EUROBANK BULGARIA
FINANCIAL STATEMENTS
31 DECEMBER 2015

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

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Independent auditor's report

To Shareholders of the Eurobank Bulgaria AD

Report on the Financial Statements

We have audited the accompanying financial statements of Eurobank Bulgaria AD (the "Bank") which comprise the balance sheet as of 31 December 2015 and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Eurobank Bulgaria AD as of 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

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

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

In our opinion, the Annual Report set out on pages 1 to 12, is consistent with the accompanying financial statements of the Bank as of 31 December 2015.

Milka Damianova
Registered Auditor

Stefan Weiblen
PricewaterhouseCoopers Audit OOD

25 March 2016
Sofia, Bulgaria

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

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

ANNUAL DIRECTORS' REPORT

The management presents the annual Directors' report as of 31 December 2015.

BUSINESS DESCRIPTION

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

BUSINESS OVERVIEW

Development and results from the business activity

The year 2015 was a milestone year for the Bank's results. The strategy of Eurobank Bulgaria was to focus on organic growth, preserving the sources of income and the quality of the assets, control over the expenses, including interest expense, as well as reducing the nonperforming portfolio. In the past years this strategy proved its resilience and in 2015 the results of the Bank are among the best in the system. Although the economy is picking up this is still not felt in the banking system which makes organic growth in lending difficult to achieve. This is why Eurobank Bulgaria saw an opportunity in the acquisition of Alpha Bank's branch in Bulgaria and in November 2015 a preliminary agreement was signed with Alpha Bank S.A. Through this deal Eurobank Bulgaria will improve its positions and will become the fourth largest bank on the market in terms of loans and deposits.

The world economy is expected to grow by 2.4% in 2015, once again lower than the analysts' expectation. The underlying reasons are the declining growth rates in several emerging market economies, decelerating flows to emerging and developing countries, the weak trade and the fall of prices of commodities. Growth in the developing countries is likely to be at its lowest level since the crisis and the modest recovery in some of the high-income countries was not enough to counterbalance this effect. Although, the projections are that the world economy will start to recover in 2016, reaching growth rates of 2.9% in this year and 3.1% in the following two, the underlying risks remain. Further slowdown in the emerging markets economies, the negative trend of the commodity prices and the diverging monetary policies in USA and EU could all contribute for a lower economic recovery and new shocks.

EU economy continues with its modest recovery, led by consumption and improving trade prospects. In 2015 the EU economy grew by 1.9%, up from 1.4% in 2014. An even better trend is observed in the euro area countries – the GDP growth is up from 0.9% in 2014 to 1.6% in 2015. The factors that contributed to the results in 2015 will continue to be present also in the next – the fiscal and monetary policies will continue to support the recovery, while the falling energy prices will provide further boost to households' real incomes and consumption. This justifies the positive projection for 2016 and 2017, at 1.9% and 2.0% respectively, by when the euro area countries are expected to catch up with the rest.

The growth of the Bulgarian economy was 3% in 2015, well above analysts' expectations. The contribution of all GDP components is positive, however, a closer look at the data shows some underlying issues. The external sector is performing well with exports rising by 7.6% and imports by 4.4%, however, the quarterly data shows a slowdown in the exports in the last quarter of the year which could deepen in 2016. The investments were on an upward trend throughout the year and rose by 2.5%, however, higher growth rates are required in case the recovery is to be sustainable in the long run. Positively, the FDIs rose by 23% YoY to €1.57 billion, but remain low as a share of GDP (3.5%). Growth of consumptions stood at 0.7%, which is on the low side given that the consumption is expected to be one of the drivers of growth in Bulgaria.

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

BUSINESS OVERVIEW (CONTINUED)

Development and results from the business activity (continued)

Deflationary pressures were persistent in 2015 and for a third consecutive year the consumer price index was negative (-0.4%). Once again the main reason were the falling prices of energy and related services, while the prices of food showed a modest increase of half a percentage point. Unemployment rate was 10% at the end of the year, the lowest in the last five years, both due to workplaces generated in the economy and the declining workforces. The falling prices and the higher employment are expected to increase the spending power of the households and support the consumption, however, it seems that the Bulgarian households still prefer to save rather than spend. The gap was filled by the government which increased its expenditures by 7% in 2015 to BGN 34.7 billion. Budget deficit shrank from 3.7% in 2014 to 2.9% in 2015 and is expected to drop to 2% in 2016.

The situation in the Bulgarian banking system remains almost unchanged since last year – demand for loans remains subdued, while there is a constant flow of new liquidity. Deposits increased by close to BGN 5.1 billion, the majority of which came from households – BGN 3.4 billion. Nominal delta of corporate deposits is at record heights, suggesting that the companies are still reluctant to invest and prefer to save their profits. Loans to companies decreased by more than 1 billion leva in the year, however, net of one off effects in the first half of the year and in December, the market was actually flat. A modest growth of loans to households (BGN 20 million) was recorded, but it is still early to say whether this is the beginning of a new trend.

The liquidity inflow into the system urges the banks to compete for new business which is driving down the rates on new lending. Interest income decreased by 8% year-on-year (BGN 314 million), however, this was compensated by the drop in the interest expenses which declined by more than a third (BGN 450 million in nominal terms). As a result, growth of net interest income was positive (+5% YoY) , but the banks have to increase their lending as further savings from the cost side will be increasingly difficult to achieve. Net fees and commission income grew by 7% YoY (BGN 62 million), but this can only partially compensate a further squeeze of the net interest margins. Impairment expenses were largely kept at the level of last year – BGN 1.1 billion. Operating expenses were practically flat, net of one off effects, such as the obligatory contributions to the newly created Bank Restructuring Fund paid at the end of the year. Net profit increased by 20% YoY to BGN 898 million, the highest level since 2008.

The capital adequacy and liquidity ratios improved further in 2015. The liquidity ratio increased by more than 6 percentage points to 36%, with the banks holding 27.7 billion leva as liquid funds at the end of the year. The average capital adequacy ratio was at 22.3% as of December 2015, well above the regulatory threshold of 13.5%. Postbank's ratio is even higher – 24.7% which provides a solid buffer against any unexpected shocks.

For another year Eurobank Bulgaria defied the market trends and was able to expand its lending portfolio. Gross loans increased by 2% to BGN 4,407 million. Loans to companies grew by 4% to BGN 2,369 million supporting Eurobank Bulgaria's goals to be one of the leaders in the corporate lending market in Bulgaria. Mortgage loans increased by 2% to BGN 1,331 million, despite the strong competition in the segment.

In the beginning of 2015, Eurobank Bulgaria devised a plan to optimize excess liquidity and reduce cost of funds, improving profitability. The plan was successfully carried out in the first two quarters of the year, resulting in an outflow of about BGN 640 million deposits and decrease of the average interest rates by half during this period. By the end of the year the trend was reversed and in the last quarter, Eurobank Bulgaria's deposits grew by close to BGN 200 million, while the average funding costs continued to fall.

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

BUSINESS OVERVIEW (CONTINUED)

Development and results from the business activity (continued)

In all, interest expenses in 2015 dropped by more than 50% to BGN 67 million, helping improve the net interest income by 12% to BGN 236 million and total income by 10% to BGN 298 million. Net fee and commission income increased by 1% to BGN 60 million, due to higher income from transfers, account maintenance and increased transactions with cards, in line with the strategy of the Bank to be the main servicing bank of its clients. Net fee income already covers 53% of operating expenses with a solid 7 percentage point improvement compared with 2014.

Costs were reduced by 11% to BGN 112 million, due to the restructuring process which was completed in the beginning of 2015. The cost-income ratio improved by a solid 8 percentage points to 46%, the lowest level since the beginning of the crisis. Throughout the year there was a notable improvement in the formation of loans past due more than 90 days. As a result, provisions for impairment decreased by 46% to BGN 66.6 million, but still the 90 days past due coverage ratio improved by 5 percentage points to the healthy 62%.

All of the above culminated in the highest net profit in the entire history of the bank. Net profit for the year was BGN 84.1 million, ensuring a solid return on shareholders' equity of 10%.

Important events that have occurred during the financial year

Postbank has been among the leaders on the banking market in Bulgaria for 25 years. The bank has been a leading factor in innovation and trend setting in the banking sector in the country in the past years and has been awarded many times for its innovations.

Postbank holds a strategic position in retail and corporate banking in Bulgaria. It is one of the leaders on the market of credit and debit cards, mortgage and consumer lending, saving products and products for corporate clients – from small firms to large international companies, operating in the country. The bank has built one of the best-developed branch networks and modern alternative banking channels.
In 2015, the bank maintained its long-term strategy of being client-centred, innovative institution working with care for the people and the community. It goes beyond the conventional market of bank products, by establishing a new client-centred banking model. The bank had invested in an innovative branch network and 20 new specialized customer service centres in the fields on mortgage lending, personal banking and small business lending were opened by end-2015.

In November 2015, Postbank and Alpha Bank S.A. concluded a definitive agreement on Postbank's acquisition of the operations of Alpha Bank's branch in Bulgaria. After the completion of the deal in 2016, Postbank will be the fourth biggest Bulgarian bank in terms of deposits and loans , with over BGN 6.3 billion assets, a branch network of more than 200 locations across the country and a considerable client base in the retail and wholesale banking segments.

In June 2015, the Bulgarian Credit Rating Agency (BCRA) reaffirmed Postbank's long-term financial rating at BB +, its short-term rating at B with a stable outlook. This is the Bank's fifth credit evaluation by BCRA.

At the beginning of December 2015, Eurobank, the European bank group part of which is, Postbank, announced its share capital increase, provided by private and sovereign investors, and by international financial institutions. Institutional and private international investors own over 95% of Eurobank after the successful capital increase.

In 2015, the bank granted new corporate loans totalling almost BGN 500 million to companies in all economic sectors, as the financial institution has set even more ambitious development plans for 2016. The most objective assessment of Postbank's success is still its clients' trust and the numerous awards it received in 2015. The European Bank for Reconstruction and Development gave the Most Active Issuing Bank in Bulgaria award for commercial financing to Postbank for a second consecutive year.

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

BUSINESS OVERVIEW (CONTINUED)

Important events that have occurred during the financial year (continued)

The bank is well developing mutual funds distributions, as well, and tripled its sales volume in 2015. The financial institution has considerable achievements in investment banking and received many prestigious international awards for its custody services. For the fifth consecutive year, in April, Postbank was named number one custodian bank on the local market by *Global Custodian Magazine* and won first place for custody services in Bulgaria in the chart of *Global Investor Magazine.*

Also in April Postbank received a very valuable recognition by the Bulgarian business sector – first place in the Innovations category of the annual awards for successful business of the Confederation of Employers and Industrialists in Bulgaria. The prestigious award was bestowed to the financial institution for its innovative approach to banking, for the development of products, new for the Bulgarian market and the set up of modern service channels and web-based services.
In September, Postbank was the only financial institution, representing Bulgaria, which reached the finals of the 9th edition of the international competition of best business practices and high achievements – the European Business Awards.

In August, the financial institution granted a total of BGN 30 million loans to small and medium companies in Bulgaria in line with the partnership agreement under the new programme of the Bulgarian Development Bank for indirect financing of Bulgarian business, named NAPRED. Under the new credit line, Postbank financed companies willing to develop, open new jobs and contribute to Bulgarian economic progress. The loans were designed for operating and investment purposes, project financing of technological renovation and for improvement of the small business competitiveness and potential.

Throughout the year, Postbank organized a number of specialized conferences under the slogan Postbank Meets the Business in support of the business in the country (Vratsa, Montana, Yambol, Haskovo, Pazardzhik, Varna, Burgas, Silistra, Targovishte, Plovdiv, Kardzhali, Kazanlak, Blagoevgrad and Dupnitsa). The meetings' objective was Postbank's experts to present strategic solutions in support of the business and entrepreneurs in the respective regions. In 2015, the financial institution launched its latest initiative Open Doors for the Business – consultations for small and medium enterprises funding with favourable conditions in various cities in Bulgaria (Varna, Burgas, Sofia, Silistra, Targovishte, and many others).

New products

In 2015, Postbank continued investing in providing innovative solutions for its customers with strong focus on consumer lending offers.

In the course of the year, the bank developed and presented its new smartphone application – MyCard, which was specially developed for Postbank's credit card holders. The modern and interactive application is unique on the market. Using a Google-based map, it shows the shortest route to any branch or ATM of the bank in the country. The app also contains detailed information about any of Postbank's partners in the MyRewards loyalty programme, including available discounts and the outlets' contacts.

Sustainable development

Investments in sustainable development are an essential element in Postbank's operations. In 2015, the financial institution was highly active in corporate social responsibility and implemented a number of socially significant projects in the field of education, environment protection, sport and corporate donations.

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

BUSINESS OVERVIEW (CONTINUED)

Sustainable development (continued)

Postbank's corporate social responsibility programmes focus on the young people and children in Bulgaria. In 2015, the bank supported UNICEF's project to develop a network of Maternal and Child Healthcare Centres which will help families provide care for their children. Back at the end of 2013, the financial institution launched its long-term strategic partnership with UNICEF Bulgaria, Best Start for Every Child – the biggest and most awarded corporate social responsibility project that has been implemented by a financial institution in Bulgaria. In 2015, Best Start for Every Child was the subject of a major communication campaign that made it the most covered CSR project and the most effective donor campaign in the country. In December 2015, the money raised from donations already were BGN 630 thousands.
Under another strategic and long-term partnership – the one with the American University in Bulgaria, Postbank invested in a hall for innovations at the prestigious school. In 2015, the hall was already being actively supported by Postbank and has become a centre for a number of useful initiatives and events.

For a second consecutive year, Postbank became the main partner in the charity relay run Postbank Business Run, which is organized each year by Club "Begach". In 2015, over 900 participants from 150 companies operating in various business sectors took part in the contest. The initiative raised BGN 8 thousands that covered the therapeutic activities which St. Sofia Support Centre provides to children with special needs or developmental difficulties.

Postbank invests in the support of developing sports that achieve international success. In July 2015, the financial institution became the main sponsor of the men's national tennis team and supported its preparations for the upcoming Davis Cup games in Luxembourg, thus, proving once again that it combines successfully its business activities with the corporate social responsibility programmes.

In September 2015, Postbank joined the international PARKing Day initiative, organized by Credo Bonum Foundation, for a third consecutive year. Under the Winged Urban Guys campaign, the financial institution surprised Sofia residents by transforming the usual parking spot on Tzar Ivan Shishman Street into an improvised art workshop. The event was aimed at drawing the people's attention to protection of birds and their natural habitats.

Postbank is the only bank in Bulgaria that has set up its own Green Board and an Environmental Office unit in its organizational structure that are focused on protecting the environment in terms of reduction of the resources used by the bank and in terms of its financing activities.

In November 2015, Postbank carried out national representative survey of the financial literacy level in the country. It marked the beginning of a new corporate social responsibility campaign Finances by Music Notes. The ambition of the Postbank's team is the new campaign, Finances by Music Notes, to build upon the bank's achievements in the field of education by implementing new technologies and using digital communication channels.

Throughout the year, the bank continued its long-standing support and work with socially disadvantaged groups and encouraged their active role in the society.

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

BUSINESS OVERVIEW (CONTINUED)

Awards

Postbank is among the most frequently awarded companies in Bulgaria. In 2015, the bank received a total of 21 prestigious awards in various fields, given by independent and highly respected Bulgarian and international institutions:

- 26 February 2015, Postbank was named Investor in Society for its strategic partnership with UNICEF Bulgaria called Best Start for Every Child at the Annual Awards for Responsible Business organized by the Bulgarian Forum of Business Leaders;
- 15 April 2015, *Global Custodian Magazine* named Postbank The Best Custodian Bank in Bulgaria;
- 15 April 2015, *Global Investor Magazine*, a leading magazine published by *Euromoney* which focuses on trends in asset management and investment banking, named Postbank the Number 1 Sub-custodian in Bulgaria;
- 29 April 2015, Best Start for Every Child received a second-place award by the Bulgarian Association of PR Agencies in the category for Sustainable Development;
- 29 April 2015, Postbank received an exceptionally valued recognition by Bulgarian business – a first-place award in the Innovations category in the annual awards for successful business of the Confederation of Employers and Industrialists in Bulgaria;
- 18 May 2015, for a second consecutive year Postbank was named The Most Active Issuing Bank in Bulgaria by the European Bank for Reconstruction and Development under a 2014 commercial financing programme;
- 20 May 2015, Best Start for Every Child was awarded in the Sustainable Development Campaign – Business category, PR Prize 2015, second place;
- 20 May 2015, Take Now, Pay Back in Instalments was awarded in the Product or Service Campaign category – PR Prize 2015, third place;
- 20 May 2015, Postbank received a special award for sustainable development for the green initiative For the Bicycles and Their People by *Manager Magazine* – PR Prize 2015;
- 26 May 2015, Postbank won first place in the BG Green Awards 2015 competition, Big Companies category. Organizers – *b2b Magazine* and *Go Bio Magazine*;
- 27 May 2015, EFFIE award for the advertising campaign Saving Mortgage Loan – third place in the Services category in the marketing efficiency competition, EFFIE Bulgaria 2015;
- 28 May 2015, first place in the Financial, Banking, Accounting and Legal Services category at the 5th annual *b2b Media* competition, The Greenest Companies in Bulgaria 2014;
- 16 June 2015, The Best Marketing Team award in the Product Re-launch category in the annual competition for marketing communications' achievements, BAAwards 2015, Bulgarian Association of Advertisers;
- 1 September 2015, Postbank is the only financial institution from Bulgaria that reached the finals of the 9th edition of the International Competition for Best Practices and High Achievements in the business sector, European Business Awards;
- 5 November 2015, Postbank received the Mystery Shopper prize in the Bank of the Year 2014 competition, organized by Association Bank of the Year;

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

BUSINESS OVERVIEW (CONTINUED)

Awards (continued)

- 8 November 2015, the Best Start for Every Child campaign was awarded in the Healthcare Initiatives category at the Golden Heart Annual Charity and Corporate Social Responsibility Awards organized by *Business Lady Magazine;*
- 20 November 2015, Best Start for Every Child received an award in the Most Sustainable Donor's Programme category at the tenth annual awards organized by the Bulgarian Donors Forum, given in the presence of the President of the Republic of Bulgaria;
- 22 November 2015, Investor in Public Communication – an award within the Day of Bernays 2015 event, organized by the Bulgarian Public Relations Society, given to Postbank for its contribution to the development of public communication in Bulgaria and the implementation of good practices;
- 30 November 2015, Petia Dimitrova, Postbank's CEO and Chairperson of the Management Board, received the prestigious Mrs Ikonomika (Mrs Economy) award in the Mr and Mrs Ikonomika competition 2015, organized by *Ikonomika Magazine* and the Confederation of Employers and Industrialists in Bulgaria;
- 1 December 2015, Petia Dimitrova was named Banker of the Year 2015 at the 22nd annual awards organized by *Banker Weekly*;
- 8 December 2015, Doncho Donev, Head of Capital Markets Division at Postbank was named Young Banker of the Year 2015 in the New Generation: Bankers awards, organized by *Standard Daily.*

SHARE CAPITAL STRUCTURE

As at 31 December 2015 the total authorized number of ordinary shares of Eurobank Bulgaria AD was 452,752,652 with a nominal value of BGN 1 per share. Eurobank Ergasias S.A. owns directly 34.56%, another 54.27% of the share capital is owned by ERB New Europe Holding B.V., 11.16% by CEH Balkan Holdings Limited and 0.01% by minority shareholders.

MANAGEMENT BOARD

As at 31of December, 2015 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 2015 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**

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

MANAGEMENT BOARD (CONTINUED)

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**

American Chamber of Commerce in Bulgaria, Bulgaria – Member of the Board of Directors (until 8 December, 2015;

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;

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

- **Dimitar Shoumarov**

IMO Rila EAD, Bulgaria – Member of the Board of Directors;

IMO Central Office EAD, Bulgaria – Member of the Board of Directors (until 03.09.2015);

IMO 03 EAD, Bulgaria – Executive Director and Member of the Board of Directors;

ERB Leasing EAD, Bulgaria – Chairman of the Board of Directors;

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

- **Asen Yagodin**

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

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

Bulgarian Stock Exchange – Sofia AD, Bulgaria – Chairman of the Board of Directors.

- **Iordan Souvandjiev**

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

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

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

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

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

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

MANAGEMENT BOARD (CONTINUED)

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 2015.

SUPERVISORY BOARD

As at 31 December 2015 the Supervisory Board consisted of the following members:

- Theodoros Karakasis – Chairman of the Supervisory Board;
- Stavros Ioannou – Member of the Supervisory Board;
- Michalis Louis – Member of the Supervisory Board;
- Anastasios Nikolaou – Member of the Supervisory Board;
- Christina Theofilidi – Member of the Supervisory Board.

Mr. Antonios Hassiotis and Mr. Nikolaos Aliprantis were members of the Supervisory board until 16.10.2015. Mr. Stavros Ioannou and Mr. Michalakis Louis were officially appointed as members of the Supervisory Board on 16.10.2015.

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

In 2015 one member of the Supervisory Board received a remuneration from the Bank in his capacity of Supervisory Board member (it has been disclosed in Note 29).

2. **Shares and bonds of the company that are acquired, owned and transferred by the members of the Supervisory Board during 2015**

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

Mr. Antonios Hassiotis is a Sole Shareholder of Investments AMK EOOD, Bulgaria, he has been a member of the Supervisory Board of the Bank up to 16.10.2015. 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

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

Bancpost S.A., Romania – Deputy Chairman of the Board of Directors;

ERB Retail Services IFN S.A., Romania – Member of the Board of Directors;

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

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

SUPERVISORY BOARD (CONTINUED)

Eurobank Property Services S.A., Romania – Chairman of the Board of Directors;

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

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

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

Bulgarian Retail Services AD, Bulgaria – Chairman of the Board of Directors;

CEH Balkan Holdings Limited – Member of the Board of Directors;

Greek-Serbian Chamber of Commerce – Deputy Chairman of the Board of Directors.

- **Stavros Ioannou**

Eurobank Ergasias S.A., Greece – Deputy Chief Executive Officer (effective as of 28.4.2015), - Group Chief Operating Officer & International Activities, Member of the Executive Board, Member of the Strategic Planning Committee (effective as of 20.2.2015);

Eurobank Ergasias S.A., Greece – Senior General Manager (until 28.4.2015), Member of the Management Committee (until 1.9.2015, at which date the Management Committee ceased to exist);

Eurobank Business Services S.A., Greece – Deputy Chairman of the Board of Directors;

Eurolife ERB General Insurance S.A., Greece – Member of the Board of Directors (from 20.2.2015 until 27.3.2015, Mr. Ioannou was Vice Chairman of the Board of Directors.);

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

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

Eurolife ERB Insurance Group Holdings 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 (effective as of 19.11.2015);

Cardlink S.A., Greece – Deputy Chairman of the Board of Directors (until 23.1.2015).

- **Michalis Louis**

Eurobank Ergasias S.A., Greece - Head of International Activities General Division, Member of the Executive Board (as of 20.2.2015);

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 of the Management Board;

CEH Balkan Holdings Limited, Cyprus - Member of the Board of Directors;

Eurobank Cyprus Ltd, Cyprus - Chief Executive Officer

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 of the Board of Directors;

NEU 03 Property Holdings Limited, Cyprus – Chairman of the Board of Directors;

ERB New Europe Funding III Limited, Cyprus – Chairman of the Board of Directors;

Public Joint Stock Company "Universal Bank", Ukraine, Member of the Supervisory Board.

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

SUPERVISORY BOARD (CONTINUED)

- **Anastasios Nikolaou**

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

PJSC "Universal Bank", Ukraine – Member of the Supervisory Board.

- **Christina Theofilidi**

Eurobank Ergasias S.A., Greece – General Manager Retail Remedial , Member of the Executive Board (as of 20.2.2015) and Member of the Management Committee (until 1.9.2015, at which date the Management Committee ceased to exist);

Eurobank Financial Planning Services S.A., Greece – Deputy Chairman of the Board of Directors;

Eurobank Remedial Services S.A., Greece – 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 - Non-Executive Director.

- **Antonios Hassiotis**

Investments AMK EOOD – Sole Shareholder and Manager.

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 2015.

GROUP STRUCTURE

Eurobank Bulgaria does not have any subsidiaries as at 31 December 2015 and therefore no consolidated financial statements are prepared at this entity level.

OBJECTIVES FOR 2016

In 2016 the main objectives of the Bank will remain unchanged - to maintain its leading position in the market and to build a long-term relationship with the clients, based on mutual trust. Further decrease of the cost of funds will allow the Bank to sustain interest margins in the increasingly competitive environment, maintaining a prudent risk appetite.

The seamless integration of the acquired ongoing concern of Alpha Bank S.A. in Bulgaria and the successful completion of the comprehensive assessment of the Bulgarian bank will be key priorities in this year. The integration of Alpha Bank Bulgaria is to be completed by the middle of 2016, ensuring a minimal disruption of sale capabilities and customer service in both networks. The anticipated successful completion of the comprehensive quality assessment will show how the banks have overcome the effects from the crisis and will increase the trust in the banking system as a whole and Eurobank Bulgaria in particular.

With the economic prospects of the country improving, there is an opportunity to expand the interest earning assets and especially the lending portfolio, further improving the profitability of the bank. This is becoming even more important after the introduction of negative interest rates on the excess reserves by BNB in the beginning of this year.

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

OBJECTIVES FOR 2016 (CONTINUED)

Lending to healthy large and medium-sized corporate clients will help utilize fast part of the excess liquidity, while the retail segment is expected to deliver another year with double-digit growth of new sales. Increasing the number of current accounts, attracting new clients and deepening the relationship with the existing ones will play a major role for increasing the fees and commissions income to offset any decrease in the lending margins.

The training of the employees will be expanded in order to increase their qualification, efficiency and motivation. The alternative sales and service channels will be further developed. The capabilities of the online banking will be expanded and a mobile banking application will be launched in the beginning of 2016.

The long-term strategy of the Bank remains unchanged - to be the bank of first choice for its customers. Gaining the trust of the clients requires a flawless customer service through multiple channels and a genuine care in listening to their opinion. 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.

MANAGEMENT RESPONSIBILITIES

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

The Directors confirm that suitable accounting policies have been used.

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

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

Юробанк България АД
Postbank
ЦУ
Град София

Petia Dimitrova
Chairperson of the Management Board and Chief Executive Officer

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

22 March 2016
Sofia, Bulgaria

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

Income statement

	Notes	Year ended 31 December 2015	2014
Interest and similar income	1	303,716	353,933
Interest and similar charges	1	(67,357)	(142,650)
Net interest income		**236,359**	**211,283**
Fee and commission income	2	72,788	73,953
Fee and commission expense	2	(12,648)	(14,214)
Net fee and commission income		**60,140**	**59,739**
Dividend income		407	619
Other operating income	3	445	234
Net trading income	4	31	579
Gains less losses from trading securities	12	(112)	513
Gains less losses and impairment of securities available for sale	14	647	(1,215)
Repossessed collateral impairment	V.1.6.	(334)	(568)
Other operating expenses	5	(112,384)	(126,456)
Deposit Insurance Fund expense		(25,063)	(20,974)
Impairment charge for credit losses	7	(66,601)	(122,981)
Profit before income tax		**93,535**	**773**
Income tax expense	8	(9,435)	(96)
Profit for the year		**84,100**	**677**

The Financial statements were authorised by the management on 22 March 2016.

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

Milka Damianova
Registered Auditor

25 March 2016

Stefan Weiblen
PricewaterhouseCoopers Audit OOD

ЮРОБАНК БЪЛГАРИЯ АД Postbank ЦУ Град София

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

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

Statement of comprehensive income	Notes	Year ended 31 December			
		2015		2014	
Profit for the year			***84,100***		***677***
Items that are or may be reclassified subsequently to profit or loss:			***13,093***		***(4,468)***
Available for sale securities					
-net changes in fair value, net of tax	9	13,317		476	
-transfer of (profit) to net profit on sale	9	(224)		(4,944)	
Items that will not be reclassified to profit or loss:			***(507)***		***171***
Impairment of property, plant and equipment, net of tax		(426)		-	
Remeasurements of post-employment benefit obligations, net of tax		(81)		171	
Other comprehensive (loss)/income for the year	9		***12,586***		**(4,297)**
Total comprehensive (loss)/income for the year			**96,686**		**(3,620)**

The Financial statements were authorized by the management on 22 March 2016.

Petia Dimitrova
Chairperson of the Management Board and Chief Executive Officer

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

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Milka Damianova
Registered Auditor

Stefan Weiblen
PricewaterhouseCoopers Audit OOD

25 March 2016

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

Balance sheet	**Notes**	**As at 31 December**	
		2015	**2014**
Assets			
Cash and balances with the Central Bank	10	1,087,898	526,711
Loans and advances to banks	11	109,616	1,487,226
Financial assets held for trading	12	11,376	58,794
Loans and advances to customers	13	3,895,818	3,833,994
Investment securities	14	550,440	130,514
Derivative financial instruments	20	2,444	2,365
Investment property	15	843	876
Property, plant and equipment	16	40,104	43,140
Intangible assets	17	34,548	35,009
Current income tax recoverable		-	485
Other assets	18	19,575	19,231
Total assets		**5,752,662**	**6,138,345**
Liabilities			
Deposits from banks	19	19,854	18,860
Derivative financial instruments	20	3,289	4,557
Due to customers	21	4,604,805	5,077,273
Debt issued and other borrowed funds	22	160,944	180,330
Deferred income tax liabilities	23	2,710	2,344
Current income tax payable		1,081	-
Provisions for other liabilities and charges	24	5,220	5,460
Retirement benefit and other obligations	25	4,064	6,114
Other liabilities	26	36,511	25,909
Total liabilities		**4,838,478**	**5,320,847**
Shareholders' equity			
Share capital	27	452,753	452,753
Statutory reserves		282,521	282,521
Retained earnings and other reserves, net		178,910	82,224
Total shareholders' equity		**914,184**	**817,498**
Total shareholders' equity and liabilities		**5,752,662**	**6,138,345**

The Financial statements were authorized by the management on 22 March 2016.

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25 March 2016

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(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 2014	**452,753**	**2,231**	**4 501**	**282,521**	**79,112**	**821,118**
Net gain recognised directly in OCI	-	-	(4,468)	-	-	**(4,468)**
Remeasurement on post-employment benefit obligations	-	-	-	-	171	**171**
Profit for the year	-	-	-	-	677	**677**
Total comprehensive income for the year 2014	-	-	**(4,468)**	-	**848**	**(3,620)**
Transfer to retained earnings	-	-	-	-	-	-
Balance at 31 December 2014	**452,753**	**2,231**	**33**	**282,521**	**79,960**	**817,498**

	Share capital	Property revaluation reserve	Available-for-sale investments revaluation reserve	Statutory Reserves	Retained earnings and other reserves	Total
Balance at 1 January 2015	**452,753**	**2,231**	**33**	**282,521**	**79,960**	**817,498**
Net gain recognised directly in OCI	-	-	13,093	-	-	**13,093**
Impairment of property, plant and equipment	-	(426)	-	-	-	(426)
Remeasurement on post-employment benefit obligations	-	-	-	-	(81)	**(81)**
Profit for the year	-	-	-	-	84,100	**84,100**
Total comprehensive income for the year 2015	-	(426)	**13,093**	-	**84,019**	**96,686**
Transfer to retained earnings	-	(7)	-	-	7	-
Balance at 31 December 2015	**452,753**	**1,798**	**13,126**	**282,521**	**163,986**	**914,184**

The Financial statements were authorized by the management on 22 March 2016

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

Statement of cash flows

	Year ended 31 December	
	2015	**2014**
Cash flow from operating activities		
Interest received	312,424	362,743
Interest paid	(88,774)	(163,223)
Dividends received	407	619
Fees and commission received	72,402	74,208
Fees and commission paid	(11,725)	(13,345)
Amounts paid to and on behalf of employees	(53,668)	(57,983)
Net trading and other income received	2 910	1,108
Other operating expenses paid	(76,047)	(66,887)
Tax paid	(9,388)	(1,530)
Cash from operating activities before changes in operating assets and liabilities	**148,541**	**135,710**
Changes in operating assets and liabilities		
Net decrease/(increase) in reserve with the Central Bank	15,787	(25,817)
Net decrease/(increase) in trading securities	47,247	(41,740)
Net (increase) in loans and advances to customers	(136,721)	(86,207)
Net (increase) in other assets	(907)	(1,179)
Net (decrease) in derivatives instruments	(389)	(84)
Net increase/(decrease) in due to other banks	1,026	(49,983)
Net (decrease)/increase in amounts due to customers	(448,890)	575,684
Net increase in other liabilities	12,754	878
Net cash flow (used in)/from operating activities	**(361,552)**	**507,262**

(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	**2015**	**2014**
Purchase of property, plant and equipment and intangible assets (Notes 16, 17)	(8,824)	(10,273)
Purchase of investment securities (Note 14)	(663,639)	(43,784)
Proceeds from disposal of property and equipment	41	2
Proceeds from disposal of investment securities (Note 14)	252,656	47,965
Net cash flow used in investing activities	**(419,766)**	**(6,090)**
Cash flow from financing activities		
Long-term financing received	20,000	44,703
Long-term debt repaid	(39,327)	(104,615)
Net cash used in financing activities	**(19,327)**	**(59,912)**
Effect of exchange rate changes on cash and cash equivalents	8	54
Net change in cash and cash equivalents	**(800,637)**	**441,314**
Cash and cash equivalents at beginning of year	1,795,241	1,353,927
Cash and cash equivalents at end of year (Note 28)	**994,604**	**1,795,241**

The Financial statements were authorised by the management on 22 March 2016.

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25 March 2016

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

Notes to the financial statements

General information

Eurobank Bulgaria AD (the Bank) provides retail, corporate banking and investment banking services in Bulgaria. Its Head Office is located in Sofia and it has 144 network locations and 7 business centres (2014: 181 network locations and 7 business centres). The registered office address is: 260 Okolovrasten pat, 1766 Sofia, Bulgaria. The Bank employs 2,207 people (2014: 2,480).

Accounting policies

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

A. Basis of preparation

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

The policies set out below have been consistently applied to the years 2015 and 2014. Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

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

Position of the Group

In 2015, the macroeconomic environment in Greece has been very challenging for the Greek banking system. In the first half of the year, the prolonged uncertainty relating to an agreement with the Eurozone partners over the implementation of the required reforms for the conclusion of the Second Economic Adjustment Program, the unsuccessful expiration of the former, the tightened liquidity conditions due to the financing problems of the Greek State and the significant deposit outflows – already observed from late 2014 – led to the imposition of restrictions in banking transactions (capital controls) together with a temporary bank holiday on 28 June 2015. In mid - August the Greek Government reached a final agreement with its European partners on a new 3-year European Stability Mechanism (ESM) program – the Third Economic Adjustment Program (TEAP) - with a ca € 86 bn financing envelope and a series of reforms aiming to restore fiscal sustainability, safeguard financial stability, enhance growth, competitiveness and investment and develop a modern state and public administration. The Greek Government managed to complete two sets of prior actions from the program at the end of November and December 2015. By mid - December 2015, the systemic banks' recapitalization was completed with only ca € 5.4 bn used from the initial buffer of up to €25 billion. The unused funds were subtracted from the ESM loan, reducing it to ca € 64.5 bn as of the end of January 2016. The review of Greece's reform programme by international creditors is currently pending. A swift completion of the program review may alleviate significantly the macroeconomic and sovereign uncertainties.

After the gradual normalization of the economic and political situation in Greece and following the Bank's successful recapitalization, the Group enhanced its liquidity position and reduced its dependence on Eurosystem funding.

In accordance with the agreement with the European partners, the authorities are committed to preserving sufficient liquidity in the banking system, as long as Greece meets its obligations under the ESM program. The decisive implementation of the measures agreed in the context of the new ESM program will permit European Central Bank (ECB) to reinstate the waiver for the instruments issued by the Hellenic Republic and will signal the gradual repatriation of deposits in the banking system, which is a major priority for the Group, and the further re-access to the markets for liquidity.

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

Notes to the financial statements (continued)

A. Basis of preparation (continued)

On 31 October 2015, the ECB announced the results of the comprehensive assessment (CA) based on which the lowest shortfall across Greek banks was identified for the Bank. Following the CA results and in line with the new recapitalization framework introduced by Law 4340/2015, the Bank proceeded to a capital increase of € 2,039 million, which was covered exclusively from the markets. As a result, the Group strengthened further its capital base and its CET1 ratio stood at 17% at the end of December 2015.

Position of the Bank

As at 31 December 2015, 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 close to zero exposure to the Parent in Greece, thus can be considered ring-fenced from the potential risks described above.
Taking this into consideration, 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.

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

In May 2014, following the completion of the Bank's share capital increase fully covered by investors, institutional and others, the percentage of the ordinary shares with voting rights held by the Hellenic Financial Stability Fund (HFSF), the controlling shareholder of the Bank until that date, decreased from 95.23% to 35.41%. Accordingly, as of that date HFSF was considered to have significant influence over the Bank. In November 2015, following the completion of the Bank's share capital increase, fully covered by investors, institutional and others, the percentage of the ordinary shares with voting rights held by HFSF decreased to 2.38%.

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, 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. Taking into account the terms of the revised RFA, the HFSF is still considered to have significant influence over the Bank.

(a) The following new standards and amendments to existing standards, 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 2015:

Annual Improvements to IFRSs 2011-2013 Cycle

The amendments introduce key changes to three IFRSs, following the publication of the results of the IASB's 2011-13 cycle of the annual improvements project, as follows:

- Clarify that IFRS 3 'Business Combinations' does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself;

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

Notes to the financial statements (continued)

A. Basis of preparation (continued)

- Clarify that the exception in IFRS 13 'Fair Value Measurement' for measuring the fair value of a group of financial assets and financial liabilities on a net basis applies to all contracts within the scope of, and accounted for in accordance with, IAS 39 'Financial Instruments: Recognition and Measurement' or IFRS 9 'Financial Instruments', regardless of whether they meet the definitions of financial assets or financial liabilities under IAS 32 'Financial Instruments: Presentation';
- Address the interrelationship between IFRS 3 'Business Combinations' and IAS 40 'Investment Property', clarifying in the latter that an entity should assess whether: (a) the acquired property is investment property under IAS 40 and (b) the acquisition of investment property constitutes a business combination as defined in IFRS 3.

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

IFRIC 21, Levies

IFRIC 21 Levies clarifies that an entity recognizes a liability for a levy that is not income tax when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, for example a specified level of revenue, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached.
The adoption of the interpretation lead to earlier recognition of cost for Deposit guarantee scheme through the year, but has no impact on the yearly Bank's financial statements.

(b) A number of new standards, amendments and interpretations to existing standards are effective after 2015, as they have not yet been endorsed for use in the European Union or have not been early applied by the Bank. Those that may be relevant to the Bank are set out below:

IAS 1, Amendment - Disclosure initiative (effective 1 January 2016)

The amendment clarifies guidance in IAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies.
The adoption of the amendment is not expected to impact the Bank's financial statements.

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

The amendment requires disclosure of information enabling users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes from cash flows and non-cash changes. The disclosure requirements also apply to changes in financial assets, such as assets that hedge liabilities arising from financing activities, if cash flows from those financial assets were or future cash flows will be, included in cash flows from financing activities. The amendments include illustrative examples to show how an entity can meet the objective of the disclosure requirements.The adoption of the amendment is not expected to impact the Bank's financial statements.

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

The amendment clarifies that unrealized losses on debt instruments measured at fair value in the financial statements and at cost for tax purposes can result in deductible temporary differences. It also clarifies that the carrying amount of an asset does not limit the estimation of probable future taxable profits and that when comparing deductible temporary differences with future taxable profits, the future taxable profits exclude tax deductions resulting from the reversal of those deductible temporary differences.

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

Notes to the financial statements (continued)

A. Basis of preparation (continued)

IAS 16 and IAS 38, Amendments -Clarification of Acceptable Methods of Depreciation and Amortization (effective 1 January 2016) The amendment clarifies that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate and it also clarifies that revenue basis for measuring the consumption of the economic benefits embodied in an intangible asset.
The adoption of the amendments is not expected to impact the Bank's financial statements.

IAS 19, Amendment- Defined Benefit Plans: Employee Contributions (effective 1 January 2016)
The amendment clarifies the accounting for post- employment benefit plans where employees or third parties are required to make contributions which do not vary with the length of employee service, for example, employee contributions calculated according to a fixed percentage of salary. The amendment allows these contributions to be deducted from pension expense in the year in which the related employee service is delivered, instead of attributing them to periods of employee service.
The adoption of the amendment is not expected to have a material impact on the Bank's financial statements.

IAS 27, Amendment –Equity Method in Separate Financial Statements (effective 1 January 2016)
This amendment allows entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements and clarifies the definition of separate financial statements. In particular, separate financial statements are those presented in addition to consolidated financial statements or in addition to the financial statements of an investor that does not have investments in subsidiaries but has investments in associates or joint ventures in which the investments in associates or joint ventures are required by IAS 28 Investments in Associates and Joint Ventures to be accounted for using the equity method.
The adoption of the amendment is not expected to impact the Bank's financial statements.

IFRS 9, Financial Instruments (effective 1 January 2018, not yet endorsed by EU)
In July 2014, the IASB published the final version of IFRS 9 which replaces IAS 39 'Financial Instruments'. IFRS 9 sets out revised requirements on the classification and measurements of financial assets, addresses the reporting of fair value changes in own debt when designated at fair value, replaces the existing incurred loss model used for the impairment of financial assets with an expected credit loss model and incorporates changes to hedge accounting.
Classification and measurement
IFRS 9 applies one classification approach for all types of financial assets, according to which the classification and measurement of financial assets is based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. A business model refers to how an entity manages its financial assets so as to generate cash flows, by collecting contractual cash flows, or selling financial assets or both. Upon assessment, each financial asset will be classified in one of the three categories: amortized cost, fair value through profit or loss and fair value through other comprehensive income.

With regard to financial liabilities, the treatment followed in IAS 39 is carried forward to IFRS 9 essentially unchanged. However, IFRS 9 requires fair value changes of liabilities designated at fair value under the fair value option which are attributable to the change in the entity's own credit risk to be presented in other comprehensive income rather than in profit or loss, unless this would result in an accounting mismatch.
The Bank is currently assessing the impact of the new classification and measurement requirements in its financial statements, which will be driven to a large extent by the Bank's operations and the structure of its portfolios upon transition to IFRS 9.

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

Notes to the financial statements (continued)

A. Basis of preparation (continued)

Impairment of financial assets

IFRS 9 introduces an expected credit loss model that will apply to all financial instruments that are subject to impairment accounting and replaces the incurred loss model in IAS 39.

The new requirements eliminate the threshold in IAS 39 that required a credit event to have occurred before credit losses were recognised. Under IFRS 9, a loss allowance will be recognised for all financial assets, therefore the new requirements will result in the earlier recognition of credit losses.

The new standard uses a 'three stage approach' that will reflect changes in credit quality since initial recognition. At each reporting date, a loss allowance equal to 12-month expected credit losses will be recognised for all financial assets for which there is no significant increase in credit risk since initial recognition. For financial assets that have experienced a significant increase in credit risk since initial recognition as well as purchased or originated credit impaired financial assets, a loss allowance equal to lifetime expected credit losses will be recognised. The measurement of expected credit losses will be a probability-weighted average amount that will reflect the time value of money. In measuring expected credit losses, information about past events, current conditions and forecasts of future conditions should be considered.
The new impairment model is expected to result in a higher loss allowance for the Bank.

Hedge accounting

IFRS 9 introduces a reformed model for hedge accounting, seeking to more closely align hedge accounting with risk management activities so as to better reflect these activities in the entities' financial statements. Under the new model, new hedge effectiveness requirements apply, discontinuation of hedge accounting is allowed only under specific circumstances, and a number of items that were not eligible under IAS 39 as hedging instruments or hedged items are now eligible.
The Bank is currently assessing the impact of the revised model for hedge accounting.

IFRS 10, IFRS 12 and IAS 28, Amendments - Investment Entities: Applying the Consolidation Exception (effective 1 January 2016, not yet endorsed by EU)
These amendments clarify the application of the consolidation exception for investment entities and their subsidiaries.
The adoption of the amendments is not expected to impact the Bank's financial statements.

IFRS 10 and IAS 28, Amendments- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective date to be determined by IASB, not yet endorsed by EU)
These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business, whereas a partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are in a subsidiary. The adoption of the amendments is not expected to impact the Bank's financial statements.

IFRS 11, Amendment – Accounting for Acquisitions of Interests in Joint Operations (effective 1 January 2016)

This amendment requires an investor to apply the principles of business combination accounting when it acquires an interest in a joint operation that constitutes a 'business'.
The adoption of the amendment is not expected to impact 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)

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

IFRS 15 establishes a single, comprehensive revenue recognition model to be applied consistently to all contracts with customers, determining when and how much revenue to recognize, but has no impact on income recognition related to financial instruments which is under the scope of IFRS 9 and IAS 39. In addition, IFRS 15 replaces the previous revenue standards IAS 18 Revenue and IAS 11 Construction contracts and the related Interpretations on revenue recognition.
The Bank is currently assessing the impact of IFRS 15, however the adoption of the standard is not expected to have a material impact on the Bank's financial statements.

IFRS 16, Leases (effective 1 January 2019, not yet endorsed by EU)
Under IFRS 16, which replaces the current guidance in IAS 17, 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. Leases are capitalized by recognizing the present value of the lease payments and are shown either as lease assets (right of use assets) or together with property, plant and equipment. A financial liability is also recognized, if lease payments are made over time, representing the obligation to make future lease payments. In addition, lease expense treatment is aligned for all leases of lessees and the typical straight line operating lease expense for operating leases under IAS 17 is replaced with a depreciation charge for lease assets and an interest expense on lease liabilities. Recognition of assets and liabilities by lessees are not required for certain short term leases and leases of low value assets.
Under the new standard a lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.
The Bank is currently assessing the impact of IFRS 16 on its financial statements.

Annual Improvements to IFRSs 2010-2012 Cycle (effective 1 January 2016)

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

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

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

Annual Improvements to IFRSs 2012-2014 Cycle (effective 1 January 2016)

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

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

Notes to the financial statements (continued)

A. Basis of preparation (continued)

- Clarifying in IFRS 5 'Non-current assets held for sale and discontinued operations' that, when an asset (or disposal Bank) is reclassified from 'held for sale' to 'held for distribution', or vice versa, this does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such.
- Adding in IFRS 7 'Financial instruments: Disclosures' specific guidance to help management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement. It also clarifies that the additional disclosure required by the amendments to IFRS 7, 'Disclosure – Offsetting financial assets and financial liabilities' is not specifically required for all interim periods, unless required by IAS 34.
- Clarifying in IAS 19 'Employee benefits' that, when determining the discount rate for post-employment benefit obligations, it is the currency that the liabilities are denominated in that is important, and not the country where they arise.
- Clarifying in IAS 34 'Interim financial reporting' what is meant by the reference in the standard to 'information disclosed elsewhere in the interim financial report'.

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

B. Foreign currencies transactions

Functional and presentation currency

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

Transactions and balances

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

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

At 31 December 2015, monetary assets and liabilities are translated at the reference Central Bank exchange rate – BGN 1 for EUR 0.5113 (2014: BGN 1 for EUR 0.5113) and BGN 1 for USD 0.5586 (2014: BGN 1 for USD 0. 6217).

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.

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

Notes to the financial statements (continued)

C. Interest income and expense (continued)

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

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

D. Fees and commissions income and expense

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

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

E. Financial assets

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

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

This category includes financial assets held for trading.
A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorized as held for trading unless they are designated and effective as hedging instruments.
Financial assets held for trading are initially recognised at fair value excluding transaction costs and subsequently re-measured at fair value based on the price within the bid-ask spread that is most representative of fair value in the circumstances used to measure fair value. All related realized and unrealized gains and losses are included in net trading income in the period in which they arise. Interest earned whilst holding financial assets held for trading is reported as interest income.

(b) Available-for-sale

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

Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in other comprehensive income, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income is recognised as profit or loss in income statement.

Dividends on available-for-sale equity instruments are recognised in the income statement when the Bank's right to receive payment is established.
Purchases and sales of financial assets at fair value through profit or loss, held to maturity and available for sale are recognised at settlement date – which is the date that the asset is delivered to or by the Bank.

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

Notes to the financial statements (continued)

E. Financial assets (continued)

(b) Available-for-sale (continued)

Interest calculated using the effective interest rate method is recognised in the income statement.

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

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

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

(c) Loans and receivables

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

(d) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. If the Bank sells other than an insignificant amount of held-to-maturity assets, the entire category is tainted and reclassified as available for sale.
Held-to-maturity investments are carried at amortized cost using the effective interest method, less any provision for impairment. Interest earned whilst holding investment securities is reported as interest income. The Bank assesses its intention and ability to hold to maturity its held-to-maturity investments not only when those financial assets are initially recognised, but also at each subsequent balance sheet date.

F. Sale and repurchase agreements and securities lending

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

G. Derivative financial instruments and hedge accounting

Derivatives are financial instruments :

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

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

Notes to the financial statements (continued)

G. Derivative financial instruments and hedge accounting (continued)

(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.

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

Fair value hedge:
Hedge accounting is used for derivatives designated as hedges of the fair value of recognised assets (fair value hedges) provided certain criteria are met.
The Bank documents, at the inception of the transaction, the relationship between hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking various hedge transactions. The Bank also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values.
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. Effective changes in fair value of interest rate swaps and related hedged items are reflected in 'net trading income'. Interest expense and interest income from hedging derivatives and hedged assets are recognised within 'interest income' and 'interest expense' in the income statement. Any ineffectiveness is recorded in 'net trading income'.

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

H. Impairment of financial assets

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

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (for example, equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;

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

Notes to the financial statements (continued)

H. Impairment of financial assets (continued)

(a) Assets carried at amortized cost (continued)

- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral and
- Downgrading below investment grade level.

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

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

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

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

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

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

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

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

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

Notes to the financial statements (continued)

H. Impairment of financial assets (continued)

(a) Assets carried at amortized cost (continued)

The amount of the reversal is recognised in the income statement in impairment charge for credit losses. The loan loss identification period is between three and twelve months.

(b) Assets classified as available for sale

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

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

I. Property, plant and equipment

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

All other repairs, maintenance and renewals are charged to the income statement during the financial period in which they are incurred. After initial recognition the Bank measures the land and building at fair value. The fair value of land and buildings is determined from market-based evidence by appraisal that is undertaken by professionally qualified valuers. The main valuation methods include:

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

Revaluation of property is performed once per 5 years. Periodically a review for impairment (valuation of all properties) is performed. The last valuation of Bank properties was done in December 2013.
The accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.
If an asset's carrying amount is increased as a result of a revaluation, the increase is recognised in other comprehensive income and accumulated as Revaluations surplus. However the increase shall be recognised in profit and loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit and loss.

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

Notes to the financial statements (continued)

I. Property, plant and equipment (continued)

If an asset's carrying amount is decreased as a result of revaluation, the decrease is recognised firstly in other comprehensive income by reducing the revaluation surplus and subsequently in profit and loss if credit balances in revaluation surplus are not sufficient.

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

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

The carrying amount of an item of property, plant and equipment is derecognised:
(a) on disposal
(b) when no future economic benefits are expected from its use or disposal.

The gain or loss from derecognition of an item of property, plant and equipment is included in profit or loss when the item is derecognised. The gain or loss from derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds and the carrying amount of the asset.

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

J. Intangible assets

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

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

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

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

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

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

Notes to the financial statements (continued)

K. Borrowings, including debt securities in issue

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

L. Investment property

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

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

M. Cash and cash equivalents

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

N. Operating leases

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

O. Current tax and deferred income tax

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

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

P. Employee benefits

(a) Social, pension and health funds

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

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

Notes to the financial statements (continued)

P. Employee benefits (continued)

(b) Retirement benefit obligations

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

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

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

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

Q. Provisions

Provisions for restructuring costs and legal claims are recognised when: the Bank has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination of rent and other contracts, consultancy and audit fees, employees' payments. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

R. Statutory reserve and dividends

According to Article 246 of the Bulgarian Commerce Act, the Bank shall set aside at least one tenth of its profit in a Statutory reserve fund, until it reaches one tenth or more of the Bank's equity. Disbursement from the reserve fund may be made only to cover losses from the current or previous 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. No dividends have been distributed for the last years, 2015 including, according to the long-term strategy of the Bank.

S. Offsetting

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

T. Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

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

Notes to the financial statements (continued)

T. Financial guarantee contracts (continued)

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of the initial measurement, less cumulative amortization recognised already in the income statement on a straight line basis over the life of the guarantee and the best estimate of the expenditure required settling any financial obligation arising at the balance sheet date in accordance with IAS 37. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of Management.
Any increase in the liability relating to guarantees is taken to the income statement.

U. Comparatives

The Bank has not performed any reclassifications on balance sheet and income statement positions for 2014.

V. Financial risk management

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Risk taking is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Bank's intent is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance.
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 (SB) has delegated to the Risk Committee the role of approving all strategic risk management decisions. The Risk Committee is in charge of monitoring the quantitative and qualitative aspects of all credit, market, liquidity and operational risks. In addition, internal audit is responsible for the independent review of risk management and the control environment. It is currently complemented, by the Risk function.
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 impact of the financial crisis is still affecting the activity of the Bank. Management believes it is taking all the necessary measures to support the sustainability and growth of the Bank's business in the current circumstances.

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

Notes to the financial statements (continued)

V. Financial risk management (continued)

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.

1. Credit risk

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

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

1.1. Credit risk measurement

(a) Loans and advances

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

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

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

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

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

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

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

The Bank assesses the credit quality of the wholesale loans on a case-by-case basis using the borrower's credit rating and based on a profound analysis of a set of qualitative and quantitative factors. The borrower's rating could be within a rating scale from 1 to 11. The Bank categorized as neither past due nor impaired wholesale loans which borrower's credit rating is from 1 to 6 and with zero days past due as loans bearing satisfactory risk and these with rating 7 under watch list.

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

Notes to the financial statements (continued)

V. Financial risk management (continued)

1. Credit Risk (continued)

1.1. Credit risk measurement (continued)

(a) Loans and advances (continued)

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.

(b) Debt securities

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

1.2. Risk limit control and mitigation policies

The Bank manages limits and controls concentrations of credit risk wherever they are identified in particular, to individual counterparties and groups, and to industries.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and are subject to an annual or more frequent review.

The exposure to any one borrower including banks and non-banking financial institutions is further restricted by sub limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored on a daily basis.

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

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

Notes to the financial statements (continued)

V. Financial risk management (continued)

1. Credit Risk (continued)

1.2. Risk limit control and mitigation policies (continued)

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.

(b) Derivatives

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

(c) Credit related commitments

Guarantees and standby letters of credit, which represent irrevocable assurance that the Bank will make the payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralized with cash deposits or other collateral pledged to the Bank, and accordingly the Bank normally assumes minimal risk.

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

Notes to the financial statements (continued)

V. Financial risk management (continued)

1. Credit Risk (continued)

1.2. Risk limit control and mitigation policies (continued)

(c) Credit related commitments (continued)

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 2015 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 88% of the total maximum exposure is derived from loans and advances to banks and customers as well as loan commitments (2014: 95%); 10% represents investments in debt securities (2014: 3%).

	As at 31 December	
	2015	**2014**
Credit risk exposures relating to on-balance sheet assets are as follows:		
Loans and advances to banks	109,616	1,487,226
Loans and advances to customers:		
- Mortgages	1,275,863	1,246,020
- Consumer lending (including credit cards)	564,710	600,872
- Small Business lending	562,879	625,246
- Corporate lending	1,492,366	1,361,856
Trading assets - debt securities	10,275	57,889
Derivative financial instruments	2,362	2,365
Investment securities- available-for-sale-debt securities	366,863	124,696
Debt Securitiy Lending	169,400	-
Other assets	10,710	11,417
Credit risk exposures relating to off-balance sheet items are as follows:		
Guarantees	55,766	96,871
Letters of credit	29,652	23,614
Undrawn Loan commitments	591,496	716,187
Total	**5,241,958**	**6,354,259**

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

Notes to the financial statements (continued)

V. Financial risk management (continued)

1. Credit risk (continued)

1.4. Loans and advances

Loans and advances are summarized as follows:

	As at 31 December	
Loans and advances to customers	**2015**	**2014**
Neither past due nor impaired	2,990,133	2,873,727
Past due but not impaired	428,627	459,606
Impaired	988,236	975,009
Gross	**4,406,996**	**4,308,342**
Less: allowance for impairment	(511,178)	(474,348)
Net	**3,895,818**	**3,833,994**
Included in gross loans and advances are:		
Past due more than 90 days	817,621	826,431

The total impairment provision for loans and advances is BGN 511,178 thousand (2014: BGN 474,348 thousand) of which BGN 204,238 thousand (2014: BGN 188,085 thousand) represents the individually impaired loans provision and the remaining amount of BGN 306,940 thousand (2014: BGN 286,263 thousand) represents the portfolio provision. Movement of the impairment allowance for loans and advances to customers is provided in Note 13. During 2015, the Bank's total net loans and advances increased by 1.6%. 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 2015 net loans and advances were affected by BGN 17,669 thousand (2014: BGN 17,391 thousand) IMO recoveries received on realized loan collaterals. IMO is a related company of the Bank.

(a) Loans and advances neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired at 31 December 2015 can be assessed by reference to the internal standard grading system (see V.1.1.a). The following information is based on that system:

Satisfactory risk	**As at 31 December 2015**	**As at 31 December 2014**
Mortgages	954,574	966,602
Corporate Lending	1,235,199	988,442
Consumer Lending	476,702	504,540
SBB Lending	310,224	396,516
Total Satisfactory risk	**2,976,699**	**2,856,100**
Watch list (Corporate Lending)	13,434	17,627

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

Notes to the financial statements (continued)

V. Financial risk management (continued)

1. Credit risk (continued)

1.4 Loans and advances (continued)

(b) Loans past due but not impaired

31 December 2015	Consumer Lending	Mortgages	SBB Lending	Corporate Lending	Total
Past due up to 29 days	40,524	85,831	44,998	112,551	**283,904**
Past due 30 - 89 days	22,970	50,820	38,275	14,091	**126,156**
Past due 90 - 179 days	-	18,567	-	-	**18,567**
Total	**63,494**	**155,218**	**83,273**	**126,642**	**428,627**

31 December 2014	Consumer Lending	Mortgages	SBB Lending	Corporate Lending	Total
Past due up to 29 days	46,742	75,650	30,900	85,193	**238,485**
Past due 30 - 89 days	24,655	55,728	25,938	95,046	**201,367**
Past due 90 - 179 days	-	19,305	-	449	**19,754**
Total	**71,397**	**150,683**	**56,838**	**180,688**	**459,606**

(c) Impaired loans and advances collectively assessed
For collectively assessed accounts, loans are treated as impaired based on historical loss data for groups of loans with similar characteristics. The criteria used by the Bank to determine that there is objective evidence of impairment are provided in point V.1.1.

31 December 2015	Consumer lending	Mortgages	SBB lending	Total
Past due up to 29 days	5,933	25,509	10,999	**42,441**
Past due 30 - 89 days	1584	8,732	4,898	**15,214**
Past due 90 - 179 days	8,633	5,332	3,158	**17,123**
Past due less than 1 year	9,269	20,969	4,450	**34,688**
Past due over 1 year	140,839	161,098	117,115	**419,052**
Collectively assessed for impairment	**166,258**	**221,640**	**140,620**	**528,518**

31 December 2014	Consumer lending	Mortgages	SBB lending	Total
Past due up to 29 days	2,959	13,650	9,211	**25,820**
Past due 30 - 89 days	586	7,010	2,629	**10,225**
Past due 90 - 179 days	9,812	6,713	3,208	**19,733**
Past due less than 1 year	11,216	28,720	1,820	**41,756**
Past due over 1 year	131,429	128,006	104,297	**363,732**
Collectively assessed for impairment	**156,002**	**184,099**	**121,165**	**461,266**

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.

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

Notes to the financial statements (continued)

V. Financial risk management (continued)

1. Credit risk (continued)

1.4. Loans and advances (continued)

(d) Loans and advances individually impaired

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

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

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

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

31 December 2015	**SBB Lending**	**Corporate Lending**	**Total**
Past due up to 29 days	-	57,372	**57,372**
Past due 30 - 89 days	-	74,155	**74,155**
Past due 90 - 179 days	8,917	5,008	**13,925**
Past due less than 1 year	10,390	4,504	**14,894**
Past due over 1 year	162,867	136,505	**299,372**
Individually impaired loans	**182,174**	**277,544**	**459,718**

31 December 2014	**SBB Lending**	**Corporate Lending**	**Total**
Past due up to 29 days	-	99,663	**99,663**
Past due 30 - 89 days	-	51,032	**51,032**
Past due 90 - 179 days	12,506	6,582	**19,088**
Past due less than 1 year	11,735	16,266	**28,001**
Past due over 1 year	162,999	152,960	**315,959**
Individually impaired loans	**187,240**	**326,503**	**513,743**

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

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

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

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

Notes to the financial statements (continued)

V. Financial risk management (continued)

1. Credit risk (continued)

1.4. Loans and advances (continued)

Information about collateral at 31 December 2015 is as follows:

	Corporate loans	Consumer loans	SBB loans	Mortgage loans	Total
Unsecured loans	345,698	551,144	83,306	113,383	**1,093,531**
Loans guaranteed by other banks	116,283	-	2,452	-	**118,735**
Loans guaranteed by other parties, including credit insurance	9,268	1	175	-	**9,444**
Loans collateralised by:					
- residential real estate	65,583	24	165,222	1,152,351	**1,383,180**
- other real estate	748,458	-	294,496	9,689	**1,052,643**
- cash deposits	23,566	5,434	5,381	440	**34,821**
- other assets	183,510	8,107	11,847	-	**203,464**
Total loans and advances to customers	**1,492,366**	**564,710**	**562,879**	**1,275,863**	**3,895,818**

Information about collateral at 31 December 2014 is as follows:

	Corporate loans	Consumer loans	SBB loans	Mortgage loans	Reverse repurchase agreements	Total
Unsecured loans	280,752	588,442	93,259	53,377	-	**1,015,830**
Loans guaranteed by other banks	96,183	-	3,347	-	-	**99,530**
Loans guaranteed by other parties, including credit insurance	11,031	-	414	-	-	**11,445**
Loans collateralised by:						
- residential real estate	115,052	-	180,355	1,185,649	-	**1,481,056**
- other real estate	649,412	-	332,013	6,666	-	**988,091**
- cash deposits	9,531	4,381	5,781	328	-	**20,021**
- other assets	198,300	8,049	10,077	-	1,595	**218,021**
Total loans and advances to customers	**1,360,261**	**600,872**	**625,246**	**1,246,020**	**1,595**	**3,833,994**

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

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

Notes to the financial statements (continued)

V. Financial risk management (continued)

1. Credit risk (continued)

1.5. Debt securities, 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 2015					
Rating	**Trading securities**	**Investment securities, available for sale**	**Debt securities lending**	**Loans and advances to banks**	**Derivatives**	**Total**
AA- to AA+	-	-	-	36,443	-	**36,443**
A- to A+	-	-	-	64,993	-	**64,993**
BBB- to BBB+	10,275	354,892	-	350	-	**365,517**
BB- to BB+	-	-	169,400	11	-	**169,411**
Lower than BB-	-	-	-	7,617	1,849	**9,466**
Unrated	-	11,971	-	202	513	**12,686**
Total	**10,275**	**366,863**	**169,400**	**109,616**	**2,362**	**658,516**

Investment securities available for sale include impaired corporate bonds with carrying amount of BGN 6,548 thousand (2014: BGN 6,548 thousand). The impairment provisions as of end of 2015 amounted to BGN 10,063 thousand (2014: BGN 10,063 thousand).

	31 December 2014					
Rating	**Trading securities**	**Investment securities available for sale**	**Debt securities lending**	**Loans and advances to banks**	**Derivatives**	**Total**
AA- to AA+	-	-	-	1 776	-	**1 776**
A- to A+	-	-	-	17,254	-	**17,254**
BBB- to BBB+	57,889	112,328	-	-	-	**170,217**
BB- to BB+	-	-	-	54	-	**54**
Lower than BB-	-	-	-	1,468,075	1,730	**1,469,805**
Unrated	-	12,368	-	67	635	**13,070**
Total	**57,889**	**124,696**	-	**1,487,226**	**2,365**	**1,672,176**

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

Notes to the financial statements (continued)

V. Financial risk management (continued)

1. Credit risk (continued)

1.6. Repossessed collateral

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

1.6. Repossessed collateral

Nature of assets	**2015**	**2014**
Commercial property	1,668	447
Residential property	3,430	3,706
Land	768	547
Total	**5,866**	**4,700**

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 31/12/2015 (BGN th)	Valuation technique	Input	Range (BGN) (weighted average) 2015	Range (BGN) (weighted average) 2014	Connection between the unobservable input and FV
Land	768	Market comparison approach	price per m2	2.12 - 356.95 (15.99)	0.54 - 36.18 (1.10)	A significant increase in price per m2 would result in a higher fair value
		Cost approach	price per m2	74	3.24 - 74.68 (45.14)	A significant increase in price per m2 would result in a higher fair value
Residential	3,430	Market comparison approach	price per m2	84.00 - 1526.00 (721)	84.00 - 1555.00 (765)	A significant increase in price per m2 would result in a higher fair value
		Cost approach	price per m2	167	179	A significant increase in price per m2 would result in a higher fair value
Mixed	1,668	Market comparison approach	price per m2	48.97 - 1466.87 (777.11)	82.14 - 1466.87 (370.05)	A significant increase in price per m2 would result in a higher fair value
		Cost approach	price per m2	-	45	A significant increase in price per m2 would result in a higher fair value

Reconciliation of Level 3 movement:

Balance at 1 January 2015	**4,700**
Additions	1,596
Sales	(96)
Impairment	(334)
Balance at 31 December 2015	**5,866**

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

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

Notes to the financial statements (continued)

V. Financial risk management (continued)

1. Credit risk (continued)

1.7. Concentration of risks of financial assets with credit risk

(a) Geographical sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by geographical region as of 31 December 2015. 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	-	7,617	35	71,356	30,608	109,616
Trading assets – debt securities	10,275	-	-	-	-	10,275
Loans and advances to customers:						
- Mortgages	1,270,768	1,384	66	1 819	1,826	1,275,863
- Consumer lending incl. credit cards	562,505	380	81	1 338	406	564,710
-Small business lending	562,876	-	3	-	-	562,879
-Corporate lending	1,492,366	-	-	-	-	1,492,366
Investment debt securities – AFS	362,237	-	4,626	-	-	366,863
Derivative financial instruments	513	1,849	-	-	-	2,362
Investment debt securities – DSL	-	-	-	169,400	-	169,400
Other assets	10,710	-	-	-	-	10,710
31 December 2015	**4,272,250**	**11,230**	**4,811**	**243,913**	**32,840**	**4,565,044**
31 December 2014	**4,018,842**	**1,471,180**	**5,005**	**16,747**	**5,813**	**5,517,587**

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

Notes to the financial statements (continued)

V. Financial risk management (continued)

1.Credit risk (continued)

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

(b) Industry sectors

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

	Commerce and services	Private individuals	Manufac-turing	Con-struction	Public sector	Financial institutions	Other	Total
Loans and advances to banks	-	-	-	-	-	109,616	-	109,616
Trading assets-debt securities	-	-	-	-	10,275	-	-	10,275
Loans and advances to customers:								
- Mortgages	-	1,275,863	-	-	-	-	-	1,275,863
-Consumer lending incl. credit cards	-	564,710	-	-	-	-	-	564,710
-Small business lending	343,490	5,211	94,760	54,024		784	64,610	562,879
-Corporate lending	595,025	-	446,158	111,875	1,647	72,260	265,401	1,492,366
Investment debt securities - AFS	1,605	-	7,416	1,076	354,892	1,874	-	366,863
Derivative financial instruments	1	-	193	-	-	2,168	-	2,362
Investment debt securities – DSL	-	-	-	-	-	169,400	-	169,400
Other assets	-	-	-	-	-	10,710	-	10,710
31 December 2015	**940,121**	**1,845,784**	**548,527**	**166,975**	**366,814**	**366,812**	**330,011**	**4,565,044**
31 December 2014	**917,270**	**1,851,112**	**513,689**	**210,146**	**172,274**	**1,554,847**	**298,249**	**5,517,587**

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.

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

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

Notes to the financial statements (continued)

V. Financial risk management (continued)

1. Credit risk (continued)

1.8. Offsetting Financial assets and financial liabilities (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 2015					
Derivative assets	1,930	-	1,930	(1,930)	-
Liabilities as of 31 December 2015					
Derivative liabilities	(2,063)	-	(2,063)	1,930	(133)

	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 2014					
Derivative assets	1,730	-	1,730	(1,730)	-
Liabilities as of 31 December 2014					
Derivative liabilities	(3,549)	-	(3,549)	3,158	(391)

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

Notes to the financial statements (continued)

V. Financial risk management (continued)

2. Market risk

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Notes to the financial statements (continued)

V. Financial risk management (continued)

2. Market risk (continued)

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

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

2.1. Market risk measurement techniques

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

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

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

2.2. Foreign exchange risk

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

2.3. Sensitivity of assets and liabilities

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

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

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

Notes to the financial statements (continued)

V. Financial risk management (continued)

2. Market risk (continued)

2.3. Sensitivity of assets and liabilities (continued)

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

	31 December 2015			
	Total Effect on Economic Value	**Direct P&L Effect**	**Direct Equity Effect**	**Banking Book Effect**
Interest Rate				
+100 bps parallel shift for all currencies	**(6,872)**	(579)	(13,120)	6,828
Equities / Equity Indices / Mutual Funds				
-10% equity price drop across the board	**(111)**	(110)	(1)	-
Foreign exchange				
-10% depreciation of local currency	**(102)**	(102)	-	-

	31 December 2014			
	Total Effect on Economic Value	**Direct P&L Effect**	**Direct Equity Effect**	**Banking Book Effect**
Interest Rate				
+100 bps parallel shift for all currencies	**4,582**	(1,466)	(1,358)	7,406
Equities / Equity Indices / Mutual Funds				
-10% equity price drop across the board	**(91)**	(90)	(1)	-
Foreign exchange				
-10% depreciation of local currency	**43**	43	-	-

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

1. Foreign exchange risk sensitivity has been calculated directly on the total net open position (excluding Euro) of the Bank as a 10% depreciation of the local currency against all foreign currencies (except Euro), which mainly include USD, CHF and GBP. The BGN/EUR exchange rate is fixed at 1.95583 as part of the Currency Board Arrangement.

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

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

Notes to the financial statements (continued)

V. Financial risk management (continued)

2. Market risk (continued)

2.3. Sensitivity of assets and liabilities (continued)

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

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

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 2015	
	Level 1	**Level 2**	**Level 3**	**Total Fair Value**	**Total Carrying Amount**
Financial assets					
Loans and advances to banks	-	109,616	-	**109,616**	**109,616**
Loans and advances to customers	-	-	4,208,386	**4,208,386**	**3,895,818**
Debt Securities Lending	-	162,459	-	**162,459**	**169,400**
Financial liabilities					
Debt issued and other borrowed funds	-	160,944	-	**160,944**	**160,944**

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

Notes to the financial statements (continued)

V. Financial risk management (continued)

2. Market risk (continued)

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

				At 31 December 2014	
	Level 1	Level 2	Level 3	Total Fair Value	Total Carrying Amount
Financial assets					
Loans and advances to banks	-	1,487,226	-	**1,487,226**	**1,487,226**
Loans and advances to customers	-	-	4,110,875	**4,110,875**	**3,833,994**
Financial liabilities					
Debt issued and other borrowed funds	-	180,333	-	**180,333**	**180,330**

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.

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 2015 based on whether the inputs to the fair values are observable or unobservable, as follows:

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

Notes to the financial statements (continued)

V. Financial risk management (continued)

2. Market risk (continued)

2.4.2. Financial instruments measured at fair value (continued)

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

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

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

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

	31 December 2015			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value:				
Financial assets held for trading				
-Debt securities	10,275	-	-	**10,275**
-Equity securities	1,101	-	-	**1,101**
Derivative financial instruments	-	2,444	-	**2,444**
Available-for-sale investment securities				
-Investment securities - debt	354,891	-	11,972	**366,863**
-Investment securities - equity	8	-	14,169	**14,177**
Total financial assets	**366,275**	**2,444**	**26,141**	**394,860**
Financial liabilities measured at fair value:				
Derivative financial instruments	-	3,289	-	**3,289**
Total financial liabilities	**-**	**3,289**	**-**	**3,289**

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

Notes to the financial statements (continued)

V. Financial risk management (continued)

2. Market risk (continued)

2.4.2. Financial instruments measured at fair value (continued)

	31 December 2014			
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value:				
Financial assets held for trading				
-Debt securities	57,889	-	-	**57,889**
-Equity securities	905	-	-	**,905**
Derivative financial instruments	-	2,365	-	**2,365**
Available-for-sale investment securities				
-Investment securities - debt	112,328	12,368	-	**124,696**
-Investment securities - equity	8	-	5,810	**5,818**
Total financial assets	**171,130**	**14,733**	**5,810**	**191,673**
Financial liabilities measured at fair value:				
Derivative financial instruments	-	4,557	-	**4,557**
Total financial liabilities	**-**	**4,557**	**-**	**4,557**

Bank's valuation processes

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

V. Financial risk management (continued)

2. Market risk (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, and (ii) net assets' valuations, adjusted where considered necessary.

Reconciliation of Level 3 fair value measurement	
Balance at 1 January 2015	**5,810**
Transfers into Level 3	11,972
Total gain/(loss) for the period included in other comprehensive income	8,360
Balance at 31 December 2015	**26,142**

Several corporate bonds for which there is no secondary market and are valued using significant unobservable inputs have been reclassified from Level 2 to Level 3 throught 2015.

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.

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.

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

Notes to the financial statements (continued)

V. Financial risk management (continued)

3.Liquidity risk

3.1. Liquidity risk management process

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 is assigned to the Head of Capital Markets Division. If necessary, ALCO can be directly engaged in the liquidity management via activating all resources of the Bank to meet all payment obligations.

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 2015 and 2014. Liabilities without contractual maturities (sight and saving deposits) are presented in "less than 1 month" time bucket.

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

Notes to the financial statements (continued)

V. Financial risk management (continued)

3.Liquidity risk (continued)

3.2. Cash flows (continued)

As at 31 December 2015	**Gross nominal inflow/ outflow**	**Less than 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**More than 5 years**
Financial liabilities						
Non-derivative liabilities	***4,845,910***	***3,339,433***	***448,207***	***801,284***	***245,921***	***11,065***
Due to other banks	19,854	19,854	-	-	-	-
Due to customers	4,614,224	3,265,198	441,860	797,372	109,794	-
Debt issued and other borrowed funds	176,253	18,802	6,347	3,912	136,127	11,065
Other liabilities	35,579	35,579	-	-	-	-
Derivative financial instruments	***1,402,522***	***1,387,742***	***2,166***	***374***	***8,332***	***3,908***
Outflows from net settled	14,601	21	1,966	374	8,332	3,908
Outflows from gross settled	1,387,921	1,387,721	200	--	-	-
Total liabilities (contractual maturity)	**6,248,432**	**4,727,175**	**450,373**	**801,658**	**254,253**	**14,973**
Total assets (contractual maturity)	**7,971,811**	**3,474,362**	**119,320**	**463,386**	**1,750,820**	**2,163,923**

As at 31 December 2014	**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	***5,340,979***	***3,796,850***	***490,260***	***833,384***	***119,320***	***101,165***
Due to other banks	18,866	18,866	-	-	-	-
Due to customers	5,095,833	3,745,168	439,817	829,466	81,382	-
Debt issued and other borrowed funds	200,977	7,513	50,443	3,918	37,938	101,165
Other liabilities	25,303	25,303	-	-	-	-
Derivative financial instruments	***1,452,811***	***431,404***	***1,015,347***	***1,480***	***4,390***	***190***
Outflows from net settled	9,088	3,405	104	999	4,390	190
Outflows from gross settled	1,443,723	427,999	1,015,243	481	-	-
Total liabilities (contractual maturity)	**6,793,790**	**4,228,254**	**1,505,607**	**834,864**	**123,710**	**101,355**
Total assets (contractual maturity)	**8,644,212**	**3,467,638**	**1,147,979**	**487,361**	**1,799,160**	**1,742,074**

3.3. Off-balance sheet items

(a) *Loan commitments*

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

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

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

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

Notes to the financial statements (continued)

V. Financial risk management (continued)

3.3. Off-balance sheet items (continued)

At 31 December 2015	No later than 1 year	1-5 years	Over 5 years	Total
Guarantees:				
- guarantees and standby letters of credit	74,312	7,654	3,452	**85,418**
Commitments:				
- Undrawn loan commitments	514,628	35,257	41,611	**591,496**

At 31 December 2014	No later than 1 year	1-5 years	Over 5 years	Total
Guarantees:				
- guarantees and standby letters of credit	100,458	17,286	2,741	**120,485**
Commitments:				
- Undrawn loan commitments	627,706	43,672	44,809	**716,187**

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)

V. 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.

	2015	2014
Tier 1 capital		
Share capital	452,753	452,753
Reserves	354,239	353,556
Revaluation reserve of financial assets available for sale	(505)	(385)
Less:		
Intangible assets	(34,548)	(35,009)
Total qualifying Tier 1 capital	**771,939**	**770,915**
Tier 2 capital		
Subordinated debt	88,028	97,792
Revaluation reserve of property owned by the Bank	1,079	1,784
Total qualifying Tier 2 capital	**89,107**	**99,576**
Risk-weighted assets		
On-balance sheet	3,306,799	3,351,830
Off-balance sheet	174,349	153,311
Total risk-weighted assets	**3,481,148**	**3,505,141**
Basel ratio	**24.73%**	**24.83%**

W. Critical accounting estimates and judgments in applying accounting policy

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

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

Impairment of available-for-sale equity investments
The Bank determines that available-for-sale equity investments are impaired when there has been a significant (drop down of the average market price below 60%-70% of the cost price) or prolonged decline (continuing decline of the market price for the last 12 months) in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Bank evaluates among other factors, the normal volatility in share price.

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

Notes to the financial statements (continued)

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

Impairment of available-for-sale equity investments (continued)

In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

Fair value of derivatives

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

Application of the effective interest rate method

The application of the effective interest rate method for loan related fees requires the use of estimates about the expected life and other patterns and characteristics of the loan portfolio. In building up these estimates the Bank utilizes the experience of other entities in Eurobank Group and Bulgarian market conditions.

Retirement benefit obligations

The present value of the retirement benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions.
The key assumptions used in determining the net cost for the pension obligations include the discount rate and future salary increases. Any changes in these assumptions will impact the carrying amount of pension obligations.
The Bank determines the appropriate discount rate that should be used to calculate the present value of the estimated retirement obligations, at the end of each year. In determining the appropriate discount rate, interest rates of Bulgarian government bonds at the end of the reporting period are used. The currency and term to maturity of the bonds used are consistent with the currency and estimated term to maturity of the retirement benefit obligations.
The assumed rate of salary increase is determined by reviewing the Bank's salary increases each year.
Other assumptions for pension obligations, such as the inflation rate, are based in part on current market conditions.
For a sensitivity analysis of the retirement benefit obligation to reasonably possible, at the time of preparation of these financial statements, changes in the above mentioned key actuarial assumptions, refer to Note 25.

Sensitivity analysis of assets and liabilities

The sensitivity analysis (please refer to section V.2.3) illustrates the potential impact on the income statement and equity 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 during 2015.
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 BGN/EUR exchange rate is fixed at 1.95583 as part of the Currency Board Arrangement.

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

Notes to the financial statements (continued)

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

Sensitivity analysis of assets and liabilities (continued)

The Interest rate risk sensitivity has been estimated by applying a parallel yield curve shift to all of the Bank's interest bearing 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 equity prices across the board.

Fair value of land and buildings

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

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

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

Fair value of repossessed collateral

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

1. Net interest income

Interest and similar income	**2015**	**2014**
Loans and advances to customers	283,044	314,581
Investment securities	7,263	4,959
Hedging instruments	6,535	2,490
Loans and advances to banks	3,689	28,783
Derivative instruments	2,979	2,570
Trading securities	206	550
Total	**303,716**	**353,933**

Interest income includes BGN 33,710 thousand (2014: BGN 46,992 thousand) interest income, recognised on impaired loans to customers, out of which BGN 6,433 thousand (2014: BGN 10,023 thousand) remain due by the customer as of year-end.

Interest and similar charges	**2015**	**2014**
Deposits from customers	60,026	133,760
Long term debt	3,547	5,447
Hedging instruments	2,848	1,375
Derivative instruments	500	1,525
Deposits from banks	436	543
Total	**67,357**	**142,650**

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

Notes to the financial statements (continued)

2. Net fee and commission income

Fees and commission income	2015	2014
Transfers	22,751	21,317
Account maintenance	14,367	12,990
Loans' fees and commissions	11,587	14,169
Foreign exchange operations	7,732	8,867
Receipts from sales of services	7,827	7,963
Cash operations	5,546	5,497
Documentary business	1,670	1,818
Management, brokerage and securities trading	580	563
Other fees	665	407
Operations with derivatives	63	362
Total	**72,788**	**73,953**

Fee and commission expense	2015	2014
Loans related fees	6,334	6,584
Transactions processing	5,146	5,181
Cash transactions and correspondent accounts	603	674
Other fees	330	375
Management, brokerage and securities trading	172	199
Operations related to derivatives	63	362
Fees related to long term funding	-	839
Total	**12,648**	**14,214**

3. Other operating income

	2015	2014
Rental income	150	234
Net (loss)/ gain from non-current fixed assets	328	-
Investment property impairment (Note 15)	(33)	-
Total	**445**	**234**

4. Net trading income

	2015	2014
Net results from derivative instruments and FX transactions	31	580
Translation gains less losses	-	(1)
Net trading income	**31**	**579**

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

Notes to the financial statements (continued)

5. Other operating expenses

	2015	2014
Staff costs (Note 6)	51,323	60,395
Operating lease rentals	16,850	21,431
Repairs and maintenance	6,496	6,327
External services	6,280	4,713
Depreciation of property, plant and equipment (Note 16)	6,163	13,943
Advertising and marketing	5,770	7,425
Amortisation of intangible assets (Note 17)	5,685	5,417
Software costs	3,763	3,593
Security	3,329	3,511
Other operating costs	2,222	1,219
Communication	1,936	2,022
Materials and utilities	1,557	1,965
Insurance	583	635
Travel and accommodation	427	383
VAT tax refund and other related	-	(6,523)
Total	**112,384**	**126,456**

In 2014 Eurobank Bulgaria accrued BGN 11,065 thousand provisions for the upcoming restructuring process of the Bank in 2015, of which BGN 5,813 thousand related to write down of tangible assets (refer to Note 16), BGN 587 thousand related to write down of Intangible assets (refer to Note 17), BGN 2,543 thousand staff related (refer to Note 6 and Note 25), and the remaining 2,122 thousand related to other administrative expenses such as lease cancellation fees. In 2015 the provisions for restructuring cost were utilized apart from BGN 304 thousand (refer to Note 24b).

6. Staff costs

	2015	2014
Wages and salaries	42,141	48,218
Social security costs	3,294	3,474
Pension costs – defined contribution plans	3,902	4,151
Pension costs – defined benefit plans (Note 25)	546	3 139
Other	1,440	1,413
Total staff cost	**51,323**	**60,395**

7. Impairment charge for credit losses

	2015	2014
Loans and advances to customers (Note 13)	(66,611)	(122,995)
Credit commitments	10	14
Total	**(66,601)**	**(122,981)**

8. Income tax expense

	2015	2014
Deferred income tax (Note 23)	423	(1 445)
Current income tax	9,012	1,541
Total	**9,435**	**96**

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

Notes to the financial statements (continued)

8. Income tax expense (continued)

Tax is payable at an actual rate of 10% (2014: 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:

	2015	2014
Profit before income tax	**93,535**	**773**
Tax calculated at a tax rate of 10% (2014: 10%)	9,354	77
Tax effect of:		
Income and expenses not subject to tax, net	81	19
Income tax expense	**9,435**	**96**

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					
	2015			2014		
	Before tax amount	Tax (expense)/ benefit	Net of tax amount	Before tax amount	Tax (expense)/ benefit	Net of tax amount
Available for sale securities	14,548	(1,455)	13,093	(4,964)	496	(4,468)
Impairment of property, plant and equipment	(473)	47	(426)	-	-	-
Remeasurements of post -employment benefit obligations	(90)	9	(81)	190	(19)	171
Total	**13,985**	**(1,399)**	**12,586**	**(4,774)**	**477**	**(4,297)**

10. Cash and balances with the Central Bank

	2015	2014
Cash in hand	95,093	114,689
Balances with Central bank	992,805	412,022
Total	**1,087,898**	**526,711**
Mandatory reserve with Central Bank in accordance with BNB Regulation 21	405,819	437,392

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 2014 and 2015 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.

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

Notes to the financial statements (continued)

11. Loans and advances to banks

	2015	2014
Deposits in other banks	109,616	460,414
Reverse repurchase agreements	-	1,026,812
Total	**109,616**	**1,487,226**

Included in the amount of loans and advances to banks is accrued interest of BGN 0 thousand (2014: BGN 30 thousand).
Approximately 100 % (2014: 100 %) of the amounts due from other banks represent funds placed in banks domiciled in OECD (Organisation for Economic Co-operation and Development) countries.

12. Financial assets held for trading

	2015	2014
Bulgarian government bonds	10,275	57,889
Shares	1,101	905
Total	**11,376**	**58,794**
Equity securities:		
- Listed	1,101	905
Bonds:		
- Listed	-	2 065
- Unlisted	10,275	55,824

Included in the amount of the bonds is accrued interest in the amount of BGN 101 thousand (2014: BGN 271 thousand).

Gains less losses from trading securities	2015	2014
Debt securities	185	318
Equity securities	(297)	195
Total	**(112)**	**513**

13. Loans and advances to customers

	2015	2014
Consumer lending (including credit cards)	706,454	731,939
Small Business lending	716,291	761,759
Mortgages	1,331,432	1,301,384
Corporate lending	1,652,819	1,513,260
Gross loans and advances	**4,406,996**	**4,308,342**
Less allowance for impairment losses on loans and advances	(511,178)	(474,348)
Net outstanding balance of loans and advances to customers	**3,895,818**	**3,833,994**

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

Notes to the financial statements (continued)

13. Loans and advances to customers (continued)

Included in the amount of loans and advances to customers is accrued interest of BGN 32,671 thousand (2014: BGN 35,210 thousand). In 2015 Eurobank Bulgaria AD purchased loans from BRS in the amount of BGN 23,297 thousand (2014: BGN 78,926 thousand) and transferred loans from Eurobank Private Bank LUX amounting to BGN 117,054 thousand (2014: BGN 39,264). All of the companies are related parties of the Eurobank Group.

	2015	2014
The ten largest exposures to customers	476,772	438,335
Percentage of gross loans	10.82%	10.17%

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 2014	**113,516**	**47,608**	**124,353**	**96,146**	**381,623**
Charge for the year	18,980	16,670	27,411	59,934	**122,995**
Recoveries and legal and collection fees	2,455	545	226	54	**3,280**
Amounts written off	(3,832)	(9,839)	(15,650)	(4,731)	**(34,052)**
Foreign exchange differences	(52)	380	173	1	**502**
At 31 December 2014	**131,067**	**55,364**	**136,513**	**151,404**	**474,348**

	Consumer lending	Mortgages	Small Business Lending	Corporate Lending	Total
At 1 January 2015	**131,067**	**55,364**	**136,513**	**151,404**	**474,348**
Charge for the year	9,950	11,439	16,972	28,250	**66,611**
Recoveries and legal and collection fees	3,218	258	(265)	(125)	**3,086**
Amounts written off	(2,147)	(14,361)	(418)	(18,586)	**(35,512)**
Foreign exchange differences	(344)	2,869	610	(490)	**2,645**
At 31 December 2015	**141,744**	**55,569**	**153,412**	**160,453**	**511,178**

14. Investment securities, available for sale

	2015	2014
Bulgarian government bonds	350,265	107,555
Corporate unsecured bonds	11,972	12,368
Foreign government bonds	4,626	4,773
Shares and participations	14,177	5,818
Total	**381,040**	**130,514**
Equity securities		
Listed	8	8
Unlisted	14,169	5,810
Debt securities		
Listed	340,100	81,610
Unlisted	26,763	43,086
Total	**381,040**	**130,514**

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

Notes to the financial statements (continued)

14. Investment securities, available for sale (continued)

Included in the amount of investment securities is accrued interest in the amount of BGN 5,700 thousand (2014: BGN 3,834 thousand).
Foreign government bonds consist of exposures to the following countries: Romania BGN 4,626 thousand (maturing 2018) (2014: Romania BGN 4,773).
As announced by Visa Europe Ltd and Visa Inc on 2 November 2015, Visa Inc has agreed, subject to regulatory approvals, to acquire Visa Europe Limited. The transaction is expected to complete in the second quarter of 2016. Prior to Completion as at 31 December 2015, member banks should re-estimate the fair value of each Member's existing AFS equity instrument. The Bank revalued its Visa participation to equal the amount of cash consideration to be received - EUR 4.3 mio (BGN 8.4 mio). Revaluation was booked in 2015 Other comprehensive income.

Movement in available for sale securities is reconciled as follows:

Book value as at 31 December 2013	**135,901**
Additions	43,784
Disposals	(47,965)
Change in accrued interest	(444)
Amortization of discounts or premium	(355)
Net fair value gain	4,985
Impairment of corporate securities	(5,392)
Book value as at 31 December 2014	**130,514**
Additions	490,410
Disposals	(252,656)
Change in accrued interest	561
Amortization of discounts or premium	(1,202)
Net fair value gain	13,414
Book value as at 31 December 2015	**381,040**

Gains less (losses) and impairment of securities available for sale	**2015**	**2014**
Transfer the revaluation reserve from equity to income statement	1,308	5,493
Losses recognized on sale of AFS securities directly through income statement	(661)	(1,316)
Impairment of investment security recognised directly in income statement	-	(5,392)
Total	**647**	**(1,215)**

Investment securities, Debt Securities lending	**2015**
Bonds issued by banks	169,400
Total	**169,400**

Debt securities	
Listed	169,400

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

Notes to the financial statements (continued)

14. Investment securities, available for sale (continued)

Book value as at 31 December 2014	
Additions	173,229
Change in accrued interest	(36)
Amortization of discounts or premium	(801)
Foreign Exchange differences from translation into entity currency	(2,992)
Book value as at 31 December 2015	**169,400**

Included in the amount of debt securities lending is accrued interest in the amount of BGN 332 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.

Investment property	**2015**	**2014**
Beginning of the year	876	876
Net losses from fair value adjustments	(33)	-
End of the year	**843**	**876**

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

Class property	Fair value 31/12/2015 in BGN thousands	Valuation technique	Significant Unobservable Input	Range (weighted average) 2015 in BGN	Range (weighted average) 2014 in BGN	Connection between the unobservable input and FV
Land	843	Market comparison approach	price per m2	22.37 - 28.16 (24.87)	19.71 - 35.20 (25.35)	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).

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

Notes to the financial statements (continued)

16. Property, plant and equipment (continued)

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 low. Nevertheless, it is management's assessment that there remains sufficient market activity to provide comparable prices for orderly transactions with similar properties when determining the fair value.

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

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

	Land and buildings	Leasehold improvements	Plant and equipment	Total tangible fixed assets
At 31 December 2013				
Gross amount	24,910	30,592	91,522	**147,024**
Accumulated depreciation	(4,903)	(16,336)	(71,541)	**(92,780)**
Net book amount	**20,007**	**14,256**	**19,981**	**54,244**
Year ended 31 December 2014				
Opening net book amount	20,007	14,256	19,981	**54,244**
Additions	63	133	2,846	**3,042**
Impairment and write offs	-	(203)	-	**(203)**
Transfers	44	(44)	-	-
Depreciation charge (Note 5)	(428)	(7,870)	(5,645)	**(13,943)**
Closing net book amount	**19,686**	**6,272**	**17,182**	**43,140**
At 31 December 2014				
Gross amount	25,075	29,264	90,790	**145,129**
Accumulated depreciation	(5,389)	(22,992)	(73,608)	**(101,989)**
Net book amount	**19,686**	**6,272**	**17,182**	**43,140**
Year ended 31 December 2015				
Opening net book amount	19,686	6,272	17,182	**43,140**
Additions	99	791	2,711	**3,601**
Impairment and write offs	(420)	-	(54)	**(474)**
Transfers	(2,700)	2,975	(275)	-
Depreciation charge (Note 5)	(193)	(1,666)	(4,304)	**(6,163)**
Closing net book amount	**16,472**	**8,372**	**15,260**	**40,104**
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**

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

Notes to the financial statements (continued)

16. Property, plant and equipment (continued)

	2015	2014
Land and buildings at revalued amount	**16,472**	**19,686**
Revaluation reserve, net of tax	(1,798)	(2,231)
Difference between accumulated depreciation based on cost and based on revalued amount not yet transferred to retained earnings	937	1,177
Deferred tax on revaluation	(200)	(248)
Land and buildings at cost less accumulated depreciation	**15,411**	**18,384**

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

Class property	Fair value 31/12/2015 in BGN thousands	Valuation technique	Significant Unobservable Input	Range (weighted average) 2014 in BGN	Connection between the unobservable input and FV
Land	99	Market comparison approach	price per m2	54.76 - 70.41 (48.90)	A significant increase in price per m2 would result in a higher fair value
Land	1,589	Cost approach	price per m2	8 - 694.32 (72.05)	A significant increase in price per m2 would result in a higher fair value
Land	**1,688**				
Residential	303	Market comparison approach	price per m2	1.29 - 410.72 (143.02)	A significant increase in price per m2 would result in a higher fair value
Residential	**303**				
Retail	33	Cost approach	price per m2	26 - 140 (118.16)	A significant increase in price per m2 would result in a higher fair value
Retail	130	Market comparison approach	price per m2	222 - 486 (376.00)	A significant increase in price per m2 would result in a higher fair value
Retail	**163**				
Office	2,493	Cost approach	price per m2	30 - 1340.13 (759.90)	A significant increase in price per m2 would result in a higher fair value
Office	6,678	Income approach	rental price per m2	6.67 - 291.98 (37.79)	A significant increase in price per m2 would result in a higher fair value
Office	5,070	Market comparison approach	price per m2	105.01 - 1662.46 (682.20)	A significant increase in price per m2 would result in a higher fair value
Office	**14,241**				
Mixed	68	Income approach	rental price per m2	20 - 35 (25.00)	A significant increase in price per m2 would result in a higher fair value
Mixed	9	Cost approach	price per m2	20 - 85 (27.41)	A significant increase in price per m2 would result in a higher fair value
Mixed	**77**				

(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 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 2013	
Gross book amount	68,273
Accumulated amortisation	(35,078)
Net book amount	**33,195**
Year ended 31 December 2014	
Opening net book amount	33,195
Additions	7,231
Amortisation charge (Note 5)	(5,417)
Closing net book amount	**35,009**
At 31 December 2014	
Gross book amount	75,138
Accumulated amortisation	(40,129)
Net book amount	**35,009**
Year ended 31 December 2015	
Opening net book amount	35,009
Additions	5,224
Amortisation charge (Note 5)	(5,685)
Closing net book amount	**34,548**
At 31 December 2015	
Gross book amount	78,592
Accumulated amortisation	(44,044)
Net book amount	**34,548**

Intangible assets	**2015**	**2014**
Software	14,818	14,349
Other	9,677	9,027
Licenses	6,813	8,741
Internally developed	3,240	2,892
Total	**34,548**	**35,009**

Internal development costs recognized in 2015 as intangible asset are BGN 747 thousand (2014: BGN 1,224 thousand).

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

Notes to the financial statements (continued)

18. Other assets

Other assets	2015	2014
Amounts in transit	6,521	7,017
Repossessed collaterals	5,866	4,700
Other debtors	4,715	4,628
Prepaid expenses	2,972	3,084
Other assets	598	621
Materials	27	30
Less: impairment against other assets	(1,124)	(849)
Total	**19,575**	**19,231**

The financial assets contained in the Other assets note amounted to BGN 10,710 thousand (2014: BGN 11,417 thousand). The impairment on financial assets amounted to BGN 1,124 thousand (2014: BGN 849 thousand).

Impairment against other financial assets	**2015**	**2014**
Opening balance at 1st of January	849	865
Charged to the income statement	423	100
Reversed to the income statement	(34)	(21)
Used during year	(114)	(95)
Closing balance	**1,124**	**849**

19. Deposits from Banks

Deposits from Banks	2015	2014
Items in course of collection	2,854	4,161
Deposits from other banks	17,000	14,699
Total	**19,854**	**18,860**

Included within due to other banks is accrued interest payable of BGN 0 thousand (2014: BGN 30 thousand).

20. Derivative financial instruments

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

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

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

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

Notes to the financial statements (continued)

20. Derivative financial instruments (continued)

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.

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

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

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

Year ended 31 December 2015	**Contract / notional amount**	**Assets**	**Liabilities**
Derivatives held for trading			
Foreign exchange derivatives			
OTC currency forwards	2,111	3	1
OTC currency swaps	1,234,244	1,124	549
Total OTC currency derivatives for trading	**1,236,355**	**1 127**	**550**
Interest rate derivatives			
OTC interest rate swaps	31,281	227	227
OTC IR options bought and sold	155,597	1,008	1,008
Total OTC interest rate derivatives for trading	**186,878**	**1,235**	**1,235**
Derivatives held for hedging			
OTC interest rate swaps	150,599	82	1,504
Total OTC interest rate derivatives for hedging	**150,599**	**82**	**1,504**
Total recognised derivative assets / liabilities		**2,444**	**3,289**

(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 2014	Contract / notional amount	Assets	Liabilities
Derivatives held for trading			
Foreign exchange derivatives			
OTC currency forwards	3,170	52	48
OTC currency swaps	1,438,021	712	22
Total OTC currency derivatives	**1,441,191**	**764**	**70**
Interest rate derivatives			
OTC interest rate swaps	173,793	574	564
OTC IR options bought and sold	174,321	1,027	1,027
Total OTC interest rate derivatives	**348,114**	**1,601**	**1,591**
Derivatives held for hedging			
OTC interest rate swaps	84,363	-	2,896
Total OTC interest rate derivatives for hedging	**84,363**	**-**	**2,896**
Total recognised derivative assets / liabilities		**2,365**	**4,557**

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 2015 was BGN 82 thousand positive and BGN 1,504 thousand negative(2014: negative BGN 2,896 thousand).
The gain on the hedging instruments was BGN 1,097 thousand (2014: gains BGN 2,094 thousand). In 2015 the fair value hedges were highly effective (2014: highly effective), and the net effect from the hedge and the hedged item recognized in income statements is gain of BGN 38 thousand (2014: gain BGN 51 thousand).

21. Due to customers

	2015	2014
Large corporate customers	526,103	706,581
Medium corporate customers	169,593	176,134
Total due to corporate customers	**695,696**	**882,715**
Retail customers	3,909,109	4,194,558
Total due to customers	**4,604,805**	**5,077,273**

Included within due to customers is related accrued interest payable of BGN 6,637 thousand (2014: BGN 30,215 thousand).

22. Debt issued and other borrowed funds

	2015	2014
Subordinated debt	98,017	98,041
Long term loan from EBRD	18,819	22,901
Long term debt from Bulgarian Development Bank	32,366	15,160
European Investment Bank Loan	11,742	15,660
Banka Popolare di Sondrio, Italy	-	28,568
Total	**160,944**	**180,330**

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

Notes to the financial statements (continued)

22. Debt issued and other borrowed funds (continued)

a) Subordinated debt instruments

In June 2007, Eurobank Bulgaria signed a subordinated debt agreement with Eurobank Ergasias for the amount of EUR 30,000 thousand (BGN 58,675 thousands). In 2010 an annex for maturity extension of the debt until June 2017 was signed. In March 2011 a new annex was signed, amending the interest rate terms and the dates of the interest payments. In June 2012 an extension of the maturity until June 2020 was agreed between the parties. As of 31 December 2015 the total liability amounted to BGN 58,752 (2014: BGN 58,767 thousand).

In August 2010, Eurobank Bulgaria signed a subordinated debt agreement with Eurobank Ergasias for EUR 20,000 thousand (BGN 39,117 thousand) with maturity 2017. In June 2012 an extension of the maturity until August 2020 was agreed between the parties. As of 31 December 2015 the total liability amounted to BGN 39,265 thousand (2014: BGN 39,274 thousand).

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

In July 2013, Eurobank Bulgaria and the European Bank for Reconstruction and Development structured a Trade Facilitation framework to support short-term intra-regional trade transactions. The Trade Facilitation Program is structured into two agreements between EBRD and Eurobank Bulgaria – Revolving Credit Agreement (for short-term financing of pre-export, import and factoring) and Issuing Bank Agreement (for issuance of guarantees and letters of credit). The total limit of the program is EUR 20,000 thousand (BGN 39,117 thousand). As of 31 December 2015 the total liability amounted to BGN 18,819 thousand (2014: BGN 22,901 thousand).

c) 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 2015 the total liability amounted to BGN 20,017 thousand.

In April 2014, Eurobank Bulgaria signed a Loan Agreement with Bulgarian Development Bank for support of agricultural producers. The total size of the funding line is BGN 5,000 thousand. The loan was disbursed in April 2014. A prepayment of the line on 30.03.2016 was approved in December 2015. As of 31 December 2015 the total liability amounted to BGN 3,924 thousand (2014: BGN 5,045 thousand).

In August 2011, Eurobank Bulgaria signed a Loan Agreement with Bulgarian Development Bank under a Program for supporting Small and Medium enterprises in Bulgaria with proceeds from KfW, Germany. The total size of the funding line is EUR 7,250 thousand (BGN 14,178 thousand). The line was disbursed in August 2011. A prepayment of the line on 14.03.2016 was approved in December 2015. As of 31 December 2015 the total liability amounted to BGN 8,425 thousand (2014: BGN 10,115 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 2015 the total liability amounted to BGN 11,742 thousand (2014: BGN 15,660 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 2015 the utilization of that line is BGN 0 (2014: BGN 28,568 thousand).

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

Notes to the financial statements (continued)

22. Debt issued and other borrowed funds (continued)

			31 December 2015
	Within 1 year	1-5 years	Total
Subordinated debt			
Floating rate	-	97,792	**97,792**
Accrued interest	225	-	**225**
EBRD Credit lines			
Floating rate	18,802	-	**18,802**
Accrued interest	17	-	**17**
Loans from Bulgarian Development Bank BGN			
Floating rate	-	20,000	**20,000**
Accrued interest	17	-	**17**
Loans from Bulgarian Development Bank BGN			
Fixed rate	1,111	2,778	**3,889**
Accrued interest	35	-	**35**
Loan from Bulgarian Development Bank EUR			
Floating rate	1,668	6,673	**8,341**
Accrued interest	84	-	**84**
Loan from the European Investment Bank			
Floating rate	3,912	7,823	**11,735**
Accrued interest	7	-	**7**
Total Debt issued and other borrowed funds	**25,878**	**135,066**	**160,944**

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

Notes to the financial statements (continued)

22. Debt issued and other borrowed funds (continued)

				31 December 2014
	Within 1 year	1-5 years	Over 5 years	Total
Subordinated debt				
Floating rate	-	-	97,792	**97,792**
Accrued interest	249	-	-	**249**
EBRD Credit lines				
Floating rate	22,883	-	-	**22,883**
Accrued interest	18	-	-	**18**
Loans from Bulgarian Development Bank BGN				
Fixed rate	1,111	3,889	-	**5,000**
Accrued interest	45	-	-	**45**
Loan from Bulgarian Development Bank EUR				
Floating rate	1,668	6,673	1,668	**10,009**
Accrued interest	106	-	-	**106**
Loan from the European Investment Bank				
Floating rate	3,912	11,735	-	**15,647**
Accrued interest	13	-	-	**13**
Banka Popolare di Sondrio, Italy				
Fixed rate	28,555	-	-	**28,555**
Accrued interest	13	-	-	**13**
Total Debt issued and other borrowed funds	**58,573**	**22,297**	**99,460**	**180,330**

23. Deferred income taxes

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 10% (2014: 10%). The movement on the deferred income tax account is as follows:

	2015	2014
Deferred tax liability at the beginning of year	2,344	3,770
Deferred tax liability recognized in OCI	(57)	19
Income statement charge (Note 8)	423	(1,445)
Deferred tax liability at end of year	**2,710**	**2,344**

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

Notes to the financial statements (continued)

23. Deferred income taxes (continued)

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

	2015	2014
Deferred income tax liabilities		
Accelerated tax depreciation	3,330	3,754
Property revaluation	200	248
Gain on share exchange	416	416
	3,946	**4,418**
Deferred income tax assets		
Unused holidays	126	129
Provision for court claims	490	311
Provision for retirement obligations	394	353
Deferred tax assets on actuarial loss	13	4
Deferred tax assets on provisions for restructuring	30	1,106
Deferred tax assets on provision for tax audit	23	23
Other temporary differences	160	148
	1,236	**2,074**

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

	2015	2014
Depreciation	(424)	(192)
Unused holidays	3	(15)
Provision for court claims and off balances	(180)	(79)
Other temporary differences	(12)	(7)
Provisions for restructuring	1,076	(1,106)
Provision for retirement obligations	(40)	(46)
Net deferred tax charge	**423**	**(1,445)**

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	2015	2014
Opening balance at 1st of January	3,338	2,753
Charged to the income statement	1,711	1,052
Used during year	(133)	(467)
Closing balance	**4,916**	**3,338**

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

Notes to the financial statements (continued)

24. Provisions for other liabilities and charges (continued)

(b) Provisions for restructuring

In 2014 the Bank has booked restructuring provision amounting to BGN 2,122 thousand (Note 5), the table below presents movement in the provision in 2015:

Provisions for restructuring	**2015**	**2014**
Opening balance at 1st of January	2,122	-
Charged to the income statement	-	2,122
Used during year	(1,818)	-
Closing balance	**304**	**2,122**

(c) Assets pledged

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

	Asset		**Related liability**	
	2015	**2014**	**2015**	**2014**
Cash with Central bank (held as MRR)	405,819	412,022	4,632,612	5,128,169
Trading and investment securities (pledged under government accounts)	39,311	114,243	21,869	70,917
Loans pledged under long term debt agreement	9,451	12,610	12,349	15,160
Total	**454,581**	**538,875**	**4,666,830**	**5,214,246**

The total financial assets that have been pledged as collateral for liabilities (including amounts reflected above) as of 31 December 2015 was BGN 454,581 thousand (2014: BGN 538,875 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 90 thousand (2014: BGN 80 thousand) as a cover for letter of credit and letter of guarantee transactions. Pledged funds under Credit Support agreements are BGN 0 (2014: BGN 1,428 thousand).

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

The Bank has entered into reverse repurchase agreements with Eurobank Ergasias for the total amount of BGN 0 thousand (2014: BGN 1,026,812 thousand) and has accepted high quality and highly liquid bonds at fair value BGN 0 thousand as collateral (2014: BGN 1,032,441 thousand), which it is permitted to sell or repledge. The Bank has entered into reverse repurchase agreements with other clients for the total amount of BGN 0 thousand (2014: BGN 1,595 thousand) and has accepted preference shares at fair value BGN 0 thousand (2014: preference shares for BGN 3,296 thousand) as collateral, which it is permitted to sell or repledge. The collaterals accepted have not been repledged or lent to third parties.

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

Notes to the financial statements (continued)

25 Retirement benefits obligations

Application of IAS 19 Revised
In 2013, the Bank applied retrospectively the Revision of IAS 19 'Employee benefits' which introduce several changes to the accounting for employee benefits. The amendments amongst other eliminate the corridor approach and require all remeasurements to be recognised directly in other comprehensive income. Other changes introduced by the revision include:
(a) the replacement of the interest cost on the defined benefit obligation and the expected return on plan assets with a net interest cost based on (i) the net defined benefit asset or liability and (ii) the discount rate used to discount post-employment benefit obligation and
(b) the requirement to recognise past service cost immediately in the income statement.

	2015	2014
Retirement benefit obligation at 01 January	6,114	3,299
Service cost	430	421
Interest cost	118	115
Benefits paid	(2,686)	(134)
Settlement/Curtailment/Termination Loss/(Gain)	(2)	60
Remeasurement	90	(190)
Restructuring related cost	-	2,543
Retirement benefit obligation at 31 December	**4,064**	**6,114**
Expenses recognised in profit or loss		
Service cost	430	421
Interest cost	118	115
Settlement/Curtailment/Termination (Gain)/Loss	(2)	60
Restructuring related cost	-	2,543
Total expense included in staff costs	**546**	**3,139**
Total remeasurement recognised in OCI	**90**	**(190)**

Significant actuarial assumptions	**2015**	**2014**
Discount rate	2.36%	3.31%
Future salary increase:		
2015:		1.00%
2016:	0.80%	1.00%
2017-2018:	1.60%	2.00%
2019-2020:	2.60%	2.50%
After 2021:	2.60%	3.00%

IAS 19 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 2015 is 19.20 years (2014: 16.60 years).
Sensitivity analysis

A quantitative sensitivity analysis based on reasonable changes to significant actuarial assumptions as at 31 December 2015 is as follows:

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

Notes to the financial statements (continued)

25. Retirement benefits obligations (continued)

An increase of the discount rate assumed by 0.5% would result in a decrease of the standard legal staff retirement obligations by 8% or BGN 325 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 9% or BGN 366 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

	2015	2014
Other creditors	26,734	14,301
Accrued expenses	7,474	9,582
Unused paid leave accrual	1,257	1,290
Withholding tax obligations	862	527
Other	184	209
Total	**36,511**	**25,909**

27. Share capital

As of 31 December 2015 the total authorized number of ordinary shares of Eurobank Bulgaria AD was 452,752,652 (2014: 452,752,652) with a nominal value of BGN 1 per share. All issued shares are fully paid.

28. Cash and cash equivalents

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

	2015	2014
Cash in hand (Note 10)	95,093	114,689
Balances with Central bank excluding the minimum level of mandatory reserves	789,895	193,326
Loans and advances to banks (Note 11)	109,616	1,487,226
Total amount of cash and cash equivalent	**994,604**	**1,795,241**

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 May 2014, following the completion of the Bank's share capital increase fully covered by investors, institutional and others, the percentage of the ordinary shares with voting rights held by the Hellenic Financial Stability Fund (HFSF), the controlling shareholder of the Bank until that date, decreased from 95.23% to 35.41%. Accordingly, as of that date HFSF was considered to have significant influence over the Bank. In November 2015, following the completion of the Bank's share capital increase, fully covered by investors, institutional and others, the percentage of the ordinary shares with voting rights held by HFSF decreased to 2.38%.

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

Notes to the financial statements (continued)

29. Related party transactions (continued)

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, 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. Taking into account the terms of the revised RFA, the HFSF is still considered to have significant influence over the Bank.

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:

	31 December 2015			31 December 2014		
	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)	-	140,351	-	-	118,190	-
Loans and advances to banks (weighted interest rate 2015: 2.61%, 2014: 2.44%)	7,617	58	-	1,468,075	67	-
Loans and advances to customers (weighted interest rate 2015: 2.34%, 2014: 2.74%)	-	134,518	56	-	87,072	59
Financial assets held for trading	-	-	-	-	-	-
Derivative financial instruments assets	1,930	275	-	1,730	18	-
Other assets	-	865	-	-	878	-
Due to other banks	1,164	876	-	2,349	570	-
Due to customers (weighted interest rate 2015: 0.18%, 2014: 0.35%)	-	7,262	8	-	45,945	39
Debt issued and other borrowed funds (weighted interest rate 2015: 2.73%, 2014: 3.07%)	98,017	-	-	98,041	-	-
Derivative financial instruments liabilities	2,290	-	-	3,019	-	-
Other liabilities	-	463	-	-	120	-
Interest income	11,526	2,795	4	32,223	1,474	2
Interest expense	(5 497)	(28)	-	(4,973)	(801)	-
Fee and commission income	5	513	-	324	768	-
Fee and commission (expense)	(577)	(5)	-	(783)	(4)	-
Net trading income	973	-	-	2,939	-	-
Salaries and other short-term benefits	-	-	1,257	-	-	884
Rental expense	-	(5,458)	-	-	(5,076)	-
(Loss)/gain on derivatives	-	-	-	(270)	-	-
Valuation expenses	-	(191)	-	-	(156)	-
Other Expenses	(719)	(419)	-	(978)	(541)	-
Letters of guarantee issued	-	37	-	-	37	-
Letters of guarantee received	124,782	-	-	124,874	-	-

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

Notes to the financial statements (continued)

29. Related party transactions (continued)

All loans lent to related parties in 2015 (and 2014) are categorized as neither past due, nor impaired according to Group provision policy, thus no provisions have been booked in 2015 (and 2014) related to them. Reverse repurchase agreements with Eurobank Ergasias collateralized by high quality bonds (Note 24) are included in line Loans and advances to banks in 2014, no such in 2015.

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.

There is a litigation case between Road Infrastructure Agency and participants in Consortium DZI Trans (DZI Bank AD, DZI General Insurance and Insurance and Reinsurance Company DZI AD). At first instance the case is won by Eurobank Bulgaria AD (as successor of DZI Bank), DZI General Insurance and Insurance and Reinsurance Company DZI AD. The decision was appealed by the Agency "Road Infrastructure" and will be reviewed on a second instance.

(b) Loan commitments, guarantee and other financial facilities

As at 31 December 2015, 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:

	2015	**2014**
Guarantees	55,766	96,871
Letters of credit	29,652	23,614
Loan commitments and other credit related liabilities	591,496	716,187
Total	**676,914**	**836,672**

(c) Capital Expenditures

As at 31 December 2015, the Bank had the following capital expenditure commitments:

	2015	**2014**
Capital Expenditures	**2,409**	**2,803**

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	**2015**	**2014**
No later than one year	8,487	8,742
Later than one year and no later than five years	2,176	3,367
Total	**10,663**	**12,109**

(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 2015 is BGN 20 thousand (2014: BGN 24 thousand).

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

Notes to the financial statements (continued)

32. Events after the balance sheet date

Acquisition of Alpha Bank's Branch in Bulgaria by Eurobank Bulgaria

On 17 July 2015 Eurobank Bulgaria and Alpha Bank S.A. entered into a Memorandum of Understanding for the acquisition of Alpha Bank's Bulgarian Branch ("Branch"). In November 2015 the two banks concluded a definitive agreement regarding the acquisition of the operations of Alpha Bank's Bulgarian Branch. On 1 March 2016, the acquisition of the entirety of the operations was completed by signing the final legal agreement after obtaining the relevant regulatory approvals.

The operational systems merge, the rebranding of offices acquired and all resulting changes are expected to be finalized until the end of May 2016.

The consideration for the acquisition of the Branch is BGN 1.96, the equivalent of EUR 1.

The acquisition of the Branch will be accounted for as a business combination using the purchase method of accounting. The initial accounting for the business combination, including the fair value measurement of the assets and liabilities acquired, has not been finalised due to the short time period between the completion of the transaction and the date these financial statements were authorised for issue. Based on the latest available book values, total assets acquired by the Bank amount to BGN 941 million, including BGN 291 million of cash, BGN 59 million due from banks and BGN 569 million net customer loans, while total liabilities assumed amount to BGN 874 million, of which BGN 553 million are customer deposits and BGN 317 million liabilities due to Alpha Bank Group.

The acquisition of the Branch constitutes a step forward for Eurobank Bulgaria to further strengthen its position in the Bulgarian banking sector and expand its customer base in both the retail and corporate business segments. Postbank is expected to benefit from significant synergies, while maintaining its strong capital ratios and substantial liquidity buffers.