EUROBANK BULGARIA
FINANCIAL STATEMENTS
31 DECEMBER 2017

CONTENTS

Independent Auditors' Report

To the Shareholders of Eurobank Bulgaria AD

Our opinion

We have audited the financial statements of Eurobank Bulgaria AD (the "Bank") which comprise the balance sheet as at 31 December 2017, and the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity and the statement of cash flows for the year then ended, and the notes to the financial statements, which include significant accounting policies.

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

Basis for opinion

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

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

Independence

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

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

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

Our audit approach

Overview

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Bank, the accounting processes and controls, and the industry in which the Bank operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the financial statements as a whole.

Overall materiality	BGN 7,555 thousand
How we determined it	Approximately 5% of profit before tax
Rationale for the materiality benchmark applied	We applied profit before tax as a benchmark because, in our view it is the benchmark against which the performance of the Bank is commonly measured by the users of the financial statements and it is a generally accepted benchmark.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Impairment allowance for loans and advances to customers Refer to page 104 (Note 13 "Loans and advances to customers") We focus on this area because management makes subjective judgement over both timing of recognition of impairment and the estimation of the amount that should be recognized. The identification of impairment and the determination of loans recoverable amounts are part of the Bank's estimations including, amongst others, the assessment of objective evidence for impairment, the probability of default, the financial condition of the debtors, the expected future cash-flows and the value of collateral. The use of different assumptions could lead to different estimates of impairment charges on loans and advances to customers. As this position represents substantial part of Bank's total assets and given the related estimation uncertainty, we consider this as a key audit matter.	Our audit approach included an assessment of the overall governance of the Bank's lending and impairment process. We have assessed the methodology for the compliance with IAS 39 "Financial instruments: classification and measurement". We have assessed and tested the design and operating effectiveness of the controls over the lending and provision processes and determined that we could rely on these controls for the purposes of the audit. For individually impaired loans we have performed, for a sample of corporate credit exposures, a detailed review of loans files. We challenged the assumptions related to impairment identification and quantification of expected of future cash-flows (recoverable amounts) determined based on either valuation of underlying collateral or other recoveries. We found no material exceptions resulting from our tests. For the loan impairment calculated on a collective basis, we tested the underlying models and the appropriateness of the key inputs such as probability of default and loss given defaults, and where available, compared data and assumptions to historical experience. We have not identified material misstatements as a result of our work.

Information other than the financial statements and auditors' report thereon

Management is responsible for the other information. The other information comprises the Annual Activity Report, the Corporate Governance Statement and the Non-financial Declaration, prepared by the management in accordance with Chapter Seven of the Accountancy Act but does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Additional matters to be reported under the Accountancy Act and Ordinance 38/2007 issued by the Financial Supervisory Commission

In addition to our responsibilities and reporting in accordance with ISAs, in relation to the Annual Activity Report, the Corporate Governance Statement and the Non-financial Declaration, we have also performed the procedures added to those required under ISAs in accordance with the "Guidelines Regarding the New and Enhanced Auditor Reporting and Communication by the Auditor" of the professional organisation of certified public accountants and registered auditors in Bulgaria, i.e. the Institute of Certified Public Accountants (ICPA). These procedures refer to testing the existence, form and content of this other information to assist us in forming an opinion on whether the other information includes the disclosures and reporting provided for in Chapter Seven of the Accountancy Act and art. 100(m) paragraph 8 of Public Offering of Securities Act, applicable in Bulgaria.

Opinion in connection with art. 37, paragraph 6 of the Accountancy Act

Based on the procedures performed, in our opinion:

a) The information included in the Annual Activity Report referring to the financial year for which the financial statements have been prepared is consistent with those financial statements.

b) The Annual Activity Report has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.

c) The Corporate Governance Statement for the financial year, for which the financial statements have been prepared, presents the information required by Chapter Seven of the Accountancy Act and Art. 100(m), paragraph 8 of the Public Offering of Securities Act.

d) The Non-financial Declaration or the financial year, for which the financial statements have been prepared, presents the information required by Chapter Seven of the Accountancy Act.

Statement in relation to Art. 33 of Ordinance 38/2007 issued by the Financial Supervisory Commission (FSC) in relation to the requirements on the activity of investment intermediaries

Based on the audit procedures performed and the understanding of the Bank's activity, in the course and context of our audit of the financial statements as a whole, we identified that the established organization implemented for safeguarding of customers' accounts complies with the requirements of Ordinance 38 of the FSC in relation to the activities of the Bank in its capacity as an investment intermediary.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

pwc

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

We are jointly and severally responsible for the performance of our audit and for the audit opinion expressed by us in accordance with the requirements of the Independent Financial Accounting Act, applicable in Bulgaria. In accepting and performing the engagement for the joint audit, in connection to which we report, we have also been guided by the Guidelines for the Implementation of Joint Audit, issued on 13 June 2017 by the Institute of Certified Public Accountants, Bulgaria and the Commission for Public Oversight of Statutory Auditors in Bulgaria.

Additional reporting on the audit of the financial statements in connection with art. 10 of Regulation (EU) 537/2014 in connection with the requirements of art. 59 of the Independent Financial Audit Act

In accordance with the requirements of the Independent Financial Audit Act in connection with Art.10 of Regulation (EU) 537/2014, we hereby additionally report the information stated below:

- PricewaterhouseCoopers Audit OOD was appointed as a statutory auditor of the financial statements of the Bank for the year ended 31 December 2017 by the general meeting of shareholders held on 31 December 2017 for a period of one year. We were first appointed as auditors of the Bank in 1998.
- Moore Stephens Bulgaria - Audit OOD was appointed as a statutory auditor of the financial statements of the Bank for the year ended 31 December 2017 by the general meeting of shareholders held on 31 December 2017 for a period of one year. Moore Stephens Bulgaria - Audit OOD was first appointed as auditors of the Bank in 2017.
- The audit of the financial statements of the Bank for the year ended 31 December 2017 represents 20th year of total uninterrupted statutory audit engagements for that entity carried out by PricewaterhouseCoopers Audit OOD.
- The audit of the financial statements of the Bank for the year ended 31 December 2017 represents the first statutory audit engagements for that entity carried out by Moore Stephens Bulgaria - Audit OOD.
- We hereby confirm that the audit opinion expressed by us is consistent with the additional report provided to the Bank's audit committee in compliance with the requirements of Art. 60 of the Independent Financial Audit Act.
- We hereby confirm that we have not provided the prohibited non-audit services referred to in Art.64 of the Independent Financial Audit Act.
- We hereby confirm that in conducting the audit we have remained independent of the Bank.

- In the period 1 January 2017 - 31 December 2017, PricewaterhouseCoopers Audit OOD have provided to the Bank, in addition to the audit, training courses for the amount of BGN 1 thousand and interim review for group reporting purposes for the amount of BGN 78 thousand, and PricewaterhouseCoopers Bulgaria EOOD have been delivering a tax project for the amount of BGN 7 thousand representing 30% of the total agreed fee for the project.

For PricewaterhouseCoopers Audit OOD:

Jock Nunan

Anna Boteva

Registered Auditor responsible for the audit

Date: 03-04-2018

Sofia, Bulgaria

For Moore Stephens Bulgaria - Audit OOD

Stefan Nenov

Stefan Nenov

Registered Auditor responsible for the audit

Date: 03-04-2018

Sofia, Bulgaria

Одиторско дружество София Рег. № 131 Мур Стивънс България-Одит ООД

Одиторско дружество София Рег. № 005 Прайсуотърхаускупърс Одит

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

ANNUAL ACTIVITY REPORT

The management presents the annual Activity report as of 31 December 2017.

BUSINESS DESCRIPTION

Eurobank Bulgaria AD (the Bank or Postbank) was incorporated and is domiciled in Bulgaria. The Bank is a joint stock company limited by shares and was set up in accordance with Bulgarian regulations. The Bank is a licenced credit institution and an investment intermediary providing 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.

The activities of the Bank are governed by the applicable legislation regulating the credit institutions and the investment intermediaries. Its principal regulators are Bulgarian National Bank (BNB) and the Financial Supervision Commission (FSC).

BUSINESS OVERVIEW

Macroeconomic Environment

In 2017 the world economy had probably the best year since the global financial crisis. All the major regions and economies are improving simultaneously, something not seen in the recent years. The growth of the world GDP is expected to reach 3.7% in 2017, led by investments and trade. The world trade has grown strongly in the second half of the year, supported by a rise of the manufacturing, especially in the Asia region, which had its roots in the higher level of investments. The outlook for the next two years is even brighter – GDP growth is expected to accelerate further to around 4% both in 2018 and 2019. The forecast is based on the assumption that current favorable conditions will remain present not only in the emerging markets, but also in advanced economies where the fiscal and monetary prospects have been improving. In the USA, the announced tax reform and the infrastructure stimulus pack are expected to give a boost to the economy, while the EU will continue to benefit from the supportive monetary policy, political stability and improving job market.

The downside risks for the forecast include rising geopolitical tensions and increased protectionism. In in the longer term the focus of the policy makers should be on the structural policies needed to boost growth, strengthening the institutions responsible for promoting these policies, as well as the labour force participation, the latter being a significant challenge in the aging societies.

The EU economy, in particular, had a record year – real GDP growth is expected to reach 2.4% - not only the highest level in the last 10 years, but also more than half a percentage point above the forecasts. Such rates will be difficult to be sustained in the next two years due to the slowing employment growth, lower increase the real disposable income and moderate investment growth. The forecast for the growth of the EU countries is to ease to 2.2% and 2.0% in 2018 and 2019 respectively, while for the Eurozone countries it will be slightly lower at 2.1% and 1.9% respectively. The above forecasts do not include UK which is on its path to leaving the European Union in March 2019.

In many of the major economies the monetary policy returns to normality – the Federal Reserve kept raising the rates throughout 2017, a move which was followed by the Bank of England which raised its policy rate for the first time since 2008. ECB kept the policy rates at a historically low levels, but announced that it will limit the net assets purchases from the beginning of 2018. Nevertheless, ECB reserved its right to extend the program and will not hurry to raise the policy rates in the Eurozone until the inflation remains subdued.

BUSINESS OVERVIEW (continued)

In 2017, the Bulgarian economy grew by 3.6%, according to the preliminary data by the NSI. Although the growth was slightly lower than in 2016 (3.9%) the sustained pace in the last three years is a sign that the Bulgarian economy has finally overcome the aftermaths of the crisis. The macroeconomic framework remains solid and some indicators are reaching levels last seen in the pre-crisis period.

The key driver was the consumption which increased by 4.5% YoY as the macroeconomic stability, the falling unemployment rate and the higher disposable income encouraged the households to spend more. Consumer sentiment index is inching upwards, but actions are more important than surveys as data shows that consumers are buying more durable goods. This, however, had its negative effect on the external sector – the contribution of imports shot up, rising 7.2% YoY, while the one of exports fell to 4.0% YoY.

As expected, investments have recovered in 2017 and their contribution was positive in the last three quarters as the launch of the new EU funded projects gained pace together with the renewed interest in the construction sector and the wave of new investments in manufacturing. Gross capital expenditure lost some momentum in the last quarter, but still rose by 3.8% in 2017, the highest since 2009.

Total exports (FOB) rose by 10.7% in 2017 to BGN 52.2 billion. In the first nine months of the year, the growth of exports to non-EU countries was outpacing the growth of the trade with EU, but in the last quarter the exports to non-EU countries turned negative and as a result both finished at exactly the same level. After dropping in 2015 and 2016, the exports to Russia strongly rebounded in 2017, rising by more than 80% YoY to BGN 1.4 billion and replacing China as the second largest trading partner outside the EU. Exports to China rose significantly – by 36% to BGN 1.25 billion. The rising economic activity encouraged the import of investment and consumer goods, causing a surge in the imports by 15.4% YoY to BGN 59.1 billion at CIF prices. The trade deficit had been shrinking in the last few years, reaching a low point of just BGN 4 billion at the end of 2016, but jumped again to BGN 6.85 billion for 2017.

Foreign direct investments reversed the negative trend and rose to €902 million in 2017 . More than half of the investments were from debt instruments (€702 million), while the reinvested profit was just €230 million, compared with more than €341 million in 2016. It should be noted that throughout the year several companies made significant dividend payments to their foreign owners thus reducing the volume of reinvested profit. The biggest share of investments came from the Netherlands (€876 million), followed by Switzerland (€127 million) and Germany (€94 million).

2017 is the year that saw the return of the inflation in the country. While in 2016 the consumer price index was just above 0, in 2017 it climbed to 2.8%, the highest in the last 5 years. Inflation was driven by the higher prices of food and energy, a process that started in the second half of 2016 and continued in 2017. The prices of utilities rose by 5.4% YoY on average (the price of heating spiked by 23% caused by the 17% increase of the price of gas), food prices were 3.8% higher than a year before, while restaurants and hotels increased their prices by 2.8% on average. In the negative direction were the prices of only two commodity groups – communication (-0.7%) and clothing and shoes (-0.5%). Inflation is expected to subside in 2018 and fall to about 1.5% YoY, although the falling unemployment and rising salaries will continue to exercise an upward pressure on the consumer price index.

The labour market continues to recover and the shortage of staff becomes more acute in many sectors and regions. In 2017 the unemployment rate fell by 1.1 persentage points to 5.6%, according to data from NSI, the lowest since 2008 and already lower than the average for the European Union. There are significant regional differences in the unemployment rate – while in the Southwest region of Bulgaria (which includes Sofia) the unemployment rate is 3.3%, in the northwestern part of the country it is still above 10% and has been worsening for the last two years.

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

BUSINESS OVERVIEW (continued)

The number of unemployed fell to a new record low of 190 thousand, while the employment ratio among the 15 – 64 age group rose to 67.1% at the end of 2017, a record level in the modern history of the country. The economic recovery makes it possible even for the long-term unemployed to re-enter the labour market and their number is the lowest since 2010. Nevertheless, the aging of the population takes its toll and the labour force shrank by 250 thousand people in the last 10 years, more than two-thirds of whom are in the age group 15 - 24 years. On the other hand, the unemployment rate among the same group halved in the last 3 years to 11.6% and might even reach a single digit in 2018.

The average salary rose by 10.9% in 2017 to BGN 1,123. In most sectors, the salaries are rising with double digit rates, but the fastest growing sectors were education (the Bulgarian Government increased teachers' salaries last year) and the ones that are well below the average such as administrative activities and water supply and treatment. IT and Communications is still the highest paying sector with an average salary in excess of BGN 2,500.

The budget finished on a surplus for a second consecutive year. The surplus was BGN 845 million which came from a surplus of BGN 309 million from the national budget and BGN 536 million of the European funds. The budget was on a huge surplus throughout the year, in excess of 2% of GDP in the second half, but the Government kept its recent practice to redistribute significant amounts in December such as bringing forward the payment of agricultural subsidies and additional funding for the national program for energy efficiency. Budget revenues increased by 7.5% (BGN 1.5 billion) compared to the previous year. Almost two-thirds of the additional revenues came from VAT (BGN 970 million or 7.2% YoY) which was favourably affected by the higher imports and inflation. Higher salaries brought additional BGN 370 million in the budget, rising by more than 12.6% on an annual basis. In the same time, the Government continues to underinvest. The capital expenditures in 2017 were BGN 1.7 billion – just 82% from the annual plan and 15% lower than the actual in 2016.

At the end of 2017 the debt of the Central government was €12.7 billion (24.9% of GDP), down by €1.1 billion in the last year. In July 2017 a €950 million Eurobond issue matured and was repaid with funds from the fiscal reserve. The Bulgarian government is planning a balanced budget this year and does not foresee additional financing from the international markets.

In 2017 all three major credit rating agencies improved the credit rating of the country by one level. The rating of Bulgaria according to Fitch is BBB (long-term rating in foreign and local currency with stable perspective), according to Moody's – Baa2 (both in local and foreign currency with stable perspective) and according to S&P – BBB- (again in local and foreign currency with stable perspective).

Banking system

The Bulgarian banking system had another strong year although the competition continued to erode the income of the banks. The net profit (BGN 1.17 billion) was 7% lower than the previous year (BGN 1.26 billion) but in 2016 the banks booked a one-off gain of about BGN 180 million related to the acquisition of Visa Europe by Visa inc. Lending seems to have recovered, despite a wave of write-offs throughout the year. The positive macroeconomic recovery reinvigorated the demand for loans and on an annual basis total loans grew by 3% to BGN 56.1 billion. Loans to companies rose by 1.1% to BGN 36.3 billion, while the consumer loans were up by 5.5% to BGN 9.15 billion. Mortgage lending was in the forefront with loans rising by 7.8% YoY to BGN 9.46 billion, fuelled by the renewed interest in the real estate market. Another reason for the stronger demand for loans is the expectation that the low interest rates‘ cycle is coming to an end and in the next year the rates will start reversing direction. This has probably already happened in the consumer lending segment where the rates have been rising since the middle of the year.

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

BUSINESS OVERVIEW (continued)

The rise of the interest rates will be held back by the huge liquidity buffers that the Bulgarian banks have accumulated over the last years. In 2017 alone, the companies and households added close to BGN 4.3 billion to their savings and although this is lower both in relative and absolute terms than in the previous year, it is still more than BGN 1.7 billion above the delta of the net loans. This excess was added to the liquid assets of the banks which reached BGN 32.9 billion bringing theliquidity ratio to 39%.

Deposits from nonfinancial companies rose by 13% (BGN 2.8 billion) to BGN 24.2 billion, while the deposits from households - by 4.8% (BGN 2.26 billion) to BGN 49.5 billion. A significant drop (almost 30% YoY) was observed in the deposits from other financial institutions (mainly insurance and pension companies) which were withdrawn in search of higher return and as a protection from the negative rates imposed by some banks in response to the negative rates on the excess reserves held in BNB. On average, Bulgarian banks pay about 0.2% for their deposits, about half of what was paid a year ago, but they still struggle to find a profitable use of their excess liquidity.

The lower interest expenses could not compensate the erosion of the interest income caused by the strong competition in the lending market. Interest income decreased by BNG 273 million (8% YoY) to BGN 3.04 billion, while interest expenses were BGN 143 million lower (28% YoY) than a year before. Net fees and commissions income helped close some of the gap – it was by BGN 75 million (8.1% YoY) higher. Total income was down by 4.3% YoY (BGN 175 million) to BGN 4.1 billion. The banks are trying to protect their profitability with a stricter control over the expenses – 1.2% YoY decrease to BGN 1.8 billion and lower provisions for impairment - 6.3% YoY decrease to BGN 745 million, but only to a point – RoE fell by 1.2 pp to 9.5% and cost-to-income ratio increased by 1.5 pp. to 46.5% in 2017.

The cleaning of the loan portfolios from the nonperforming exposures is progressing with a steady pace – NPE ratio fell by 3.5 pp YoY to 14.8%, while the coverage remained stable at 53%. The volume of the nonperforming exposures overdue more than 1 year dropped by close to 20% (BGN 1.2 billion) throughout the year, mostly because of write offs and portfolio sales. Several large portfolio sales were completed or were in the making. This process will continue in 2018 as the banks have still some BGN 8.3 billion nonperforming exposures on their books at the end of 2017 of which BGN 5.3 billion were overdue more than 1 year. The capital adequacy remains solid – the capital adequacy ratio as of September 2017 was 22.2%, same as in December 2016 despite the rising lending portfolio and record dividend payments by the biggest banks in 2017.

Major Changes In The Regulatory Environment

In December 2017 amendments in the Law on Credit Institutions came into effect, implementing the recommendation from the Financial Sector Assessment Program. In order to obtain a license the banks will be obliged to provide information about the ultimate beneficial owner of the shareholders with qualifying holdings. The law also broadens the list of the borrowers which will be treated as related parties to the bank. Internal exposures will have to be approved not only by the Management Board of a bank, but also by its Supervisory Board, respectively from the nonexecutive members of the Board of Directors.

In December 2017 Regulation (EU) 2017/2395 was adopted amending Regulation (EU) No 575/2013 in regards to the transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds and for the large exposures treatment of certain public sector exposures denominated in the local currency of any Member State. With regard to IFRS 9, the regulation allows for a progressive phase-in regime that would mitigate the impact of the new impairment model. The institutions will be allowed to include in its Common Equity Tier 1 capital a portion of the increased expected credit loss provisions for a transitional period of a maximum duration of 5 years.

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

BUSINESS OVERVIEW (continued)

The Regulation also provides for transitional arrangements for the exemption from the large exposure limit available for exposures to certain public sector debt of Member States denominated in the domestic currency of any Member State. The transitional period should have a duration of 3 years starting from 1 January 2018 for exposures of this type incurred on or after 12 December 2017, whilst exposures of this type incurred before that date should be grandfathered and should continue to benefit from the large exposures exemption.

Eurobank Bulgaria performance and key indicators

Eurobank Bulgaria managed to outperform the results from 2016 and booked another record year in its history. The net profit reached a new height of BGN 136 million, almost 14% higher than in the previous year. Return on equity remains stable at 11.43%, despite being calculated on a higher denominator. The bank has been performing better on all fronts – assets, loans and deposits have risen, income has increased, costs have fallen and provisions for impairment have remained stable.

In 2017 Eurobank Bulgaria returned to organic growth, after the successful completion of the acquisition of the branch of Alpha Bank Bulgaria in 2016. Total assets rose by 8.8% (BGN 603 million) to BGN 7,421 million allowing Eurobank Bulgaria to become the 4th largest bank on the market in terms of assets. Growth of assets was deposit-driven with total deposits rising by close to BGN 556 million (10.1% YoY) to BGN 6,080 million. The deposits from corporate customers were rising faster than the retail deposits which is helping to rebalance the deposit structure, to increase the transactional income and to reduce the average cost of funds. Deposits from corporate customers increased by BGN 337 million (31% YoY) to BGN 1,430 million, while the retail deposits (including small businesses) picked up more modestly – by BGN 219 million (5% YoY) to BGN 4,650 million. Corporate deposits account for 24% of all client deposits, up from 20% a year earlier.

Liquidity remains robust – liquidity ratio at the end of 2017 was 39.15% (1 pp decrease vs. December 2016) and Eurobank Bulgaria added another BGN 140 million to its liquid assets to a total of BGN 2,403 million. The bank is fully self-funded as client deposits are more than 99% of all attracted funds. Deposits from banks and other borrowed funds fell by BGN 61 million to BGN 39 million as the Bank is able to finance itself cheaper from the local market than from institutional clients.

Eurobank Bulgaria managed to benefit from the renewed demand for loans by the clients and expand its lending portfolio with a focus on secured and business lending. Gross loans increased by BGN 571 million (12.3% YoY) to BGN 5,198 million. Four-fifths of the gross lending delta came from the corporate clients and their loans at the end of 2017 were BGN 2,152 million or 41% of the total lending portfolio. Lending to corporate clients helps utilizing faster the excess liquidity and increase the income giving portfolio in a cost-effective manner without compromising the strict lending criteria. Mortgage and consumer loans rose by about 5% each (BGN 85 million and BGN 30 million) to BGN 1,656 million and BGN 678 million respectively. Lending to small businesses remained virtually unchanged, but are expected to rise in 2018 driven by the economic growth and the new lending programs aimed at encouraging lending to small and medium businesses.

Net loans rose faster than gross loans (by BGN 614 million or 14.6% YoY) as the Bank continued to implement its strategy for reduction of nonperforming exposures through collection, write offs and portfolio sales. The ratio of loans overdue more than 90 days to total loans improved by 3 pp while the coverage ratio remained stable at 58%.

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

BUSINESS OVERVIEW (continued)

In 2017, the shareholders of Eurobank Bulgaria taking into account the stable financial position of the Bank, as well as the results from the regular and extraordinary stress tests performed in the past few years, decided to approve the distribution of dividend for the first time since 2004. The dividend payment amounted to BGN 58.7 million (€30 million) or just below 50% of the net profit for 2016. The effect on the CET 1 ratio is calculated at about 130 bps. In addition, the implementation of Delegated Regulations 241/2014 and 183/2014 in 2017 lowers the CET1 ratio by another 40 bps. These two effects fully account for the 1.6 pp decrease of the CET 1 in 2017. At the end of 2017, CET 1 ratio stood at 21.77%, well above the regulatory requirements, ensuring that the Bank has enough funds to continue growing organically.

The competition in the market puts an enormous pressure on the interest rates of the new loans. Eurobank Bulgaria's interest income decreased by only 2% YoY to BGN 298 million as the new lending volumes helped alleviate to some extent the drop in the interest rates. On the other hand, despite the significant deposit inflows, interest expenses were reduced by 56% to BGN 14 million fully mitigating the decrease of the interest income. Net interest income increased by 4% to BGN 284 million, rising for a fourth consecutive year, while the net interest margin stood at 4.05% at the end of 2017. Net fee and commission income jumped by 15% YoY to BGN 80 million. The Bank successfully implements its strategy for enhancing the relationship with the clients and promoting cross selling, leading to higher revenues in the areas of money transfers, account maintenance and foreign exchange operations. Other operational income is BGN 11 million lower than in 2016 or exactly the result from the loan portfolio sales in 2016. Even without taking into account this one off effect, total operational income in 2017 was 1.2% higher to BGN 371 million.

Cost-to-income ratio improved substantially, falling by 4.7 pp to 35.5% as costs returned to their normal levels after the acquisition of Alpha Bank Bulgaria in 2016. Total costs were 132 million in 2017 (11% reduction vs. 2016) after the accommodation for the enlarged branch network and the higher number of staff as a result of the acquistion. Net fee and commission income already covers 61% of the operating expenses of the bank which is an important indicator for the efficiency of its operations. Provisions for impairment (BGN 69.7 million) were at the same level as in 2016, but are falling as a share of net loans from 1.7% to 1.4% in 2017.

Events after the balance sheet date

There are no significant post balance sheet events with effect on the financial statements as of 31 December 2017.

RISK MANAGEMENT

The Bank considers risk taking as an integral part of its activities for achieving the strategic and business objectives. Risk taking is core to the financial business, and the operational risks are an inevitable consequence of being in business. Therefore, timely and effective management of risk is a key priority of the Bank's management.

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of a combination of risks.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 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)

RISK MANAGEMENT (continued)

A consistent and effective framework for risk identification, assessment, monitoring and control has been fully documented by the Bank Risk Management unit, forming the basis for consistent definition of strategies, policies and procedures across all risk taking units within the Bank. 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 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. It is currently complemented by the Risk function. In addition, internal audit is responsible for the independent review of risk management and the control environment.

The Bank Risk Management function is capturing all material risk sources across all portfolios and operations. Management is responsible for developing and maintaining processes and systems to ensure effective and efficient operations, adequate control of risks, prudent conduct of business, accurate disclosures both internally and externally, and compliance with internal and external rules.

The Bank's Risk measurement, monitoring, and control functions have clearly defined responsibilities that are sufficiently independent from position/risk taking functions. The Bank's internal control systems are designed to provide adequate segregation of duties, in order to prevent conflicts of interest with respect to the distinct functions of undertaking, approving, monitoring and controlling risks.

The Risk Management Unit has an active participation in the development and pricing of new products, the design of new procedures, in issues relating to business decision-making and to adopting the proper risk management and control mechanisms. The Bank ensures that proper identification of risks inherent in new products and activities is undertaken and that these are subject to adequate procedures and controls before being introduced or undertaken.

The Bank manages with higher priority the following major types of banking risks arising from its activities – credit risk, market risk, liquidity risk and operational risk.

Credit Risk

Credit risk is the risk related to the inability of customers/counterparty to fully repay the amounts due to the Bank within the period scheduled.

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.

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. 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 classification of retail clients is based on the full delinquency analysis by groups. 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.

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. 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.

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

RISK MANAGEMENT (continued)

In compliance with its risk strategy, the Bank targets the maintaining of low level of credit risk concentration by industries and at customer level.

The Bank makes assessment of the risk exposure, evolving from the loan portfolio by classifying and provisioning loans in compliance with the requirements of the IFRS and Impairment Policy applied on a monthly basis. The impairment provisions reflect the probability that management will not be able to enforce its rights and repossess collateral on defaulted loans.

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 and though may influence the Bank's profitability.

The corporate governance with respect to market risk control and supervision is defined in the Bank's Market & Counterparty Risk Policy, developed. It 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 run 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 as well as to develop objective, transparent and consistent market risk information as a basis for sound decision making. The Market Risk Control function helps to align the Bank's organizational structure and management processes with best international banking practice and set minimum standards for controlling market risks and to link business strategy and operations with the objectives for risk control and supervision.

The Bank's market risk appetite is expressed in terms of nominal limits set on the exposures to market risks as well as through characteristics such as different types of allowed markets, products, countries, counterparties and currencies. 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.

The market risk measurement system measures 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. The Bank is exposed to the following main types of market risks:

a) Interest Rate Risk

Banking is related with a permanent maintenance of positions sensitive to the fluctuations in the prevailing levels of market interest rates, which influences the Bank's financial position and cash flows dynamics. Interest rate risk is the probability for potential change of the net interest margin which may increase as a result of such changes, but may also reduce or create losses in the event that unexpected movements arise. Interest rate risk may include re-pricing risk, yield curve risk, basis risk, spread risk, volatility risk. 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)

RISK MANAGEMENT (continued)

b) 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.

c) Equity price risk

Equity price risk is the risk of the decrease of fair values as a result of changes in the levels of equity indices and the value of individual stocks. It may include outright risk, volatility risk, spread risk and dividend risk.

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.

The Bank has a limited appetite for liquidity risk and accepts the potentially increased costs of maintaining sufficient liquidity buffers to ensure a sound liquidity position.

The Bank maintains appropriate liquidity policies which have to ensure prudent liquidity management practices are in place. Within its liquidity risk management framework, the Bank observes various liquidity ratios and indicators. The main aspects to be considered in liquidity control are liquidity ratios, the availability of sufficient and quality liquid assets and buffers, maturity mismatch profile, diversity and stability of the deposit base, loans to deposits ratio, stress test results and other.

The Bank also makes assessment of its liquidity position under stress scenarios, developed to analyse the adequacy of the Bank's liquidity to withstand crisis situations (e.g. significant deposit outflows, tightening of credit lines, etc.).

Market Risk Department is responsible to regularly produce and distribute the internally adopted liquidity gap reports with embedded liquidity ratios and is the unit which exercises an independent liquidity risk control function, escalating any excess in ratios to the respective management bodies.

The Management Board (MB) of the Bank assigns the Assets and Liabilities Committee (ALCO) as the primary responsible body to advise for the strategic management of assets and liabilities with aim to manage the interest rate and liquidity risks of the Bank. On a strategic level ALCO manages the Bank's assets and liabilities to ensure regular and timely meeting of current and future obligations.

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. The operational management of the Bank's liquidity and the execution of ALCO decisions regarding liquidity are assigned to the Head of Capital Markets Division.

The Banks's financial risk management objectives and policies, the exposure to credit risk, market risk and liquidity risk and sensitivity analysis for market risk are set out in notes W.1, 2 and 3 to the financial statements.

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

IMPORTANT EVENTS DURING THE YEAR

Postbank, legally registered as Eurobank Bulgaria AD, is the fourth bank in Bulgaria in terms of assets. It has a wide branch network across the country and considerable customer base of individual customers, companies and institutions.

The bank has a 26-year presence among the leaders on the Bulgarian banking market. It has been a leading factor in the innovations and a trend setter in the country's banking sector in recent years and has been awarded for its innovations many times. The financial institution is holding a strategic position in the retail and corporate banking in Bulgaria. The bank is among the market leaders in credit and debit cards, housing and consumer lending, savings products, as well as in corporate customer products – from small companies to major international companies represented in the country. The financial institution has one of the best-developed branch networks and modern alternative banking channels.

Postbank won the prestigious *Employer of the Year Award* for 2017 in the first annual awards for Employer branding of b2b Media. The financial institution was awarded for its comprehensive strategy of building an employer brand, which includes various activities to improve the working environment, the successful management, development and retaining of talents, the opportunities for professional development and involvement of employees in projects, and campaigns aimed at improving the state of the environment and supporting the society.

In June 2017, the Bulgarian Credit Rating Agency (BCRA) confirmed Postbank's long-term rating of BB+ and its short-term rating of B, with positive outlook. The bank's long-term rating in the national rating system was also confirmed to A-(BG) with positive outlook.

Throughout the year Postbank continued to develop modern banking products and services, which are unique for the market, and give real added value to the customers. Following the example of the innovative financial practices around the world, and targetting to meet the expectations of the modern consumer, in September 2017 the Bank invested in the development of Momento – an entirely new brand for innovative consumer lending, which will be further developed in 2018. The bank financing in the special Momento centres focuses on the convenience, speed and individual approach. The new centres are part of the bank's strategy to develop digital financing channels, which are aimed at achieving sustainable consumer experience. In 2017, Postbank continued to develop its specialized consumer and housing lending centres for the convenience of its customers across the country.

In 2017, Postbank won an award in the *Quality* category of the third annual *Successful Business Awards* of the Confederation of Employers and Industrials in Bulgaria (KRIB). The prestigious prize was awarded to the financial institution for the development of quality products, modern service channels, web-based services and sustainable benefits for the customers. The bank also won the prestigious award in the *Dynamics of Development* category in the annual awards of the Bank of the Year Association.

In August, the global leader in payment services Western Union (Western Union Regional Business Team Bulgaria) awarded Postbank the special prize for *Business Development* for 2016 and distinguished it among the partner banks of the organization. The prize was awarded for the high quality of the services offered in all branches of the financial institution in the country and for the reported transaction growth.

Global Custodian – the world's most prestigious magazine in custodian services, known for its annual surveys accepted as a benchmark in the sector – declared Postbank the top custodian in Bulgaria for a sixth consecutive year. The Bank once again reported the highest scores in all categories. Postbank is the biggest depository bank in Bulgaria – it has the highest number of collective investment schemes serviced, and is an exclusive representative of one of the biggest European depositories – Clearstream Banking Luxembourg.

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

IMPORTANT EVENTS DURING THE YEAR (continued)

The financial institution won the prize *Best Bank in Bulgaria* in Commercial Financing in the Global Banking & Finance Review's annual ranking for 2017.

Postbank expanded the options for corporate funding at favourable conditions by signing a EUR 70 million-worth guarantee agreement with the European Investment Fund (EIF) under SME Initiative Operational Programme. The agreement is to provide guarantee on the loans issued by the bank with 60% coverage by the EIF. For a third consecutive year, the bank supports the national contest of 24 Chasa Daily – The Big Small, because it believes in the importance of small business.

Postbank retained its leading position in the factoring services market in terms of purchased receivables and is factor No 1 in Bulgaria for a fourth consecutive year with 37% market share of the total volume of factoring services and with over 68% share of the export factoring. The bank has attracted both new corporate customers and new counterparties to its existing customers, thus, building a stable and profitable portfolio.

Additionally, Postbank reported 50% housing lending growth on an annual basis. According to the Bank's data, the mortgage business is developing faster in the major cities, such as Sofia, Varna, Burgas, Plovdiv and Stara Zagora where the financial institution reported double-digit growth, while the growth in Blagoevgrad, Dobrich and Veliko Tarnovo is even over 100%.

Postbank continued to organize the series of specialized conferences in support of the business in the country entitled *Postbank Meets Business* throughout the year. In 2017, the Bank's team visited Burgas, Varna, Russe and Haskovo. At the meetings, the bank's experts present strategic solutions in support of the business in the respective regions to the local business.

Postbank continues to develop its modern Private Banking centre through its partnership with Eurobank Private Bank Luxembourg and its 100% specialized and strictly personalized private banking services. The bank's customers can benefit from a set of discretionary asset management and business consulting.

At Postbank's invitation, eight Bulgarians took part in the Beyond Hackathon competition, which is part of the Eurobank's Innovations Centre initiatives, and which is aimed at inspiring, developing and promoting the open innovations in the financial services. The bank supported the competition for a second consecutive year. One of the Bulgarian teams impressed the jury with its idea to implement an easy way to make donations using the banks' loyal customer programmes.

NEW PRODUCTS

In 2017, Postbank introduced more innovative products and services focusing on providing convenience and additional benefits for its customers.

The More Today lending programme is Postbank's latest financial solution, which imposed new standards in the consumer lending in Bulgaria. It allows the customers to increase the disposable income by up to 50%, and in certain cases even more. It includes a wide range of lending products, and with it, the customers can consolidate their debts on credit cards, consumer and mortgage loans of up to BGN 100,000 quickly and easily. Besides the better personal finance management, the programme allows the users to save time, paying one higher instalment in one bank on a set date. *The More Today* lending programme is one of the most successful products of the financial institution. It brought the bank gold *Effie prize* in the prestigious contest Effie Bulgaria, and won the first prize in the *New Service* category in the marketing excellence contest BAAwards'2017, which is organized by the Bulgarian Advertisers' Association.

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

NEW PRODUCTS (continued)

Postbank presented another new product to its customers in 2017 – the innovative credit card *Mastercard Cash*, which allows the consumers to withdraw cash without interest , which won a bronze prize in *Effie Bulgaria's Services category*. Postbank was also declared the most effective brand according to the EFFIE Index Bulgaria 2017.

In March the bank offered its customers another new product without analogue on the Bulgarian market after it carried out an in-depth survey of the consumers' attitudes. Supper Account is an innovative payment salary account, which allows the customers to remove the monthly fee themselves and to even receive monetary bonus by using it actively every day. The new product stimulates the more inexpensive and convenient electronic payments, and provides monthly bonuses. Thus, instead of paying a monthly fee, the customers can enjoy serious financial advantage from its salary account. The bank will automatically remove the monthly maintenance fee with only five electronic transactions per month, such as cash withdrawal from an ATM, payment at a POS terminal in an outlet or online shopping. Moreover, upon the payment of three utility bills via the online (e-Postbank) or mobile banking (m-Postbank), the customers will also receive additional monetary bonus equal to the monthly maintenance fee.

In April, Postbank launched its modern and convenient Mobile Bankers service in three more towns in the country. Along with Sofia, mobile bank experts consult existing and future customers of the Bank in Plovdiv, Varna and Burgas. The service is a free-of-charge professional consultation, as the experts provide solutions tailored to the specific needs of the customers and assist in filling in the required documents and their submission in a bank office. In a place and time of the customer's choice, the mobile bankers answer all questions related to consumer and housing loans, overdrafts, and credit cards.

To meet the consumer demand for investment options with higher yields, Postbank developed a new and attractive deposit product – Structured Deposit INDEX. Deposit INDEX is a deposit in EUR with maturity of 36 or 60 months and with guaranteed principle, minimum basic interest rate, and the option for additional profitability – a bonus interest rate. The bonus rate is tied to the performance of the STOXX Europe 600 Health Care. It is part of the German stock exchange group (Deutsche Boerse Group) and is one of the indicators for the performance of the so called super sectors in the European economy. The index monitors the performance of key companies in the healthcare sector. The bank presented its customers and partners the new Structured Deposit INDEX at a stylish event in May.

Postbank entered into partnership with Booking.com, the world leader in providing accommodation, as all holders of the credit cards Mastercard and Visa by Postbank receive additional 5% discount for each booking in Bulgaria or abroad made with Booking.com through the bank's website.

In the last year, Postbank registered significant increase of 55% on an annual basis of inquiries made by Bulgarians working abroad for purchase of properties in Bulgaria. The bank offers a convenient solution to these customers with the housing loan *At Home*, which was developed with the Bulgarians abroad in mind. The maximum amount of the At Home loan is BGN 500,000, and has up to 25 years repayment period. The loan has attractive interest rate and is offered to Bulgarian citizens who have had a permanent employment contract in the EU, the European Economic Area and Switzerland for at least a year.

In mid-August 2017, Postbank presented a new version with a new design of its modern mobile banking application m-Postbank.

As a modern bank that has respect for the protection of the environment and care for its customers, Postbank is among the first on the Bulgarian market, which introduced digital signing of documents in its entire branch network. The new service of the financial institution offers even more convenient and faster way to carry out payment operations, and higher level of security for the customers and their transactions.

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

NEW PRODUCTS (continued)

The additional security in the customer identification is provided by the availability and storage of electronic signature specimen, which is compared to every subsequent signature of the customer. Signing with a digital signature is an innovative way of confirming payment documents, which eliminates the need to put signature on paper and the respective document archiving.

SUSTAINABLE DEVELOPMENT

In addition to its main operations, Postbank continues to focus on the needs of the local community by jointly supporting programmes and initiatives with established institutions and organizations. The Bank is striving to teach both its employees, and the consumers and society, to be responsible towards everything that surrounds them. Postbank is aimed not only at creating competitive advantages by adding increasingly higher value in the products it offers but also at reducing its negative impact on the environment by using every opportunity to contribute to nature conservation.

In 2017, the Bank carried out a number of socially significant projects in education, environmental protection, sports and corporate donation. Postbank is an active member and is supporting initiatives of the KRIB, AmCham, HBCB, Association of Banks in Bulgaria, Borika AD, Endeavour Bulgaria Association, Bulgarian Business Leaders Forum, Bulgarian Donors' Forum, Atanas Burov Foundation, the UN Global Compact Network Bulgaria and the Bulgarian Association of Advertisers.

The education of children and young people in Bulgaria has always been part of the social responsibility projects developed and supported by Postbank. In 2017, the financial institution supported the National Trade and Banking High School in Sofia for another year and committed to becoming a mentor to one of the training banks. Postbank Next deservedly won the second place in the school competition.

Postbank started the application and approval process for its traditional summer internship programme in the Retail Banking sector. The internship has been part of the Bank's corporate social responsibility policy in support of the young people, for over ten years now.

For a third consecutive year, Postbank supported Bulgaria ON AIR and Bloomberg TV Bulgaria's conference – Education and Business. The international forum brought together representatives of leading companies that are working for the young people's development every day. The financial institution is actively participating in OPEN HOUSE – an event of the American University in Bulgaria. The long-lasting strategic relations with the prestigious school helped the bank's team to present successfully products for students and their parents. The bank joined the international forum NEXT DIFI 2017, organized by b2b Media, and the second annual conference Finances in the Digital World, organized by Banker Weekly. The international conference Dare to Scale, organized by the Bulgarian office of the global entrepreneurial organization Endeavor, took place for a first time in Sofia, with Postbank's main support.

The Bank's team enthusiastically supported the Forbes Magazine event – the 30 Under 30 forum, which brings together 200 of the most successful young people in Bulgaria – entrepreneurs, managers, people with social causes, athletes and artists, for a second consecutive year. They were inspired by Bulgarian and international lectors and shared their personal stories, the road to their success, the challenges they faced, and the lessons they learned.

Postbank's team held open lessons and training for pupils from different towns across the country within the European Week of Money 2017, at the initiative of the Association of Banks in Bulgaria, and alumni of the American College and third-graders from 23 Secondary School Frederic Joliot Curie visited the bank's headquarters.

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

SUSTAINABLE DEVELOPMENT (continued)

In 2017, Postbank joined the UN Global Compact Network Bulgaria to expand its initiatives in support of the society and the environment. Thus, the bank once again declared its willingness to pursue a corporate policy, which respects the ten universal principles for social responsibility and environmental protection of the Global Compact. The bank opened its doors for children in Sofia within the UN Global Compact's most recognizable initiative – Proud of my Parents' Work. Its goal is to present labour as a value and necessity. Through specially designed games and learning presentations, the children learn what makes the adults labour important and what it means to be a banker.

In June, Postbank was the main partner in the charity relay run Postbank Business Run, organized every year by Begach Club. It was joined by a record number of participants – 250 teams from 120 companies from various sectors, which competed in support of two causes. Thanks to the initiative the BGN 9,504 raised were donated for projects of Cedar Foundation to organize one-year occupational therapy for 15 children and young people with disabilities, and for a project of Water Way Foundation to provide a six-month water rehabilitation of 15 children with disabilities. Begach Sports Club awarded the financial institution a special prize for participating in Postbank Business Run 2017 with the highest number of teams in the Companies with 500+ Employees category for a second consecutive year.

The biggest regional corporate competition Business Run Plovdiv 2017, where Postbank is once again among the partners, took place for a first time in 2017. The BGN 2,500 raised from the participation fees were donated to Holiday Heroes Association and their initiative Love in Action with Holiday Heroes, which supports 28 socially disadvantaged families in Plovdiv, and the Phoenix Centre for Psychological Counselling in support of children and their mothers, victims of domestic violence.

Postbank also invests in support of sport teams – the bank has been supporting the volleyball team of the town of Dobrich – Dobrudzha 07, since 2015. Postbank's soccer, basketball and table tennis teams performed well in the International Sports Workers' Festival in 2017, which brought the prestigious first place of the Bank's basketball team. The soccer team of the company also won the silver title in the 14th Business Leaders Olympiad.

Thanks to the Bank's support, the Bulgarian Czechs exhibition is now open in Sofia after its successful presentation in National Library of Prague. It was part of the programme of the 11th meeting of Bulgarian media, traditionally organized by the BTA.

Postbank is the only bank in Bulgaria, which has its own Green Board and an Environmental Office unit in its organizational structure, which are working to preserve the environment both through limiting the resources consumed by the Bank and through its financing activities. Moreover, the Board members organize different outdoor initiatives involving the other employees as well. The Bank invested in its own internal programme Green Together, which is developing with its own funds and is implementing through the voluntary work of its employees.

In 2017, the Bank created its latest internal initiative – Green Heroes, which will continue in 2018, as part of its overall policy for sustainable development and environmentally-friendly behaviour, and as a socially responsible institution. It is aimed at encouraging socially responsible behaviour in its employees. Through the campaign they can apply for funding from the bank to implement various local projects, which they chose themselves, and which show that simple actions could achieve sustainable changes. Within just a few months since the initiative was launched, six projects aimed at improving the state of the environment and supporting the society were launched. The overall realization of the internal initiative won Postbank the Greenest Bank in Bulgaria prize at the seventh b2b Media annual awards – The Greenest Companies of Bulgaria 2017.

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

SUSTAINABLE DEVELOPMENT (continued)

Postbank's employees are also regular donors in the National Centre for Transfusion Haematology and take part in blood donation activities, organized and held in the head office.

Throughout the year, the bank continued its long-standing support and work with socially disadvantaged groups, stimulating their active role in society. It provided support to socially disadvantaged children in the town of Kazanlak, to the elderly people in Russe and the national campaign Easter for Everyone – Give a Holiday to Grandma and Grandpa, as well as many other small initiatives held throughout the year.

AWARDS:

- *Deal of the Year* Award by Forbes Business Awards for the successful finalization of the acquisition of Alpha Bank – Bulgaria Branch business;
- *The Young Entrepreneur* Award for a company mentor at the XX International Fair of School Enterprises;
- Business award for *Quality* at the Third Annual Successful Business Awards of the Confederation of Employers and Industrials in Bulgaria;
- *Manager Magazine's special award* for the project Charger with a Heart in PR Prize 2017;
- *Corporate PR Campaign* Award in PR Prize 2017 for the campaign 25 Years Postbank, third place;
- G*reen Communications and Urban Environment* Award in PR Prize 2017 for the Charger with a Heart campaign;
- First place in the *Greenest Bank* category in the seventh annual Greenest Companies in Bulgaria 2017 Awards of b2b Media ;
- Special recognition by Begach Sport Club for participating with the highest number of teams in the category Campaign with 500+ Employees at Postbank Business Run 2017;
- *Dynamics of Development* Award in the annual awards of the Association Bank of the Year;
- *Business Development 2016* Award by Western Union for the high quality of the services offered, the reported transaction growth and the increase of its market share and agents network;
- First place in the *New Service* category of BAAwards 2017 for the campaign More Today;
- *Gold Effie* for one of the bank's latest financial solutions – credit programme More Today;
- *Bronze Effie* for the innovative credit card Mastercard Cash, which allows the cardholders to withdraw cash interest free;
- Postbank was declared the most effective brand according to EFFIE Index Bulgaria 2017.
- Petia Dimitrova, Chief Executive Officer and Chairperson of the Management Board of Postbank is holder of the *Banker of the Year* 2017 Award in the 24th annual awards, organized by Banker Weekly;
- High recognition from Global Custodian Magazine – leading magazine on capital markets, asset management and investment activities – top custodian in Bulgaria for sixth consecutive year;
- *Green Heart* Award in the Green Planet category for its Heroes in Green project in the Fourth Annual Charity and Corporate Social Responsibility Awards Golden Heart of Business Lady Magazine.

SHARE CAPITAL STRUCTURE

As at 31 December, 2017 the total authorized number of ordinary shares of Eurobank Bulgaria AD was 560,323,302 with a nominal value of BGN 1 per share. Eurobank Ergasias S.A. owns directly 56.14%, another 43.85% of the share capital is owned by ERB New Europe Holding B.V. and 0.01% by minority shareholders.

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

MANAGEMENT BOARD

As at 31 of December, 2017 the Management Board consisted of the following members:

- Petia Dimitrova – Chief Executive Officer and Chairperson of the Management Board;
- Dimitar Shoumarov – Excutive Director, Chief Financial Officer and Member of the Management Board;
- Asen Yagodin – Executive Director and Member of the Management Board;
- Iordan Souvandjiev – Chief Risk Officer and Member of the Management Board.

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

In 2017 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

No member of the Management 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

- **Petia Dimitrova**

Association of Banks in Bulgaria, Bulgaria – Member of the Management Board;

Confederation of Employers & Industrialists in Bulgaria, Bulgaria – Member of the Management Board;

American University in Bulgaria, Bulgaria – Member of the Board of Trustees (until may 2017);

International Banking Institute OOD, Bulgaria – Member of the Management Board;

Endeavor Bulgaria, Assosiation – Member of the Management Board (since October 2017);

Borica AD – Member of the Board of Directors;

Fondation Atanas Burov – Member of the Management Board.

- **Dimitar Shoumarov**

Chief Financial Officers Club, Bulgaria – Member of the Management Board.

- **Asen Yagodin**

Bulgarian Stock Exchange – Sofia AD, Bulgaria – Chairman and Member of the Board of Directors;

Bulstrad Life Vienna Insurance Group JSC, Bulgaria – Independent Member of the Supervisory Board;

Sports Club DFS-Lokomotiv Sofia, Bulgaria – Member of the Board of Directors.

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

MANAGEMENT BOARD (continued)

- **Iordan Souvandjiev**

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

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

ERB Property Services Sofia AD, Bulgaria – Member of the Board of Directors;

Vinimpeks 21 AD, Bulgaria – Chairman and Memer of the Board of Directors.

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 2017.

SUPERVISORY BOARD

As at 31 December 2017 the Supervisory Board consisted of the following members:

- Georgios Provopoulos – Chairman and Member of the Supervisory Board;
- Theodoros Karakasis – Deputy Chairman and Member of the Supervisory Board;
- Stavros Ioannou – Member of the Supervisory Board;
- Michalakis Louis – Member of the Supervisory Board;
- Anastasios Nikolaou – Member of the Supervisory Board;
- Christina Theofilidi – Member of the Supervisory Board.

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

In 2017 two members of the Supervisory Board received remunerations from the Bank in their capacity of Supervisory Board members (included in Note 29).

2. Shares and bonds of the company that are acquired, owned and transferred by the members of the Supervisory Board during 2017

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

None of the present members of the Supervisory Board has been a partner or shareholder holding 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

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

SUPERVISORY BOARD (continued)

- **Georgios Provopoulos**

Eurobank Private Bank Luxembourg S.A. – Vice Chairman of the Board of Directors

- **Theodoros Karakasis**

Bancpost S.A., Romania – Deputy Chairman and Member 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 and Member of the Board of Directors;
ERB Property Services d.o.o. Beograd, Serbia – Chairman and Member of the Supervisory Board;
Eurobank A.D. Beograd, Serbia – Vice Chairman and Member of the Management Board;
ERB Property Services Sofia A.D., Bulgaria – Chairman and Member of the Board of Directors;
Bulgarian Retail Services A.D., Bulgaria – Chairman and Member of the Board of Directors;
CEH Balkan Holdings Limited, Cyprus – Member of the Board of Directors;
Greek-Serbian Chamber of Commerce – Deputy Chairman and Member of the Board of Directors.

- **Stavros Ioannou**

Eurobank Ergasias S.A., Greece – Deputy Chief Executive Officer, - Group Chief Operating Officer & International Activities, Member of the Executive Board, Member of the Strategic Planning Committee;
Eurobank Business Services S.A., Greece – Deputy Chairman and Member of the Board of Directors (until 21.4.2017);
Be – Business Exchanges S.A., Greece – Chairman and Member of the Board of Directors;
Eurobank Property Services S.A., Greece – Member of the Board of Directors;
Eurobank A.D. Beograd, Serbia – Member of the Management Board;
Eurobank Cyprus Ltd, Cyprus – Member of the Board of Directors;
Grivalia Properties R.E.I.C, Greece, – Member of the Board of Directors (since 2.5.2017).

- **Michalakis Louis**

Eurobank Ergasias S.A., Greece – Head of International Activities General Division, Member of the Executive Board;
Eurobank Private Bank Luxembourg S.A., Luxembourg – Member of the Board of Directors;
Bancpost S.A., Romania - Member of the Board of Directors;
Eurobank a.d. Beograd, Serbia – Chairman and Member of the Management Board;
CEH Balkan Holdings Limited, Cyprus - Member of the Board of Directors;
Eurobank Cyprus Ltd, Cyprus – Chief Executive Officer and Member of the Board of Directors;
NEU Property Holdings Limited, Cyprus – Chairman of the Board of Directors;
NEU II Property Holdings Limited, Cyprus – Chairman of the Board of Directors;
NEU BG Central Office Limited, Cyprus – Chairman and Member of the Board of Directors;
NEU 03 Property Holdings Limited, Cyprus – Chairman and Member of the Board of Directors;
ERB New Europe Funding III Limited, Cyprus – Chairman and Member of the Board of Directors.

- **Anastasios Nikolaou**

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

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

SUPERVISORY BOARD (continued)

- **Christina Theofilidi**

  Eurobank Ergasias S.A., Greece – General Manager Individual Banking and Member of the Executive Board;
  Eurobank Household Lending S.A., Greece – Chief Executive Officer, Vice Chairman and Member of the Board of Directors;
  ERB Retail Services IFN S.A., Romania – Member of the Board of Directors;
  Tiresias Bank Information Systems S.A., Greece – Member of the Board of Directors;
  Greek Alumni Association of the European Institute of Business Administration (INSEAD), Member of the Board of Directors.

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 Commercial Act during 2017.

BANK STRUCTURE

Eurobank Bulgaria does not have any subsidiaries as at 31 December 2017 and therefore no consolidated financial statements are prepared at this entity level. The Bank employs 2,600 people (2016: 2,640).

OBJECTIVES FOR 2018

In 2018 the main objectives of the Bank will be to improve further its profitability, achieve a balanced expansion of the lending portfolio, reduce the nonperforming exposures and increase and enhance the sources of income.

The Bank will aim to achieve a balanced growth of its lending portfolio in all client segments, funded by a reciprocal increase of its deposit base, keeping its liquidity buffers intact. The capital adequacy ratio will be kept at a level high enough to ensure that Eurobank Bulgaria can withstand any significant macroeconomic shocks. With opportunities for further reduction of the interest rates on deposits limited, the Bank will focus more on profitability and maintaining interest margins rather than expanding market share in the highly competitive environment. Throughout the year, the effects from the introduction of IFRS 9 will be constantly evaluated and reflected in the pricing mechanisms.

The bank will continue implementing its strategy for reduction of the nonperforming exposures through collection, portfolio sales and long-term restructuring programs. The Bank will expand its noninterest income by enhancing the transactional business and achieving a higher level of cross selling activities. Costs will be kept under control, however, new investments have been planned for innovation and digital transformation. Branch network will be expanded with new sales centers under the new Momento brand.

The long-term strategy of the Bank remains unchanged - to be the bank of first choice for its customers. The digital transformation of the banking business is ongoing and this trend will be in the focus of the Bank's strategy in the next years as it will allow for a flawless customer service through multiple channels, something that clients require and expect. The Bank will continue to provide the most innovative and suitable products and quality services while meeting the constantly evolving expectations of the customers thus creating value for them and the shareholders.

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

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.

Petia Dimitrova
Chairperson of the Management Board and Chief Executive Officer

ЮРОБАНК БЪЛГАРИЯ АД
Postbank
ЦУ
Град София

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

30 March 2018
Sofia, Bulgaria

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

CORPORATE GOVERNANCE STATEMENT 2017

1. Corporate Governance Code and Practices.
In compliance with the Bulgarian legislation, and based on the international best practices on corporate governance, Eurobank Bulgaria AD ("the Bank") observes the National Corporate Governance Code ("Code"), which describes the basic corporate governance principles and practices.

2. Compliance with the National Corporate Governance Code
The Bank observes and complies in entirety with the Code. The Bank's Articles of Association ("AoA") and all adopted internal rules and manuals are in a full compliance with the Code and the applicable legislation. Presently there have not been any ascertained cases of non-compliance with the Code.

2.1. Internal Corporate Governance Code

The Bank has developed and adopted its Internal Governance Control Manual ("IGCM") and strictly applies its guidelines. The IGCM of the Bank covers the content and is in full compliance with the framework set by the Code.

2.2. Ethics Code

In the scope of ethics the Bank has adopted and currently applies a document named Code of Conduct, containing rules in addition to the requirements of the legal framework which aim at setting minimum common internal rules and principles of professional and ethical conduct to be followed by the Staff of the Bank during the performance of their duties.

2.3. Conflict of interest

Procedures for preventing and detecting conflicts of interest in the Bank are incorporated in Internal Rules for Managing Conflict of interest. In accordance with these procedures, Executive Directors and other members of Management have a duty to inform the Supervisory Board / Management Board respectively of any personal interests they may derive from Bank's transactions that fall under their field of responsibility or any other conflict between their and the Bank's interests that may occur, in carrying out their duties.

2.4. Remuneration

The adopted Remuneration Policy of the Bank forms an integral part of the Bank's corporate governance practice and is developed in accordance with its operational model, business strategy, short and long- term interests of the Bank 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 behavior.

The 2017 Boards and key management remuneration disclosures are included in Annual Disclosures according to the requirements of Regulation (EU) 575/2013 (art. 431-455).

3. Composition and operation of General Meeting of the Shareholders, the Supervisory Board, the Management Board and their Committees.

3.1. General Meeting of the Shareholders

The General Meeting of the Shareholders ("GMS") comprises all shareholders with a right to a vote. They participate in the General Meeting personally or by a proxy, authorized by a written power of attorney. The shareholders and their proxies shall have in the General Meeting as many votes as they have shares in the capital of the Bank. The members of the Supervisory Board and the Managing Board may attend the General Meeting but without right to vote unless they are shareholders. The members of the Internal Audit Division and the Bank's auditors elected to audit and certify the Bank's annual financial statements may attend the General Meeting but without right to vote.

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

3. Composition and operation of General Meeting of the Shareholders, the Supervisory Board, the Management Board and their Committees (continued)

3.2. Supervisory Board and Supervisory Board Committees

The Supervisory Board ("SB ") is a permanent collective body which exercises overall control over the business and financial activities of the Bank and also ensures the conformity of the Bank's activity with the applicable law, the Statute and the resolutions of the General Meeting of the Shareholders ("GMS") in the best interest of the Bank's shareholders, customers and employees. The SB may consist of 3 (three) to 7 (seven) members, elected by the GMS, for a term of three (3) years. The composition of the SB consists of 6 (six) members for the whole year 2017. The SB adopts its Terms of Reference "ToR" and appoints a Chairperson and a Deputy Chairperson from among its members.

The members of the SB are obliged to perform their functions with duty of care and in the best interest of the Bank and its shareholders and to place the interest of the Bank and its clients above their own interest when performing their duties.

Currently, the members of the Supervisory Board are:

- Georgios Provopoulos - Chairman of the Supervisory Board;
- Theodoros Karakasis - Deputy Chairman of the Supervisory Board;
- Stavros Ioannou - Member of the Supervisory Board;
- Michalakis Louis - Member of the Supervisory Board;
- Anastasios Nikolaou - Member of the Supervisory Board;
- Christina Theofilidi - Member of the Supervisory Board.

The Chairman and the Deputy Chairman are independent members.

The following Committees have been established to assist the Supervisory Board in discharging its responsibilities:

3.2.1. <u>Risk Committee</u>

The SB has delegated to the Risk Committee ("RC") the role of approving all strategic risk management decisions (e.g. risk appetite, capital allocation, balance sheet profile and risk management structure). The RC is in charge of monitoring the quantitative and qualitative aspects of all market, credit, liquidity and operational risks.

The members of the RC are appointed by the SB. Currently, the Risk Committee consists of the following members:

- Eurobank Bulgaria AD Chairperson of the SB – Chairperson;
- Eurobank Ergasias S.A. Head of International Activities General Division;
- Eurobank Ergasias S.A. Head of International Credit Sector;
- Eurobank Bulgaria AD Chief Risk Officer.

The RC meets at least quarterly. The RC meeting is effective when 2/3 of its members are present. The Chairman must be one of the participating members, or in his absence he should appoint his replacement from the other Risk Committee members.

3.2.2. <u>Audit Committee</u>

The Audit Committee ("AC") is appointed by the General Meeting of Shareholders following a proposal by the SB and its purpose is to assist the SB in discharging its oversight responsibilities primarily relating to:

- The review of the adequacy of the Internal Control and Risk Management systems and the compliance with rules and regulations monitoring process;
- The review of the financial reporting process and satisfaction as to the integrity of the Bank's Financial Statements;

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

3. Composition and operation of General Meeting of the Shareholders, the Supervisory Board, the Management Board and their Committees (continued)

3.2. Supervisory Board and Supervisory Board Committees (continued)

3.2.2. Audit Committee(continued)

- The External Auditors' selection, performance and independence;
- The effectiveness and performance of the Internal Audit function;
- The effectiveness and performance of the Compliance function.

In doing so, it is the responsibility of the Audit Committee to provide for open communication channels between the SB, Management, Internal Audit and External Audit.

The Audit Committee consists of three independent members who are appointed for a term of three years with the option to renew their appointment five (5) more times.

Following the resignation of one AC member in November 2016, a replacement member was appointed by the Bank's General Meeting of the Shareholders on June 29^{th} 2017.

The AC as a whole possesses the necessary skills and experience to carry out its duties.

The AC meets at least four (4) times per year or more frequently, as circumstances require, and reports on its activities and submits the minutes of its meetings to the Supervisory Board on a quarterly basis. During 2017 the Audit Committee held four (4) regular and five (5) additional meetings.

3.2.3. Remuneration Committee

The Remuneration Committee ("RemCo") is a SB Committee which provides specialized and independent advice for matters relating to:

- remuneration policy and its implementation and for the incentives created while managing risks, capital and liquidity;
- safeguard the proper exercise of its duties and responsibilities, the efficient alignment of the personnel's remuneration with the risks the Bank undertakes and manages the required alignment between the Eurobank Ergasias S.A. and the Bank;
- approve or propose for approval all remunerations of the key management personnel.

The Committee consists of 3 to 5 members. The members are appointed biennially by the Supervisory Board. All Committee members are Non-Executive Directors and the majority of the members are Independent Directors. In 2017, the Remuneration Committee consisted of four members. Meetings shall be held as required, but not less than twice a year.

3.2.4**.** Nomination Committee

The Nomination Committee ("NomCo") has the responsibility to consider and make recommendations to the SB on matters related to the adequacy, efficiency and effectiveness of the Management Board, and to the appointment of key management personnel as per the provisions of Art. 73c, para 1 of the Credit Institutions Act and Art.12 of Ordinance № 20 of April 28, 2009, on the Issuance of Approvals to the Members of the Management Board (Board of Directors) of a Credit Institution and Requirements for Performing their Duties (issued by Bulgarian National Bank). The Committee shall meet not less than once a year at such times as the Committee deems appropriate and more frequently if required.

The Committee currently consists of two (2) members.

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

3. Composition and operation of General Meeting of the Shareholders, the Supervisory Board, the Management Board and their Committees (continued)

3.3. Management Board and Management Board Committees

The Bank is managed by the Management Board ("MB") in accordance with the law, the Statute of the Bank, the Terms of Reference ("ToR") of the MB and other internal rules. The MB is a permanent collective body for management and representation of the Bank exercising its powers under the control of the SB and the General Meeting of Shareholders. The MB may consist of 3 (three) to 9 (nine) members, elected by the SB, for a term of three (3) years. The composition of the MB up to the end of 2017 consisted of 4 (four) members, three of whom appointed as Executive Directors. The MB assigns, with the approval of the SB, the responsibilities for the management and the representation of the Bank to Executive Directors elected amongst Board's members. The authorization of the Executive Directors to represent the Bank can be withdrawn at any time by the MB, with the approval of the SB.

As at 31 of December, 2017 the Management Board consisted of the following members:

- Chief Executive Officer and Chairperson of the Management Board - Petia Dimitrova;
- Excutive Director, Chief Financial Officer and Member of the Management Board - Dimitar Shoumarov;
- Executive Director and Member of the Management Board - Asen Yagodin;
- Chief Risk Officer and Member of the Management Board - Iordan Souvandjiev.

Management Committees are set to assist the MB. Such committees are:

3.3.1. Assets and Liabilities Committee

The Assets and Liabilities Committee ("ALCO") has primary responsibility to advise the MB on the strategic management of the Bank's assets and liabilities with the aim to effectively manage the interest rate and liquidity risks of the Bank.

The Committee consists of key management personnel both from Eurobank Bulgaria and Eurobank Ergasias, including executive directors & key management functions representing all Retail & Wholesale business units.

ALCO has the following authority:

- To advise the MB on the strategic management of the assets and liabilities;
- To take all necessary decisions regarding the interest rate gap and liquidity management;
- To set the target parameters of potential external funding;
- To review/monitor/establish business initiatives and/or investments that affect the bank's market and liquidity risk profile.

3.3.2. Regional Credit Committee

The MB has delegated to the Regional Credit Committee the functions to deal with customers with ratings below a certain level according to internal credit rating system and following the approval levels according to the Eurobank Bulgaira's Corporate Credit Policy Manual.

The Committee consists of senior management personnel from Eurobank Ergasias S.A., including an Independent member.

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

3. Composition and operation of General Meeting of the Shareholders, the Supervisory Board, the Management Board and their Committees (continued)

3.3. Management Board and Management Board Committees (continued)

3.3.3. Country Credit Committee

The MB has delegated to the Country Credit Committee the functions to deal with customers with ratings below a certain level according to internal credit rating system and following the approval levels according to the Eurobank Bulgaria's Corporate Credit Policy Manual.

The Committee consists of senior management personnel from Eurobank Bulgaria (including the CEO) and senior management from Credit Sector function of Eurobank Ergasias S.A.

3.3.4. Special Handling Committee I

The MB has delegated to the Special Handling Committee I the functions to deal with customers above a certain level according to internal credit rating system and following the approval levels according to the Eurobank Bulgaria's Corporate Credit Policy Manual.

The Committee consists of senior management personnel from Eurobank Ergasias S.A., including an Independent member.

3.3.5. Special Handling Committee II

The MB has delegated to the Special Handling Committee II the functions to deal with customers above a certain level according to internal credit rating system and following the approval levels according to the Eurobank Bulgaira's Corporate Credit Policy Manual.

The Committee consists of senior management personnel from Eurobank Bulgaria (including the Chief Executive Officer) and senior management Credit sector function from Eurobank Ergasias S.A.

3.3.6. Troubled Assets Committee

The MB has delegated to the Troubled Assets Committee the supervision and control of the management of the troubled assets.

The Committee consists of senior management personnel from Eurobank Bulgaria, including the Chief Financial Officer and Executive Director, and other key management personnel in the area of TAG, Risk & Strategic Planning.

The main duties and responsibilities of TAC are the following:

- To monitor the management of loans in arrears and NPLs;
- To determine and implement the strategy regarding management of troubled assets and monitor the effective implementation of this strategy.

3.3.7. Loans and Products Committee

The Loans and Products Committee is responsible for the approval of new products, both in the retail and the wholesale areas.

The Loans and Products Committee consists of key management personnel including the Chief Executive Officer of the Bank.

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

3. Composition and operation of General Meeting of the Shareholders, the Supervisory Board, the Management Board and their Committees (continued)l

3.3. Management Board and Management Board Committees (continued)

3.3.8. Operational Risk Committee

The Operational Risk Committee ("ORC") has the responsibility to provide oversight of actual operational risk exposure and management and the processes implemented to assess, monitor and mitigate operational risk.

The Operational Risk Committee consists of key management personnel in the areas of Risk, Operations, IT, Finance, TAG, Retail & Corporate. There is also a non-voting member from Internal Audit Division.

3.3.9. Country Procurement Committee

The Country Procurement Committee ("CPrC") is a management committee subordinated to the MB. The main responsibilities are related to evaluating the cost, necessity and business justification of procurement capital expenditures and operating expenses.

The Committee consists of senior management personnel including the Chief Executive Officer, Chief Financial Officer and Executive Director and Chief Operating Officer.

3.3.10. Related Employees Committee

The Related Employees Committee ("REC") is responsible for monitoring proper implementation of the Bank's Relatives Employment Policy and for deciding about cases which deviate from the Policy.

The Related Employees Committee consists of senior management personnel including the Chief Executive Officer and other key management functions in the areas of HR, legal and others.

3.3.11. Environmental and Social Steering Committee

Environmental and Social Steering Committee ("ESSC") is a MB Committee which provides all strategic decisions within the scope of the Environmental Policy of the Bank.

The Committee consists of key management personnel in the areas of Operations, Legal, Risk, Corporate Communications and Marketing, Retail & Wholesale.

3.4. CEO Management Committees

The CEO is empowered to establish committees to assist him/her as required, assigning their responsibilities and appointing the members, the chairman and the secretary.

3.4.1. Executive Committee

The Executive Committee ("ExCo") has the responsibility for the day-to-day management of the Bank, considers all issues pertaining to the current activities of the Bank and adopt decisions on them as to manage the implementation of the Bank's strategy, plan, direct and control the Bank's activities to ensure high level of performance and customer satisfaction, establish adequate systems of internal control and ensure they are properly maintained, consider the monthly financial reports before their submission to the MB.

The Committee consists of senior management personnel including Chief Executive Officer and other Executive Directors and all other key management functions covering all areas of the Bank's activities.

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

3. Composition and operation of General Meeting of the Shareholders, the Supervisory Board, the Management Board and their Committees (continued)

3.4. CEO Management Committees (continued)

3.4.2. Ethics Committee

The Ethics Committee ("EC") mainly deals with staff cases of fraud and/or gross negligence and meets when there are issues to be considered.

The Ethics Committee consists of senior management personnel including the Chief Executive Officer and Head of HR.

3.5. Main issues the SB dealt with during 2017

In discharging its responsibilities for 2017 the main issues the Board dealt with are related to:

a) Governance:

- preparation and convocation of GMS;
- approval of some Boards Committees' ToR and credit policies;
- approval of some Board Committees' compositions;
- regular update on MB and SB Committees' meetings;
- approval of acquisition of 100% of the share capital of IMO Central Office EAD and ERB Property Services Sofia AD.

b) Corporate and other actions:

- distribution of dividends in the amount of EUR 30 000 000 (thirty million), representing the equivalent in total of BGN 58 674 900 (fifty-eight million six hundred and seventy-four thousand nine hundred), by the official fixed exchange rate.

c) Capital Adequacy:

- review of the 2016 Internal Capital & Liquidity Adequacy Assessment Process (ICAAP & ILAAP) – Pillar 2 Report.

d) Business monitoring:

- approval of the 2016 annual financial statements;
- approval of the annual budget for 2017 and 2018;
- review of business developments and liquidity.

e) Risk Management and Internal Control:

- review of annual reports on evaluation of Internal Control Systems and Compliance Polices;
- review of the 2016 Pillar 3 Report;
- review on the Risk & Capital Strategy and Risk Appetite Framework.
- review of Audit Committee meeting minutes and Key Audit Issues.

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

4. Board Diversity Policy

The Diversity Policy ("the Policy") sets out the approach to diversity on the MB and SB of the Bank and it is in accordance with international best practices and the EU and Bulgarian banking law provisions.

The Bank sees increasing diversity at Boards level as an important element in maintaining a competitive advantage. The diversity in the Boards includes and makes good use of differences in the skills, background, nationality, gender, age and other qualities of members. These differences are considered in determining the optimum composition of the Board and when possible should be balanced appropriately. All Bank's Boards appointments are made on merit, in the context of the skills and experience of the members in order to function effectively.

The NomCo is responsible to review and assess, on an annual basis, the structure, size, composition and performance of the members of the Boards and recommends the appointment of new members. In reviewing Board composition, the committee considers the benefits of all aspects of diversity including, but not limited to, those described above, in order to maintain an appropriate range and balance of skills, experience and background.

5. System of Internal Controls and Risk Management Main Features

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.

As part of its overall system of internal controls the Bank has established a number of dedicated control functions whose main responsibility is to act as independent control mechanisms thus reinforcing the control structure of the Bank.

5.1. Principles of Internal Controls System:

The Bank has established a System of Internal Controls that is based on international good practices and COSO terminology and is designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- efficient and effective operations,
- reliability and completeness of financial and management information,
- compliance with applicable laws and regulations.

The key principles underlying the system of internal controls are described below:

- **Control Environment:** The control environment is the foundation for all components of Internal Control System, providing discipline and structure and influencing the control consciousness of employees. Integrity and high ethical values stem from management's philosophy and operating style and appropriate recruitment and training policies ensure the competence of the people;
- **Risk Management:** the Bank acknowledges that taking risks is an integral part of its business. It therefore sets mechanisms to identify those risks and assess their potential impact on the achievement of the Bank's objectives. Because economic, industry, regulatory and operating conditions will continue to change, risk management mechanisms in place shall be set (and evolve) in a manner that enables to identify and deal with the special and new risks associated with changes;

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

5. System of Internal Controls and Risk Management Main Features (continued)

5.1. Principles of Internal Controls System (continued)

- **Control Activities:** Internal control activities are documented in the policies and detailed procedures that are designed to ensure that operations are carried out safely and all transactions are recorded accurately in compliance with Management's directives and regulations. They occur throughout the organisation and business processes, at all levels and in all functions. One of the prime organisational measures to ensure control effectiveness in the Bank is segregation of duties. Functions that shall be separated include those of approval (limits, limit excesses, specific transactions), dealing, administration (administrative input, settlement, confirmation checks, transaction approval check, documentation check, file keeping, custody) and controlling (reconciliation, limit monitoring, excess approval check, risk management, compliance checks, physical counts);

- **Information and Communication:** Information must be identified, captured and communicated in a form and timeframe that enables people to carry out their responsibilities. The Bank has set effective communication channels to ensure that information is communicated down, across and up within the organisation. Mechanisms are also in place to obtain appropriate external information as well as to communicate effectively with outside parties including regulators, shareholders and customers;

- **Monitoring:** The Bank has established mechanisms for the ongoing monitoring of activities as part of the normal course of operations. These include regular management and supervisory activities and other actions personnel take in performing their duties that assess the performance of internal control systems. There are also independent evaluations of the internal control system by the Internal Audit function, the scope and frequency of which depend primarily on an assessment of risks and the effectiveness of ongoing monitoring procedures. Internal control deficiencies are reported upstream, with serious matters reported to the Management Board, the Audit Committee and the Supervisory Board.

5.2. Internal Audit

The Internal Audit function of Eurobank Bulgaria AD is an independent, objective assurance activity designed to add value and improve the Bank's operations. The Internal Audit Division (IAD) helps the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Management is responsible for establishing a system of internal controls that is adequate for the size and the complexity of the organisation. IAD is responsible for reporting on the adequacy and effectiveness of the system of internal controls.

In order to safeguard its independence IAD reports to the Audit Committee (AC) of the Bank and is independent of the Bank units with operational responsibilities and for administrative purposes reports to the CEO. The Supervisory Board has delegated the responsibility for monitoring the activity of the IAD to the Audit Committee.

IAD follows a risk-based methodology which examines the existence and adequacy of controls and assesses specific control objectives. IAD's work normally includes but is not restricted to the following:

- To provide reasonable assurance, in the form of an independent opinion, as to the adequacy and effectiveness of the internal control framework of the Bank. In order to form an opinion, IAD carries out audits based on an audit plan approved by the Audit Committee. The required frequency of audits depends on the level of risk in each business unit,

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

5. System of Internal Controls and Risk Management Main Features (continued)

5.2. Internal Audit (continued)

- To provide proactive support to the Management of the Bank in the promotion of internal controls and risk management through recommending best practices in internal control;
- To assist Management in the prevention of fraud and unethical practices;
- To follow-up aiming to ascertain that appropriate action is taken on reported audit findings within agreed deadlines.

5.3. Compliance

Eurobank Bulgaria AD carefully ensures that its structure and processes meet both external and internal requirements for its activities. The responsibility for that adherence has been delegated to the Compliance Division. The division has been established under the approval of the Supervisory Board and the Audit Committee of the Bank. The Compliance Division is a unit with permanent function, independent of the Bank's business activities.

In order to safeguard its independence, the Head of Compliance Division reports to the Audit Committee, to the Eurobank Group Compliance Sector and for administrative purposes to the CEO. The Head of Compliance attends all Audit Committee meetings and submits quarterly and annual reports summarising the Division's activity and highlighting the main compliance issues. These reports include all matters falling under the scope of the Compliance Division, which the Head of Compliance believes should be reported to the Audit Committee or matters specifically requested by the latter. Compliance Division duties and responsibilities indicatively include:

- handling issues related to Anti-Money Laundering and Combatting Financing of Terrorism, in accordance with applicable laws and regulations as well as existing sanctions. The Division is responsible for the development of the necessary policies and procedures as well as for monitoring adherence to them. Moreover, it is responsible for the provision of relevant training and guidance to the staff, as well as, for the cooperation with the relevant Authorities;
- providing timely and accurate responses to requests arising from Regulatory and other Authorities as well as, co-operating with them in order to facilitate their work;
- setting up internal codes of conduct and monitoring staff adherence to such internal rules;
- monitoring compliance with legislative and regulatory provisions relating to the financial markets;
- cooperating with other divisions of the Bank and its subsidiaries on handling issues of banking secrecy and data protection;
- informing Management and providing advice regarding the impact of any new laws and regulations falling under the Section's scope of responsibilities.

5.4. Risk management

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. It is currently complemented, by the Risk function.

The Risk Committee is empowered to:

- Review and analyze the Bank's risk profile, identify and assess significant risks;
- Develop adequate policies and procedures in order to identify, assess, monitor and control significant risks;
- Inform the SB about significant problems or developments that could have an impact on the Bank's risk profile;
- Monitor the implementation of policies related to the management of significant risks;
- Approve adequate methodologies and models for risk assessment and exposure limitation.

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

5. System of Internal Controls and Risk Management Main Features (continued)

5.4. Risk management (continued)

The RC updates the SB on the adequacy of the risk management structure and reports key risks. Any significant matters of concern are escalated either to the SB or to the Eurobank Ergasias S.A.'s Group Risk Committee.

Acknowledging the fact that Risk is embedded in every business activity undertaken, the organisational governance stems from the Supervisory Board through the Risk Committee, Management Board and Senior Management.

A robust risk management framework provides the cornerstone for implementing the Bank's risk strategy and achieving business goals. The Bank's approach is to provide direction on: understanding the material risks to achieving Bank's strategy; establishing risk appetite; and communicating the risk management framework. The process is then broken down into five steps. Each of these steps is broken down further, to establish end-to-end activities within the risk management process and the infrastructure needed to support it.

Steps	Activity
Identify	• Establish the policies and processes for identifying and understanding business risks.
Assess	• Establish and implement measurement and reporting standards and methodologies.
Control	• Establish key control processes and practices, including limit structures, impairment allowance criteria and reporting requirements; • Monitor the operation of the controls and adherence to risk direction and limits; • Provide early warning of control or appetite breaches.
Report	• Interpret and report on risk exposures, concentrations and risk-taking outcomes. • Communicate with external parties.
Manage and Challenge	• Review and challenge all aspects of the Group's risk profile; • Assess new risk-return opportunities; • Advise on optimising the Group's risk profile; • Review and challenge risk management practices.

The above processes are embedded in each of the risk types, supported by the appropriate infrastructure and staffing and are described in detail in the following sections.

Principle 1: The Management Board and Supervisory Board are responsible for approving and periodically reviewing the Risk strategy and Bank's risk policies.

Principle 2: Senior Management is responsible for implementation of the risk strategy approved by the Management Board and for developing policies and procedures for identifying, measuring, monitoring and controlling risks. Such policies and procedures address the risks in all Bank's activities, at both individual and portfolio level.

Principle 3: The Bank has sound processes and procedures for approving new loans and transactions, as well as amendments, renewal and re-financing of existing ones.

Principle 4: All exposures are monitored carefully and appropriate measures are taken to control and mitigate the risks.

Principle 5: The Bank has in place systems, processes and procedures for monitoring the performance of individual exposures, including computation and adequacy of provisions and reserves.

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

5. System of Internal Controls and Risk Management Main Features (continued)

5.4. Risk management (continued)

Principle 6: Information systems and analytical techniques are used to assist management in assessing and monitoring all significant risks as well as portfolio composition. The Bank uses internal models for credit risk assessment. For Retail portfolio application and behavioral scorecards are in place. For Corporate customer the Bank is using rating systems depending on the economic activity of the customers. The risk models and rating systems are consistent with the nature, size and complexity of a bank’s activities.

Principle 7: The Bank takes into account potential future changes in the macroeconomic environment when assessing individual loans and loan portfolios. The Bank is assessing its loan exposures and portfolios under stressful macroeconomic conditions.

Principle 8: The Bank has implemented process for independent, ongoing risk review and communicates risk figures to the Senior Management, Management Board and Risk Committee.

Principle 9: The Bank promotes an open risk culture to support trust and confidence.

Principle 10: The management and all employees feel committed to the Bank’s risk policy principles and make their day-to-day decisions according to these guidelines.

Principle 11: The Bank’s risk management is organized in a way to prevent conflicts of interests among employees and organizational units.

6. Information under Article 10, paragraph 1, letter "c", "d", "e", “f" and “g" of the Directive 2004/25/EC of the European Parliament and the Council of 21 April 2004 on the proposals for takeover.

6.1. c) The Bank has not been involved in any significant direct and indirect shareholdings (including indirect shareholdings through pyramid structures and cross-shareholdings) within the meaning of Article 85 of Directive 2001/34 /EC.

6.2. d) The Bank has not registered any holders of any securities with special control rights.

6.3. e) No restrictions have been implemented or exercised on the rights to vote, such as restrictions on the rights to vote of holders of a certain percentage or number of votes, deadlines for exercising the rights aloud or systems through which through the co-operation with the company the financial rights attached to the securities are separated of the possession of the securities. All of the Bank’s capital shares[1] are ordinary with a nominal value of BGN 1.00 (one) each, giving voting right, dividend right and liquidation quota proportionate to the nominal value of shares.

6.4. f) The main AoA, namely Statute of the Bank regulates the appointment and replacement of Boards members. It incorporates the main provisions and principals of the applicable commercial law. The document is publically available on the account of the Bank in the Commercial Registry to the Registry Agency at the Ministry of Justice. The responsibilities that rest with the MB and SB members are given in Statute of the Bank and detailed in the ToR of the relevant Board. It also contains provisions governing the fundamental powers and manner of interaction between the Boards in the decision making process.

6.5. g) The provisions providing the competences of buy-back of shares are implemented in Art.11of the Bank’s Statute.

[1] Information regarding the Share Capital Structure is included in the relevant section of the Annual Activity Report.

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

NON-FINANCIAL DECLARATION 2017

BUSINESS MODEL

Detailed information regarding Postbank's business model, objectives, structure and products is presented in the Corporate Governance Statement and the Annual Activity Report.

ENVIRONMENTAL POLICY STATEMENT

Postbank values sustainable business development much higher than short-term profitability and other commercial gains. We believe that our duty towards our shared natural environment is a crucial ingredient of our commitment to the wellbeing of our stakeholders and the society we operate in. Therefore, we strive to mitigate the adverse environmental impact of our activities and to make use of every opportunity to induce possible ecological changes.

As a major Bulgarian bank and being a part of a powerful international financial group, we recognize our numerous opportunities to influence public agenda. At the same time, we understand that this unique position we enjoy makes it all the more imperative for us to abide by the principles of good corporate citizenship and to set a positive example for all of our colleagues, partners, fellow citizens and clients to follow.

Our parent Eurobank Group boasts remarkable achievements in the field of environmental protection and we are determined to transpose and enrich its best practices on Bulgarian soil. In this respect, we are committed to set appropriate objectives and targets, to continuously monitor, assess and improve our own environmental performance and to comply with all relevant local, national and international legislation.

As a socially responsible institution, we have pledged to employ all leverage that we have to work for the preservation of the planet that our children will inherit. To this end, we are not only determined to pursue a policy of environmental responsibility in our everyday operation through our dedicated employees, but also to gradually extend it to our suppliers, clients and society in order to promote beneficial environmental practices and sustainable economic growth.

1. Postbank environmental management overview

Today's world is facing the phenomena of pollution and climate change. There is hardly any individual or organization who would doubt the importance of managing the consequences of the changes pollution and climate change create in the environment, and of coming up with the proper means to address them.

There are two main types of environmental aspects of the activity of an organization – direct and indirect, and they lead to the manifestation of two corresponding types of impacts. The direct impacts on environment originate from the operation of a company (operational footprint), while the indirect stem from the products and services the company offers.

Banks do not directly impact the environment to a large extent since their consumption of energy and other resources is minor in comparison with other industries. They, however, could contribute significantly to the effort to save the environment through selective lending practices as well as through the implementation of environmental risk management in their loan portfolios. Apart from that, banks could serve as a good example to society taking care of internal resources.

Postbank is committed to actively managing both the direct and the indirect environmental impacts from its activity. It is the only bank in Bulgaria, which has its own Green Board and an Environmental Office unit in its organizational structure, which are working to preserve the environment both through limiting the resources consumed by the Bank and through its financing activities. Moreover, the Green Board members organize different outdoor initiatives involving the other employees as well. The Bank invested in its own internal programme Green Together. Postbank is developing it with own funds and is implementing it through the voluntary work of its employees.

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

ENVIRONMENTAL POLICY STATEMENT (continued)

The overall realization of various internal initiatives in the area of environmental management won Postbank the Greenest Bank in Bulgaria prize at the seventh b2b Media annual awards – The Greenest Companies of Bulgaria 2017, as well as other prestigious green recognitions in the recent years.

2. Environmental aspects and impacts management at Postbank

In line with its policy and decisiveness to act, Postbank has identified the following **direct aspect** of its operations related to the internal consumption of energy and its respective CO_2 emissions, water and paper.

A number of initiatives targeting resource use optimization were pursued throughout the years, and kept pace in 2017. The outcome of these is presented in Table 1 below through three **environmental indicators.**

Table 1. Energy, water and paper use in Postbank, 2012-2017

Indicator	2012	2013	2014	2015	2016	2017	Δ 2017-2016	Δ 2017-2012
CO2 emissions from electricity consumption, tn	7,421	6,096	5,558	5,391	5,289	4,071	-23%	-45%
Water, m3	89,217	81,740	52,646	46,767	46,899	45,638	-3%	-49%
Sheets of paper	37,610,615	34,315,000	32,325,000	30,073,000	31,122,005	30,902,332	-1%	-18%

In 2017 Postbank launched an innovative project aiming at the gradual implementation of digital signatures of all transactions done by customers at the network locations of the Bank. The unfolding of this project will lead to a significant decrease of paper usage as printouts are replaced by digital copies of documents, and its full impact could be evaluated in 2018 when it is scheduled for completion.

Significant efforts are placed in staff training in the area of environmental management. Thus in 2017, 133 small business banking experts from across the branch network underwent an in-house training in environmental risk management in lending.

In 2017, the Bank created its latest internal initiative – Green Heroes, which will continue in 2018, as part of its overall policy for sustainable development and environmentally-friendly behaviour, and as a socially responsible institution. It is aimed at encouraging socially responsible behaviour in its employees. They can apply through a campaign for funding from the Bank to implement various local projects, which they chose themselves, and which show that simple actions could achieve sustainable changes. Within just a few months since the initiative was launched, six projects aimed at improving the state of the environment and supporting the society were undertaken.

Apart from the direct aspects and its impact on society, Postbank is continuously investigating the **indirect environmental aspects** from its operations. These are related primarily to its wholesale and small banking business (SBB) lending portfolio. In this area, robust Environmental and Social Risk Management Procedure is implemented to ensure that lending is provided accounting for the risks for the environment. The Bank encourages green businesses indirectly through the implementation of this procedure. It prescribes the particular methodology which is followed to ensure that environmental and social risks are evaluated and monitored in the lending process, as well as the roles and responsibilities of all parties involved in the process.

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

ENVIRONMENTAL POLICY STATEMENT (continued)

The outcome of the portfolio analysis, presented in Table 2 below reveals the distribution of environmental risk in the SBB and Wholesale segments for the exposures that have been evaluated:

Table 2. Distribution of environmental risk in the SBB and Wholesale segments

Level of risk	Low	Medium	High
% of loan deals	51.80%	47.90%	0.30%

Postbank has identified the following **goals for 2018** in the area of environmental management:

- Achieve further resource efficiencies in the form of a decrease of 1% across the various lines (energy, paper, water) through the implementation of a set of measures.
- Launch of e-learning in various aspects of the application of the environmental policy of the Bank.
- Enrich further the existing intranet training materials for the staff on environmental issues important for their work.

Environmental objectives and targets are defined to facilitate acheiving the goals for the respective year. The goals for 2018 are presented in Table 3 below.

Table 3. Postbank environmental objectives and targets for 2018

Objectives	Targets	Environmental Program(s)
Saving natural resources	Continuous assessment of consumption at all network locations of the Bank	Energy savings program
Minimization of waste	Assessment of paper recycling efforts and review of indicators per employee; implementation of digital solutions that lead to decrease in paper and toner usage	Paper recycling program/ digitalization project
Minimization of waste	Increase in recycling of electrical and electronic equipment	Electrical and electronic equipment recycling program
Awareness raising on environmental issues	Raising the awareness of the staff and the public on various environmental issues	Organizing, collaborating and participating in environmental activities
Enhancing environmental risk reporting system	Upgrading the automated environmental risk reporting	Environmental risk management program

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

SOCIAL ISSUES AND ISSUES RELATED TO THE EMPLOYEES

1. Number of employees, gender distribution by areas of occupancy

Postbank treats all employees equally, irrespective of gender, nationality, age or other traits. The Bank forges relationships of mutual trust and respect. The distrubition of employees by gender and age group are presented in table 4 below.

Table 4 . Employee distribution based on gender and age group in 2017

< 25 years		25-34 years		35-44 years		45-54 years		> 55 years	
Women	Men	Women	Men	Women	Men	Women	Men	Women	Men
83%	17%	77%	23%	79%	21%	79%	21%	79%	21%

Postbank gives equal opportunities to its employees and values talent and innovation. Everyone receives remuneration depending on the contribution and the level of responsibility that are determined by the occupied position and the labor market. Staff distribution by positions and gender are presented in table 5 below.

Table 5. Distributions by areas of occupancy and gender for 2017

	Specialist positions	Expert positions	Managerial positions
Female	85%	74%	58%
Male	15%	26%	42%

2. Development of the Human Capital

Human capital is a key factor in any organization's success. Postbank's management shares the belief that taking care of its employees, their development and motivation is essential for the achievement of both short-term and strategic goals of the organization.

Dynamic environment and intense competition on the banking market impose ambitious and multidimensional requirements of the human resources function. They are related to the capability of human resources staff to identify and put appropriate people at relevant positions, to ensure effective training in order to quickly develop necessary professional skills, as well as to develop and motivate internal talents.

The Human Resources (HR) Division contributes to the Bank's success, by creating and sustaining an environment which encourages employees' achievements and efforts in raising their level of professional qualification.

Via the internal e-bulletin, *Our Bank*, distributed weekly by mail, the important new information, relevant to staff members is instantly communicated to all employees. This information often includes key corporate news, information about launching of new products and services, special moments from internal events and photos of different out-of-the-office activities of Postbank team members.

Postbank provides a special *CEO hotline* – a mail address, which is available for everyone to announce, share or suggest something directly to the CEO of the bank.

SOCIAL ISSUES AND ISSUES RELATED TO THE EMPLOYEES (continued)

Postbank encourages initiative, creativity and willingness of every employee to be part of change and development in the bank. Proof of this is the internal idea competition - the IDEYNO is a competition where employees submit their proposals directly to management and the most applicable of them are done. There is also an annual award for the proposals. All employees can share their ideas for developing new products, services and innovative channels to focus on innovation in the banking sector.

There is a traditional annual branch meeting and additionally, various motivational team building events organized by Postbank. In 2017 the annual meeting was held under the motto "Meeting on the Top". The overall concept was subordinated to the message of achieving team results and strategic goals for Postbank's development.

There is a traditional “Meet & Greet the CEO” events conducted between the CEO and Different Departments.

3. Trade Unions, Compensations and Social Benefits

Eurobank Bulgaria does not have trade unions, there is a package of compensations and social benefits.

Postbank is aware of the social impact of its position as a major employer and is determined to provide its staff with various benefits. In this context, the Bank has implemented and strives to extend a consistent policy of providing additional benefits to its workforce and of applying strict health and safety standards at the workplace. The Bank provides various forms of support for ad hoc cases. All employees of the Bank are provided with an additional health insurance in a private fund fully covered by the employer. The additional insurance provides for medical treatment costsand can be extended to employees’ family members at preferential terms upon choice. The Bank provides its staff with an additional life insurance, covering the expenses upon occurrence of an insurance event. Moreover, the opportunity to use the Banks’ products and services at preferential terms is a significant benefit for Postbank’s employees. These include housing and consumer loans, credit cards, overdrafts, online banking. Staff members pay no fees for most banking operations such as cash transfers, withdrawals, etc.

4. Performance Management Policy and Procedure

The Bank’s commitment to employees’ personal and professional development is one of its major values. In this respect, every year each employee’ personal performance is evaluated during the annual performance appraisal process, which supports their further purposeful skill development. Performance management procedures guarantee transparency and equity. Every employee is assessed regardless of their position, having in mind employees’ responsibilities and tasks. Moreover, the system assesses not only task performance, but also the way they have been fulfilled, which improves the communication between the evaluators and the evaluated, and encourages employees’ personal and professional development.

The system guides employees to the business spheres where their skills and potential will be of the highest value and, at the same time, encourages them to achieve their professional goals.

5. Health and Safety at Work

The success and productivity of a business relies on the efficiency of its employees. This is why, ensuring healthy and safe working environment for each employee is the basis for health management at the Bank. Postbank not only strictly adheres to all safety standards prescribed by the labour legislation, but also undertakes additional actions to protect its employees’ health for reasons of moral character and out of the conviction of the Bank’s Management that the establishment of healthy and safe environment leads to better motivation of the staff and better competiveness. Postbank works in close cooperation with a labour medicine service to ensure the safety and health of its staff during work. A joint assessment is made of the risks for the staff’s health and safety, including assessment upon changes of labour conditions at the workplace and upon introduction of new technologies. All Postbank’s employees are represented on the Health and Safety Committee – a centralized committee based in Sofia and is responsible for the Bank’s head office and branches.

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

SOCIAL ISSUES AND ISSUES RELATED TO THE EMPLOYEES (continued)

6. **Human Rights Issues.**

Postbank foster business ethics and excellence, transparency, human rights and accountability. Mutual respect and dignity are core priorities and essential elements in Bank's Code of Conduct. In its selection of suppliers, the Bank aims at ensuring complete respect of human rights in those companies.

In 2017, the Bank carried out a number of socially significant projects in education, environmental protection, sports and corporate donation. Postbank is an active member and is supporting initiatives of the KRIB, AmCham, HBCB, Association of Banks in Bulgaria, Borica AD, Endeavour Bulgaria Association, Bulgarian Business Leaders Forum, Bulgarian Donors' Forum, Atanas Burov Foundation, the UN Global Compact Network Bulgaria and the Bulgarian Association of Advertisers.

Throughout the year, the Bank continued its long-standing support and work with socially disadvantaged groups, stimulating their active role in society. It provided support to socially disadvantaged children in the town of Kazanlak, to the elderly people in Russe, the national campaign Easter for Everyone – Give a Holiday to Grandma and Grandpa, as well as to many other small initiatives held in 2017.

ISSUES RELATED TO ANTI-CORRUPTION AND BRIBERY

Eurobank Bulgaria has adopted a policy of zero tolerance against bribery. The internal policies and procedures in place aim to establish a robust internal system and controlling environment that minimize corruption risk and to set out a clear approach of action in certain risky situations.

The Bank's anti-bribery instruction expressly prohibits the direct or indirect participation in any corruption-related activities. The prohibition applies to all employees and persons acting in the name and on behalf of the Bank. It is the duty of all employees to be vigilant and to report any cases or attempts of such deeds, as well as suspicions of such.

UN GLOBAL COMPACT NETWORK BULGARIA

In 2017, Postbank joined the UN Global Compact Network Bulgaria to expand its initiatives in support of the society and the environment. Thus, the bank once again declared its willingness to pursue a corporate policy, which respects the ten universal principles for social responsibility and environmental protection of the Global Compact. And namely:

<u>Human Rights:</u>
Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights within their sphere of influence; and
Principle 2: make sure that they are not complicit in human rights abuses.

<u>Labour Standards:</u>
Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
Principle 4: the elimination of all forms of forced and compulsory labour;
Principle 5: the effective abolition of child labour; and
Principle 6: eliminate discrimination in respect of employment and occupation.

<u>Environment:</u>
Principle 7: Businesses should support a precautionary approach to environmental challenges;
Principle 8: undertake initiatives to promote greater environmental responsibility;
Principle 9: encourage the development and diffusion of environmentally friendly technologies.

<u>Anti-Corruption:</u>
Principle 10: Businesses should work against all forms of corruption, including extortion and bribery.

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

Income statement

	Notes	Year ended 31 December 2017	2016
Interest and similar income		298,316	305,241
Interest and similar charges		(14,114)	(31,726)
Net interest income	1	**284,202**	**273,515**
Fee and commission income		94,071	84,244
Fee and commission expense		(13,751)	(14,149)
Net fee and commission income	2	**80,320**	**70,095**
Dividend income		1,715	663
Other operating income	3	8	11,486
Repossesed assets impairment	W.1.6.	(518)	(754)
Net trading expense	4	(1,440)	(127)
Gains less losses from trading securities	12	374	863
Gains less losses from investment securities	14	6,511	10,942
Other operating expenses	5	(131,635)	(147,327)
Deposit Insurance Fund expense		(18,774)	(15,572)
Impairment charge for credit losses	7	(69,663)	(69,755)
Profit before income tax		**151,100**	**134,029**
Income tax expense	8	(14,835)	(14,459)
Profit for the year		**136,265**	**119,570**

The Financial statements were authorized by the management on 30 March 2018.

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

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

For PricewaterhouseCoopers Audit OOD:

Anna Boteva
Registered Auditor

Jock Nunan
PricewaterhouseCoopers Audit OOD
Date: 03-04-2018

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 085

For Moore Stephens Bulgaria - Audit OOD

Stefan Nenov
Registered Auditor

Stefan Nenov
Moore Stephens Bulgaria - Audit OOD
Date: 03-04-2018

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 131

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

Statement of comprehensive income	Notes	Year ended 31 December			
		2017		2016	
Profit for the year			**136,265**		**119,570**
Items that are or may be reclassified subsequently to profit or loss:			***11,768***		***6,158***
Available for sale securities					
-net changes in FV, net of tax	9	12,407		9,939	
-transfer of (profit)/ loss to net profit on sale	9	(639)		(3,781)	
Items that will not be reclassified to profit or loss:			***(757)***		***503***
Change in FV of property, plant and equipment, net of tax		-		(78)	
Remeasurements of post-employment benefit obligations, net of tax		(757)		581	
Other comprehensive income for the year	9		**11,011**		**6,661**
Total comprehensive income for the year			**147,276**		**126,231**

The Financial statements were authorized by the management on 30 March 2018.

Petia Dimitrova

Chairperson of the Management Board and Chief Executive Officer

ЮРОБАНК БЪЛГАРИЯ АД Postbank ЦУ Град София

Dimitar Shoumarov

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

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

For PricewaterhouseCoopers Audit OOD:

Anna Boteva
Registered Auditor

Jock Nunan
PricewaterhouseCoopers Audit OOD
Date: 03-04-2018

For Moore Stephens Bulgaria - Audit OOD

Stefan Nenov
Registered Auditor

Stefan Nenov
Moore Stephens Bulgaria - Audit OOD
Date: 03-04-2018

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 085

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 131

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

Balance sheet

	Notes	As at 31 December 2017	2016
Cash and balances with the Central Bank	10	742,389	720,423
Loans and advances to banks	11	1,264,068	1,166,309
Financial assets held for trading	12	14,226	2,438
Loans and advances to customers	13	4,828,632	4,214,400
Investment securities	14	459,409	608,051
Derivative financial instruments	20	241	586
Investment property	15	406	678
Property, plant and equipment	16	40,602	41,000
Intangible assets	17	46,254	39,542
Other assets	18	24,755	24,835
Total assets		**7,420,982**	**6,818,262**
Liabilities			
Deposits from banks	19	9,025	21,171
Derivative financial instruments	20	7,793	6,693
Due to customers	21	6,080,217	5,524,333
Other borrowed funds	22	30,420	78,959
Deferred income tax liabilities	23	1,776	2,243
Current income tax payable		1,526	2,172
Provisions for other liabilities and charges	24	7,410	10,483
Retirement benefit and other obligations	25	5,059	3,886
Other liabilities	26	41,169	20,337
Total liabilities		**6,184,395**	**5,670,277**
Shareholders' equity			
Share capital	27	560,323	560,323
Statutory reserves		282,521	282,521
Retained earnings and other reserves, net		393,743	305,141
Total shareholders' equity		**1,236,587**	**1,147,985**
Total shareholders' equity and liabilities		**7,420,982**	**6,818,262**

The Financial statements were authorized by the management on 30 March 2018.

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

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

For PricewaterhouseCoopers Audit OOD:

Anna Boteva
Registered Auditor

Jock Nunan
PricewaterhouseCoopers Audit OOD
Date: 03-04-2018

For Moore Stephens Bulgaria - Audit OOD

Stefan Nenov
Registered Auditor

Stefan Nenov
Moore Stephens Bulgaria - Audit OOD
Date: 03-04-2018

(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	Statutory Reserves	Retained earnings and other reserves	Total
Balance at 1 January 2016	**452,753**	**1,798**	**13,126**	**282,521**	**163,986**	**914,184**
Net gain recognised directly in OCI	-	-	6,158	-	-	**6,158**
Impairment of property, plant and equipment		(78)	-	-	-	**(78)**
Remeasurement on post-employment benefit obligations	-	-	-	-	581	**581**
Profit for the year	-	-	-	-	119,570	**119,570**
Total comprehensive income for the year 2016	**-**	**(78)**	**6,158**	**-**	**120,151**	**126,231**
Issue of share capital	107,570	-	-	-	-	**107 570**
Transfer to retained earnings	-	(8)	-	-	8	-
Balance at 31 December 2016	**560,323**	**1,712**	**19,284**	**282,521**	**284,145**	**1,147,985**

(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	Statutory Reserves	Retained earnings and other reserves	Total
Balance at 1 January 2017	**560,323**	**1,712**	**19,284**	**282,521**	**284,145**	**1,147,985**
Net gain recognised directly in OCI	-	-	11,768	-	-	**11,768**
Remeasurement on post-employment benefit obligations	-	-	-	-	(757)	**(757)**
Profit for the year	-	-	-	-	136,265	**136,265**
Total comprehensive income for the year 2017	-	-	**11,768**	-	**135,508**	**147,276**
Dividend paid					**(58,674)**	**(58,674)**
Transfer to retained earnings	-	(653)	-	-	653	-
Balance at 31 December 2017	**560,323**	**1,059**	**31,052**	**282,521**	**361,632**	**1,236,587**

The Financial statements were authorized by the management on 30 March 2018.

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:

For PricewaterhouseCoopers Audit OOD:

Anna Boteva

Registered Auditor

Jock Nunan

PricewaterhouseCoopers Audit OOD

Date: 03-04-2018

For Moore Stephens Bulgaria - Audit OOD

Stefan Nenov

Registered Auditor

Stefan Nenov

Moore Stephens Bulgaria - Audit OOD

Date: 03-04-2018

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 131

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 085

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

Statement of cash flows

	Year ended 31 December	
	2017	**2016**
Cash flow from operating activities		
Interest received	310,652	303,842
Interest paid	(16,318)	(34,984)
Dividends received	1,715	663
Fees and commission received	94,500	84,582
Fees and commission paid	(12,770)	(13,255)
Amounts paid to and on behalf of employees	(64,459)	(65,842)
Net trading and other income received	7,372	19,815
Other operating expenses paid	(77,417)	(82,005)
Tax paid	(15,000)	(13,495)
Cash from operating activities before changes in operating assets and liabilities	**228,275**	**199,321**
Changes in operating assets and liabilities		
Net (increase) in reserve with the Central Bank	(21,607)	(46,054)
Net (increase)/decrease in trading securities	(11,771)	8,858
Net (increase)/decrease in loans and advances to customers	(696,117)	125,776
Net decrease/(increase) in other assets	4,468	(1,674)
Net increase in derivatives instruments	2,865	1,269
Net (decrease)/increase in due to other banks	(12,146)	1,316
Net increase in amounts due to customers	557,399	370,184
Net increase/(decrease) in other liabilities	10,929	(23,855)
Net cash flow from operating activities	**62,295**	**635,141**

(Continued on the next page)

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

Statement of cash flows (continued)

	Year ended 31 December	
Cash flow from investing activities	**2017**	**2016**
Payment for acquisition of subsidiary, net of cash acquired	-	136,657
Purchase of property ,equipment and intangible assets (Note 16&17)	(18,090)	(16,983)
Purchase of investment securities	(68,348)	(67,394)
Proceeds on disposal of property and equipment	21	393
Proceeds from sale of investment securities	228,100	36,841
Net cash flow from investing activities	**141,683**	**89,514**
Cash flow from financing activities		
Dividend paid	(58,674)	-
Long-term financing received	-	32,271
Long-term debt repaid	(48,514)	(113,934)
Net cash used in financing activities	**(107,188)**	**(81,663)**
Effect of exchange rate changes on cash and cash equivalents	1,328	173
Net change in cash and cash equivalents	**98,118**	**643,165**
Cash and cash equivalents at beginning of year	**1,637,769**	**994,604**
Cash and cash equivalents at end of year (Note 28)	**1,735,887**	**1,637,769**

The Financial statements were authorized by the management on 30 March 2018.

Petia Dimitrova

Chairperson of the Management Board and Chief Executive Officer

ЮРОБАНК БЪЛГАРИЯ АД Postbank ЦУ Град София

Dimitar Shoumarov

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

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

For PricewaterhouseCoopers Audit OOD:

Anna Boteva
Registered Auditor

Jock Nunan
PricewaterhouseCoopers Audit OOD
Date: 03 -04- 2018

Одиторско дружество София Рег. № 085

For Moore Stephens Bulgaria - Audit OOD

Stefan Nenov
Registered Auditor

Одиторско дружество София Рег. № 131

Stefan Nenov
Moore Stephens Bulgaria - Audit OOD
Date: 03 -04- 2018

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

Notes to the financial statements

General information

Eurobank Bulgaria AD (the Bank) was incorporated and is domiciled in Bulgaria. The Bank is a joint stock company limited by shares and was set up in accordance with Bulgarian regulations. The Bank has operated under a full banking licence issued by the Bulgarian National Bank.

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 177 network locations and 10 business centres (2016: 174 network locations and 8 business centres). The registered office address is: 260 Okolovrasten pat, 1766 Sofia, Bulgaria. The Bank employs 2,600 people (2016: 2,640).

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

Eurobank Bulgaria is a subsidiary of Eurobank Group, Greece. The Parent company is incorporated and is domiciled in Greece.

Position of Eurobank Group, Greece

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

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

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

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

Notes to the financial statements (continued)

A. Basis of preparation (continued)

Position of Eurobank Group, Greece (continued)

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

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

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

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

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

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

Position of the Bank

As at 31 December 2017, Eurobank Bulgaria relies on funding predominantly from locally collected deposits, its own capital base and international financial institutions funding. As disclosed in Notes 11 and 29, as at year end the Bank had an exposure to the Parent in Greece, which is within the regulatory acceptable threshold for such exposures and takes into account the potential risks described above.

Considering all of the above, 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.

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

Notes to the financial statements (continued)

A. Basis of preparation (continued)

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

In November 2015, following the completion of the Bank's share capital increase, fully covered by investors, institutional and others the percentage of the Bank's ordinary shares with voting rights held by the HFSF decreased from 35.41% to 2.38%.
Despite the aforementioned significant decrease of its percentage, the HFSF is still considered to have significant influence over the Bank. In particular, in the context of the Law 3864/2010, as in force, HFSF exercises its voting rights in the Bank's General Assembly only for decisions concerning the amendment of the Bank's Articles of Association, including the increase or decrease of the Bank's capital or the granting of a corresponding authorization to the Bank's Board, decisions concerning the mergers, divisions, conversions, revivals, extension of duration or dissolution of the Bank, the transfer of assets (including the sale of subsidiaries), or any other issue requiring approval by an increased majority as provided for in Company Law 2190/1920. In addition, the Bank has entered into a new Relationship Framework Agreement (RFA) with the HFSF on 4 December 2015 replacing the previous one, signed on 26 August 2014, which regulates, among others, (a) the Bank's corporate governance, (b) the restructuring plan and its monitoring, (c) the monitoring of the implementation of the Bank's Non-Performing Loans (NPLs) management framework and of the Bank's performance on NPLs resolution, (d) the Material Obligations and the switch to full voting rights, (e) the monitoring of the Bank's actual risk profile against the approved Risk and Capital Strategy, (f) the HFSF's prior written consent for the Bank's Group Risk and Capital Strategy and for the Bank's Group Strategy, Policy and Governance regarding the management of its arrears and non-performing loans and any amendment, extension, revision or deviation thereof, and (g) the duties, rights and obligations of HFSF's Representative in the Bank's Board.

Amendments to standards and new interpretations adopted by the Bank

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

IAS 7, Amendment-Disclosure Initiative

The amendment requires disclosure of information enabling users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes from cash flows and non-cash changes. The disclosure requirements also apply to changes in financial assets, such as assets that hedge liabilities arising from financing activities, if cash flows from those financial assets were or future cash flows will be, included in cash flows from financing activities.
During the year ended 31 December 2017, change in the Bank's liabilities arising from financing activities is the repayment of other borrowed funds (Note 22) amounting to 48,539 thousand, of which non cash changes during the year included accrued interest of 25 thousand. Additionally BGN 58,674 thousand dividend was approved by the Extraordinary General Meeting of Shareholders and paid from retained earnings.

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

The amendment clarifies that (a) unrealized losses on debt instruments measured at fair value in the financial statements and at cost for tax purposes may give rise to a deductible temporary difference irrespective of whether the entity expects to recover the carrying amount of the debt instrument by sale or use, (b) estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences, (c) the estimate of probable future taxable profits may include the recovery of an asset for more than its carrying amount, if there is sufficient evidence that it is probable that this will be realized by the entity, and (d) a deferred tax asset is assessed in combination with all of the other deferred tax assets where the tax law does not restrict the sources of taxable profits against which the entity may make deductions on the reversal of that deductible temporary difference.
Where restrictions apply, deferred tax assets are assessed in combination only with other deferred tax assets of the same type.
The adoption of the amendment had no impact on the 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 2014-2016 Cycle

IFRS 12 'Disclosure of Interests in Other Entities': It is clarified that the disclosure requirements in IFRS 12 apply to an entity's interest in a subsidiary, a joint venture or an associate classified as held for sale except for the requirement for summarized financial information.
The adoption of the amendment had no impact on the Bank's financial statements.

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

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

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

The amendment clarifies that when a change to a defined benefit plan i.e an amendment, curtailment or settlement takes place and a remeasurement of the net defined benefit liability or asset is required, the updated actuarial assumptions from the remeasurement should be used to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. Additionally, the amendment includes clarifications about the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.
The adoption of the amendment is not expected to impact the Bank's financial statements.

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

The amendment clarifies that IFRS 9 'Financial Instruments' including its impairment requirements, applies to long term interests in associates or joint ventures that form part of the entity's net investment in the associate or joint venture but are not accounted for using equity accounting.
According to the amendment, any adjustments to the carrying amount of long term interests resulting from the application of IAS 28 should not be considered when applying the IFRS 9 requirements which apply to long term interests before applying the loss allocation and impairment requirements of IAS 28.

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

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

The amendment clarifies that a transfer of property, including property under construction or development, into or out of investment property should be made only when there has been a change in use of the property. Such a change in use occurs when the property meets, or ceases to meet, the definition of investment property and should be supported by evidence.
The adoption of the amendment is not expected to impact the Banks'financial statements.

IFRS 2, Amendment-Classification and Measurement of Share-based Payment Transactions (effective 1 January 2018)

The amendment addresses (a) the measurement of cash-settled share-based payments, (b) the accounting for modifications of a share-based payment from cash-settled to equity-settled and c) the classification of share-based payments settled net of tax withholdings.
Specifically, the amendment clarifies that a cash-settled share-based payment is measured using the same approach as for equity-settled share-based payments. It also clarifies that the liability of cash- settled share-based payment modified to equity-settled one is derecognized and the equity-settled share-based payment is recognized at the modification date fair value of the equity instrument granted and any difference is recognized in profit or loss immediately.
Furthermore, a share-based payment net by withholding tax on the employee's behalf (a net settlement feature) is classified as equity settled in its entirety, provided it would have been classified as equity-settled had it not included the net settlement feature.
The adoption of the amendment is not expected to impact the Banks' financial statements.

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

Notes to the financial statements (continued)

A. Basis of preparation (continued)

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

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

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

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

The amendment is not relevant to the Bank's activities as no insurance contracts are issued by the Bank.

Transition to IFRS 9, 'Financial Instruments'and impact assessment

In July 2014, the IASB published the final version of IFRS 9 'Financial Instruments', effective 01 January 2018, which replaces IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 includes revised requirements on the classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting.

Classification and measurement

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

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

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

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

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

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

Notes to the financial statements (continued)

A. Basis of preparation (continued)

Business model assessment

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

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

- the stated policies and objectives for each portfolio;
- how the performance of each portfolio is evaluated and reported;
- the risks associated with the performance of the business model and how those risks are managed;
- how managers are compensated;
- past experience on how the cash flows from those portfolios were collected and how the Bank's stated objective for managing the financial assets is achieved; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. Irrespective of their frequency and value, sales due to an increase in the financial assets' credit risk and sales made due to liquidity needs in case of an unexpected stress case scenario, are consistent with a hold-to-collect business model.

SPPI assessment

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

Assessment of changes to the classification and measurement on transition

For the purpose of the transition to IFRS 9, the Bank is carrying out a business model assessment across various portfolios and a detailed review of the contractual terms (SPPI review) for its debt instruments portfolios to determine any potential changes to the classification and measurement. The assessment is being performed based on the facts and circumstances that exist at the date of initial application i.e. 01/01/2018. Furthermore, it is performed on a sample basis for the retail and part of the wholesale portfolio where conctracts are of standardized form, whereas for the remaining wholesale portfolio is being performed on an individual basis. The business model assessment and the SPPI review are not expected to result in any significant changes compared to how financial assets are measured under IAS 39, except as noted below. In particular:

- loans and advances to banks and customers that are measured at amortized cost under IAS 39, are also expected to be measured at amortized cost under IFRS 9;
- the majority of debt securities classified as available-for-sale under IAS 39, are expected to be measured at FVOCI;
- held-to-maturity investment securities and assets in the debt securities lending portfolio that are measured at amortized cost under IAS 39, are expected to be measured at amortized cost or FVOCI depending on the business model within which they are held;
- trading and derivative assets that are measured at FVTPL under IAS 39 are also expected to be measured at FVTPL under IFRS 9; and
- equity securities classified as available-for-sale under IAS 39 are expected to be measured at FVTPL under IFRS 9.

Notes to the financial statements (continued)

A. Basis of preparation (continued)

Impairment of financial assets

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

The new impairment model, which introduces a “3 stage approach” that will reflect changes in credit quality since initial recognition, will apply to financial assets that are not measured at FVTPL, including loans, lease receivables, debt securities, financial guarantee contracts and loan commitments issued. Accordingly, no impairment loss will be recognized on equity investments.

Upon initial recognition of instruments in scope of the new impairment principles, the Bank will record a loss allowance equal to 12-month ECL, being the ECL that result from default events that are possible within the next twelve months. Subsequently, for those financial instruments that have experienced a significant increase in credit risk (SICR) since initial recognition, a loss allowance equal to lifetime ECL will be recognized, arising from default events that are possible over the expected life of the instrument. Financial assets for which 12-month ECL are recognized will be considered to be in ‘Stage 1’; financial assets which are considered to have experienced a SICR will be allocated in ‘Stage 2’, while financial assets that are considered to be credit impaired will be in ‘Stage 3’. The loss allowance for purchased or originated credit impaired (POCI) financial assets will always be measured at an amount equal to lifetime ECL, as explained below.

Allocation of Exposures to Stages

The Bank will distinguish financial assets between those which are measured based on 12-month ECLs (stage 1) and those that carry lifetime ECLs (stage 2 and 3), depending on whether there has been a significant increase in credit risk as evidenced by the change in the risk of default occurring on these financial assets since initial recognition.

To determine the risk of default, the Bank applies a default definition for accounting purposes, which is consistent with the EBA definitions. In particular, the Bank will determine that financial instruments are in stage 3 by applying as consistent measures of default across all of its portfolios:

- the objective criterion of 90 days past due and;
- the existence of unlikeness to pay (UTP) criteria;

Accordingly, upon transition, the Bank considers all non-performing exposures in accordance with EBA definitions as credit-impaired and classifies those exposures at stage 3 for financial reporting purposes.

Purchased or originated credit impaired (POCI) financial assets, which include assets purchased at a deep discount and substantially modified assets arising from derecognition of the original asset and are considered originated credit impaired, are not subject to stage allocation and are always measured on the basis of lifetime ECL. The Bank will recognize interest income of financial assets at Stage 3 as well as POCI by applying the effective interest rate (EIR) on their net carrying amount.

Financial assets that experience a significant increase in credit risk(SICR) since initial recognition will be in Stage 2. In assessing whether a financial asset has experienced a SICR since initial recognition, the Bank intends to use a combination of quantitative, qualitative and backstop criteria including:

- relative changes on the residual lifetime probability of default;
- forbearance; and
- 30 days past due as backstop indicator.

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

Notes to the financial statements (continued)

A. Basis of preparation (continued)

Management may apply temporary individual or collective overlays on exposures sharing the same credit risk characteristics to take into account specific situations which otherwise would not be fully reflected in the impairment models.

Hence, upon transition, the Bank, considers all performing forborne loans as Stage 2, along with any performing exposures that have been assessed to have experienced a SICR since initial recognition.

The Bank will classify all remaining financial assets which are not classified at Stage 2, 3 or POCI in Stage 1, measured based on 12-month ECL. The Bank will recognize interest income of financial assets at Stage 2 and at Stage 1, by applying the EIR on their gross carrying amount.

When the criteria for stage 2 classification are no longer met, and the financial asset is not credit impaired, it will be reclassified to Stage 1. In addition, subsequent transfers from Stage 3 to Stage 2 will take place when the financial asset ceases to be credit impaired based on the assessment as described above.

Measurement of expected credit losses

As described above, if the credit risk of a financial instrument that is not classified as POCI has not increased significantly at the reporting date compared to its origination date, the loss allowance will be measured at an amount equal to 12 – month ECLs. The 12 – month ECLs represent a portion of lifetime losses, that result from default events that are possible within the next 12 months after the reporting date and is equal to the expected cash shortfalls over the life of the instrument or group of instruments, due to loss events probable within the next 12 months.

In cases where a significant increase in credit risk on a financial instrument has been identified at the reporting date since initial recognition date, the measurement of ECLs will be conducted on a lifetime basis. Lifetime ECLs represent the expected credit losses that result from all possible default events over the expected life of the financial instrument.

The measurement of ECLs will be a probability-weighted average estimate of credit losses that will reflect the time value of money. A credit loss is the difference between the cash flows that are due to the Bank in accordance with the contractual terms of the instrument and the cash flows that the Bank expects to receive (i.e. cash shortfalls) discounted at the original effective interest rate (EIR) of the same instrument, or the credit-adjusted EIR in case of purchased or originated credit impaired assets (POCI). In measuring ECL, information about past events, current conditions and reasonable and supportable forecasts of future conditions should be considered.

For the purposes of measuring ECL, the Bank will estimate expected cash shortfalls, which reflect the cash flows expected from all possible sources including collateral and other credit enhancements that are part of the contractual terms and are not recognized separately. In the case of a collateralized financial instrument, the estimated expected cashflows related to the collateral reflects the amount and timing of cash flows that are expected from foreclosure on the collateral less the discounted costs of obtaining and collateral sale, irrespective of whether foreclosure is probable.

ECLs will be calculated over the maximum contractual period over which the Bank is exposed to credit risk. The maximum contractual period is defined based on the substantive terms of the instrument, including the Bank's ability to demand repayment or cancellation and the customer's ability to require extension. However, for revolving credit facilities (i.e. those that include both a loan and an undrawn commitment component) the period of exposure is determined in accordance with the Bank's expected credit risk management actions to mitigate credit risk, including terminating or limiting credit exposure. In doing so, the Bank will consider its normal credit risk mitigation process, its past practice, future intentions and expected credit risk mitigation actions, the period over which the Bank was exposed to credit risk on similar instruments, and the length of time for defaults to occur on similar instruments following a significant increase in credit risk (SICR).

ECLs on individually large credit-impaired loans, above pre-defined materiality thresholds set in accordance with the Bank's risk management policy are individually assessed. For the remaining retail exposures and some exposures to small and medium-sized enterprises, ECLs will be measured on a collective basis. This incorporates borrower specific information, collective historical experience of losses and forward-looking macroeconomic information.

Notes to the financial statements (continued)

A. Basis of preparation (continued)

ECL Key inputs

The ECL calculations are based on the probability of default (PD), the loss given default (LGD), the exposure at default (EAD) and other input parameters such as the credit conversion factor (CCF) and the prepayment rate. Generally, the Bank intends to derive these parameters from developed statistical models and observed point-in-time and historical data, leveraging the existing infrastructure development for the regulatory framework and risk management practices.

The PD represents the likelihood of a borrower defaulting on its financial obligations either on the next twelve months or over the remaining lifetime. In accordance with IFRS 9, the Bank will use point-in-time unbiased PDs that will incorporate forward looking information and macroeconomic scenarios.

EAD represents the exposure that the Bank expects to be owed at the event of default. The EAD of a financial asset will be the gross carrying amount at the moment of default. In estimating the EAD, the Bank will use historical observations and forward looking forecasts to reflect payments of principal and interest and any potential drawdowns on lending commitments.

LGD represents the Bank's expectation of the extent of loss on a defaulted exposure and is the difference between the contractual cash flows due and those that the Bank expects to receive including any amounts from collateral liquidation. LGD varies by type of counterparty, type and seniority of claim, availability of collateral or other credit support, and is usually expressed as a percentage of EAD.

The CCF factor is used to convert the amount of a credit line and other off-balance sheet amounts to an EAD amount. It is a modelled assumption which represents a proportion of any undrawn exposure that is expected to be drawn prior to a default event occurring. The prepayment rate is an estimate of early prepayments on loan exposure in excess of the contractual repayment according to the repayment schedule and is expressed as a percentage applied to the EAD at each period, reducing the latter amount accordingly.

Forward looking information

In assessing whether credit risk has increased significantly since initial recognition and measuring ECL the Bank will incorporate forward looking information. The Bank will evaluate a range of forward looking economic scenarios in order to achieve an unbiased and probability weighted estimate of ECL. In particular, the Bank intends to use as a minimum three macroeconomic scenarios (i.e. base, adverse and optimistic) and considers the relative probabilities of each scenario. The base scenario will represent the most likely scenario and will be aligned with the information used by the Bank for strategic planning and budgeting purposes.

Hedge accounting

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

The Bank intends to elect to continue applying IAS 39. However, the Bank will provide the expanded disclosures required by the related amendments to IFRS 7 '*Financial Instruments: Disclosures*'.

IFRS 9 Implementation Program

A Group-wide IFRS 9 Program, led jointly by Group Risk and Group Finance, was initiated in 2015 to ensure a robust and high quality implementation in compliance with the requirements of the Standard and respective regulatory guidance.

Overall governance is provided through a central Program Management Office (PMO) that coordinates the implementation of the Program among the various stakeholders and is responsible for the day-to-day management tasks, as well as two Management Committees, namely the Steering Committee and the Technical Committee.

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

Notes to the financial statements (continued)

A. Basis of preparation (continued)

The Steering Committee, which is jointly led by the Group Chief Risk Officer (CRO) and Chief Financial Officer (CFO) and comprises senior staff from all the main functions of the Group, is mandated to oversee the implementation in accordance with the Standard, monitors timelines and the quality of the Program's deliverables, reviews program's results, approves deliverables and changes in the scope of the program where appropriate, and regularly informs the Executive Board, the Board Risk Committee, the Audit Committee and the Board of Directors on the Program's implementation progress.
The Technical Committee is composed of Subject Matter Experts responsible for evaluating key technical issues and analyzing proposed changes in accounting policies and risk management methodologies, including all key judgments and assumptions used in the ECL model, for the Steering Committee before they are submitted and approved by the competent bodies of the Group.

Reflecting the scale and complexity of the implementation plan, the Program is structured with various project teams (Group Finance, Group Risk Management, Information Systems, Internal Audit, Lending Business Units, Troubled Assets Group, Operations, Global Markets & Treasury and International General Division) dedicated to the various elements associated with the implementation of the Standard. These teams are supported by two external consultancy firms.
Group Internal Audit is involved in the IFRS 9 implementation program, through attendance at Management meetings and Committees, training and performance of audit work.
In the context of the Group-wide IFRS 9 Implementation Program, the process of implementation of IFRS 9 requirements by Eurobank Bulgaria is managed locally with the establishment of local PMO and Steering Committee. Progress is monitored by the Group PMO with Head Office providing support and guidance to ensure consistent implementation within the Group. The Bank Steering Committee comprises senior management members of the Bank and members of the Group PMO. The Bank PMO comprises representatives from the main functions of the Bank and coordinates the implementation of IFRS 9 requirements following the Group guidelines, policies and procedures.

The program progressed further in 2017 towards achieving key milestones across all work streams. Educational workshops to the involved stakeholders were conducted on the impact of IFRS 9 to the Bank's lending practices and day-to-day operational activities in order to ensure that the new requirements are well understood and will be applied consistently across the Bank.

Comparative information on transition

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

Impact assessment

The impact of transitioning to IFRS 9, before tax, is estimated to be BGN 85,579 thousand at 1 January 2018, as depicted in the table below per IFRS 9 area. The estimated impact is mainly attributed to the lending portfolio which amounts to BGN 84,926 thousand and is expected to reduce shareholders' equity by approximately BGN 77,021 thousand, which is the net of tax IFRS 9 impact.

Impact attributed to:	**IFRS 9 impact gross of tax**	**Tax effect**	**IFRS 9 impact net of tax**
Impairment			
Loans and advances to customers (a)	84,926	(8,493)	76,433
Other financial assets (b)	653	(65)	588
Total IFRS 9 impact	**85,579**	**(8,558)**	**77,021**

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

Notes to the financial statements (continued)

A. Basis of preparation (continued)

(a) Impairment allowance for ECL –Loans & Advances to Customers

The following table presents the IFRS 9 impact analysis per stage and type of lending exposure according to EBA classification as of 1 January 2018:

		of which:				
	Total Gross Loans	**Performing exposure**	**Non-performing exposure**	**IAS 39 Impairment Allowance**	**IFRS 9 Allowance for ECL**	**IFRS 9 impact**
Stage 1	3,905,520	3,905,520	-	389	18,799	18,410
Stage 2	449,847	449,848	-	2,355	14,191	11,836
Stage 3	842,765	-	842,764	366,756	421,436	54,680
Total	**5,198,132**	**4,355,368**	**842,764**	**369,500**	**454,426**	**84,926**

In terms of impact per stage of lending exposures, the outcome of the exercise demonstrated a negative impact of BGN 18,410 thousand in Stage 1, a negative impact of BGN 11,836 thousand in Stage 2 and a negative impact of BGN 54,680 thousand in Stage 3.

(b) *Impairment allowance for ECL – Other financial assets*

The estimated impact of other financial assets is expected to be BGN 653 thousand. This is primarily attributed to ECL impairment for Loans and advances to banks entirely allocated in Stage 1, which amounts to BGN 449 thousand.

(c)Impairment allowance for ECL – Investment securities at FVOCI

ECL allowance for investment securities at FVOCI amounts to BGN 678 thousand. It is recognized within OCI therefore, it does not impact shareholders' equity and is not included in total IFRS 9 impact table above. Total ECL allowance is attributed to Stage 1 instruments.

Regulatory capital

The Bank's estimation of the capital impact from the initial adoption of IFRS 9 is shown in the table below:

	31 December 2017	**01 January 2018**	**01 January 2018**
	IAS 39	**IFRS 9 Full impact**	**IFRS 9 Transitional arrangements**
Common Equity tier 1 Capital	996,240	919,219	992,389
Risk Weighted Assets	4,576,754	4,510,453	4,573,439
Common Equity tier 1 (CET 1) ratio	**21.77%**	**20.38%**	**21.70%**

The Bank has elected to apply the phase-in approach as per EU legislation (Regulation EU 2017/2395) for mitigating the impact of IFRS 9 transition on the regulatory capital. The transition period is for five years, with the proportion to be included being 5% in 2018 and 15%, 30%, 50% and 75% in the subsequent four years. The full impact is expected as of 1 January 2023. As a consequence, CET1 ratio is expected to be reduced approximately by 7 basis points on the first year of IFRS 9 adoption, corresponding to BGN 3,851 thousand in regulatory capital by applying regulatory transitional arrangements.

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

Notes to the financial statements (continued)

A. Basis of preparation (continued)

All the assumptions, accounting policies and calculation techniques used by the Bank for the estimation of the IFRS 9 impact will continue to be subject to reviews and refinements and therefore the estimated impact may change until the Bank finalizes its financial statements for the year ending 31 December 2018.

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

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

In specific, when a financial liability measured at amortized cost is modified without this resulting in derecognition, a gain or loss, calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate, should be recognized in profit or loss
The adoption of the amendment is not expected to impact the Banks'financial statements.

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

IFRS 15 establishes a single, comprehensive revenue recognition model for determining when and how much revenue to recognize and replaces existing revenue recognition guidance, including IAS 18 'Revenue', IAS 11 'Construction Contracts' and IFRIC 13 'Customer Loyalty Programs'.
IFRS 15 applies to all contracts with customers, except those in the scope of other standards such as:

• Financial instruments and other contractual rights or obligations within the scope of IFRS 9 'Financial Instruments' or IAS 39 'Financial Instruments: Recognition and Measurement', IFRS 10 'Consolidated Financial Statements', IFRS 11 'Joint Arrangements', IAS 27 'Separate Financial Statements' and IAS 28 'Investments in Associates and Joint Ventures';

• Lease contracts within the scope of IAS 17 'Leases' (or IFRS 16 'Leases'); and

• Insurance contracts within the scope of IFRS 4 'Insurance Contracts'.

Therefore, interest and fee income integral to financial instruments will continue to fall outside the scope of IFRS 15.
IFRS 15 specifies that revenue should be recognized at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services. It introduces the concept of recognizing revenue for performance obligations as they are satisfied and the control of a good or service (i.e. the ability to direct the use of and obtain the benefits from them), is obtained by the customer. For services provided over time, such as management fee income earned for asset management services provided and variable performance fee income based on the return of the underlying asset at a particular date, consideration is recognized when the service is provided to the customer provided that it is probable that a significant reversal of consideration will not occur.
Extensive disclosures will be required in relation to revenue recognized and expected from existing contracts.
IFRS 15 was amended in April 2016 to provide several clarifications, including that in relation to the identification of the performance obligations within a contract.

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

Notes to the financial statements (continued)

A. Basis of preparation (continued)

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

IFRS 16, Leases (effective 1 January 2019)

IFRS 16, which supersedes IAS 17 'Leases' and related interpretations, introduces a single, on-balance sheet lease accounting model for lessees, under which the classification of leases for a lessee, as either operating leases or finance leases, is eliminated and all leases are treated similarly to finance leases under IAS 17. The new standard provides for the recognition of a 'right-of-use-asset' and a 'lease liability' upon lease commencement in case that there is a contract, or part of a contract, that conveys to the lessee the right to use an asset for a period of time in exchange for a consideration.
The right-of-use-asset is, initially, measured at cost, consisting of the amount of the lease liability, plus any lease payments made to the lessor at or before the commencement date less any lease incentives received, the initial estimate of restoration costs and any initial direct costs incurred by the lessee and, subsequently, at cost less accumulated depreciation and impairment. The lease liability is initially recognized at an amount equal to the present value of the lease payments during the lease term that are not yet paid.

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

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

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

IFRS 17, which supersedes IFRS 4 'Insurance Contracts' provides a comprehensive and consistent accounting model for insurance contracts. It applies to insurance contracts issued, all reinsurance contracts and to investment contracts with discretionary participating features that an entity issues provided it also issues insurance contracts. Financial guarantee contracts are allowed to be within the scope of IFRS 17 if the entity has previously asserted that it regarded them as insurance contracts.
According to IFRS 17 general model, groups of insurance contracts which are managed together and are subject to similar risks, are measured based on building blocks of discounted, probability-weighted future cash flows, a risk adjustment and a contractual service margin ('CSM') representing the unearned profit of the contracts. Under the model, estimates are remeasured in each reporting period. A simplified measurement approach may be used if it is expected that doing so a reasonable approximation of the general model is produced or if the contracts are of short duration.
Revenue is allocated to periods in proportion to the value of expected coverage and other services that the insurer provides during the period, claims are presented when incurred and any investment components i.e amounts repaid to policyholders even in the insured event does not occur, are not included in revenue and claims. Insurance services results are presented separately from the insurance finance income or expense.

IFRS 17 is not relevant to the Bank activities.

Annual Improvements to IFRSs 2014-2016 Cycle (effective 1 January 2018)

IAS 28 'Investments in Associates and Joint Ventures': It is clarified that venture capital organizations, mutual funds, unit trusts and similar entities are allowed to elect measuring their investments in associates or joint ventures at fair value through profit or loss.
The adoption of the amendment is not expected to impact the Banks' financial statements.

Notes to the financial statements (continued)

A. Basis of preparation (continued)

Annual Improvements to IFRSs 2015-2017 Cycle (effective 1 January 2019, not yet endorsed by EU)
The amendments introduce key changes to four IFRSs following the publication of the results of the IASB's 2015-17 cycle of the annual improvements project. The topics addressed by these amendments are set out below:
IFRS 3 'Business Combinations' and IFRS 11 'Joint Arrangements': It is clarified how an entity accounts for increasing its interest in a joint operation that meets the definition of a business.

- If a party obtains control of a business that is a joint operation, then the transaction constitutes a business combination achieved in stages and the acquiring party remeasures the entire previously held interest in the assets and liabilities of the joint operation at fair value.
- If a party obtains joint control, then the previously held interest is not remeasured.

IAS 12 'Income Taxes': It is clarified that all income tax consequences of dividends, including payments on financial instruments classified as equity, should be recognized in profit or loss, other comprehensive income or equity, depending on where the originating transaction or event that generated distributable profits giving rise to the dividend, was recognized.
IAS 23 'Borrowing costs': It is clarified that any borrowing originally made to develop a qualifying asset should be treated as part of general borrowings when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.
The adoption of the amendments is not expected to impact the Banks' financial statements.

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

IFRIC 22 provides requirements about which exchange rate to use in reporting foreign currency transactions that involve an advance payment or receipt. The interpretation clarifies that in this case, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income is the date of the advance consideration, i.e. when the entity initially recognized the non-monetary asset (prepayment asset) or non-monetary liability (deferred income liability) arising from the advance consideration. If there are multiple payments or receipts in advance, the entity must determine a date of transaction for each payment or receipt.
The adoption of the interpretation is not expected to impact the Banks' financial statements.

IFRIC 23, Uncertainty over Income Tax Treatments (effective 1 January 2019, not yet endorsed by EU)

The interpretation clarifies the application of the recognition and measurement requirements in IAS 12 'Income Taxes' when there is uncertainty over income tax treatments. In such a circumstance, recognition and measurement of current or deferred tax asset or liability according to IAS 12 is based on taxable profit (tax loss), tax bases, unused tax losses and tax credits and tax rates determined applying IFRIC 23.
According to the interpretation, each uncertain tax treatment is considered separately or together as a group, depending on which approach better predicts the resolution of the uncertainty and the entity should assume that a tax authority with the right to examine tax treatments will examine them and will have full knowledge of all relevant information.
If an entity concludes it is probable that the taxation authority will accept an uncertain tax treatment, it should determine its accounting for income taxes consistently with that tax treatment. If it concludes that it is not probable that the treatment will be accepted, the effect of the uncertainty in its income tax accounting should be reflected in the period in which that determination is made, using the method that best predicts the resolution of the uncertainty (ie the most likely amount or the expected value method).
Judgments and estimates made for the recognition and measurement of the effect of uncertain tax treatments should be reassessed whenever circumstances change or new information that affects those judgments arise (eg actions by the tax authority, evidence that it has taken a particular position in connection with a similar item or the expiry of its right to examine a particular tax treatment).

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

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

Notes to the financial statements (continued)

A. Basis of preparation (continued)

The financial statements have been prepared under historical cost convention as modified by:

- the revaluation of available-for-sale financial assets and certain classes of property, plant and equipment and investment property - measured at fair value through other comprehensive income and of financial assets and liabilities (including derivative instruments) measured at fair value through profit and loss;
- repossessed properties – valued at the lower of cost and net realizable value.

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 policies set out below have been consistently applied to the years 2017 and 2016. Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

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 Bulgarian Leva (BGN), rounded to the nearest thousand, unless otherwise indicated. Bulgarian Lev is the Bank's functional and presentation currency.

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.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rates prevailing at each reporting date and exchange differences are recognized in the income statement.

Non-monetary assets and liabilities are translated into the functional currency at the exchange rates prevailing at initial recognition, except for non-monetary items denominated in foreign currencies that are measured at fair value which are translated at the rate of exchange at the date the fair value is determined. The exchange differences relating to these items are treated as part of the change in fair value and are recognized in the income statement or recorded directly in equity depending onthe classification of the non-monetary item.

At 31 December 2017, monetary assets and liabilities are translated at the reference Central Bank exchange rate – BGN 1 for EUR 0.5113 (2016: BGN 1 for EUR 0.5113) and BGN 1 for USD 0.6115 (2016: BGN 1 for USD 0.53895).

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

Notes to the financial statements (continued)

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 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

Classification

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

(a) Financial assets held for trading

A financial asset is classified as held for trading if acquired principally for the purpose of selling or repurchasing in the short 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 hedging instruments.

(b) 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; or (b) those that the Bank upon initial recognition designates as available-for-sale.

Debt instruments classified in this category are presented in the financial statements in “Investment Securities” under “Debt Securities Lending portfolio”.

(c) 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. 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 If the Bank were to sell other than an insignificant amount of held-to-maturity assets, the entire category is tainted and reclassified as available for sale.

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

Notes to the financial statements (continued)

E. Financial assets (continued)

(d) 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.

Recognition and derecognition

Purchases and sales of financial assets are recognised at settlement date – which is the date that the asset is delivered to or by the Bank. Loans originated by the Bank are recognised when cash is advanced to the borrowers.

Financial assets are initially recognized at fair value plus transaction costs for all financial assets not classified as held for trading. 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.

Measurement

Loans and receivables and held-to-maturity investments are subsequently carried at amortized cost using the effective interest method, less any provision for impairment.

Available-for-sale financial assets and financial assets held for trading are subsequently carried at fair value. Gains and losses arising from changes in the fair value of the financial assets held for trading category are included in the income statement as net trading income in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognized directly in other comprehensive income, until the financial asset is derecognized or impaired, at which time the cumulative gain or loss previously recognized in other comprehensive income is recognized as profit or loss in the income statement.

Dividends on equity instruments are recognized in the income statement when the Bank's right to receive payment is established.

Interest income from financial assets held for trading is included in the net interest income. Interest on available-for-sale securities, held-to-maturity investments and loans and receivables calculated using the effective interest method is recognised as interest income in the income statement.

Fair value measurement of financial instruments

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 in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If there is no quoted price in an active market, then the Bank uses other valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The Bank has elected to use mid-market pricing as a practical expedient for fair value measurements within a bid-ask spread.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy based on the lowest level input that is significant to the fair value measurement as a whole (note W. 2.4.2).

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

Notes to the financial statements (continued)

F. 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 offinancial 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.

Impairment assessment

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and collectively for financial assets that are not individually significant. If there is no objective evidence of impairment for a financial asset, the Bank includes it in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. In determining whether a loan is individually significant for the purposes of assessing impairment, the Bank considers a number of factors, including the importance of the individual loan relationship and how it is managed, the size of the loan, and the product line. Consequently, loans to wholesale customers and financial institutions, as well as investment securities are generally considered as individually significant. Retail lending portfolios are generally assessed for impairment on a collective basis as they consist of large homogenous portfolios; exposures that are managed on an individual basis are assessed individually for impairment.

The Bank assesses at each reporting date whether there is objective evidence of impairment.

If there is objective evidence that an impairment loss on a financial asset carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of its estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring the impairment loss is the current effective interest rate determined under the contract. The carrying amount of the asset is reduced through the use of an allowance account for loans and advances or directly for all other financial assets, and the amount of the loss is recognized in the income statement. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

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.

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

Notes to the financial statements (continued)

F. Impairment of financial assets (continued)

For collective impairment purposes, the 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 borrowers' ability to pay all amounts due according to the contractual terms of the assets being evaluated.
Future cash flows of a group of financial assets that is collectively assessed 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.

Estimates of changes in the future cash flows for a group of financial 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). Historical loss experience is adjusted on the basis of current observable data to reflect the effects of 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 exist currently. The methodology and assumptions used for estimating the future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

Reversals of impairment

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 recognized (such as an improvement in the borrower's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the income statement in impairment charge for credit losses.

Write-off of loans and advances

A loan and the associated impairment allowance are written off when there is no realistic prospect of recovery. The Bank considers all relevant information including the occurrence of a significant change in the borrower's financial position to such extent that the borrower can no longer pay his obligation.
The timing of write-off is mainly dependent on whether there are any underlying collaterals, their foreclosure processes, as well as the Bank's estimates of the collectible amounts. Especially for collateralized exposures, the timing of write-off maybe delayed due to various legal impediments. The number of days past due is considered by the Bank as an indicator, however it is not regarded as a determining factor.
Unpaid debt continues to be subject to enforcement activity even after it is written-off.

Loan modifications

Modifications of loans' contractual terms may arise due to various factors, such as changes in market conditions, customer retention and other factors, as well as potential deterioration of the borrower's financial condition. Forbearance occurs in the cases where the contractual payment terms of a loan have been modified due to the deterioration of the borrower's financial position and the Bank has granted a concession by providing more favorable terms and conditions that it would not otherwise consider had the borrower not been in financial difficulties. Other renegotiations, more of a business nature, are not considered as forbearance measures.
Forbearance measures usually do not lead to de-recognition unless changes to the original contractual terms/currency result in a substantially different loan. Modifications that may not result in de-recognition include:

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

Notes to the financial statements (continued)

F. Impairment of financial assets (continued)

- reduced or interest-only payments;
- payment holidays, grace period;
- extended payment periods under which the original term of the loan is extended;
- capitalization of arrears whereby arrears are added to the principal balance; and reduction in interest rates.

If the assessment of the forborne loan's modified terms do not result in de-recognition, the loan is assessed for impairment as the forbearance measures represent a concession that the Bank would not otherwise consider. The impairment loss is measured in accordance with the Bank's impairment policy.

(b) Available-for-sale assets

The Bank assesses at each reporting date whether there is objective evidence that an asset classified as available for sale is impaired. Particularly, in case of equity investments, a significant or prolonged decline in the fair value of the security below its cost is also considered in determining whether the assets are impaired.

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 recognized in profit or loss – is removed from equity and recognized in the income statement.

Impairment losses recognized in the income statement on equity investments 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 recognized in profit or loss, the impairment loss is reversed through the income statement.

G. Sale and repurchase agreements and securities lending

(a) Sale and repurchase agreements

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. Securities purchased 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 in case of repos and the purchase and resale price in case of reverse repos is recognised as interest and accrued over the life of repo or reverse repo agreements using the effective interest rate method.

(b) Securities lending

Securities lent to counterparties are retained in the financial statements. Securities borrowed are not recognized in the financial statements, unless these are sold to third parties, in which case the obligation to return them is recorded at fair value as a trading liability.

H. Derivative financial instruments and hedge accounting

Derivatives are financial instruments :

a) whose value is changed in response to changes in a specified interest rate, financial instrument price, foreign exchange rate, index of prices and rates, credit rates or credit index or other variable;
b) that require 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.

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

Notes to the financial statements (continued)

H. Derivative financial instruments and hedge accounting (continued)

Derivative financial instruments including currency and interest rate swaps, currency forwards, forward rate agreements, options and futures are initially recognized in the balance sheet at fair value on the date on which a derivative contract is entered into and subsequently are re-measured at their fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Usually the net investment is zero (i.e. the initial net fair value of the receivables and payables is zero). Fair values of derivatives are determined based on quoted market prices, including recent market transactions, or by using other valuation techniques, as appropriate. The changes in the fair value of derivatives are included in the income statement.

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.

In addition, the Bank uses other derivatives, not designated in a qualifying hedge relationship, to manage its exposure primarily to interest rate and foreign exchange risks. Non qualifying hedges are derivatives entered into as economic hedges of assets and liabilities for which hedge accounting was not applied. The said derivative instruments are classified along with those held for trading purposes.
The method of recognizing the resulting fair value gain or loss depends on whether the derivatives are designated and qualify as hedging instruments, and if so, the nature of the item being hedged.

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.

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 the 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 security.

Derivatives that are not designated as hedging instruments

Changes in the fair value of derivative financial instruments that are not designated as a hedging instrument or do not qualify for hedge accounting are recognized in the income statement.

I. Property, plant and equipment (PPE)

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.

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

Notes to the financial statements (continued)

I. Property, plant and equipment (PPE) (continued)

Subsequent expenditure is recognized in the asset's carrying amount only when it is probable that future economic benefits will flow to the Bank and the cost of the asset can be measured reliably. All other repair and maintenance costs are recognized in the income statement as incurred.

After initial recognition the Bank measures the land and building at fair value. All other property, plant and equipment is recognised at historical cost less accumulated depreciation.

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

At the date of revaluation, the net amount of the asset is restated to its revalued amount by adjusting its accumulated depreciation, in cases where the accumulated depreciation balance is less than the upward revaluation effect, the gross carrying amount is adjusted with the difference.

If an asset’s carrying amount is increased as a result of a revaluation, the increase, net of tax, is recognised in other comprehensive income and accumulated as Revaluations surplus in shareholder’s equity. 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 write down the cost of PPE 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.

The gain or loss from derecognition of an item of PPE is included in profit or loss when the item is derecognised. The gain or loss from derecognition of an item of PPE 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.

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

Notes to the financial statements (continued)

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. 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.

L. Repossessed properties

Land and buildings repossessed through an auction process to recover impaired loans are, except where otherwise stated, included in 'Other Assets'. Assets acquired from an auction process are held temporarily for liquidation and are valued at the lower of cost and net realizable value, which is the estimated selling price, in the ordinary course of business, less costs necessary to make the sale.
In cases where the Bank makes use of repossessed properties as part of its operations, they may be reclassified to own occupied or investment properties, as appropriate.
Any gains or losses on liquidation are included in the income statement.

M. Borrowings

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.

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

Notes to the financial statements (continued)

N. 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.

O. Operating leases

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

P. 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.

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 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.

Deferred tax related to changes in fair values of available-for-sale investments which are recognized to other comprehensive income is also recognized to other comprehensive income, and is subsequently recognized in the income statement together with the deferred gain or loss.

The deferred tax asset on income tax losses carried forward is recognized as an asset when it is probable that future taxable profits will be available against which these losses can be utilized.

Q. 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.

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

Notes to the financial statements (continued)

Q. Employee benefits (continued)

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.

R. Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and reliable estimates of the amount of the obligation can be made.
The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at each reporting date, taking into account the risks and uncertainties surrounding the amount of such expenditure.
Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If, subsequently, it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

S. 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 years. 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. In 2017 a dividend on ordinary shares in the amount of EUR 30,000 thousand with equivalent in BGN 58,674 thousand (EUR 0.053541, representing the equivalent of BGN 0.10472 per ordinary share) was approved by the Extraordinary General Meeting of Shareholders. The dividend shall be paid within a five year limitation period beginning on 6 October 2017, pursuant to Art.110 of the Bulgarian Law on Obligations and Contracts.

T. 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.

U. 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 to settle any financial obligation arising at the reporting date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the management's judgment. Any increase in the liability relating to guarantees is taken to the income statement.

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

Notes to the financial statements (continued)

V. Comparatives

The Bank has not performed any reclassifications on balance sheet and income statement positions for 2016.

W. 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.

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.

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 the quantitative and qualitative aspects of all credit, market, liquidity and operational risks. It is currently complemented, by the Risk function. In addition, internal audit is responsible for the independent review of risk management and the control environment. 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 Internal Audit function, which reports directly to the Management 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 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 Bank supports its borrowers by offering various restructuring and renegotiation solutions, which improve their ability to repay the amounts due. 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.

The main Bank's financial risk management objectives and policies are set out in Annual Activity report on p. 6-9.

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

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

Notes to the financial statements (continued)

W. Financial risk management (continued)

1. Credit risk (continued)

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).

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.

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

Notes to the financial statements (continued)

W. Financial risk management (continued)

1. Credit risk (continued)

1.1. Credit risk measurement (continued)

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. The monitoring of the limits towards single borrowers or group of borrowers is done on an annual basis or more frequently following the lending policies of the Bank. The sectoral limits are monitored on a monthly basis through calculation of sectoral and individual concentration risk. The concentration risk is presented to the Risk Committee and Supervisory Board on a quarterly basis. The sectoral limits are reviewed at least on an annual 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 main types of collaterals that the Bank accepts are as follows:

- Real estate
- Pledge on movable property
- Pledge on commercial enterprises
- Pledge on receivables
- Securities
- Cash
- Letters of guarantees
- Personal guarantees /Sureties/
- Other eligible collaterals

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

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

Notes to the financial statements (continued)

W. Financial risk management (continued)

1. Credit risk (continued)

1.2. Risk limit control and mitigation policies (continued)

(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. For credit risk mitigation with regard to derivative deals with main bank counterparties, the Bank uses ISDA with CSA agreements. 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 2017 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.

As shown below 92% of the total maximum exposure is derived from loans and advances to banks and customers as well as loan commitments (2016: 89%); 6% represents investments in debt securities (2016: 9%).

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

Notes to the financial statements (continued)

W. Financial risk management (continued)

1. Credit risk (continued)

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

	As at 31 December	
	2017	**2016**
Credit risk exposures relating to on-balance sheet assets are as follows:		
Loans and advances to banks	1,264,068	1,166,309
Loans and advances to customers:		
- Mortgages	1,579,204	1,498,990
- Consumer lending (including credit cards)	647,655	615,073
- Small Business lending	570,201	550,890
- Corporate lending	2,031,572	1,549,447
Trading assets - debt securities	13,263	1,535
Derivative financial instruments	241	586
Investment securities- available-for-sale-debt securities	430,877	422,133
Debt Securitiy Lending	19,181	176,984
Other assets	8,824	12,515
Credit risk exposures relating to off-balance sheet items are as follows:		
Guarantees	80,561	134,100
Letters of credit	38,226	21,210
Undrawn Loan commitments	835,455	828,368
Total	**7,519,328**	**6,978,140**

1.4. Loans and advances

Loans and advances are summarized as follows:

	As at 31 December	
Loans and advances to customers	**2017**	**2016**
Neither past due nor impaired	4,037,424	3,351,514
Past due but not impaired	317,944	294,619
Impaired	842,764	980,770
Gross	**5,198,132**	**4,626,903**
Less: allowance for impairment	(369,500)	(412,503)
Net	**4,828,632**	**4,214,400**
Included in gross loans and advances are:		
Past due more than 90 days	627,968	709,771

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

Notes to the financial statements (continued)

W. Financial risk management (continued)

1. Credit risk (continued)

1.4 Loans and advances (continued)

The total impairment provision for loans and advances is BGN 369,500 thousand (2016: BGN 412,503 thousand) of which BGN 178,509 thousand (2016: BGN 190,872 thousand) represents the individually impaired loans provision and the remaining amount of BGN 190,991 thousand (2016: BGN 221,631 thousand) represents the portfolio provision. Movement of the impairment allowance for loans and advances to customers is provided in Note 13. During 2017, the Bank's total net loans and advances increased by 15%. 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 2017 net loans and advances were affected by BGN 898 thousand (2016: BGN 4,358 thousand) IMO recoveries received on realized loan collaterals. IMO Property Investments Sofia E.A.D. (IMO) is a related company of the Bank, which is involved in the real estate management business.

(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 2017 can be assessed by reference to the internal standard grading system (see W.1.1.a). The following information is based on that system:

Satisfactory risk	**As at 31 December 2017**	**As at 31 December 2016**
Mortgages	1,249,441	1,111,772
Corporate Lending	1,825,849	1,346,810
Consumer Lending	583,949	541,191
SBB Lending	375,165	321,022
Total Satisfactory risk	**4,034,404**	**3,320,795**
Watch list (Corporate Lending)	3,020	30,719

(b) Loans past due but not impaired

31 December 2017	**Consumer Lending**	**Mortgages**	**SBB Lending**	**Corporate Lending**	**Total**
Past due up to 29 days	28,920	72,286	39,137	96,771	**237,114**
Past due 30 - 89 days	13,092	40,420	23,178	4 140	**80,830**
Total	**42,012**	**112,706**	**62,315**	**100,911**	**317,944**

31 December 2016	**Consumer Lending**	**Mortgages**	**SBB Lending**	**Corporate Lending**	**Total**
Past due up to 29 days	37,547	85,332	40,442	41,768	**205,089**
Past due 30 - 89 days	16,228	47,798	24,904	600	**89,530**
Total	**53,775**	**133,130**	**65,346**	**42,368**	**294,619**

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

Notes to the financial statements (continued)

W. 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 W.1.1.

31 December 2017	**Consumer lending**	**Mortgages**	**SBB lending**	**Corporate Lending**	**Total**
Past due up to 29 days	11,115	44,849	864	10,519	**67,347**
Past due 30 - 89 days	7,229	24,673	990	5,857	**38,749**
Past due 90 - 179 days	7,149	31,191	2,341	-	**40,681**
Past due less than 1 year	5,917	12,781	1,560	-	**20,258**
Past due over 1 year	21,093	180,398	89,988	-	**291,479**
Collectively assessed for impairment	**52,503**	**293,892**	**95,743**	**16,376**	**458,514**

31 December 2016	**Consumer lending**	**Mortgages**	**SBB lending**	**Corporate Lending**	**Total**
Past due up to 29 days	11,758	37,800	15,757	-	**65,315**
Past due 30 - 89 days	5,819	25,544	9,455	178	**40,996**
Past due 90 - 179 days	7,321	30,018	2,077	-	**39,416**
Past due less than 1 year	7,828	16,984	1,984	-	**26,796**
Past due over 1 year	20,740	208,396	142,310	-	**371,446**
Collectively assessed for impairment	**53,466**	**318,742**	**171,583**	**178**	**543,969**

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 W.1.1.

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

Notes to the financial statements (continued)

W. Financial risk management (continued)

1. Credit risk (continued)

1.4 Loans and advances (continued)

31 December 2017	Mortgages	SBB Lending	Corporate Lending	Total
Past due up to 29 days	-	12,265	35,687	**47,952**
Past due 30 - 89 days	-	8,775	51,973	**60,748**
Past due 90 - 179 days	-	5,623	7,783	**13,406**
Past due less than 1 year	-	5,140	12,788	**17,928**
Past due over 1 year	-	146,163	98,053	**244,216**
Individually impaired loans	**-**	**177,966**	**206,284**	**384,250**

31 December 2016	Mortgages	SBB Lending	Corporate Lending	Total
Past due up to 29 days	6,943	-	133,454	**140,397**
Past due 30 - 89 days	-	404	23,888	**24,292**
Past due 90 - 179 days	-	8,498	5,013	**13,511**
Past due less than 1 year	-	5,139	9,604	**14,743**
Past due over 1 year	-	141,104	102,754	**243,858**
Individually impaired loans	**6,943**	**155,145**	**274,713**	**436,801**

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)

W. Financial risk management (continued)

1. Credit risk (continued)

1.4 Loans and advances (continued)

Information about collateral at 31 December 2017 is as follows:

	Corporate loans	Consumer loans	SBB loans	Mortgage loans	Total
Unsecured loans	498,689	633,192	72,931	88,116	**1,292,928**
Loans guaranteed by other banks	28,237	-	25,255	-	**53,492**
Loans guaranteed by other parties, including credit insurance	29,331	-	533	-	**29,864**
Loans collateralised by:					
- residential real estate	52,305	200	160,146	1,473,195	**1,685,846**
- other real estate	1,153,431	54	284,089	17,272	**1,454,846**
- cash deposits	6,084	6,013	7,823	621	**20,541**
- other assets	263,495	8,196	19,424	-	**291,115**
Total loans and advances to customers	**2,031,572**	**647,655**	**570,201**	**1,579,204**	**4,828,632**

Information about collateral at 31 December 2016 is as follows:

	Corporate loans	Consumer loans	SBB loans	Mortgage loans	Total
Unsecured loans	395,559	599,898	75,817	103,859	**1,175,133**
Loans guaranteed by other banks	65,149	-	1,960	-	**67,109**
Loans guaranteed by other parties, including credit insurance	31,051	-	272	-	**31,323**
Loans collateralised by:					
- residential real estate	60,382	304	165,496	1,374,749	**1,600,931**
- other real estate	842,250	59	286,846	19,912	**1,149,067**
- cash deposits	4,262	6,212	5,492	470	**16,436**
- other assets	150,794	8,600	15,007	-	**174,401**
Total loans and advances to customers	**1,549,447**	**615,073**	**550,890**	**1,498,990**	**4,214,400**

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

Notes to the financial statements (continued)

W. Financial risk management (continued)

1. Credit risk (continued)

1.5. Debt securities, loans and advances to banks and derviatives

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

						31 December 2017
Rating	**Trading securities**	**Investment securities, available for sale**	**Debt securities lending**	**Loans and advances to banks**	**Derivatives**	**Total**
AA- to AA+	-	-	-	6,794	-	**6,794**
A- to A+	-	-	-	101,580	-	**101,580**
BBB- to BBB+	13,263	424,092	-	-	-	**437,355**
BB- to BB+	-	-	-	3539	-	**3539**
Lower than BB-	-	-	19,181	1,151,635	191	**1,171,007**
Unrated	-	6,785	-	520	50	**7,355**
Total	**13,263**	**430,877**	**19,181**	**1,264,068**	**241**	**1,727,630**

The Bank regularly monitors its loans and advances to banks, securities and derivatives positions and the environment of operation. Investment securities available for sale include impaired corporate bonds with carrying amount of BGN 6,785 thousand (2016: BGN 9,262 thousand). The impairment provisions as of end of 2017 amounted to BGN 13,263 thousand (2016: BGN 11,914 thousand).

Rating	**Trading securities**	**Investment securities, available for sale**	**Debt securities lending**	**Loans and advances to banks**	**Derivatives**	**Total**
AA- to AA+	-	-	-	5,023	-	**5,023**
A- to A+	-	-	-	74,472	-	**74,472**
BBB- to BBB+	1,535	412,477	176,984	213	-	**591,209**
BB- to BB+	-	-	-	758	-	**758**
Lower than BB-	-	-	-	1,085,603	569	**1,086,172**
Unrated	-	9,656	-	240	17	**9,913**
Total	**1,535**	**422,133**	**176,984**	**1,166,309**	**586**	**1,767,547**

Impairment provision of corporate bonds:	**2017**	**2016**
Balance at 1 January	11,914	10,063
Charge to the income statement for the year	2,005	1,851
Write offs due to sale of bonds	(656)	-
Balance at 31 December	**13,263**	**11,914**

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

Notes to the financial statements (continued)

W. 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	**2017**	**2016**
Commercial property	6,183	2,610
Residential property	4,520	5,238
Land	946	867
Total	**11,649**	**8,715**

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 property	Fair value 31/12/2017 (BGN th)	Valuation technique	Input	Range (BGN) (weighted average) 2017	Range (BGN) (weighted average) 2016	Connection between the unobservable input and FV
Land	946	Market comparison approach	price per m2	0.50 - 318.18 (17.89)	0.75 - 328.58 (21.07)	A significant increase in price per m2 would result in a higher fair value
Residential	4,520	Market comparison approach	price per m2	1.51 - 2523.02 (467.59)	50.85 - 2523.02 (697.48)	A significant increase in price per m2 would result in a higher fair value
		Cost approach	price per m2	116.12	138.63	A significant increase price per m2 would resu a higher fair value
Mixed	6,183	Market comparison approach	price per m2	48.27 - 1419.38 (260.41)	50.26 - 1466.87 (215.83)	A significant increase in price per m2 would result in a higher fair value
		Income approach	rent per m2	1.55 - 7.16 (3.81)	-	A significant increase in price per m2 would result in a higher fair value
		Cost approach	price per m2	0.88 - 279.39 (47.75)	6.04	A significant increase in price per m2 would result in a higher fair value

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

Notes to the financial statements (continued)

W. Financial risk management (continued)

1. Credit risk (continued)

1.6. Repossessed collateral

Reconciliation of Level 3 movement:	2017	2016
Balance at 1 January	**8,715**	**5,866**
Additions	-	5,200
Sales	(1,140)	(5,360)
Impairment	(518)	(754)
Transfers	4,592	3,764
Balance at 31 December	**11,649**	**8,715**

Transfers represent assets transferred from Property, plant and equipment (refer to Note 16). The impairment loss of repossessed collaterals has been included in a separate line in the Income Statement.

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 2017. 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	-	1,151,635	259	96,687	15,487	1,264,068
Trading assets – debt securities	13,263	-	-	-	-	13,263
Loans and advances to customers:						
- Mortgages	1,565,793	2,921	332	7,784	2,374	1,579,204
- Consumer lending incl. credit cards	643,202	755	189	2,988	521	647,655
-Small business lending	570,199	-	2	-	-	570,201
-Corporate lending	2,017,602	-	-	10,879	3,091	2,031,572
Investment debt securities – AFS	426,701	-	4,176	-	-	430,877
Derivative financial instruments	50	191	-	-	-	241
Investment debt securities – DSL	-	-	-	19,181	-	19,181
Other assets	8,824	-	-	-	-	8,824
31 December 2017	**5,245,634**	**1,155,502**	**4,958**	**137,519**	**21,473**	**6,565,086**

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

Notes to the financial statements (continued)

W. Financial risk management (continued)

1. Credit risk (continued)

1.7. Concentration of risks of financial assets with credit risk (continued)

	Bulgaria	**Greece**	**Romania**	**Rest of Europe**	**Other countries**	**Total**
Loans and advances to banks	-	1,085,603	50	44,089	36,567	1,166,309
Trading assets – debt securities	1,535	-	-	-	-	1,535
Loans and advances to customers:						
- Mortgages	1,488,435	2,817	230	5,235	2,273	1,498,990
- Consumer lending incl. credit cards	611,732	748	118	2,093	382	615,073
-Small business lending	550,888	-	2	-	-	550,890
-Corporate lending	1,539,643	-	-	9,804	-	1,549,447
Investment debt securities – AFS	417,702	-	4,431	-	-	422,133
Derivative financial instruments	17	569	-	-	-	586
Investment debt securities – DSL	-	-	-	176,984	-	176,984
Other assets	12,515	-	-	-	-	12,515
31 December 2016	**4,622,467**	**1,089,737**	**4,831**	**238,205**	**39,222**	**5,994,462**

(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**	**Manufacturing**	**Con-struction**	**Public sector**	**Financial institutions**	**Other**	**Total**
Loans and advances to banks	-	-	-	-	-	1,264,068	-	1,264,068
Trading assets-debt securities	-	-	-	-	13,263	-	-	13,263
Loans and advances to customers:								
- Mortgages	-	1,579,204	-	-	-	-	-	1,579,204
-Consumer lendin incl. credit cards	-	647,655	-	-	-	-	-	647,655
-Small business lending	345,006	7,303	89,705	50,985	-	161	77,041	570,201
-Corporate lendin	827,589	-	558,946	247,124	1,291	60,883	335,739	2,031,572
Investment debt securities - AFS	486	-	6,300	-	424,091	-	-	430,877
Derivative financial instruments	-	-	-	-	-	241	-	241
Investment debt securities – DSL	-	-	-	-	-	19,181	-	19,181
Other assets	-	-	-	-	-	8,824	-	8,824
31 December 2017	**1,173,081**	**2,234,162**	**654,951**	**298,109**	**438,645**	**1,353,358**	**412,780**	**6,565,086**

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

Notes to the financial statements (continued)

W. Financial risk management (continued)

1. Credit risk (continued)

1.7. Concentration of risks of financial assets with credit risk (continued)

(b) ***Industry sectors (continued)***

	Commerce and services	**Private individuals**	**Manufacturing**	**Con-struction**	**Public sector**	**Financial institutions**	**Other**	**Total**
Loans and advances to banks	-	-	-	-	-	1,166,309	-	1,166,309
Trading assets-debt securities	-	-	-	-	1,535	-	-	1,535
Loans and advances to customers:								
- Mortgages	-	1,498,990	-	-	-	-	-	1,498,990
-Consumer lending incl. credit cards	-	615,073	-	-	-	-	-	615,073
-Small business lending	338,558	7,387	88,358	50,115	-	295	66,177	550,890
-Corporate lending	635,490	-	447,751	107,250	1,431	54,238	303,287	1,549,447
Investment debt securities - AFS	486	-	6,695	1,096	412,476	1,380	-	422,133
Derivative financial instruments	13	-	2	-	-	571	-	586
Investment debt securities – DSL	-	-	-	-	-	176,984	-	176,984
Other assets	-	-	-	-	-	12,515	-	12,515
31 December 2016	**974,547**	**2,121,450**	**542,806**	**158,461**	**415,442**	**1,412,292**	**369,464**	**5,994,462**

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 the Bank 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.

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

Notes to the financial statements (continued)

W. Financial risk management (continued)

1. Credit risk (continued)

1.8. Offsetting Financial assets and financial liabilities (continued)

	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 2017					
Derivative assets	173	-	173	(173)	**-**
Liabilities as of 31 December 2017					
Derivative liabilities	(7,135)	-	(7,135)	6,823	**(313)**

	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 2016					
Derivative assets	569	-	569	(569)	**-**
Liabilities as of 31 December 2016					
Derivative liabilities	(6,489)	-	(6,489)	5,380	**(1,109)**

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

Notes to the financial statements (continued)

W. Financial risk management (continued)

2. Market risk

Market risk is the current or prospective risk to earnings and capital arising from adverse movements in market parameters, such as interest rates, foreign exchange rates, equity prices and implied volatilities. Market risk can generally affect both trading and banking book positions, at both the asset and the liability side of the balance sheet. This risk comprises:

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

Interest rate risk is the current or prospective risk to earnings and capital arising from the change in the direction or volatility of interest rates/interest rate derivatives, the shape of the yield curve and the spread between different interest rates.

Foreign exchange risk is the current or prospective risk to earnings and capital arising from adverse movements in spot and forward currency exchange rates in the banking and trading books.

Equity risk is the current or prospective risk to earnings and capital arising from the change in the direction or volatility of equity prices/indices or changes in the relationship between different equity prices/indices.

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

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

The Market & Counterparty 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 run market risk.

The Bank's Market & Counterparty Risk Policy is approved by the Risk Committee of Eurobank Bulgaria AD and maintained by Market Risk Department. Market Risk Department reviews the policy at least annually and submits 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 in the business;
- 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.

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

Notes to the financial statements (continued)

W. Financial risk management (continued)

2. Market risk (continued)

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. Daily VaR is calculated only for the listed equities portfolio. 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 overnight open 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)

W. 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 2017
	Total Effect on Economic Value	**Direct P&L Effect**	**Direct Equity Effect**	**Banking Book Effect**
Interest Rate				
+100 bps parallel shift for all currencies	**(9,726)**	(737)	(14,469)	5,479
Equities / Equity Indices / Mutual Funds				
-10% equity price drop across the board	**(98)**	(96)	(2)	-
Foreign exchange				
-10% depreciation of local currency	**622**	622	-	-

				31 December 2016
	Total Effect on Economic Value	**Direct P&L Effect**	**Direct Equity Effect**	**Banking Book Effect**
Interest Rate				
+100 bps parallel shift for all currencies	**(7,971)**	(100)	(13,427)	5,556
Equities / Equity Indices / Mutual Funds				
-10% equity price drop across the board	**(91)**	(90)	(1)	-
Foreign exchange				
-10% depreciation of local currency	**(612)**	(612)	-	-

Sensitivity to changes to the three major market risk factors – foreign exchange rates, interest rates and equity prices, 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 10% depreciation of the local currency against all foreign currencies (except Euro), which include mainly 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:

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

Notes to the financial statements (continued)

W. Financial risk management (continued)

2. Market risk (continued)

2.3. Sensitivity of assets and liabilities (continued)

- Direct P&L effect - for items with fair value changes recorded through profit and loss (trading portfolio securities and derivatives);
- Direct equity effect - for items with fair value changes included in OCI (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.

3. Equity price risk sensitivity has been calculated by applying a 10% drop 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:

				At 31 December 2017
	Level 2	**Level 3**	**Total Fair Value**	**Total Carrying Amount**
Financial assets				
Loans and advances to banks	**1,264,068**	-	**1,264,068**	**1,264,068**
Loans and advances to customers				
- Corporate		1,951,474	**1,951,474**	**2,031,572**
- SBB		576,091	**576,091**	**570,201**
- Consumer		748,616	**748,616**	**647,655**
- Mortgage		1,782,650	**1,782,650**	**1,579,204**
Financial liabilities				
Other borrowed funds	30,420	-	**30,420**	**30,420**

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

Notes to the financial statements (continued)

W. Financial risk management (continued)

2. Market risk (continued)

2.4. Fair values of financial assets and liabilities (continued)

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

				At 31 December 2016
	Level 2	**Level 3**	**Total Fair Value**	**Total Carrying Amount**
Financial assets				
Loans and advances to banks	1,166,309	-	**1,166,309**	**1,166,309**
Loans and advances to customers				
- Corporate		1,476,715	**1,476,715**	**1,549,447**
- SBB		545,430	**545,430**	**550,890**
- Consumer		706,678	**706,678**	**615,073**
- Mortgage		1,674,333	**1,674,333**	**1,498,990**
Debt Securities Lending	182,735	-	**182,735**	**176,984**
Financial liabilities				
Other borrowed funds	78,959	-	**78,959**	**78,959**

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.

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.

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

Notes to the financial statements (continued)

W. Financial risk management (continued)

2. Market risk (continued)

2.4. Fair values of financial assets and liabilities (continued)

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 2017 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 and illiquid debt securities.

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

	31 December 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value:				
Financial assets held for trading				
-Debt securities	13,263	-	-	**13,263**
-Equity securities	963	-	-	**963**
Derivative financial instruments	-	241	-	**241**
Available-for-sale investment securities				
-Investment securities - debt	424,092	0	6,785	**430,877**
-Investment securities - equity	16	3,416	5,919	**9,351**
Total financial assets	**438,334**	**3,657**	**12,704**	**454,695**
Financial liabilities measured at fair value:				
Derivative financial instruments	-	7,793	-	**7,793**
Total financial liabilities	**-**	**7,793**	**-**	**7,793**

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

Notes to the financial statements (continued)

W. Financial risk management (continued)

2. Market risk (continued)

2.4. Fair values of financial assets and liabilities (continued)

2.4.2. Financial instruments measured at fair value (continued)

	31 December 2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value:				
Financial assets held for trading				
-Debt securities	1,535	-	-	**1,535**
-Equity securities	903	-	-	**903**
Derivative financial instruments	-	586	-	**586**
Available-for-sale investment securities				
-Investment securities - debt	412,476	-	9,656	**422,132**
-Investment securities - equity	11	3,005	5,918	**8,934**
Total financial assets	**414,925**	**3,591**	**15,574**	**434,090**
Financial liabilities measured at fair value:				
Derivative financial instruments	-	6,693	-	**6,693**
Total financial liabilities	**-**	**6,693**	**-**	**6,693**

Bank's valuation processes

The Bank uses widely recognized valuation models for determining the fair value of common financial instruments, such as interest and currency swaps and forwards, 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.

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.

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

Notes to the financial statements (continued)

W. Financial risk management (continued)

2. Market risk (continued)

2.4. Fair values of financial assets and liabilities (continued)

2.4.2. Financial instruments measured at fair value (continued)

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).

As of 2013 end, 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, (ii) net assets' valuations, adjusted where considered necessary and (iii) dividend discount models, where deemed appropriate.

Reconciliation of Level 3 fair value measurement	2017	2016
Balance at 1 January	**15,574**	**26,141**
Transfers into Level 3	-	-
Total loss for the period included in other comprehensive income	(2,870)	(10,567)
Balance at 31 December	**12,704**	**15,574**

Visa Europe AFS equity revaluation amounting to BGN 8,356 thousand booked in 2015 Other Comprehensive income of the Bank in anticipation of the finalization of Visa Inc. transaction in 2016, was accordingly reversed in 2016.

3.Liquidity risk

Basel Committee defines liquidity as “the ability of the Bank to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses“.

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.

The Bank has a limited appetite for liquidity risk and accepts the potentially increased costs of maintaining sufficient liquidity buffers to ensure a sound liquidity position.

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

Notes to the financial statements (continued)

W. Financial risk management (continued)

3.Liquidity risk

3.1. Liquidity risk management process

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

Within its liquidity risk management framework, the Bank observes various liquidity ratios and indicators. The main aspects to be considered in liquidity control are liquidity ratios, the availability of sufficient and quality liquid assets and buffers, maturity mismatch profile, diversity and stability of the deposit base, loans to deposits ratio, stress test results and other.

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 is responsible to regularly produce and distribute the internally adopted liquidity gap reports with embedded liquidity ratios. It is the unit which exercises an independent liquidity risk control function, escalating any excesses to the respective management bodies.

In addition to the internally defined liquidity ratios, the Bank also monitors and complies with the mandatory and the recommended levels of the liquidity ratios defined in Ordinance №11 of the Bulgarian National Bank (BNB) on liquidity management, as well as any other regulatory requirements. In parallel, since Regulation (EU) No575/2013 entered into force, the Bank also prepares the templates for the calculation of Liquidity Coverage Ratio (LCR) on a monthly basis and Net Stable Funding Ratio (NSFR) on a quarterly basis.

The Bank also makes assessment of its liquidity position under stress scenarios, developed to analyse the adequacy of the Bank's liquidity to withstand crisis situations (e.g. significant deposit outflows, tightening of credit lines, etc.).

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.

ALCO is composed of the senior management of the Bank, meets at least once a month and duly reports any significant issues to the MB of the Bank.

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.

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 manages 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 are 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.

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

Notes to the financial statements (continued)

W. Financial risk management (continued)

3.Liquidity risk

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 2017 and 2016. Liabilities without contractual maturities (sight and saving deposits) are presented in "less than 1 month" time bucket.

As at 31 December 2017	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	***6,143,332***	***4,511,082***	***564,280***	***901,001***	***157,938***	***9,031***
Due to other banks	9,025	9,025	-	-	-	-
Due to customers	6,082,782	4,482,581	560,260	897,174	142,767	-
Other borrowed funds	32,049	-	4,020	3,827	15,171	9,031
Other liabilities	19,476	19,476	-	-	-	-
Derivative financial instruments	***1,280,845***	***945,055***	***304,929***	***16,675***	***11,303***	***2,883***
Outflows from net settled	17,357	-	1,173	1,997	11,303	2,883
Outflows from gross settled	1,263,488	945,055	303,756	-	-	--
Total liabilities (contractual maturity)	**7,424,177**	**5,456,137**	**869,209**	**917,676**	**169,241**	**11,914**
Total assets (contractual maturity)	**9,363,226**	**3,894,295**	**442,307**	**574,078**	**2,398,573**	**2,053,973**

As at 31 December 2016	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	***5,650,303***	***4,190,745***	***400,677***	***939,868***	***106,268***	***12,745***
Due to other banks	21,171	21,171	-	-	-	-
Due to customers	5,528,595	4,109,016	396,640	935,990	86,949	-
Other borrowed funds	81,061	41,082	4,037	3,878	19,319	12,745
Other liabilities	19,476	19,476	-	-	-	-
Derivative financial instruments	***1,301,288***	***1,081,672***	***193,547***	***1,984***	***15,704***	***8,381***
Outflows from net settled	28,189	-	2,120	1,984	15,704	8,381
Outflows from gross settled	1,273,099	1,081,672	191,427	-	-	-
Total liabilities (contractual maturity)	**6,951,591**	**5,272,417**	**594,224**	**941,852**	**121,972**	**21,126**
Total assets (contractual maturity)	**8,925,709**	**3,867,776**	**333,794**	**492,241**	**1,927,282**	**2,304,616**

3.3. Off-balance sheet items

(a) *Loan commitments*

The amounts of the Bank's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities are presented on-demand - to the earliest period in which the Bank can be required to pay and are summarised in the table below:

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

Financial guarantees are presented on-demand in the table below, based on the earliest date on which the guranatee can be called.

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

Notes to the financial statements (continued)

W. Financial risk management (continued)

3.Liquidity risk

At 31 December	2017	2016
Guarantees:		
- guarantees and standby letters of credit	118,787	155,310
Commitments:		
- Undrawn loan commitments	835,455	828,368

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.

In accordance with Law on Credit Institutions each bank or banking group is required to hold the minimum level of paid-in capital amounting to BGN 10,000 thousand.

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 Regulation № 575/2013 and Directive 2013/36 of the European Union. The required information is filed with the Bulgarian National Bank on a quarterly basis.

Regulatory capital consists of Common Equity Tier 1 capital, Additional Tier 1 capital and Tier 2 capital. Tier 1 capital includes shareholders' ordinary equity, „Reserve” fund, retained earnings from previous year, unrealized gains/losses from available for sale financial instruments and is reduced by intangible assets. Tier II capital includes subordinated debt and revaluation reserves for the real estate, occupied by the Bank.

The own funds requirements under Basel III are the following (as a percentage of risk-weighted assets, RWA):

- CET 1 capital ratio of 4.5%;
- Tier 1 capital ratio of 6%;
- Total capital ratio of 8 %.

Additionally, capital conservation buffer and systemic risk buffer are introduced. The capital conservation buffer equals 2.5% of RWA and the systemic risk buffer – 3% of RWA.

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.

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

Notes to the financial statements (continued)

W. Financial risk management (continued)

4. Capital management (continued)

The table below summarizes the composition of regulatory capital and the Capital adequacy ratio of the Bank for the years ended 31 December calculated in accordance with Regulation (EU) 575/2013 that is in force since 01.01.2014. During those two years, the Bank complied with all of the externally imposed capital requirements to which they are subject.

	2017	2016
Tier 1 capital		
Share capital	560,323	560,323
Reserves	499,894	438,347
Revaluation reserve of financial assets available for sale	(290)	-
Less:		
Intangible assets	(46,254)	(39,542)
Other deductions from CET1	(17,433)	-
Total qualifying Tier 1 capital	**996,240**	**959,128**
Tier 2 capital		
Revaluation reserve of property owned by the Bank	212	685
Total qualifying Tier 2 capital	212	685
Risk-weighted assets		
On-balance sheet	4,304,208	3,786,188
Off-balance sheet	272,546	324,741
Total risk-weighted assets	**4,576,754**	**4,110,929**
Basel ratio	**21.77%**	**23.35%**

X. Critical accounting estimates and judgments in applying accounting policy

In the process of applying the Bank's accounting policies, the Bank's Management makes various judgments, estimates and assumptions that may affect the reported amounts of assets and liabilities recognized in the financial statements within the next financial year. 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 portfolios 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.

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

Notes to the financial statements (continued)

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

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.

Fair value of loans and advances of customers acquired

Following IFRS 3 Business Combination requirement, loans and advances to customers acquired through the acquisition of Alpha Bank's Bulgarian Branch during 2016 were measured at fair value as of acquisition date and subsequently measured at amortized cost.
Loans and advances to customers acquired were fair valued using a valuation model. 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 discount rates. Loans are grouped into homogenous assets with similar characteristics, such as currency, product, borrower type and delinquency status, in order to improve the accuracy of the estimated valuation outputs. Assumptions for expected prepayments and timing of collateral realization were incorporated in estimating future cash flows, while the discount rates incorporate observable inputs such as forward interest curves and unobservable inputs for relevant risk premiums, as appropriate.

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 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.

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

Notes to the financial statements (continued)

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

Retirement benefit obligations(continued)

For information in respect of the sensitivity analysis of the Bank's retirement benefit obligations 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 W.2.3) illustrates the potential impact on the income statement and equity from reasonable possible shifts in the market variables. The parameters for the calculations of sensitivity to changes in the three major market risk factors – foreign exchange rates, interest rates and equity prices, have been determined based on the current market environment and the dynamics observed during 2017.

The foreign exchange risk sensitivity has been calculated directly on the total net open position of the Bank as a 10% depreciation of the local currency against all foreign currencies (excluding Euro). The EUR/BGN 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 interest rate sensitive 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 10% drop in Bulgarian Stock Exchange 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 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 cost and net realizable value, which is the estimated selling price, in the ordinary course of business, less costs necessary to make the sale. 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.

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

Notes to the financial statements (continued)

1 Net interest income

Interest and similar income	2017	2016
Loans and advances to customers	258,338	268,338
Loans and advances to banks	19,886	15,484
Investment securities	9,030	11,383
Hedging instruments	5,668	6,712
Derivative instruments	5,294	2,754
Trading securities	100	570
Total	**298,316**	**305,241**

Interest income includes BGN 18,106 thousand (2016: BGN 21,206 thousand) interest income, recognised on impaired loans to customers, out of which BGN 3,400 thousand (2016: BGN 5,072 thousand) remain due by the customer as of year-end.

Interest and similar charges	2017	2016
Deposits from customers	9,976	24,269
Hedging instruments	3,386	4,038
Other borrowed funds	496	2,386
Derivative instruments	74	252
Deposits from banks	182	781
Total	**14,114**	**31,726**

2 Net fee and commission income

Fees and commission income	2017	2016
Money transfers	30,005	25,551
Account maintenance	23,274	19,559
Foreign exchange operations	11,107	9,054
Loans' fees and commissions	9,601	11,086
Receipts from sales of services	8,771	8,337
Cash operations	7,442	6,156
Documentary business	1,748	1,889
Management, brokerage and securities trading	969	700
Other fees	948	935
Operations with derivatives	206	977
Total	**94,071**	**84,244**

Fee and commission expense	2017	2016
Loans related fees	2,112	2,190
Transactions processing	10,187	9,925
Cash transactions and correspondent accounts	791	526
Other fees	459	364
Management, brokerage and securities trading	202	167
Operations related to derivatives	-	977
Total	**13,751**	**14,149**

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

Notes to the financial statements (continued)

3 Other operating income	2017	2016
Net Gain on sale of loans	-	10,511
Rental income	260	228
Net gain from non-current fixed assets	20	393
Bargain purchase gain	-	548
Investment and own property impairment	(272)	(194)
Total	**8**	**11,486**

BGN 10,511 thousand net gain on sale of a consumer loan portfolio was recognized in 2016.
Bargain purchase gain recognized in 2016 relates to the Alpha Branch acquisition.
Rental income is based on short term contracts.

4 Net trading expense	2017	2016
Net results from derivative instruments	(1,440)	(127)
Net trading income	**(1,440)**	**(127)**

5 Other operating expenses	2017	2016
Staff costs (Note 6)	62,139	68,036
Operating lease rentals	20,652	21,689
Repairs and maintenance	8,821	9,138
External services	5,793	9,083
Depreciation of property, plant and equipment (Note 16)	6,964	7,731
Advertising and marketing	6,877	7,626
Amortisation of intangible assets (Note 17)	6,473	6,256
Software costs	5,199	5,570
Security	4,363	4,118
Other operating costs	959	2,005
Communication	541	3,458
Materials and utilities	1,598	1,679
Insurance	576	667
Travel and accommodation	689	523
VAT refund	(8)	(252)
Total	**131,635**	**147,327**

6 Staff costs	2017	2016
Wages and salaries	51,329	57,209
Social security costs	3,942	4,328
Pension costs – defined contribution plans	4,765	4,344
Pension costs – defined benefit plans (Note 25)	288	524
Other	1,815	1,631
Total staff cost	**62,139**	**68,036**

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

Notes to the financial statements (continued)

7 Impairment charge for credit losses	**2017**	**2016**
Loans and advances to customers (Note 13)	(70,085)	(69,662)
Credit commitments release/(charge) impairment	422	(93)
Total	**(69,663)**	**(69,755)**

8 Income tax expense	**2017**	**2016**
Deferred income tax (benefit) (Note 23)	(310)	(522)
Current income tax	15,145	14,981
Total	**14,835**	**14,459**

Tax is payable at an actual rate of 10% (2016: 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:

	2017	**2016**
Profit before income tax	**151,100**	**134,029**
Tax calculated at a tax rate of 10% (2016: 10%)	15,110	13,403
Tax effect of:		
non tax deductible expenses	581	1,576
non taxable income	(712)	(868)
(gain)/loss recognized in OCI	(144)	348
Income tax expense	**14,835**	**14,459**

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 management of the Bank is not aware of any circumstances, which can potentially raise material tax obligations.

The last full-scope tax audit of the Bank has been carried out in 2014, covering the periods 2008 – 31.03.2013 with respect to VAT and 2008 – 2012 with respect to CITA.

9 Income tax effects relating to comprehensive income

	Year ended 31 December					
	2017			**2016**		
	Before tax amount	**Tax (expense)/ benefit**	**Net of tax amount**	**Before tax amount**	**Tax (expense)/ benefit**	**Net of tax amount**
Available for sale securities	13,076	(1,308)	11,768	6,842	(684)	6,158
Change in FV of property, plant and equipment	-	-	-	(87)	9	(78)
Remeasurements of post -employment benefit obligations	(841)	84	(757)	646	(65)	581
Total	**12,234**	**(1,223)**	**11,011**	**7,401**	**(740)**	**6,661**

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

Notes to the financial statements (continued)

10 Cash and balances with the Central Bank

	2017	2016
Cash in hand	107,873	89,157
Balances with Central bank	634,516	631,266
Total	**742,389**	**720,423**
Mandatory reserve with Central Bank in accordance with BNB Regulation 21	541,139	497,926

Mandatory reserves with Central bank represent the minimum level of deposits which the Bank is required to maintain with BNB. As at the end of 2016 and 2017 the Bank has fulfilled the requirement for a minimum 100% coverage of mandatory reserves with balances with Central bank on a monthly basis. Balances with Central bank can be freely used daily provided the average monthly minimum deposits are maintained.

11 Loans and advances to banks

	2017	2016
Deposits in other banks	1,264,068	1,166,309
Total	**1,264,068**	**1,166,309**

Included in the amount of loans and advances to banks is accrued interest of BGN 160 thousand (2016: BGN 113 thousand).
Funds placed in banks domiciled in OECD (Organisation for Economic Co-operation and Development) countries represent 100 % (2016: 100 %) of due from other banks amounts.

12 Financial assets held for trading

	2017	2016
Bulgarian government bonds	13,263	1,535
Shares	963	903
Total	**14,226**	**2,438**
Equity securities:		
- Listed	963	903
Bonds:		
- Listed	13,202	207
- Unlisted	61	1,328

Included in the amount of the bonds is accrued interest in the amount of BGN 37 thousand (2016: BGN 21 thousand).

Gains less losses from trading securities	**2017**	**2016**
Debt securities	327	835
Equity securities	47	28
Total	**374**	**863**

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

Notes to the financial statements (continued)

13 Loans and advances to customers	2017	2016
Consumer lending (including credit cards)	678,464	648,433
Small Business lending	711,189	713,096
Mortgages	1,656,039	1,570,587
Corporate lending	2,152,440	1,694,787
Gross loans and advances	**5,198,132**	**4,626,903**
Less allowance for impairment losses on loans and advances	(369,500)	(412,503)
Net outstanding balance of loans and advances to customers	**4,828,632**	**4,214,400**

Included in the amount of loans and advances to customers is accrued interest of BGN 32,514 thousand (2016: BGN 36,349 thousand). In 2017 Eurobank Bulgaria AD purchased loans from BRS in the amount of BGN 46,437 thousand (2016: BGN 20,828 thousand). The company is related party of the Eurobank Group.

	2017	2016
The ten largest exposures to customers	584,424	469,100
Percentage of gross loans	11.24%	10.14%

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 2016	**141,744**	**55,569**	**153,412**	**160,453**	**511,178**
Charge for the year	12,788	22,608	15,146	19,120	**69,662**
Recoveries and legal and collection fees	1,325	(2)	1,060	1,182	0 **3,565**
Amounts written off	(121,748)	(10,143)	(6,856)	(35,936)	**(174,683)**
Foreign exchange differences	(748)	3,565	(557)	521	**2,781**
At 31 December 2016	**33,361**	**71,597**	**162,205**	**145,340**	**412,503**

	Consumer lending	Mortgages	Small Business Lending	Corporate Lending	Total
At 1 January 2017	**33,361**	**71,597**	**162,205**	**145,340**	**412,503**
Charge for the year	9,002	23,334	20,936	16,813	**70,085**
Recoveries and legal and collection fees	913	304	1,590	4,567	**7,374**
Amounts written off	(12,459)	(20,356)	(43,415)	(44,783)	**(121,013)**
Foreign exchange differences	(8)	1,956	(328)	(1,069)	**551**
At 31 December 2017	**30,809**	**76,835**	**140,988**	**120,868**	**369,500**

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

Notes to the financial statements (continued)

14 Investment securities

14 a Investment securities, available for sale

	2017	2016
Bulgarian government bonds	419,916	408,045
Corporate unsecured bonds	6,785	9,657
Foreign government bonds	4,176	4,431
Shares and participations	9,351	8,934
Total	**440,228**	**431,067**
Equity securities		
Listed	16	11
Unlisted	9,335	8,923
Debt securities		
Listed	426,438	412,136
Unlisted	4,439	9,997
Total	**440,228**	**431,067**

Included in the amount of investment securities is accrued interest in the amount of BGN 5,311 thousand (2016: BGN 5,840 thousand).

Foreign government bonds consist of exposures to the following countries: Romania BGN 4,176 thousand (maturing 2018) (2016: Romania BGN 4,431 thousand).

On 21 June 2016, Visa Inc. announced the completion of the acquisition of Visa Europe Ltd. In accordance with the terms of the final transaction agreement, upon the closing of the transaction Visa Inc. paid an up-front cash consideration of € 12.2 bn and issued preferred shares equivalent to a value of € 5.3 bn to the shareholders of Visa Europe. In addition, a deferred cash payment of € 1.12 bn, including interest, will be paid on the third anniversary of the closing date.

The Bank recognized its share of the sale proceeds, including BGN 8,784 thousand in cash, BGN 3,004 thousand in preferred shares and BGN 700 thousand as the present value of the deferred consideration in ‘Gains less losses from investment securities’. Visa Europe AFS equity revaluation booked in 2015 Other Comprehensive income of the Bank in anticipation of the finalization of Visa Inc. transaction in 2016, was accordingly reversed in 2016.

Movement in available for sale securities is reconciled as follows:

Book value as at 31 December 2015	**381,040**
Additions	70,261
Disposals	(36,309)
Change in accrued interest	(297)
Amortization of discounts or premium	(204)
Net fair value gain	18,427
Impairment of corporate securities	(1,851)
Book value as at 31 December 2016	**431,067**
Additions	49,181
Disposals	(51,116)
Change in accrued interest	348
Amortization of discounts or premium	(575)
Net fair value gain	13,328
Impairment of corporate securities	(2,005)
Book value as at 31 December 2017	**440,228**

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

Notes to the financial statements (continued)

14. Investment securities, available for sale (continued)

Gains less (losses) and impairment of securities available for sale	**2017**	**2016**
Transfer the revaluation reserve from equity to income statement	2,659	780
Gains/(Losses) recognized on sale of AFS securities directly through income statement	277	(321)
Impairment of investment security recognised directly in income statement	(2,005)	(1,978)
Gains recognized on sale of DSL	5,580	-
Gain recognised on exchange of shares (VISA)	-	12,461
Total	**6,511**	**10,942**

14 b Investment securities, Debt Securities lending

	2017	**2016**
Bonds issued by banks	19,181	176,984
Total	**19,181**	**176,984**
Debt securities		
Listed	19,181	176,984

Book value as at 31 December 2015	**169,400**
Additions	0
Change in accrued interest	358
Amortization of discounts or premium	990
Foreign Exchange differences from translation into entity currency	6,236
Book value as at 31 December 2016	**176,984**
Additions	19,168
Disposals	(176,984)
Change in accrued interest	13
Book value as at 31 December 2017	**19,181**

Included in the amount of debt securities lending is accrued interest in the amount of BGN 13 thousand (2016: BGN 715 thousand).

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.

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

Notes to the financial statements (continued)

15 Investment property (continued)

Investment property	**2017**	**2016**
Beginning of the year	678	843
Negative revaluation	(272)	(165)
End of the year	**406**	**678**

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

Class property	**Fair value 31/12/2017 (BGN th)**	**Valuation technique**	**Significant Unobservable Input**	**Range (weighted average) 2017 in BGN**	**Range (weighted average) 2016 in BGN**	**Connection between the unobservable input and FV**
Land	406	Market comparison approach	price per m2	11.97		A significant increase in price per m2 would result in a higher fair value
		Cost approach	price per m2		20	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).

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.
As a result of the current economic environment and market conditions, the frequency of property transactions is relatively stable without significant variations of the prices. There is 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.
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.

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

Notes to the financial statements (continued)

16 Property, plant and equipment (continued)

	Land and buildings	Leasehold improvements	Plant and equipment	Total tangible fixed assets
At 31 December 2015				
Gross amount	22,833	24,348	88,943	**136,124**
Accumulated depreciation	(6,361)	(15,976)	(73,683)	**(96,020)**
Net book amount	**16,472**	**8,372**	**15,260**	**40,104**
Year ended 31 December 2016				
Opening net book amount	16,472	8,372	15,260	**40,104**
Additions	1 191	2 299	9,817	**13,307**
Impairment and write offs	(115)	(103)	(698)	**(916)**
Transfers	(3,764)	-	-	(3 764)
Depreciation charge (Note 5)	(496)	(1,986)	(5,249)	**(7,731)**
Closing net book amount	**13,288**	**8,582**	**19,130**	**41,000**
At 31 December 2016				
Gross amount	18,806	25,902	90,434	**135,142**
Accumulated depreciation	(5,518)	(17,320)	(71,304)	**(94,142)**
Net book amount	**13,288**	**8,582**	**19,130**	**41,000**
Year ended 31 December 2017				
Opening net book amount	13,288	8,582	19,130	**41,000**
Additions	448	1,223	9,487	**11,158**
Transfers	(4,547)	(45)	-	**(4,592)**
Depreciation charge (Note 5)	(247)	(1,783)	(4,934)	**(6,964)**
Closing net book amount	**8,942**	**7,977**	**23,683**	**40,602**
At 31 December 2017				
Gross amount	12,959	27,068	84,939	**124,966**
Accumulated depreciation	(4,017)	(19,091)	(61,256)	**(84,364)**
Net book amount	**8,942**	**7,977**	**23,683**	**40,602**

Transferred assets to Repossessed asssets category at amount of BGN 4,592 thousand (refer to Note W.1.6).

	2017	2016
Land and buildings at revalued amount	**8,942**	**13,288**
Revaluation reserve, net of tax	(1,059)	(1,712)
Difference between accumulated depreciation based on cost and based on revalued amount not yet transferred to retained earnings	764	839
Deferred tax on revaluation	(118)	(190)
Land and buildings at cost less accumulated depreciation	**8,529**	**12,225**

(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 31/12/2017 in BGN thousands	Valuation technique	Significant Unobservable Input	Range (weighted average) 2017 in BGN	Connection between the unobservable input and FV
Office	4,269	Income approach	rental price per m2	1.50 - 19.56 (3.95)	A significant increase in price per m2 would result in a higher fair value
Office	4,673	Market comparison approach	price per m2	400.95 - 1662.46 (1080.91)	A significant increase in price per m2 would result in a higher fair value
Office	**8,942**				

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.

17 Intangible assets

At 31 December 2015	
Gross book amount	78,592
Accumulated amortisation	(44,044)
Net book amount	**34,548**
Year ended 31 December 2016	
Opening net book amount	34,548
Additions	11,265
Disposals and write offs	(15)
Amortisation charge (Note 5)	(6,256)
Closing net book amount	**39,542**
At 31 December 2016	
Gross book amount	88,875
Accumulated amortisation	(49,333)
Net book amount	**39,542**
Year ended 31 December 2017	
Opening net book amount	39,542
Additions	13,185
Amortisation charge (Note 5)	(6,473)
Closing net book amount	**46,254**
At 31 December 2017	
Gross book amount	92,536
Accumulated amortisation	(46,282)
Net book amount	**46,254**

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

Notes to the financial statements (continued)

17 Intangible assets (continued)

Intangible assets	**2017**	**2016**
Software	20,372	15,021
Other	11,822	10,399
Licenses	9,815	10,259
Internally developed	4,245	3,863
Total	**46,254**	**39,542**

Internal development costs recognized in 2017 as intangible asset are BGN 967 thousand (2016: BGN 1,017 thousand).

18 Other assets

Other assets	**2017**	**2016**
Amounts in transit	4,215	7,465
Repossessed collaterals	11,649	8,715
Other debtors	4,030	4,662
Prepaid expenses	4,261	3,580
Other assets	1 692	1 602
Materials	21	25
Less: impairment against other assets	(1,113)	(1,214)
Total	**24,755**	**24,835**

The financial assets contained in the Other assets note amounted to BGN 8,824 thousand (2016: BGN 12,515 thousand). Amounts in transit are closed within a day or two.The non-financial assets of BGN 15,931 thousand (2016: 12,320 thousand) are expected to be realized within 12 months.

Impairment against other financial assets	**2017**	**2016**
Opening balance at 1st of January	1,214	1,124
Charged to the income statement	379	649
Reversed to the income statement	(51)	(50)
Used during year	(429)	(509)
Closing balance	**1,113**	**1,214**

19 Deposits from Banks

Deposits from Banks	**2017**	**2016**
Current accounts from other banks	3,353	4,171
Deposits from other banks	5,672	17,000
Total	**9,025**	**21,171**

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

Notes to the financial statements (continued)

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, 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 is represented by 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.

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:

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

Notes to the financial statements (continued)

20 Derivative financial instruments (continued)

Year ended 31 December 2017	**Contract / notional amount**	**Assets**	**Liabilities**
Derivatives held for trading			
Foreign exchange derivatives			
OTC currency forwards	17,625	69	18
OTC currency swaps	1,211,279	172	3,513
Total OTC currency derivatives for trading	**1,228,904**	**241**	**3,531**
Interest rate derivatives			
OTC interest rate swaps	38,334	-	1,530
OTC IR options bought and sold	64,564	-	-
Total OTC interest rate derivatives for trading	**102,898**	**-**	**1,530**
Derivatives held for hedging			
OTC interest rate swaps	111,482	-	2,732
Total OTC interest rate derivatives for hedging	**111,482**	**-**	**2,732**
Total recognised derivative assets / liabilities		**241**	**7,793**

Year ended 31 December 2016	**Contract / notional amount**	**Assets**	**Liabilities**
Derivatives held for trading			
Foreign exchange derivatives			
OTC currency forwards	2,234	16	16
OTC currency swaps	1,261,743	567	1,411
Total OTC currency derivatives	**1,263,977**	**583**	**1,427**
Interest rate derivatives			
OTC IR options bought and sold	74,115	3	3
Total OTC interest rate derivatives	**74,115**	**3**	**3**
Derivatives held for hedging			
OTC interest rate swaps	166,246	-	5,263
Total OTC interest rate derivatives for hedging	**166,246**	**-**	**5,263**
Total recognised derivative assets / liabilities		**586**	**6,693**

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 2017 was BGN 2,732 thousand negative(2016: BGN 5,263 thousand negative).

The gain on the hedging instruments was BGN 1,975 thousand (2016: loss BGN 3,545 thousand). The loss on the hedged item attributable to the hedged risk was BGN 1,949 thousand (2016: gain BGN 3,420 thousand). In 2017 the fair value hedges were highly effective (2016: highly effective), and the net effect recognised in income statements is a gain of BGN 26 thousand (2016: loss BGN 125 thousand).

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

Notes to the financial statements (continued)

21	**Due to customers**	**2017**	**2016**
	Large corporate customers	1,167,551	859,305
	Medium corporate customers	262,928	234,304
	Total due to corporate customers	**1,430,479**	**1,093,609**
	Retail customers	4,649,738	4,430,724
	Total due to customers	**6,080,217**	**5,524,333**

Included within due to customers is related accrued interest payable of BGN 1,560 thousand (2016: BGN 3,075 thousand).

22	**Other borrowed funds**	**2017**	**2016**
	Long term loan from EBRD	-	41,091
	Long term debt from Bulgarian Development Bank	26,508	30,042
	European Investment Bank Loan	3,912	7,826
	Total	**30,420**	**78,959**

a) 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 was increased to EUR 30,000 thousand (BGN 58,675 thousand). As of 31 December 2017 Eurobank Bulgaria has no outstanding liabilities under that facility. (2016: BGN 41,091 thousand).

b) Loans received from the Bulgarian Development Bank

In July 2015, Eurobank Bulgaria signed a Loan Agreement with Bulgarian Development Bank (NAPRED) for on-lending to MSMEs combining funding and risk-sharing. The total size of the facility is BGN 30,000 thousand, disbursable in 3 tranches of BGN 10,000 thousand each in accordance with the contracted disbursement plan. As of 31 December 2017 the total liability amounted to BGN 26,508 thousand (2016: BGN 30,042 thousand).

c) 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 2017 the total liability amounted to BGN 3,912 thousand (2016: 7,826 thousand).

d) 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 2017 and 2016 the utilization of that line is BGN 0.

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

Notes to the financial statements (continued)

22. Other borrowed funds (continued)

			31 December 2017	
	Within 1 year	**1-5 years**	**Over 5 years**	**Total**
Loans from Bulgarian Development Bank BGN				
Floating rate	3,529	14,118	8,824	**26,471**
Accrued interest	37	-	-	**37**
Loan from the European Investment Bank				
Floating rate	3,911	-	-	**3,911**
Accrued interest	1	-	-	**1**
Other borrowed funds	**7,478**	**14,118**	**8,824**	**30,420**

			31 December 2016	
	Within 1 year	**1-5 years**	**Over 5 years**	**Total**
EBRD Credit lines				
Floating rate	41,072	-	-	**41,072**
Accrued interest	19	-	-	**19**
Loans from Bulgarian Development Bank BGN				
Floating rate	3,529	14,118	12,353	**30,000**
Accrued interest	42	-	-	**42**
Loan from the European Investment Bank				
Floating rate	3,912	3,912	-	**7,824**
Accrued interest	2	-	-	**2**
Other borrowed funds	**48,576**	**18,030**	**12,353**	**78,959**

(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% (2016: 10%). The movement on the deferred income tax account is as follows:

	2017	2016
Deferred tax liability at the beginning of year	2,243	2,710
Deferred tax liability net recognized in OCI	(157)	55
Deferred income tax benefit (Note 8)	(310)	(522)
Deferred tax liability at end of year	**1,776**	**2,243**

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

	2017	2016
Deferred income tax liabilities		
Accelerated tax depreciation	3,642	3,725
Property revaluation	117	190
Gain on share exchange	416	416
Actuarial gain	-	52
	4,175	**4,383**
Deferred income tax assets		
Unused holidays	137	148
Provision for court claims	625	611
Provision for retirement obligations	473	440
Deferred tax assets on actuarial loss	32	0
Deferred tax assets on provisions for restructuring	336	537
Other temporary differences	796	404
	2,399	**2,140**

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

	2017	2016
Depreciation	(83)	395
Unused holidays	11	(22)
Provision for court claims and off balances	(14)	(121)
Other temporary differences	(392)	(221)
Provisions for restructuring	201	(507)
Provision for retirement obligations	(33)	(46)
Net deferred tax (benefit)/ charge	**(310)**	**(522)**

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

Notes to the financial statements (continued)

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	2017	2016
Opening balance at 1st of January	6,117	4,916
Charged to the income statement	1,438	1,506
Used during year	(1,312)	(305)
Closing balance	**6,243**	**6,117**

(b) Provisions for restructuring

The table below presents movement in provision for restructuring for 2017:

Provisions for restructuring	2017	2016
Opening balance at 1st of January	4,366	304
Charged to the income statement	66	4,062
Used during year	(3,265)	-
Closing balance	**1,167**	**4,366**

(c) Assets pledged

Assets are pledged as collateral 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	
	2017	2016	2017	2016
Cash with Central bank (held as MRR)	541,139	497,926	6,082,615	5,573,535
Trading and investment securities (pledged under government accounts)	34,016	32,918	29,494	15,445
Loans pledged under long term debt agreement	23,967	25,757	26,508	30,042
Total	**599,122**	**556,601**	**6,138,617**	**5,619,022**

The total financial assets that have been pledged as collateral for liabilities (including amounts reflected above) as of 31 December 2017 was BGN 599,122 thousand (2016: BGN 556,601 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 82 thousand (2016: BGN 93 thousand) as a cover for letter of credit and letter of guarantee transactions. The amount of BGN 192 (2016: BGN 0 thousand) is blocked in a BNB account under a disputed court ruling. Pledged funds under Credit Support agreements are BGN 6,650 thousand (2016: BGN 4,811 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 Due to customers (note 21) and Other borrowed funds (note 22), as appropriate.

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

Notes to the financial statements (continued)

25 Retirement benefits obligations

IAS 19 establishes the principle that the cost of providing employee benefits should be recognised in the period in which the benefit is earned by the employee, rather than when it is paid or payable.
Defined benefit plans involves incorporating actuarial assumptions into measurement of the obligation and the expenses. Therefore, actuarial gain and losses arise. Obligations are measured on a discounted basis, as they might be settled many years after the employees render the related services.
According to the revised IAS 19, the liability for employee benefits recognized on the balance sheet at the end of the fiscal year is equal to the balance sheet obligation at the beginning of the year after the effect of:

- service cost
- interest cost
- employers contributions
- paid benefits
- gains or losses from curtailment and settlements
- gains or losses in actuarial liability or in the assets of the plan

	2017	**2016**
Retirement benefit obligation at 01 January	3,886	4,064
Service cost	391	460
Interest cost	89	96
Benefits paid	(191)	(170)
Settlement/Curtailment	43	83
Remeasurement	841	(647)
Retirement benefit obligation at 31 December	**5,059**	**3,886**
Expenses recognised in profit or loss		
Service cost	391	460
Interest cost	89	96
Settlement/Curtailment	43	83
Other expense	(235)	(115)
Total expense included in staff costs	**288**	**524**
Total remeasurement recognised in OCI	**841**	**(647)**

Significant actuarial assumptions	**2017**	**2016**
Discount rate	1.80%	2.30%
Future salary increase:		
2017:	3.00%	0.80%
2018:	3.00%	0.80%
2019:	3.00%	1.60%
After 2020:	3.00%	2.60%

(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 2017 is 18.03 years (2016: 17.32 years).

Sensitivity analysis

A quantitative sensitivity analysis based on reasonable changes to significant actuarial assumptions as at 31 December 2017 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 7.9% or BGN 399 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 6.9% or BGN 351 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	2017	2016
Other creditors	19,377	9,058
Accrued expenses	19,169	8,938
Unused paid leave accrual	1,365	1,479
Withholding tax obligations	214	421
Other	1,044	441
Total	**41,169**	**20,337**

The financial liabilities contained in the Other liabilities note amounted to BGN 26,685 thousand (2016: BGN 10,811 thousand).

27 Share capital

As of 31 December 2017 the total authorized number of ordinary shares of Eurobank Bulgaria AD was 560,323,302 (2016: 560,323,302) with a nominal value of BGN 1 per share. All issued shares are fully paid. Eurobank Ergasias S.A. owns directly 56.14%, another 43.85% of the share capital is owned by ERB New Europe Holding B.V. and 0.01% by minority shareholders.

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

Notes to the financial statements (continued)

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:

	2017	2016
Cash in hand (Note 10)	107,873	89,157
Balances with Central bank excluding the minimum level of mandatory reserves	363,946	382,303
Loans and advances to banks (Note 11)	1,264,068	1,166,309
Total amount of cash and cash equivalent	**1,735,887**	**1,637,769**

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.

29 Related party transactions

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

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

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

A number of banking transactions are entered into with related parties in the normal course of business. 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

	31 December 2017			31 December 2016		
	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)	-	46,437	-	-	20,828	-
Loans and advances to banks (weighted interest rate 2017: 1.46%, 2016: 1.67%)	1,151,635	432	-	1,085,603	212	-
Loans and advances to customers (weighted interest rate 2017: 2.09%, 2016: 2.13%)	-	92,177	32	-	105,732	51
Debt securities lending	-	19 181	-	-	-	-
Derivative financial instruments assets	192	50	-	569	3	-
Other assets	-	1 212	-	-	954	-
Due to other banks	1,011	174	-	1,174	854	-
Due to customers (weighted interest rate 2017 0.00% , 2016: 0.03%)	-	20,301	215	-	7,563	316
Derivative financial instruments liabilities	6,917	-	-	6,489	203	-
Other liabilities	-	64	-	-	108	-
Interest income	30,454	1,461	2	20,451	2,463	3
Interest expense	(3,421)	(9)	-	(2,039)	(17)	-
Fee and commission income	417	591	-	963	600	-
Fee and commission (expense)	(102)	(3)	-	(142)	(3)	-
Net trading income	512	(3,710)	-	(4,333)	140	-
Salaries and other short-term benefits	-	-	1,618	-	-	1,687
Rental expense	-	(7,234)	-	-	(6,318)	-
Valuation expenses	-	(283)	-	-	(392)	-
Other Expenses	(684)	(551)	-	(1,130)	(591)	-
Letters of guarantee issued	-	7	-	-	7	-
Letters of guarantee received	4,320	-	-	121,307	-	-

*represent other entities under common control

All loans lent to related parties in 2017 (and 2016) are categorized as neither past due, nor impaired according to Group provision policy, thus no provisions have been booked in 2017 (and 2016) related to them.

(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 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.

(b) Loan commitments, guarantee and other financial facilities

As at 31 December 2017, 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:

	2017	**2016**
Guarantees	80,561	134,100
Letters of credit	38,226	21,210
Loan commitments and other credit related liabilities	835,455	828,368
Total	**954,242**	**983,678**

(c) Capital Expenditures

As at 31 December 2017, the Bank had the following capital expenditure commitments:

	2017	**2016**
Capital Expenditures	**5,480**	**2,900**

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	**2017**	**2016**
No later than one year	9,755	9,437
Later than one year and no later than five years	40	1,052
Total	**9,795**	**10,489**

(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 2017 is BGN 30 thousand (2016: BGN 19 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 2017.