ANNUAL DISCLOSURES FOR 2016
ON AN UNCONSOLIDATED BASIS

ACCORDING TO THE REQUIREMENTS OF
REGULATION (EU) 575/2013 (ART. 431-455)

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I. Risk management objectives and policies

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

The Bank's risk governance framework comprises a number of different constituents. In particular, the Supervisory Board has set up a Risk Committee overseeing all risk management functions. The Risk Committee is in charge of monitoring the quantitative and qualitative aspects of all credit, market, liquidity and operational risks. It is currently complemented by the Risk function.

The Internal Audit function, which reports directly to the Supervisory Board level, through the Audit Committee, complements the risk management framework acting as the independent review layer, focusing on the effectiveness of the risk management framework and control environment.

The Bank's risk management organization structure shall ensure the existence of clear lines of responsibility, the efficient segregation of duties and the prevention of conflicts of interest at all levels, including the Management Board, Senior Management, as well as among its customers and any other stakeholders.

Within the Bank, risk management activities broadly take place at the following levels:

- ✓ Strategic level – It encompasses risk management functions performed by the Supervisory Board and the Management Board.
- ✓ Tactical level – It encompasses risk management functions performed by the Risk Committee and the Executive Committee.
- ✓ Operational (business line) level – It involves management of risks at the point where they are actually created. The relevant activities are performed by individuals who undertake risk on the organization's behalf. Risk management at this level is implemented by means of appropriate controls incorporated into the relevant operational procedures and guidelines set by the Management.

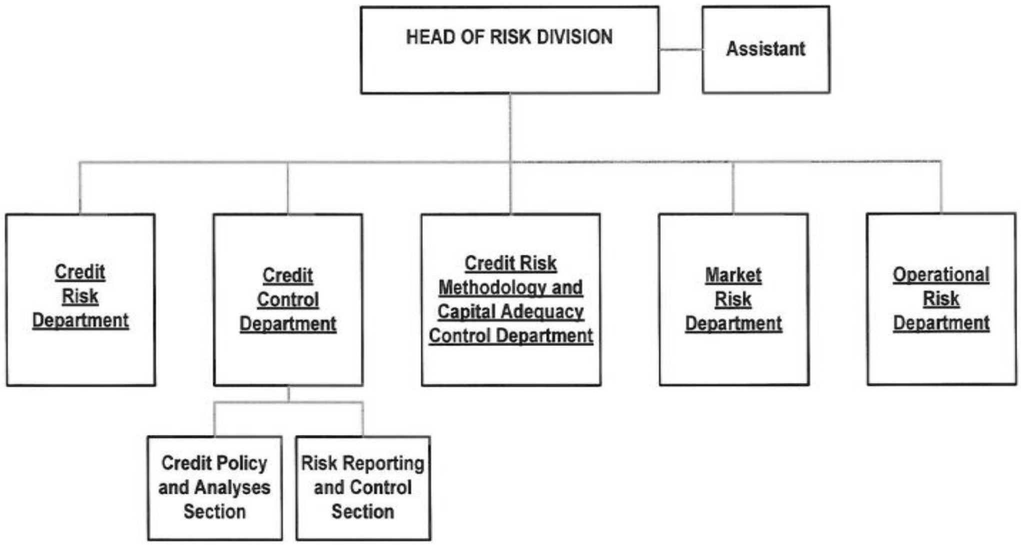
Eurobank Bulgaria AD is exposed to the following types of risks, resulting from its activities with financial instruments:

- ✓ Credit risk
- ✓ Market risk
- ✓ Liquidity risk
- ✓ Operational risk

The different types of risks are managed and controlled by specialized units in the Bank, following policies and procedures based on Eurobank Group Guidelines, ensuring that all aspects of risk are adequately covered, monitored and controlled, as well as the Bulgarian legislation.

The Chief Risk Officer of the Bank, heading Risk Division, has a direct reporting line to the Risk Executive of the Parent company and indirect to the Chief Executive Officer of the Bank.

The Supervisory Board of the Bank (SB) has delegated to the Risk Committee the role of approving all strategic risk management decisions. The Risk Committee is in charge of monitoring the quantitative and qualitative aspects of all credit, market, liquidity and operational risks. In addition, Internal Audit is responsible for the independent review of risk management and the control environment.



Credit risk

Credit risk is the risk of financial loss for the Bank caused by counterparty by failing to fulfill an obligation. It is the most significant risk that the Bank is exposed to. The credit process within Eurobank Bulgaria AD is based on a division of responsibility between the business origination and credit risk management functions. The fundamental principle of the credit approval process is the "segregation of duties principle" which requires credit proposal by Business Units and review by Risk Division (Credit Risk Department) and establishes the separation of business decision from credit risk decisions. Participants in the credit approval process must act and take decisions in line with the Group's credit policy, as well as in line with the applicable Bulgarian law and regulations. In their decisions for undertaking credit risk they must exercise prudent and objective credit judgement, and act in good faith, so that they fully and effectively protect the interests of the Bank and its shareholders in the best possible manner.

The Bank employs the following risk management methods in order to reach its defined credit risk targets:

Risk avoidance: in lending operations, the Bank rejects loan proposals with poor creditworthiness on the basis of internal risk models and ratings, and by defining risk sensitive business focuses by means of specific exposure limits and target portfolio.

Risk mitigation/limitation: The Bank demands collateral and applies credit risk mitigating techniques, and adheres to defined credit risk limits as derived above.

Risk diversification: By diversifying its portfolio, the Bank hedges its dependence on specific developments and thus reduces the credit risk. Should the Bank's portfolio fall below the desired degree of diversification, the Bank will need to take suitable measures.

To manage and control the credit risk, different structures and bodies are established with specific responsibilities:

- ✓ Risk Committee – for strategic decisions and country risk management;
- ✓ Country Credit Committee and Regional Credit Committee – for Credit Approval Process decisions;
- ✓ Special handling Committee I and II – for credit approval process decisions for problematic customers;
- ✓ Loans and Product Committee - for approval of loan products as well as risk parameters and criteria.

The Bank intends to support all economic sectors, however Eurobank Bulgaria AD will be very cautious in taking exposure on the real estate, construction, independent insurance companies, leasing and factoring companies and other finance entities. Depending on market situation and obvious warning signals for certain economic sectors, additional restrictions can be imposed.

The Bank's policy is to avoid extending credit facilities to entities involved in the production and trade of military weapons, religious organizations, gambling industry, media sector, political parties, public educational institutions, sports clubs etc.

Risk Committee monitors and periodically adjusts specific limits (absolute values) corresponding to each of the five main economic sectors (ex. Industry, Commerce, Services, Construction, Real Estate).

The credit exposure to any given economic sector (except for real estate) shall not exceed 15% of the credit exposure of the total wholesale portfolio of the Bank, not accounting for corporate bonds. The weight of real estate sector in total corporate portfolio of the Bank should not exceed 25%. Both Construction and Real estate sectors should not exceed 35% of total corporate portfolio.

The credit activity of the Bank is governed by policies and procedures, approved by the respective responsible bodies and based on Eurobank Group Guidelines, ensuring that all aspects of credit risk are adequately covered, monitored and controlled, namely:

- ✓ Credit Policy Manual for Corporate lending;
- ✓ Credit Policy Manual for Small Business banking (SBB);
- ✓ Credit Policy Manual for Mortgage lending;
- ✓ Credit Policy Manual for Consumer lending;
- ✓ Collateral Rule Book;
- ✓ Collaterals allocation instruction;
- ✓ Procedure for Corporate NPL management;
- ✓ Procedure for SBB NPL management;

- ✓ Provisioning policy for corporate exposures;
- ✓ Provisioning policies for retail exposures – consumer loans, credit cards, mortgage loans, SBB;
- ✓ ICAAP Procedure;
- ✓ Stress test methodology;
- ✓ Concentration risk methodology.

Market risk

The Bank takes on exposures to market risk, which is the risk of potential financial losses due to adverse changes or excessive fluctuations in market variables such as interest rates, foreign exchange rates or security prices. Market risks arise from open positions in interest rate, currency and equity products, all of which may be exposed to general or specific market movements and changes in the level of volatility of market rates or prices.

There are a number of specific sources of risk (risk factors) within each type of market risk, to which the Bank may or may not be exposed at any point in time. These are further defined in the Bank's Market Risk Policy and the Group's market risk guidelines.

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's 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;
- ✓ ensure compliance with local rules;
- ✓ ensure compliance with Eurobank Group Guidelines;
- ✓ ensure 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;
- ✓ safeguard adherence to the principles and metrics described in the Bank's Risk Strategy document and its appendices.

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

The Bank's Market Risk Policy is approved by the Risk Committee of Eurobank Bulgaria and maintained by Market Risk Department. Market Risk Department regularly reviews the policy and submits any changes to the Risk Committee for approval.

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 to the business;
- ✓ 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.

<u>Liquidity risk</u>

Liquidity risk is the risk that the Bank will be unable to fund increase in assets or meet obligations at a reasonable cost or at all; for financial assets the risk is that an instrument cannot be sold or otherwise exchanged for its full market value. Prudent liquidity risk management and appropriate supervision and control are essential elements for the effective management of the Bank. The Bank must ensure that it will always be in a strong liquidity position to meet all obligations to repay, at call or maturity, at a reasonable cost, even under adverse market conditions, in the context of the policies and directives established by regulators and Eurobank Group. The Bank aims to manage effectively its liquidity risks and also to maintain sufficient liquidity to withstand potential stress events.

To ensure prudent liquidity management, the Bank has its own liquidity management policy and applies the Group's guidelines on liquidity risk measurement, monitoring and management. The policy includes cash flow forecasts, minimum levels of liquidity, functions involved in liquidity management, systems for monitoring and reviewing liquidity, roles and responsibilities for monitoring limits, escalation procedure for limit excesses, main measures to undertake in case of liquidity crisis and other.

The Bank's liquidity policy, designed in line with the Group's liquidity risk guidelines, aims at ensuring that:

- ✓ the necessary liquidity policies and procedures are in place and followed;
- ✓ sufficient liquid assets and adequate liquidity are maintained in order to conduct business in a prudent manner and to be able to meet obligations as they arise;
- ✓ high quality liquid assets are kept to be in a position to successfully face a funding crisis;
- ✓ the interbank market funding capability, stability and diversity of the deposit base, overall liquidity status of the Bank and the external market environment are regularly monitored and controlled;
- ✓ the liquidity position is monitored closely on a daily basis and continuously throughout the dealing operations;
- ✓ stress tests and scenarios are performed and analyzed to assess the adequacy of the Bank's liquidity to meet crisis situations;
- ✓ regulatory requirements are met.

Postbank

The responsibility for liquidity management has been delegated by the Management Board (MB) to the Assets and Liabilities Committee (ALCO). ALCO is the primary responsible body to advise the MB for the strategic management of assets and liabilities, aiming to effectively manage the liquidity risks of the Bank and to ensure regular and timely meeting of current and future obligations, both under normal circumstances and in crisis situations.

ALCO regularly reviews: the liquidity ratios; liquid assets and buffers; sources and uses of liquidity and liquidity projections; the deposit base; the cost of funding; the market and macroeconomic outlooks, etc. Within its authority is to take all the necessary decisions regarding the interest rate policy, the liquidity and assets and liabilities management and to set the target parameters of potential external funding. With regard to assets and liabilities management, ALCO regularly reviews the following information:

- ✓ the structure, current status and trends of the assets and liabilities of the Bank;
- ✓ the Bank's cash inflows and outflows and the ratios between assets and liabilities;
- ✓ the interest income margin generated on the assets and the cost of funding base (deposit base and external funding);
- ✓ interest rates offered by the main competitors and the market shares of the Bank;
- ✓ capital adequacy;
- ✓ determines and monitors the implementation of the Bank's funding strategy;
- ✓ defines and regularly reviews elements of the internal funds transfer pricing policies (FTP) to properly reflect liquidity risk in the pricing of assets and liabilities and the internal measurement of returns.

With regards to liquidity management, ALCO regularly reviews the following information:

- ✓ liquidity ratios;
- ✓ liquid buffers – volumes and currency breakdown;
- ✓ sources and uses of liquidity and liquidity projections;
- ✓ liquidity risk stress tests.

The operational management of the Bank's assets and liabilities and the execution of ALCO decisions regarding liquidity are assigned to the Head of Treasury.

Liquidity target ratios are set and approved by Risk Committee. Independent liquidity risk control function with a dual reporting line to the management of the Bank and to the management at Group level is performed by Market Risk Department. The latter monitors and reports the liquidity ratios compared with the approved targets, escalating any excesses to the respective management bodies, as well as produces stress tests for liquidity risk on a monthly basis.

The Bank has developed an Action Plan for Liquidity Crisis Scenario in adherence to the Law on Credit Institutions and Ordinance № 11 of BNB on Liquidity Management and Supervision. The plan determines the sources of liquidity and the sequence of actions that will be followed, marks the factors that influence the Bank's liquidity and indicates the functions of all managers and staff members involved in the process of liquidity utilization/attraction in liquidity crisis situations.

Operational risk

Operational Risk means the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events and includes legal risk.

Operational Risk governance at Eurobank Bulgaria comprises the following bodies/officers: Supervisory Board, Group Risk / Operational Risk, Risk Committee, Operational Risk Committee, Chief Risk Officer, Operational Risk Department, Network Operational Risk Unit, and Operational Risk Partners.

Further, the governance has embedded three lines of defense:

- ✓ Level 1: Business Line Management - identifying and managing risks inherent in respective products, activities, processes, and systems.
- ✓ Level 2: Independent Corporate Operational Risk Function (Operational Risk Department) - design, maintenance, and ongoing development of Operational Risk Framework.
- ✓ Level 3: Independent Review - challenge operational risk management controls, processes, and systems.

Responsibilities of Supervisory Board are to:

- ✓ Ensure that a strong operational risk management culture exists throughout the whole organization.
- ✓ Ensure an Operational Risk Management Framework that is fully integrated into the Bank's overall risk management processes is developed, implemented, and maintained.
- ✓ Establish, approve and periodically review Operational Risk Management Framework; oversee senior management to ensure that the policies, processes, and systems are implemented effectively at all decision levels.
- ✓ Approve and review operational risk appetite and tolerance statement that articulates the nature, types, and levels of operational risk that the Bank is willing to assume.

Responsibilities of the Management Board are to:

- ✓ Develop a clear, effective, and robust governance structure with well defined, transparent and consistent lines of responsibility; ensure policies, processes, and systems for managing operational risk are in place for all of material products, activities, processes, and systems, consistent with the risk appetite and tolerance.
- ✓ Ensure the identification and assessment of operational risk inherent in all material products, activities, processes, and systems to make sure the inherent risks and incentives are well understood.
- ✓ Ensure there is an approval process for all new products, activities, processes, and systems that fully assesses operational risk.

- ✓ Implement a process to regularly monitor operational risk profiles and material exposures to losses, through reporting mechanisms at the board, senior management, and business line levels that support proactive management of operational risk.

Responsibilities of the Bank as whole are to:

- ✓ Implement a strong control environment that utilizes policies, processes and systems; appropriate internal controls; and appropriate risk mitigation and/or transfer strategies.
- ✓ Implement business resiliency and continuity plans to ensure an ability to operate on an ongoing basis and limit losses in the event of severe business disruption.
- ✓ Ensure Bank's public disclosures allow stakeholders to assess its approach to operational risk management.

The Bank has an independent Operational Risk Management Function overseen by Chief Risk Officer and comprising:

- ✓ Operational Risk Department is part of Risk Division, and as a centralized Unit has a principal aim to support the Bank to implement an effective operational risk management program, to provide reliable information on the most significant risks, to measure and monitor the operational risk exposure undertaken by the Bank thus adding value through increased efficiency in risk management, and acknowledgement and accountability of risks.
- ✓ Network Operational Risk Unit (NORU) is a special unit established in the area mostly exposed to operational risk - Branch Network; NORU overseas the deployment of operational risk framework throughout the Network and is a focal point for all operational risk matters concerning Branch Network operations.
- ✓ Operational Risk Partners are experienced officers at Unit level, appointed to manage operational risk at Units' level. Operational Risk Partners are involved in all applicable Operational Risk Programs. Partners work in close collaboration with and act as a liaison to Operational Risk Department.

The Operational Risk Committee (ORC) has been established and regular meetings are convened. ORC acts to provide oversight of actual operational risk exposure and management and the processes implemented to assess, monitor and mitigate operational risk in Bulgaria. ORC is a management committee, drawing its powers from the Group's Operational Risk Committee and the Executive Committee of Eurobank Bulgaria. The Committee's remit covers all business activities.

Eurobank Bulgaria has implemented a robust written Operational Risk Management framework covering operational risk environment, mandates, and all Operational Risk Programs.

Operational risk management in Eurobank Bulgaria is based on several distinct, even though interrelated and integrated, programs:

1. Operational Risk Events – Capturing of events (losses, near misses, gains) reported throughout the Bank; analysis of root causes, mitigation measures.
2. Key Operational Risk Indicators (KRIs) – 40+ KRIs covering number of Units, with respective thresholds; KRIs have been implemented and monitored since 2010.
3. Risk & Control Self-Assessment (RCSA) – initiated and under implementation for all units and subsidiaries of the Eurobank Group in Bulgaria since 2010; all Bank Units covered every 12-18 month; risk-assessed coverage planning.
4. Outsourcing - Initial and annual risk assessment of all Outsourcing Engagements;
5. Fraud Risk Management;
6. Operational Risk Appetite - Quarterly monitoring and Annual upgrade;
7. Operational Risk Scenario Assessment (i.e. estimates on rare, catastrophic events and their potential impact) – implemented in 2012 and annually conducted.
8. Operational Risk Capital Management;
9. Operational Risk Awareness - Dedicated efforts for raising operational risk awareness (training; presentations; discussions with Operational Risk Partners, Unit Managers, all Bank staff).

Finally, Eurobank Bulgaria AD has implemented sound insurance framework as a risk mitigant/transfer vehicle. The Bank has the following insurance arrangements:

- ✓ Group Insurance - as a subsidiary of Eurobank Ergasias SA, the Bank is covered by Eurobank's Crime / Professional Indemnity and Directors & Officers Liability insurance policies. The insurance policies are reviewed on a group level and renewed on an annual basis. The purpose of these policies is to cover "low frequency – high severity" events.
- ✓ Local Insurance - the Bank has insurance policies for property (all risks), electronic techniques, sabotage and terrorism. These insurance policies are annually reviewed. The insurances' conditions and adequacy are also reviewed during the annual renewal process.

II. Scope and methods of consolidation

Eurobank Bulgaria AD reports on an unconsolidated basis.

III. Own funds

The Bank's objectives when managing the capital in respect to the requirements set in Regulation №575 of EU on the Capital Adequacy of Credit Institutions are:

- ✓ to comply with the capital requirements set by the Regulator;
- ✓ 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 on a monthly basis, employing techniques based on the guidelines developed by the Basel Committee and the European Community Directives for supervisory purposes. The capital adequacy of the Bank is reported to the Bulgarian National Bank on a quarterly basis according to the rules set by Regulation (EU) 575/2013.

The structure of the capital of Eurobank Bulgaria AD is presented in the table below:

BGN '000s

Structure of Capital	31/12/2016	31/12/2015
Own Funds	959,813	861,046
Tier 1 Capital	959,128	771,939
Common Equity Tier 1 Capital	959,128	771,939
Share Capital	560,323	452,753
Reserves	438,347	354,239
Accumulated other comprehensive income	21,463	14,809
Intangible assets	(39,542)	(34,548)
Excess of deduction from AT1 items over AT1 Capital	(15,817)	(21,032)
Other transitional adjustments to CET1 Capital	(5,646)	5,718
Additional Tier 1 Capital	-	-
Tier 2 Capital	685	89,107
Subordinated Debt	-	88,028
Other transitional adjustments to T2 Capital	685	1,079

The table below presents the Balance sheet of the Bank per published financial statements and the part of it used in the estimation of the capital adequacy ratio as of 31.12.2016:

BGN '000s

	Balance sheet per published financial statements	Balance sheet for the estimation of the CAD ratio	Portfolio type
Assets			
Cash and balances with the Central Bank	720,423	720,423	Banking portfolio
Loans and advances to banks	1,166,309	1,166,309	Banking portfolio
Financial assets held for trading	2,438	2,438	Trading portfolio
Loans and advances to customers	4,214,400	4,214,400	Banking portfolio
Investment securities available-for-sale	608,051	608,051	Banking portfolio
Derivative financial instruments	586	586	Banking portfolio
Investment property	678	678	Banking portfolio
Property, plant and equipment	41,000	41,000	Banking portfolio
Intangible assets	39,542	39,542	Capital base
Other assets	24,835	24,835	Banking portfolio
Total assets:	**6,818,262**	**6,818,262**	
Liabilities			
Deposits from banks	21,171	-	
Derivative financial instruments	6,693	-	
Due to customers	5,524,333	-	
Debt issued and other borrowed funds	78,959	-	
Deferred income tax liabilities	2,243	-	
Current income tax payable	2,172	-	
Provisions for other liabilities and charges	10,483	-	
Retirement benefit and other obligations	3,886	-	
Other liabilities	20,337	-	
Total liabilities:	**5,670,277**	**-**	
Shareholders' equity			
Share capital	560,323	560,323	Capital base
Statutory reserves	282,521	274,239	Capital base
Retained earnings and other reserves, net	305,141	185,571	Capital base
Total shareholders' equity:	**1,147,985**	**1,020,133**	
Total shareholders' equity and liabilities:	**6,818,262**	**1,020,133**	

IV. Capital requirements

Eurobank Bulgaria AD applies Standardized Approach for credit risk and market risk, and the Basic Indicator Approach for operational risk.

For the purposes of Regulation (EU) 575/2013 the Bank applies Comprehensive Approach for financial collaterals.

General description of the Bank's approach for assessing the adequacy of its capital

The Bank's approach for assessing the adequacy of its capital is done on a monthly basis and comprises:

- ✓ analysis of the amount, the type and allocation of the capital that covers all types of risks which the Bank undertakes;
- ✓ estimation of the possible future risks for the Bank.

The Bank's approach for assessing the adequacy of its capital includes examination and estimation of each risk exposure separately.

Capital requirements by exposure classes

BGN '000s

	31/12/2016	**31/12/2015**
Credit Risk related to:		
Central governments and central banks	-	-
Regional governments and local authorities	115	132
Institutions	27,131	11,934
Corporate customers	101,509	81,635
Retail customers	65,662	54,455
Exposures secured by mortgages on immovable property	44,851	44,773
Exposures in default	35,061	33,609
Exposures associated with particularly high risk	16	16
Covered bonds	2,832	2,710
Equity exposures	704	1,123
Other items	5,332	4,848
Counterparty Risk	1,996	2,091
Credit Risk Total	**285,209**	**237,326**
Market Risk (pursuant to Standardised approach)	**6,344**	**5,250**
- Interest rate instruments in the trading book	6,272	5,162
- Equity instruments in the trading book	72	88
Operational Risk	**37,321**	**35,914**
Credit Valuation Adjustment Risk	**-**	**-**
Total Capital Requirement	**328,874**	**278,490**

Capital requirements for market risk

Breakdown of the capital requirements for market risk by currencies as of 31 December 2016 is presented in the table below:

BGN '000s

Market Risk	BGN	EUR	USD
Interest rate instruments in the trading book	425	5,846	1
Equity instruments in the trading book	72	-	-
Total	**497**	**5,846**	**1**

The debt instruments in the trading portfolio of the Bank comprise of Bulgarian Government Securities issued by the Ministry of Finance, denominated in BGN, EUR and USD.

The major currencies which form the currency position of the Bank are BGN, EUR, USD, CHF and GBP. Eurobank Bulgaria AD does not allocate capital for currency risk.

Capital requirements for operational risk

The Bank uses the Basic Indicator Approach, representing 15% of the annual average gross income for 2013, 2014 and 2015. The amounts of the annual gross income for the last three years, which form the capital requirements for operational risk, are as follows:

- ✓ 2013 – BGN 227,602 thousand;
- ✓ 2014 – BGN 246,601 thousand;
- ✓ 2015 – BGN 272,207 thousand.

V. Exposure to counterparty credit risk

The allocation of the Bank's deals with securities and derivatives in the banking book as of 31 December 2016 for the different exposure classes using the Market Value Method is represented in the table below:

BGN '000s

Exposure Class	Derivatives
Institutions	15,807
Corporate customers	1,245
Total	**17,052**

VI. Capital buffers

Capital buffers are maintained in addition to the capital requirements set in Regulation (EU) 575/2013 and guarantee that the banks accumulate in periods of economic growth adequate capital to cover possible losses during unfavorable periods. In this regard BNB issued Ordinance №8 on Banks' Capital Buffers.

Capital buffers are:

- ✓ the capital conservation buffer;
- ✓ the bank-specific countercyclical capital buffer;
- ✓ the buffer for global systemically important institutions (G-SIIs);
- ✓ the buffer for other systemically important institutions (O-SIIs);
- ✓ the systemic risk buffer.

The banks cover the capital buffers mainly with the core Tier 1 capital.

The capital conservation buffer is 2,5% of the total risk exposure amount of the Bank.

The anti-cyclical buffer is raised when it is estimated that the aggregated growth in loans leads to risk accumulation in the system and is used during unfavorable periods.

Banks maintain a buffer for systemic risk in order to prevent and decrease the long-term non-cyclical systemic and macro prudential risks. As of 31.12.2016 the buffer for systemic risk is 3% of the total risk exposure amount of the Bank.

Banks that are defined as systemically important on a national or on an European level maintain additional capital buffer as the combined requirement for the capital buffers for a certain bank depends both on the concretely defined levels for each individual buffer and on the structure of the group and the defined buffers on a consolidated level.

A bank that does not cover the required levels for capital buffers is a subject to restrictions regarding dividend payments, variable remuneration as well as payments on other capital instruments.

As of 31.12.2016 Eurobank Bulgaria AD allocated BGN 102,773 thousand as a capital conservation buffer and BGN 123,328 thousand as a buffer for systemic risk.

VII. Indicators of global systemic importance

Eurobank Bulgaria AD is not defined as an institution of global systemic importance in accordance with Article 131 of Directive 2013/36/EU.

VIII. Credit risk adjustments

Definitions for accounting purposes of "past due" and "impaired" and description of the approaches and methods adopted for determining value adjustments and impairment.

The exposures value presented in this document are estimated in accordance with the requirements of Regulation (EU) 575/2013 and represent the on-balance-sheet value, calculated according to the applicable accounting standards.

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 an 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.

More detailed information regarding the assessment of the assets impairment, loans categorisation and the respective impairment amounts, in accordance with the applicable accounting standards, is available in the Annual Financial Statements of the Bank.

Total amount of the exposures of the Bank without taking into account the effects of credit risk mitigation and the application of Credit Conversion Factors /CCF/ for off-balance sheet positions

The amounts of balance sheet and off-balance sheet positions for the different exposure classes as of 31 December 2016 without taking into account the effects of credit risk mitigation and the application of Credit Conversion Factors /CCF/ for off-balance sheet positions are presented in the table below:

BGN '000s

	Balance sheet position	
Exposure Class	**31/12/2016**	**31/12/2015**
Credit Risk		
Central governments and central banks	1,043,742	1,347,696
Regional governments and local authorities	1,431	1,647
Institutions	1,166,309	109,616
Corporate customers	1,196,175	1,101,441
Retail customers	1,131,205	942,932
Exposures secured by mortgages on immovable property	1,501,531	1,483,996
Exposures in default	393,715	377,774
Covered bonds	176,984	169,400
Exposures associated with particularly high risk	134	134
Equity exposures	8,800	14,043
Other items	155,670	155,697
Credit risk exposures relating to off-balance sheet items (including repo/reverse repo transactions and derivatives)	1,000,730	695,039
Credit Risk Total	**7,776,426**	**6,399,415**

Geographical breakdown of the exposures

The geographical breakdown of balance sheet positions for the different exposure classes as of 31 December 2016 is presented in the table below:

BGN '000s

Exposure Class	Bulgaria	Greece	Romania	Rest of Europe	Other countries	Balance sheet position
Credit Risk						
Central governments and central banks	1,039,311	-	4,431	-	-	**1,043,742**
Regional governments and local authorities	1,431	-	-	-	-	**1,431**
Institutions	-	1,085,604	50	44,117	36,538	**1,166,309**
Corporate customers	1,186,371	-	-	9,804	-	**1,196,175**
Retail customers	1,126,780	1,084	130	2,724	487	**1,131,205**
Exposures secured by mortgages on immovable property	1,495,211	1,964	218	3,058	1,080	**1,501,531**
Exposures in default	390,589	507	2	1,459	1,158	**393,715**
Covered bonds	-	-	-	176,984	-	**176,984**
Exposures associated with particularly high risk	134	-	-	-	-	**134**
Equity exposures	5,711	-	-	84	3,005	**8,800**
Other items	155,670	-	-	-	-	**155,670**
Credit risk exposures relating to balance sheet items Total	**5,401,208**	**1,089,159**	**4,831**	**238,230**	**42,268**	**6,775,696**
Credit risk exposures relating to off-balance sheet items (including repo/reverse repo transactions and derivatives)	916,992	24,219	73	59,347	99	**1,000,730**
Credit Risk Total	**6,318,200**	**1,113,378**	**4,904**	**297,577**	**42,367**	**7,776,426**

Distribution of the exposures by industry

The distribution of balance positions by industry for the different exposure classes as of 31 December 2016 is presented in the table below:

BGN '000s

Exposure Class	Individuals	Trade and Services	Manu-facture	Construc-tion	Public Sector	Central Bank, Banks & Non-bank Financial Institutions	Other	Balance position
Credit Risk (pursuant to the Standardized Approach)								
Central governments and central banks	-	-	-	-	412,476	631,266	-	**1,043,742**
Regional governments and local authorities	-	-	-	-	1,431	-	-	**1,431**
Institutions	-	-	-	-	-	1,166,309	-	**1,166,309**
Corporate customers	-	419,874	404,432	28,519	-	43,510	299,840	**1,196,175**
Retail customers	908,246	126,983	46,922	17,788	-	-	31,266	**1,131,205**
Exposures secured by mortgages on immovable property	1,005,373	295,025	31,493	29,896	-	738	139,006	**1,501,531**
Exposures in default	216,211	90,201	34,420	27,707	-	-	25,176	**393,715**
Covered bonds	-	-	-	-	-	176,984	-	**176,984**
Exposures associated with particularly high risk	-	134	-	-	-	-	-	**134**
Equity exposures	-	4	10	1	-	-	8,785	**8,800**
Other items	-	-	-	-	-	-	155,670	**155,670**
Credit risk exposures relating to balance sheet items Total	**2,129,830**	**932,221**	**517,277**	**103,911**	**413,907**	**2,018,807**	**659,743**	**6,775,696**
Credit risk exposures relating to off-balance sheet items (incl. repo/reverse repo transactions and derivatives)	385,813	221,443	99,741	52,207	6	162,001	79,519	**1,000,730**
Credit Risk Total	**2,515,643**	**1,153,664**	**617,018**	**156,118**	**413,913**	**2,180,808**	**739,262**	**7,776,426**

Residual maturity breakdown of the exposures

The residual maturity breakdown of balance positions for the different exposure classes as of 31 December 2016 is presented in the table below:

BGN '000s

Exposure Class	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Balance position
Credit Risk						
Central governments and central banks	631,266	-	-	4,431	408,045	**1,043,742**
Regional governments and local authorities	-	-	-	1,431	-	**1,431**
Institutions	1,166,309	-	-	-	-	**1,166,309**
Corporate customers	46,278	121,975	505,107	195,656	327,159	**1,196,175**
Retail customers	12,459	52,378	108,060	300,113	658,195	**1,131,205**
Exposures secured by mortgages on immovable property	14,565	15,216	57,362	176,173	1,238,215	**1,501,531**
Exposures in default	60,856	3,035	15,663	40,658	273,503	**393,715**
Covered bonds	-	-	-	-	176,984	**176,984**
Exposures associated with particularly high risk	-	-	-	-	134	**134**
Equity exposures	-	-	-	-	8,800	**8,800**
Other items	-	-	-	-	155,670	**155,670**
Credit risk exposures relating to balance sheet items Total	**1,931,733**	**192,604**	**686,192**	**718,462**	**3,246,705**	**6,775,696**
Credit risk exposures relating to off-balance sheet items (including repo/reverse repo transactions and derivatives)	242,766	217,043	385,799	114,065	41,057	**1,000,730**
Credit Risk Total	**2,174,499**	**409,647**	**1,071,991**	**832,527**	**3,287,762**	**7,776,426**

Impaired loans broken down by industries

The classification of the risk exposures of the Bank, as well as the conditions, amounts and set of rules for the formation of loans impairment are in accordance with the applicable International Financial Reporting Standards.

The amounts of the impaired loans broken down by industries as of 31 December 2016 are presented in the table below:

BGN '000s

Exposure Class	Industry	Balance position of the impaired loans	Impairment
Exposures to Companies	Trade and Services	34,871	7,169
	Manufacture	29,543	3,282
	Construction	3,736	2,239
	Other	59,814	12,323
	Total for the Exposure Class	**127,964**	**25,013**
Retail Exposures	Individuals	144,291	19,272
	Trade and Services	26,641	1,447
	Manufacture	10,286	332
	Construction	4,335	188
	Other	4,624	273
	Total for the Exposure Class	**190,177**	**21,512**
Exposures secured by mortgages on immovable property	Individuals	54,080	1,527
	Trade and Services	25,790	9,709
	Manufacture	1,313	28
	Construction	1,976	41
	Other	3,042	82
	Total for the Exposure Class	**86,201**	**11,387**
Exposures in default	Individuals	295,049	78,838
	Trade and Services	250,094	159,893
	Manufacture	71,817	37,397
	Construction	80,923	53,216
	Other	50,423	25,247
	Total for the Exposure Class	**748,306**	**354,591**

Movement in the allowances for impairment loss

The table below presents the movement in impairment.

BGN '000s

Exposure Class	Impairment as of 31 December 2016	Impairment as of 31 December 2015	Change in the amount of Impairment
Exposures to Companies	25,013	37,927	(12,914)
Retail Exposures	21,512	12,709	8,803
Exposures secured by mortgages on immovable property	11,387	10,822	565
Exposures in default	354,591	449,720	(95,129)
Total:	**412,503**	**511,178**	**(98,675)**

IX. Encumbered assets

Pledged financial assets serving as a collateral for liabilities as of 31.12.2016 include government securities pledged for government budget accounts, loans pledged under long-term financing and funds placed as a cover for letters of credit and guarantees.

The table below presents the fair value and carrying amount of encumbered and unencumbered assets as of 31.12.2016:

BGN '000s

	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets of the institution	63,579	63,579	6,754,683	6,754,683
Loans on demand	4,904	4,904	722,720	722,720
Equity instruments	-	-	9,837	9,837
Debt securities	32,918	32,918	567,734	567,734
Loans and advances other than loans on demand	25,757	25,757	5,258,595	5,258,595
Other assets	-	-	195,797	195,797

The table below presents the liabilities related to encumbered assets as of 31.12.2016:

BGN '000s

	Corresponding liabilities, contingent liabilities or lent securities	**Assets, received collateral and issued own debt securities other than encumbered with weights covered bonds or asset-backed securities**
Total sources of encumbrance	51,976	63,579
Deposits	21,934	37,729
Other sources of encumbrance	30,042	25,850

The collateral related to the encumbered assets as of 31.12.2016 is presented in the table below:

BGN '000s

Type of collateral	**Amount of collateral**
Deposits	8
Residential Real Estate	6,637
Commercial Real Estate	6,087
Total	12,732

X. Use of ECAIs

Eurobank Bulgaria AD uses credit assessments assigned by External Credit Assessment Institutions (ECAIs) in defining the risk weights of its exposures. Fitch, Moody's and Standard & Poor's are the three recognized ECAIs by the Bulgarian National Bank. If credit assessments are available from two nominated ECAIs and they correspond to different risk weights for a rated item, the higher risk weight is assigned by the Bank. The credit quality step depends on the credit assessment. If there is a credit assessment both for an issuer of securities and the issue, the Bank uses the credit assessment of the issue in defining the credit quality step. If the issue has no credit assessment, the Bank uses the credit assessment of the issuer.

The exposure classes, for which an external credit assessment is used, are:

- ✓ Exposures to Central Governments and Central Banks;
- ✓ Exposures to Institutions;
- ✓ Covered Bonds.

The exposure classes, for which an external credit assessment is used as of 31 December 2016 are presented in the table below as in determining the risk weights for credit risk the external assessments are related to the different credit quality steps.

BGN '000s

Risk weight depending on External Credit Risk Assessment	Exposures to Central Governments and Central Banks	Exposures to Institutions	Covered Bonds
0%	1,043,742	-	-
20%	-	1,159,028	176,984
50%	-	758	-
100%	-	-	-
150%	-	6,523	-
Total:	**1,043,742**	**1,166,309**	**176,984**

XI. Exposure to market risk

The position risk of the Bank in traded debt instruments under the Standardised approach as of 31.12.2016, broken down by currency, is presented in the table below:

BGN '000s

	Long position (BGN)	Short position (BGN)	Long position (EUR)	Short position (EUR)	Long position (USD)	Short position (USD)	Long position (Other currencies)	Short position (Other currencies)
General risk. Maturity-based approach								
0 ≤ 1 month	701,163	-	165,538	907,966	117,012	119	88,836	165,147
> 1 ≤ 3 months	190,045	-	104,347	190,576	694	694	-	-
> 3 ≤ 6 months	-	-	4,518	607	103	-	-	-
> 6 ≤ 12 months	-	-	58,675	-	-	-	-	-
> 1 ≤ 2 (1,9 for cupon of less than 3%) years	-	-	-	3,912	-	-	-	-
> 2 ≤ 3 (> 1,9 ≤ 2,8 for cupon of less than 3%) years	1	-	-	-	-	-	-	-
> 3 ≤ 4 (> 2,8 ≤ 3,6 for cupon of less than 3%) years	-	-	-	-	-	-	-	-
> 4 ≤ 5 (> 3,6 ≤ 4,3 for cupon of less than 3%) years	-	-	-	-	-	-	-	-
> 5 ≤ 7 (> 4,3 ≤ 5,7 for cupon of less than 3%) years	120	-	-	97,792	-	-	-	-
> 7 ≤ 10 (> 5,7 ≤ 7,3 for cupon of less than 3%) years	1,103	-	-	58,675	-	-	-	-
> 10 ≤ 15 (> 7,3 ≤ 9,3 for cupon of less than 3%) years	-	-	207	5,867	-	-	-	-
Total:	**892,432**	**-**	**333,285**	**1,265,395**	**117,809**	**813**	**88,836**	**165,147**
Specific risk								
Debt securities under the first category in Table 1	1,225	-	207	-	-	-	-	-
Debt securities under the second category in Table 1	-	-	-	-	103	-	-	-
- with residual term ≤ 6 months	-	-	-	-	103	-	-	-
- with a residual term > 6 months and ≤ 24 months	-	-	-	-	-	-	-	-
-with a residual term > 24 months	-	-	-	-	-	-	-	-
Debt securities under the third category in Table 1	-	-	-	-	-	-	-	
Debt securities under the fourth category in Table 1	-	-	-	-	-	-	-	-
Total:	**1,225**	**-**	**207**	**-**	**103**	**-**	**-**	**-**

XII. Operational risk

Eurobank Bulgaria AD applies the Basic Indicator Approach for calculating the capital requirements for operational risk. The Bank has in place adequate policies and processes to evaluate and manage the exposure to operational risk, including low-frequency high-severity events. The Bank maintains and regularly updates contingency and business continuity plans in order to ensure its ability to operate on an ongoing basis and limit losses in the event of severe business disruption. In applying the Basic Indicator Approach, Eurobank Bulgaria AD calculates the amount of capital for covering operational risk impact by multiplying the Bank's average annual gross income by a coefficient of 0.15. The average annual gross income is calculated on the basis of the last three year average sum of net interest income and net non-interest income, derived from audited Financial Statements. The average annual gross income is calculated as the average amount of the positive values of the annual gross income. The annual gross income is calculated before the deduction of any impairment charges for credit losses and operating expenses. Fees paid for outsourcing services rendered by intragroup entities are not deducted from the calculation of the gross income. However, expenditure on the outsourcing of services rendered by third parties reduces the annual gross income if the expenditure is incurred by a regulated undertaking subject to equivalent supervision. The calculation of the annual gross income does not include:

1. Realized profits/losses from the sale of banking book securities;
2. Income from extraordinary or irregular items;
3. Income derived from insurance.

XIII. Exposures in equities not included in the trading book

<u>Accounting techniques and valuation methodologies used by the Bank</u>

Equity instruments in the banking book are initially recognized at fair value plus transaction costs and subsequently re-measured at fair value. Gains and losses arising from changes in the fair value of these assets are recognized directly in equity. When an equity instrument is derecognized or impaired, the cumulative gain or loss previously recognized in equity is recognized in profit or loss. Dividends on equity instruments are recognized in the Income Statement.

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 in determining whether the assets are impaired.

<u>Balance sheet value and fair value of the equity instruments in the banking book</u>

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties.

The fair values of quoted investments in active markets are based on current average market prices. If the market for a financial asset is not active (and for unlisted securities), the Bank establishes fair value by using commonly accepted valuation techniques. These include the use of recent arm's length transactions, net asset value per share, discounted cash flow analysis and other valuation techniques consistent with the specific features of the securities market in Bulgaria.

The balance sheet value and fair value of the equity instruments in the banking book as of 31 December 2016 are represented in the table below:

BGN '000s

Equity instruments in the banking book	Balance sheet value	Fair value
Shares	11	11
Participations	8,923	8,923
Total:	**8,934**	**8,934**

<u>Type, disposition and amount of the exposures in listed instruments and private equity investments</u>

The major part of the equity instruments held by the Bank in the banking book as of 31 December 2016 consists of participations in companies. The amount of the private equity investments held by the Bank and classified as bearing high risk is BGN 134 thousand. All private equity investments are reported with 150% risk weight.

The equity instruments reported in the banking book of the Bank as of 31 December 2016 are presented in the table below:

BGN '000s

Equity instruments in the banking book	Reported with 100% risk weight in exposure class "Equity exposures"	Reported with 150% risk weight in exposure class "Exposures associated with particularly high risk"
Listed equity instruments	11	-
Non-listed equity instruments	8,789	-
Items belonging to regulatory high-risk categories	-	134
Total:	**8,800**	**134**

<u>Realized and unrealized gains or losses from sales and other realizations for the period</u>

The realized and unrealized gains or losses for 2016 are presented in the table below:

BGN '000s

Realized gains and losses from equity instruments in the banking book	2016
Realized gains/(losses)	12,461
Unrealized gains/(losses)	(7,498)

XIV. Exposure to interest rate risk on positions not included in the trading book

Nature, measurement and key assumptions regarding interest rate risk arising from non-trading activities

Interest rate risk management (including interest rate risk from non-trading activities) is based on the general rules for market risk management defined in the Market Risk Policy, which has been developed in line with the market risk guidelines of the Group and the related procedures that define the detailed implementation of the Policy.

Interest rate risk is one of the main market risk types and is the risk of a loss as a result of adverse changes in interest rate levels. As with any type of market risk, a set of specific sources of interest rate risk (risk factors) exists, to which the Bank may or may not be exposed at any specific point in time. These may include re-pricing risk, yield curve risk, basis risk and spread risk.

The Bank is exposed to the effects of market risks through all of its assets, liabilities, off-balance sheet positions, trading and non-trading activities. Changes in the interest rate levels may have effect on the Bank's financial position and result in two major ways:

- ✓ income effect / earnings perspective – the impact of market interest rate changes on current income and cash flows, including the effect of changes in interest rates on net interest income or fee-based and other non-interest earnings;
- ✓ value effect / economic perspective – the impact of changes in market interest rates on the Bank's current net worth. The market interest rates used for discounting the present value of the future cash flows would influence the economic value of the Bank's assets, liabilities, off-balance sheet positions and therefore its net worth.

For positions that are marked-to-market for accounting purposes, these two effects are equivalent.

One of the goals of the established independent market risk management and control function in the Bank is to control and monitor the effects of interest rate risk on the income and the economic value of the Bank. The measurement, monitoring, reporting and control of interest rate risk are carried out by an independent unit – the Market Risk Department within Risk Division. The Bank's interest rate risk appetite is expressed in terms of nominal limits set on the exposure to interest rate risk, approved by the Risk Committee. The levels of these limits are consistent with the loss-bearing capacity and appetite of the Bank and the regulatory capital requirements.

The Bank's market risk measurement system includes all positions that are exposed to market risks and measures all material aspects of market risk. This also includes the measurement of the Bank's exposure to interest rate risk, arising from non-trading positions and activities. The Interest Rate Gap Report (IRGap) is the main tool used for identification and management of interest rate risk on a bank-wide level. In the IRGap the balance sheet and off-balance sheet positions are analyzed by transforming them into interest rate risk equivalent instruments and by distributing the cash flows of these instruments into a predefined set of time-bands. It is produced separately for each specific currency and in total BGN and EUR equivalent. It is produced by Market Risk Dept. on a weekly basis and at each end-of-month date and is presented to the management at Bank and Group level. The report is based on Group guidelines, while the underlying assumptions are constantly reviewed and updated to ensure their adequate reflection of any local specifics.

The report represents a maturity/re-pricing schedule that distributes all of the Bank's assets, liabilities and interest-sensitive off-balance sheet positions into "time-bands" according to their maturity (if fixed rate) or time remaining to their next re-pricing (if floating rate), combined with the calculation of two duration equivalent measures: 1-year and 10-year duration equivalents. There are Risk Committee approved nominal limits for the two duration equivalent measures, set to ensure that the overall Bank exposure to interest rate risk is acceptable and in line with the Bank's market risk appetite. The utilization of these limits is monitored on a weekly basis by Market Risk Dept. and any excesses are escalated to the management bodies of the Bank and the Group. There have been no excesses in 2016. The gap analysis is supplemented by calculation of risk indicators such as duration analysis of the bond portfolios and calculation of interest rate sensitivity to specific interest rate shifts. Monthly stress tests are performed to assess the impact of interest rate changes on the Bank's profit & loss and economic value.

The time-band distribution of assets and liabilities in the IRGap report is based on certain assumptions, concerning especially the positions without clearly defined maturity or interest rate profile and the ones where actual maturity may deviate from the contractual one. These assumptions are regularly re-assessed in order to ensure their accuracy and adequacy.

For the purposes of calculating interest rate risk equivalent instruments for current and savings accounts, on the basis of specific assumptions approved by the Group Risk Management, these are distributed in the closest time-band (1 month) to reflect properly their interest rate sensitivity. For instruments with fixed interest rate, the principal payments are distributed into time-bands according to their repayment schedule at the respective payment dates, while floating rate instruments are distributed according to their next interest re-pricing. The Bank's capital is first allocated to cover the fixed assets, participations and other positions without a clear interest rate profile and the remainder (i.e. the cash portion of capital) is allocated to the 1 month time bucket. With relation to early prepayments on loans, the majority of the loans are floating-rate ones and respectively are distributed into closer time-bands based on their re-pricing date and not on their repayment schedule. In the case of instruments with embedded options, these options determine the time-band distribution of the respective instrument.

The interest rate risk exposure arising from non-trading activities is relatively low at present, given the short re-pricing period of most assets and liabilities, due to their floating rate nature or short-term tenors. This is supplemented by the fact that a significant part of the interest rate risk arising from the available-for-sale bond portfolio is hedged through swaps.

Interest rate sensitivity analysis

The interest rate sensitivity analysis below illustrates the potential impact on the economic value of the Bank from a parallel interest rate curve shift in all currencies of +/- 200 bps (non-trading positions only).

All amounts are in BGN equivalent

Currency	+200 bps	-200 bps	-200 bps (applying a 0% floor)
BGN	2,023,451	-1,950,886	-866,818
EUR	-18,889,150	22,101,735	4,714,929
USD	1,598,393	-1,631,346	-1,002,912
CHF	-81,563	81,921	0
GBP	61,704	-62,421	-18,071
Other	-102	102	0
Total:	**-15,287,266**	**18,539,105**	**2,827,128**

XV. Exposure to securitization positions

Eurobank Bulgaria AD does not apply securitization as of 31 December 2016.

XVI. Remuneration policy

Eurobank Bulgaria AD has established a Remuneration Policy that is applicable to all Bank employees and covers their total remuneration. The Remuneration Policy forms an integral part of the Bank's corporate governance practice and is developed in accordance to its operational model, business strategy, objectives, long-term interests of the Bank as well as the long-term value creation for shareholders and incorporates measures to avoid conflict of interest.

Also, the Remuneration Policy is consistent with and promotes sound and effective risk management and does not encourage excessive risk-taking on behalf of the Bank.

Accordingly, the operating standards and mechanisms which have been adopted ensure that the levels of remuneration are directly linked to results and desired behaviours.

Policy on Remuneration is compliant with the Remuneration Policy of Eurobank Ergasias S.A. Greece, with Regulation (EU) 604/2014, Regulation (EU) 575/2013 as well as with all requirements of the Directive 2010/76/EU of the European Parliament and of the Council regarding capital requirements for the trading book and for re-securitizations, and the supervisory review of remuneration policies.

The Supervisory Board approves and periodically reviews the Remuneration Policy and is responsible for overseeing its implementation.

The Remuneration Committee assists the Supervisory Board regarding the drafting, revision and implementation of the Remuneration Policy and makes relevant recommendations.

The Remuneration Committee is established in such a way as to be able to offer specialised and independent advice regarding the Remuneration Policy and its implementation and the incentives created for managing risk, capital and liquidity. To this end, the Bank's Remuneration Committee consists of 4 Supervisory Board members.

During 2016, the Remuneration Committee held four meetings.

The implementation of the Remuneration Policy is subject to annual internal audit review from the Internal Audit Unit and Eurobank Group Internal Audit. Internal Audit's findings and proposals for potential revision of the Remuneration Policy are reported to the Remuneration Committee.

This Remuneration Policy of the Bank has established a competitive remuneration framework in order to attract, engage and retain its employees. Its basic principles are to:

- ✓ Safeguard that remuneration is sufficient to retain and attract executives with appropriate skill and experience.
- ✓ Monitor that internal equity between Business Units is applied.
- ✓ Avoid excessive risk taking.
- ✓ Link remuneration with long-term performance.

The continuous monitoring of market trends and best practices in domestic and global level, ensures a competitive Remuneration Policy that is governed by transparency and internal equity.

The Bank has adopted a remuneration framework based on a two dimensional banding structure for each position:

- ✓ Job Family, depending on the nature of business (for example IT, Finance).
- ✓ Band, which is linked to position requirements, range of responsibilities and professional experience.

Remuneration policy covers all levels of the organization and all categories of employees of the Bank, in compliance with Ordinance №4 of the Bulgarian National Bank and complies with all the principles regarding this Ordinance. In this respect, Remuneration policy is accessible to all employees. Every newly appointed employee gets acquainted with the criteria for appraisal and their connection with remuneration during their initial Induction Training Course.

The employees who have a material impact on the Bank's risk profile according to the EU Regulation 604/2014 are the following:

1. (I) Members of the Management Board;

(II) Procurator

2. Members of the Supervisory Board;

3. Senior Managers:

(i) Members of Executive Committee (ExCo) of the Bank

4. Heads of the following:

(i) Risk Management;

(ii) Internal Audit Division;

(iii) Compliance Division;

5. Heads of Risk Management within material business units ("material business unit" is the unit as defined in the Article 3 of EU Regulation 604/2014);
6. Heads of material business units;
7. Employees that have managerial responsibility in one of the units referred to in point (4) or in a material business unit and report directly to the Heads of points (4) or (5);
8. Employees that have managerial responsibility and report directly to the Heads of material business units;
9. Heads of the following:
   - **(i)** Finance Division;
   - **(ii)** Human Resources Division;
   - **(iii)** IT Division;
   - **(iv)** Legal Division;
10. Employees who are responsible for, or are members of Committees responsible for the management of a risk category other than credit risk and market risk:
    - **(i)** Counterparty Risk;
    - **(ii)** Residual Risk;
    - **(iii)** Concentration Risk;
    - **(iv)** Securitization Risk;
    - **(v)** Interest Risk arising from non – trading book activities;
    - **(vi)** Operational Risk;
    - **(vii)** Liquidity Risk;
    - **(viii)** Risk of excessive leverage;
11. With regard to credit risk exposures of a nominal amount per transaction which represents 0.5% of the Bank's Common Equity Tier 1 capital and at least € 5 million:
    - **(i)** Employees who are responsible for initiating credit proposals or structuring credit products which can result in such credit risk exposures; or
    - **(ii)** Employees who have authority to take, approve or veto a decision on such credit risk exposures; or
    - **(iii)** Employees who are members of Committees to take the decisions referred to in points (i) or (ii);
12. Employees who individually or, as members of Committees, have authority to take, approve or veto a decision on transactions on the trading book which in aggregate meet one of the following thresholds:

- **(i)** where the standardized approach is used, an own funds requirement for market risks which represents 0.5% or more of the Bank's Common Equity Tier 1 capital; or
- **(ii)** where an internal model-based approach is approved for regulatory purposes, 5% or more of the Bank's internal value-at-risk limit for trading book exposures at a 99% ;

13. Employees with managerial responsibility for a group of employees who have individual authorities to commit the Bank to transactions and either of the following conditions is met:

- **(i)** the sum of those authorities equals or exceeds a threshold set out in point 11(i), point 11(ii) or point 12(i);
- **(ii)** where an internal model-based approach is approved for regulatory purposes those authorities amount to 5 % or more of the Bank's internal value-at-risk limit for trading book exposures at a 99%. Where the Bank does not calculate a value-at-risk at the level of that employee the value-at-risk limits of personnel under the management of this employee shall be added up;

14. Employees who have the authority or, are members of Committees that have the authority to approve or veto the introduction of new products;

15. Employees who have managerial responsibility for employees who meet one of the criteria set out in points (1) to (14);

16. Employees who have a material impact on the Bank's risk profile whose:

- **(i)** total remuneration was more than € 500 000 in the preceding year;
- **(ii)** total remuneration is within the 0.3 % of the employees, rounded up to the next integer, who have been awarded the highest total remuneration in the preceding financial year;
- **(iii)** total remuneration was in the preceding financial year equal to or greater than the lowest total remuneration awarded in that financial year to an employee who meets any of the criteria in points (1), (3), (5), (6), (8), (11), (12), (13) or (14)

Point 16(iii) does not include the following employee categories:

- **(i)** employees who only carry out professional activities and have authorities in a business unit which is not a material business unit; or
- **(ii)** employees who have no material impact on the risk profile of a material business unit through the professional activities carried out.

Remuneration mechanisms incorporate principles that take into account employees' skills and performance while supporting at the same time long term business objectives.

Employees' total remuneration consists of fixed and variable components.

The Bank has developed a remuneration framework that is based on total remuneration ranges that differ among hierarchical levels and nature of business. Total remuneration ranges are reviewed annually taking into consideration market trends and current legal requirements.

Additionally, the Bank has in place incentive schemes addressed to employees who do not have a material impact on the Bank's risk profile, such as the employees in the Branch Network and TAG Division. These schemes are not subject to retention or deferral policies while their main aim is to further incentivize sales teams and provide additional motives for the increase in the production volumes of rescheduling requests.

It should be noted that employees engaged in control functions are independent from the business units they oversee, have appropriate authority, and are remunerated in accordance with the achievement of the objectives linked to their functions, independent of the performance of the business areas they control.

In order to ensure adequate transparency to the market of the remuneration structures and the associated risks, the Bank discloses the remuneration policies and practices. For reasons of confidentiality, the Bank delivers aggregated amounts for those members of the management body, whose professional activities have a material impact on the risk profile of the Bank.

The number of people, covering the definition of "employees who have a material impact on the Bank's risk profile" for year 2016 is 45. The annual gross amount to be disclosed, (connected with these people and corresponding to the requirements Regulation (EU) No 575/2013, art. 450), is three million sixty nine thousand and a six hundred and seven euro and is described in detail in the table below.

	Executive and Non-Executive Members of the MB and SB	**Investment Banking**	**Retail Banking**	**Asset Management**	**Corporate Functions**	**Independent Control Functions**	**All Other**
Members	14	-	-	-	-	-	-
Identified Staff	-	3	14	0	5	6	3
Fixed Remuneration (€)	823 066	136 042	916 687	0	317 641	250 942	150 231
Variable Remuneration Cash (€)	200 000	15 999	136 000	0	69 000	29 999	24 000

In general, the Policy is in line with the business strategy and risk tolerance of the Bank and Eurobank Group, their objectives, values and long-term interests, as well as with all indicated norms and rules of the Bulgarian National Bank and the European structures concerning local remuneration policies.

XVII. Leverage

The leverage ratio is calculated as the Bank's Tier I capital divided by its total exposure and is expressed as a percentage. The leverage ratio should not be less than 3%. Total exposure includes all assets and off-balance sheet items not deducted from the calculation of Tier I capital. The leverage ratio of the Bank as of 31.12.2016 is presented in the table below:

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		Column
		LR Exposure: 31.12.2016
Row	**Exposure Values**	010
060	Derivatives: Current replacement cost	586
090	Derivatives: Add-on Mark-to-Market Method	17 052
150	Off-balance sheet items with a 10% CCF according to CRR 429 (10)	372 545
160	Off-balance sheet items with a 20% CCF according to CRR 429 (10)	88 495
170	Off-balance sheet items with a 50% CCF according to CRR 429 (10)	464 258
180	Off-balance sheet items with a 100% CCF according to CRR 429 (10)	58 380
190	Other assets	6 778 134
270	(-) Asset amount deducted - Tier 1 - fully phased-in definition	-55 359
280	(-) Asset amount deducted - Tier 1 - transitional definition	-39 542
290	Total LR exposure - using a fully phased-in definition of Tier 1	7 724 091
300	Total LR exposure - using a transitional definition of Tier 1	7 739 908
Row	**Capital**	
310	Tier 1 capital - fully phased-in definition	980 591
320	Tier 1 capital - transitional definition	959 128
Row	**Leverage Ratio**	
330	Leverage Ratio - using a fully phased-in definition of Tier 1	12.70%
340	Leverage Ratio - using a transitional definition of Tier 1	12.39%

XVIII. Use of IRB Approach to credit risk

Eurobank Bulgaria AD does not apply Internal Rating Based Approach to credit risk as of 31 December 2016.

XIX. Use of credit risk mitigation techniques

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 fulfill an obligation.

Eurobank Bulgaria AD uses a range of policies and techniques to mitigate the credit risk. The main types of collaterals that the Bank accepts are as follows:

a) Mortgage on immovable property;

b) Pledge on movable property;

c) Pledge on commercial enterprises;

d) Pledge on receivables;

e) Securities;

f) Cash;

g) Letters of guarantees;

h) Personal guarantees /Sureties/;

i) Other eligible collaterals.

All collaterals are agreed in writing through Collateral Agreement.

Tangible collaterals are considered rights “in rem” (e.g., pledge, mortgage) provided to a lender to secure his claim with assets of the borrowers / guarantors or third persons (movables, property etc.). If not repaid, the lender can request a force sale (auction), in order to compensate the amount of funding. The holder of the lien is satisfied preferentially from the auction against other creditors without collateral or secured with tangible at a later stage (i.e., mortgages, pledge).

An important element of practical importance is the time setting of property rights, because those who are first in line precede any subsequent owners or any other lien on the subject of physical collateral, registered at undivided percentages or taken together with other Banks (Syndicated Loans). In such cases the coverage of the Bank is allocated under the rules of the respective Credit Policy Manual and internal procedures.

General Guidelines for Acceptance and Monitoring of Collaterals

- ✓ Parties involved: Defining the involved parties (e.g. bank officers, borrower, guarantors, and third parties, Pledger, and public institutions) to identify:
  - required actions on their behalf;
  - required notifications to the responsible bodies;
  - possible malicious coordinated actions.
- ✓ Money Laundering: Compliance relating to "Know Your Customer" policies and procedures in order to confirm the "well-being" of the collateral provided to the Bank.
- ✓ Pledge Contracts: necessity for creating special contracts.
- ✓ Legal Notification of Pledge Agreement and confirmation of receipt.
- ✓ Legal Provisions and Regulatory Framework:
  - Review of regulations affecting collateral accepted by the bank and monitoring of legislative changes (new devices, change of existing provisions);
  - Identifying legal regulations / frameworks for their proper application, upon receipt and management of collaterals. Cooperation with competent legal services to obtain advice / clarification, interpretation of provisions, handling of "special" cases where it is required;
  - Evaluation of risks arising when foreign law governs the collateral or when legal notification of documents is required abroad.

- ✓ Collateral Valuation:
  - Determination of methodology for collateral valuation;
  - Synchronization of the valuation approach with the Group standards;
  - Monitoring of exceptions to the evaluation guidelines;
  - Determination of Collateral loanable Values.
- ✓ Ensure proper data entry in the core banking system of the Bank as well as in the application workflows:
  - Update of collateral value in the system is carried out by Experts credit administration in the relevant credit administration under one of the following conditions:

  1) New Market Appraisal;

  2) Decision by the competent authority to increase the collateral value:

  - New collateral is added, or

  - Next rank mortgage/pledge is being added for existing collateral.

  3) Partial deletion of mortgage/ pledge:

  - Based on partial repayment;

  - Based on the concrete decision of the competent authority of the Bank for reducing the collateral value.

  - Registering of collaterals by loan deals:

  1) In the Collateral Register in the core banking system is carried out input of all types of collaterals by loan deals after their establishment;

  2) For certain types of collaterals (real estate, guarantees, and financial instruments) collateral object must be registered in a respective registry by objects (Real Estate register, incoming guarantees register) and link should be provided between Collateral Register and Real Estate (Guarantees) register;

  3) For particular Collateral object only one entry in the Collateral Register is allowed (for example in the Real Estate Register there can be only one entry for a particular property). Before proceeding to the registration the employee must check whether the Collateral object is not already entered;

  4) Collaterals shall be accounted for at their market value stated in the opinion of a technical expert.
- ✓ Comply with approval terms and conditions / receive all required approvals as appropriate: All Business units should perform valuation, booking and deletion of collaterals in the core banking system in accordance with specific business unit's policies, rules and procedures.

For the purposes of credit risk mitigation according to Regulation (EU) 575/2013, Eurobank Bulgaria AD uses only part of the above mentioned collaterals, namely:

- ✓ Financial collaterals – cash and securities;

- ✓ Guarantees;
- ✓ Mortgage on immovable property.

<u>Information about the credit risk concentration before credit risk mitigation:</u>

The information about the credit risk concentration before credit risk mitigation of balance sheet positions as of 31 December 2016 is presented in the table below:

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Credit Risk	**Supervisory Risk Weights**							
	0%	**20%**	**35%**	**50%**	**75%**	**100%**	**150%**	**Total**
Central governments and central banks	1,043,742	-	-	-	-	-	-	**1,043,742**
Regional governments and local authorities	-	-	-	-	-	1,431	-	**1,431**
Institutions	-	1,159,028	-	758	-	-	6,523	**1,166,309**
Corporate customers	-	-	-	-	-	1,196,175	-	**1,196,175**
Retail customers	-	-	-	-	1,131,205	-	-	**1,131,205**
Exposures secured by mortgages on immovable property	-	-	1,135,394	366,137	-	-	-	**1,501,531**
Exposures in default	-	-	-	-	-	301,401	92,314	**393,715**
Covered bonds	-	176,984	-	-	-	-	-	**176,984**
Exposures associated with particularly high risk	-	-	-	-	-	-	134	**134**
Equity exposures	-	-	-	-	-	8,800	-	**8,800**
Other items	88,483	674	-	-	-	66,513	-	**155,670**
Total	**1,132,225**	**1,336,686**	**1,135,394**	**366,895**	**1,131,205**	**1,574,320**	**98,971**	**6,775,696**

<u>Information about the credit risk concentration after credit risk mitigation:</u>

The information about the credit risk concentration after credit risk mitigation of balance sheet positions as of 31 December 2016, with included substitution effect, is presented in the table below:

BGN '000s

Credit Risk	Supervisory Risk Weights							
	0%	20%	35%	50%	75%	100%	150%	Total
Central governments and central banks	1,043,742	-	-	-	-	-	-	**1,043,742**
Regional governments and local authorities	-	-	-	-	-	1,431	-	**1,431**
Institutions	-	1,159,028	-	2,486	-	61,228	6,523	**1,229,265**
Corporate customers	-	-	-	-	-	1,131,054	-	**1,131,054**
Retail customers	-	-	-	-	1,118,757	-	-	**1,118,757**
Exposures secured by mortgages on immovable property	-	-	1,135,394	366,137	-	-	-	**1,501,531**
Exposures in default	-	-	-	-	-	299,792	92,314	**392,106**
Covered bonds	-	176,984	-	-	-	-	-	**176,984**
Exposures associated with particularly high risk	-	-	-	-	-	-	134	**134**
Equity exposures	-	-	-	-	-	8,800	-	**8,800**
Other items	88,483	674	-	-	-	66,513	-	**155,670**
Total	**1,132,225**	**1,336,686**	**1,135,394**	**368,623**	**1,118,757**	**1,568,818**	**98,971**	**6,759,474**

<u>Total amount of the exposures covered with financial or other recognized collaterals</u>

The balance sheet position covered by financial or other recognized collaterals for the different exposure classes as of 31 December 2016 is presented in the table below:

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Exposure to Credit Risk Covered by Eligible Collaterals	Recognized financial collaterals	Guarantees	Total
Corporate customers	4,125	60,996	**65,121**
Retail customers	12,083	365	**12,448**
Exposures in default	14	1,595	**1,609**
Total	**16,222**	**62,956**	**79,178**

XX. Use of the Advanced Measurement Approaches to operational risk

Eurobank Bulgaria AD does not apply advanced measurement approaches to operational risk as of 31 December 2016.

XXI. Use of Internal Market Risk Models

Eurobank Bulgaria AD does not apply internal models for market risk as of 31 December 2016.