ANNUAL DISCLOSURES FOR 2011
ON AN UNCONSOLIDATED BASIS

ACCORDING TO THE REQUIREMENTS OF ORDINANCE №8 OF THE BULGARIAN NATIONAL BANK FOR THE CAPITAL ADEQUACY OF CREDIT INSTITUTIONS /ART. 335 OF ORDINANCE №8/

A Member of Eurobank EFG Group

CONTENTS: **Page**

I. Scope and methods of consolidation

Eurobank EFG Bulgaria AD reports on an unconsolidated basis

II. Policies and procedures for risk management

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

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

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

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

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

Credit risk

Credit risk is the risk that counterparty will cause a financial loss for the Bank by failing to fulfill an obligation. It is the most significant risk that the Bank is exposed to. The credit process within Eurobank EFG Bulgaria AD is based on a division of responsibility between the business origination and credit risk management functions. The fundamental principle of the credit approval process is the “four-eye principle” which requires the approvals of officers from both the Business Units and Credit Risk Department, which establishes the separation of business decision from credit risk decisions. Participants in the credit approval process must act and take decisions in line with the Group’s credit policy, as well as in line with the applicable local laws and regulations. In their decisions for undertaking credit risk they must exercise prudent and objective credit judgement, and act in good faith, so that they fully and effectively protect the interests of the Bank and its shareholders in the best possible manner.

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

- ✓ Risk Committee – for strategic decisions and country risk management
- ✓ Country Credit Committee and Regional Credit Committees 1 and 2 – for Credit Approval Process decisions
- ✓ Credit Committee – for provisioning management and deteriorated loans management decisions
- ✓ Loans and Product Committee - for approval of products’ risk parameters

- ✓ Non-Performing Loans Committee – responsible for the management of NPL loans

The credit activity of the Bank is governed by Policies and Procedures, based on EFG Group Guidelines, ensuring that all aspects of credit risk are adequately covered, monitored and controlled.

Market risk

The Bank takes on exposures to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market variables. Market risks arise from open positions in interest rate, currency and equity products, all of which may be exposed to general or specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices.

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

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;
- ensure compliance with local rules;
- ensure compliance with EFG Group Guidelines;
- ensure compliance with the requirements of local and foreign regulators;
- establish a framework that will eventually allow the Bank to gain competitive advantage through risk-based decision-making.

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 generate market risk.

The Bank's Market Risk Policy is approved by the Risk Committee of Eurobank EFG Bulgaria AD and maintained by Market Risk Department. The Market Risk Department reviews the policy at least annually and submits changes to the Risk Committee 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 to the business;
- align the Bank's organizational structure and management processes with best international banking practice and set minimum standards for controlling market risks;

- develop transparent, objective and consistent market risk information as a basis for sound decision making;
- establish a structure that will allow the Bank to link business strategy and operations with the objectives for risk control and supervision.

Liquidity risk

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

The Bank implements its Liquidity Policy, designed in line with the Group Liquidity Risk Guideline R9 to ensure that:

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

The responsibility for liquidity management has been delegated by the Management Board /MB/ to the Assets and Liabilities Committee (ALCO). The ALCO is the primary responsible body to advise the MB for the strategic management of assets and liabilities, aiming to manage the liquidity risks of the Bank.

The main responsibilities of ALCO include:

- to manage the Bank’s assets and liabilities in order to ensure regular and timely meeting of current and future obligations;
- to observe the Bank’s cash inflows and outflows and the ratios between assets and liabilities;
- to observe the target liquidity ratios set by the Parent company;
- to observe the liquidity ratios recommended by the Regulator;

- making decisions regarding the structure of the assets and liabilities – the currency composition, A/L maturity structure, asset liquidity and pricing;
- to determine and monitor the implementation of the Bank's funding strategy;
- to adequately determine the funding costs – deposits, external financing;
- to inform the Management Board (MB) regarding the availability and accessibility to external financing and the need of capital increase;
- to define and regularly review elements of the internal funds transfer pricing policies (FTP) to properly reflect liquidity risk in the pricing of assets and liabilities and the internal measurement of returns;

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

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

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

Operational risk

Operational Risk means the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events and includes legal risk. Operational Risk is not limited only to the risk of financial loss but also to other negative or positive impacts to Eurobank EFG's objectives (e.g. income decrease, reputational impact, business efficiency).

By definition, Legal risk is included in Operational Risk and is defined as:

- ✓ The risk of loss because of legally flawed actions of the bank or its employees and agents;
- ✓ Uncertainty regarding the requirements and effects of the law itself;
- ✓ Relevant inefficiencies of any country's legal system (especially in cases of international activities, or subsidiaries operating in different legal environment).

An Operational Risk Committee (ORC) has been established and regular monthly meetings are convened. ORC acts to provide oversight of actual operational risk exposure and management and the processes implemented to assess, monitor and mitigate operational risk in Bulgaria.

ORC is a management committee, drawing its powers from the Group's Operational Risk Committee and the Executive Committee of Eurobank EFG Bulgaria. The Committee's remit covers all business activities and subsidiaries of Eurobank EFG Group in Bulgaria.

Eurobank EFG Bulgaria has in place the following policies and procedures with regard to the operational risk management approved by the respective authorities:

- Eurobank EFG Operational Risk Framework– describes the overall Operational Risk environment of EFG Eurobank Ergasias SA and its subsidiaries. It includes a formal record of the high level Operational Risk principles that are applied in day-to-day operations;
- Mandate and Terms of Reference for Operational Risk Department, - describes the responsibilities of the Operational Risk unit in details;
- Data Collection and Reporting Procedure -defines the minimum data collection and reporting requirements in respect to operational risk events;
- Fraud Provisioning Policy for Retail Credit Portfolio -defines the requirements in respect to calculation and reporting of provisions related to fraud cases in Retail Credit Portfolio reported as Operational Risk Events;
- Procedure for Provisioning and writing-off of operational losses in Eurobank EFG Bulgaria AD – regulates the rules and procedures for provisioning, writing-off and reconcilement losses from operational risk events;
- Operational Risk Committee, Terms of Reference – provides the governance framework of the ORC in Bulgaria;
- Eurobank EFG Fraud Risk Management Policy and Governance – defines the responsibilities and governance with regard to fraud prevention and fraud detection.
- Eurobank EFG Outsourcing Policy - defines the standard practices and principles that have to be considered before outsourcing operations to outsourcing service providers. It also defines the roles and responsibilities of management and staff involved in outsourcing decision making, oversight and management.
- Group Financial Reporting Policy for Operational Risk – Credit Related Losses Arising from Fraud - provides the accounting treatment of operational risk - credit related events that are classified as fraud in accordance with the Group accounting policies

Operational risk management in Eurobank EFG Bulgaria is based upon four distinct, even though interrelated and integrated, Programmes (the first three are implemented):

- Operational Risk Events database maintenance;
- Operational Risk Indicators (KRIs);
- Risk and Control Self-Assessment (RCSA);
- Operational Risk Scenario Analysis (i.e. estimates on rare, catastrophic events and their potential impact).

All aforementioned programmes are supported by dedicated IT applications that have been developed at EFGH Group level.

III. Structure and elements of the capital base

The Bank’s objectives when managing the capital in respect to the requirements set in Ordinance № 8 of BNB on the Capital Adequacy of Credit Institutions are:

- To comply with the capital requirements set by the Regulator;

- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored by the Bank's management on a monthly basis, employing techniques based on the guidelines developed by the Basel Committee and the European Community Directives, as implemented by the Bulgarian National Bank (BNB) for supervisory purposes. The capital adequacy of the Bank is reported to the Regulator on a quarterly basis according to the rules set by it.

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

BGN '000s

Structure of the capital	**31/12/2011**	**31/12/2010**
Tier-one capital		
Share capital	452,753	452,753
Reserves	326,117	291,175
Revaluation reserve – available for sale investments	(10,145)	(8,895)
Decreases:		
Intangible assets	(30,730)	(23,903)
50% of the Specific Provisions under Ordinance № 9	(115,752)	(185,136)
Tier-one capital (total)	**622,243**	**525,994**
Tier-two capital		
Long-term debt	122,792	122,792
Revaluation reserve of property owned by the Bank	2,376	2,376
Decreases:		
50% of the Specific Provisions under Ordinance № 9	(115,752)	(125,168)
Tier-two capital (total)	**9,416**	**-**
Capital base (total)	**631,659**	**525,994**

Additional information regarding the certain positions of the capital base is available in the Banks' Annual Financial Statements.

IV. Capital requirements

Eurobank EFG Bulgaria AD applies Standardized Approach for credit risk and Market risk, and the Basic Indicator Approach for Operational risk.

For the purposes of Ordinance № 8 the Bank applies Comprehensive Approach for Financial collaterals.

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

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

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

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

Capital requirements by exposure classes

BGN '000s

Credit Risk related to:	
Central governments and central banks	4,156
Regional governments and local authorities	251
Institutions	13,555
Corporate customers	114,374
Retail customers	74,383
Secured by real estate property	29,962
Past Due Items	24,122
Short-term rating exposures to institutions	11,595
Exposures belonging to high risk regulatory categories	226
Other items	7,460
Counterparty Risk	2,487
Credit Risk Total	**282,571**
Market Risk (pursuant to Standardised approach)	**961**
- Interest rate instruments in the trading book	883
- Equity instruments in the trading book	78
Operational Risk	**43,673**
Other own funds requirements 4%=12%-8%	**163,602**
Total Capital Requirement	**490,807**

Capital requirements for market risk

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

The major currencies which form the currency position of the Bank are BGN, EUR, USD, CHF and GBP.

Capital requirements for operational risk

The Bank uses the Basic Indicator Approach, representing 15% of the annual average gross income for 2008, 2009 and 2010. The amounts of the annual gross income for the last three years, which form the capital requirements for operational risk, are as follows:

- ✓ 2008 – BGN 298,704 thousand;
- ✓ 2009 – BGN 267,781 thousand;
- ✓ 2010 – BGN 306,977 thousand.

V. Exposure to counterparty credit risk

The allocation of the Bank's deals with securities and derivatives in the banking book as of 31 December 2011 for the different exposure classes using the Market Value Method is represented in the table below:

BGN '000s

Exposure Class	Repos and Reverse Repos	Derivatives
Institutions	-	19,146
Corporate customers	-	2,968
Retail customers	587	-
Total	**587**	**22,114**

VI. Exposure to credit risk and risk of dispersion

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

The exposures value presented in this document are estimated in accordance with the requirements of Ordinance № 8 and represent the on-balance-sheet value, calculated according to the applicable accounting standards and adjusted by the specific provisions for credit risk under Ordinance № 9 of BNB on the evaluation and classification of risk exposures of banks and the allocation of specific provisions for credit risk.

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.

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

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

The amounts of balance sheet and off-balance sheet positions for the different exposure classes as of 31 December 2011 without taking into account the effects of credit risk mitigation and the application of Credit Conversion Factors /CCF/ for off-balance sheet positions are presented in the table below:

BGN '000s

Exposure Class	**Balance sheet position**
Credit Risk	
Central governments and central banks	709,947
Regional governments and local authorities	3,127
Institutions	110,485
Corporate customers	1,355,063
Retail customers	1,213,346
Secured by real estate property	1,062,584
Past Due Items	329,712
Short-term rating exposures to institutions	724,684
Exposures belonging to high risk regulatory categories	1,887
Other items	186,859
Credit risk exposures relating to off-balance sheet items (including repo/reverse repo transactions and derivatives)	682,814
Credit Risk Total	**6,380,508**

Geographic distribution of the exposures

The geographic distribution of balance sheet positions for the different exposure classes as of 31 December 2011 is presented in the table below:

BGN '000s

Exposure Class	Bulgaria	Europe	Canada and USA	Other countries	Balance sheet position
Credit Risk					
Central governments and central banks	702,712	7,235	-	-	**709,947**
Regional governments and local authorities	3,127	-	-	-	**3,127**
Institutions	249	110,236	-	-	**110,485**
Corporate customers	1,350,389	4,674	-	-	**1,355,063**
Retail customers	1,212,764	406	5	171	**1,213,346**
Secured by real estate property	1,061,236	964	-	384	**1,062,584**
Past Due Items	327,004	2,668	-	40	**329,712**
Short-term rating exposures to institutions	9,000	715,660	24	-	**724,684**
Exposures belonging to high risk regulatory categories	134	1,753	-	-	**1,887**
Other items	186,859	-	-	-	**186,859**
Credit risk exposures relating to balance sheet items Total	**4,853,474**	**843,596**	**29**	**595**	**5,697,694**
Credit risk exposures relating to off-balance sheet items (including repo/reverse repo transactions and derivatives)	592,167	90,206	44	397	**682,814**
Credit Risk Total	**5,445,641**	**933,802**	**73**	**992**	**6,380,508**

Distribution of the exposures by industry

The distribution of balance positions by industry for the different exposure classes as of 31 December 2011 is presented in the table below:

BGN '000s

Exposure Class	Individuals	Trade and Services	Manufacture	Construction	Public Sector	Central Bank, Banks & Non-bank Financial Institutions	Other	Balance position
Credit Risk (pursuant to the Standardized Approach)								
Central governments and central banks	-	-	-	-	104,670	605,277	-	**709,947**
Regional governments and local authorities	-	-	-	-	3,127	-	-	**3,127**
Institutions	-	-	-	-	-	110,485	-	**110,485**
Corporate customers	-	619,123	297,769	82,750	-	28,645	326,776	**1,355,063**
Retail customers	824,501	243,231	63,752	39,499	-	-	42,363	**1,213,346**
Secured by real estate property	796,566	134,489	22,253	85,382	-	-	23,894	**1,062,584**
Past Due Items	80,719	104,027	32,978	62,381	-	-	49,607	**329,712**
Short-term rating exposures to institutions	-	-	-	-	-	724,684	-	**724,684**
Exposures belonging to high risk regulatory categories	-	134	-	-	-	-	1,753	**1,887**
Other items	-	-	-	-	-	-	186,859	**186,859**
Credit risk exposures relating to balance sheet items Total	**1,701,786**	**1,101,004**	**416,752**	**270,012**	**107,797**	**1,469,091**	**631,252**	**5,697,694**
Credit risk exposures relating to off-balance sheet items (inc. repo/reverse repo transactions and derivatives)	313,723	144,873	46,201	47,265	6	95,982	34,764	**682,814**
Credit Risk Total	**2,015,509**	**1,245,877**	**462,953**	**317,277**	**107,803**	**1,565,073**	**666,016**	**6,380,508**

Residual maturity breakdown of the exposures

The residual maturity breakdown of balance positions for the different exposure classes as of 31 December 2011 is presented in the table below:

BGN '000s

Exposure Class	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Balance position
Credit Risk						
Central governments and central banks	605,277	-	-	100,652	4,018	**709,947**
Regional governments and local authorities	-	-	-	3,127	-	**3,127**
Institutions	110,485	-	-	-	-	**110,485**
Corporate customers	85,415	56,987	369,566	257,044	586,051	**1,355,063**
Retail customers	18,127	81,111	135,963	199,430	778,715	**1,213,346**
Secured by real estate property	3,025	3,353	19,765	128,652	907,789	**1,062,584**
Past Due Items	62,030	21,977	17,297	63,865	164,543	**329,712**
Short-term rating exposures to institutions	724,684	-	-	-	-	**724,684**
Exposures belonging to high risk regulatory categories	-	-	-	-	1,887	**1,887**
Other items	-	-	-	-	186,859	**186,859**
Credit risk exposures relating to balance sheet items Total	**1,609,043**	**163,428**	**542,591**	**752,770**	**2,629,862**	**5,697,694**
Credit risk exposures relating to off-balance sheet items (including repo/reverse repo transactions and derivatives)	175,357	173,323	186,933	61,492	85,709	**682,814**
Credit Risk Total	**1,784,400**	**336,751**	**729,524**	**814,262**	**2,715,571**	**6,380,508**

Impaired loans broken down by industries

The classification of the risk exposures of the Bank, as well as the conditions, amounts and set of rules for the formation of loans impairment are in accordance with the applicable international financial reporting standards, and are additionally adjusted as per the requirements set in Ordinance № 9 of BNB on the evaluation and classification of risk exposures of banks and the allocation of specific provisions for credit risk.

The amounts of the impaired loans broken down by industries as of 31 December 2011 are presented in the table below:

BGN '000s

Exposure Class	Industry	Balance position of the impaired loans	Impairment
Regional Governments and Local Authorities	Public Sector	2,585	258
	Total for the Exposure Class	**2,585**	**258**
Exposures to Companies	Trade and Services	141,984	20,954
	Manufacture	62,315	8,294
	Construction	47,082	12,969
	Financial Institutions	11,929	1,785
	Other	32,585	1,845
	Total for the Exposure Class	**295,895**	**45,847**
Retail Exposures	Individuals	136,188	15,556
	Trade and Services	44,573	6,232
	Manufacture	16,172	1,888
	Construction	8,573	1,206
	Other	6,026	653
	Total for the Exposure Class	**211,532**	**25,535**
Exposures Secured on Real Estate Property	Individuals	41,487	1,814
	Trade and Services	4,516	132
	Manufacture	466	24
	Construction	13,607	198
	Other	399	7
	Total for the Exposure Class	**60,475**	**2,175**
Past Due Items	Individuals	153,165	92,814
	Trade and Services	220,911	163,567
	Manufacture	73,903	58,126
	Construction	86,571	55,688
	Other	67,703	32,356
	Total for the Exposure Class	**602,253**	**402,551**

Geographic distribution of the impaired loans

The impaired loans as of 31 December 2011 are granted only to Bulgarian companies and individuals.

Movement in the allowances for impairment loss

The table below presents the movement in impairment.

BGN '000s

Exposure Class	Provisions as of 31 December 2011	Provisions as of 31 December 2010	Change in the amount of provisions
Regional Governments and Local Authorities	258	-	258
Exposures to Companies	45,847	27,231	18,616
Retail Exposures	25,535	26,896	(1,361)
Exposures Secured on Real Estate Property	2,175	1,781	394
Past Due Items	402,551	440,595	(38,044)
Total:	**476,366**	**496,503**	**(20,137)**

VII. Information about nominated ECAIs and ECAs under the Standardized Approach for credit risk

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

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

- Exposures to Central Governments and Central Banks;
- Exposures to Institutions;
- Short-term Exposures to Institutions

The exposure classes, for which an external credit assessment is used as of 31 December 2011 are presented in the table below as in determining the risk weights for credit risk the external assessments are related to the different credit quality steps.

BGN '000s

Risk weight depending on External Credit Risk Assessment	Exposures to Central Governments and Central Banks	Exposures to Institutions	Short-term Exposures to Institutions
0%	609,295	-	-
20%	-	9,156	724,684
50%	97,415	-	-
100%	3,237	-	-
150%	-	101,329	-
Total:	**709,947**	**110,485**	**724,684**

VIII. Internal models for market risk

Eurobank EFG Bulgaria AD does not apply internal models for market risk as of 31 December 2011.

IX. Exposure to operational risk

Eurobank EFG Bulgaria AD applies the Basic Indicator Approach for calculating capital requirements for operational risk. The Bank has in place adequate policies and processes to evaluate and manage the exposure to operational risk, including low-frequency high-severity events. The Bank maintains and regularly updates contingency and business continuity plans in order to ensure its ability to operate on an ongoing basis and limit losses in the event of severe business disruption. In applying the Basic Indicator Approach, EFG Eurobank Bulgaria AD calculates the amount of capital for covering operational risk losses by multiplying the bank's average annual gross income by a coefficient of 0.15. The average annual gross income is calculated on the basis of the last three year average sum of net interest income and net non-interest income, derived from audited statements. The average annual gross income is calculated as the average amount of the positive values of the annual gross income. The annual gross income is calculated before the deduction of any impairment charges for credit losses and operating expenses. The calculation of the annual gross income does not include:

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

X. Equities in the banking book

Accounting techniques and valuation methodologies used by the Bank

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

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

Balance sheet value and fair value of the equity instruments in the banking book

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

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

The balance sheet value and fair value of the equity instruments in the banking book as of 31 December 2011 are represented in the table below:

BGN ‘000s

Equity instruments in the banking book	Balance sheet value	Fair value
Shares	1,682	1,682
Participations	8,108	8,108
Total:	**9,790**	**9,790**

Type, disposition and amount of the exposures in listed instruments and private equity investments

The major part of the equity instruments held by the Bank in the banking book as of 31 December 2011 represents of participations in companies. The amount of the private equity investments held by the Bank and classified as bearing high risk is BGN 1,887 thousands. All private equity investments are reported with 150% risk weight.

The equity instruments reported in the banking book of the Bank as of 31 December 2011 are presented in the table below:

BGN '000s

Equity instruments in the banking book	Reported with 100% risk weight in exposure class „Other Items"	Reported with 150% risk weight in exposure class „Items Belonging to Regulatory High-Risk Categories"
Listed equity instruments	1,682	-
Non-listed equity instruments	6,221	-
Items Belonging to Regulatory High-Risk Categories	-	1,887
Total:	**7,903**	**1,887**

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

The realized and unrealized gains or losses for 2011 are presented in the table below:

BGN '000s

Realized gains and losses from equity instruments in the banking book	2011
Realized gains/(losses)	(596)
Unrealized gains / (losses)	1,084

XI. Interest rate risk in the Banking Book

<u>Nature, measurement and key assumptions regarding interest rate risk in the Banking book</u>

Interest rate risk management (including banking book interest rate risk) is based on the general rules for market risk management defined in the Market Risk Policy, which has been developed in line with the Market Risk Guidelines of EFG Bank Group and the related procedures that define the detailed implementation of the Policy.

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

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

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

For positions that are recognized at fair value for accounting purposes, these two effects are equivalent.

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

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

The report represents a maturity/re-pricing schedule that distributes all Bank's assets, liabilities and interest-sensitive off-balance sheet positions into "time-bands" according to their maturity (if fixed rate) or time remaining to their next re-pricing (if floating rate), combined with the calculation of two duration equivalent measures: 1-year and 10-year duration equivalents. There are Risk Committee approved nominal limits for the two duration equivalent measures, set to ensure that the overall Bank exposure to interest-rate risk is acceptable and in line with the Bank's market risk appetite. The utilization of these limits is monitored on a weekly basis by Market Risk Dept. and any excesses are escalated to the management bodies of the Bank and the Group. The gap analysis is supplemented by calculation of risk indicators such as duration analysis of the bond portfolios and calculation of interest rate sensitivity to specific interest rate shifts. Monthly stress tests are performed to assess the impact of interest rate changes on the Bank's Profit and Loss and economic value.

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

For example, in the Interest Rate Gap Report for the purposes of calculating Interest Rate Risk Equivalent Instruments for current and savings accounts, on the basis of specific assumptions approved by the Group Risk Management, these are distributed in the closest time-band (1 month) to reflect properly their interest rate sensitivity. For instruments with fixed interest rate, the principal payments are distributed into time-bands according to their repayment schedule at the respective payment dates, while floating rate instruments are distributed according to their next interest re-pricing.

The Bank's capital is first allocated to cover the fixed assets, participations and other positions without a clear interest rate profile and the remainder is allocated in the 1 day to 1 month time bucket. With relation to early prepayments on loans, the existence of prepayment fees for mortgage loans lowers the propensity of the borrowers to prepay, which ensures adequate comparability between the contractual and the actual maturities of this types of loans. In addition, the majority of the loans are floating-rate ones and respectively are distributed into closer time-bands. In the case of instruments with embedded options, these options determine the time-band distribution of the respective instrument.

The interest rate risk exposure in the Banking Book is relatively low at present, given the short re-pricing period of most assets and liabilities, due to their floating rate nature. This is supplemented by the fact that the major part of the interest rate risk arising from the available-for-sale bond portfolio is hedged through swaps.

<u>Interest rate sensitivity analysis</u>

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

All amounts in BGN equivalent

Currency	+200 bps	-200 bps
BGN	12,160,500	-12,160,500
EUR	10,832,980	-10,832,980
USD	1,947,052	-1,947,052
CHF	-318,024	318,024
GBP	25,750	-25,750
Other	-92	92
Total:	**24,648,166**	**-24,648,166**

XII. Securitization

Eurobank EFG Bulgaria AD does not apply securitization as of 31 December 2011.

XIII. Internal Rating Based Approach

Eurobank EFG Bulgaria AD does not apply Internal Rating Based Approach as of 31 December 2011.

XIV. Credit risk mitigation techniques

The Bank takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss for the Bank by failing to fulfill an obligation.

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

a) Real estate
b) Pledge on movable property
c) Pledge on commercial enterprises
d) Pledge on receivables

e) Securities

f) Cash

g) Letters of guarantees

h) Personal guarantees /Sureties/

i) Other eligible collaterals

All collaterals are agreed in writing through Collateral Agreement.

For the purposes of credit risk mitigation according to Ordinance № 8, Eurobank EFG Bulgaria AD uses only part of the above mentioned collaterals, namely:

- ✓ Financial collaterals – cash and securities in accordance with the requirements of Ordinance № 8, part VI Credit Risk Mitigation
- ✓ Guarantees – in accordance with the requirements of Ordinance № 8, part VI Credit Risk Mitigation
- ✓ Real Estate – in accordance with the requirements of Ordinance № 8, part VI Credit Risk Mitigation

Eurobank EFG Bulgaria AD has signed ISDA Master Agreements with Credit Support Annexes with two of the leading European banks and GMRAs with another three in order to mitigate the counterparty credit risk.

Information about the credit risk concentration before credit risk mitigation:

The information about the credit risk concentration of balance sheet positions before credit risk mitigation as of 31 December 2011 is presented in the table below:

BGN '000s

Credit Risk	**Supervisory Risk Weights**							
	0%	**20%**	**35%**	**50%**	**75%**	**100%**	**150%**	**Total**
Central governments and central banks	609,295	-	-	97,415	-	3,237	-	**709,947**
Regional governments and local authorities	-	-	-	-	-	3,127	-	**3,127**
Institutions	-	9,156	-	-	-	-	101,329	**110,485**
Corporate customers	-	-	-	-	-	1,355,063	-	**1,355,063**
Retail customers	-	-	-	-	1,213,346	-	-	**1,213,346**
Secured by real estate property	-	-	1,062,584	-	-	-	-	**1,062,584**
Past Due Items	-	-	-	29,544	-	300,168	-	**329,712**
Short-term rating exposures to institutions	-	724,684	-	-	-	-	-	**724,684**
Exposures belonging to high risk regulatory categories	-	-	-	-	-	-	1,887	**1,887**
Other items	93,392	275	-	-	-	93,192	-	**186,859**
Total	**702,687**	**734,115**	**1,062,584**	**126,959**	**1,213,346**	**1,754,787**	**103,216**	**5,697,694**

Total amount of the exposures covered with financial or other recognized collaterals

The balance sheet position covered by financial or other recognized collaterals for the different exposure classes as of 31 December 2011 is presented in the table below:

BGN '000s

Exposure to Credit Risk Covered by Eligible Collaterals	Recognized financial collaterals	Guarantees	Total
Corporate customers	19,446	951	**20,397**
Retail customers	7,360	5,315	**12,675**
Past Due Items	5,120	8,294	**13,414**
Total	**31,926**	**14,560**	**46,486**

XV. Policy and practice for remuneration

The Bank has adopted and implemented its Policy on Remuneration which settles rules and norms for determining remuneration of the employees of the organization.

Policy on Remuneration is compliant with the Remuneration Policies of the international financial group, as well as all requirements of the Directive 2010/76/EU of the European Parliament and of the Council regarding capital requirements for the trading book and for re-securitizations, and the supervisory review of remuneration policies.

Remuneration policy covers all levels of the organization and all categories of employees of the bank and provides for specific arrangements for the categories of staff, in compliance with Ordinance №4 of the Bulgarian National Bank and complies with the all principles regarding the remuneration of the persons under Art.I.2 from the Policy.

In this respect, Remuneration policy shall be accessible to all employees. Every newly appointed employee gets acquainted with the criteria for appraisal and their connection with remuneration during their initial orientation course. Apart from this, every year prior to the beginning of the Annual Appraisal Process, the direct manager is obliged to communicate the appraisal system to their employees, as well as the connection of the evaluation with remuneration. Upon changes in the Salaries Policy and Procedures, the Division Heads should be informed and asked to communicate to their employees.

According to the current Remuneration Policy, Salary Review is performance related. Objectives in Performance Evaluation Form are quantitative in terms of business strategy and qualitative in terms of compliance culture, ethics, behavior towards customers, measures to mitigate conflicts of interest, etc. This implies that the current policy does not reward individuals for taking risks in excess of the Bank's risk tolerance and at all times give due consideration to the longer term.

Remuneration of individuals who occupy the roles of senior management, risk takers and control functions is determined according to the principles of the present Salaries Policy and Procedures and in compliance with the requirements of Ordinance No 4 of the BNB. These principles do not allow encouraging excessive risk taking and ensure a level that guarantees that skilled individuals are attracted to these positions.

People with control functions are adequately compensated in accordance with the achievement of their objectives, set by independent reciprocal structures with EFG Eurobank, Greece, auditing the entire activity of the Group. Appraisal of performance of control units and defining remuneration levels is done by these structures based on their performance on pre-defined objectives (KPIs) in connection with their functions and not in relation to the performance of the business units they control or audit.

Where the pay award is performance related, remuneration is based on a combination of individual and collective performance (business unit, company and group performance). Defining the pay award is not a purely mechanical process based on measurable performance criteria, but also includes the ability to exercise judgment. Where it is appropriate, poor performance in the non-financial variables could override good performance in terms of profit generation.

When defining individual performance, factors apart from financial performance are considered. The measurement of performance, as a basis for bonus awards, includes adjustments for risks and the cost of capital. The aim of such an adjustment is to ensure that the longer term interests of the bank are fully taken into account, such as the sustainable growth and profitability prospects of the institution. The remuneration of non-executive directors is not linked to the financial institution's short term results.

Basic salary is formed, based on the requirements for the position and the market levels. Its ratio concerning any other flexible part (Bonus or other), should be approved every single year by RemCo and it should not tolerate an approach in which the employees should not to rely only on their monthly regular salaries, because the amount of their bonuses. [1]

The Remuneration Policy is in line with the business strategy, objectives, values and long-term interests of the bank, as well as incorporates measures to avoid conflict of interest.

Remuneration Policy applies the proportionality principle so as to achieve consistency between policies and practices on remuneration and risk profile, risk appetite and business strategy of the bank so that there is effective compliance with the principles of Ordinance № 4 of BNB.

Guaranteed variable remuneration shall be exceptional and occur only when hiring new staff and shall be limited to the first year of employment.

Payments related to the early termination of a contract shall reflect performance achieved over time and shall be designed in a way that does not reward failure.

Staff members referred to in Art..2.1.,2.2.&2.3. shall not use personal hedging strategies or insurances to undermine the risk alignment effects embedded in their remuneration arrangements.

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

[1] Remuneration Committee (RemCo) is authorized by the Supervisory Board as an independent body so as it can exercise competent and independent judgment on remuneration policies and practices, and the incentives created for managing risk, capital and liquidity.
The Remuneration Committee is responsible for the preparation of decisions regarding remuneration, taking into account the implications for the risk and risk management of the bank, the long-term interests of the shareholders and other investors in the Bank.