EUROBANK BULGARIA
FINANCIAL STATEMENTS
31 DECEMBER 2013

CONTENTS

Independent auditor's report

To Shareholders of the Eurobank Bulgaria AD

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Eurobank Bulgaria AD as of 31 December 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 Bank.

In our opinion, the Annual Report set out on pages 1 to 10, is consistent with the accompanying financial statements of the Bank as of 31 December 2013.

Milka Damianova
Registered Auditor

Stefan Weiblen
PricewaterhouseCoopers Audit OOD

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

31 March 2014
Sofia, Bulgaria

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

ANNUAL DIRECTORS' REPORT

The management presents the annual Directors' report as of 31 December 2013.

BUSINESS DESCRIPTION

Eurobank Bulgaria AD (the Bank or Postbank) provides retail, corporate banking and investment banking services in Bulgaria. Its Head Office is located in Sofia. The address of its registered office is as follows: 260 Okolovrasten pat Str, 1766 Sofia, Bulgaria.

BUSINESS OVERVIEW

Development and results from the business activity

The past 2013 was positive for the Bank in terms of sales and financial results. Postbank achieved a significant increase in the net profit to BGN 18.5 million. This success could be attributed to the well-formulated strategy, based on preserving the sources of income and control over the costs, including cost of funds and impairment. The achievement is even more important in light of the challenging macroeconomic environment and the ongoing issues faced by the Bulgarian banking sector.

The world economy began its effective recovery in 2013, although the growth forecasts were revised downwards several times throughout the year. One of the reasons was the slow recovery of the economies of the European Union countries. In the second half of 2013, the EU exited the recession, but the growth remained close to zero. Nevertheless, the analysts' consensus is that the recovery will accelerate in the current year, however, with a slower pace than initially expected.

The EU countries remain the main trading partner of Bulgaria and their stagnant domestic demand affects Bulgaria's exports and GDP. The exports were driving the economic growth in 2013, rising by 6.8%, while imports were up by 1.3%. GDP grew by 0.9% which is only slightly higher than the growth in 2012 (0.6%). The weak demand and the lack of investments are outlined as the main factors, contributing to the low growth.

The efforts by the government to support the economy through increasing the budgetary expenses called for a revision of the budget in the middle of 2013 and an increase of the deficit to 1.8% (vs. 0.5% initially). For 2014, the government plans a deficit of 1.8% which leaves only a marginal buffer in case the optimistic forecasts for increasing the revenues are not fulfilled. Deflationary pressures in the second half of 2013 resulted in lower indirect tax revenues and their effect will continue to be felt in the first half of 2014.

The lower pace of the economic recovery affected the demand for loans and the quality of the assets of the banks. The stability of the system is beyond doubt – the system as a whole is profitable which allowed the banks to set aside additional BGN 1 billion as provisions for impairment. The share of the nonperforming loans stopped rising and the coverage ratio already stands at 50%. As of the end of 2013 the total capital adequacy of the system is 16.85% and the liquidity ratio – 27%, well above the required and the recommended limits. The excess liquidity in the system drove the deposit rates down, but it was not enough to compensate the decrease of the interest income. On the other hand, the lower provisioning charge allowed the banks to show marginally higher profit than in 2012.

In 2013 Postbank achieved a significant financial success and managed to distinguish itself from the competition, having the highest year-on-year increase of the net profit. Despite the challenging economic environment, the profit of BGN 18.5 million is a proof that the strategy is successful.

Developing innovative products and services and emphasizing on quality, the Bank holds stable market position and builds long-term relations of cooperation and trust with its customers. The Bank provides a broad range of banking services to local and international customers through its nationwide branch network. Postbank is present in 184 retail network locations and employs 2,567 people.

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

The rising deposit base was in the foundation of the growth in assets to BGN 5.7 billion as of 31 December 2013. The Bank is almost fully exclusively financed by deposits from clients (BGN 4.5 billion as of 31 December 2013) which constitute over 90% of total attracted funds. This guarantees both comfortably high liquidity ratio (32.3%) as well as a stable buffer for future expansion on the lending side. In the same time, costs of funds decreased by 7% which helped compensate the decline in the interest income on an annual basis. What is more, an important milestone was reached in the middle of 2013, when the net interest income changed direction and showed two subsequent quarters of growth.

The gross loan portfolio declined slightly by 2% to BGN 4.3 billion, due to the lower demand of loans from corporate clients. On the other hand, the loans to individuals and households rose by 1% which strengthened the positions in the segment. The balance sheet was further fortified by another BGN 80.9 million set aside as provisions for impairment of loans.

Net fees and commissions income rose by 3% to BGN 56.9 million and already make 23% of the total operating income of the Bank. Increasing the share of the fees and commission income is an important part of the strategy to provide more transactional services to the clients. The excess liquidity in the market will put a pressure on the interest margins and will increase the importance of the noninterest sources of income.

The efficiency ratios were also stable in 2013. Cost-to-income ratio reached 59%, due to strong cost control, efficiency gains and focus on alternative sales channels.

Postbank has sufficient capital to maintain more than adequate cover of its risk-weighted assets. As of 31 December 2013 the capital base (calculated in accordance to the Capital Adequacy Ordinance 8 of the Bulgarian National Bank) reached BGN 595 million. The capital adequacy ratio of 16.76% is significantly higher than the 12% minimum set by the Bulgarian National Bank. Retaining the net profit will additionally strengthen the capital base in the important 2014 when the new EU capital adequacy Directive and Regulation come into force.

Important events that have occurred during the financial year

In 2013 Postbank established itself as a modern bank, offering innovative technological solutions and products to its clients. The Bank held its leadership position on the market of credit and debit cards, mortgage lending and saving products, as well as in the areas of factoring services for corporate clients, investment banking and custody services offered to local and foreign institutional clients.

In June 2013 the Bulgarian Credit Rating Agency (BCRA) evaluated Postbank's long-term rating at BB+, its short-term rating of B, with stable prospects. This was the Bank's third credit evaluation done by BCRA, which allowed the financial institution to successfully continue raising funds both locally and abroad, to finance the Bulgarian businesses and households, thus supporting the country's economy.

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

In January 2013 the financial institution signed a guarantee agreement with the National Guarantee Fund under the Rural Areas Development Program with a limit of BGN 36.5 million. The program is a guarantee mechanism with coverage of up to 80% by the National Guarantee Fund of a portfolio of credits for small and medium enterprises (SMEs). This way the Bank has provided liquidity of key importance to SMEs working in the area of agriculture and forestry in Bulgaria.

In July 2013 the Bank received EUR 20 million financing under the European Bank for Reconstruction and Development (EBRD) Trade Facilitation Program. With the program the Bank continued providing support to Bulgarian companies – exporters and importers, by providing guarantees covering the risks in banking trade finance transactions and short-term financing for pre-export, import and factoring. Postbank also received an additional credit line of EUR 4 million in support of energy efficiency projects of SMEs through the EBRD Bulgarian Energy Efficiency for Competitive Industry Finance Facility (BEECIFF).

New products and innovations

In 2013 Postbank presented for the first time on Bulgarian market the innovative Saving Mortgage Loan, which reduces the mortgage interest rate automatically as clients increase the volume of their savings in the Bank. At the same time customers still have the income coming from their resources and can use them completely freely. In addition to this innovation, the Mortgage Lending Division has achieved a 25% growth of its new business on an annual basis. It also had an 80% increase in the number of online application for mortgages submitted through the Bank's corporate website. During the year the interest rate levels of mortgage and housing loans were historically some of the best ever. As early as October 2012 the Bank announced its decision to reduce the interest rate for its mortgage loans for new and existing customers, which respectively led to a decrease in the rate of the monthly instalments of the clients. The Bank kept this favourable change in 2013 as a responsible financial partner which helps its clients manage their finances throughout each stage of their life.

During the year the financial institution has accomplished numerous partnerships with retailers and has offered to its credit cardholders many discounts in shops, gas stations, travel agencies, hotels, etc. My Rewards loyalty program, one of the most generous programs for cardholders in Bulgaria, has been extended to both American Express and Visa clients. In addition, Postbank and Visa extended their partnership on the Bulgarian market and started offering the prestigious Visa Gold to all current and new clients of the Bank.

The financial institution also achieved excellent results in the usage of the online banking application e-Postbank after introducing its entirely renovated version in mid- 2012. After the application's integration, the Bank has reported a 45% increase in the number of individual clients who started making transactions via e-Postbank because of its exceptional comfort, speed, safety and lower charges. In November 2013 the Bank expanded the new application to its corporate clients, as well. In 2013 Postbank offered its clients also the opportunity for a 24-hour access to their bank account with no need to go to one of the offices, have a reliable internet connection or make any compromise with the safety of their money, by introducing the new telephone banking service.

In September 2013 the financial institution joined the program for credits leased to university students and Ph.D. candidates backed by the state, by signing a special contract with the Ministry of Education and Science.

In 2013 Postbank was a leader in offering factoring services to corporate clients who are export-oriented or operate on the Bulgarian market. The Bank managed to attract both new corporate clients and counter parties of its already existing clients, thereby building a stable and profitable portfolio.

Sustainable Development

In April 2013, for a sixth consecutive year, more than 200 employees of Postbank took care of the beauty of the Pancharevo lake and cleaned the area around the dam wall – one of the most polluted places of the municipality of Pancharevo, according to ecology experts.

In June 2013 an information campaign called *PLAY 4 CHANGE* started, aiming to prevent human trafficking for sexual exploitation. The campaign was organized by the National Commission for Combating Trafficking in Human Beings and Postbank, and was a natural continuation of the partnership between the two institutions which started back in 2012 with the implementation of the international project *The No Project*, directed towards prevention of human trafficking in Bulgaria.

In August 2013 Postbank started the *PARK in Green* project, creating a special area in Sofia's South Park, which offered people an opportunity to have some rest and entertainment in the nature. The project was part of the Bank's commitment to realizing initiatives in favour of the community.

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

In September 2013 the Bank joined the United Nations Environment Programme Financial Initiative (UNEP FI). The initiative involves more than 200 institutions from more than 40 countries, including banks, insurance companies and investment funds and is a unique form of partnership, contributing to the timely and constructive analysis of global, ecological and social problems in the light of sustainable business development. By joining the programme Postbank has committed to integrating solutions to urgent ecological problems in all areas of its activities.

In September 2013 the Bank also joined the global initiative *PARK(ing) Day*, renovating two parking places in the centre of Sofia and turning them into nice, comfortable places for relaxation by equipping them with comfortable furniture and an open library.

In October 2013 the institution joined the national initiative Professionals at Schools as part of the XII Days of Volunteering 2013, experts from the Bank, together with managers and specialists from other leading companies, taught students in more than 30 schools in the country.

Postbank also joined the Open Your Eyes campaign organized by Four Paws Foundation, which helps people with impaired eyesight have access to public places together with their guide dogs. In 2013 the doors of all offices of Postbank all over the country had the campaign's green sticker which shows that the institution supports the blind and their guide dogs are welcome in all offices of the Bank.

In December 2013 Postbank and UNICEF started a mutual strategic partnership called Best Start for Every Child. The Bank supports UNICEF's project for the development of centres for mother and child health which will assist families taking care of their small children. The donors - clients and employees at Postbank, can choose the amount they wish to donate and the way they wish to make the donation – at an ATM machine, at a cash desk or via the Bank's online banking application. All transactions related to donations to UNICEF are free of all charges and fees.

Some of the most significant achievements/awards of the Bank in 2013 are:

- In January 2013, for a third consecutive year, Postbank was declared the best bank in Bulgaria in terms of providing custody services to foreign and local institutional clients. The prize was awarded at the annual ranking of the most prestigious magazine in the area of custody services - Global Custodian.

- In March 2013, the Bank received two awards at the prestigious competition for best events Eventex Awards - second place in the category "Campaign of the Year 2012" and second place in the category "Audience Award 2012", both of them for the implementation in Bulgaria of the international The NO Project, supporting the prevention of human trafficking.

- Again in March 2013 Petia Dimitrova, Chief Executive Director of Postbank, received the first prize in the "Banking" category of the second annual awards of Business Lady Magazine.

- In April 2013 the Bank was recognized at the fourth edition of the annual PR and communications awards BAPRA Bright Awards. It became third in the most competitive category – "Communication Campaign of the Year" for the opening of its new head office.

- In April 2013 the co-branded credit card of Postbank and IKEA was named the best banking product of 2012 by a prestigious international jury and the best card products of 2012 in an online voting among Facebook users, initiated by b2b Media.

- In May 2013 the Bank was distinguished for a second consecutive year in the prestigious competition for communication achievements - PR Prize 2013. The financial institution won second place in the category "Project for Corporate Social Responsibility – Business Sector" for implementing the international *The No Project* for the prevention of human trafficking in Bulgaria.

- In November 2013 Postbank topped Forbes Magazine's chart "The most rapidly developing bank" in the "Mortgage lending" section.

- It was again in November 2013 when Petia Dimitrova, Chief Executive Director of Postbank, received international recognition and was awarded with two silver prizes at the Stevie Awards for Women in Business. Ms Dimitrova was among the prize winners in the category "Executive Director

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of the Year for Europe, Middle East and Africa" and the category "Executive Director of the Year in the Service Sector" (for companies with up to 2,500 employees).

SHARE CAPITAL STRUCTURE

As at 31 December 2013 the total authorized number of ordinary shares of Eurobank Bulgaria AD was 452,752,652 with a nominal value of BGN 1 per share. Eurobank Ergasias S.A. owns directly 34.56%, another 54.27% of the share capital is owned by ERB New Europe Holding B.V., 11.16% by CEH Balkan Holdings Limited and 0.01% by minority shareholders.

MANAGEMENT BOARD

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

- Petia Dimitrova – Chairperson and Chief Executive Officer
- Dimitar Shoumarov – Member and Executive Director
- Iordan Souvandjiev – Member

Mr. Anthony Hassiotis and Mr. Ioannis Vouyioukas were members of the Management Board until 25 February 2013.

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

In 2013 the members of the Management Board did not receive remunerations from the Bank in their capacity of Management Board members.

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

No member of the Management Board has owned or transferred shares or bonds of the Bank.

3. The Management Board members' rights to acquire shares and bonds of the company

No member of the Management Board holds special rights of acquisition of shares or bonds of the Bank.

4. The Management Board member's ownership in other commercial enterprises, as:

4.1. Partners with unlimited liability

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

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

- **Anthony Hassiotis**

Investments AMK EOOD, Bulgaria – sole owner

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

- **Petia Dimitrova**

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 25.03.2013) – Member of the Board of Directors

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

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)

ERB Leasing EAD, Bulgaria (former name EFG Leasing EAD date of change 01.02.2013) – Member of the Board of Directors (until 01.02.2013)

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)

- **Dimitar Shoumarov**

IMO Rila EAD, Bulgaria – Member of the Board of Directors (effective as of 24.06.2013)

IMO Central Office EAD, Bulgaria – Member of the Board of Directors (effective as of 06.06.2013)

IMO 03 EAD, Bulgaria – Member of the Board of Directors (effective as of 07.06.2013)

- **Iordan Souvandjiev**

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

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

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

ERB Property Services Sofia AD, Bulgaria (former name EFG Property Services Sofia AD, date of change 25.03.2013) – Member of the Board of Directors

- **Anthony Hassiotis**

Bancpost S.A., Romania – Chief Executive Officer

ERB Leasing EAD, Bulgaria (former name EFG Leasing EAD date of change 01.02.2013) – Member of the Board of Directors (until 01.02.2013)

Investments AMK EOOD, Bulgaria – Manager

- **Ioannis Vouyioukas**

ERB Leasing EAD, Bulgaria (former name EFG Leasing EAD date of change 01.02.2013) – Chairman of the Board of Directors and Executive Director (until 01.02.2013)

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

ERB Auto Leasing EOOD, Bulgaria (former name EFG Auto Leasing EOOD date of change 10.06.2013) – Manager (until 10.06.2013)

5. The Contracts under Article 240b of the Commerce Act

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

SUPERVISORY BOARD

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

- Theodoros Karakasis – Chairman of the Supervisory Board
- Stavros Ioannou – Deputy Chairman of the Supervisory Board
- Evangelos Kavvalos - Member
- Christos Adam – Member
- Nikolaos Aliprantis – Member

Stavros Ioannou became a Member and Deputy Chairman of the Supervisory Board on January 11, 2013.

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

In 2013 the members of the Supervisory Board did not receive remunerations from the Bank in their capacity of Supervisory Board members.

2. Shares and bonds of the company that are acquired, owned and transferred by the members of the Supervisory Board during 2013

No member of the Supervisory Board has owned or transferred shares or bonds of the Bank.

3. The Supervisory Board member's rights to acquire shares and bonds of the company

No member of the Supervisory Board holds special rights of acquisition of shares or bonds of the Bank.

4. The Supervisory Board member's ownership in other commercial enterprises, as:

4.1. Partners with unlimited liability

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

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

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

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

- **<u>Theodoros Karakasis</u>**

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

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

ERB Property Services d.o.o. Beograd, Serbia – Chairman of the Supervisory Board

Eurobank A.D. Beograd, Serbia – Chairman of the Management Board

ERB Leasing EAD, Bulgaria (former name EFG Leasing EAD date of change 01.02.2013) – Member of the Board of Directors

ERB Property Services Sofia AD, Bulgaria (former name EFG Property Services Sofia AD, date of change 25.03.2013) – 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)

- **Stavros Ioannou**

Eurobank Ergasias S.A., Greece, General Manager Retail Banking (as of 02.08.2013), Member of the Executive Board and the Management Committee

Eurobank Business Services S.A., Greece – Member of the Board of Directors (effective as of 11.09.2013)

Eurolife ERB General Insurance S.A., Greece – Member of the Board of Directors (effective as of 16.09.2013)

Eurolife ERB Life Insurance S.A., Greece – Member of the Board of Directors (effective as of 16.09.2013)

Be – Business Exchanges S.A., Greece – Member of the Board of Directors

Eurobank Household Lending S.A., Greece – Vice Chairman of the Board of Directors (effective as of 29.11.2013)

Eurobank Property Services S.A., Greece – Member of the Board of Directors (effective as of 29.11.2013)

Eurobank Financial Planning Services S.A., Greece – Chairman of the Board of Directors (effective as of 04.12.2013)

Eurobank Remedial Services S.A., Greece – Chairman of the Board of Directors (effective as of 04.12.2013)

New TT Hellenic Postbank S.A., Greece – Member of the Board of Directors (from 30.09.2013 until 27.12.2013)

Bancpost S.A., Romania – Member of the Board of Directors (until 12.12.2013)

ERB IT Shared Services S.A., Romania – Chairman of the Board of Directors

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

Cardlink S.A., Greece – Deputy Chairman of the Management Board (effective as of 27.02.2013)

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

- **Evangelos Kavvalos**

Eurobank Ergasias Leasing S.A., Greece – Member of the Board of Directors (until 02.12.2013)

Eurolife ERB General Insurance S.A., Greece – Member of the Board of Directors (from 10.04.2013 to 02.12.2013)

Eurolife ERB Life Insurance S.A., Greece - Member of the Board of Directors (until 02.12.2013)

Eurobank Factors S.A., Greece – Member of the Board of Directors (until 02.12.2013)

ERB Insurance Services S.A., Greece – Member of the Board of Directors (until 02.12.2013)

PJSC "Universal Bank", Ukraine – Member of the Supervisory Board (until 02.12.2013)

Eurobank A.D. Beograd, Serbia – Member of the Management Board (until 02.12.2013)

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

Unitfinance S.A., Greece - Member of the Board of Directors (until 02.12.2013)

- **Christos Adam**

Eurobank Ergasias S.A., Greece – General Manager, Chief Risk Officer, Member of the Executive Board and the Management Committee (General Manager as of 05.11.2013)

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

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

Eurobank Property Services S.A., Greece – Chairman of the Board of Directors (Chairman as of 29.11.2013)

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

Bancpost S.A., Romania – Member of the Board of Directors (effective as of 12.12.2013)

- **Nikolaos Aliprantis**

Eurobank Ergasias S.A., Greece – Assistant General Manager

Eurobank Ergasias Leasing S.A., Greece – Member of the Board of Directors

Eurobank Factors S.A., Greece – Member of the Board of Directors (until 04.06.2013)

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

5. The Contracts under Article 240b of the Commerce Act

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

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

GROUP STRUCTURE

Eurobank Bulgaria does not have any subsidiaries as at 31 December 2013 and therefore no consolidated financial statements are prepared at this entity level.

OBJECTIVES FOR 2014

The positive macroeconomic outlook for 2014 gives a reason to expect an improvement in the financial results. The goals for 2014 will build upon the achievements from the previous year, in accordance with the long-term strategy of the Bank. The economic recovery will revive the demand for loans to a point which will be able to compensate the repayment of the existing portfolio, mostly in the corporate segment.

Maintaining a prudent level of risk appetite requires the existence of products with competitive pricing. The Bank will continue to attract deposits, but the focus will be on diversifying the product mix and optimizing the cost of funds. Alternative sources of external funding from local and foreign financial institutions will be actively sought after.

Increasing the number of current accounts, attracting new clients and deepening the relationship with the existing ones will play a major role for increasing the fees and commissions income. Gaining the trust of the clients requires a flawless customer service through multiple channels as well as listening to their opinion. To achieve this goal, Postbank will continue to invest in its employees, improving their qualification, efficiency and motivation.

The long-term strategy of the Bank remains to be the Bank of first choice, providing the most innovative and suitable products and quality services while meeting the constantly evolving expectations of our customers thus creating value for them and the shareholders.

MANAGEMENT RESPONSIBILITIES

The Directors are required by Bulgarian law to prepare financial statements each financial year that give a true and fair view of the financial position of the company as at the year end and its financial results. The management has prepared the enclosed financial statements in accordance with IFRS.

The Directors confirm that suitable accounting policies have been used.

The Directors also confirm that the legislation applicable for banks in Bulgaria has been followed and that the financial statements have been prepared on a going concern basis.

The Directors are responsible for keeping proper accounting records, for safeguarding the assets and for taking reasonable steps for the prevention and detection of potential fraud and other irregularities.

ЮРОБАНК БЪЛГАРИЯ АД
Postbank
ЦУ
Град София

Petia Dimitrova
Chairperson of the Management Board and Chief Executive Officer

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

28 March 2014
Sofia, Bulgaria

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

Income statement

	Notes	Year ended 31 December 2013	2012* (restated)
Interest and similar income	1	370,747	417,207
Interest and similar charges	1	(175,024)	(207,172)
Net interest income		**195,723**	**210,035**
Fee and commission income	2	73,647	68,922
Fee and commission expense	2	(16,733)	(13,855)
Net fee and commission income		**56,914**	**55,067**
Dividend income		621	572
Other operating income	3	179	169
Net trading income	4	(50)	142
Gains less losses from trading securities	12	526	(84)
Gains less losses and impairment of securities available for sale	14	(4,601)	(3,492)
Repossessed collateral impairment	V.1.6.	(2,236)	-
Other operating expenses	5	(125,309)	(132,821)
Deposit Insurance Fund expense		(20,018)	(18,554)
Impairment charge for credit losses	7	(80,885)	(109,647)
Profit before income tax		**20,864**	**1,387**
Income tax expense	8	(2,371)	(261)
Profit for the year		**18,493**	**1,126**

*Certain amounts shown here do not correspond to the 2012 financial statements (refer to Note 25).

The Financial statements were authorized by the management on 28 March 2014.

Petia Dimitrova
Chairperson of the Management Board and Chief Executive Officer

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

ЮРОБАНК БЪЛГАРИЯ АД Postbank ЦУ Град София

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

Milka Damianova
Registered Auditor

31 March 2014

Stefan Weiblen
PricewaterhouseCoopers Audit OOD

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

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

Statement of comprehensive income

	Notes		Year ended 31 December 2013		2012* (restated)
Profit for the year			**18,493**		**1,126**
Items that are or may be reclassified subsequently to profit or loss:			*7,616*		*6,759*
Available for sale securities					
-net changes in fair value, net of tax	9	3,448		8,944	
-transfer of loss /(profit) to net profit on sale	9	4,168		(2,185)	
Items that will not be reclassified to profit or loss:			*(344)*		*365*
Change in FV of property, plant and equipment, net of tax		(139)			
Remeasurements of post-employment benefit obligations, net of tax		(205)		365	
Other comprehensive income/(loss) for the year	9		**7,272**		**7,124**
Total comprehensive income for the year			**25,765**		**8,250**

*Certain amounts shown here do not correspond to the 2012 financial statements (refer to Note 25).

The Financial statements were authorized by the management on 28 March 2014.

Petia Dimitrova
Chairperson of the Management Board and Chief Executive Officer

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

ЮРОБАНК БЪЛГАРИЯ АД Postbank ЦУ Град София

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

Milka Damianova
Registered Auditor

31 March 2014

Stefan Weiblen
PricewaterhouseCoopers Audit OOD

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

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

Balance sheet	Notes	As at 31 December	
		2013	2012
Assets			
Cash and balances with the Central Bank	10	700,685	618,214
Loans and advances to banks	11	846,121	667,614
Financial assets held for trading	12	17,014	6,607
Loans and advances to customers	13	3,882,517	4,035,101
Investment securities available-for-sale	14	135,901	174,899
Derivative financial instruments	20	2,649	7,049
Investment property	15	876	876
Property, plant and equipment	16	54,244	59,442
Intangible assets	17	33,195	31,826
Current income tax recoverable		1,817	2,709
Other assets	18	18,381	32,847
Total assets		**5,693,400**	**5,637,184**
Liabilities			
Deposits from banks	19	68,852	105,686
Derivative financial instruments	20	7,200	14,274
Due to customers	21	4,520,079	4,413,218
Debt issued and other borrowed funds	22	240,193	268,922
Deferred income tax liabilities	23	3,770	3,985
Provisions for other liabilities and charges	24	2,753	2,185
Retirement benefit obligations	25	3,299	2,644
Other liabilities	26	26,136	30,917
Total liabilities		**4,872,282**	**4,841,831**
Shareholders' equity			
Share capital	27	452,753	452,753
Statutory reserves		282,521	282,521
Retained earnings and other reserves, net		85,844	60,079
Total shareholders' equity		**821,118**	**795,353**
Total shareholders' equity and liabilities		**5,693,400**	**5,637,184**

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ЦУ
гр. София

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31 March 2014

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СПЕЦИАЛИЗИРАНО ОДИТОРСКО ПРЕДПРИЯТИЕ
София
Рег. №085
"Прайсуотърхаус Купърс Одит" ООД

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

Statement of changes in shareholders' equity

	Share capital	Property revaluation reserve	Available-for-sale investments revaluation reserve (deficit)	Statutory Reserves	Retained earnings and other reserves	Total
Balance at 1 January 2012	**452,753**	**2,376**	**(9,874)**	**282,521**	**59,327**	**787,103**
Adjustments due to retrospective application of IAS 19 Revised - effect on IS	-	-	-	-	(65)	**(65)**
Adjustments due to retrospective application of IAS 19 Revised - effect on OCI	-	-	-	-	65	**65**
Balance at 1 January 2012 (restated)	**452,753**	**2,376**	**(9,874)**	**282,521**	**59,327**	**787,103**
Net gain recognised directly in OCI	-	-	6,759	-	-	**6,759**
Remeasurement on post-employment benefit obligations	-	-	-	-	365	**365**
Profit for the year	-	-	-	-	1,126	**1,126**
Total comprehensive income for the year 2012	**-**	**-**	**6,759**	**-**	**1,491**	**8,250**
Transfer to retained earnings		**(2)**	**-**	**-**	**2**	**-**
Balance at 31 December 2012	**452,753**	**2,374**	**(3,115)**	**282,521**	**60,820**	**795,353**

(Continued on the next page)

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

Statement of changes in shareholders' equity (continued)

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

*Certain amounts shown here do not correspond to the 2012 financial statements (refer to Note 25).

The Financial statements were authorized by the management on 28 March 2014.

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31 March 2014

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PricewaterhouseCoopers Audit OOD

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

Statement of cash flows

	Year ended 31 December	
	2013	**2012**
Cash flow from operating activities		
Interest received	390,195	434,430
Interest paid	(164,062)	(217,230)
Dividends received	621	572
Fees and commission received	73,744	67,605
Fees and commission paid	(15,709)	(13,267)
Amounts paid to and on behalf of employees	(59,217)	(60,204)
Net trading and other income received	1,920	(37)
Other operating expenses paid	(75,782)	(77,510)
Tax paid	(2,500)	-
Cash from operating activities before changes in operating assets and liabilities	**149,210**	**134,359**
Changes in operating assets and liabilities		
Net decrease in reserve with the Central Bank	2,251	14,268
Net (increase) in trading securities	(10,281)	(5,056)
Net decrease/(increase) in loans and advances to customers	66,252	(585)
Net decrease/(increase) in other assets	3,287	(10,642)
Net (decrease)/increase in derivatives instruments	(60)	66
Net (decrease)/increase in due to other banks	(36,784)	13,657
Net increase/(decrease) in amounts due to customers	92,638	(300,588)
Net increase/(decrease) in other liabilities	3,815	(210)
Net cash flow from/(used in) operating activities	**270,328**	**(154,731)**
Cash flow from investing activities		
Purchase of property, plant and equipment and intangible assets (Notes 16, 17)	(9,590)	(8,299)
Purchase of investment securities (Note 14)	(17,278)	(56,969)
Proceeds from disposal of property and equipment	191	-
Proceeds from disposal of investment securities (Note 14)	47,404	42,690
Net cash flow from/ (used in) investing activities	**20,727**	**(22,578)**

(Continued on the next page)

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

Statement of cash flows (continued)

	Year ended 31 December	
	2013	**2012**
Cash flow from financing activities		
Repayments of issued debt securities	-	(40,000)
Long-term financing received	55,852	14,780
Long-term debt repaid	(83,761)	(44,677)
Net cash used in financing activities	**(27,909)**	**(69,897)**
Effect of exchange rate changes on cash and cash equivalents	83	356
Net change in cash and cash equivalents	**263,229**	**(246,850)**
Cash and cash equivalents at beginning of year	1,090,698	1,337,548
Cash and cash equivalents at end of year (Note 28)	**1,353,927**	**1,090,698**

The Financial statements were authorized by the management on 28 March 2014.

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Milka Damianova
Registered Auditor

31 March 2014

Специализирано одиторско предприятие
София
Рег. №085
"ПрайсуотърхаусКупърс Одит" ООД

Stefan Weiblen
PricewaterhouseCoopers Audit OOD

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

Notes to the financial statements
General information

Eurobank Bulgaria AD (the Bank) provides retail, corporate banking and investment banking services in Bulgaria. Its Head Office is located in Sofia and it has 184 network locations and 7 business centres (2012: 188 network locations and 7 business centres). The registered office address is: 260 Okolovrasten pat, 1766 Sofia, Bulgaria. The Bank employs 2,567 people (2012: 2,700).

Accounting policies

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

A. Basis of preparation

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (the EU) and in particular with those IFRS and IFRIC interpretations issued and effective or issued and early adopted as at the time of preparing these statements.

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

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

The Bank’s financial statements have been prepared on a going concern basis, which assumes that the Bank will continue in operational existence for the foreseeable future.

Impact of the economic crisis in Greece

Greece entered into a new funding and restructuring programme with the European Commission, the ECB and the Eurozone member-states as agreed in the Eurogroup meeting of 21 February 2012. The programme aimed at bringing the country’s public debt-to-GDP ratio below 120.0% by 2020.

The new funding and reform programme improved the country’s financial position and outlook, via the reduction of public debt and its servicing costs from 2012 onwards.

On the back of these developments, and after the implementation/legislation of a long list of structural reforms and fiscal austerity measures for 2013-16 by the Greek Government, the Eurogroup reached on 26 November 2012 an agreement on a set of new measures for the reduction of Greek public debt to 124.0% of GDP by 2020 and 110.0% of GDP in 2022. This debt path was consistent with the debt sustainability required by the IMF.

Position of the Group

Greek sovereign debt exchange programme

On 21 February 2012 the Euro-area finance ministers agreed on a bailout programme for Greece, including financial assistance from the Official Sector and a voluntary debt exchange agreed with the Private Sector forgiving 53.5% of the face value of Greek debt. All exchanged bonds were derecognised and the new Greek government bonds (nGGBs) recognised at fair value, based on market quotes at the date of recognition.

Following the Eurogroup’s decisions on 27 November 2012 and as part of debt reduction measures, the Greek State announced on 3 December 2012 an invitation to eligible holders of nGGBs to submit offers to exchange such securities for six months zero coupon notes to be issued by the European Financial Stability Fund (EFSF). Under its participation to the Greek state’s debt buyback program, the Eurobank Ergasias Group submitted for exchange the 100% of its nGGBs portfolio of total face value EUR 2.3 billion.

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

Notes to the financial statements (continued)

A. Basis of preparation (continued)

Recapitalisation Framework and Process

Given the severity of the impact of the Greek Government Bond exchange programme (PSI+), on 21 February 2012 the Euro Area finance ministers allocated a total of EUR 50 billion of the second support programme for Greece specifically for the recapitalisation of the Greek banking system. These funds were directed to the Hellenic Financial Stability Fund (HFSF) whose mandate has been extended and enhanced accordingly. EUR 39 billion of these funds were remitted to Greece in 2012 and the final EUR 11 billion in 2013.

Recapitalisation of Eurobank Ergasias S.A.

The Bank of Greece, after assessing the business plan and the capital needs of Eurobank Ergasias S.A. has concluded on 19 April 2012 that Eurobank Ergasias S.A. is a viable bank and, on 8 November 2012, notified Eurobank Ergasias S.A. that its Tier I capital should increase by EUR 5,839 million. Eurobank Ergasias S.A., the HFSF and the European Financial Stability Facility (EFSF) signed on 28 May 2012, on 21 December 2012 and on 30 April 2013 a trilateral presubscription agreement (PSA) for the advance to Eurobank Ergasias S.A. of EFSF notes of face value of EUR 3,970 million, EUR 1,341 million and EUR 528 million, respectively, (total EUR 5,839 million), as advance payment of its participation in the share capital increase of Eurobank Ergasias S.A.

On 7 April 2013, the relevant regulatory authorities, with the consent of the management of both banks, decided that National Bank of Greece S.A. (NBG) and Eurobank Ergasias S.A. will be independently recapitalised in full. As a consequence, the merger process of the two Banks was suspended. Following the above decision, the Board of Directors of Eurobank Ergasias S.A. evaluated the specificities of the exercise in relation with the attraction of capital from private investors and, in particular, the uncertainty regarding the completion or not of the merger with NBG, the ensuing inability of properly assessing the investment proposal, as well as the absence of tens of thousands of Eurobank Ergasias S.A.’s traditional shareholders who were substituted, due to the recent Voluntary Tender Offer, by NBG’s stake of approximately 85% in Eurobank Ergasias S.A.’s capital. As a consequence, the Board of Directors of Eurobank Ergasias S.A. proposed to the Extraordinary General Meeting on 30 April 2013 that the share capital increase of EUR 5,839 million be fully subscribed by the HFSF.

On 30 April 2013, the Extraordinary General Meeting approved the increase of the share capital of the Eurobank Ergasias S.A., in accordance with the provisions of Law 3864/2010 and Act of Cabinet 38/9.11.2012, in order to raise EUR 5,839 million by issuing 3,789,317,358 new ordinary shares, covered entirely by the HFSF with the contribution of bonds issued by the EFSF and owned by the HFSF. The capital increase was certified on 31 May 2013 and the listing of the new shares was completed on 19 June 2013 after obtaining the relevant approvals from Greek regulatory authorities.

On 28 March 2013, the BoG issued an Executive Committee Act (13/28.03.2013) bringing the limit for the Core Tier I capital to 9% of Risk Weighted Assets and for Equity Core Tier I to 6%, effective from 31 March 2013. According to the new definition of Core Tier I capital, AFS reserve is fully recognised, while deferred tax asset's recognition is limited to 20% of Core Tier I capital. On 23 December 2013, the BoG issued an Executive Committee Act (36/23.12.2013) lifting the aforementioned limitation related to the deferred tax asset’s recognition, effective from 31 December 2013. As at 31 December 2013, the Core Tier I ratio stood at 10.4% and proforma with the completion of transaction with Fairfax Financial Holdings Limited (increase of Fairfax’s participation in Eurobank Properties S.A. through share capital increase) and the implementation of Basel II IRB credit risk methodology to New Hellenic Postbank’s mortgage portfolio at 11.3%.

On 14 November 2013, Eurobank Ergasias S.A. announced the initiation of the process to raise approximately EUR 2 bn through a capital increase. On 14 January 2014, Eurobank Ergasias S.A. and HFSF announced that the transaction timetable will be adjusted to allow for the finalization of

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

Notes to the financial statements (continued)

A. Basis of preparation (continued)

the assessment of forward looking capital needs of the Greek banking sector and the new recapitalization framework. The BoG, following the assessment of Eurobank's capital needs, concluded on 6 March 2014 and notified Eurobank that its Core Tier I capital should increase by EUR 2,945 million. Eurobank Ergasias S.A. with its letter to BoG on 24 March 2014, submitted its capital enhancement plan whereby revised its capital actions providing for an additional positive impact on regulatory capital of EUR 81 million and stated that it intends to cover the remaining capital needs of EUR 2,864 million through a share capital increase, which constitutes a step towards further strengthening Eurobank's capital position and enhances Eurobank.'s ability to support the Greek economy. The proposed capital increase will be effected through a marketed equity offering.

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

EFG Group was the controlling shareholder of the Eurobank Ergasias S.A., holding 44.70% of the Eurobank's ordinary shares and voting rights until 23 July 2012. In May 2013, following its full subscription in Eurobank's recapitalisation of EUR 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 increases to 95.23%.

Eurobank Ergasias Group regards other Greek Banks controlled, jointly controlled or significantly influenced by HFSF, within the context of the Greek Banks' recapitalization, as well as the members of key management personnel of HFSF, as related parties. Eurobank Ergasias Group's transactions with HFSF's related Greek banks are made in the ordinary course of business, are carried out on market terms, are not influenced by the HFSF as the controlling shareholder of the Bank and are not included in the related party transactions presented.

National Bank of Greece S.A. Voluntary Tender Offer (VTO)

On 15 February 2013, the National Bank of Greece SA (NBG) acquired 84.35% of Eurobank's voting shares following the completion of a Voluntary Tender Offer (VTO) launched on 11 January 2013. The VTO would have been followed by the merger of the two banks, the process of which initiated on 19 March 2013.

On 28 March 2013, BoG sent letters to all viable banks, including Eurobank Ergasias S.A. and NBG, stating that each bank should proceed with its recapitalization by the end of April 2013 and requesting them to proceed with the relevant necessary actions. On 7 April 2013, as the joint banks' request for the extension of the recapitalization process up to 20 June 2013 was not granted, the relevant regulatory authorities with the consent of the management of both banks decided that the Eurobank and NBG will be independently recapitalized in full. As a consequence, the merger process of the two banks was suspended.

In this respect, the Extraordinary General Meeting of shareholders of Eurobank Ergasias S.A., convened on 30 April 2013, decided the increase of the Eurobank's ordinary share capital, in order to raise EUR 5,839 million, subscribed by way of contribution in kind from HFSF, in accordance with Law 3864/2010 and Act of Cabinet 38/9.11.2012. As a result of the above mentioned share capital increase of the Bank, the percentage of the voting rights held by NBG as at 31 December 2013 was reduced below 5%.

Position of the Bank

As at 31 December 2013, Eurobank Bulgaria relies on funding predominantly from locally collected deposits, its own capital base and international financial institutions funding. In 2013 the Bank further reduced the non-collateralized net exposure to the Parent bank from BGN 545 million to

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

Notes to the financial statements (continued)

A. Basis of preparation (continued)

BGN 156 million (see Note 29). During 2013 the Bank continues its initiative to ring-fence itsbalance sheet from specific risk concentrations by maintaining at least 70% of the Bank's direct exposure to the Parent bank collateralized by high quality bonds. The Bank's management has no intention to increase the unsecured portion of the exposure to the Parent in the foreseeable future. The Bank also has signed a Credit Support Annex to the schedule of the ISDA (International Swaps and Derivatives Association ®) agreement with Eurobank Ergasias aiming to mitigate counterparty risk arising from open derivative positions.

(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 Bank'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 Bank's financial statements.

IAS 19, Amendment - Employee Benefits

The amendments have been applied by the Bank retrospectively. As a result, the opening balances as of 1 January 2012 of retained earnings and other reserves have been restated, without affecting though total equity. Furthermore, the comparative figures of the Income statement (Operating expenses, Profit before tax, Income tax expense and Profit for the year), Statement of other comprehensive income and notes: 5. Other operating expenses, 6. Staff costs, 8. Income tax expense and 9. Income tax effects relating to comprehensive income have been accordingly restated.

The effects of the changes of the amendments are shown in note 25 Retirement benefits obligations.

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 amendments have been applied by the Bank retrospectively. As a result, the Bank has expanded disclosures about offsetting financial assets and financial liabilities in Note V.1.8. Offsetting of financial assets and financial liabilities.

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 Bank from the prospective adoption of the measurement requirements of IFRS 13. New disclosures and enhancements to existing disclosures are provided in notes V.1.6. Repossessed collateral, 2.4.1. Fair value of financial assets and liabilities not measured at fair value, 2.4.2. Financial instruments measured at fair value, 15. Investment Property and 16. Property Plant and Equipment.

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

Notes to the financial statements (continued)

A. Basis of preparation (continued)

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 Bank'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 Bank. Those that may be relevant to the Bank are set out below:

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 any impact on the Bank'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 Bank'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 have any impact on the Bank'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 Bank'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.

Notes to the financial statements (continued)

A. Basis of preparation (continued)

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

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 a material impact on the Bank'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.

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.

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

Notes to the financial statements (continued)

A. Basis of preparation (continued)

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 any impact on the Bank's financial statements.

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 any impact on the Bank'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 this standard is not expected to have any impact on the Bank's financial statements.

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

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 Bank's financial statements.

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

Notes to the financial statements (continued)

A. Basis of preparation (continued)

Annual Improvements to IFRSs 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 Bank's financial statements.

B. Foreign currencies transactions

Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Bank operates ('the functional currency'). The financial statements are presented in the national currency of Bulgaria, Leva (BGN), which is the Bank's functional and presentation currency. Except as indicated, financial information presented in BGN has been rounded to the nearest thousand.

Notes to the financial statements (continued)

B. Foreign currencies transactions (continued)

Transactions and balances

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

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortized cost are recognised in profit or loss, and other changes in the carrying amount are recognised in equity.

At 31 December 2013, monetary assets and liabilities are translated at the reference Central Bank exchange rate – BGN 1 for EUR 0.5113 (2012: BGN 1 for EUR 0.5113) and BGN 1 for USD 0.7047 (2012: BGN 1 for USD 0.6740).

C. Interest income and expense

Interest income and expense are recognised in the income statement for all interest bearing instruments on an accrual basis using the effective interest rate method. The effective interest rate method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period using effective interest rate. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount. When appropriate the Bank uses a shorter amortization period.

This is the period to the next repricing date when the market rates are changed before the expected maturity of the instrument.

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

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

D. Fees and commissions income and expense

Fees and commissions, except for those, which form part of the effective interest rate of the instruments, are generally recognised on an accrual basis.

Commissions and fees relating to foreign exchange transactions, imports-exports, remittances, bank charges and brokerage activities are recognised on the completion of the underlying transaction.

E. Financial assets

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

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

Notes to the financial statements (continued)

E. Financial assets (continued)

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

This category includes financial assets held for trading.
A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorized as held for trading unless they are designated and effective as hedging instruments.

Financial assets held for trading are initially recognised at fair value excluding transaction costs and subsequently re-measured at fair value based on the price within the bid-ask spread that is most representative of fair value in the circumstances used to measure fair value. All related realized and unrealized gains and losses are included in net trading income in the period in which they arise. Interest earned whilst holding financial assets held for trading is reported as interest income.

(b) Available-for-sale

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Available-for-sale investments are initially recognised at fair value plus transaction costs and are subsequently re-measured at fair value based on the price within the bid-ask spread that is most representative of fair value in the circumstances used to measure fair value or amounts derived from cash flow models.

Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in other comprehensive income, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income is recognised in profit or loss. Interest calculated using the effective interest rate method is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the Bank's right to receive payment is established.

Purchases and sales of financial assets at fair value through profit or loss, held to maturity and available for sale are recognised at settlement date – which is the date that the asset is delivered to or by the Bank.

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

If the market for a financial asset is not active (and for unlisted securities), the Bank establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques consistent with the specific features of the securities market in Bulgaria.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when they are extinguished − that is, when the obligation is discharged, cancelled or expires.

(c) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the Bank intends to sell immediately or in the short term, which are classified as held for trading, and those that the Bank upon initial recognition designates as at fair value through profit or loss; (b) those that the Bank upon initial recognition designates as available for sale; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

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

Notes to the financial statements (continued)

E. Financial assets (continued)

(d) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. If the Bank sells other than an insignificant amount of held-to-maturity assets, the entire category is tainted and reclassified as available for sale.

Held-to-maturity investments are carried at amortized cost using the effective interest method, less any provision for impairment. Interest earned whilst holding investment securities is reported as interest income. The Bank assesses its intention and ability to hold to maturity its held-to-maturity investments not only when those financial assets are initially recognised, but also at each subsequent balance sheet date.

F. Sale and repurchase agreements and securities lending

Securities sold subject to repurchase agreement ('repos') are retained in the financial statements as trading securities while the counterparty liability is included in deposits due to other banks, or deposits due to customers, as appropriate. The funds granted under agreements to resell ('reverse repos') are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and is accrued over the life of repo agreements using the effective interest rate method.

G. Derivative financial instruments and hedge accounting

Derivatives are financial instruments :

(a) whose value is changed in response to the change in specified interest rate, financial instrument price, foreign exchange rate, index of prices and rates, credit rates or credit index or other variable;

(b) that requires no initial net investment or an initial net investment is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors;

(c) that are settled at a future date.

Derivative financial instruments including currency swaps, interest rate swaps, currency forwards, forward rate agreements, options and futures are usually not recognised initially on the face of the balance sheet as they are often entered into at no cost (i.e. the net fair value of the receivables and payables is zero). When the net investment is not zero derivatives are initially recognised as financial instruments at fair value. The fair value is determined by quoted prices, discounted cash flows models and other valuation techniques. The positive net fair value is recognised as asset while the negative is recognised as liability. The changes in the fair value of derivatives are included in the income statement.

Fair value hedge:

Hedge accounting is used for derivatives designated as hedges of the fair value of recognised assets (fair value hedges) provided certain criteria are met.

The Bank documents, at the inception of the transaction, the relationship between hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking various hedge transactions. The Bank also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values.

Notes to the financial statements (continued)

G. Derivative financial instruments and hedge accounting (continued)

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. Effective changes in fair value of interest rate swaps and related hedged items are reflected in 'net trading income'. Interest expense and interest income from hedging derivatives and hedged assets are recognised within 'interest income' and 'interest expense' in the income statement. Any ineffectiveness is recorded in 'net trading income'.

If hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest rate method is used is amortized to profit or loss over the period to maturity. The adjustment to the carrying amount of a hedged item for which the effective interest rate method is not used remains in other comprehensive income until the disposal of the equity security.

H. Impairment of financial assets

(a) Assets carried at amortized cost

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of assets is impaired includes observable data about the following loss events:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (for example, equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral and
- Downgrading below investment grade level.

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

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

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

Notes to the financial statements (continued)

H. Impairment of financial assets (continued)

(a) Assets carried at amortized cost (continued)

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

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

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

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

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

The loan loss identification period is between three and twelve months.

(b) Assets classified as available for sale

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the financial asset below its cost is considered an objective evidence of impairment.

If any such evidence exists for available for-sale-financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from other comprehensive income and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments, classified as available-for-sale, are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

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

Notes to the financial statements (continued)

I. Property, plant and equipment

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

The Bank includes the subsequent costs in the asset's carrying amount or recognizes as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably.

All other repairs, maintenance and renewals are charged to the income statement during the financial period in which they are incurred.

After initial recognition the Bank measures the land and building at fair value. The fair value of land and buildings is determined from market-based evidence by appraisal that is undertaken by professionally qualified valuers. The main valuation methods include:

- market prices analogues (where assets are compared to those similar of nature offered on the market):
- present value of future income for rent generating assets (DCF)
- method of reduced cost (taking into account the price that the asset would cost at present if acquired or built and reduced on the basis of economic and physical depreciation factors).

Revaluation of property is performed once per 5 years. Periodically a review for impairment (valuation of all properties) is performed. The last valuation of Bank properties was done in December 2013.

The accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

If an asset's carrying amount is increased as a result of a revaluation, the increase is recognised in other comprehensive income and accumulated as Revaluations surplus. However the increase shall be recognised in profit and loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit and loss. If an asset's carrying amount is decreased as a result of revaluation, the decrease is recognised firstly in other comprehensive income by reducing the revaluation surplus and subsequently in profit and loss if credit balances in revaluation surplus are not sufficient.

With the exception of the land, the Bank depreciates all property, plant and equipment. The depreciation charge is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

- Buildings -50 years
- Leasehold improvements - the life of the lease, or useful life if shorter
- Computer hardware and software- 4-10 years
- Other furniture and equipment - 4-20 years
- Motor vehicles- 5 years.

The carrying amount of an item of property, plant and equipment is derecognised:

(a) on disposal
(b) when no future economic benefits are expected from its use or disposal.

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

Notes to the financial statements (continued)

I. Property, plant and equipment (continued)

The gain or loss from derecognition of an item of property, plant and equipment is included in profit or loss when the item is derecognised. The Bank does not classify the gains as revenue. The gain or loss from derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds and the carrying amount of the asset.

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

J. Intangible assets

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

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

The costs recognised (Note 17) include the employment costs of those directly involved in creating the asset, and may include some other costs (costs of materials and services used or consumed in generating the asset, legal fees, registration fees, etc)

Intangible assets are amortized using the straight-line method over their useful lives (between 4 and 10 years as stated above).

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

K. Borrowings, including debt securities in issue

Borrowings are recognised initially at fair value, being their issue proceeds net of transaction costs incurred. Borrowings are subsequently stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method.

L. Investment property

Investment property is defined as property (land or a building – or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for: (a) use in the production of supply of goods or services or for administrative purposes; or (b) sale in the ordinary course of business.

Investment property is carried at fair value, representing open market value determined annually by external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Bank uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Changes in fair values are recorded in the income statement as part of other income/expense.

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

Notes to the financial statements (continued)

M. Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with less than 90 days to maturity from the date of acquisition including: cash and non-restricted balances with central banks, amounts due from other banks and short-term government securities. Investments are treated or qualify as cash equivalents only when they have a short maturity of 90 days or less from the date of acquisition.

N. Operating leases

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

O. Current tax and deferred income tax

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

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. The principal temporary differences arise from depreciation of property, plant and equipment, revaluation reserve of financial instruments, provisions for court cases, the difference on balance sheet provision expenses according to the local and IFRS requirements and provisions for untaken annual leaves. Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized.

P. Employee benefits

(a) Social, pension and health funds

The Bank is obliged by the current Bulgarian legislation to make fixed contribution on behalf of the employees to a social fund operated by the Government. All those payments/liabilities are recognised as an expense in the period to which those relate.

(b) Retirement benefit obligations

In accordance with article 222, Para. 3 of the Bulgarian Labour Code, in the event of termination of a labour contract after the employee has reached the lawfully required retirement age, regardless of the reason for the termination, the employee is entitled to compensation as follows: 2 gross monthly salaries in all cases and 6 gross monthly salaries if the employee has been engaged with the Bank for at least 10 years.

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

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

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

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

Notes to the financial statements (continued)

Q. Provisions

Provisions for restructuring costs and legal claims are recognised when: the Bank has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination of rent and other contracts, consultancy and audit fees, employees' payments. Provisions are not recognised for future operating losses.
Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.
Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

R. Statutory reserve and dividends

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

Dividends are recognised as a liability when authorized by the General Assembly of the Shareholders and are deducted from equity. No dividends have been distributed for the last years according to the long-term strategy of the Bank.

S. Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when and only when there is a legally enforceable right to set off the recognised amounts and there is an intention either to settle on a net basis, or realize the asset and settle the liability simultaneously.

T. Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.
Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of the initial measurement, less cumulative amortization recognised already in the income statement on a straight line basis over the life of the guarantee and the best estimate of the expenditure required settling any financial obligation arising at the balance sheet date in accordance with IAS 37. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of Management.

Any increase in the liability relating to guarantees is taken to the income statement.

U. Comparatives

Except for the changes explained in Note 25 Retirement Benefits Obligations, the Bank has consistently applied the accounting policies to the years 2013 and 2012 presented in these financial statements. Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

V. Financial risk management

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Risk taking is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Bank's intent is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance.

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

Notes to the financial statements (continued)

V. Financial risk management (continued)

The Bank’s risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in the markets and economic conditions.

Risk management policy of the Bank is formulated by the Risk Committee and the Risk Manager. The practice of the Parent Company as well as the international best practices is followed through well-defined internal processes and functions, as well as independent reviews.

The risk management policy reflects the Bank’s objectives. It is therefore not intended that large risk positions are maintained to increase short-term profitability. The objective is achieving a leading position on the Bulgarian market and to provide customers and counterparties of the Bank with a first class service, and in the same time to increase the profit for the shareholders, through minimizing undertaken risks and effectively controlling the Bank’s expansion.

The adequacy of internal control systems is evaluated by Internal Audit functions. Risk functions are managed by the Bank’s Risk Division. The Bank’s aim is to ensure independence and compliance through different levels of audit by its Internal Auditors and Eurobank Group’s Internal Auditors and by regulatory authorities in Bulgaria and Greece.

The four general areas of risk management by the Bank are credit risk, market risk, operational risk and liquidity risk. The activity of Risk division and all risk related policies and procedures are in the process of full alignment with Eurobank Group risk guidelines and are controlled and guided by the Risk unit of the Parent company. The Chief Risk Officer of the Bank, heading Risk Division has a direct reporting line to the Risk Executive of the Parent company and a dotted reporting line to the CEO of the Bank. The Supervisory Board of the Bank has delegated to the Risk Committee the role of approving all strategic risk management decisions. The Risk Committee is in charge of monitoring all the quantitative and qualitative aspects of credit, market, liquidity and operational risks. In addition, internal audit is responsible for the independent review of risk management and the control environment.

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

The Bank supports its borrowers by offering various restructuring and renegotiation solutions, which improve their ability to repay the amounts owed. The respective impact on management's cash flow forecasts and assessment of the impairment of financial assets is decreasing. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in their impairment assessments.

The amount of provision for impaired loans is based on management's appraisals of these assets at the balance sheet date after taking into consideration the cash flows that may result from foreclosure less costs for obtaining and collateral’s sale.

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

Notes to the financial statements (continued)

V. Financial risk management (continued)

1. Credit risk

The Bank takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss for the Bank by failing to discharge an obligation. Credit risk is the most important risk for the Bank's business; management therefore carefully manages its exposures to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities and other bills into the Bank's asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments, and counterparty risk in over-the-counter derivative transactions.

To address credit risk the Bank has established a complex organization structure allocating responsibilities for sales, administration, approval and control of credit activities to various specialist divisions and committees. Credit operations are governed by a comprehensive set of policies and procedures to ensure that all aspects of credit risk are adequately covered.

1.1. Credit risk measurement

(a) Loans and advances

In measuring credit risk of loan and advances to customers and to banks at a counterparty level, the Bank reflects three components:

(a) 'probability of default' by the client or counterparty on its contractual obligations;

(b) current exposures to the counterparty and its likely future development, from which the Bank derives the 'exposure at default' and

(c) likely recovery ratio on the defaulted obligations (the 'loss given default').

The Bank manages the credit risk of loans and advances to customers and to banks through a comprehensive set of policies and procedures to ensure that all aspects of credit risk are adequately covered.

The Bank uses rating systems and slotting methodology to assess the creditworthiness of its corporate borrowers. The rating systems aggregate quantitative and qualitative information on individual obligors to perform the assessment of their creditworthiness and determine the credit rating for the obligor. It takes into account the following criteria:

- the company's past and forecasted financial performance
- its cash flows
- industry sector trends
- qualitative assessment of management
- the company's status, market and industry structural factors

The Bank assesses the credit quality of the wholesale loans on a case-by-case basis using the borrower's credit rating and based on a profound analysis of a set of qualitative and quantitative factors. The borrower's rating could be within a rating scale from 1 to 11. The Bank categorized as neither past due nor impaired wholesale loans which borrower's credit rating is from 1 to 6 and with zero days past due as loans bearing satisfactory risk and these with rating 7 under watch list. The overdue loans, which borrower's ratings are from 1 to 6 are presented as past due but not impaired loans. The wholesale loans to customers with credit ratings from 8 to 11 are considered individually impaired loans (loans to borrowers with rating 8 and 9 are categorized as potentially problematic and those in 10 and 11 as loss making).

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

Notes to the financial statements (continued)

V. Financial risk management (continued)
1.1. Credit risk measurement (continued)

(a) Loans and advances (continued)
Qualitative factors are those that deal with the borrower's management, industry, operating conditions, the market sector in which the borrower operates, securities, loan servicing, etc. Quantitative factors are those that refer to a set of ratios (e.g. profitability, leverage, liquidity) emerging from the borrower's financial statements (balance sheet, income statement, notes to FS).

The classification of retail clients is based on the full delinquency analysis by group according to which loans with zero overdue days are presented in category satisfactory risk and the rest in category past due but not impaired or impaired. The grouping is based on the common characteristics of the respective products, the similar risks they bear and the type of collateral that secures them. In case that a borrower is client to more than one of the above mentioned groups, the classification of each single retail loan of one and the same retail client should be done independently from the other loans of the same customer.

(b) Debt securities
For debt securities, external ratings from credit rating agencies such as Standard & Poor's, Moody's and Fitch are used by the Bank for managing the credit risk exposures, supplemented with proprietary credit analysis where external ratings are unavailable. The investments in those securities are viewed as a way to gain a better credit quality mapping and maintain a readily available source to meet the funding requirement at the same time.

1.2. Risk limit control and mitigation policies
The Bank manages limits and controls concentrations of credit risk wherever they are identified in particular, to individual counterparties and groups, and to industries.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and are subject to an annual or more frequent review. The exposure to any one borrower including banks and non-banking financial institutions is further restricted by sub limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored on a daily basis.

The exposure to any borrower is restricted by limits covering on- and/or off- balance sheet. Off-balance sheet facilities to customers include foreign exchange and interest rate derivatives, letters of credit, letter of guarantee and other financial instruments. The credit equivalent amounts for off-balance sheet facilities are determined in accordance with Bulgarian National Bank, Eurobank Group and Market Risk Unit regulations and guidelines. Overall customer exposure arising from all transactions and facilities is aggregated for monitoring utilization of the credit facility limit.

The Bank is active in the corporate and retail lending markets. Credit risk is well spread over a diversity of personal and commercial customers. Exposures to credit risk are managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing the lending limits where appropriate.
Some other specific control and mitigation measures are outlined below:

(a) Collaterals
The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The main collateral types for loans and advances that the Bank accepts are:

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

Notes to the financial statements (continued)

V. Financial risk management (continued)

1. Credit risk (continued)

1.2. Risk limit control and mitigation policies (continued)

- Mortgages over residential properties;
- Pledge on business assets such as premises, inventory and accounts receivable;
- Pledge on financial instruments such as debt securities and equities
- Issued guarantees.

Long-term financing and lending to corporate entities are generally secured. In order to minimize the credit loss the Bank will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

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

(b) Derivatives

The Bank maintains strict control limits on net open derivative positions (i.e. the difference between purchase and sale contracts), by both amount and term. At any time, the amount subject to credit risk is limited to the current fair value of instruments that are favorable to the Bank (i.e., assets where their fair value is positive), which in relation to derivatives is only a small fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. In most cases collateral or other security is obtained for credit risk exposures arising from derivative deals with non-bank (corporate or other) counterparties. Further details of the Bank's derivative instruments are provided in Note 20.
Settlement risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities.

(c) Credit related commitments

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

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

The table below represents worst case scenario of credit risk exposure to the Bank as at 31 December 2013 without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out below are based on net carrying amounts as reported in the balance sheet.

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

Notes to the financial statements (continued)

V. Financial risk management (continued)

1. Credit risk (continued)

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

As shown below 95% of the total maximum exposure is derived from loans and advances to banks and customers as well as loan commitments (2012: 95%); 2% represents investments in debt securities (2012: 3%).

	As at 31 December	
	2013	**2012**
Credit risk exposures relating to on-balance sheet assets are as follows:		
Loans and advances to banks	846,121	667,614
Loans and advances to customers:		
- Mortgages	1,190,305	1,180,598
- Consumer lending (including credit cards)	650,178	683,713
- Small Business lending	686,736	746,132
- Corporate lending	1,355,298	1,424,658
Trading assets - debt securities	14,693	5,502
Derivative financial instruments	2,649	7,049
Investment securities- available-for-sale-debt securities	123,077	167,603
Other assets	9,720	20,447
Credit risk exposures relating to off-balance sheet items are as follows:		
Guarantees	85,739	66,399
Letters of credit	25,271	16,752
Loan commitments	595,458	508,069
Total	**5,585,245**	**5,494,536**

1.4. Loans and advances

Loans and advances are summarized as follows:

	As at 31 December	
Loans and advances to customers	**2013**	**2012**
Neither past due nor impaired	2,872,220	3,065,408
Past due but not impaired	585,676	595,527
Impaired	806,244	693,010
Gross	**4,264,140**	**4,353,945**
Less: allowance for impairment	(381,623)	(318,844)
Net	**3,882,517**	**4,035,101**
Included in gross loans and advances are:		
Past due more than 90 days	744,995	685,388
Of which non-performing loans	680,000	586,611

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

Notes to the financial statements (continued)

V. Financial risk management (continued)

1. Credit risk (continued)

1.4. Loans and advances (continued)

The total impairment provision for loans and advances is BGN 381,623 thousand (2012: BGN 318,844 thousand) of which BGN 126,711 thousand (2012: BGN 107,682 thousand) represents the individually impaired loans provision and the remaining amount of BGN 254,912 thousand (2012: BGN 211,162 thousand) represents the portfolio provision. Further information of the impairment allowance for loans and advances to customers is provided in Note 13. During 2013, the Bank's total net loans and advances decreased by 4 %. In order to minimize the potential increase of credit risk exposure, the Bank has focused more on the business with large corporate enterprises with good credit rating or retail customers providing sufficient collateral.

In 2013 net loans and advances were affected by BGN 120,962 thousand (2012: BGN 95,687 thousand) IMO recoveries received on realized loan collaterals. IMO is a related company of the Bank.

(a) Loans and advances neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired at 31 December 2013 can be assessed by reference to the internal standard grading system (see V.1.1.a). The following information is based on that system:

Satisfactory risk	**As at 31 December 2013**	**As at 31 December 2012**
Mortgages	938,771	949,638
Corporate Lending	939,128	1,020,891
Consumer Lending	532,878	553,040
SBB Lending	428,299	464,652
Total Satisfactory risk	**2,839,076**	**2,988,221**
Watch list (Corporate Lending**)**	33,144	77,187

(b) Loans past due but not impaired

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

31 December 2012	**Consumer Lending**	**Mortgages**	**SBB Lending**	**Corporate Lending**	**Total**
Past due up to 29 days	66,175	79,883	51,290	123,299	**320,647**
Past due 30 - 89 days	37,022	58,939	58,113	85,994	**240,068**
Past due 90 - 179 days	-	20,940	-	13,577	**34,517**
Past due less than 1 year	-	-	-	295	**295**
Total	**103,197**	**159,762**	**109,403**	**223,165**	**595,527**

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

Notes to the financial statements (continued)

V. Financial risk management (continued)

1. Credit risk (continued)

1.4. Loans and advances (continued)

(c) Impaired loans and advances collectively assessed

For collectively assessed accounts, loans are treated as impaired based on historical loss data for groups of loans with similar characteristics. The criteria used by the Bank to determine that there is objective evidence of impairment are provided in point V.1.1. Not all loans collectively assessed for impairment are considered impaired. Based on past experience, consumer loans less than 90 days past due and mortgage loans less than 180 days past due are not considered impaired, unless specific information indicates to the contrary. Consumer loans over 90 days past due and mortgage loans over 180 days past due are considered as having impairment indicators and are collectively assessed for impairment.

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

31 December 2012	Consumer lending	Mortgages	SBB lending	Total
Past due 90 - 179 days	15,694	-	7,329	23,023
Past due less than 1 year	21,841	21,701	7,146	50,688
Past due over 1 year	79,944	80,834	84,523	245,301
Collectively assessed for impairment	**117,479**	**102,535**	**98,998**	**319,012**

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

(d) Loans and advances individually impaired

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

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

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

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

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

Notes to the financial statements (continued)

V. Financial risk management (continued)

1. Credit risk (continued)

1.4. Loans and advances (continued)

(d) *Loans and advances individually impaired (continued)*

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

31 December 2012	SBB Lending	Corporate Lending	Total
Past due up to 29 days	-	37,242	37,242
Past due 30 - 89 days	-	5,245	5,245
Past due 90 - 179 days	21,475	18,645	40,120
Past due less than 1 year	28,593	23,096	51,689
Past due over 1 year	123,918	115,784	239,702
Individually impaired loans	**173,986**	**200,012**	**373,998**

Wholesale borrowers are rated on a case-by-case basis following the Internal Credit Rating System. The credit rating is based on a profound analysis of qualitative and quantitative factors. Qualitative factors are those that deal with the borrower’s management, industry, operating conditions, the market sector in which the borrower operates, securities, loan servicing etc. Quantitative factors are those that refer to a set of ratios (main ratios: profitability, leverage, liquidity) emerging from the borrower’s financial statements (balance sheet, income statement, notes to the financial statements etc.)

Small business lending loans over 90 days overdue are assessed on a case-by-case basis, following the Bank’s provisioning policy.

The impairment provisions reflect the probability that management will not be able to enforce its rights and repossess collateral on defaulted loans. Despite difficulties in enforcing repossession of collateral, the Bank's management will vigorously pursue the outstanding debts with all possible means at their disposal.

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

Notes to the financial statements (continued)

V. Financial risk management (continued)

1. Credit risk (continued)

1.4. Loans and advances (continued)

Information about collateral at 31 December 2013 is as follows:

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

Information about collateral at 31 December 2012 is as follows:

	Corporate loans	Consumer loans	SBB loans	Mortgage loans	Reverse repurchase agreements	Total
Unsecured loans	153,750	670,704	106,997	14,497	-	**945,948**
Loans guaranteed by other banks	3,190	-	9,825	-	-	**13,015**
Loans guaranteed by other parties, including credit insurance	47,646	-	-	-	-	**47,646**
Loans collateralised by:						
- residential real estate	145,365	-	236,978	1,159,221	-	**1,541,564**
- other real estate	660,997	-	339,486	2,696	-	**1,003,179**
- tradable securities	-	5	-	-	-	**5**
- cash deposits	7,603	4,168	4,353	138	-	**16,262**
- other assets	406,107	8,250	48,493	4,046	586	**467,482**
Total loans and advances to customers	**1,424,658**	**683,127**	**746,132**	**1,180,598**	**586**	**4,035,101**

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

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

Notes to the financial statements (continued)

V. Financial risk management (continued)

1. Credit risk (continued)

1.5. Debt securities and Loans and advances to banks

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

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

Investment securities available for sale include impaired corporate bonds with carrying amount of BGN 8,318 thousand (2012: BGN 11,344 thousand). The impairment provisions as of end of 2013 amounted to BGN 4,832 thousand (2012: BGN 5,429 thousand).

					31 December 2012
Rating	**Trading securities**	**Investment securities, available for sale**	**Loans and advances to banks**	**Derivatives**	**Total**
AAA	-	-	-	-	-
AA- to AA+	-	-	46	-	**46**
A- to A+	-	-	6,428	-	**6,428**
BBB- to BBB+	5,502	131,490	10,575	-	**147,567**
BB- to BB+	-	-	-	-	-
Lower than BB-	-	3,820	645,545	4,535	**653,900**
Unrated	-	32,293	5,020	2,514	**39,827**
Total	**5,502**	**167,603**	**667,614**	**7,049**	**847,768**

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

Notes to the financial statements (continued)

V. Financial risk management (continued)

1. Credit risk (continued)

1.6. Repossessed collateral

Repossessed properties are sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness. Repossessed property is classified in the balance sheet within other assets. The balances of the repossessed collaterals as at year-end are as follows:

Nature of assets	**2013**	**2012**
Commercial property	2,710	4,957
Residential property	1,943	2,062
Land	597	632
Total	**5,250**	**7,651**

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

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

Class repossessed collateral	**Fair value 31/12/2013 in BGN thousands**	**Valuation technique**	**Significant unobservable input**	**Range (weighted average) 2013 in BGN**	**Range (weighted average) 2012 in BGN**	**Connection between the unobservable input and FV**
Land	558	Market comparison approach	price per m2	0.41 - 2.54 (0.81)	0.37 - 2.93 (0.85)	A significant increase in price per m2 would result in a higher fair value
		Cost approach	price per m2	84.07	89.42	A significant increase in price per m2 would result in a higher fair value
Residential	4,159	Market comparison approach	price per m2	78.00 - 2015.00 (855.00)	66.00 - 2093.00 (878.00)	A significant increase in price per m2 would result in a higher fair value
		Cost approach	price per m2	206.5	397.83	A significant increase in price per m2 would result in a higher fair value
Mixed	533	Market comparison approach	price per m2	782.33 - 1466.87 (957.82)	802.59 - 1466.87 (970.28)	A significant increase in price per m2 would result in a higher fair value
		Cost approach	price per m2	49.99 - 122.00 (86.95)	51.99 - 129.98 (92.01)	A significant increase in price per m2 would result in a higher fair value

Reconciliation of Level 3 movement:

Balance at 1 January 2013	**7,651**
Additions	-
Sales	(165)
Impairment	(2,236)
Transfers into Level 3	-
Transfers out of Level 3	-
Balance at 31 December 2013	**5,250**

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

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

Notes to the financial statements (continued)

V. Financial risk management (continued)

1. Credit risk (continued)

1.7. Concentration of risks of financial assets with credit risk

(a) Geographical sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by geographical region as of 31 December 2013. For this table, the Bank has allocated exposures to regions based on the country of domicile of its counterparties.

	Bulgaria	Greece	Romania	Rest of Europe	Other countries	Total
Loans and advances to banks	-	842,761	81	1,191	2,088	846,121
Trading assets – debt securities	14,693	-	-	-	-	14,693
Loans and advances to customers:						
- Mortgages	1,187,312	1,004	68	621	1,300	1,190,305
- Consumer lending incl. credit cards	649,074	282	21	630	171	650,178
-Small business lending	686,719	-	17	-	-	686,736
-Corporate lending	1,353,332	-	1,966	-	-	1,355,298
Investment debt securities – AFS	114,728	-	4,598	3,751	-	123,077
Derivative financial instruments	1,071	1,560	-	-	18	2,649
Other assets	9,720	-	-	-	-	9,720
31 December 2013	**4,016,649**	**845,607**	**6,751**	**6,193**	**3,577**	**4,878,777**
31 December 2012	**4,231,738**	**655,968**	**2,019**	**11,975**	**1,616**	**4,903,316**

(b) Industry sectors

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

	Commerce and services	Private individuals	Manufac-turing	Construc-tion	Public sector	Financial institutions	Other	Total
Loans and advances to banks	-	-	-	-	-	846,121	-	**846,121**
Trading assets-debt securities	-	-	-	-	14,693	-	-	**14,693**
Loans and advances to customers:								
- Mortgages	-	1,190,305	-	-	-	-	-	**1,190,305**
-Consumer lending incl. credit cards	-	650,178	-	-	-	-	-	**650,178**
-Small business lending	415,731	3,890	122,004	67,202	-	-	77,909	**686,736**
-Corporate lending	605,483	-	397,418	130,576	2,478	39,602	179,741	**1,355,298**
Investment debt securities – AFS	5,906	-	11,119	1,001	102,780	988	1,283	**123,077**
Derivative financial instruments	75	-	505	-	-	1,880	189	**2,649**
Other assets	-	-	-	-	-	9,720	-	**9,720**
31 December 2013	**1,027,195**	**1,844,373**	**531,046**	**198,779**	**119,951**	**898,311**	**259,122**	**4,878,777**
31 December 2012	**1,124,374**	**1,868,060**	**509,416**	**224,183**	**143,749**	**711,547**	**321,987**	**4,903,316**

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

Notes to the financial statements (continued)

V. Financial risk management (continued)

1. Credit risk (continued)

1.8. Offsetting Financial assets and financial liabilities

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

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

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

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

	Gross amounts before offsetting in BS	Gross amounts set off in BS	Net amount after offsetting in BS	Financial or cash collateral received or given either recognised on BS or not, not offset on BS	Net amount of exposure
	(a)	(b)	(c) = (a) - (b)	(d)	(c) - (d)
Assets as of 31 December 2012					
Derivative assets	4,726	-	4,726	(4,726)	-
Liabilities as of 31 December 2012					
Derivative liabilities	(4,958)	-	(4,958)	4,958	-

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

Notes to the financial statements (continued)

V. Financial risk management (continued)

2. Market risk

The Bank takes on exposures to market risk, which is the risk of potential financial loss due to adverse changes in market variables such as interest rates, equity prices or foreign exchange rates. The fair value or future cash flows of a financial instrument may fluctuate because of changes in market variables.

The Bank is exposed to the following main types of market risks:

- interest rate risk;
- foreign exchange risk;
- equity price risk;

Interest rate risk is the risk of potential loss from adverse changes in interest rates and includes re-pricing risk, yield curve risk, basis risk, spread risk, volatility risk.

Foreign exchange risk is the risk of loss due to an adverse change in foreign currency exchange rates against the base currency.

The equity price risk is the risk of potential loss from adverse changes in equity prices. It includes outright risk, volatility risk, spread risk and dividend risk.

Within each type of market risk, there are a number of specific sources of risk (risk factors), to which the Bank may or may not be exposed at any point in time.

The corporate governance with respect to market risk control and supervision is defined in the Bank's Market Risk Policy, developed in line with the Group Market Risk Guidelines. The objectives of the Bank's Market Risk Policy are to:

- set the framework and minimum standard for market risk control and management throughout the Bank;
- enable compliance with local rules;
- be duly compliant with Group Guidelines;
- enable compliance with the requirements of local and foreign regulators;
- establish a framework that will eventually allow the Bank to gain competitive advantage through risk-based decision-making;

The Market Risk Policy is further supported by Market Risk Procedures which set out the detailed standards and requirements necessary to implement the Policy. The Policy and Procedures apply to the control of market risks, arising on all of the Bank's assets, liabilities and off-balance sheet positions, therefore covering both Treasury and non-Treasury activities that run market risk.

The Bank's Market Risk Policy is approved by the Board of Directors of Eurobank Bulgaria AD and maintained by Market Risk Department. The Market Risk Department reviews the policy at least annually and submits changes to the Board for approval. The Market Risk Policy is in compliance with the Group's Risk Guidelines pertaining to market risk.

The market risk control and supervision framework set by the Bank aims to:

- protect the Bank against unforeseen market losses and contribute to earnings stability through the independent identification, assessment and understanding of the market risks inherent in the business;

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

Notes to the financial statements (continued)

V. Financial risk management (continued)

2. Market risk (continued)

- help align the Bank's organizational structure and management processes with best international banking practice and set minimum standards for controlling market risks;
- develop transparent, objective and consistent market risk information as a basis for sound decision making;
- establish a structure that will allow the Bank to link business strategy and operations with the objectives for risk control and supervision;

The Bank's market risk appetite is the size of the potential unexpected loss that it is willing to absorb because of adverse changes in market variables. It is related to its ability to absorb those losses, which depends on the Bank's capital and reserves; the potential losses arising from other, non-market risks; and the regulatory capital, which is required to support the business. The Bank's market risk appetite is expressed in terms of nominal limits set on the exposures to market risks. The market risk appetite is determined by the Bank's Risk Committee, which approves all risk limits at Bank level. These limits are also part of the global limit structure of the Group and are ratified at Group level. The Bank's market risk appetite is also expressed through characteristics such as different types of allowed markets, products, countries, counterparties and currencies.

2.1. Market risk measurement techniques

The Bank ensures that all material positions that are exposed to market risks are included within the market risk measurement system. At a minimum, the market risk measurement system should measure risk arising from exposure to the following specific market risk factors, i.e. the specific market prices or rates that affect the value of positions:

- foreign exchange rates
- interest rates and
- equity prices.

Currently market risk measurement is done using notional exposure data and notional level limits, supported by regular stress testing. The Bank is not using VaR-based limits. Upon senior management decision in the future the Bank may introduce additional value-at-risk analysis.

2.2. Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The major part of the Bank's FX position is against EUR, while the BGN/EUR currency rate remains pegged at 1.95583 as part of the Currency Board arrangements. The Management sets limits on the open positions in individual currencies as well as on the aggregate open positions for both overnight and intra-day positions, and these limits are monitored on a daily basis.

2.3. Sensitivity of assets and liabilities

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may also reduce or create losses in the event that unexpected movements arise. The Management reviews the interest rate gaps and the interest rate mismatch and the necessary reprising that may be undertaken on a monthly basis.

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

Notes to the financial statements (continued)

V. Financial risk management (continued)

2. Market risk (continued)

2.3. Sensitivity of assets and liabilities (continued)

The Bank is exposed to the fluctuations of the different types of market risk. The sensitivity analysis below illustrates the potential impact on the income statement and equity from “reasonable possible shifts", based on the market dynamics and economic environment that have been observed during the reporting period.

31 December 2013

	Total Effect on Economic Value	**Direct P&L Effect**	**Direct Equity Effect**	**Banking Book Effect**
Interest Rate				
+250 bps parallel shift local currency +200 bps parallel shift other currencies	**4,498**	(2,124)	(1,482)	8,104
-250 bps parallel shift local currency -50 bps parallel shift other currencies	**(3,991)**	2,415	370	(6,776)
Equities / Equity Indices / Mutual Funds				
-25% equity price drop across the board	**(1,008)**	(580)	(428)	-
+25% equity price increase across the board	**1,008**	580	428	-
Foreign exchange				
-25% depreciation of local currency	**1,375**	1,375	-	-
20% appreciation of local currency	**(1,100)**	(1,100)	-	-

31 December 2012

	Total Effect on Economic Value	**Direct P&L Effect**	**Direct Equity Effect**	**Banking Book Effect**
Interest Rate				
+250 bps parallel shift local currency +200 bps parallel shift other currencies	**12,902**	(5,379)	(2,973)	21,254
-250 bps parallel shift local currency -50 bps parallel shift other currencies	**(13,106)**	2,402	743	(16,251)
Equities / Equity Indices / Mutual Funds				
-25% equity price drop across the board	**(419)**	(221)	(198)	-
+25% equity price increase across the board	**419**	221	198	-
Foreign exchange				
-25% depreciation of local currency	**749**	749	-	-
20% appreciation of local currency	**(599)**	(599)	-	-

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

Notes to the financial statements (continued)

V. Financial risk management (continued)

2. Market risk (continued)

2.3. Sensitivity of assets and liabilities (continued)

Sensitivity to changes to the three major market risk factors – foreign exchange, interest rate and equity price risk, has been calculated and presented in the above table. The calculation parameters used have been determined based on the market environment and the dynamics observed during the last couple of years and represent reasonable possible shifts in the market variables.

1. Foreign exchange risk sensitivity has been calculated directly on the total net open position (excluding Euro) of the Bank as a 25% depreciation / 20% appreciation of the local currency against all foreign currencies (except Euro), which mainly include USD, CHF and GBP. The BGN/EUR exchange rate is fixed at 1.95583 as part of the Currency Board Arrangement.

2. Interest rate risk sensitivity has been estimated by applying a parallel yield curve shift to all of the Bank's relevant on- and off-balance sheet positions and calculating the changes in their present value. The results have been allocated to three columns depending on the accounting treatment of each position:

- Direct P&L effect - for items with revaluation reflected in the income statement (trading portfolio securities and derivatives);
- Direct equity effect - for items with revaluation that affects the equity reserves (AFS securities);
- Banking book effect - for items with no accounting revaluation (assets and liabilities not measured at fair value), the effect is through changes in the economic value of capital.

The sum of the three columns gives the total effect on the economic value of the Bank.

The following parallel yield curve shifts have been applied:

For BGN: +250 bps / -250 bps;
For all other currencies: +200 bps / -50 bps;

3. Equity price risk sensitivity has been calculated by applying a 25% drop / 25% increase in equity prices across the board.

2.4. Fair values of financial assets and liabilities

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

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

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

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

Notes to the financial statements (continued)

V. Financial risk management (continued)

2. Market risk (continued)

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

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

	At 31 December 2012				
	Level 1	**Level 2**	**Level 3**	**Total Fair Value**	**Total Carrying Amount**
Financial assets					
Loans and advances to banks	-	667,614	-	**667,614**	**667,614**
Loans and advances to customers	-	-	4,426,192	**4,426,192**	**4,035,101**
Financial liabilities					
Debt issued and other borrowed funds	-	269,163	-	**269,163**	**268,922**

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

a) Loans and advances to customers
For loans and advances to customers quoted market prices are not available as there are no active markets where these instruments are traded. The fair values are estimated by discounting future expected cash flows over the time period they are expected to be recovered, using appropriate risk-adjusted rates. Loans are grouped into homogenous assets with similar characteristics, as monitored by Management, such as product, borrower type and delinquency status, in order to improve the accuracy of the estimated valuation outputs. In estimating future cash flows, the Bank makes assumptions on expected prepayments, product spreads and timing of collateral realization. The discount rates incorporate inputs for expected credit losses and interest rates, as appropriate.

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

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

Notes to the financial statements (continued)

V. Financial risk management (continued)

2. Market risk (continued)

2.4.1. Fair values of financial assets and liabilities not measured at fair value (continued)
For other financial instruments which are short term (cash and balances with central banks, loans and advances to banks, due to central banks and other banks) or re-priced at frequent intervals (due to customers), the carrying amounts represent reasonable approximations of fair values.

2.4.2. Financial instruments measured at fair value

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

These financial instruments carried at fair value are categorised into the three levels of the fair value hierarchy as at 31 December 2013 based on whether the inputs to the fair values are observable or unobservable, as follows:

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

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

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

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

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

Notes to the financial statements (continued)

V. Financial risk management (continued)

2. Market risk (continued)

2.4.2. Financial instruments measured at fair value (continued)

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

	31 December 2012			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value:				
Financial assets held for trading				
-Debt securities	5,502	-	-	5,502
-Equity securities	1,105	-	-	1,105
Derivative financial instruments	-	7,049	-	7,049
Available-for-sale investment securities				
-Investment securities - debt	151,910	15,693	-	167,603
-Investment securities - equity	988	6,308	-	7,296
Total financial assets	**159,505**	**29,050**	**-**	**188,555**
Financial liabilities measured at fair value:				
Derivative financial instruments		14,274	-	14,274
Total financial liabilities	**-**	**14,274**	-	14,274

The Bank recognizes transfers into and out of the fair value hierarchy levels at the beginning of the quarter in which a financial instrument's transfer was affected. Other than the transfer of BGN 5,304 thousand available-for-sale equities from Level 2 to Level 1 in the 4th quarter 2013 as observable quoted prices became available, there were no other transfers between Level 1 and 2 and vice versa, as well as, no changes in valuation techniques used, during the period.

Bank's valuation processes

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

Notes to the financial statements (continued)

V. Financial risk management (continued)

2. Market risk (continued)

2.4.2. Financial instruments measured at fair value (continued)

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

The Bank follows fair valuation processes and procedures, which are established at a Group level by Global Market Counterparty Risk Sector. Some of the specific valuation controls include: verification of observable pricing, re-performance of model valuations, a review and approval process for new models and/or changes to models, calibration and back-testing against observable market transactions, where available, analysis of significant valuation movements, etc. Where third parties' valuations are used for fair value measurement, these are reviewed in order to ensure compliance with the requirements of IFRS 13.

Valuation techniques

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

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

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

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

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

Notes to the financial statements (continued)

V. Financial risk management (continued)

2. Market risk (continued)

2.4.2. Financial instruments measured at fair value (continued)

Reconciliation of Level 3 fair value measurement	
Balance at 1 January 2013	**-**
Transfers into Level 3	5,810
Total gain/(loss) for the period included in profit or loss	-
Total gain/(loss) for the period included in other comprehensive income	-
Purchases/(sales)	-
Balance at 31 December 2013	**5,810**

Following management review of the fair value hierarchy categorisation, the Bank transferred in the 3rd quarter of 2013 certain unquoted available-for-sale equity instruments in Level 3 due to the significance of the unobservable inputs used in their fair value measurement.

3. Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

3.1. Liquidity risk management process

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

The Management Board (MB) of the Bank assigns the Assets and Liabilities Committee (ALCO) as the primary responsible body to advise the MB for the strategic management of assets and liabilities with aim to manage the interest rate and liquidity risks of the Bank.

Regarding Assets and Liabilities management, ALCO shall regularly review the following:

- Structure, current state and trends of the assets and liabilities of the Bank;
- Interest income margin generated on assets and cost of funding base (deposit base and external funding);
- Interest rates offered by main competitors and market shares;
- Capital Adequacy.

Regarding Liquidity management, ALCO shall regularly review the following:

- Liquidity Ratios and liquidity buffers as defined by BNB;
- Internal Liquidity ratios;
- Liquid buffers;
- Sources and uses of Liquidity and Liquidity Projections;
- Liquidity Stress tests, reflecting the changes on the asset-liability maturity tables in different stress scenarios.

On a strategic level ALCO shall manage the Bank's assets and liabilities to ensure regular and timely meeting of current and future obligations.

The operational management of the Bank's liquidity and the execution of ALCO decisions regarding liquidity is assigned to the Head of Capital Markets Division. If necessary, ALCO can be directly engaged in the liquidity management via activating all resources of the Bank to meet all payment obligations. Market Risk Department holds an important position in monitoring the market risks and in producing reports to the senior management for observation of risks. Market Risk Department directly reports the utilization of limits/target ratios to the senior management.

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

Notes to the financial statements (continued)

V. Financial risk management (continued)

3. Liquidity risk (continued)

3.2. Cash flows

The table below presents the cash flows receivables and payable by the Bank under financial assets/ liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows for the year 2013 and 2012. Liabilities without contractual maturities (sight and saving deposits) are presented in "less than 1 month" time bucket.

As at 31 December 2013	**Gross nominal inflow/ outflow**	**Less than 1 month**	**1-3 months**	**3 -12 months**	**1-5 years**	**More than 5 years**
Financial liabilities						
Non-derivative liabilities	***4,909,662***	***3,169,898***	***402,073***	***1,121,718***	***114,113***	***101,860***
Due to other banks	68,858	68,858	-	-	-	-
Due to customers	4,551,459	3,057,657	384,165	1,076,107	33,530	-
Debt issued and other borrowed funds	264,197	18,235	17,908	45,611	80,583	101,860
Other liabilities	25,148	25,148	-	-	-	-
Derivative financial instruments	***1,625,408***	***877,186***	***736,354***	***7,031***	***4,837***	-
Outflows from net settled	11,836	2,966	147	3,887	4,837	-
Outflows from gross settled	1,613,572	874,220	736,207	3,144	-	-
Total liabilities (contractual maturity)	**6,535,070**	**4,047,084**	**1,138,427**	**1,128,749**	**118,950**	**101,860**
Total assets (contractual maturity)	**8,520,601**	**3,378,440**	**875,302**	**457,168**	**1,939,623**	**1,870,068**

As at 31 December 2012	**Gross nominal inflow/ outflow**	**Less than 1 month**	**1-3 months**	**3 -12 months**	**1-5 years**	**More than 5 years**
Financial liabilities						
Non-derivative liabilities	***4,906,014***	***1,910,415***	***712,106***	***2,000,954***	***243,618***	***38,921***
Due to other banks	105,696	105,696	-	-	-	-
Due to customers	4,473,271	1,762,079	710,236	1,952,179	48,777	-
Debt issued and other borrowed funds	296,304	11,897	1,870	48,775	194,841	38,921
Other liabilities	30,743	30,743	-	-	-	-
Derivative financial instruments	***1,815,995***	***526,541***	***1,272,026***	***6,961***	***10,213***	***254***
Outflows from net settled	48,661	2,626	31,498	4,070	10,213	254
Outflows from gross settled	1,767,334	523,915	1,240,528	2,891	-	-
Total liabilities (contractual maturity)	**6,722,009**	**2,436,956**	**1,984,132**	**2,007,915**	**253,831**	**39,175**
Total assets (contractual maturity)	**8,719,961**	**2,766,917**	**1,432,293**	**462,211**	**2,094,369**	**1,964,171**

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

Notes to the financial statements (continued)

V. Financial risk management (continued)

3. Liquidity risk (continued)

3.3. Off-balance sheet items

(a) *Loan commitments*

The dates of the contractual amounts of the Bank's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities, are summarised in the table below:

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

Financial guarantees are included below, based on the earliest contractual maturity date.

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

At 31 December 2012	**No later than 1 year**	**1-5 years**	**Over 5 years**	**Total**
Guarantees:				
- guarantees and standby letters of credit	67,642	12,490	3,019	**83,151**
Commitments:				
- Undrawn loan commitments	424,153	31,442	52,474	**508,069**

4. Capital management

The Bank's Management objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheets, are:

- To comply with the capital requirements set by the regulators of the banking markets where the Bank operates;
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee and the European Community Directives, as implemented by the Bulgarian National Bank (Authority), for supervisory purposes. The required information is filed with the Authority on a quarterly basis.

The Authority requires each bank or banking group to: (a) hold the minimum level of the regulatory capital of BGN 10,000 thousand and (b) maintain a ratio of total regulatory capital to the risk-weighted asset of 12%.

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

Notes to the financial statements (continued)

V. Financial risk management (continued)

4. Capital management (continued)

Regulatory capital consists of Tier I capital, which includes shareholders' ordinary equity, „Reserve" fund, retained earnings from previous year. Deductions of Tier I capital include intangible assets and unrealized loss from available for sale financial instruments. Tier II capital includes subordinated debt and revaluation reserves for the real estate, occupied by the Bank.

The amount of the specific provisions under the Bulgarian National Bank' Regulation No. 9 on the evaluation and classification of risk exposures of banks and the allocation of provisions to cover credit risk is reduced at 50% from Tier I and 50% at Tier II capital.

Tier-two capital cannot exceed 50% of tier-one capital.

The risk-weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature of − and reflecting an estimate of credit, market and other risks associated with − each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The table below summarizes the composition of regulatory capital and the Capital adequacy ratio of the Bank for the years ended 31 December. During those two years, the Bank complied with all of the externally imposed capital requirements to which they are subject.

	2013	**2012**
Tier 1 capital		
Share capital	452,753	452,753
Reserves	335,063	333,567
Revaluation reserve of financial assets available for sale	(659)	(5,013)
Less:		
Intangible assets	(33,195)	(31,826)
Specific provisions under Reg.9	(159,367)	(114,781)
Total qualifying Tier 1 capital	**594,595**	**634,700**
Tier 2 capital		
Long term debt	117,792	122,792
Revaluation reserve of property owned by the Bank	2,230	2,374
Less:		
Specific provisions under Reg.9	(120,022)	(114,781)
Total qualifying Tier 2 capital	**-**	**10,385**
Risk-weighted assets		
On-balance sheet	3,371,360	3,642,904
Off-balance sheet	175,751	138,096
Total risk-weighted assets	**3,547,111**	**3,781,000**
Basel ratio	**16.76%**	**17.06%**

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

Notes to the financial statements (continued)

W. Critical accounting estimates and judgments in applying accounting policy

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Impairment losses on loans and advances
The Bank reviews its loan portfolio to assess impairment on a monthly basis. The impairment review is in compliance with the approved management policy for assessment of risk exposures. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

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

Fair value of derivatives
The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use inputs other than quoted prices that are directly or indirectly observable, mainly interest rates and yield curves observable at commonly quoted intervals, forward exchange rates, equity prices, credit spreads and implied volatilities obtained from internationally recognised market data providers.

Application of the effective interest rate method
The application of the effective interest rate method for loan related fees requires the use of estimates about the expected life and other patterns and characteristics of the loan portfolio. In building up these estimates the Bank utilizes the experience of other entities in Eurobank Group and Bulgarian market conditions.
Retirement benefit obligations
The present value of the retirement benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions.
The key assumptions used in determining the net cost for the pension obligations include the discount rate and future salary increases. Any changes in these assumptions will impact the carrying amount of pension obligations.

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

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

Notes to the financial statements (continued)

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

estimated term to maturity of the retirement benefit obligations.

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

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

Sensitivity analysis of assets and liabilities

The sensitivity analysis (please refer to section V.2.3) illustrates the potential impact on the income statement and equity for reasonable possible shifts. Sensitivity to changes in the three major market risk factors – foreign exchange, interest rate and equity price risk, has been calculated. The parameters of calculations used have been determined based on the current market environment and the dynamics during 2013 and represent reasonable possible shifts in the market variables.

The Foreign exchange risk sensitivity has been calculated directly on the total net open position of the Bank as 25% depreciation / 20% appreciation of the local currency against all foreign currencies (excluding Euro). The BGN/EUR exchange rate is fixed at 1.95583 as part of the Currency Board Arrangement.

The Interest rate risk sensitivity has been estimated by applying a parallel yield curve shift to all of the Bank's relevant on- and off-balance sheet positions and calculating the changes in their present value.

The Equity price risk sensitivity has been calculated by applying a 25% drop / 25% increase in equity prices across the board.

Fair value of land and buildings

The Bank determines the fair value of land and building from market-based evidence by appraisal that is undertaken by professionally qualified valuers. The Bank follows its accounting policy to revalue the land and building every five years. Based on the accounting policy of the Bank the revaluation of land and buildings has been performed by a qualified independent valuer at the end of 2013.

The main valuation methods used to determine the fair value were:

- market prices analogues (where assets are compared to those similar of nature offered on the market)
- present value of future income for rent generating assets (DCF)
- method of reduced cost (taking into account the price that the asset would cost at present if acquired or built and reduced on the basis of economic and physical depreciation factors).

Fair value of repossessed collateral

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

Fair value of investment properties

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

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

Notes to the financial statements (continued)

1 Net interest income

Interest income	2013	2012
Loans and advances to customers	335,610	364,849
Loans and advances to banks	22,101	17,847
Investment securities	5,348	7,204
Derivative instruments	5,240	23,669
Hedging instruments	2,209	3,350
Trading securities	239	288
Total	**370,747**	**417,207**

Interest income includes BGN 47,145 thousand (2012: BGN 57,813 thousand) interest income, recognised on impaired loans to customers, out of which BGN 12,112 thousand (2012: BGN 14,944 thousand) remain due by the customer as of year-end.

Interest expense	2013	2012
Deposits from customers	163,506	175,551
Long term debt	5,092	7,869
Hedging instruments	4,907	6,648
Deposits from banks	769	1,445
Derivative instruments	750	15,258
Debt securities issued	-	401
Total	**175,024**	**207,172**

2 Net fee and commission income

Fees and commission income	2013	2012
Transfers	19,547	19,212
Loans' fees and commissions	16,709	16,874
Account maintenance	11,120	11,111
Receipts from sales of services	7,876	5,988
Foreign exchange operations	7,655	7,842
Cash operations	5,332	4,322
Operations with derivatives	2,905	884
Documentary business	1,711	1,842
Management, brokerage and securities trading	537	710
Other fees	255	137
Total	**73,647**	**68,922**

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

Notes to the financial statements (continued)

2 Net fee and commission income (continued)

Fee and commission expense	2013	2012
Loans related fees	7,493	6,668
Transactions processing	4,992	4,791
Operations related to derivatives	2,248	426
Fees related to long term funding	649	646
Other fees	615	530
Cash transactions and correspondent accounts	563	618
Management, brokerage and securities trading	173	176
Total	**16,733**	**13,855**

3 Other operating income

	2013	2012
Rental income	154	165
Net (loss)/ gain from non-current fixed assets	25	4
Total	**179**	**169**

4 Net trading income

	2013	2012
Translation gains less losses	(43)	(53)
Net results from derivative instruments and FX transactions	(7)	195
Net trading income	**(50)**	**142**

5 Other operating expenses

	2013	2012
Staff costs (Note 6)	58,893	60,622
Operating lease rentals	20,954	23,395
Depreciation of property, plant and equipment (Note 16)	9,111	11,093
Advertising and marketing	6,952	6,072
Repairs and maintenance	6,948	6,853
External services	4,356	5,454
Amortisation of intangible assets (Note 17)	4,137	4,293
Security	3,882	4,192
Software costs	3,639	3,679
Communication	2,179	2,528
Materials and utilities	2,112	2,457
Other operating costs	1,179	991
Travel and accommodation	489	677
Insurance	474	234
Levies and taxes	4	281
Total	**125,309**	**132,821**

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

Notes to the financial statements (continued)

6 Staff costs

	2013	2012
Wages and salaries	49,231	50,479
Social security costs	3,463	3,552
Pension costs – defined contribution plans	4,090	4,061
Pension costs – defined benefit plans (Note 25)	493	489
Other	1,616	2,041
Total staff cost	**58,893**	**60,622**

7 Impairment charge for credit losses

	2013	2012
Loans and advances to customers (Note 13)	(80,888)	(109,649)
Credit commitments	3	2
Total	**(80,885)**	**(109,647)**

8 Income tax expense

	2013	2012
Deferred income tax (Note 23)	(177)	88
Current income tax	2,548	214
Effect of IAS 19 Revised on Income tax expense	-	(41)
Total	**2,371**	**261**

Tax is payable at an actual rate of 10% (2012: 10%) on adjusted profits under Corporate Tax Act.

The tax on the operating profit differs from the theoretical amount that would arise using the basic tax rate as follows:

	2013	2012
Profit before income tax	**20,864**	**1,793**
Tax calculated at a tax rate of 10% (2012: 10%)	2,086	179
Tax effect of:		
Income and expenses not subject to tax, net	285	(16)
Income and expense not recognized subject to tax, net	-	139
Effect of IAS 19 Revised on Income tax expense	-	(41)
Income tax expense	**2,371**	**261**

Additional information about deferred tax is presented in Note 23.

The tax authorities may at any time inspect the books and records within 5 years subsequent to the reported tax year, and may impose additional taxes and penalties. The Bank's management is not aware of any circumstances which may give rise to a potential material liability in this respect. The last full-scope tax audit of the Bank has been carried out in 2008, covering the periods to 31 December 2007. Currently the Bank is in a tax audit process for the period 2008 – 2012 which has not been finished yet.

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

Notes to the financial statements (continued)

9 Income tax effects relating to comprehensive income

	Year ended 31 December					
	2013			2012 (restated)		
	Before tax amount	**Tax (expense)/ benefit**	**Net of tax amount**	**Before tax amount**	**Tax (expense)/ benefit**	**Net of tax amount**
Available for sale investments	8,462	(846)	7,616	7,510	(751)	6,759
Change in FV of property, plant and equipment	(155)	16	(139)	-	-	-
Remeasurements of post-employment benefit obligations	(228)	23	(205)	406	(41)	365
Total	**8,079**	**(807)**	**7,272**	**7,916**	**(792)**	**7,124**

10 Cash and balances with the Central Bank

	2013	**2012**
Cash in hand	108,413	108,955
Balances with Central bank	592,272	509,259
Total	**700,685**	**618,214**
of which:		
Mandatory reserve with Central Bank	385,757	390,260

Mandatory reserves with Central bank represent the minimum level of average monthly deposits which the Bank is required to maintain. Balances with Central bank can be withdrawn provided the average monthly minimum deposits are maintained.

11 Loans and advances to banks

	2013	**2012**
Deposits in other banks	259,368	667,614
Reverse repurchase agreements	586,753	-
Total	**846,121**	**667,614**

Included in the amount of loans and advances to banks is accrued interest of BGN 25 thousand (2012: BGN 40 thousand).

Approximately 100 % (2012: 98 %) of the amounts due from other banks represent funds placed in banks domiciled in OECD (Organisation for Economic Co-operation and Development) countries, with the remainder held with banks in Serbia, Russia and Romania (Note 29).

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

Notes to the financial statements (continued)

12 Financial assets held for trading

	2013	2012
Bulgarian government bonds	14,693	5,502
Shares	2,321	1,105
Total	**17,014**	**6,607**
Equity securities:		
- Listed	2,321	1,105
Bonds:		
- Listed	61	162
- Unlisted	14,632	5,340

Included in the amount of the bonds is accrued interest in the amount of BGN 231 thousand (2012: BGN 106 thousand).

Gains less losses from trading securities	**2013**	**2012**
Debt securities	28	99
Equity securities	498	(183)
Total	**526**	**(84)**

13 Loans and advances to customers

	2013	2012
Consumer lending (including credit cards)	763,694	773,716
Small Business lending	811,089	847,039
Mortgages	1,237,913	1,211,935
Corporate lending	1,451,444	1,521,255
Gross loans and advances	**4,264,140**	**4,353,945**
Less allowance for impairment losses on loans and advances	(381,623)	(318,844)
Net outstanding balance of loans and advances to customers	**3,882,517**	**4,035,101**

Included in the amount of loans and advances to customers is accrued interest of BGN 38,714 thousand (2012: BGN 44,164 thousand). In 2013 Eurobank Bulgaria AD purchased loans from BRS amounting to BGN 16,069 thousand (2012: BGN 167,688 thousand). Both companies are related parties of Eurobank Group.

	2013	**2012**
The ten largest exposures to customers	385,697	389,348
Percentage of gross loans	9.05%	8.94%

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

Notes to the financial statements (continued)

13 Loans and advances to customers (continued)

Reconciliation of allowance account for losses on loans and advances by class is as follows:

	Consumer lending	Mortgages	Small Business Lending	Corporate Lending	Total
At 1 January 2012	**61,564**	**20,111**	**68,545**	**94,642**	**244,862**
Acquisition of loan portfolio	-	3,429	508	-	**3,937**
Disposal of loan portfolio	-	-	-	(35,858)	**(35,858)**
Charge for the year	27,149	13,774	31,226	37,500	**109,649**
Recoveries and legal and collection fees	1,505	(178)	728	485	**2,540**
Amounts written off	(224)	(5,792)	(30)	(172)	**(6,218)**
Foreign exchange differences	9	(7)	(70)	-	**(68)**
At 31 December 2012	**90,003**	**31,337**	**100,907**	**96,597**	**318,844**

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

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

Notes to the financial statements (continued)

14 Investment securities, available for sale

	2013	2012
Bulgarian government bonds	94,431	126,918
Corporate unsecured bonds	20,297	32,293
Foreign government bonds	8,349	8,392
Shares and participations	12,824	7,296
Total	**135,901**	**174,899**
Equity securities		
Listed	7,014	988
Unlisted	5,810	6,308
Debt securities		
Listed	114,991	151,910
Unlisted	8,086	15,693
Total	**135,901**	**174,899**

Included in the amount of investment securities is accrued interest in the amount of BGN 4,278 thousand (2012: BGN 5,489 thousand).

Foreign government bonds consist of exposures to the following countries: Romania BGN 4,598 thousand (maturing 2018) and Ukraine BGN 3,751 thousand (maturing 2015) (2012: Romania BGN 4,572, Ukraine BGN 3,820).

Movement in available for sale securities is reconciled as follows:

Book value as at 31 December 2011	**155,733**
Additions	56,969
Disposals	(42,690)
Change in accrued interest	1,068
Amortization of discounts or premium	2,684
Net fair value gain	4,401
Impairment of corporate securities	(3,266)
Book value as at 31 December 2012	**174,899**
Additions	17,278
Disposals	(47,404)
Change in accrued interest	(1,211)
Amortization of discounts or premium	(1,497)
Net fair value gain	129
Impairment of corporate securities	(6,293)
Book value as at 31 December 2013	**135,901**

Gains less (losses) and impairment of securities available for sale	**2013**	**2012**
Transfer the revaluation reserve (deficit) from equity to income statement	1,662	2,428
Gains less (losses) recognized on sale of AFS securities directly through income statement	30	(2,654)
Impairment of investment security recognised directly in income statement	(6,293)	(3,266)
Total	**(4,601)**	**(3,492)**

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

Notes to the financial statements (continued)

15 Investment property

Investment property is held for capital appreciation and is not occupied by the Bank.

Fair value of investment properties

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

For disclosure purposes fair value is based on reports prepared by a valuation company at the end of each reporting period. As a result of the current economic environment and market conditions, the frequency of property transactions is relatively low. Nevertheless, it is management's assessment that there remains sufficient market activity to provide comparable prices for orderly transactions with similar properties when determining the fair value.

Investment property	**2013**	**2012**
Beginning of the year	876	876
Net gains or losses from fair value adjustments	-	-
End of the year	**876**	**876**

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

Class property	**Fair value 31/12/2013 in BGN thousands**	**Valuation technique**	**Significant Unobservable Input**	**Range (weighted average) 2013 in BGN**	**Range (weighted average) 2012 in BGN**	**Connection between the unobservable input and FV**
Land	876	Market comparison approach	price per m2	29.3 – 33.3 (25.4)	23.5 – 37.2 (25.5)	A significant increase in price per m2 would result in a higher fair value

16 Property, plant and equipment

Fair value of own properties

After initial recognition the Bank measures the land and building at fair value. The fair value of land and buildings is determined from market-based evidence by appraisal that is undertaken by professionally qualified valuers. The main valuation methods include:

- market prices analogues (where assets are compared to those similar of nature offered on the market):
- present value of future income for rent generating assets (DCF)
- method of reduced cost (taking into account the price that the asset would cost at present if acquired or built and reduced on the basis of economic and physical depreciation factors).

For disclosure purposes fair value is based on reports prepared by a valuation company at the end of each reporting period.

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

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

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

Notes to the financial statements (continued)

16 Property, plant and equipment (continued)

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

	Land and buildings	Leasehold improvements	Plant and equipment	Total tangible fixed assets
At 31 December 2011				
Gross amount	24,500	33,546	91,645	**149,691**
Accumulated depreciation	(3,952)	(14,432)	(63,439)	**(81,823)**
Net book amount	**20,548**	**19,114**	**28,206**	**67,868**
Year ended 31 December 2012				
Opening net book amount	20,548	19,114	28,206	**67,868**
Additions	115	1,185	1,610	**2,910**
Disposals and write offs	(243)	-	-	**(243)**
Transfers	-	-	-	-
Depreciation charge (Note 5)	(219)	(3,562)	(7,312)	**(11,093)**
Closing net book amount	**20,201**	**16,737**	**22,504**	**59,442**
At 31 December 2012				
Gross amount	24,541	32,484	89,657	**146,682**
Accumulated depreciation	(4,340)	(15,747)	(67,153)	**(87,240)**
Net book amount	**20,201**	**16,737**	**22,504**	**59,442**
Year ended 31 December 2013				
Opening net book amount	20,201	16,737	22,504	**59,442**
Additions	476	262	3,346	**4,084**
Impairment and write offs	(171)	-	-	**(171)**
Transfers	-	(46)	46	-
Depreciation charge (Note 5)	(499)	(2,697)	(5,915)	**(9,111)**
Closing net book amount	**20,007**	**14,256**	**19,981**	**54,244**
At 31 December 2013				
Gross amount	24,910	30,592	91,522	**147,024**
Accumulated depreciation	(4,903)	(16,336)	(71,541)	**(92,780)**
Net book amount	**20,007**	**14,256**	**19,981**	**54,244**

	2013	**2012**
Land and buildings at revalued amount	**20,007**	**20,201**
Revaluation reserve, net of tax	(2,231)	(2,374)
Difference between accumulated depreciation based on cost and based on revalued amount not yet transferred to retained earnings	1,178	1,187
Deferred tax on revaluation	(248)	(264)
Land and buildings at cost less accumulated depreciation	**18,706**	**18,750**

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

Notes to the financial statements (continued)

16 Property, plant and equipment (continued)

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

Class property	Fair value 31/12/2013 in BGN thousands	Valuation technique	Significant Unobservable Input	Range (weighted average) 2013 in BGN	Connection between the unobservable input and FV
Land	99	Market comparison approach	price per m2	54.76 - 70.41 (48.90)	A significant increase in price per m2 would result in a higher fair value
Land	3,815	Cost approach	price per m2	8 - 1819 (172.93)	A significant increase in price per m2 would result in a higher fair value
Land	**3,914**				
Residential	31	Cost approach	price per m2	270 - 743.22 (358.36)	A significant increase in price per m2 would result in a higher fair value
Residential	318	Market comparison approach	price per m2	1.29 - 410.72 (143.02)	A significant increase in price per m2 would result in a higher fair value
Residential	**349**				
Retail	36	Cost approach	price per m2	26 - 140 (118.16)	A significant increase in price per m2 would result in a higher fair value
Retail	4	Income approach	rental price per m2	10	A significant increase in price per m2 would result in a higher fair value
Retail	137	Market comparison approach	price per m2	222 - 486 (376.00)	A significant increase in price per m2 would result in a higher fair value
Retail	**177**				
Office	3,222	Cost approach	price per m2	30 - 800 (505.30)	A significant increase in price per m2 would result in a higher fair value
Office	6,975	Income approach	rental price per m2	6.67 - 291.98 (37.79)	A significant increase in price per m2 would result in a higher fair value
Office	5,286	Market comparison approach	price per m2	105.01 - 1662.46 (682.20)	A significant increase in price per m2 would result in a higher fair value
Office	**15,483**				
Mixed	72	Income approach	rental price per m2	20 - 35 (25.00)	A significant increase in price per m2 would result in a higher fair value
Mixed	12	Cost approach	price per m2	20 - 85 (27.41)	A significant increase in price per m2 would result in a higher fair value
Mixed	**84**				

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

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

Notes to the financial statements (continued)

17 Intangible assets

At 31 December 2011	
Gross book amount	57,379
Accumulated amortisation	(26,649)
Net book amount	**30,730**
Year ended 31 December 2012	
Opening net book amount	30,730
Additions	5,389
Disposals and write offs	-
Transfers	-
Amortisation charge (Note 5)	(4,293)
Closing net book amount	**31,826**
At 31 December 2012	
Gross book amount	62,767
Accumulated amortisation	(30,941)
Net book amount	**31,826**
Year ended 31 December 2013	
Opening net book amount	31,826
Additions	5,506
Disposals and write offs	-
Transfers	-
Amortisation charge (Note 5)	(4,137)
Closing net book amount	**33,195**
At 31 December 2013	
Gross book amount	68,273
Accumulated amortisation	(35,078)
Net book amount	**33,195**

Intangible assets	**2013**	**2012**
Software	14,988	14,619
Other	8,390	8,608
Licenses	7,774	7,617
Internally developed	2,043	982
Total	**33,195**	**31,826**

Internal development costs recognized in 2013 as intangible asset are BGN 1,155 thousand (2012: BGN 982 thousand).

18 Other assets

Other assets	**2013**	**2012**
Amounts in transit	5,386	6,602
Repossessed collaterals	5,250	7,651
Other debtors	4,474	14,004
Prepaid expenses	3,291	4,625
Other assets	725	699
Materials	120	124
Less: provision against other assets	(865)	(858)
Total	**18,381**	**32,847**

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

Notes to the financial statements (continued)

18 Other assets (continued)

The financial assets contained in the Other assets note amounted to BGN 9,720 thousand (2012: BGN 20,447 thousand). The impairment on financial assets amounted to BGN 865 thousand (2012: BGN 858 thousand).

Provision against other financial assets	**2013**	**2012**
Opening balance at 1st of January	858	1,228
Charged to the income statement	504	370
Reversed to the income statement	(28)	(62)
Used during year	(469)	(678)
Closing balance	**865**	**858**

19 Deposits from Banks

	2013	**2012**
Items in course of collection	3,917	6,639
Deposits from other banks	50,779	36,247
Repurchase agreements	14,156	62,800
Total	**68,852**	**105,686**

Included within due to other banks is accrued interest payable of BGN 41 thousand (2012: BGN 94 thousand).

20 Derivative financial instruments

The Bank enters into the following derivative contracts for either hedging or non-hedging (business) purposes: currency forwards, currency swaps, interest rate swaps, cross currency interest rate swaps, forward rate agreements, interest rate futures, currency options and interest rate options.

Currency forward contracts are obligations to trade one currency for another at a specified exchange rate on a specific future delivery date. Being OTC contracts, currency forwards can be designed to exactly fit the clients' requirements as to the principal amount in the trade, its exact delivery date and which currencies are involved.

Currency swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or a combination of currencies and interest rates (i.e., cross-currency interest rate swaps). The Bank's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfil their obligation. Since currency swaps may call for a final exchange of principal (increased importance of the diffusion effect), the potential credit exposure profile tends to be upward sloping. This risk is monitored on an on-going and forward looking basis with reference to the current fair value, a proportion of the notional amount of the contracts and the potential future exposure. To control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities.

Interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of interest rates. The expected and maximum potential exposure profiles for an interest rate swap are estimated by a modeling exercise at inception. These depend on the "diffusion effect" (volatility of the underlying as well as other stochastic properties) and "amortization effect" (the passage of time). The peak exposure occurs at an intermediate point during the swap's life. Since the notional amounts themselves are not exchanged, the percentage of notional amount at risk is relatively low in normal market conditions.

A forward rate agreement (FRA) is an agreement between two parties in which one party, the buyer or the long, agrees to make a known interest payment to the other party, the seller or the short, at a future date, with the seller agreeing to make an interest payment to the buyer based on an unknown rate that will be determined when the contract expires. Most FRAs are based on well-established interest rates such as dollar LIBOR or EURIBOR.

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

Notes to the financial statements (continued)

20 Derivative financial instruments (continued)

Interest rate futures are exchange traded contracts on fixed income securities such as U.S. Treasury issues, or based on the levels of specified interest rates such as LIBOR. The associated credit risk is small, as futures contracts are collateralized by cash or marketable securities, and changes in the futures' contract value are settled daily with the exchange.

Options are financial instruments that give one party the right, but not the obligation, to buy or sell an underlying asset from or to another party at a fixed price over a specific period of time (also referred to as contingent claims). Options do not generally have periodic payments but are characterized by an up-front payment of the option premium and a final option payoff payment. The amortization effect is limited and is outweighed by the diffusion effect – a longer time period translates into a greater scope for movements in the underlying variable, which can generate a large exposure on the option payoff.

The notional amounts of certain types of financial instrument provide a basis for comparison with instruments recognized on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit or market risks. The derivative instruments become favorable (assets) or unfavorable (liabilities) as a result of fluctuations in market interest or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favorable or unfavorable, and thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The fair values of derivative instruments held are set out below:

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

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

Notes to the financial statements (continued)

20 Derivative financial instruments (continued)

	Contract / notional amount	Assets	Liabilities
Year ended 31 December 2012			
Derivatives held for trading			
Foreign exchange derivatives			
OTC currency forwards	17,502	58	42
OTC currency swaps	1,749,831	769	608
OTC currency options	148	-	-
Total OTC currency derivatives	**1,767,481**	**827**	**650**
Interest rate derivatives			
OTC interest rate swaps	538,495	2,523	2,097
OTC cross-currency interest rate swaps	54,000	1,820	2,111
OTC IR options bought and sold	268,956	1,879	1,879
Total OTC interest rate derivatives	**861,451**	**6,222**	**6,087**
Derivatives held for hedging			
OTC interest rate swaps	60,936	-	7,537
Total recognised derivative assets / liabilities		**7,049**	**14,274**

The Bank hedges part of its existing interest rate risk resulting from any potential decrease in the fair value of fixed rate bonds denominated in foreign currencies using interest rate swaps. The fair value of these swaps at 31 December 2013 was negative BGN 4,794 thousand (2012: negative BGN 7,537 thousand).

The gain on the hedging instruments was BGN 2,729 thousand (2012: gains BGN 3,515 thousand). The loss on the hedged item attributable to the hedged risk was BGN 2,770 thousand (2012: loss BGN 3,541 thousand). In 2013 the fair value hedges were highly effective (2012: highly effective), and the net effect recognised in income statements is loss of BGN 41 thousand (2012: loss BGN 26 thousand).

21 Due to customers

	2013	2012
Large corporate customers	518,812	666,044
Medium corporate customers	179,865	125,381
Total due to corporate customers	**698,677**	**791,425**
Retail customers	3,821,402	3,621,793
Total due to customers	**4,520,079**	**4,413,218**

Included within due to customers is related accrued interest payable of BGN 48,456 thousand (2012: BGN 34,232 thousand).

22 Debt issued and other borrowed funds

	2013	2012
Subordinated debt	122,896	122,896
Long term loan from EBRD	34,487	85,515
Long term debt from Bulgarian Development Bank	36,796	38,982
European Investment Bank Loan	19,579	19,565
Banka Popolare di Sondrio, Italy	11,739	-
KBC Bank, Brussels	14,696	-
Bank of Nova Scotia, London Branch	-	1,964
Total	**240,193**	**268,922**

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

Notes to the financial statements (continued)

22 Debt issued and other borrowed funds (continued)

a) Subordinated debt instruments

In March 2005, DZI Bank signed a subordinated debt agreement for the total amount of BGN 25,000 thousand. In November 2006, all rights and obligations (including the receivables), held by the legal entities (lenders) under agreements concluded by DZI Bank have been transferred to Eurobank EFG Holding (Luxembourg) S.A., whereas all contractual terms remained unchanged. In 2010 an annex for maturity extension of the debt until March 2018 was signed. In March 2011 a new annex was signed, amending the interest rate terms and the dates of the interest payments. As of 31 December 2013 the total liability amounted to BGN 25,026 (2012: BGN 25,032 thousand).

In June 2007, Eurobank Bulgaria signed a subordinated debt agreement with Eurobank Ergasias for the amount of EUR 30,000 thousand (BGN 58,675 thousands). In 2010 an annex for maturity extension of the debt until June 2017 was signed. In March 2011 a new annex was signed, amending the interest rate terms and the dates of the interest payments. In June 2012 an extension of the maturity until June 2020 was agreed between the parties. As of 31 December 2013 the total liability amounted to BGN 58,705 (2012: BGN 58,702 thousand).

In August 2010, Eurobank Bulgaria signed a subordinated debt agreement with Eurobank Ergasias for EUR 20,000 thousand (BGN 39,117 thousand) with maturity 2017. In June 2012 an extension of the maturity until August 2020 was agreed between the parties. As of 31 December 2013 the total liability amounted to BGN 39,165 thousand (2012: BGN 39,162 thousand).

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

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

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

In October 2010 Eurobank Bulgaria and the European Bank for Reconstruction and Development signed a Loan Agreement for a credit limit of EUR 75,000 thousand (BGN 146,687 thousand) divided in two tranches, the first of which for EUR 37,500 thousand (BGN 73,344 thousand) was fully disbursed as of end of 2010. The purpose of the line is to facilitate financing of private enterprises, firms, businesses, sole proprietors or other legal entities. As of 31 December 2013 the total liability amounted to BGN 29,381 thousand (2012: BGN 58,829).

In July 2008, Eurobank Bulgaria and the European Bank for Reconstruction and Development signed a Loan Agreement whereby the Bank can borrow up to EUR 25,000 thousand (BGN 48,896 thousand) for the purpose of on-lending to small and medium-sized enterprises. As of 31 December 2013 the total liability amounted to BGN 5,106 thousand (2012: BGN 19,737 thousand).

Notes to the financial statements (continued)

22 Debt issued and other borrowed funds (continued)

In December 2006, Eurobank Bulgaria and the European Bank for Reconstruction and Development amended and restated an existing Loan Agreement contract as of 2004 whereby the Bank could borrow up to EUR 15,000 thousand (BGN 29,337 thousand) for the purposes of on-lending to corporate customers for improving rational energy utilization and renewable energy projects. The funding line matured and was fully repaid in July 2013. As of 31 December 2013 the total liability amounted to BGN 0 (2012: BGN 6,949 thousand).

c) Loans received from the Bulgarian Development Bank

In November 2012, Eurobank Bulgaria signed a Loan Agreement with Bulgarian Development Bank under a Program for financing of Small and Medium sized enterprises in Bulgaria. The total size of the funding line is BGN 5,000 thousand. The loan was disbursed in December 2012, with principal maturity schedule up to March 2017. As of 31 December 2013 the total liability amounted to BGN 4,988 thousand (2012: BGN 4,982 thousand).

In August 2011, Eurobank Bulgaria signed a Loan Agreement with Bulgarian Development Bank under a Program for supporting Small and Medium enterprises in Bulgaria with proceeds from KfW, Germany. The total size of the funding line is EUR 7,250 thousand (BGN 14,178 thousand). The line was disbursed in August 2011, with a final repayment date in September 2020. As of 31 December 2013 the total liability amounted to BGN 11,805 thousand (2012: BGN 13,497 thousand).

In February 2009, Eurobank Bulgaria and Bulgarian Development Bank signed a Loan Agreement for BGN 20,000 thousand to be repaid gradually until 2018. The financing was part of the government measures package, aiming at minimizing the global financial crisis impact on the Bulgarian economy. The purpose of the line is to facilitate medium to long term financing to small and medium-sized enterprises. As of 31 December 2013 the total liability amounted to BGN 20,003 thousand (2012: BGN 20,503 thousand).

d) Loan received from the European Investment Bank

In October 2009, Eurobank Bulgaria and the European Investment Bank signed a Loan Agreement for the total amount of EUR 50,000 thousand (BGN 97,792 thousand) for financing of investment projects and supporting working capital needs of small and medium-sized enterprises in Bulgaria. The contract has repayment schedule with final repayment date in 2018. As of 31 December 2013 the total liability amounted to BGN 19,579 thousand (2012: BGN 19,565 thousand).

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

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

As of December 2013, the utilization of that line is channelled through the following partnering banks:

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

In December 2013, a short-term financing of EUR 2,500 thousand (BGN 4,889 thousand) maturing in March 2014 and a short-term financing of EUR 3,500 thousand (BGN 6,845 thousand) maturing in March 2014 was obtained from Banca Popolare di Sondrio, Italy for on-lending to a pre-export trade transaction of a customer of Eurobank Bulgaria. The total outstanding balance at 31 December 2013 is BGN 11,739 thousand.

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

Notes to the financial statements (continued)

22 Debt issued and other borrowed funds (continued)

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

In October 2013, a short-term financing of EUR 7,500 thousand (BGN 14,669 thousand) maturing in January 2014 was obtained from KBC Bank, Belgium for on-lending to a pre-export trade transaction of a customer of Eurobank Bulgaria. The outstanding balance at 31 December 2013 is BGN 14,696 thousand.

- ***Short-term Loan from The Bank of Nova Scotia, London branch***

In August 2012, a short-term target financing of EUR 1,000 thousand (BGN 1,956 thousand) maturing in February 2013 was obtained from the Bank of Nova Scotia for a target pre-export financing of a customer of Eurobank Bulgaria AD. The outstanding balance at 31 December 2012 was BGN 1,964 thousand. The funding line matured and was fully repaid in February 2013.

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

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

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

Notes to the financial statements (continued)

22 Debt issued and other borrowed funds (continued)

				31 December 2012
	Within 1 year	**1-5 years**	**Over 5 years**	**Total**
Subordinated debt				
Floating rate	-	-	122,792	**122,792**
Accrued interest	104	-	-	**104**
EBRD Credit lines				
Floating rate	50,447	34,199	-	**84,646**
Accrued interest	869	-	-	**869**
Loans from Bulgarian Development Bank BGN				
Fixed rate	-	20,975	4,000	**24,975**
Accrued interest	509	-	-	**509**
Loan from Bulgarian Development Bank EUR				
Floating rate	1,668	6,672	5,006	**13,346**
Accrued interest	152	-	-	**152**
Loan from the European Investment Bank				
Floating rate	-	15,636	3,909	**19,545**
Accrued interest	20	-	-	**20**
Loan from the Bank of Nova Scotia, London branch				
Floating rate	1,956	-	-	**1,956**
Accrued interest	8	-	-	**8**
Total Debt issued and other borrowed funds	**55,733**	**77,482**	**135,707**	**268,922**

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

Notes to the financial statements (continued)

23 Deferred income taxes

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 10% (2012: 10%). The movement on the deferred income tax account is as follows:

	2013	2012
Deferred tax liability at the beginning of year	3,985	3,870
Deferred tax liability recognized in OCI	(38)	-
Income statement charge (Note 8)	(177)	88
Deferred tax on taxable loss in 2011	-	27
Deferred tax liability at end of year	**3,770**	**3,985**

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

	2013	2012
Deferred income tax liabilities		
Accelerated tax depreciation	3,946	4,016
Property revaluation	248	264
Gain on share exchange	416	416
	4,610	**4,696**
Deferred income tax assets		
Unused holidays	114	115
Provision for court claims	232	219
Provision for retirement obligations	307	264
Deferred tax assets on actuarial loss	23	-
Deferred tax assets on provision for tax audit	43	-
Other temporary differences	120	113
	839	**711**

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

	2013	2012
Depreciation	(70)	88
Unused holidays	1	8
Provision for court claims and off balances	(13)	(51)
Other temporary differences	(51)	44
Provision for retirement obligations	(44)	(1)
Net deferred tax charge	**(177)**	**88**

24 Provisions for other liabilities and charges

(a) Legal proceedings

The Bank is subject to a number of legal proceedings arising in the normal course of business. The timing of the expected cash outflow of the court cases provided for could not be precisely estimated. Based on management's estimation it is expected that in two years' time the outflow may be realized. Further details are presented in Note 30a.

The table below represents the movement in provisions for legal claims:

Legal provisions	**2013**	**2012**
Opening balance at 1st of January	2,185	1,669
Charged to the income statement	577	573
Used during year	(9)	(57)
Closing balance	**2,753**	**2,185**

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

Notes to the financial statements (continued)

24 Provisions for other liabilities and charges (continued)

(b) Assets pledged

Assets are pledged as collateral under repurchase agreement with other banks, as security for government budget accounts and under long term debt agreement signed with Bulgarian Development Bank. Mandatory reserves calculated as a percentage of the deposit base are held with the Central Bank in accordance with statutory requirements for securing liquidity.

	Asset		**Related liability**	
	2013	**2012**	**2013**	**2012**
Mandatory reserves with BNB	385,757	390,260	4,558,937	4,628,412
Trading and investment securities (pledged under repurchase agreement)	14,999	69,730	14,156	62,800
Trading and investment securities (pledged under government accounts)	75,170	55,639	41,720	33,697
Loans pledged under long term debt agreement	30,657	24,117	36,796	38,982
Total	**506,583**	**539,746**	**4,651,609**	**4,763,891**

The total financial assets that have been pledged as collateral for liabilities (including amounts reflected above) as of 31 December 2013 was BGN 506,583 thousand (2012: BGN 539,746 thousand). These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities, as well as requirements determined by exchanges where the Bank acts as an intermediary. The Bank has also placed BGN 800 thousand (2012: BGN 3,975 thousand) as a cover for letter of credit and letter of guarantee transactions. Pledged funds under Credit Support agreements are BGN 5,848 thousand (2012: BGN 13,593 thousand).

The Bank has determined that it retains substantially all the risks and rewards of the pledged loans and trading and investment securities, therefore the specific assets have not been derecognized. The related liability is recognised in Deposits from banks (note 19) and Debt issued and other borrowed funds (note 22), as appropriate.

The Bank has entered into reverse repurchase agreements with Eurobank Ergasias for the total amount of BGN 586,753 thousand and has accepted high quality and highly liquid bonds at fair value BGN 602,093 thousand as collateral, which it is permitted to sell or repledge. The Bank has entered into reverse repurchase agreements with other clients for the total amount of BGN 1,404 thousand (2012: BGN 586 thousand) and has accepted preference shares at fair value BGN 2,831 thousand (2012: shares for BGN 553 thousand) as collateral, which it is permitted to sell or repledge. The collaterals accepted have not been repledged or lent to third parties.

25 Retirement benefits obligations

Application of IAS 19 Revised

In 2013, the Bank applied retrospectively the Revision of IAS 19 'Employee benefits' which introduce several changes to the accounting for employee benefits. The amendments amongst other eliminate the corridor approach and require all remeasurements to be recognised directly in other comprehensive income. Previously, the Bank had elected to recognise immediately all remeasurements directly in the income statement. As a result, an amount of BGN 65 thousand and BGN 365 thousand, net of tax, were transferred from retained earnings to special reserves on 1 January 2012 and 1 January 2013 respectively, without having any impact on the Bank's total equity.

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

Notes to the financial statements (continued)

25 Retirement benefits obligations (continued)

The adoption of the revision had no impact on the Bank's balance sheet and cash flow statement as at 31 December 2013 nor on their comparatives.

The impact of the revision on the income statement and statement of comprehensive income for 2012 is shown in the following tables:

Impact on profit/(loss) for the year (increase/(decrease)):	**2012**
Operating expenses	(406)
Profit/(loss) before tax	**(406)**
Income tax expense	41
Net profit/(loss) for the year	**(365)**

Impact on other comprehensive income for the year (increase/(decrease)):	**2012**
Remeasurement of the retirement benefit obligations, net of tax	365
Other comprehensive income for the year	**7,124**

Other changes introduced by the revision include:

(a) the replacement of the interest cost on the defined benefit obligation and the expected return on plan assets with a net interest cost based on (i) the net defined benefit asset or liability and (ii) the discount rate used to discount post-employment benefit obligation and

(b) the requirement to recognise past service cost immediately in the income statement.

The above changes did not have any material impact on the Bank's financial statements.

Retirement benefits obligations	**2013**	**2012**
Retirement benefit obligation at start of period	2,644	2,642
Service cost	352	372
Interest cost	111	130
Benefits paid	(66)	(81)
Settlement/Curtailment/Termination Loss/(Gain)	30	(13)
Remeasurement	228	(406)
Retirement benefit obligation at end of period	**3,299**	**2,644**
Expenses recognised in profit or loss		
Service cost	352	372
Interest cost	111	130
Settlement/Curtailment/Termination Loss/(Gain)	30	(13)
Total expense included in staff costs	**493**	**489**
Total remeasurement recognised in OCI	**228**	(406)

Significant actuarial assumptions	**2013**	**2012**
Discount rate	**3.50%**	**4.25%**
Future salary increase	**2.5%**	**2.5%**

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

Notes to the financial statements (continued)

25 Retirement benefits obligations (continued)

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

The average duration of the standard legal staff retirement indemnity obligations at 31 December 2013 is 16.57 years (2012: 16.85 years).

Sensitivity analysis

A quantitative sensitivity analysis based on reasonable changes to significant actuarial assumptions as at 31 December 2013 is as follows:

An increase of the discount rate assumed by 0.5% would result in a decrease of the standard legal staff retirement obligations by 7.7% or BGN 254 thousand.

An increase of the future salary increases assumed, by 0.5%, would result in an increase of the standard legal staff retirement obligations by 8.6% or BGN 284 thousand.

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

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

26 Other liabilities

Other liabilities	2013	2012
Other creditors	13,127	19,005
Accrued expenses	10,822	10,507
Unused paid leave accrual	1,141	1,153
Withholding tax obligations	893	83
Other	153	169
Total	**26,136**	**30,917**

27 Share capital

As of 31 December 2013 the total authorized number of ordinary shares of Eurobank Bulgaria AD was 452,752,652 (2012: 452,752,652) with a nominal value of BGN 1 per share. All issued shares are fully paid.

28 Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following balances with less than 90 days maturity from the date of acquisition:

	2013	2012
Cash in hand (Note 10)	108,413	108,955
Balances with Central bank excluding the minimum level of mandatory reserves	399,393	314,129
Loans and advances to banks (Note 11)	846,121	667,614
Total amount of cash and cash equivalent	**1,353,927**	**1,090,698**

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

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

Notes to the financial statements (continued)

29 Related party transactions

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

EFG Group was the controlling shareholder of the Eurobank Ergasias S.A., holding 44.70% of the Eurobank's ordinary shares and voting rights until 23 July 2012. In May 2013, following its full subscription in Eurobank's recapitalisation of EUR 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 increases to 95.23%.

Eurobank Ergasias Group regards other Greek Banks controlled, jointly controlled or significantly influenced by HFSF, within the context of the Greek Banks' recapitalization, as well as the members of key management personnel of HFSF, as related parties. Eurobank Ergasias Group's transactions with HFSF's related Greek banks are made in the ordinary course of business, are carried out on market terms, are not influenced by the HFSF as the controlling shareholder of the Bank and are not included in the related party transactions presented.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions. The volumes of related-party transactions, outstanding balances at the year end, and relating expense and income for the year are as follows:

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

Notes to the financial statements (continued)

29 Related party transactions (continued)

	31 December 2013			31 December 2012		
	Parent company	Other Group companies	Key management personnel	Parent company	Other Group companies	Key management personnel
Purchased loans and advances to customers from related parties (Note 13)	-	16,069	-	-	235,372	-
Sub participated loans and advances to customers to related parties (Note 13)	-	-	-	-	184,383	-
Loans and advances to banks (weighted interest rate 2.71%)	842,761	93	-	645,546	19	-
Loans and advances to customers (weighted interest rate 3.24%)	-	21,443	16	-	-	13
Financial assets held for trading	-	-	-	-	-	-
Derivative financial instruments assets	1,560	-	-	4,535	192	-
Other assets	-	852	-	-	10,485	-
Due to other banks	1,839	576	-	2,746	180	-
Due to customers (weighted interest rate 0.70%)	-	23,367	30	-	147,003	12
Debt issued and other borrowed funds (weighted interest rate 0.66%)	97,870	25,026	-	97,865	25,032	-
Derivative financial instruments liabilities	5,909	255	-	10,444	-	-
Other liabilities	-	553	-	-	9,121	-
Interest income	25,527	1,817	1	30,158	16,063	1
Interest expense	(6,013)	(1,017)	(2)	(17,630)	(2,338)	-
Fee and commission income	1,622	1,131	1	464	1,310	-
Fee and commission (expense)	(1,931)	(5)	-	(1,490)	(5)	-
Net trading income	(3,081)	-	-	4,528	(17)	-
Salaries and other short-term benefits	-	-	825	-	-	1,118
Rental expense	-	4,978	-	-	1,262	-
(Loss)/gain on derivatives	(18)	-	-	(1,635)	-	-
Valuation expenses	-	(179)	-	-	(252)	-
Other Expenses	(652)	(26)	-	(587)	167	-
Letters of guarantee issued	-	37	-	-	3,818	-
Letters of guarantee received	47,186	-	-	733	-	-
Operating leases transferred	-	-	-	-	4,959	-

All loans lent to related parties in 2013 (and 2012) are categorized as neither past due, nor impaired according to Group provision policy, thus no provisions have been booked in 2013 (and 2012) related to them. Reverse repurchase agreements with Eurobank Ergasias collateralized by high quality bonds (Note 24) are included in line Loans and advances to banks.

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

Notes to the financial statements (continued)

30 Contingent liabilities and other commitments

(a) Legal proceedings

The Bank is subject to a number of legal proceedings arising in the normal course of business. Besides of the provision made (Note 24) no contingent liabilities associated with legal actions have been disclosed as professional advice indicates that the possibility of any significant loss is remote.

There is a litigation case between Road Infrastructure Agency and participants in Consortium DZI Trans (DZI Bank AD, DZI General Insurance and Insurance and Reinsurance Company DZI AD).The case is under review and is a part of the legal process in Bulgaria.

(b) Loan commitments, guarantee and other financial facilities

As at 31 December 2013, the Bank had the contractual amounts of its off-balance sheet financial instruments that commit it to extend credit to customers, guarantee and other facilities as follows:

	2013	**2012**
Guarantees	85,739	66,399
Letters of credit	25,271	16,752
Loan commitments and other credit related liabilities	595,458	508,069
Total	**706,468**	**591,220**

(c) Capital Expenditures

As at 31 December 2013, the Bank had the following capital expenditure commitments:

	2013	**2012**
Capital Expenditures	**2,356**	**1,752**

31 Operating leases

(a) Operating lease commitments-Bank as a lessee

The Bank has entered into commercial leases on premises and vehicles. Where the Bank is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

Future minimum lease payments	**2013**	**2012**
No later than one year	9,227	9,851
Later than one year and no later than five years	4,996	5,358
Later than five years	-	-
Total	**14,223**	**15,209**

(b) Operating lease commitments-Bank as a lessor

The Bank has entered into commercial leases on premises. Where the Bank is the lessor, the amount of the future minimum rentals under non-cancellable operating leases as of 31 December 2013 is BGN 24 thousand (2012: BGN 28 thousand).

32 Events after the balance sheet date

There are no significant post balance sheet events with effect on the financial statements as of 31 December 2013.