Postbank

# ANNUAL DISCLOSURES FOR 2018
# ON AN UNCONSOLIDATED BASIS

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

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

# I. Risk management, objectives and policies

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

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

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

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

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

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

The Three Lines of Defense approach is in place within the Bank. The model distinguishes among three groups involved in the effective riks management as follows:

1. Under the 1st line of defense, business management is responsible for managing the risks of their business, within approved risk appetite and tolerance levels.

2. Under the 2nd line of defense, the risk management functions, coordinated by the Group Risk Management General Division, provide oversight over first line of defense (business management) risk taking activities, and develop risk management frameworks, policies and procedures within their area of responsibility. Other support functions of the Group (such as Compliance, Legal) are also part of the second line of defense.

3. Under the 3rd line of defense, the audit function performs regular reviews of the implementation of and adherence to the risk management framework and its supporting policies and processes, as well as the system of internal controls in place. This includes both business unit activities and risk management functions.

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

The below list shows all policies and procedures related to Risk management, which have been updated in 2018:

- ✓ Risk Appetite of Eurobank Bulgaria AD;
- ✓ Risk Strategy of Eurobank Bulgaria AD;
- ✓ Credit risk stress test methodology;
- ✓ Credit Policy Manual for Corporate lending;
- ✓ Provisioning policy.

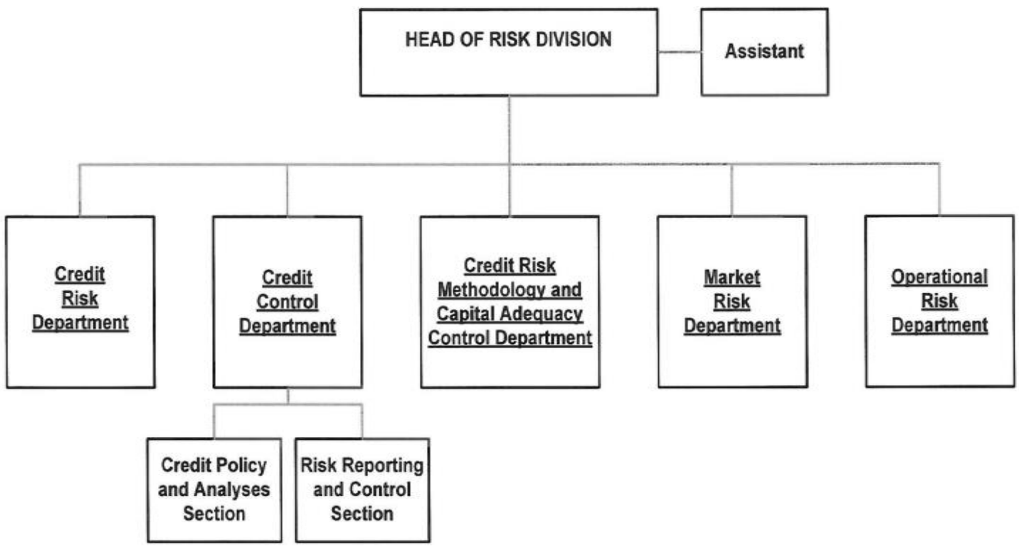
Eurobank Bulgaria is exposed to a variety of risks deriving from its activities, among which the most significant are the following:

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

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

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

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



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

## Credit risk

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

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

**Risk avoidance:** in lending operations, the Bank rejects loan proposals with bad performance and behavior using internal risk models and ratings, and by defining risk sensitive business focuses by means of specific exposure limits and target portfolio.

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

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

For the purpose of management and control of the credit risk, different structures and bodies are established with specific responsibilities:

- ✓ Risk Committee – for strategic decisions and country risk management;
- ✓ Country Credit Committee and Regional Credit Committee – for Credit Approval Process decisions;
- ✓ Special handling Committee I and II – for credit approval process decisions for problematic customers;
- ✓ Special Handling Monitoring Committee – for monitoring of Corporate watch-listed, problematic and NP relationships;
- ✓ Troubled Assets Committee - for oversight and monitoring of troubled assets management;
- ✓ Loans and Products Committee - for approval of loan products as well as risk parameters and criteria.

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

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

Risk Committee monitors and periodically adjusts specific limits corresponding to each sector.

The credit exposure to any given economic sector shall not exceed a certain percentage of the credit exposure of the total wholesale portfolio of the Bank, not accounting for corporate bonds. The weight of each sector as percentage of the total corporate portfolio is well defined in the Risk Strategy of the Bank and it is subject of annual revision.

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

- ✓ Credit Policy Manual for Corporate lending;
- ✓ Credit Policy Manual for Small Business banking (SBB);
- ✓ Credit Policy Manual for Mortgage lending;
- ✓ Credit Policy Manual for Consumer lending including credit cards;
- ✓ Collateral Rule Book;
- ✓ Collaterals Allocation Instruction;
- ✓ Corporate Troubled Assets Group Credit Policy;
- ✓ Retail Troubled Assets Group Credit Policy;
- ✓ Accounting Policy for impairment of lending exposures;
- ✓ ICAAP Procedure;
- ✓ Stress test methodology;
- ✓ Concentration risk methodology.

## Market risk

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

- ✓ set the framework and minimum standards for market and counterparty risk control and management throughout the Bank;
- ✓ enable compliance with local rules and Group guidelines;
- ✓ ensure regulatory compliance;
- ✓ establish a framework that will eventually allow the Bank to gain competitive advantage through risk-based decision-making.

The Market & Counterparty Risk Policy is further supported by appendices and 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 trading and non-trading activities that run market risk.

The Market & Counterparty Risk Policy is approved by the Risk Committee of Eurobank Bulgaria and maintained by Market Risk Department, which regularly reviews the policy and submits changes to the Risk Committee for approval. Risk is at the core of the Bank's business and the market risk control and supervision framework aims to:

- ✓ protect the Bank against unforeseen market losses and contribute to earnings stability through the independent identification, assessment and understanding of the market risks inherent in the business;
- ✓ help align the Bank's organisational structure and management processes with regulatory requirements and international best practices;
- ✓ set minimum standards for controlling market and counterparty 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;
- ✓ safeguard the adherence to the principles and metrics described in the Bank's Risk Strategy documents.

The Bank's market risk appetite is the size of the potential unexpected loss that it is willing to absorb as a result of adverse changes in market variables. It is related to its capacity 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 defined 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. At present there are nominal limits set on the 1-year and 10-year duration equivalent measures calculated in the Interest Rate Gap Report to ensure that the Bank's overall exposure to interest rate risk is acceptable; nominal limits for the overnight open FX positions in Euro and in all remaining currencies; and a nominal limit on the market value of the overall exposure to the local equity market. These limits at Bank level are supplemented by additional sub-limits on specific market risk factors, such as bond positions, concentration limits for the equity portfolio and other. In addition to quantitative limits, the Bank's market risk appetite is also expressed through qualitative characteristics such as different types of allowed markets, products, countries, counterparties and currencies. The market risk limits are monitored by Market Risk Department and any excesses are reported to the respective management bodies in line with the escalation levels set in the Market & Counterparty Risk Policy.

The Bank's Risk Committee is the ultimate body responsible for market risk control and management, with its responsibilities including:

- ✓ ensuring that the Bank has a well-defined market risk strategy and risk appetite in line with its business plan, and that the risk appetite in question is articulated in a set of qualitative and quantitative statements, limits, and an appropriate measurement methodology;
- ✓ ensuring that the Bank has developed an appropriate market and counterparty risk management framework which is embedded in the decision making process (e.g. new products introduction, risk adjusted pricing, risk adjusted performance measures and capital allocation) throughout the organization and its subsidiaries;
- ✓ ensuring that the Bank has the appropriate modelling tools, data sources and

sufficient and competent staff needed to identify, assess, monitor and mitigate risks;

- ✓ approval of market risk policies, procedures and overall control structure;
- ✓ approval of market risk appetite, limits, underlying measurement methodology and risk assessment models;
- ✓ monitoring of the compliance with and implementation of Group policies and procedures;
- ✓ review and assessment through regular reporting by Market Risk Department of the Bank's market risk profile and strategy and the effectiveness of the risk management policies, identifying and assessing significant risks;
- ✓ review of major risk issues and actions for resolution;
- ✓ review on a regular basis of the adequacy of relevant measures and controls.

Market Risk Department is responsible for the independent market risk assessment, measurement, monitoring, reporting and control. The department's responsibilities include:

- ✓ independent market risk identification, assessment, monitoring and control;
- ✓ independent reporting to senior management at local and Group level;
- ✓ maintenance and implementation of market risk policies and procedures;
- ✓ compliance with Group market risk policies and procedures;
- ✓ monitoring Capital Markets' and other key Business Unit activities from market risk perspective;
- ✓ monitoring of trading, investment and counterparty limits and reporting limit excesses to the management bodies;
- ✓ valuation of the Bank's derivatives and securities portfolios;
- ✓ reviewing new products from market risk perspective.

Market Risk Department is part of Risk Division, subordinated to the Chief Risk Officer who has a direct reporting line to the Group Chief Risk Officer. The department does not report to an executive member of management that is responsible for risk-taking activities, thus ensuring its independence from the business units undertaking exposures to market risks. Market Risk Department has an independent access to the Bank's core IT systems, the Treasury Front Office System, the MIS databases and external sources of market information such as Reuters and Bloomberg and prepares market risk reports on a daily, weekly**,** monthly or quarterly basis, presenting them to the senior management at Bank and Group level, including the Risk Committee (RC) and the Assets and Liabilities Committee (ALCO). The Management of the Bank estimates the market risk of positions held and the maximum losses expected based upon a number of assumptions and reviews various market risks at least on a monthly basis.

The Bank ensures that all material positions that are exposed to market risks are included within the market risk measurement system. The scope of the application encompasses all units of the Bank with significant market risk exposure, including other Bulgarian subsidiaries of ERB Group.

Regarding market risk, the risk measurement system measures risk in the valuation of all of the Bank's positions (securities, derivatives, core banking items) regardless of accounting treatment arising from exposure to the following market risk factors:

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

- ✓ exchange rates – risk measurement methods should incorporate risk factors corresponding to the individual foreign currencies in which the Bank has material positions;
- ✓ interest rates – including credit spreads – risk measurement methods should include a set of risk factors corresponding to interest rates in each of the currencies in which the Bank has material interest rate sensitive positions; for each currency the yield curve is divided into a number of maturity segments in order to capture the variation in volatility of interest rates at different points on the yield curve;
- ✓ equity prices – risk measurement methods should include risk factors corresponding to each of the national markets in which the Bank holds material positions (at present only the Bulgarian Stock Exchange);
- ✓ market implied volatilities of the above.

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

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

*Interest-rate risk*

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

The main instrument used internally for identifying, monitoring, reporting and managing the Bank’s exposure to interest-rate risk is the Interest Rate Gap report, produced on a weekly basis. The report is based on the Group guidelines, while the underlying assumptions are constantly reviewed and updated to ensure their adequate reflection of any local specifics. There are two main calculated duration-equivalent measures – 1Y and 10Y equivalent, for which there are nominal limits set to ensure that the overall exposure of the Bank to interest rate risk is acceptable and in line with its market risk appetite. The monitoring is done on a weekly basis and there have been no limit excesses in 2018. There are further limits set on major sources of interest rate risk such as bond positions, and the gap analysis is supplemented by duration analysis and shocks analysis. Periodical stress tests are performed to assess the impact of interest rate changes on the Bank’s P&L and economic value.

The Bank has a conservative policy regarding the exposure to interest rate risk and maintains a low volume of the trading bond portfolio. The main factors which have influenced and will most likely continue to influence the interest rate risk exposure in the next years will be derivative deals used for hedging banking book positions. On the other hand, with regard to banking book positions, interest rate risk is relatively low, given the short re-pricing periods and tenors of most assets and liabilities and the large share of floating-rate ones. At the same time, the interest rate risk in a material part of the fixed income sovereign bond portfolio, a major risk source, is hedged through asset swaps.

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The main technique used for managing interest rate risk is interest rate risk hedging, including fair value and cash flow hedges. This is done in compliance with the Bank's Hedging Policy, which outlines the procedure for assessing hedge effectiveness on a regular monthly basis according to international standards requirements, defines the roles of the different units of the Bank in the assessment and accounting process, and the potential hedging instruments that can be used.

The main stress test scenario used for interest rate risk is based on the assumption for parallel yield curve shifts with specific shift parameters for each currency, together with an increase in country credit spread for foreign currency denominated sovereign bonds and is calculated on a regular monthly basis. For the trading book the assumptions are applied separately for bond positions and for derivative positions. The effects for bonds are calculated based on the estimated PVBP for each position, while for derivatives the effects are estimated by applying a shift to the actual risk-free reference curve for each currency and calculating the resulting changes in the NPV.

As the Bank's trading bonds portfolio is small in size, while the predominant use of interest rate derivatives is for hedging purposes, the Bank's exposure to interest rate risk is coming mainly from banking book positions. A detailed analysis of IRRBB, together with a description of the full set of stress test scenarios used, is presented separately.

*Foreign exchange risk*

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

The open foreign exchange positions of the Bank are monitored at least on a daily basis. Foreign exchange operations are almost entirely client driven or with the purpose of closing open positions and the Bank usually does not take material open positions in currencies other than the Euro. The overnight limits for the total open FX position in all non-euro currencies and for each individual currency except Euro are small in size. The limit for EUR/BGN position is larger but the Currency Board Arrangement and the fixed EUR/BGN exchange rate mean that the related FX risk is low.

The main stress test scenario used for FX risk is based on devaluation / appreciation of the local currency against all foreign currencies with the exclusion of Euro. The calculations are performed monthly based on the Bank's open FX positions against each currency.

*Equity price risk*

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

The proprietary listed equities portfolio consists entirely of shares, listed on the Bulgarian Stock Exchange, and its market value should not exceed the approved nominal limit, the amount of which is also indexed to the SOFIX. Limit utilization is calculated on a daily basis, while equity price risk monitoring and management is further supported by the daily calculation of equity portfolio VaR, based on a 99% confidence level, 10-day holding period and a 180-day time series of changes in market variables.

The stress test scenario used for equity price risk is based on a drop in equity prices across the board for all listed equity positions.

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Trading Book and Pillar I Capital Requirements for Market Risk

In its Rules for Trading Portfolio Management, the Bank has clearly defined policies and procedures for the overall management of the trading book, including criteria for specifying positions and activities to be included there, accounting principles, reclassification criteria for transferring positions between trading and banking book, trading strategies, rules, procedures and responsibilities for the active management of the trading book, and rules for daily valuation of positions. The valuation methodologies and assumptions on the pricing of securities and derivatives are further documented in the Bank's Market & Counterparty Risk Policy. To ensure the tradability of positions included in the trading book, the Bank performs annual aging analysis of bond and equity positions. If any material such position has not been traded in the respective time-frame, the reasons for this are subject to additional analysis. The Bank also has in place a procedure to check and ensure that no transfers of risk positions between trading and banking books have taken place.

The Bank calculates capital requirements for market risk in the trading book using the standardized approach.

## Liquidity risk

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

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

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

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

- ✓ stress tests and scenarios are performed and analyzed to assess the adequacy of the Bank’s liquidity to meet crisis situations;
- ✓ regulatory requirements are met.

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

ALCO regularly reviews: the liquidity ratios; liquid assets and buffers; sources and uses of liquidity and liquidity projections; the deposit base and wholesale funding; the cost of funding; the local and international markets and macroeconomic outlooks, etc. Within its authority is to take all the necessary decisions regarding the interest rate policy, the liquidity and assets and liabilities management and to set the target parameters of potential external funding. Under normal circumstances ALCO meets at least once a month and duly reports any significant issues to the MB. With regard to assets and liabilities management, ALCO regularly reviews the following information:

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

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

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

The operational management of the Bank’s assets and liabilities and the execution of ALCO decisions regarding liquidity are assigned to the Head of Capital Markets. If necessary, ALCO can be directly engaged in the liquidity management via activating all resources of the Bank to meet all payment obligations. Daily monitoring of cash flows is the responsibility of Capital Markets Division.

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

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

In parallel to the internally defined liquidity ratios, the Bank also monitors and complies with 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 local regulatory requirements. Since Regulation (EU) No 575/2013 entered into force, the Bank also prepares and submits the templates for the calculation of Liquidity Coverage Ratio (LCR) on a monthly basis and Net Stable Funding Ratio (NSFR) on a quarterly basis, as well as the Additional Liquidity Monitoring Metrics (ALMM), including concentration of funding by counterparties, by product type, prices for various lengths of funding, daily roll-over of funding, concentration of counterbalancing capacity and maturity ladder on a monthly basis, and duly complies with the required minimum levels. Regulatory Reporting and IFRS Methodology Department prepares and submits to the Bulgarian National Bank (BNB) the regulatory liquidity reports and monitors the compliance with regulatory thresholds. Budget, Analyses and Group Reporting Department also prepares various liquidity reports which are sent to the management of the Bank and responsible units within Eurobank Group.

Eurobank Bulgaria prepares a large number of reports which measure the liquidity of the Bank and which are presented to the management on a daily, weekly, monthly or quarterly basis. The liquidity reporting and measurement system covers all on- and off-balance sheet assets and liabilities that are exposed to liquidity risk. For the purposes of liquidity reporting and monitoring the Bank uses information from various data sources including the core banking system, Treasury front-office system and MIS data warehouse. The main data source regarding liquidity reporting is the core banking system from which information about interest rates, deposit and loan volumes, maturities and repayment plans is loaded into the MIS data warehouse. The data from the core banking system is also imported into the ERP system of the Bank and is monitored and reconciled on a daily basis. In case of a disaster the Bank has secured the continuous functioning of its operations by maintaining back-up servers and data archives in different locations.

The long-term strategy of the Bank is to be among the leading financial institutions on the Bulgarian market, offering universal banking products and services to individual clients and companies. Maintaining stable liquidity and capital adequacy ratios, as well as managing the quality of the loan portfolio are also an inseparable part of the strategy. The Bank has a limited appetite for liquidity risk and accepts the potentially increased costs of maintaining sufficient liquidity buffers to ensure a sound liquidity position. The strategy of the Bank for its presence on the deposit market and the targeted organic growth complies with the low liquidity risk tolerance. The Bank is fully self-funded and relies almost entirely on customer deposits (retail or corporate) to fund its activities. There is no significant deposit concentration as top 10 depositors comprise slightly above 10% of all deposits. As at the end of 2018 the lending portfolio of the Bank is fully funded by deposits from individuals and companies. The high liquidity levels in the situation of subzero interest-rate environment, however, determine the low need for external funding and the importance of continuing repricing efforts on deposits and funding. The liability structure is carefully analyzed with the aim to optimize funding sources from profitability perspective. Eurobank Bulgaria’s external funding dependence is immaterial, although the Bank regularly tests the potential to attract additional funding from external sources at a reasonable price, reflecting the risk profile of the country and the institution.

In 2019 deposits are expected to continue to fully cover the lending portfolio and the Bank will continue to maintain liquidity positions and ratios above the regulatory requirements and the internal minimum target levels. Furthermore, the Bank will retain excess liquidity buffers at levels ensuring a balance between profitable investments and reasonable behavior. The Bank

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will continue its policy of maintaining low concentration of deposit liabilities in single large deposits. The Assets and Liabilities Committee will continue to monitor the market developments and interest rate levels and take timely and appropriate measures whenever a change in the strategy is required.

Eurobank Bulgaria applies the following targets/limitations at all times with respect to its liquidity and funding:

- ✓ The Bank aims to always have an adequate liquidity buffer to cover a set of liquidity stress scenarios;
- ✓ The Bank aims to keep a buffer that contains a well-diversified set of instruments;
- ✓ The Bank aims to use a well-diversified set of funding sources;
- ✓ The Bank aims to optimize its funding;
- ✓ The Bank aims to maintain a balanced maturity profile of its liabilities spread across the maturity time-bands without significant peaks and concentrations;
- ✓ The Bank aims to maintain its options for secured and unsecured wholesale funding;
- ✓ The Bank aims to be compliant with all regulatory ratios;
- ✓ The Bank takes into account any cost considerations and net interest income targets in its short or long term strategy regarding the liquidity buffer and funding sources.

The Bank has developed a Funding Strategy, approved and updated by ALCO, with the aim to set up a target structure of the funding base, i.e. target mix of deposits by business lines (retail, corporate and institutional) and wholesale funding, to set up 'tenor' targets, so that the funding base is well balanced across maturity buckets, to set up currency structure of the funding base in order to ensure asset/liability matching by currency and to introduce target cost of funds levels by business lines which reflect the market environment. In adherence to the Funding Strategy, the Bank has built a strong and well-diversified funding base formed predominantly of retail and corporate deposits with no dependence on wholesale funding, balanced across currencies and maturity buckets and with cost of funds well below the market average.

The liquidity of the Bank is monitored per each major currency in which the Bank operates. The Bank has concentrated its assets and liabilities in only two currencies: Bulgarian Lev and the reserve currency of the Currency Board – the Euro, with assets and liabilities in other currencies representing less than 10%. Nevertheless, the Bank aims to maintain sufficient liquidity in the major foreign currencies it operates in to minimize the risk related to inability to renew or replace funding in these currencies.

The Bank defines its liquidity buffer as the available liquidity composed by cash and other core assets that are Central Bank eligible and/or highly liquid in private markets, covering the additional needs due to outflows that may arise over a period of one month under stress conditions. The Bank aims to maintain a liquidity buffer without any significant concentration on any particular asset type or issuer. A large part of the buffer should include assets eligible for secured funding from both Central Banks and wholesale market counterparties. The cash value of the assets is being taken into account for the quantification of the buffer (market value after the application of haircuts), and any restrictions of a legal, regulatory, geographical, operational or other nature that would make liquidation impossible or possible only to a limited extent or after delay are also taken into account for any asset in the buffer. The liquidity buffer is composed mainly of cash and balances with the Central Bank, unencumbered Central Bank or repo eligible securities and operating accounts and short-term interbank placements at other banks. The vast majority of these assets could be immediately transformed into cash and cover the various liquidity needs of the Bank. The minimum level of liquid assets that has to be maintained is determined by the internal and regulatory ratios and requirements. The Bank aims to maintain such levels of liquid assets that all minimum ratios are met at any time.

Liquidity risk measurement should include assessment of the risk under normal market conditions and under stress scenarios. For that reason the Bank has a comprehensive stress testing framework and performs stress tests and scenario analysis on a regular monthly basis. The results of these stress tests play an important role in the development of the contingency funding plans. Stress tests analyze the adequacy of the Bank's liquidity to meet crisis situations (e.g. significant deposit outflows, tightening of credit lines, etc.) and the impact from stress scenarios on its liquidity buffer. The stress testing framework contains three types of short-term (1-month) scenarios:

- ✓ an institution-specific (idiosyncratic) stress test scenario (moderate levels of stress);
- ✓ a market wide/systemic stress test scenario (severe levels of stress);
- ✓ a combination of the two (very severe levels of stress).

The scenarios and assumptions used are approved by ALCO. The stress tests analyze the ability of the Bank to weather severe but plausible liquidity shocks as going concern. The stress scenarios also incorporate certain effects of market and credit risks on the Bank's liquidity standing. The Bank uses a conservative approach in setting the stress test scenario assumptions. Factors in the exercises consider not only the past (historical events) but also make use of hypotheses based on expert judgment and on the current and future market environment and idiosyncratic factors, including the following:

- ✓ asset market illiquidity and the erosion in the value of liquid assets due to market movements or perceptions or due to the increase on the applicable by the counterparties haircuts;
- ✓ run-off of client deposits (with analysis per type according to the client mix);
- ✓ (un)availability of secured and unsecured wholesale funding sources;
- ✓ correlation between funding markets (i.e. the effectiveness of diversification across sources of funding);
- ✓ additional margin calls and collateral requirements due to counterparty requests or due to the effect of market movements on the underlying transactions;
- ✓ liquidity drains associated with complex products/transactions;
- ✓ funding tenors;
- ✓ exercise of early termination clauses or call options from counterparties;
- ✓ contingent claims and more specifically, potential draws on irrevocably committed lines extended to third parties;
- ✓ (un)availability of contingent lines extended to the Bank;
- ✓ impact of credit rating triggers;
- ✓ currency convertibility and access to foreign exchange markets;
- ✓ ability to transfer liquidity across entities, sectors and borders taking into account legal, regulatory, operational and time zone restrictions and constraints;
- ✓ access to Central Bank facilities / MRR;
- ✓ operational ability of the Bank to monetize assets;
- ✓ estimates of future balance sheet growth;

- ✓ amplification of the market movements and exacerbation of the market strain (including timing of cash-flows), caused by the likely behavioral response of other market participants.

The potential outflows in the stress test scenarios are based on deposit run-off rates corresponding with the empirical evidence for the sensitivity of the different types of clients towards crisis signals, and analyzed within a 1-month time horizon. The included deposit outflow percentages in all three scenarios represent extreme cases, which have not been substantiated by any recent experience, but aim to analyze the Bank's preparedness to withstand funding outflows varying in volume and intensity.

The results from the stress tests show that the Bank has sufficient amount of liquid assets and stable cash inflows to meet the expected possible outflows in all these negative scenarios. The results are presented to the management on a regular basis and are part of the overall liquidity management strategy. The management makes a qualitative and quantitative assessment of the liquidity risk as per the Bank's policies and procedures based on all available information. The results from the liquidity risk stress tests are analyzed as part of the process and an assessment is made whether any additional capital reserves for liquidity risk are required or whether any liquidity boosting actions are needed. The management's assessment is that the current liquidity buffers and counterbalancing capacity are in line with the Bank's target liquidity risk profile and medium-term obligations are adequately met under both normal and stressed conditions and there is no necessity to set aside additional capital reserves for liquidity risk as the Bank's liquidity position is at very good and stable levels.

The Bank has also developed a medium-term stress test scenario as part of its overall liquidity risk stress testing framework. The stress test represents a survival period analysis over a 12-month time horizon. The evolution of the Bank's liquidity buffer is analyzed over the course of the next 12 months with the following scenarios applied simultaneously: loss of customer deposits (retail and corporate), loss of wholesale funding (including deposits from financial counterparties), negative effects from CSA collateral to be posted due to changes in market variables, decrease of the cash value of the assets in the liquidity buffer and additional outflows from undrawn committed credit lines. These scenarios are taken into account for the calculation of the survival period. The results from the analysis demonstrate that the calculated survival period exceeds the time horizon of the stress test (12 months).

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

The Management of the Bank considers that the Bank maintains adequate liquidity that is more than sufficient to cover the risks it has undertaken. The Bank is self-funded and relies almost entirely on customer deposits to fund its activities. The liquidity buffers of the Bank are projected to remain in excess of the levels required according to the budget forecasts and the additional liquidity set aside to cover any unidentified risks or adverse conditions.

The Bank has sound ILAAP process that demonstrates it has efficient mechanisms and controls for monitoring and management of its liquidity. The daily, weekly and monthly reports on liquidity and funding allow every deviation and unfavorable development to be promptly identified and, if necessary, corrective measures to be taken. The ILAAP covers all material risks to liquidity and funding, to which the Bank is exposed, and is aligned with the Bank's strategy. At EoY 2018 the amount of the liquidity buffers is well in excess of the regulatory requirements and internal threshold levels and these buffers are composed of high quality liquid assets. The composition of the buffers is in line with the Bank's targets and strategy. The results from the Bank's liquidity risk stress-testing framework demonstrate quantitatively that it has sufficient liquidity and expected stable cash inflows to meet the possible outflows in these negative scenarios, withstand severe levels of stress and continue to operate in the foreseeable future.

The Management of the Bank does not plan any material changes to the liquidity risk management framework, the risk appetite framework, the business model or the strategy based on the ILAAP.

## Operational risk

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

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

Further, the management has embedded three lines of defense:

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

Responsibilities of the Supervisory Board are to:

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

Responsibilities of the Management Board are to:

- ✓ Develop a clear, effective, and robust governance structure with well-defined, transparent and consistent lines of responsibility; ensure policies, processes, and systems for managing operational risk are in place for all of material products, activities, processes, and systems, consistent with the risk appetite and tolerance.

- ✓ Ensure the identification and assessment of operational risk inherent in all material products, activities, processes, and systems to make sure the inherent risks and incentives are well understood.
- ✓ Ensure there is an approval process for all new products, activities, processes, and systems that fully assesses operational risk.
- ✓ Implement a process to regularly monitor the operational risk profile and material exposures to losses, through reporting mechanisms at the board, senior management, and business line levels that support proactive management of operational risk.

Responsibilities of the Bank as a whole are to:

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

The Bank has an independent Operational Risk Management Function overseen by the Chief Risk Officer and comprises of:

- ✓ The Operational Risk Department, which is part of the Risk Division. As a centralized Unit, it has a principal aim to support the Bank to implement an effective operational risk management framework, to provide reliable information on the most significant operational risks, to measure and monitor the operational risk exposure undertaken by the Bank thus adding value through increased efficiency in risk management, and acknowledgement and accountability of risks. Main responsibilities of the Unit are the following: ensuring compliance with Group operational risk policies and procedures, ensuring that all local operational risk regulatory requirements are met, and reviewing new products and services from an operational risk perspective.
- ✓ The Network Operational Risk and Control Unit (NORCU), which is a special unit established in the area mostly exposed to operational risk - Branch Network; NORCU overseas the deployment of operational risk framework throughout the Network and is a focal point for all operational risk matters concerning Branch Network operations.
- ✓ The Operational Risk Partners, which are experienced officers at Unit level, appointed to manage operational risk at Units' level. Operational Risk Partners are involved in all applicable Operational Risk Programs. Partners work in close collaboration with, and act as a liaison to the Operational Risk Department.

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

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

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

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

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

Finally, Eurobank Bulgaria AD has implemented sound insurance framework as a risk mitigant / transfer vehicle. The Bank has appropriate insurances to protect itself and its assets.

## II. Information on the scope of application of the regulatory framework

Eurobank Bulgaria AD reports on an unconsolidated basis.

**Template 1: EU LI1 – Differences between accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories:**

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

| | Carrying values as reported in published financial statements | Carrying values under scope of regulatory consolidation | Carrying values of items | | | | |
|---|---|---|---|---|---|---|---|
| | | | Subject to the credit risk framework | Subject to the CCR framework | Subject to the securitisation framework | Subject to the market risk framework | Not subject to capital requirements or subject to deduction from capital |
| Assets | | | | | | | |
| Cash and balances with the Central Bank | 871 393 | 871 393 | 871 393 | 0 | 0 | 0 | 0 |
| Loans and advances to banks | 1 417 922 | 1 417 922 | 1 417 922 | 0 | 0 | 0 | 0 |
| Financial assets held for trading | 8 071 | 8 071 | 0 | 0 | 0 | 8 071 | 0 |
| Loans and advances to customers | 5 271 189 | 5 271 189 | 5 271 189 | 0 | 0 | 0 | 0 |
| Investment securities | 409 407 | 409 407 | 409 407 | 0 | 0 | 0 | 0 |
| Shares in subsidiary undertakings | 4 868 | 4 868 | 4 868 | 0 | 0 | 0 | 0 |
| Current income tax recoverable | 374 | 374 | 374 | 0 | 0 | 0 | 0 |
| Derivative financial instruments | 2 400 | 2 400 | 0 | 16 011 | 0 | 2 400 | 0 |
| Investment property | 125 088 | 125 088 | 125 088 | 0 | 0 | 0 | 0 |
| Property, plant and equipment | 406 | 406 | 406 | 0 | 0 | 0 | 0 |
| Intangible assets | 58 536 | 58 536 | 0 | 0 | 0 | 0 | 58 536 |
| Other assets | 27 545 | 27 545 | 27 545 | 0 | 0 | 0 | 0 |
| **Total assets** | 8 197 199 | 8 197 199 | 8 128 192 | 16 011 | 0 | 10 471 | 58 536 |
| Liabilities | | | | | | | |
| Deposits from banks | 28 079 | 28 079 | 0 | 0 | 0 | 0 | 0 |
| Derivative financial instruments | 5 938 | 5 938 | 0 | 0 | 0 | 5 938 | 0 |
| Due to customers | 6 814 255 | 6 814 255 | 0 | 0 | 0 | 0 | 0 |
| Other borrowed funds | 22 973 | 22 973 | 0 | 0 | 0 | 0 | 0 |
| Deferred income tax liabilities | 2 001 | 2 001 | 0 | 0 | 0 | 0 | 0 |
| Current income tax payable | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Provisions for other liabilities and charges | 6 817 | 6 817 | 0 | 0 | 0 | 0 | 0 |
| Retirement benefit and other obligations | 5 429 | 5 429 | 0 | 0 | 0 | 0 | 0 |
| Other liabilities | 61 047 | 61 047 | 0 | 0 | 0 | 0 | 0 |
| Total liabilities | 6 946 539 | 6 946 539 | 0 | 0 | 0 | 5 938 | 0 |

**Template 2: EU LI2 – Main sources of differences between regulatory exposure amounts and carrying values in financial statements:**

| | Total | Items subject to | | | |
|---|---|---|---|---|---|
| | | Credit risk framework | CCR framework | Securitisation framework | Market risk framework |
| Assets carrying value amount under the scope of regulatory consolidation (as per template EU LI1) | 8 138 663 | 8 128 192 | 16 011 | 0 | 10 471 |
| Liabilities carrying value amount under the regulatory scope of consolidation (as per template EU LI1) | 6 946 539 | 0 | 0 | 0 | 5 938 |
| Total net amount under the regulatory scope of consolidation | | | | | |
| Off-balance-sheet amounts | 1 285 086 | 1 285 086 | 0 | 0 | 0 |
| Differences in valuations | 0 | 0 | 0 | 0 | 0 |
| Differences due to different netting rules, other than those already included in row 2 | 0 | 0 | 0 | 0 | 0 |
| Differences due to consideration of provisions | 0 | 0 | 0 | 0 | 0 |
| Differences due to prudential filters | -58 536 | -58 536 | 0 | 0 | 0 |
| Differences due to different presentation rules | 13 611 | 0 | 13 611 | 0 | 0 |
| Differences from trading portfolio | -8 071 | 0 | 0 | 0 | -8 071 |

## III. Own funds

The Bank’s objectives when managing the capital in respect to the requirements set in Regulation (EU) 575/2013 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

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

- ✓ to maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored by the Bank's management on a monthly basis, employing techniques based on the guidelines developed by the Basel Committee and the European Community Directives for supervisory purposes. The capital adequacy of the Bank is reported to the Bulgarian National Bank on a quarterly basis according to the rules set by Regulation (EU) 575/2013.

| | **Capital instruments' main features template** | |
|---|---|---|
| 1 | Issuer | Eurobank Bulgaria |
| 2 | Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement) | BG1100119053 |
| 3 | Governing law(s) of the instrument | Bulgarian legislation |
| | **Regulatory treatment** | |
| 4 | Transitional CRR rules | CET 1 capital |
| 5 | Post-transitional CRR rules | CET 1 capital |
| 6 | Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated | Solo and (Sub-)Consolidated |
| 7 | Instrument type (types to be specified by each jurisdiction) | Ordinary shares |
| 8 | Amount recognised in regulatory capital (in BGN mln.) | BGN 560 mln. |
| 9 | Nominal amount of instrument | BGN 1 |
| 9a | Issue price | 100% |
| 9б | Redemption price | N/A |
| 10 | Accounting classification | Share capital |
| 11 | Original date of issuance | 15.5.1991 |
| 12 | Perpeptual or dated | Perpetual |
| 13 | Original maturity date | without maturity |
| 14 | Issuer call subjet to prior supervisory approval | No |
| 15 | Optional call date, contingent call dates, and redemption amount | N/A |
| 16 | Subsequent call dates, if applicable | N/A |
| | **Coupons / dividends** | |
| 17 | Fixed or floating dividend/coupon | floating |
| 18 | Coupon rate and any related index | N/A |
| 19 | Existence of a dividend stopper | No |
| 20a | Fully discretionary, partially discretionary or mandatory (in terms of timing) | Fully discretionary |
| 20б | Fully discretionary, partially discretionary or mandatory (in terms of amount) | Fully discretionary |
| 21 | Existence of step up or other incentive to redeem | N/A |
| 22 | Noncumulative or cumulative | N/A |
| 23 | Convertible or non-convertible | N/A |
| 24 | If convertible, conversion trigger(s) | N/A |
| 25 | If convertible, fully or partially | N/A |
| 26 | If convertible, conversion rate | N/A |
| 27 | If convertible, mandatory or optional conversion | N/A |
| 28 | If convertible, specifiy instrument type convertible into | N/A |
| 29 | If convertible, specifiy issuer of instrument it converts into | N/A |
| 30 | Write-down features | N/A |
| 31 | If write-down, write-down trigger(s) | N/A |
| 32 | If write-down, full or partial | N/A |
| 33 | If write-down, permanent or temporary | N/A |
| 34 | If temporary write-down, description of write-up mechanism | N/A |
| 35 | Position in subordination hierachy in liquidation (specify instrument type immediately senior to instrument) | N/A |
| 36 | Non-compliant transitioned features | No |
| 37 | If yes, specifiy non-compliant features | N/A |

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

## Transitional own funds disclosure template:

| | Common Equity Tier 1 capital: instruments and reserves | (A) Amount at 31.12.2018 (in BGN thousand) | (B) Regulation (EU) No 575/2013 article reference | (C) Amounts subject to Pre-Regulation (EU) No 575/2013 treatment or prescribed residual amount of Regulation (EU) 575/2013 |
|---|---|---|---|---|
| 1 | Capital instruments and the related share premium accounts | 560 323 | Article 26, paragraph 1, Articles 27-29, EBA list, Article 26, paragraph 3 | N/A |
| | of which: Instrument type 1: Ordinary shares | 560 323 | EBA list, Article 26, paragraph 3 | N/A |
| | of which: Instrument type 2 | - | EBA list, Article 26, paragraph 3 | N/A |
| | of which: Instrument type 3 | - | EBA list, Article 26, paragraph 3 | N/A |
| 2 | Retained earnings | - | Article 26, paragraph 1, item c) | N/A |
| 3 | Accumulated other comprehensive income (and any other reserves) | 596 629 | Article 26, paragraph 1 | N/A |
| 3a | Funds for general banking risk | - | Article 26, paragraph 1, item f) | N/A |
| 4 | Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1 | - | Article 486, paragraph 2 | N/A |
| | Public sector capital injections grandfathered until 1 january 2018 | - | Article 483, paragraph 2 | N/A |
| 5 | Minority interests (amount allowed in consolidated CET1) | - | Articles 84, 479 и 480 | N/A |
| 5a | Independently reviewed interim profits net of any foreseeable charge or dividend | - | Article 26, paragraph 2 | N/A |
| **6** | **Common Equity Tier 1 (CET1) capital before regulatory adjustments** | **1 156 952** | | N/A |
| | **Common Equity Tier 1 (CET1) capital: regulatory adjustments** | | | |
| 7 | Additional value adjustments (negative amount) | - | Articles 34 и 105 | N/A |
| 8 | Intangible assets (net of related tax liability) (negative amount) | -58 536 | Article 36, paragraph 1, item b), Article 37 and Article 472, paragraph 4 | N/A |
| 9 | Empty set in the EU | | | |
| 10 | Deferred tax assets that rely on future profitability excluding those arising from temporary difference (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount) | - | Article 36, paragraph 1, item c), Article 38 and Article 472, paragraph 5 | N/A |
| 11 | Fair value reserves related to gains or losses on cash flow hedges | - | Article 33, item a) | N/A |
| 12 | Negative amounts resulting from the calculation of expected loss amounts | - | Article 36, paragraph 1, item d), Article 40, Article 159 and Article 472, paragraph 6 | N/A |
| 13 | Any increase in equity that results from securitised assets (negative amount) | - | Article 32, paragraph 1 | N/A |
| 14 | Gains or losses on liabilities valued at fair value resulting from changes in own credit standing | - | Article 33, item 1, b), c) | N/A |
| 15 | Defined-benefit pension fund assets (negative amount) | - | Article 36, paragraph 1, item e), Article 41 и Article 472, paragraph 7 | N/A |
| 16 | Direct and indirect holdings by an institution of own CET1 instruments (negative amount) | - | Article 36, paragraph 1, item f), Article 42 и Article 472, paragraph 8 | N/A |
| 17 | Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negatvie amount) | - | Article 36, paragraph 1, item g), Article 44 and Article 472, paragraph 9 | N/A |
| 18 | Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount) | - | Article 36, paragraph 1, item h), Articles 43, 45 и 46, Article 49, paragraphs 2 and 3, Article 79 and Article 472, paragraph 10 | N/A |
| 19 | Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount) | - | Article 36, paragraph 1, item i), Articles 43,45 и 47, Article 48 paragraph 1, item b), Article 49, paragraphs 1-3, Articles 79 and 470, as well as Article 472, paragraph 11 | N/A |
| 20 | Empty set in the EU | | | |
| 20a | Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative | - | Article 36, paragraph 1, item к) | N/A |
| 20b | of which: qualifying holdings outside the financial sector (negative amount) | - | Article 36, paragraph 1, item к), i), Articles 89-91 | N/A |
| 20c | of which: securitisation positions (negative amount) | - | Article 36, paragraph 1, item к), ii), Article 243, paragraph 1, item b), Article 244, paragraph 1, item b) 258 | N/A |

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

| | Common Equity Tier 1 capital: instruments and reserves | (A) Amount at 31.12.2018 (in BGN thousand) | (B) Regulation (EU) No 575/2013 article reference | (C) Amounts subject to Pre-Regulation (EU) No 575/2013 treatment or prescribed residual amount of Regulation (EU) 575/2013 |
|---|---|---|---|---|
| 20d | of which: free deliveries (negative amount) | - | Article 36, paragraph 1, item к), iii), Article 379, paragraph 3 | N/A |
| 21 | Deferred tax assets arising from temporary difference (amount above 10 % threshold , net of related tax liability where the conditions in Article 38 (3) are met) (negative amount) | -2 001 | Article 36, paragraph 1, item c), Article 38, Article 48, paragraph 1, item a), Article 470 и Article 472, paragraph 5 | N/A |
| 22 | Amount exceeding the 15% threshold (negative amount) | - | Article 48, paragraph 1 | N/A |
| 23 | of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities | - | Article 36, paragraph 1, item i), Article 48, paragraph 1, item b), Article 470 and Article 472, paragraph 11 | N/A |
| 24 | Empty set in the EU | | | |
| 25 | of which: deferred tax assets arising from temporary difference | - | Article 36, paragraph 1, item c), Article 38, Article 48, paragraph 1, item a), Article 470 and Article 472, paragraph 5 | N/A |
| 25a | Losses for the current financial year (negative amount) | - | Article 36, paragraph 1, item a) and Article 472, paragraph 3 | N/A |
| 25б | Foreseeable tax charges relating to CET1 items (negative amount) | - | Article 36, paragraph 1, item l) | N/A |
| 26 | Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment | - | | N/A |
| 26a | Regulatory adjustments relating to unrealised gains pursuant to Articles 467 and 468 | -14 163 | | N/A |
| | of which: Intangible assets - filter for unrealized loss 1 | - | Art. 467 | N/A |
| | of which: Actuarial gains or losses on a predetermined pension amount - filter for unrealized loss 2 | - | Art. 467 | N/A |
| | of which: Available-for-sale financial assets - unrealized gain filter 1 | - | Art. 468 | N/A |
| | of which: Tangible assets - unrealized gain filter 2 | - | Art. 468 | N/A |
| | of which: CET1 capital elements or deductions - other | -14 163 | | N/A |
| 26b | Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR | - | Art. 481 | N/A |
| | of which:.... | - | Art. 481 | N/A |
| 27 | Qualifying AT1 deductions that exceeds the AT1 capital of the institution (negative amount) | - | Art. 36, paragraph. 1, item j) | N/A |
| **28** | **Total regulatory adjustments to Common Equity Tier 1 (CET1)** | | | N/A |
| **29** | **Common Equity Tier 1 (CET1) capital** | **1 082 252** | | N/A |
| | **Additional Tier 1 (AT1) capital: instruments** | | | |
| 30 | Capital instruments and the related share premium accounts | - | Art. 51-52 | N/A |
| 31 | of which: classified as equity under applicable accounting standards | - | | N/A |
| 32 | of which: classified as liabilities under applicable accounting standards | - | | N/A |
| 33 | Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1 | - | Art. 486, paragraph 3 | N/A |
| | Public sector capital injections grandfathered until 1 january 2018 | - | Art. 483, paragraph 3 | N/A |
| 34 | Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interest not included in row 5) issued by subsidiaries and held by third parties | - | Art. 85, 86 and 480 | N/A |
| 35 | of which: instruments issued by subsidiaries subject to phase-out | - | Art. 486, paragraph 3 | N/A |
| **36** | **Additional Tier 1 (AT1) capital before regulatory adjustments** | **-** | | N/A |
| | **Additional Tier 1 (AT1) capital: regulatory adjustments** | | | |
| 37 | Direct and indirect holdings by an institution of own AT1 instruments (negative amount) | - | Art. 52, paragraph 1, b), Art. 56, a), Art. 57 and Art. 475, paragraph 2 | N/A |
| 38 | Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount) | - | Art. 52, b), Art. 58, Art. 475, paragraph 3 | N/A |
| 39 | Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount) | - | Art. 56, c), Art. 59, 60 and 79, as well as Art. 475, paragraph 4 | N/A |
| 40 | Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount) | - | Art. 56, d), Art. 59 and 79, as well as Art. 475, paragraph 4 | N/A |

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

| | Common Equity Tier 1 capital: instruments and reserves | (A) Amount at 31.12.2018 (in BGN thousand) | (B) Regulation (EU) No 575/2013 article reference | (C) Amounts subject to Pre-Regulation (EU) No 575/2013 treatment or prescribed residual amount of Regulation (EU) 575/2013 |
|---|---|---|---|---|
| 41 | Regulatory adjustments applied to Additional Tier 1 capital in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase-out as prescribed in Regulation (EU) No 575/2013 (ie. CRR residual amounts) | - | | N/A |
| 41a | Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013 | - | Art. 472, Art. 472, paragraph 3, a) 4,6,8 a), 9,10 a) and 11, a) | N/A |
| | of which - Intangible assets | - | | N/A |
| | of which - Tier 2 capital instruments of the financial sector where the institution does not have significant investments | | | N/A |
| | of which - Common Equity Tier 1 instruments of financial sector entities where the institution has significant investments | - | | N/A |
| | of which - additional filters and deductions | - | | N/A |
| 41b | Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Tier 2 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013 | - | Art. 477, Art. 472, paragraph 3 and 4, a) | N/A |
| | of which items are specified in detail, order by order, e.g. mutual participations in Tier 2 instruments, direct marginal investments in the capital of other financial sector enterprises, etc. | - | | N/A |
| 41c | Amounts to be deducted from added to Additional Tier 1 capital with regard to additional filters and deductions required pre- CRR | - | Art. 467, 468 and 481 | N/A |
| | of which: ... ..a possible filter for unrealized loss | - | Art. 467 | N/A |
| | of which: ... ..a possible filter for unrealized gain | - | Art. 468 | N/A |
| | of which:..... | - | Art. 481 | N/A |
| 42 | Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount) | - | Art. 56, e) | N/A |
| **43** | **Total regulatory adjustments to Additional Tier 1 (AT1) capital** | **-** | | N/A |
| **44** | **Additional Tier 1 (AT1) capital** | **-** | | N/A |
| **45** | **Tier 1 capital (T1 = CET1 + AT1)** | **1 082 252** | | N/A |
| | **Tier 2 (T2) capital: instruments and provisions** | | | |
| 46 | Capital instruments and the related share premium accounts | - | Art. 62-63 | N/A |
| 47 | Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2 | - | Art. 486, paragraph 4 | N/A |
| | Public sector capital injections grandfathered until 1 january 2018 | - | Art. 483, paragraph 4 | N/A |
| 48 | Qualifying own funds instruments included in consolidated T2 capital (including minority interest and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third party | - | Art. 87, 88 and 480 | N/A |
| 49 | of which: instruments issued by subsidiaries subject to phase-out | - | Art. 486, paragraph 4 | N/A |
| 50 | Credit risk adjustments | - | Art. 62, c) and d) | N/A |
| **51** | **Tier 2 (T2) capital before regulatory adjustment** | **-** | | N/A |
| | **Tier 2 (T2) capital: regulatory adjustments** | | | |
| 52 | Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount) | - | Art. 63, b), i), Art. 66, a), Art. 67, and Art. 477, paragraph 2 | N/A |
| 53 | Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institutions designed to inflate artificially the own funds of the institution (negative amount) | - | Art. 66, b), Art. 68, and Art. 477, paragraph 3 | N/A |
| 54 | Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10 % threshold and net of eligible short positions) (negative amount) | - | Art. 66, c), Art. 69, 70, 79, and Art. 477, paragraph 4 | N/A |
| 54a | Of which new holdings not subject to transitional arrangements | - | | N/A |
| 54b | Of which holdings existing befor 1 January 2013 and subject to transitional arrangements | - | | N/A |
| 55 | Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amounts) | - | Art. 66, d), Art. 69, and 79, as well as Art. 477, paragraph 4 | N/A |
| 56 | Regulatory adjustments applied to tier 2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts) | - | | N/A |
| 56a | Residual amounts deducted from Tier 2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013 | - | Art. 472, Art. 472, paragraph 3, a), 4, 6, 8, a) , 9, 10, a) and 11, a) | N/A |
| | of which the items are stated in detail, in order, for example, significant net interim loss, intangible assets, shortfall of provisions to cover expected losses, etc. | - | | N/A |
| 56b | Residual amounts deducted from Tier 2 capital with regard to deduction from Additional Tier 1 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013 | - | Art. 475, Art. 475, paragraph 2, a), paragraph 3 and paragraph 4, a) | N/A |
| | of which the elements are specified in detail, order by order, e.g. mutual participations in Tier 1 instruments, direct marginal investments in the capital of other enterprises in the financial sector, etc. | - | | N/A |

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

| | Common Equity Tier 1 capital: instruments and reserves | (A) Amount at 31.12.2018 (in BGN thousand) | (B) Regulation (EU) No 575/2013 article reference | (C) Amounts subject to Pre-Regulation (EU) No 575/2013 treatment or prescribed residual amount of Regulation (EU) 575/2013 |
|---|---|---|---|---|
| 56c | Amounts to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre- CRR | - | Art. 467, 468 and 481 | N/A |
| | of which: possible filter for unrealized loss | - | Art. 467 | N/A |
| | of which: unrealized gain on tangible fixed assets | - | Art. 468 | N/A |
| | of which: unrealized gain on available-for-sale securities | - | Art. 481 | N/A |
| **57** | **Total regulatory adjustments to Tier 2 (T2) capital** | **-** | | N/A |
| **58** | **Tier 2 (T2) capital** | **-** | | N/A |
| **59** | **Total capital (TC = T1 + T2)** | **1 082 252** | | N/A |
| 59a | Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amount) | - | | N/A |
| | Of which:… items not deducted from CET1 (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Deferred tax assets that rely on future profitability net of related tax liability, indirect holdings of own CET1, etc) | - | Art. 472, Art. 472, paragraph 5, 8, b), 10, b) and 11, b) | N/A |
| | Of which:…items not deducted from AT1 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Reciprocal cross holdings in T2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc.) | - | Art. 475, Art. 472, paragraph 2, b) and c), and paragraph 4, b) | N/A |
| | Items not deducted from T2 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Indirect holdings of own T2 instruments, indirect holdings of non-significant investments in the capital of other financial sector entities, indirect holdings of significant investments in the capital of other financial sector entities etc) | - | Art. 477, Art. 477, paragraph 2, b) and c) and paragraph 4, b) | N/A |
| **60** | **Total risk-weighted assets** | **5 394 467** | | N/A |
| | **Capital ratios and buffers** | | | |
| 61 | Common Equity Tier 1 (as a percentage of total risk exposure amount) | 20,06% | Art. 92, paragraph 2, a) and Art. 465 | N/A |
| 62 | Tier 1 (as a percentage of total risk exposure amount | 20,06% | Art. 92, paragraph 2, b) and Art. 465 | N/A |
| 63 | Total capital (as a percentage of total risk exposure amount | 20,06% | Art. 92, paragraph 2, c) | N/A |
| 64 | Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount) | not applicable | CRD, Art. 128-130 | N/A |
| 65 | of which: capital conservation buffer requirement | 2,50% | | N/A |
| 66 | of which: countercyclical buffer requirement | 0,00% | | N/A |
| 67 | of which: systemic risk buffer requirement | 3,00% | | N/A |
| 67a | of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer | 0,25% | CRD, Art. 131 | N/A |
| 68 | Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount) | 18,97% | CRD, Art. 128 | N/A |
| 69 | [non-relevant in EU regulation] | | | N/A |
| 70 | [non-relevant in EU regulation] | | | N/A |
| 71 | [non-relevant in EU regulation] | | | N/A |
| | **Amounts below the thresholds for deduction (before risk-weighting)** | | | |
| 72 | Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions) | - | Art. 36, paragraph 1, h), Art. 45-46, and Art. 472, paragraph 10, Art. 56, c), Art. 59-60 and Art.475, paragraph 4, Art. 66, c), Art. 69-70 and Art. 477, paragraph 4 | N/A |
| 73 | Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions) | - | Art. 36, paragraph 1, i), Art.45,48, 470, and Art. 472, paragraph 11 | N/A |
| 74 | Empty set in the EU | - | | |
| 75 | Deferred tax assets arising from temporary difference (amount below 10 % threshold , net of related tax liability where the conditions in Article 38 (3) are met) | - | Art. 36, paragraph 1, c), Art.38,48, 470, and Art. 472, | N/A |
| | **Applicable caps on the inclusion of provisions in Tier 2** | | | |
| 76 | Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap) | - | Art. 62 | N/A |
| 77 | Cap on inclusion of credit risk adjustments in T2 under standardised approach | - | Art. 62 | N/A |
| 78 | Credit risk adjustments included in T2 in respect of exposures subject to internal rating-based approach (prior to the application of the cap) | - | Art. 62 | N/A |
| 79 | Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach | - | Art. 62 | N/A |
| | **Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)** | | | |
| 80 | Current cap on CET1 instruments subject to phase-out arrangements | - | Art. 484, paragraph 3, Art. 486, paragraphs 2 and 5 | N/A |

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

| | Common Equity Tier 1 capital: instruments and reserves | (A) Amount at 31.12.2018 (in BGN thousand) | (B) Regulation (EU) No 575/2013 article reference | (C) Amounts subject to Pre-Regulation (EU) No 575/2013 treatment or prescribed residual amount of Regulation (EU) 575/2013 |
|---|---|---|---|---|
| 81 | Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities) | - | Art. 484, paragraph 3, Art. 486, paragraphs 2 and 5 | N/A |
| 82 | Current cap on AT1 instruments subject to phase-out arrangements | - | Art. 484, paragraph 4, Art. 486, paragraphs 3 and 5 | N/A |
| 83 | Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities) | - | Art. 484, paragraph 4, Art. 486, paragraphs 3 and 5 | N/A |
| 84 | Current cap on T2 instruments subject to phase-out arrangements | - | Art. 484, paragraph 5, Art. 486, paragraphs 4 and 5 | N/A |
| 85 | Amount excluded from T2 due to cap (excess over cap after redemptions and maturities) | - | Art. 484, paragraph 5, Art. 486, paragraphs 4 and 5 | N/A |

# IV. Capital requirements

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

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

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

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

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

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

**Template 4: EU OV1 – Overview of RWAs:**

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

| | | | RWAs | | Minimum capital requirements |
|---|---|---|---|---|---|
| | | | 31.12.2018 | 30.9.2018 | 31.12.2018 |
| | 1 | Credit risk (excluding CCR) | 4 654 400 | 4 573 171 | 372 352 |
| Article 438(c)(d) | 2 | Of which the standardised approach | 4 654 400 | 4 573 171 | 372 352 |
| Article 438(c)(d) | 3 | Of which the foundation IRB (FIRB) approach | 0 | 0 | 0 |
| Article 438(c)(d) | 4 | Of which the advanced IRB (AIRB) approach | 0 | 0 | 0 |
| Article 438(d) | 5 | Of which equity IRB under the simple risk-weighted approach or the IMA | 0 | 0 | 0 |
| Article 107, Article 438(c)(d) | 6 | CCR | 24 017 | 24 813 | 1 921 |
| Article 438(c)(d) | 7 | Of which mark to market | 24 017 | 24 813 | 1 921 |
| Article 438(c)(d) | 8 | Of which original exposure | 0 | 0 | 0 |
| | 9 | Of which the standardised approach | 0 | 0 | 0 |
| | 10 | Of which internal model method (IMM) | 0 | 0 | 0 |
| Article 438(c)(d) | 11 | Of which risk exposure amount for contributions to the default fund of a CCP | 0 | 0 | 0 |
| Article 438(c)(d) | 12 | Of which CVA | 0 | 0 | 0 |
| Article 438,(e) | 13 | Settlement risk | 0 | 0 | 0 |
| Article 449(o)(i) | 14 | Securitisation exposures in the banking book (after the cap) | 0 | 0 | 0 |
| | 15 | Of which IRB approach | 0 | 0 | 0 |
| | 16 | Of which IRB supervisory formula approach (SFA) | 0 | 0 | 0 |
| | 17 | Of which internal assessment approach (IAA) | 0 | 0 | 0 |
| | 18 | Of which standardised approach | 0 | 0 | 0 |
| Article 438,(e) | 19 | Market risk | 107 550 | 267 888 | 8 604 |
| | 20 | Of which the standardised approach | 107 550 | 267 888 | 8 604 |
| | 21 | Of which IMA | 0 | 0 | 0 |
| Article 438,(e) | 22 | Large exposures | 0 | 0 | 0 |
| Article 438(f) | 23 | Operational risk | 608 500 | 608 500 | 48 680 |
| | 24 | Of which basic indicator approach | 608 500 | 608 500 | 48 680 |
| | 25 | Of which standardised approach | 0 | 0 | 0 |
| | 26 | Of which advanced measurement approach | 0 | 0 | 0 |
| Article 437(2), Article 48 and Article 60 | 27 | Amounts below the thresholds for deduction (subject to 250% risk weight) | 0 | 0 | 0 |
| Article 500 | 28 | Floor adjustment | 0 | 0 | 0 |
| | 29 | Total | 5 394 467 | 5 474 372 | 431 557 |

## IFRS 9 impact on regulatory capital

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

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

| | | 31.12.2018 |
|---|---|---|
| | **Available capital (amounts)** | |
| 1 | Common Equity Tier 1 (CET1) capital | 1 082 252 |
| 2 | Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 1 006 786 |
| 3 | Tier 1 capital | 1 082 252 |
| 4 | Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 1 006 786 |
| 5 | Total capital | 1 082 252 |
| 6 | Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 1 006 786 |
| | **Risk-weighted assets (amounts)** | |
| 7 | Total risk-weighted assets | 5 394 467 |
| 8 | Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 5 322 286 |
| | **Capital ratios** | |
| 9 | Common Equity Tier 1 (as a percentage of risk exposure amount) | 20.06% |
| 10 | Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 18.92% |
| 11 | Tier 1 (as a percentage of risk exposure amount) | 20.06% |
| 12 | Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 18.92% |
| 13 | Total capital (as a percentage of risk exposure amount) | 20.06% |
| 14 | Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 18.92% |
| | **Leverage ratio** | |
| 15 | Leverage ratio total exposure measure | 8 617 467 |
| 16 | Leverage ratio | 12.56% |
| 17 | Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 11.68% |

The Bank has elected to apply the phase-in approach as per EU legislation (Regulation EU 2017/2395) for mitigating the impact of IFRS 9 transition on the regulatory capital. The transition period is for five years, with the proportion to be included being 5% in 2018 and 15%, 30%, 50% and 75% in the subsequent four years. The full impact is expected as of 1 January 2023.

## V. Macroprudential supervisory measures

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

Capital buffers are:

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

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

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

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

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

Banks maintain a buffer for systemic risk in order to prevent and decrease the long-term non-cyclical systemic and macro prudential risks. As of 31.12.2018 the buffer for systemic risk is 3% of the total risk exposure amount of the Bank.

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

Based on the criteria in art. 9, paragraph 7 of the BNB Ordinance № 8 on banks' capital buffers and the methodology described in the European Banking Authority Guidelines, on 10 November 2016 the BNB Governing Council identified ten banks as other systemically important institutions (O-SIIs) in accordance with art. 9, paragraph 1. Eurobank Bulgaria AD is among the top ten banks in Bulgaria identified by the BNB Governing Council as other systemically important institutions (O-SIIs). Thus, the Bank must also maintain a capital buffer for O-SIIs. Its level for 2018 is 0,25% of the total risk exposure.

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

As of 31.12.2018 Eurobank Bulgaria AD allocated BGN 134,862 thousand as a capital conservation buffer, BGN 161,834 thousand as a buffer for systemic risk and BGN 13,486 thousand as O-SIIs buffer.

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

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

## Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer:

| | General credit exposures | | Trading book exposure | | Securitisation exposure | | Own funds requirements | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Allocation by countries | Exposure value for SA | Exposure value IRB | Sum of long and short position of trading book | Value of trading book exposure for internal models | Exposure value for SA | Exposure value for IRB | Of which: General credit exposures | Of which: Trading book exposures | Of which: Securitisation exposures | Total | Own funds requirement weights | Countercyclical capital buffer rate |
| Albania | 20 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 1 | 0.00% | 0.00% |
| Armenia | 517 | 0 | 0 | 0 | 0 | 0 | 21 | 0 | 0 | 21 | 0.01% | 0.00% |
| Austria | 602 | 0 | 0 | 0 | 0 | 0 | 19 | 0 | 0 | 19 | 0.01% | 0.00% |
| Australia | 235 | 0 | 0 | 0 | 0 | 0 | 7 | 0 | 0 | 7 | 0.00% | 0.00% |
| Belgium | 522 | 0 | 0 | 0 | 0 | 0 | 18 | 0 | 0 | 18 | 0.01% | 0.00% |
| Bulgaria | 5 867 189 | 0 | 46 405 | 0 | 0 | 0 | 338 312 | 6 090 | 0 | 344 402 | 97.89% | 0.00% |
| Brazil | 178 | 0 | 0 | 0 | 0 | 0 | 8 | 0 | 0 | 8 | 0.00% | 0.00% |
| Belarus | 43 | 0 | 0 | 0 | 0 | 0 | 3 | 0 | 0 | 3 | 0.00% | 0.00% |
| Canada | 134 | 0 | 0 | 0 | 0 | 0 | 5 | 0 | 0 | 5 | 0.00% | 0.00% |
| Switzerland | 379 | 0 | 0 | 0 | 0 | 0 | 12 | 0 | 0 | 12 | 0.00% | 0.00% |
| China | 184 | 0 | 0 | 0 | 0 | 0 | 10 | 0 | 0 | 10 | 0.00% | 0.00% |
| Colombia | 4 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.00% | 0.00% |
| Cuba | 28 | 0 | 0 | 0 | 0 | 0 | 2 | 0 | 0 | 2 | 0.00% | 0.00% |
| Cyprus | 363 | 0 | 0 | 0 | 0 | 0 | 19 | 0 | 0 | 19 | 0.01% | 0.00% |
| Czech Republic | 47 | 0 | 0 | 0 | 0 | 0 | 3 | 0 | 0 | 3 | 0.00% | 0.00% |
| Germany | 880 | 0 | 0 | 0 | 0 | 0 | 46 | 0 | 0 | 46 | 0.01% | 0.00% |
| Denmark | 76 | 0 | 0 | 0 | 0 | 0 | 2 | 0 | 0 | 2 | 0.00% | 0.00% |
| Estonia | 267 | 0 | 0 | 0 | 0 | 0 | 9 | 0 | 0 | 9 | 0.00% | 0.00% |
| Egypt | 20 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 1 | 0.00% | 0.00% |
| Spain | 327 | 0 | 0 | 0 | 0 | 0 | 16 | 0 | 0 | 16 | 0.00% | 0.00% |
| Finland | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.00% | 0.00% |
| France | 570 | 0 | 0 | 0 | 0 | 0 | 22 | 0 | 0 | 22 | 0.01% | 0.00% |
| United Kingdom | 2 099 | 0 | 0 | 0 | 0 | 0 | 112 | 0 | 0 | 112 | 0.03% | 0.00% |
| Georgia | 52 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 1 | 0.00% | 0.00% |
| Greece | 3 967 | 0 | 2 708 870 | 0 | 0 | 0 | 184 | 2 514 | 0 | 2 698 | 0.77% | 0.00% |
| Hungary | 7 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 1 | 0.00% | 0.00% |
| Ireland | 399 | 0 | 0 | 0 | 0 | 0 | 27 | 0 | 0 | 27 | 0.01% | 0.00% |
| Israel | 339 | 0 | 0 | 0 | 0 | 0 | 13 | 0 | 0 | 13 | 0.00% | 0.00% |
| India | 97 | 0 | 0 | 0 | 0 | 0 | 6 | 0 | 0 | 6 | 0.00% | 0.00% |
| Iraq | 173 | 0 | 0 | 0 | 0 | 0 | 6 | 0 | 0 | 6 | 0.00% | 0.00% |
| Iran | 323 | 0 | 0 | 0 | 0 | 0 | 13 | 0 | 0 | 13 | 0.00% | 0.00% |
| Italy | 645 | 0 | 0 | 0 | 0 | 0 | 26 | 0 | 0 | 26 | 0.01% | 0.00% |
| Jordan | 11 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 1 | 0.00% | 0.00% |
| South Korea | 341 | 0 | 0 | 0 | 0 | 0 | 10 | 0 | 0 | 10 | 0.00% | 0.00% |
| Kazakhstan | 236 | 0 | 0 | 0 | 0 | 0 | 7 | 0 | 0 | 7 | 0.00% | 0.00% |
| Lebanon | 15 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 1 | 0.00% | 0.00% |
| Lithuania | 355 | 0 | 0 | 0 | 0 | 0 | 15 | 0 | 0 | 15 | 0.00% | 0.00% |
| Luxembourg | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.00% | 0.00% |
| Latvia | 143 | 0 | 0 | 0 | 0 | 0 | 12 | 0 | 0 | 12 | 0.00% | 0.00% |
| Morocco | 10 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 1 | 0.00% | 0.00% |
| Moldova | 95 | 0 | 0 | 0 | 0 | 0 | 6 | 0 | 0 | 6 | 0.00% | 0.00% |
| Macedonia | 564 | 0 | 0 | 0 | 0 | 0 | 30 | 0 | 0 | 30 | 0.01% | 0.00% |
| Mexico | 9 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.00% | 0.00% |
| Nigeria | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.00% | 0.00% |
| Netherlands | 43 657 | 0 | 0 | 0 | 0 | 0 | 3 479 | 0 | 0 | 3 479 | 0.99% | 0.00% |
| Poland | 315 | 0 | 0 | 0 | 0 | 0 | 17 | 0 | 0 | 17 | 0.00% | 0.00% |
| Palestine | 47 | 0 | 0 | 0 | 0 | 0 | 3 | 0 | 0 | 3 | 0.00% | 0.00% |
| Portugal | 9 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.00% | 0.00% |

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

| | General credit exposures | | Trading book exposure | | Securitisation exposure | | Own funds requirements | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Allocation by countries | Exposure value for SA | Exposure value IRB | Sum of long and short position of trading book | Value of trading book exposure for internal models | Exposure value for SA | Exposure value for IRB | Of which: General credit exposures | Of which: Trading book exposures | Of which: Securitisation exposures | Total | Own funds requirement weights | Countercyclical capital buffer rate |
| Romania | 499 | 0 | 0 | 0 | 0 | 0 | 21 | 0 | 0 | 21 | 0.01% | 0.00% |
| Serbia | 165 | 0 | 0 | 0 | 0 | 0 | 8 | 0 | 0 | 8 | 0.00% | 0.00% |
| Russia | 1 298 | 0 | 0 | 0 | 0 | 0 | 62 | 0 | 0 | 62 | 0.02% | 0.00% |
| Sweden | 148 | 0 | 0 | 0 | 0 | 0 | 12 | 0 | 0 | 12 | 0.00% | 0.00% |
| Slovenia | 31 | 0 | 0 | 0 | 0 | 0 | 2 | 0 | 0 | 2 | 0.00% | 0.00% |
| Slovakia | 245 | 0 | 0 | 0 | 0 | 0 | 10 | 0 | 0 | 10 | 0.00% | 0.00% |
| Syria | 1 698 | 0 | 0 | 0 | 0 | 0 | 113 | 0 | 0 | 113 | 0.03% | 0.00% |
| Turkmenistan | 15 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 1 | 0.00% | 0.00% |
| Turkey | 1 988 | 0 | 0 | 0 | 0 | 0 | 112 | 0 | 0 | 112 | 0.03% | 0.00% |
| Ukraine | 535 | 0 | 0 | 0 | 0 | 0 | 22 | 0 | 0 | 22 | 0.01% | 0.00% |
| USA | 4 359 | 0 | 0 | 0 | 0 | 0 | 337 | 0 | 0 | 337 | 0.10% | 0.00% |
| Uzbekistan | 20 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 1 | 0.00% | 0.00% |
| Venezuela | 33 | 0 | 0 | 0 | 0 | 0 | 2 | 0 | 0 | 2 | 0.00% | 0.00% |
| Vietnam | 12 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 1 | 0.00% | 0.00% |
| South Africa | 7 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.00% | 0.00% |
| **Total** | **5 937 550** | **0** | **2 755 275** | **0** | **0** | **0** | **343 211** | **8 604** | **0** | **351 815** | **100.00%** | **0.00%** |

## Amount of institution-specific countercyclical capital buffer:

| | |
|---|---|
| Total risk exposure amount | 5 937 550 |
| Institution specific countercyclical buffer rate | 0.00% |
| Institution specific countercyclical buffer requirement | N/A |

## Countercyclical capital buffer rate:

| Period | Countercyclical capital buffer rate |
|---|---|
| 2018 – 1-st quarter | 0.00% |
| 2018 - 2-nd quarter | 0.00% |
| 2018 - 3-rd quarter | 0.00% |
| 2018 - 4-th quarter | 0.00% |

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

# VI. Credit risk and CRM in the standardised approach

**Definitions for accounting purposes of "default" and "credit impaired" and description of the approaches and methods adopted for determining value adjustments and impairment.**

The exposures value presented in this document are estimated in accordance with the requirements of Regulation (EU) 575/2013 and represent the on-balance-sheet value, calculated according to the applicable accounting standards.
The Bank recognizes expected credit losses (ECL) that reflect changes in credit quality since initial recognition to financial assets that are measured at AC and FVOCI, including loans, lease receivables, debt securities, financial guarantee contracts, and loan commitments. No ECL are recognized on equity investments.
ECLs are a probability-weighted average estimate of credit losses that reflects the time value of money. Upon initial recognition of the financial instruments in scope of the impairment policy, the Bank records a loss allowance equal to 12-month ECL, being the ECL that result from default events that are possible within the next twelve months. Subsequently, for those financial instruments that have experienced a significant increase in credit risk (SICR) since initial recognition, a loss allowance equal to lifetime ECL is recognized, arising from default events that are possible over the expected life of the instrument. If upon initial recognition, the financial asset meets the definition of purchased or originated credit impaired (POCI), the loss allowance is based on the change in the ECL over the life of the asset.
Default exposures, in line with the regulatory definition of default as adopted by the Bank, include material exposures that are past due more than 90 days, exposures that are assessed by the Bank as unlikely to pay as well as those that are assessed for impairment individually and carry an individual impairment allowance. As at 31 December 2018, the Bank's default exposures amounted to BGN 528,038 thousand (2017: BGN 734,155 thousand).
A financial asset becomes credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that exposure have occurred:

- The borrower faces a significant difficulty in meeting his financial obligations.
- There has been a breach of contract, such as a default or past due event.
- The Bank, for economic or contractual reasons relating to the borrower's financial difficulty, has granted to the borrower a concession(s) that the Bank would not otherwise consider.
- There is a probability that the borrower will enter bankruptcy or other financial re-organization.
- For POCI asset, a purchase at a deep discount that reflects incurred credit losses is considered a detrimental event. The Bank assesses the deep discount criterion following a principle -based approach with the aim to incorporate all reasonable and supportable information which reflects market conditions that exist at the time of the assessment.

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

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

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

a) Mortgage on immovable property;
b) Pledge on movable property;
c) Pledge on commercial enterprises;
d) Pledge on receivables;
e) Securities;
f) Cash;
g) Letters of guarantees;
h) Personal guarantees /Sureties/;
i) Other eligible collaterals.

All collaterals are agreed in writing through Collateral Agreement.

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

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

**General Guidelines for Acceptance and Monitoring of Collaterals**

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

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

    1) New Market Appraisal;

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

    - New collateral is added, or

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

    3) Partial deletion of mortgage/ pledge:

    - Based on partial repayment;

    - Based on the concrete decision of the competent authority of the Bank for reducing the collateral value.
  - Registering of collaterals by loan deals:

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

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

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

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

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

- ✓ Financial collaterals – cash and securities;
- ✓ Guarantees;
- ✓ Mortgage on immovable property.

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

**Template 7: EU CRB-B – Total and average net amount of exposures:**

| Exposure Classes | Net value of exposures at the end of the period | Average net exposures over the period |
|---|---|---|
| Central governments or central banks | 1 133 563 | 1 126 236 |
| Regional governments or local authorities | 1 146 | 1 201 |
| Institutions | 1 436 522 | 1 380 119 |
| Corporates | 1 861 806 | 1 746 432 |
| Of which: SMEs | 232 360 | 228 216 |
| Retail | 1 329 602 | 1 249 551 |
| Of which: SMEs | 288 764 | 267 774 |
| Secured by mortgages on immovable property | 1 749 960 | 1 821 392 |
| Of which: SMEs | 258 486 | 267 562 |
| Exposures in default | 311 211 | 365 719 |
| Items associated with particularly high risk | 97 424 | 24 457 |
| Covered bonds | 0 | 0 |
| Equity exposures | 11 816 | 11 296 |
| Other exposures | 270 101 | 187 392 |
| Credit risk exposures relating to balance sheet items | 8 203 151 | 7 913 794 |
| Credit risk exposures relating to off-balance sheet items (including repo/reverse repo transactions and derivatives) | 1 301 097 | 1 131 449 |
| Total | 9 504 248 | 9 045 243 |

**Template 8: EU CRB-C – Geographical breakdown of exposures:**

| Exposure Classes | Bulgaria | Greece | Romania | Rest of Europe | Other countries | Balance sheet position |
|---|---|---|---|---|---|---|
| **Credit Risk** | | | | | | |
| Central governments or central banks | 1 133 563 | 0 | 0 | 0 | 0 | **1 133 563** |
| Regional governments or local authorities | 1 146 | 0 | 0 | 0 | 0 | **1 146** |
| Institutions | 1 932 | 1 296 491 | 115 | 104 832 | 33 152 | **1 436 522** |
| Corporates | 1 814 601 | 0 | 0 | 43 172 | 4 033 | **1 861 806** |
| Retail | 1 320 139 | 1 263 | 201 | 6 560 | 1 439 | **1 329 602** |
| Secured by mortgages on immovable property | 1 739 092 | 2 037 | 291 | 6 667 | 1 873 | **1 749 960** |
| Exposures in default | 307 934 | 569 | 3 | 1 634 | 1 071 | **311 211** |
| Items associated with particularly high risk | 97 424 | 0 | 0 | 0 | 0 | **97 424** |
| Equity exposures | 7 577 | 0 | 0 | 101 | 4 138 | **11 816** |
| Other exposures | 270 101 | 0 | 0 | 0 | 0 | **270 101** |
| **Credit risk exposures relating to balance sheet items** | **6 693 509** | **1 300 360** | **610** | **162 966** | **45 706** | **8 203 151** |
| Credit risk exposures relating to off-balance sheet items (including repo/reverse repo transactions and derivatives) | 1 223 599 | 17 169 | 111 | 59 986 | 232 | **1 301 097** |
| **Credit Risk: Total** | **7 917 108** | **1 317 529** | **721** | **222 952** | **45 938** | **9 504 248** |

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

## Template 9: EU CRB-D – Concentration of exposures by industry or counterparty types:

| Exposure Classes | Individuals | Trade and Services | Manufacturing | Construction | Public Sector | Central Bank, Banks & Non-bank Financial Institutions | Other | Balance sheet position |
|---|---|---|---|---|---|---|---|---|
| **Credit Risk (pursuant to the Standardized Approach)** | | | | | | | | |
| Central governments or central banks | 0 | 0 | 0 | 0 | 378 858 | 754 705 | 0 | **1 133 563** |
| Regional governments or local authorities | 0 | 0 | 0 | 0 | 1 146 | 0 | 0 | **1 146** |
| Institutions | 0 | 0 | 0 | 0 | 0 | 1 436 522 | 0 | **1 436 522** |
| Corporates | 0 | 578 729 | 609 705 | 74 554 | 0 | 38 459 | 560 359 | **1 861 806** |
| Retail | 1 044 883 | 150 008 | 60 647 | 25 038 | 0 | 0 | 49 026 | **1 329 602** |
| Secured by mortgages on immovable property | 1 234 429 | 368 777 | 40 015 | 38 132 | 0 | 0 | 68 607 | **1 749 960** |
| Exposures in default | 152 527 | 74 226 | 49 971 | 20 536 | 0 | 0 | 13 951 | **311 211** |
| Items associated with particularly high risk | 0 | 2 281 | 2 150 | 16 605 | 0 | 0 | 76 388 | **97 424** |
| Equity exposures | 0 | 4 | 1 | 0 | 0 | 0 | 11 811 | **11 816** |
| Other exposures | 0 | 0 | 0 | 0 | 0 | 0 | 270 101 | **270 101** |
| **Credit risk exposures relating to balance sheet items** | **2 431 839** | **1 174 025** | **762 489** | **174 865** | **380 004** | **2 229 686** | **1 050 243** | **8 203 151** |
| Credit risk exposures relating to off-balance sheet items (incl. repo/reverse repo transactions and derivatives) | 382 475 | 361 484 | 192 686 | 118 482 | 6 | 85 510 | 160 454 | **1 301 097** |
| **Credit Risk: Total** | **2 814 314** | **1 535 509** | **955 175** | **293 347** | **380 010** | **2 315 196** | **1 210 697** | **9 504 248** |

## Template 10: EU CRB-E – Maturity of exposures:

| Exposure Classes | Up to 1 month | 1-3 months | 3-12 months | 1-5 years | Over 5 years | Balance sheet position |
|---|---|---|---|---|---|---|
| **Credit Risk** | | | | | | |
| Central governments or central banks | 754 705 | 0 | 0 | 255 434 | 123 424 | **1 133 563** |
| Regional governments or local authorities | 1 146 | 0 | 0 | 0 | 0 | **1 146** |
| Institutions | 1 417 924 | 0 | 0 | 18 598 | 0 | **1 436 522** |
| Corporates | 40 985 | 125 168 | 502 684 | 533 808 | 659 161 | **1 861 806** |
| Retail | 4 880 | 18 730 | 75 793 | 465 418 | 764 781 | **1 329 602** |
| Secured by mortgages on immovable property | 2 788 | 3 905 | 55 004 | 159 048 | 1 529 215 | **1 749 960** |
| Exposures in default | 65 314 | 1 230 | 30 711 | 49 045 | 164 911 | **311 211** |
| Items associated with particularly high risk | 9 871 | 256 | 6 340 | 16 317 | 64 640 | **97 424** |
| Equity exposures | 0 | 0 | 0 | 0 | 11 816 | **11 816** |
| Other exposures | 0 | 0 | 0 | 0 | 270 101 | **270 101** |
| **Credit risk exposures relating to balance sheet items** | **2 297 613** | **149 289** | **670 532** | **1 497 668** | **3 588 049** | **8 203 151** |

## Template 11: EU CR1-A – Credit quality of exposures by exposure class and instrument:

| Exposure Classes | Gross carrying values of | | Specific credit risk adjustment | General credit risk adjustment | Accumulated write-offs | Credit risk adjustment charges of the period | Net values (a+b-c-d) |
|---|---|---|---|---|---|---|---|
| | Defaulted exposures | Non-defaulted exposures | | | | | |
| Central governments or central banks | 0 | 1 133 568 | 5 | 0 | 0 | 0 | 1 133 563 |
| Regional governments or local authorities | 0 | 1 152 | 0 | 0 | 0 | 0 | 1 152 |
| Institutions | 0 | 1 512 088 | 808 | 0 | 0 | 0 | 1 511 280 |
| Corporates | 118 605 | 2 541 689 | 53 367 | 0 | 36 290 | 0 | 2 570 637 |
| Of which: SMEs | 55 377 | 365 143 | 18 047 | 0 | 20 771 | 0 | 381 702 |
| Retail | 244 197 | 1 824 503 | 184 261 | 0 | 15 175 | 5 855 | 1 869 264 |
| Of which: SMEs | 185 359 | 376 904 | 86 694 | 0 | 13 775 | 0 | 461 794 |
| Secured by mortgages on immovable property | 165 236 | 1 807 500 | 31 633 | 0 | 2 567 | 1 265 | 1 938 536 |
| Of which: SMEs | 0 | 302 692 | 3 893 | 0 | 0 | 252 | 298 799 |
| Items associated with particularly high risk | 0 | 145 101 | 1 234 | 0 | 0 | 0 | 143 867 |
| Equity exposures | 0 | 11 816 | 0 | 0 | 0 | 0 | 11 816 |
| Other exposures | 0 | 270 101 | 0 | 0 | 0 | 0 | 270 101 |
| **Total** | 528 038 | 9 247 518 | 271 308 | 0 | 54 032 | 7 120 | 9 450 216 |

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

## Template 12: EU CR1-B – Credit quality of exposures by industry or counterparty types:

| | Gross carrying values of | | Specific credit risk adjustment | General credit risk adjustment | Accumulated write-offs | Credit risk adjustment charges | Net values (a +b-c-d) |
|---|---|---|---|---|---|---|---|
| | Defaulted exposures | Non-defaulted exposures | | | | | |
| Individuals | 242 275 | 2 690 326 | 118 287 | 0 | 3 638 | 6 211 | 2 810 676 |
| Trade and Services | 159 063 | 1 470 830 | 94 384 | 0 | 29 814 | 626 | 1 505 695 |
| Manufacturing | 69 500 | 908 102 | 22 427 | 0 | 9 694 | 66 | 945 481 |
| Construction | 26 772 | 278 140 | 11 565 | 0 | 8 432 | 102 | 284 915 |
| Public Sector | 0 | 380 010 | 0 | 0 | 0 | 0 | 380 010 |
| Central Bank, Banks & Non-bank Financial Institutions | 0 | 2 319 979 | 4 783 | 0 | 0 | 0 | 2 315 196 |
| Other | 30 428 | 1 200 131 | 19 862 | 0 | 2 454 | 115 | 1 208 243 |
| Total | 528 038 | 9 247 518 | 271 308 | 0 | 54 032 | 7 120 | 9 450 216 |

## Template 13: EU CR1-C – Credit quality of exposures by geography:

| | Gross carrying values of | | Specific credit risk adjustment | General credit risk adjustment | Accumulated write-offs | Credit risk adjustment charges | Net values (a+ b -c-d) |
|---|---|---|---|---|---|---|---|
| | Defaulted exposures | Non-defaulted exposures | | | | | |
| Bulgaria | 523 873 | 7 663 511 | 270 276 | 0 | 54 032 | 7 120 | 7 863 076 |
| Greece | 820 | 1 317 000 | 291 | 0 | 0 | 0 | 1 317 529 |
| Romania | 5 | 721 | 5 | 0 | 0 | 0 | 721 |
| Rest of Europe | 1 828 | 221 401 | 277 | 0 | 0 | 0 | 222 952 |
| Other countries | 1 512 | 44 885 | 459 | 0 | 0 | 0 | 45 938 |
| Total | 528 038 | 9 247 518 | 271 308 | 0 | 54 032 | 7 120 | 9 450 216 |

## Template 14: EU CR1-D – Ageing of past-due exposures:

| | | a | b | c | d | e | f |
|---|---|---|---|---|---|---|---|
| | | Gross carrying values | | | | | |
| | | ≤ 30 days | > 30 days ≤ 60 days | > 60 days ≤ 90 days | > 90 days ≤ 180 days | > 180 days ≤ 1 year | > 1 year |
| 1 | Loans | 201 063 | 124 648 | 46 775 | 42 612 | 38 339 | 524 313 |
| 2 | Debt securities | 0 | 0 | 0 | 0 | 0 | 0 |
| **3** | **Total exposures** | 201 063 | 124 648 | 46 775 | 42 612 | 38 339 | 524 313 |

## Template 15: EU CR1-E – Non-performing and forborne exposures:

| | | a | b | c | d | e | f | g | h | i | j | k | l | m |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Gross carrying values of performing and non-performing exposures | | | | | | | Accumulated impairment and provisions and negative fair value adjustments due to credit risk | | | | Collaterals and financial guarantees received | |
| | | | Of which performing but past due > 30 days and <= 90 days | Of which performing forborne | Of which non-performing | | | | On performing exposures | | On non-performing | | On non-performing exposures | Of which forborne exposures |
| | | | | | | Of which defaulted | Of which impaired | Of which forborne | | Of which forborne | | Of which forborne | | |
| 010 | Debt securities | 398 039 | 0 | 0 | 0 | 0 | 0 | 0 | -583 | 0 | 0 | 0 | 0 | 0 |
| 020 | Loans and advances | 7 781 027 | 95 767 | 364 607 | 647 307 | 552 986 | 647 307 | 184 073 | -33 609 | -3 571 | -303 602 | -65 225 | 277 980 | 413 765 |
| 030 | Off-balance-sheet exposures | 1 286 030 | 0 | 20 495 | 1 254 | 704 | 0 | 1 | 589 | 0 | 221 | 0 | 675 | 9 801 |

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

**Template 16: EU CR2-A – Changes in the stock of general and specific credit risk adjustments:**

| | | a | b |
|---|---|---|---|
| | | Accumulated specific credit risk adjustment | Accumulated general credit risk adjustment |
| 1 | **Opening balance** | **-468 129** | **0** |
| 2 | Increases due to amounts set aside for estimated loan losses during the period | -134 851 | 0 |
| 3 | Decreases due to amounts reversed for estimated loan losses during the period | 66 303 | 0 |
| 4 | Decreases due to amounts taken against accumulated credit risk adjustments | 115 513 | 0 |
| 5 | Transfers between credit risk adjustments | 0 | 0 |
| 6 | Impact of exchange rate differences | 0 | 0 |
| 7 | Business combinations, including acquisitions and disposals of subsidiaries | 64 152 | 0 |
| 8 | Decreases due sale of credit portfolio | | |
| 9 | Other adjustments | 19 218 | 0 |
| 10 | **Closing balance** | **-337 794** | |
| 11 | Recoveries on credit risk adjustments recorded directly to the statement of profit or loss | 7 114 | 0 |
| 12 | Specific credit risk adjustments directly recorded to the statement of profit or loss | 0 | |

**Template 17: EU CR2-B – Changes in the stock of defaulted and impaired loans and debt securities:**

| | | a |
|---|---|---|
| | | Gross carrying value defaulted exposures |
| 1 | **Opening balance** | **754 203** |
| 2 | Loans and debt securities that have defaulted or impaired since the last reporting period | 52 849 |
| 3 | Returned to non-defaulted status | -18 717 |
| 4 | Amounts written off | -115 513 |
| 5 | Other changes | -119 836 |
| 6 | **Closing balance** | **552 986** |

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

## Template 18: EU CR3 – CRM techniques – Overview:

| | Exposures unsecured – Carrying amount | Exposures secured – Carrying amount | Exposures secured by collateral | Exposures secured by financial guarantees | Exposures secured by credit derivatives |
|---|---|---|---|---|---|
| Total loans | 4 988 972 | 282 001 | 57 016 | 224 985 | 0 |
| Total debt securities | 404 552 | 0 | 0 | 0 | 0 |
| Total exposures | 5 393 524 | 282 001 | 57 016 | 224 985 | 0 |
| Of which defaulted | 310 384 | 827 | 31 | 796 | 0 |

## Template 19: EU CR4 – Standardised approach – Credit risk exposure and CRM effects:

| Exposure classes | Exposures before CCF and CRM | | Exposures post CCF and CRM | | RWAs and RWA density | |
|---|---|---|---|---|---|---|
| | On-balance-sheet amount | Off-balance-sheet amount | On-balance-sheet amount | Off-balance-sheet amount | RWAs | RWA density |
| Central governments or central banks | 1 133 563 | | 1 133 563 | | 51 575 | 5% |
| Regional government or local authorities | 1 146 | 6 | 1 146 | 3 | 1 149 | 100% |
| Multilateral development banks | | | 71 591 | 492 | | 0% |
| Institutions | 1 436 522 | 74 758 | 1 441 264 | 47 135 | 335 553 | 23% |
| Corporates | 1 861 806 | 676 172 | 1 814 278 | 256 850 | 2 005 500 | 97% |
| Retail | 1 329 602 | 457 977 | 1 277 582 | 42 135 | 939 651 | 71% |
| Secured by mortgages on immovable property | 1 749 960 | 45 741 | 1 749 960 | 12 349 | 651 259 | 37% |
| Exposures in default | 311 211 | | 310 384 | | 347 403 | 112% |
| Exposures associated with particularly high risk | 97 424 | 46 443 | 97 424 | 22 588 | 180 018 | 150% |
| Equity exposures | 11 816 | | 11 816 | | 11 816 | 100% |
| Other exposures | 270 101 | | 270 101 | | 154 493 | 57% |
| **Total** | 8 203 151 | 1 301 097 | 8 179 109 | 381 552 | 4 678 417 | 55% |

## Template 20: EU CR5 – Standardised approach:

| Exposure classes | Risk weight | | | | | | | | | | | | | | | | Total | Of which unrated |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 0% | 2% | 4% | 10% | 20% | 35% | 50% | 70% | 75% | 100% | 150% | 250% | 370% | 1250% | Others | Deducted | | |
| Central governments or central banks | 617 818 | | | 515 745 | | | | | | | | | | | | | 1 133 563 | 0 |
| Regional government or local authorities | | | | | | | | | | 1 152 | | | | | | | 1 152 | 1 152 |
| Institutions | | | | | 1 483 484 | | 206 | | | | 27 590 | | | | | | 1 511 280 | 19 596 |
| Corporates | | | | | | | | | | 2 537 978 | | | | | | | 2 537 978 | 2 537 978 |
| Retail | | | | | | | | | 1 787 579 | | | | | | | | 1 787 579 | 1 787 579 |
| Secured by mortgages on immovable property | | | | | | 1 352 623 | 443 078 | | | | | | | | | | 1 795 701 | 1 795 701 |
| Exposures in default | | | | | | | | | | 237 174 | 74 037 | | | | | | 311 211 | 311 211 |
| Exposures associated with particularly high risk | | | | | | | | | | | 143 867 | | | | | | 143 867 | 143 867 |
| Equity exposures | | | | | | | | | | 11 816 | | | | | | | 11 816 | 11 816 |
| Other exposures | 111 282 | | | | 5 407 | | | | | 153 412 | | | | | | | 270 101 | 270 101 |
| Total | 729 100 | 0 | 0 | 515 745 | 1 488 891 | 1 352 623 | 443 284 | 0 | 1 787 579 | 2 941 532 | 245 494 | 0 | 0 | 0 | 0 | 0 | 9 504 248 | 6 879 001 |

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

## VII. Credit risk and CRM in the IRB approach

Eurobank Bulgaria AD does not apply Internal Rating Based Approach to credit risk as of 31 December 2018.

## VIII. Counterparty Credit Risk (CCR)

The Bank should enter into transactions only with approved counterparties and in approved products, within pre-approved limits in terms of product type, amount and tenor. The approval of limits is done at Group level through a dedicated unit – Financial Institutions Credit Risk (FICR), and follows the process described in the Group's Credit Policy on Financial Institutions. Following a formal request by the Business Unit that will utilize the limit in question, FICR prepares credit review of the respective counterparty and presents the proposal for limit establishment/changes for approval to the respective Group credit committee. The limits, approved for the Bank towards a certain counterparty or group, are part of the overall Group limit structure and are included in the Group's total limit towards that particular counterparty or group.

The rules and approval authorities/levels for bank counterparty limits are provided in the Credit Policy on Financial Institutions. The degree of risk inherent in any granting of banking limits is dependent on a number of factors. Basic assessment credit criteria considered when analyzing and approving such limits include country of origin (country's rating, supervisory system, state support), ownership, credit rating, management, reputation, capital ratios, profitability, liquidity (deposit base, wholesale funding dependence), asset quality, franchise value, recent performance and other.

The basic principle governing the review process for banking counterparties is that each banking group, respectively each stand-alone bank, has to be reviewed at least every second year. If deemed appropriate, a credit review may be performed in shorter frequency.

Monitoring of counterparty limits is performed independently by Market Risk Department, with daily calculation of exposures and limit utilizations. The control mechanism covers all exposures to banks and related to them non-banking financial institutions and all exposures to foreign countries. Risk exposures are calculated using market valuation methodology (current exposure plus add-on). The described counterparty limits should normally not be exceeded. Any excesses are brought to the attention of the respective management bodies in accordance with the escalation levels set out in the Bank's Market & Counterparty Risk Policy, and prompt measures are undertaken for their resolution. Whenever there is a limit excess, explanation and justification for the excess is requested from the Business Unit that has caused it and a recommendation for the elimination of the excess is issued.

In order to mitigate counterparty risk, the Bank usually enters into ISDA (with CSA) and GMRA agreements with its main counterparties. A credit rating downgrade of the Bank will not have an impact on the amount of collateral that has to be provided in relation to its existing transactions. The risk appetite of the Bank towards wrong-way risk is zero. The policy of the Bank is to avoid entering into transactions that could expose it to such risk to the best of its ability.

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

The allocation of the Bank's deals with securities and derivatives in the banking book as of 31 December 2018 for the different exposure classes using the Mark-to-Market Method is represented in the table below:

| Exposure Class | Derivatives |
|---|---|
| Institutions | 16 011 |
| Corporate customers | - |
| **Total** | **16 011** |

**Template 25: EU CCR1 – Analysis of CCR exposure by approach:**

| | | Notional | Replacement cost/current market value | Potential future credit exposure | EEPE | Multiplier | EAD post CRM | RWAs |
|---|---|---|---|---|---|---|---|---|
| 1 | Mark to market | | 2 400 | 13 611 | | | 16 011 | 24 017 |
| 2 | Original exposure | | | | | | | |
| 3 | Standardised approach | | | | | | | |
| 4 | IMM (for derivatives and SFTs) | | | | | | | |
| 5 | Of which securities financing transactions | | | | | | | |
| 6 | Of which derivatives and long settlement transactions | | | | | | | |
| 7 | Of which from contractual cross-product netting | | | | | | | |
| 8 | Financial collateral simple method (for SFTs) | | | | | | | |
| 9 | Financial collateral comprehensive method (for SFTs) | | | | | | | |
| 10 | VaR for SFTs | | | | | | | |
| 11 | Total | | | | | | | 24 017 |

**Template 26: EU CCR2 – CVA capital charge:**

| | | Exposure value | RWAs |
|---|---|---|---|
| 1 | Total portfolios subject to the advanced method | 0 | 0 |
| 2 | (i) VaR component (including the 3× multiplier) | | 0 |
| 3 | (ii) SVaR component (including the 3× multiplier) | | 0 |
| 4 | All portfolios subject to the standardised method | 0 | 0 |
| EU4 | Based on the original exposure method | 0 | 0 |
| 5 | Total subject to the CVA capital charge | 0 | 0 |

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

**Template 28: EU CCR3 – Standardised approach – CCR exposures by regulatory portfolio and risk:**

| | Exposure classes | Risk weight | | | | | | | | | | | Total | Of which unrated |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 0% | 2% | 4% | 10% | 20% | 50% | 70% | 75% | 100% | 150% | Others | | |
| 1 | Central governments or central banks | | | | | | | | | | | | | |
| 2 | Regional government or local authorities | | | | | | | | | | | | | |
| 3 | Public sector entities | | | | | | | | | | | | | |
| 4 | Multilateral development banks | | | | | | | | | | | | | |
| 5 | International organisations | | | | | | | | | | | | | |
| 6 | Institutions | | | | | | | | | | 16 011 | | 16 011 | 0 |
| 7 | Corporates | | | | | | | | | | | | | |
| 8 | Retail | | | | | | | | | | | | | |
| 9 | Institutions and corporates with a short-term credit assessment | | | | | | | | | | | | | |
| 10 | Other items | | | | | | | | | | | | | |
| 11 | Total | | | | | | | | | | 16 011 | | 16 011 | |

# IX. Unencumbered assets

Pledged financial assets serving as a collateral for liabilities as of 31.12.2018 include government securities pledged for government budget accounts, loans pledged under long-term financing, funds placed as a cover for letters of credit and guarantees and an amount blocked in a BNB account under a disputed court ruling.

The table below presents the fair value and carrying amount of encumbered and unencumbered assets as of 31.12.2018:

| | Carrying amount of encumbered assets | Fair value of encumbered assets | Carrying amount of unencumbered assets | Fair value of unencumbered assets |
|---|---|---|---|---|
| Assets of the institution | 86 960 | 86 960 | 8 120 521 | 8 120 521 |
| Loans on demand | 3 001 | 3 001 | 888 715 | 888 715 |
| Equity instruments | 0 | 0 | 12 926 | 12 926 |
| Debt securities | 65 355 | 65 355 | 339 197 | 339 197 |
| Loans and advances other than loans on demand | 18 604 | 18 604 | 6 544 152 | 6 544 152 |
| Other assets | 0 | 0 | 335 531 | 335 531 |

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

The table below presents the liabilities related to encumbered assets as of 31.12.2018:

| | Corresponding liabilities, contingent liabilities or lent securities | Assets, received collateral and issued own debt securities other than encumbered with weights covered bonds or asset-backed securities |
|---|---|---|
| Total sources of encumbrance | 76 197 | 86 960 |
| Deposits | 70 537 | 83 959 |
| Other sources of encumbrance | 5 660 | 3 001 |

The collateral related to the encumbered assets as of 31.12.2018 is presented in the table below:

| Type of collateral | Amount of collateral |
|---|---|
| Deposits | 8 |
| Residential Real Estate | 4 845 |
| Commercial Real Estate | 5 175 |
| Total | 10 028 |

## X. Market risk

The position risk of the Bank in traded debt instruments under the Standardised approach as of 31.12.2018, broken down by currency, is presented in the table below:

| | Long position - BGN | Short position - BGN | Long position - EUR | Short position - EUR | Long position - USD | Short position - USD | Long position - CHF | Short position - CHF | Long position - GBP | Short position - GBP |
|---|---|---|---|---|---|---|---|---|---|---|
| **General risk** | | | | | | | | | | |
| Maturity-based approach | 848 027 | 0 | 200 668 | 1 317 875 | 298 958 | 0 | 0 | 54 881 | 33 890 | 0 |
| Zone 1 | 840 964 | 0 | 162 334 | 1 191 137 | 298 958 | 0 | 0 | 54 881 | 33 890 | 0 |
| 0 ≤ 1 month | 840 964 | 0 | 54 763 | 1 171 970 | 298 926 | 0 | 0 | 54 881 | 33 890 | 0 |
| > 1 ≤ 3 months | | | 58 675 | 0 | 32 | 0 | | | | |
| > 3 ≤ 6 months | | | 0 | 19 167 | | | | | | |
| > 6 ≤ 12 months | | | 48 896 | 0 | | | | | | |
| Zone 2 | 1 009 | 0 | 38 334 | 77 842 | | | | | | |
| > 1 ≤ 2 (1,9 for cupon of less than 3%) years | | | 14 864 | 7 432 | | | | | | |
| > 2 ≤ 3 (> 1,9 ≤ 2,8 for cupon of less than 3%) years | 1 009 | 0 | 18 776 | 9 388 | | | | | | |
| > 3 ≤ 4 (> 2,8 ≤ 3,6 for cupon of less than 3%) years | | | 4 694 | 61 022 | | | | | | |
| Zone 3 | 6 054 | 0 | 0 | 48 896 | | | | | | |
| > 4 ≤ 5 (> 3,6 ≤ 4,3 for cupon of less than 3%) years | 120 | 0 | | | | | | | | |
| > 5 ≤ 7 (> 4,3 ≤ 5,7 for cupon of less than 3%) years | 307 | 0 | 0 | 48 896 | | | | | | |
| > 7 ≤ 10 (> 5,7 ≤ 7,3 for cupon of less than 3%) years | 5 627 | 0 | | | | | | | | |
| > 10 ≤ 15 (> 7,3 ≤ 9,3 for cupon of less than 3%) years | | | | | | | | | | |
| > 15 ≤ 20 (> 9,3 ≤ 10,6 for cupon of less than 3%) years | | | | | | | | | | |
| > 20 (> 10,6 ≤ 12,0 for cupon of less than 3%) years | | | | | | | | | | |
| **Specific risk** | | | | | | | | | | |
| Debt securities under the first category in Table 1 | 7 064 | | | | | | | | | |
| Debt securities under the second category in Table 1 | | | | | 32 | | | | | |
| With residual term ≤ 6 months | | | | | 32 | | | | | |
| With a residual term > 6 months and ≤ 24 months | | | | | | | | | | |
| With a residual term > 24 months | | | | | | | | | | |
| Debt securities under the third category in Table 1 | | | | | | | | | | |
| Debt securities under the fourth category in Table 1 | | | | | | | | | | |

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

**Template 34: EU MR1 – Market risk under the standardised approach:**

| | RWAs | Capital requirements |
|---|---|---|
| **Outright products** | 107 550 | 8 604 |
| Interest rate risk (general and specific) | 34 450 | 2 756 |
| Equity risk (general and specific) | 1 950 | 156 |
| Foreign exchange risk | 71 150 | 5 692 |
| Commodity risk | | |
| **Options** | | |
| Simplified approach | | |
| Delta-plus method | | |
| Scenario approach | | |
| Securitisation (specific risk) | | |
| **Total** | 107 550 | 8 604 |

**Capital requirements for market risk**

Breakdown of the capital requirements for market risk by currencies as of 31 December 2018 is presented in the table below:

| Market Risk | BGN | EUR | CHF | USD |
|---|---|---|---|---|
| Interest rate instruments in the trading book | 242 | 2 514 | - | - |
| Equity instruments in the trading book | 156 | - | - | - |
| **Total** | **398** | **2 514** | **-** | **-** |

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

The major currencies which form the currency position of the Bank are BGN, EUR, USD, CHF and GBP. The capital requirements for currency risk as of 31 December 2018 that Eurobank Bulgaria AD allocate equal BGN 5,692 thousand.

# XI. Remuneration policy

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

Also, the Remuneration Policy promotes sound and effective risk management and is consistent with the objectives of the Bank's business and risk strategy, corporate culture and values, long term interests of the Bank and the measures used to avoid conflicts of interest and should not encourage excessive risk-taking on behalf of the Bank.

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

The Remuneration Policy has been drafted and is being implemented in accordance with Ordinance No. 4 of 21 December 2010 on the Requirements for Remunerations in Banks, issued by Bulgarian National Bank, as in force, which incorporated accordingly the Directive (EU) 2013/36 and Commission Delegated Regulation (EU) No 604/2014 of 4 March 2014 supplementing Directive 2013/36/EU of the European Parliament and of the Council.

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

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

The Remuneration Committee is established in such a way as to be able to offer specialised and independent advice regarding the Remuneration Policy and its implementation and the incentives created for managing risk, capital and liquidity. To this end, the Bank's Remuneration Committee consists of 4 Supervisory Board members.
During 2018, the Remuneration Committee held five meetings.

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

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

- ✓ Safeguard that remuneration is sufficient to retain and attract executives with appropriate skill and experience.
- ✓ Monitor that internal equity between Business Units is applied.
- ✓ Avoid excessive risk taking.
- ✓ Take into consideration repetitive unresolved audit issues.
- ✓ Safeguard ethical association with the Bank's approved code of conduct.
- ✓ Link remuneration with long-term performance.

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

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

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

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

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

**(I) Qualitative Criteria**

1. Members of the Management Board;
2. Members of the Supervisory Board and its committees;
3. Senior Managers:
   - **(i)** Members of Executive Committee (ExCo) of the Bank
4. Heads of the following:
   - **(i)** Risk Management;
   - **(ii)** Internal Audit Division;
   - **(iii)** Compliance Division;
5. Heads of Risk Management within material business units ("material business unit" is the unit as defined in the Article 3 of EU Regulation 604/2014);
6. Heads of material business units;
7. Employees that have managerial responsibility in one of the units referred to in point (4) or in a material business unit and report directly to the Heads of points (4) or (5);
8. Employees that have managerial responsibility and report directly to the Heads of material business units;
9. Heads of the following units and their direct reports that have managerial responsibility:
   - **(i)** Finance Division;
   - **(ii)** Human Resources Division;
   - **(iii)** IT Division;
   - **(iv)** Legal Division;
10. Employees who are responsible for, or are members of Committees responsible for the management of a risk category other than credit risk and market risk:
    - **(i)** Counterparty Risk;
    - **(ii)** Residual Risk;
    - **(iii)** Concentration Risk;
    - **(iv)** Securitization Risk;
    - **(v)** Interest Risk arising from non – trading book activities;
    - **(vi)** Operational Risk;
    - **(vii)** Liquidity Risk;
    - **(viii)** Risk of excessive leverage;

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

**11.** With regard to credit risk exposures of a nominal amount per transaction which represents 0.5% of the Bank's Common Equity Tier 1 capital and at least € 5 million:

- **(i)** Employees who are responsible for initiating credit proposals or structuring credit products which can result in such credit risk exposures; or
- **(ii)** Employees who have authority to take, approve or veto a decision on such credit risk exposures; or
- **(iii)** Employees who are members of Committees to take the decisions referred to in points (i) or (ii);

**12.** Employees who individually or, as members of Committees, have authority to take, approve or veto a decision on transactions on the trading book which in aggregate meet one of the following thresholds:

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

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

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

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

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

(**II) Quantitative Criteria**

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

- **(i)** total remuneration was more than € 500.000 in the preceding year;
- **(ii)** total remuneration is within the 0.3 % of the employees, rounded up to the next integer, who have been awarded the highest total remuneration in the preceding financial year;
- **(iii)** total remuneration was in the preceding financial year equal to or greater than the lowest total remuneration awarded in that financial year to an employee who meets any of the criteria in points (1), (3), (5), (6), (8), (11), (12), (13) or (14)

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

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

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

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

Employees' total remuneration consists of fixed and variable components.

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

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

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

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

The number of people, covering the definition of "employees who have a material impact on the Bank's risk profile" for year 2018 is 63. The annual gross amount to be disclosed, (connected with these people and corresponding to the requirements Regulation (EU) No 575/2013, art. 450), is three millions nine hundred sixty two thousand and two hundred and fifty five euro and is described in detail in the table below.

| | Executive and Non-Executive Members of the BoD and committee members | Investment Banking | Retail Banking | Asset Management | Corporate Functions | Independent Control Functions | All Other |
|---|---|---|---|---|---|---|---|
| **Members** | 14 | - | - | - | - | - | - |
| **Identified Staff** | - | 4 | 31 | - | 6 | 6 | 2 |
| **Fixed Remuneration (€)** | 920 983 | 172 377 | 1 758 438 | - | 337 011 | 343 089 | 142 715 |
| **Variable Remuneration Cash (€)** | - | 45 000 | 207 395 | - | 5 113 | 30 134 | - |

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

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

# XII. Operational risk

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

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

**<u>Capital requirements for operational risk</u>**

The Bank uses the Basic Indicator Approach, representing 15% of the annual average gross income for 2015, 2016 and 2017. The amounts of the annual gross income for the last three years, which form the capital requirements for operational risk, are as follows:

- ✓ 2015 – BGN 272,214 thousand;
- ✓ 2016 – BGN 351,406 thousand;
- ✓ 2017 – BGN 349,980 thousand.

The capital requirements for operational risk as of 31 December 2018 that Eurobank Bulgaria AD allocate equal BGN 48,680 thousand.

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

## XIII. Exposures in equities not included in the trading book

**Accounting techniques and valuation methodologies used by the Bank**

The Bank may make an irrevocable election to designate an equity instrument at Fair Value through Other Comprehensive Income (FVOCI). This designation, if elected, is made at initial recognition and on an instrument by instrument basis. Gains and losses on these instruments, including when derecognized, are recorded in OCI and are not subsequently reclassified to the income statement. Dividends received are recorded in the income statement. The Bank has no equity instruments designated at FVOCI.

**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 2018 are represented in the table below:

| Equity instruments in the banking book | Balance sheet value | Fair value |
|---|---|---|
| Shares | 1 | 1 |
| Participations | 11 950 | 11 950 |
| **Total:** | **11 951** | **11 951** |

**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 2018 consists of participations in companies. The amount of the private equity investments held by the Bank and classified as bearing high risk is BGN 134 thousand. All private equity investments are reported with 150% risk weight.

The equity instruments reported in the banking book of the Bank as of 31 December 2018 are presented in the table below:

| Equity instruments in the banking book | Reported with 100% risk weight in exposure class "Equity exposures" | Reported with 150% risk weight in exposure class "Exposures associated with particularly high risk" |
|---|---|---|
| Listed equity instruments | 1 | - |
| Non-listed equity instruments | 11 816 | - |
| Items belonging to regulatory high-risk categories | - | 134 |
| **Total:** | **11 817** | **134** |

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

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

**Nature, Measurement and Key Assumptions Regarding Interest Rate Risk Arising from Non-Trading Activities (IRRBB)**

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

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

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

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

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

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

The Bank's market risk measurement system includes all positions that are exposed to market risks and measures all material aspects of market risk. This also includes the measurement of the Bank's exposure to interest rate risk, arising from non-trading positions and activities. The risk measurement methods include a set of risk factors corresponding to interest rates in each of the currencies in which the Bank has material interest rate sensitive positions. For each currency, the yield curve is divided into a number of maturity segments in order to capture the variation in volatility of interest rates at different points on the curve. At least one risk factor is used for each maturity segment. The Interest Rate Gap Report (IR Gap) is the main tool used for identification and management of interest rate risk on a bank-wide level. In the IR Gap the balance sheet and off-balance sheet positions are analyzed by transforming them into interest rate risk equivalent instruments and by distributing the cash flows of these instruments into a predefined set of time-bands. It is produced separately for each specific currency and in total BGN and EUR equivalent. It is produced by Market Risk Department on a weekly basis and as of each end-of-month date and is presented to the management at Bank and Group level. The report is based on Group guidelines, while the underlying assumptions are constantly reviewed and updated to ensure their adequate reflection of any local specifics.

The report represents a maturity/re-pricing schedule that distributes all of the Bank’s assets, liabilities and interest-sensitive off-balance sheet positions into time-bands according to their maturity (if fixed rate) or time remaining to their next re-pricing (if floating rate), combined with the calculation of two duration equivalent measures: 1-year and 10-year duration equivalents. There are Risk Committee approved nominal limits for the two duration equivalent measures, set to ensure that the overall Bank exposure to interest rate risk is acceptable and in line with the Bank’s market risk appetite. The utilization of these limits is monitored on a weekly basis by Market Risk Department and any excesses are escalated to the management bodies of the Bank and the Group. There have been no excesses in 2018. The gap analysis is supplemented by calculation of risk indicators such as duration analysis of the bond portfolios and calculation of interest rate sensitivity to specific interest rate shifts. Monthly stress tests are performed to assess the impact of interest rate changes on the Bank’s profit & loss and economic value.

The time-band distribution of assets and liabilities in the IR Gap report is based on certain assumptions, especially concerning the positions without clearly defined maturity or interest rate profile and the ones where actual maturity may deviate from the contractual one. These assumptions are regularly re-assessed in order to ensure their accuracy and adequacy. For the purposes of calculating interest rate risk equivalent instruments for current and savings accounts, on the basis of specific assumptions approved by the Group Risk Management, these are distributed in the closest time-band (1 month) to reflect properly their interest rate sensitivity. For instruments with fixed interest rate, the principal payments are distributed into time-bands according to their repayment schedule at the respective payment dates, while floating rate instruments are distributed according to their next interest re-pricing. The Bank’s capital is first allocated to cover the fixed assets, participations and other positions without a clear interest rate profile and the remainder (i.e. the cash portion of capital) is allocated to the 1-month time bucket. With relation to early prepayments on loans, the majority of the loans are floating-rate ones and respectively are distributed into closer time-bands based on their re-pricing date and not on their repayment schedule. In the case of instruments with embedded options, these options determine the time-band distribution of the respective instrument.

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

The Bank’s strategy is directed at actively managing interest rate risk exposure through utilization of available market instruments. The main technique used for managing interest rate risk is interest rate risk hedging, including fair value and cash flow hedges. This is done in compliance with the Bank’s Hedging Policy, which outlines the procedure for assessing hedge effectiveness according to international standards requirements, defines the roles of the different units of the Bank in the assessment and accounting process, and the potential hedging instruments that can be used. The Bank also aims to match the re-pricing characteristics of assets and liabilities whenever that is possible.

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

**IRRBB Stress-testing**

On a monthly and quarterly basis various stress tests are performed to assess the impact of interest rate changes on both income (short-term) and economic value (long-term). The stress tests are based on yield curve shifts, with separate shift parameters for each currency, in which the Bank has a material interest rate risk exposure. The stress tests may also include the effects of possible changes in other relevant variables such as country credit spreads for bond positions. Besides parallel shifts, the effects of other, non-parallel changes in the interest rate curves (tilt – long and short term, pivot, etc.) can also be analyzed. The stress test results are presented to the senior management at Bank and Group levels, where they are being reviewed and considered as a base for making management decisions together with all the other relevant information.

The main stress test scenario for interest rate risk that the Bank runs on a regular monthly basis estimates the effects of parallel yield curve shifts with separate parameters for each currency. Additionally is presented the potential effect of an increase in credit spreads for foreign currency denominated bonds. Key behavioral and modelling assumptions used should always be taken into consideration. For this scenario, the most important ones are:

- ✓ Run-off balance sheet assumption;
- ✓ Cash flow bucketing – assets and liabilities cash flows are projected onto monthly time buckets up to 1-year and yearly time bucket above 1 year based on interest reset dates for floating rate instruments or contractual repayment schedule for fixed rate instruments. The 1-month time bucket is further broken down into overnight, 2d-8d and 9d-1m buckets. Future interest flows have been excluded;
- ✓ Non-maturity deposits (NMDs) – all NMDs have been treated as non-core deposits, i.e. have been considered as overnight deposits;
- ✓ Revolving loans – credit cards, overdrafts and other loans with similar characteristics have been mapped into the 9d-1month time bucket;
- ✓ Fixed rate loans subject to prepayment risk – no loan prepayment options have been taken into account for the calculation. Fixed rate loans represent a very small portion of total loan portfolio;
- ✓ Term deposits subject to early redemption risk – no early termination of term deposits has been factored in the calculations;
- ✓ Treatment of own equity – net equity, after covering for fixed assets, net NPLs and other non-interest bearing assets, has been included in the calculation with an overnight duration.

<u>EVE (Economic Value of Equity)</u>

Starting from Q1 of 2017, the Bank also measures on a monthly basis the ΔEVE (change in economic value of equity) and on a quarterly basis the ΔNII (change in net interest income) under the prescribed interest rate shock scenarios set out in the BCBS Standards on IRRBB.

The six shock scenarios for EVE reflect currency-specific absolute shocks based on historical time series and include:

- ✓ parallel shock up;
- ✓ parallel shock down;

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

- ✓ steepener shock (short rates down and long rates up);
- ✓ flattener shock (short rates up and long rates down);
- ✓ short rates shock up; and
- ✓ short rates shock down.

The calculation assumptions used for these six scenarios differ from the monthly scenario only in the treatment of own equity – equity has been completely excluded from the calculations, along with fixed assets, NPLs and any other non-interest bearing assets and liabilities.

NII (Net Interest Income)

Further to the effects on EVE, the Bank also calculates the effects on Net Interest Income from parallel shock up and parallel shock down scenarios under a constant balance sheet assumptions – assets and liabilities are assumed to be replaced like for like, over a 12-month time horizon. A 0% floor is used for all assets and liabilities along with any existing contractual floors.

In addition, the Bank also calculates the effects from two more NII scenarios: steepener and flattener, based on the respective interest rate shocks provided for the ECB Stress Test on IRRBB in 2017.

## IRBBB Capital Requirements

The interest rate risk in the banking book carries no Pillar I capital requirements. The amount of capital, required for IRRBB under Pillar II, is determined by the Bank quarterly based on the calculation of the potential negative impact on the economic value from a parallel yield curve shift of +/- 200 bps in all currencies. The calculated amount as of 31.12.2018 is BGN 17 956 thousand (translating to RWAs of BGN 224 450 thousand), broken down by currency as follows:

| Currency | +200 bps | -200 bps (applying a floor at 0%) |
|---|---|---|
| **BGN** | -3 268 | 264 |
| **EUR** | -17 157 | 3 506 |
| **USD** | 2 432 | -2 475 |
| **CHF** | -70 | 0 |
| **GBP** | 107 | -55 |
| **Other** | -0 | 0 |
| **Total:** | **-17 956** | **1 239** |

The results from all stress test scenarios related to changes in economic value described above are also taken into consideration when estimating IRRBB capital requirements, and should there be material difference between the calculated potential negative changes in economic value in any of those scenarios and the calculated internal capital for IRRBB, the Bank assesses the need to modify or change the methodology it uses for determining the amount of required capital for IRRBB.

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

The assessment of the Bank's Management is that currently interest rate risk in the banking book is at completely acceptable levels and well within the approved limits for interest rate risk exposures.

# XV. Exposure to securitization positions

Eurobank Bulgaria AD does not apply securitization as of 31 December 2018.

# XVI. Leverage ratio

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

**CRR Leverage Ratio — Disclosure Template:**

| CRR Leverage Ratio | |
|---|---|
| Leverage Ratio - using a fully phased-in definition of Tier 1 | 12.75% |
| Leverage Ratio - using a transitional definition of Tier 1 | 12.56% |
| Minimum requirement | 3.00% |

**Table LRSum: Summary reconciliation of accounting assets and leverage ratio exposures:**

| | | Applicable Amount - transitional definition | Applicable Amount - fully phased-in definition |
|---|---|---|---|
| 1 | Total assets as per published financial statements | 8 197 199 | 8 197 199 |
| 2 | Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation | 0 | 0 |
| 3 | (Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013) | 0 | 0 |
| 4 | Adjustments for derivative financial instruments | 13 611 | 13 611 |
| 5 | Adjustment for securities financing transactions (SFTs) | 0 | 0 |
| 6 | Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures) | 446 049 | 446 049 |
| EU-6a | (Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013) | 0 | 0 |
| EU-6b | (Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013) | 0 | 0 |
| 7 | Other adjustments | -39 391 | -137 974 |
| 8 | Leverage ratio total exposure measure | 8 617 468 | 8 518 885 |

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

## Table LRCom: Leverage ratio common disclosure:

| | | CRR leverage ratio exposures - transitional definition | CRR leverage ratio exposures - using a fully phased-in definition of Tier 1 |
|---|---|---|---|
| | On-balance sheet exposures (excluding derivatives and SFTs) | | |
| 1 | On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral) | 8 194 799 | 8 194 799 |
| 2 | (Asset amounts deducted in determining Tier 1 capital) | -39 391 | -137 974 |
| 3 | Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2) | 8 155 408 | 8 056 825 |
| | Derivative exposures | | |
| 4 | Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin) | 2 400 | 2 400 |
| 5 | Add-on amounts for PFE associated with all derivatives transactions (mark- to-market method) | 13 611 | 13 611 |
| EU-5a | Exposure determined under Original Exposure Method | 0 | 0 |
| 6 | Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework | 0 | 0 |
| 7 | (Deductions of receivables assets for cash variation margin provided in derivatives transactions) | 0 | 0 |
| 8 | (Exempted CCP leg of client-cleared trade exposures) | 0 | 0 |
| 9 | Adjusted effective notional amount of written credit derivatives | 0 | 0 |
| 10 | (Adjusted effective notional offsets and add-on deductions for written credit derivatives) | 0 | 0 |
| 11 | Total derivatives exposures (sum of lines 4 to 10) | 16 011 | 16 011 |
| | SFT exposures | | |
| 12 | Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions | 0 | 0 |
| 13 | (Netted amounts of cash payables and cash receivables of gross SFT assets) | 0 | 0 |
| 14 | Counterparty credit risk exposure for SFT assets | 0 | 0 |
| EU-14a | Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429b(4) and 222 of Regulation (EU) No 575/2013 | 0 | 0 |
| 15 | Agent transaction exposures | 0 | 0 |
| EU-15a | (Exempted CCP leg of client-cleared SFT exposure) | 0 | 0 |
| 16 | Total securities financing transaction exposures (sum of lines 12 to 15a) | 0 | 0 |
| | Other off-balance sheet exposures | | |
| 17 | Off-balance sheet exposures at gross notional amount | 1 285 086 | 1 285 086 |
| 18 | (Adjustments for conversion to credit equivalent amounts) | -839 037 | -839 037 |
| 19 | Other off-balance sheet exposures (sum of lines 17 and 18) | 446 049 | 446 049 |
| | Exempted exposures in accordance with Article 429(7) and (14) of Regulation (EU) No 575/2013 (on and off balance sheet) | | |
| EU-19a | (Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet)) | 0 | 0 |
| EU-19b | (Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet)) | 0 | 0 |
| | Capital and total exposure mesure | | |
| 20 | Tier 1 capital | 1 082 252 | 1 086 224 |
| 21 | Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b) | 8 617 468 | 8 518 885 |
| | Leverage ratio | | |
| 22 | Leverage ratio | 12.56% | 12.75% |
| | Избор на преходни разпоредби и стойност на отписаните доверителни дейности | | |
| EU-23 | Choice on transitional arrangements for the definition of the capital measure | | |
| EU-24 | Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No 575/2013 | | |

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

**Table LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures):**

| | | CRR leverage ratio exposures |
|---|---|---|
| EU-1 | Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which: | 8 194 799 |
| EU-2 | Trading book exposures | 8 072 |
| EU-3 | Banking book exposures, of which: | 8 186 727 |
| EU-4 | Covered bonds | 0 |
| EU-5 | Exposures treated as sovereigns | 1 133 563 |
| EU-6 | Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns | 1 146 |
| EU-7 | Institutions | 1 436 522 |
| EU-8 | Secured by mortgages of immovable properties | 1 746 226 |
| EU-9 | Retail exposures | 1 319 267 |
| EU-10 | Corporate | 1 855 923 |
| EU-11 | Exposures in default | 256 203 |
| EU-12 | Other exposures (eg equity, securitisations, and other non-credit obligation assets) | 437 877 |

## XVII. Use of the Advanced Measurement Approaches to operational risk

Eurobank Bulgaria AD does not apply advanced measurement approaches to operational risk as of 31 December 2018.

## XVIII. Use of Internal Market Risk Models

Eurobank Bulgaria AD does not apply internal models for market risk as of 31 December 2018.