**

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

## **MAIN OBJECTIVES FOR 2017**

For 2017 the Company does not plan more acquisitions. The main target is to complete the sale of the acquired property.

## **FINANCIAL RISK MANAGEMENT**

The Company is exposed to variety of financial risks. Detailed description of those risks and the policies and procedures applied by the Management are set out in Note 3 of the financial statement as at 31 December 2016.

## **EVENTS AFTER THE BALANCE SHEET DATE**

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

## **MANAGEMENT RESPONSIBILITIES**

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

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

The Directors confirm that they have complied with the above responsibilities in preparing the financial statements for the year ended 31 December 2016.

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

  
Emil Pilafov  
Executive Director and Chairman of Board of Directors  
Date: 05 June 2017

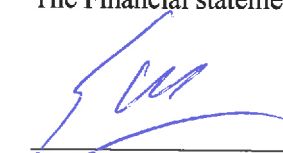


**IMO 03 EAD**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**31 DECEMBER 2016**

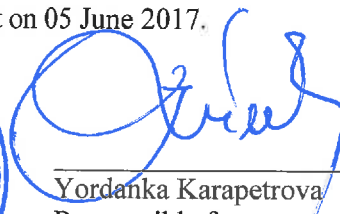
*(All amounts are presented in BGN thousands unless otherwise stated)*

	Notes	Year ended 31 December	
		2016	2015
Expenses related to investment property	5	(155)	(100)
Administrative expenses	6	(8)	(9)
<b>Operating loss</b>		<b>(163)</b>	<b>(109)</b>
Financial costs	7	(540)	(609)
<b>Loss before income tax</b>		<b>(703)</b>	<b>(718)</b>
Income tax		-	-
<b>Loss for the year</b>		<b>(703)</b>	<b>(718)</b>
Other comprehensive income for the year		-	-
<b>Total comprehensive income for the year</b>		<b>(703)</b>	<b>(718)</b>

The Financial statements were authorised by the management on 05 June 2017.

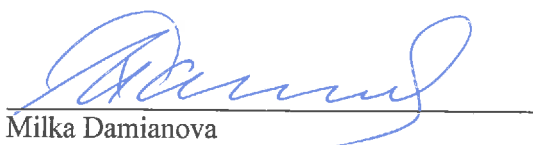


Emil Pilafov  
 Chairman of the Board of Directors and  
 Executive Director

Yordanka Karapetrova  
 Responsible for preparation of  
 financial statements

Initialled for identification purposes in reference to the audit report:



Milka Damianova  
 Registered auditor



Stefan Weiblen  
 PricewaterhouseCoopers Audit OOD

Date: 07.06.2017  
 Sofia, Bulgaria

Date: 07.06.2017



**IMO 03 EAD  
BALANCE SHEET  
31 DECEMBER 2016**

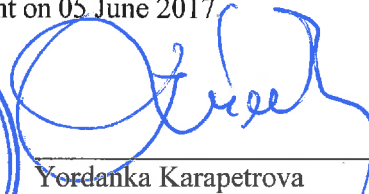
*(All amounts are presented in BGN thousands unless otherwise stated)*

	Notes	As at 31 December	
		2016	2015
<b>Non-current assets</b>			
Investment property	9	17,971	17,971
<b>Total non-current assets</b>		<b>17,971</b>	<b>17,971</b>
<b>Current assets</b>			
Cash and cash equivalents	10	225	448
Trade receivables and other assets		1	-
VAT receivable		3	6
<b>Total current assets</b>		<b>229</b>	<b>454</b>
<b>Total Assets</b>		<b>18,200</b>	<b>18,425</b>
<b>Current liabilities</b>			
Borrowings	11,14	27,897	27,418
Trade and other payables	12	12	13
<b>Total liabilities</b>		<b>27,909</b>	<b>27,431</b>
<b>Equity</b>			
Share capital	13	125	125
Accumulated loss		(9,834)	(9,131)
<b>Total equity</b>		<b>(9,709)</b>	<b>(9,006)</b>
<b>Total equity and liabilities</b>		<b>18,200</b>	<b>18,425</b>

The Financial statements were authorised by the management on 05 June 2017

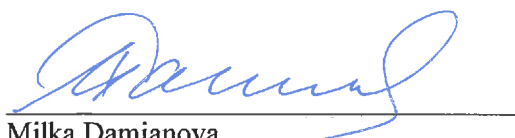


Emil Pilafov  
Chairman of the Board of Directors and  
Executive Director

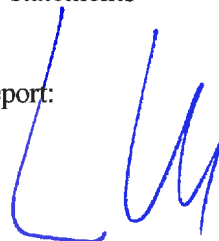



Yordanka Karapetrova  
Responsible for preparation of financial  
statements

Initialed for identification purposes in reference to the audit report:



Milka Damianova  
Registered auditor



Stefan Weiblen  
PricewaterhouseCoopers Audit OOD

Date: 07.06.2017  
Sofia, Bulgaria

Date: 07.06.2017



**IMO 03 EAD**  
**STATEMENT OF CHANGES IN EQUITY**  
**31 DECEMBER 2016**

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

	Share capital	Accumulated deficit	Total
<b>At 1 January 2015</b>	<b>2,500</b>	<b>(10,788)</b>	<b>(8,288)</b>
Other comprehensive income	-	-	-
Transfer of the share capital	(2,375)	2,375	-
Loss for the year	-	(718)	(718)
<b>At 1 January 2016</b>	<b>125</b>	<b>(9,131)</b>	<b>(9,006)</b>
Other comprehensive income	-	-	-
Loss for the year	-	(703)	(703)
<b>At 31 December 2016</b>	<b>125</b>	<b>(9,834)</b>	<b>(9,709)</b>

The Financial statements were authorised by the management on 05 June 2017.

 <hr/> Emil Pilafov Chairman of the Board of Directors and Executive Director		 <hr/> Yordanka Karapetrova Responsible for preparation of financial statements
--	--	---

Initialed for identification purposes in reference to the audit report:

 <hr/> Milka Damianova Registered auditor		<hr/> Stefan Weiblen PricewaterhouseCoopers Audit OOD
--	--	--

Date: 07.06.2017  
 Sofia, Bulgaria

Date: 07.06.2017

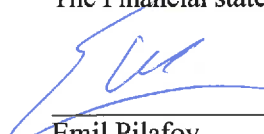



**IMO 03 EAD**  
**STATEMENT OF CASH FLOWS**  
**31 DECEMBER 2016**

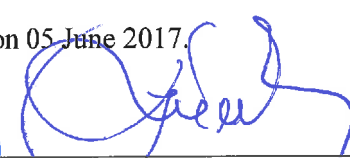
*(All amounts are presented in BGN thousands unless otherwise stated)*

	Year ended 31 December		
	Notes	2016	2015
<b>Operating activities</b>			
Payments to suppliers and other creditors		(192)	(114)
VAT related with purchase of Investment property		30	22
Other operating cash flows		(1)	(1)
<b>Net cash flows used in operating activities</b>		<b>(163)</b>	<b>(93)</b>
<b>Financing activities</b>			
Borrowings received		489	-
Interest paid		(549)	(575)
<b>Net cash flows from financing activities</b>		<b>(60)</b>	<b>(575)</b>
<b>Increase in cash and cash equivalents</b>		<b>(223)</b>	<b>(668)</b>
Cash and cash equivalents at the beginning of the year		448	1,116
<b>Cash and cash equivalents at end of year</b>		<b>225</b>	<b>448</b>

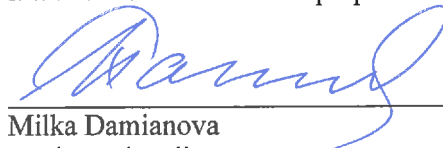
The Financial statements were authorised by the management on 05 June 2017.

  
 Emil Pilafov  
 Chairman of the Board of Directors and  
 Executive Director



  
 Yordanka Karapetrova  
 Responsible for preparation of financial  
 statements

Initialed for identification purposes in reference to the audit report:

  
 Milka Damianova  
 Registered auditor

  
 Stefan Weiblen  
 PricewaterhouseCoopers Audit OOD

Date: 04.06.2017  
 Sofia, Bulgaria

Date: 04.06.2017



## **1. General information**

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

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

## **2. Summary of significant accounting policies**

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

### **2.1 Basis of preparation**

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

### **Going concern of the Company**

Financial statements are prepared on the principle of going concern which implies that the company will continue operations in the foreseeable future. IMO 03 EAD finances its activities through a revolving short term borrowing by Eurobank Private Bank Luxembourg and its capital base. As of 31 December 2016 the Company had negative equity and it relies on the future support and financing by the Group to continue its operations as a going concern. The current credit line is renewed till 29 June 2018.

IMO 03 EAD has negative equity of BGN 9,709 thousand and is in breach of article 252, para (1), item 5 from Bulgarian Commerce Act as its registered capital exceeds net assets.

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

### **Position of the Group**

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

## **2. Summary of significant accounting policies (continued)**

### **2.1 Basis of preparation (continued)**

#### **Position of the Group (continued)**

The next key milestone for Greece is the timely and successful completion of the second review of the TEAP, currently in progress, which would help reinstating depositors' confidence and thus accelerate the return of deposits, it would facilitate the faster relaxation of capital controls and would allow for the participation in ECB's Quantitative Easing (QE) program, conditional on the decisions of the Institutions regarding the plan for the implementation of the medium-term debt relief measures. Moreover, the reduction of the short term uncertainty along with, the decisive implementation of the reforms agreed in the context of the ESM program and the mobilization of European Union (EU) funding to support domestic investment and job creation, would facilitate the restoration of confidence in the prospects of the Greek economy and the further stabilization of the domestic economic environment, which are necessary conditions for the return of the country to a sustainable growth path. The main risks and uncertainties stem from the current macroeconomic environment in Greece and the further delays in the conclusion of the second review of the TEAP. In particular risks include (a) possible delays in the implementation of the reforms' agenda in order to meet the next targets and milestones of the TEAP, which in turn would lead to the delayed disbursement of the third instalment of the ESM loan of € 6.1 bn, (b) the impact on the level of economic activity from the uncertainty associated with the timing of the conclusion of the second review of the TEAP, (c) the impact on the level of economic activity from additional fiscal measures agreed under the first review of the TEAP, (d) the timing of a full lift of restrictions in the free movement of capital and the respective impact on the level of economic activity, (e) the possible acceleration of the deposits outflows observed in the first two months of 2017, and/or possible delays in the effective management of non-performing loans as a result of the continuing macroeconomic uncertainty, (f) a possible deterioration of the refugee crisis and its impact on the domestic economy and (g) the geopolitical conditions in the broader region and the external shocks from a slowdown in the global economy.

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

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

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

## 2. Summary of significant accounting policies (continued)

### 2.1 Basis of preparation (continued)

#### Related party transactions - Eurobank Ergasias S.A. shareholding structure (continued)

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

#### Amendments to standards and new interpretations adopted by the Company

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

##### IAS 1, Amendment - Disclosure initiative

The amendment clarifies that an entity need not provide in the financial statements, including the notes, a specific disclosure required by an IFRS if the information resulting from that disclosure is not material and also clarifies that additional disclosures may be necessary if the information required by IFRSs is not sufficient for an understanding of the impact of particular transactions and events on the entity's financial position and performance.

The line items listed in IAS 1 for the balance sheet and the statement of profit or loss should be disaggregated if this is relevant to an understanding of the entity's financial position and additional guidance on the use of subtotals is provided. In the statement of comprehensive income the share of the other comprehensive income of equity –accounted associates and joint ventures should be presented in aggregate as a single line item, classified between those items that will or will not be subsequently reclassified to profit or loss and when determining a systematic approach to presenting notes, the entity should consider the understandability and comparability of its financial statements.

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

##### IAS 16 and IAS 38, Amendments - Clarification of Acceptable Methods of Depreciation and Amortization

The amendments clarify that the use of revenue-based methods to calculate the depreciation for property plant and equipment is not appropriate and they also clarify that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset.

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



## 2. Summary of significant accounting policies (continued)

### 2.1 Basis of preparation (continued)

#### **IAS 19, Amendment-Defined Benefit Plans: Employee Contributions**

The amendment clarifies the accounting for post-employment benefit plans where employees or third parties are required to make contributions which do not vary with the length of employee service, for example, employee contributions calculated according to a fixed percentage of salary. The amendment allows these contributions to be deducted from service cost in the year in which the related employee service is delivered, instead of attributing them to periods of employee service. Contributions which vary with the length of employee service, must be spread over the service period using the plan's contribution formula or on a straight line basis, consistent with the attribution method applied to the gross benefit in accordance with paragraph 70 of IAS 19.

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

#### **IAS 27, Amendment-Equity Method in Separate Financial Statements**

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

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

#### **IFRS 11, Amendment – Accounting for Acquisitions of Interests in Joint Operations**

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

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

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

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

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

#### **Annual Improvements to IFRSs 2010-2012 Cycle**

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

## **2. Summary of significant accounting policies (continued)**

### **2.1 Basis of preparation (continued)**

#### **Annual Improvements to IFRSs 2010-2012 Cycle (continued)**

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

#### **Annual Improvements to IFRSs 2012-2014 Cycle**

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

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

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

## 2. Summary of significant accounting policies (continued)

### 2.1 Basis of preparation (continued)

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

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

#### **IAS 7, Amendment – Disclosure Initiative (effective 1 January 2017, not yet endorsed by EU)**

The amendment requires disclosure of information enabling users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes from cash flows and non-cash changes. The disclosure requirements also apply to changes in financial assets, such as assets that hedge liabilities arising from financing activities, if cash flows from those financial assets were or future cash flows will be, included in cash flows from financing activities.

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

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

The amendment clarifies that (a) unrealized losses on debt instruments measured at fair value in the financial statements and at cost for tax purposes may give rise to a deductible temporary difference irrespective of whether the entity expects to recover the carrying amount of the debt instrument by sale or use (b) estimates for future taxable profits exclude tax deductions resulting from the reversal of those deductible temporary differences (c) the estimate of probable future taxable profits may include the recovery of an asset for more than its carrying amount, if there is sufficient evidence that it is probable that this will be realized by the entity, and (d) a deferred tax asset is assessed in combination with all of the other deferred tax assets where the tax law does not restrict the sources of taxable profits against which the entity may make deductions on the reversal of that deductible temporary differences may be reversed. Where restrictions apply, deferred tax assets are assessed in combination only with other deferred tax assets of the same type.

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

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

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

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

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

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

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

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

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

## 2. Summary of significant accounting policies (continued)

### 2.1 Basis of preparation (continued)

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

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

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

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

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

#### **IFRS 9, Financial Instruments (effective 1 January 2018)**

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

#### ***Classification and measurement***

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

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

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

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

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

## 2. Summary of significant accounting policies (continued)

### 2.1 Basis of preparation (continued)

#### *Business model assessment*

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

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

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

#### *SPPI assessment*

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

#### *Impairment of financial assets*

IFRS 9 introduces an expected credit loss ('ECL') model that replaces the incurred loss model in IAS 39. The new requirements eliminate the threshold in IAS 39 that required a credit event to have occurred before credit losses were recognised and will apply to a broader population of financial instruments compared to IAS 39. The measurement of ECL will require the use of complex models and significant judgment about future economic conditions and credit behaviour.

The new impairment model will apply to financial assets that are not measured at FVTPL, including loans, lease receivables, debt securities, financial guarantee contracts and loan commitments issued. No impairment loss will be recognised on equity investments.

The new standard uses a 'three stage approach' that will reflect changes in credit quality since initial recognition. At each reporting date, a loss allowance equal to 12-month ECL will be recognized for debt investment securities that are determined to have a low credit risk at the reporting date, and for all other financial assets for which there is no significant increase in credit risk since initial recognition. 12-month ECL are the portion of ECL that result from default events that are possible within the next 12 months after the reporting date. For financial assets that have experienced a significant increase in credit risk since initial recognition where no specific loss event has been identified, a loss allowance equal to lifetime expected credit losses will be recognised. The loss allowance for purchased or originated credit impaired financial assets will always be measured at an amount equal to lifetime ECL. Financial assets where 12-month ECL are recognised are considered to be in 'stage-1'; financial assets which have experienced a significant increase in credit risk are in 'stage-2' and financial assets that are credit impaired are in 'stage-3'.

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

## 2. Summary of significant accounting policies (continued)

### 2.1 Basis of preparation (continued)

#### *Hedge accounting*

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

#### *Transition*

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

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

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

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

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

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

- Financial instruments and other contractual rights or obligations within the scope of IFRS 9 Financial Instruments or IAS 39 Financial Instruments: Recognition and Measurement, IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures;
- Lease contracts within the scope of IAS 17 Leases (or IFRS 16 Leases);
- Insurance contracts within the scope of IFRS 4 Insurance Contracts

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

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

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

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

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

## **2. Summary of significant accounting policies (continued)**

### **2.1 Basis of preparation (continued)**

#### **IFRS 16, Leases (effective 1 January 2019, not yet endorsed by EU)**

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

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

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

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

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

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

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

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

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

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

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

## **2. Summary of significant accounting policies (continued)**

### **2.2 Foreign currency transactions**

#### **(a) Functional and presentation currency**

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

#### **(b) Transactions and balances**

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

### **2.3. Property, plant and equipment**

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

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

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

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

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

### **2.4 Investment property**

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

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

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



## **2. Summary of significant accounting policies (continued)**

### **2.4 Investment property (continued)**

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

Land recognized as investment property is not depreciated.

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

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

### **2.5 Trade receivables and other assets**

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

### **2.6 Cash and cash equivalent**

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

### **2.7 Payables and other financial liabilities**

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

### **2.8 Accounting for operating lease contracts**

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

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

## **2. Summary of significant accounting policies (continued)**

### **2.9 Borrowings**

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

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

### **2.10 Interest expense**

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

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

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

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

### **2.11. Revenue recognition**

#### *Fee income*

Fees and commissions are generally recognized on an accrual basis, when the service has been provided.

### **2.12 Taxation**

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

The current tax is calculated on the basis of the taxable profit for the year, using the tax rates enacted at the balance sheet date. Income tax payable on profits, based on the applicable tax law, is recognized as an expense in the period in which profits arise. Taxes other than on income are recorded within operating expenses.

The deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

## **2. Summary of significant accounting policies (continued)**

### **2.12 Taxation (continued)**

The deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. The principal temporary differences arise from depreciation of investment property.

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

## **3. Financial risk management**

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

### **3.1. Market risk**

#### **(a) Currency risk**

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

#### **(b) Interest rate risk**

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

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

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

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

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

#### ***Impact on liquidity***

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

To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in their assessments.

**IMO 03 EAD**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**31 DECEMBER 2016**

**3. Financial risk management (continued)**

**3.2 Credit risk**

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

The table below shows balances of cash and cash equivalents and deposits with banks as at 31 December 2016 and 2015 as follows:

Contractor	31 December 2016		31 December 2015	
	Credit rating	Balance	Credit rating	Balance
Eurobank Bulgaria AD	BB+ (BCRA)	225	BB+ (BCRA)	448
		225		448

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

**3.3 Liquidity risk**

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

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

	Up to 1 month	Between 1 and 3 months	Between 3 and 12 months	Total
<b>As at 31 December 2016</b>				
Other payables	12	-	-	12
Borrowings	26	-	27,871	27,897
<b>Total financial liabilities</b>	<b>38</b>	<b>-</b>	<b>27,871</b>	<b>27,909</b>
<b>As at 31 December 2015</b>				
Other payables	5	-	-	5
Borrowings	54	103	27,690	27,847
<b>Total financial liabilities</b>	<b>59</b>	<b>103</b>	<b>27,690</b>	<b>27,852</b>

### 3. Financial risk management (continued)

#### 3.4. Capital risk management

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

### 4. Critical accounting estimates and judgments

#### *Estimate of fair value of investment properties*

The fair value of the investment properties, accounted at cost model in accordance with IAS 40 is updated, in order to reflect the market conditions at the end of the reporting period by using the valuation reports of licensed appraiser company. The fair value of the investment properties is the price that would be received to sell the asset in an orderly transaction between market participants at the measurement date. The best evidence of fair value is current prices in an active market for similar properties. In the absence of such information, the fair value estimation of the external appraiser company is based on recent prices of properties with different condition or location, adjusted to reflect those differences. For disclosure purposes fair value is based on reports prepared by valuation company at the end of the reporting period. As a result of the current economic environment and market conditions, the frequency of property transactions is relatively low. Nevertheless, it is management's assessment that there remains sufficient market activity to provide comparable prices for orderly transactions with similar properties when determining the fair value.

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

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

The investment properties are categorized into three levels of the fair value hierarchy as of 31 December 2016 based on whether the inputs to the fair value are observable or unobservable, as follows:

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

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

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

**IMO 03 EAD**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**31 DECEMBER 2016**

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

**4. Critical accounting estimates and judgments (continued)**

*Estimate of fair value of investment properties (continued)*

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

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

<b>Class property</b>	<b>Fair value 31/12/2016 in BGN thousands</b>	<b>Valuation technique</b>	<b>Significant Unobservable Input</b>	<b>Range (weighted average) 2016 in BGN</b>	<b>Connection between the unobservable input and FV</b> A significant increase in price per m2 would result in a higher fair value
Residential	17,894	Market comparison approach	price per m2	670 – 916	

In line with IAS 40, IMO 03 EAD has obtained a new market valuation at the end of the year. The new market value was BGN 17,894 thousand. Net book value as at 31 December 2016 is BGN 17,971 thousand. The difference between the market and the book value is insignificant and the Company found no grounds for impairment as at 31 December 2016.

**5. Expenses related to investment properties**

	<b>2016</b>	<b>2015</b>
Maintenance	(155)	(100)
	<b>(155)</b>	<b>(100)</b>

**6. Administrative expenses**

	<b>2016</b>	<b>2015</b>
Audit fees expenses	(7)	(7)
Miscellaneous	(1)	(2)
	<b>(8)</b>	<b>(9)</b>

**7. Finance (costs) / income, net**

<b>Finance costs</b>	<b>2016</b>	<b>2015</b>
Interest expense	(539)	(608)
Others finance costs	(1)	(1)
<b>Total finance costs</b>	<b>(540)</b>	<b>(609)</b>
<b>Finance income</b>		

**IMO 03 EAD**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**31 DECEMBER 2016**

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

**8. Deferred tax income**

	<b>2016</b>	<b>2015</b>
(Loss)/Profit before income tax	(703)	(718)
Tax calculated at a tax rate applicable to profits 10% (2015:10%)	(70)	(72)
Tax effect of expenses not deductible for tax purposes	70	72
Unrecognized deferred tax income for the year	<u>-</u>	<u>-</u>

Deferred income taxes are calculated at the tax rate that will be effective at the time when they are expected to be realised. The tax applicable for 2016 is 10% (2015: 10%).

The tax loss for 2016 is BGN 164 thousands. The tax loss for 2015 is BGN 110 thousands.

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

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

**9. Investment property**

<b>Carrying amount as at 31 December 2015</b>	<u>17,971</u>
Additions	-
Impairment	-
<b>Carrying amount as at 31 December 2016</b>	<u>17,971</u>

**10. Cash and cash equivalents**

	<b>As at 31 December</b>	
	<b>2016</b>	<b>2015</b>
Cash in BGN	8	435
Cash in EUR	217	13
<b>Total cash in bank</b>	<u>225</u>	<u>448</u>

**11. Borrowings**

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

	<b>As at 31 December</b>	
	<b>2016</b>	<b>2015</b>
Bank loans	27,871	27,382
Accrued interest	26	36
	<u>27,897</u>	<u>27,418</u>

The carrying amounts of the borrowing approximates its fair value at the balance sheet date. The loan is contracted with floating rate (1M EURIBOR) plus margin of 2.25%. There are no covenants included in the loan agreement.

The current credit line was renewed on 24 May 2017 with new maturity date 29 June 2018.

**IMO 03 EAD**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**31 DECEMBER 2016**

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

**12. Trade and other payables**

	<b>As at 31 December</b>	
	<b>2016</b>	<b>2015</b>
Audit fees payable	7	6
Other payables	5	7
	<u>12</u>	<u>13</u>

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

**13. Share capital**

	<b>Number of shares</b>	<b>Nominal value of one share (BGN)</b>	<b>Value</b>
<b>As of 1 January 2015</b>	<u>2,500</u>	<u>1</u>	<u>2,500</u>
<b>As of 1 January 2016</b>	<u>125</u>	<u>1</u>	<u>125</u>
<b>As of 31 December 2016</b>	<u>125</u>	<u>1</u>	<u>125</u>

All shares are owned by ERB New Europe Holding B.V., (the Netherlands), and are fully paid.

**14. Related parties transactions and balances**

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

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



**IMO 03 EAD**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**31 DECEMBER 2016**

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

**14. Related parties transactions and balances (continued)**

The management is compensated by virtue of a decision of Board of Directors. There is no key management compensation for the year ended 31 December 2016 and 2015.

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

	<b>As at 31 December</b>	
	<b>2016</b>	<b>2015</b>
<b>Borrowings</b>		
Eurobank Private Bank Luxembourg S.A.	27,871	27,382
<b>Accrued interest</b>		
Eurobank Private Bank Luxembourg S.A.	26	36
<b>Cash and cash equivalents</b>		
Eurobank Bulgaria AD	225	448
		<b>Year ended 31</b>
		<b>December</b>
	<b>2016</b>	<b>2015</b>
<b>Interest expenses</b>		
Eurobank Private Bank Luxembourg S.A.	539	608
<b>Commissions and fee expenses</b>		
Eurobank Bulgaria AD	1	1

**15. Contingent liabilities and commitments**

The management has not identified any significant contingent liabilities and commitments valid as at 31 December 2016.

**16. Events after the Balance Sheet date**

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