EUROBANK BULGARIA AD
SEPARATE FINANCIAL STATEMENTS
31 DECEMBER 2018

CONTENTS

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INDEPENDENT AUDITORS' REPORT

To the shareholders of
Eurobank Bulgaria AD

Report on the Audit of the Separate Financial Statements

Opinion

We have audited the separate financial statements of Eurobank Bulgaria AD (the Bank) as set out on pages 40 to 173, which comprise the separate balance sheet as at 31 December 2018, and the separate income statement, separate statement of comprehensive income, separate statement of changes in shareholders' equity and separate statement of cash flows for the year then ended, and notes to the separate financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying separate financial statements give a true and fair view of the unconsolidated financial position of the Bank as at 31 December 2018, and of its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the 'Auditors' Responsibilities for the Audit of the Separate Financial Statements' section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Independent Financial Audit Act (IFAA) that are relevant to our audit of the separate financial statements in Bulgaria, and we have fulfilled our other ethical responsibilities in accordance with the requirements of the IFAA and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

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Expected credit losses ("ECL") related to loans and advances to customers

As at 31 December 2018, the separate financial statements include:

- Gross loans and advances to customers of BGN 5,608,184 thousand (31 December 2017: BGN 5,198,132 thousand) and ECL allowance of BGN 336,995 thousand (31 December 2017 allowance for impairment: BGN 369,500 thousand), as presented in note 18 to the separate financial statements;
- Impairment charge for credit losses recognized in the separate income statement of BGN 63,799 thousand (2017: BGN 69,663 thousand), as presented in note 12 to the separate financial statements;

Also refer to the following notes to the separate financial statements:

- 2.2.15 Impairment of financial assets
- 2.3 IFRS 9 'Financial Instruments' – Impact of adoption
- 3.1 Impairment losses on loans and advances
- 5.2.1 Credit risk
- 5.2 Financial risk factors, Operational targets for Non-performing exposures (NPEs)

Key Audit Matter	How this key audit matter was addressed in our audit
As described in the notes to the separate financial statements, the expected credit losses have been determined in accordance with the Bank's accounting policies based on the requirements of IFRS 9 Financial Instruments ("IFRS 9"). As required by IFRS 9, the Bank estimates the expected credit losses considering a stage allocation of the loan exposures. We consider expected credit losses related to loans and advances to customers to be a key audit matter due to the magnitude of the related balances as well as due to the complex accounting requirements of IFRS 9 including assumptions made to assess and measure the ECL (e.g. macro-economic inputs, ECL risk modelling) which require significant judgement to determine the expected credit losses. The Management Board is required to make judgements as to whether there is any significant increase in credit risk since initial recognition or any objective evidence of impairment, based on the assessment of the borrower's debt service and probability of default, and as to the future cash flows expected from the borrower (in case of stage 3 allocated exposures often based on the estimation of the fair value of the related	Our audit procedures performed where applicable with the assistance of our financial risk management specialists, included among others: — Evaluating the appropriateness of the accounting policies and impairment methodology based on the requirements of the relevant accounting standard, our business understanding and industry practice. As part of the above, we challenged the Management Board on whether the level of the methodology's sophistication is appropriate based on an assessment of the entity-level and portfolio-level factors; — Making relevant inquiries of the Bank's risk management, internal audit and information technology (IT) personnel in order to obtain an understanding of the ECL calculation process, IT applications used therein, key data sources and assumptions used in the ECL model. Also, assessing and testing the Bank's IT control environment for data security, access and program change, assisted by our own Information Risk Management specialists;

collateral).

For stage 1 and stage 2 the expected credit losses are determined based on statistical models using the Bank's historical data and also forward-looking macroeconomic factors (e.g. gross domestic product growth), taking into account similar credit risk characteristics. The Management Board's key assumptions in this area are the probability of borrower's default and the assessment of the amount non-recoverable from the borrower in the event of a default ("loss given default").

Furthermore, as disclosed in the note 5.2 to the separate financial statements the Management Board is committed to achieve the Operational targets to reduce the volume of its Non-performing Exposures to BGN 344 million by 2021. Based on the Management Board's estimate the implementation of NPE reduction program resulted in an increase in the ECL at both 1 January 2018 and 31 December 2018 and related mainly to additional losses expected on sales of such NPEs. Given the limited number of observable sales transactions of non-performing loans in Bulgaria in previous periods estimation of such losses required significant degree of judgement from management.

The first-time adoption of IFRS 9 involved a development of new sophisticated ECL models as well as gathering accurate information as inputs into such models. Since both the development of models and gathering of appropriate information started well before 1 January 2018 the distinction between information that is applicable to the ECL models under IFRS 9 only and information that should have been considered already in prior periods requires significant degree of judgement.

— Assessing and testing the design, implementation and operating effectiveness of selected key controls over the approval, recording and monitoring of loans, including, but not limited to, the controls relating to the identification of default, appropriateness of the classification of exposures into performing and impaired, calculation of days past due stage allocation and calculation of the ECL;

— For a sample of loans and advances to customers selected based on specific items testing, critically assessing, by reference to the underlying documentation (updated financial indicators, repayment pattern, default events, forborne status) and through inquiry with the loan officers and credit risk management personnel, the existence of any triggers for classification to Stage 2 or Stage 3 as at 31 December 2018;

— For those loans where triggers for classification in Stage 3 were identified, challenging key assumptions applied in the Management Board's estimates of future cash flows used in the impairment calculation and collateral values;

— For non-performing exposures whose recovery is expected from sales evaluating the reasonableness of the Management Board's assumptions by reference to prices used by the Bank in similar market transactions;

— Evaluating the reasonableness of the impact of first-time adoption of IFRS 9 by comparing the assumptions used by the Management Board in their estimate of the ECL under IFRS 9 with those used under IAS 39 and considering whether differences were appropriately supported using our knowledge of the Bank;

— Obtaining the relevant macroeconomic forecasts of the Bank and critically assessing the Bank's assessment of the forward-looking information used in the calculation of the ECL. Independently

	assessing the information by means of corroborating inquiries of the Management Board and comparing factors used by the Bank to the publicly available information; — For a sample of wholesale exposures from all stages, challenging key assumptions applied in the Bank's estimates of the future cash flows used in the impairment calculation: recovery period and collateral values, based on historical bank experience and industry practice, and, where relevant, with the assistance from our own valuation specialists; — Recalculating the probability of default and loss given default for a selection of the Bank's portfolios, including testing the completeness and accuracy of underlying historical data used in the Bank's process of calculating the above parameters; — Recalculating the expected credit losses as of 31 December 2018 and as of transition date (1 January 2018) based on the Bank's ECL model for a selection of the Bank's portfolios; — Assessment of the adequacy of the related separate financial statements disclosures in respect of the ECL against financial reporting framework requirements.

Other Matter

The financial statements of the Bank for the year ended 31 December 2017, were jointly audited by other joint auditors who expressed an unmodified opinion on those financial statements on 3 April 2018.

Information Other than the Separate Financial Statements and Auditors' Report Thereon

Management is responsible for the other information. The other information comprises the separate management report, the corporate governance statement and the non-financial statement, prepared by management in accordance with Chapter Seven of the Accountancy Act, but does not include the separate financial statements and our auditors' report thereon.

Our opinion on the separate financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, unless and to the extent explicitly specified in our report.

In connection with our audit of the separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Additional Matters to be Reported under the Accountancy Act

In addition to our responsibilities and reporting in accordance with ISAs, in relation to the separate management report, the corporate governance statement and the non-financial statement, we have also performed the procedures added to those required under ISAs in accordance with the New and enhanced auditor's reports and auditor's communication Guidelines of the professional organisation of certified public accountants and registered auditors in Bulgaria, the Institute of Certified Public Accountants (ICPA). These procedures refer to testing the existence, form and content of this other information to assist us in forming an opinion about whether the other information includes the disclosures and reporting provided for in the applicable in Bulgaria Chapter Seven of the Accountancy Act and Art. 100(m), paragraph 8, where applicable, of the Public Offering of Securities Act.

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

Based on the procedures performed, our opinion is that:

a) The information included in the separate management report for the financial year for which the separate financial statements have been prepared is consistent with those separate financial statements.

b) The separate management report has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.

c) The corporate governance statement for the financial year for which the separate financial statements have been prepared presents the information required under Chapter Seven of the Accountancy Act and Art. 100(m), paragraph 8, where applicable, of the Public Offering of Securities Act.

d) The non-financial statement referring to the financial year for which the separate financial statements have been prepared is provided and prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.

Responsibilities of Management and Those Charged with Governance for the Separate Financial Statements

Management is responsible for the preparation and fair presentation of the separate financial statements in accordance with IFRS, as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Separate Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

— Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

We are jointly and severally responsible for performing our audit and for our audit opinion as per the requirements of the Independent Financial Audit Act, applicable in Bulgaria. When accepting and performing the joint audit engagement, in relation to which we are reporting, we are also directed by the Guidelines for performing joint audit, issued on 13 June 2017 by the Institute of Certified Public Accountants in Bulgaria and by the Commission for Public Oversight of Statutory Auditors in Bulgaria.

Report on Other Legal and Regulatory Requirements

Additional reporting in relation to Ordinance No 38/2007 and No 58/2018 issued by the Financial Supervision Commission

Statement in relation to art. 33 of Ordinance No 38/2007 of the Financial Supervision Commission (FSC) on the requirements of the activity of the investment intermediaries and art. 11 of Ordinance No 58/2018 of FSC on the requirements for protection of financial instruments and deposits of clients, for management of products and for granting or receiving remunerations, commissions, or other monetary or non-monetary benefits

Based on the audit procedures performed and the knowledge and understanding of the Bank's activity, in the course and context of our audit of the separate financial statements as a whole, we identified that the designed and implemented organization for safeguarding of customers' assets complies with the requirements of art. 28 – 31 of Ordinance No 38 and art. 3 – 10 of Ordinance No 58 of the FSC in relation to the activities of the Bank in its capacity as an investment intermediary.

Reporting in accordance with Art. 10 of Regulation (EU) No 537/2014 in connection with the requirements of Art. 59 of the Independent Financial Audit Act

In accordance with the requirements of the Independent Financial Audit Act in connection with Art. 10 of Regulation (EU) No 537/2014, we hereby additionally report the information stated below.

— KPMG Audit OOD and Baker Tilly Klitou and Partners OOD were appointed as a statutory auditors of the separate financial statements of Eurobank Bulgaria AD for the year ended 31 December 2018 by the extraordinary general meeting of shareholders held on 5 December 2018 for a period of one year. The audit engagement was accepted by a joint audit engagement letter dated 18 December 2018.

— The audit of the separate financial statements of the Bank for the year ended 31 December 2018 represents a first statutory audit engagement for that entity carried out by KPMG Audit OOD and a first statutory audit engagement for that entity carried out by Baker Tilly Klitou and Partners OOD.

— We hereby confirm that the audit opinion expressed by us is consistent with the additional report, provided to the Bank's audit committee, in compliance with the requirements of Art. 60 of the Independent Financial Audit Act.

— We hereby confirm that we have not provided the prohibited non-audit services referred to in Art. 64 of the Independent Financial Audit Act.

— We hereby confirm that in conducting the audit we have remained independent of the Bank.

— For the period to which our statutory audit refers, KPMG Audit OOD has provided to the Bank, in addition to the audit, the following services which have not been disclosed in the Bank's separate management report or separate financial statements:

- Audit of the special purpose financial information of Eurobank Bulgaria AD prepared as of and for the year ended 31 December 2018 in accordance with the accounting instructions of Eurobank Ergasias SA Group to the components subject to consolidation;

- Review of the interim special purpose financial information of Eurobank Bulgaria AD prepared as of and for the six-month period ended 30 June 2018 in accordance with the accounting instructions of Eurobank Ergasias SA Group to the components subject to consolidation;

- Agreed-upon procedures in relation to fulfilling the requirements of article 76, para 7, item 1 of the Credit Institutions Act and article 5 of Ordinance No 14 of 4 February 2010 on the content of the auditors' report for supervisory purposes of the Bulgarian National Bank regarding Eurobank Bulgaria AD's internal control systems.

— For the period to which our statutory audit refers, Baker Tilly Klitou and Partners OOD has provided to the Bank in addition to the audit, the following services which have not been disclosed in the Bank's separate management report or separate financial statements:

- Agreed-upon procedures in relation to fulfilling the requirements of article 76, para 7, item 1 of the Credit Institutions Act and article 5 of Ordinance No 14 of 4 February 2010 on the content of the auditors' report for supervisory purposes of the Bulgarian National Bank regarding Eurobank Bulgaria AD's internal control systems.

Sofia, 8 August 2019

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Authorised representative

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

SEPARATE ANNUAL ACTIVITY REPORT

The management presents the separate annual Activity report as of 31 December 2018.

BUSINESS DESCRIPTION

Eurobank Bulgaria AD (the Bank or Postbank) was incorporated and is domiciled in Bulgaria. The Bank is a joint stock company limited by shares and was set up in accordance with Bulgarian regulations. The Bank is a licenced credit institution and an investment intermediary providing retail, corporate banking and investment banking services in Bulgaria. Its Head Office is located in Sofia. The address of its registered office is as follows: 260 Okolovrasten pat Str, 1766 Sofia, Bulgaria.

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

BUSINESS OVERVIEW

Macroeconomic Environment

In 2018 the global economy continued its expansion with a slightly slower pace – 3.7% than in the previous year 3.8%. In the second half of 2018 there was a notable slowdown in the industrial production, trade and business confidence which eased the growth in the last two quarters. A major reason for this are the prospects for a new trade war – USA, China and other countries have raised their tariffs and although the worst actions have been postponed, there is still a chance of a renewal of the conflict. The volatility of the oil prices in the second half of the year, although relatively stablized since the beginning of 2019, also created some tension.The stronger US dollar caused market volatility and rising risk premiums lead to capital outflows in some of the emerging countries. All these weaknesses affect the growth projections for the next two years which now stand at 3.5% and 3.6%.

The downside risks for the growth forecast are the political uncertainty surrounding the trade negotiations, which may cause a full scale trade war, the sentiment in the financial markets and the uncertainty surrounding the Brexit.

The growth in the EU economy is also slowing down – from 2.4% in 2017 to 1.9% in 2018. This was expected to happen as the economies in some member countries were running above their potential rate, but the severity and the duration of the slowdown exceeded expectations. The weaker trade growth significantly affects the countries in the Eurozone with strong connections with the affected ones. Nevertheless, the EU economy has not entirely lost its potential for further growth and it will continue to expand in the next years, albeit with a slower pace. The forecast for the 27 countries that will remain in EU is 1.5% and 1.7% for 2019 and 2020, while in the euro area it is slightly lower at 1.3% and 1.6% respectively.
The major economies are already on the path of a tighter monetary policy. In USA the Federal Reserve continued raising the Federal Funds Target Rate to 2.25-2.50%, while in Europe the ECB ended its net asset purchases in December 2018 as planned. With the growth prospects in the Eurozone still not solid enough and with the many uncertainties about the effect of Brexit on the EU economies, the ECB is expected to keep the accommodating monetary policy for the better part of the year and will not change the rates until at least the autumn. ECB will also continue to fully reinvest the maturing securities for the time being thus not taking liquidity out of the system.

The Bulgarian economy has been growing at a steady pace of above 3.0% in the last four years and the projections for the next few are also positive. Nevertheless, the slowdown in the world trade and, more importantly, in the economies of the EU countries had an impact on the local one too. In 2018 the economy grew by 3.1%, lower than in the previous one (3.6%), but still one of the highest among the EU countries.

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

BUSINESS OVERVIEW (continued)

The positive macroeconomic framework has changed the Bulgarian consumers sentiment and they have increased their spending. The consumption grew with record rates reaching 6% in 2018. The investments were also performing extraordinarilly well reaching 6.5% annual increase. Investments growth is expected to continue in 2019 when some large infrastructure projects are to be launched.

The lower GDP growth is thus solely due to the external sector. The contribution of the exports was negative for the first time since the crisis. At the same time, the imports are expanding (3.7%), albeit with a slower pace than in the previous year.

Total exports (at FOB prices) rose moderately by 1.2% in 2018 to 55.3 billion leva. The modest number masks two distinctively separate trends. The export to EU countries, the main trading partner of Bulgaria, is rising steadily, by 9.2% to 37.7 billion leva. On the other hand, trade with third countries was negative, down by 12.5% to 17.6 billion leva. More than half of the decrease in the volume came from the two main trading partners of Bulgaria outside the EU countries – Turkey and Russia and was caused by the crisis and the volatile oil prices. At the same time, trade with the other countries from top 5, namely China, Serbia and USA, is rising with double digit rates. The imports rose by 6.3% to 62.9 billion leva with raw materials and machines accounting for the better part of it. The trade deficit continues to widen, reaching 7.7 billion leva in 2018, up from 4.6 billion leva in 2017.

Foreign direct investments increased by 10% in 2018 to €1,533 million. About a half of the investments were in the form of debt instruments – their level in 2018 was €703 million (a third lower vs. the previous year). Equity investments were €566 million, but they include the €600m increase of the share capital of DSK Bank for the acquisition of SG Expressbank which will be recorded as outflow in the beginning of 2019. The reinvested profit, however, doubled compared to 2017 to €264 million, despite the significant outflow in the first half of the year in the form of dividends paid by the local subsidiaries of foreign multinationals. The biggest share of investments came from the Netherlands, followed by Germany and Belgium.

At 2.7% at the end of 2018, the consumer price index was only slightly lower than a year ago. The inflation was driven by the prices of the energy resources and services. The prices of dwellings and utilities rose by 4.6% mainly due to heating price increase of almost 15%, caused on its turn by the increase in the price of the natural gas by 12.1%. With similar rates rose the prices of restaurants and hotels and of entertainment – 4.6% and 4.5% respectively. Food prices were higher by 2.6% where bread and grain became more expensive by 11%. The prices of clothing and shoes were the only ones down by 1.8%. Inflation is expected to remain above 2% in the next year as the rising salaries continue to put pressure on the prices of services.

According to the National Statistical Institute, the unemployment rate hit a new low of 4.7% at the end of 2018, the lowest registered level in recent years. In the last year alone the rate decreased by 0.9 percentage points and the number of unemployed fell by 35 thousand to 154 thousand. Several positive trends can be seen in the data. The unemployed in every age group decreased, including the range between 15 and 25 years where the rate fell to below 10%. In addition, the number of long-term unemployed (2 or more years) is also decreasing and reached a new low. Even the number of unemployed with basic or no education decreased by 10 thousand, although its share in the total number of unemployed remains stable. The employment ratio in the age group 15-64 years is 67.7%, slightly higher than in the previous year and there is no much room for further increase. On the other hand, the number of employed decreased by about 20 thousand in the last year which is a consequence of the worsening demographic trends. The northwestern part of the country still has the highest unemployment rate of 11.4%, while in the southwest (which includes Sofia) and south regions the unemployment rate stands at just 2.5% and 3.8%.

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

BUSINESS OVERVIEW (continued)

The average salary rose by 7.3% in 2018 to 1,205 leva. The shortage of skilled labour is acute and the highly educated professionals were getting double digit increases in the last year. Salaries in the finance sector rose by 10.4% to 2,047 leva and even higher in the ITC sector where they were up by 16% to 2,926 leva.

The budget finished on a surplus for a third consecutive year. In contrast with the previous two years, the surplus in 2018 was just 137 million leva (0.1% of GDP) which came from a surplus of 252 million leva from the national budget and 115 million leva deficit from European funds. As in the previous years, the budget was running on a huge surplus throughout the year, reaching 2.9 billion leva (2.7% of GDP) in November 2018, but in December the Government approved additional spending, including funds for some ministries and municipalities, as well as 250 million leva for the army. However, the biggest additional expense by far was 1.3 billion leva designated for the construction of Hemus motorway.

The budget revenues exceeded the forecast by 1.5% (300 million leva) and stood at 23.8 billion leva. The tax revenues rose by 7.4% (1.5 billion leva) with two-thirds coming from VAT, another 330 million (10% YoY) from the personal income tax and corporate taxes added the remaining 170 million leva (6.8% YoY). The expenses for the year were 23.8 billion, about 98.7% of the budgeted. In 2018, however, the capital expenditures were higher than budgeted – 2.5 billion, or 10% above budget. Taking into account that more than half of this amount was spent on the construction of Hemus motorway which was not originally budgeted, it seems that the Government is still not able to implement its original investment plans.

With the budget being on a surplus, the Government did not issue any new debt in 2018. The government debt decreased by €800 million to €12.2 billion (22.1% of GDP), mainly from the maturing government bonds in the beginning of the year. The Bulgarian government is planning to balance its books in 2019 and no new international bond issues are expected.

In 2018 all three major credit rating agencies confirmed the credit rating of the country. The rating of Bulgaria according to Fitch is BBB (long-term rating in foreign and local currency with stable outlook), according to Moody's – Baa2 (both in local and foreign currency with stable outlook) and according to S&P – BBB- (again in local and foreign currency). S&P changed the outlook in the middle of the year from stable to positive.

Banking system

In 2018 the Bulgarian banking system had one of the best, if not the best, year on record. The net profit of the banks rose by 43% to 1.68 billion leva, although half of the net increase is not coming from core business, but is due to one off factors such as large dividends paid and other extraordinary income.

The lending is booming buoyed by the positive macroeconomic framework and the higher demand for loans by both companies and households. Total loans rose by 8.6%, the highest since the crisis, to 60.9 billion leva. Part of the increase came from the branch of BNP Paribas Personal Finance which was included in the banking system in the second quarter of 2018, adding some 650 million loans to the official data for the system, but this effect is minor compared with the total delta of 4.8 billion leva. The new lending was almost evenly split between companies and households. Loans to companies rose by 7% to 38.8 billion leva, while the mortgage and consumer loans grew by 15% to 10.9 billion leva and 13% to 10.3 billion leva respectively. One of the reasons for the higher demand for loans are the falling interst rates. Only in the consumer lending segment have the rates risen since the middle of the year, but this is contributed more to the changing profile of the customers and the new participant in the market (BNP Paribas PF) rather than the beginning of a long-term trend.

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

BUSINESS OVERVIEW (continued)

Banking system (continued)

Another reason which facilitates the lending and keeps the rates low is that the Bulgarian banks continue to attract considerable liquidity. 2018 was a record one in terms of new deposits entering the system. In nominal terms deposits rose by 6.2 billion (7.9% YoY) to 84.6 billion leva, 1.3 billion leva above the nominal growth of the loans, thus adding more surplus liquidity to the system. Loans to deposits ratio was up by 1 pp to 76%.

Deposits from nonfinancial companies, other financial companies and state government grew by 7.7% (2.2 billion leva) to 31.2 billion leva, while deposits from households grew by 7.9% (3.9 billion leva) to 53.4 billion leva. The saving rate does not seem to subside and has even increased compared with the previous years, although the interest rates are close to zero. On average, the Bulgarian banks paid only 0.14% on the attracted deposits at the end of 2018, down 6 bps a year ago and the trend is already going flat.

The decreasing rates on deposits allowed the banks to achieve some saving on their interest expenses which were 20% lower (71 million leva), compared to 2017. Simultaneously, the expanding lending volumes managed to partially offset the lost income from the lower rates on loans and the interest income was virtually flat at 3.04 billion leva. Net fees and commissions income rose by 7% (70 million leva) to 1.07 billion leva. Total income also increased – by 8.7% (336 million leva) to 4.22 billion leva although it was inflated by the one off payment of dividends, bargain gain and a sale of investment real estate recognized by some of the banks. Total expenses grew by 6.1% (109 million leva) to 1.9 billion leva. About 40% of the net increase came from BNP Paribas Personal Finance, with much of the rest coming from provisions for restructuring accrued by one of the biggest Bulgarian banks.

Provisions for impairment dropped by more than a third (267 million leva) to 478 million leva. This effect was to be expected as in 2017 UBB made a significant provisioning charge for the year of 218 million leva, inflating the base, while in 2018 after the merger with CIBank its charge was negative (-21 million leva). Efficiency and profitability ratios in the system improved - cost-to-income ratio was down by 1 pp. to 45.4%, while the return on equity at 12.7% was 3.2 pp above the level a year ago.

The quality of the lending portfolio is also improving steadily. The nonperforming exposures (NPE) ratio was 14.8% in 2017 and 11.1% in 2018. Total NPEs decreased by 1.5 billion leva to 6.8 billion due to write offs and sales of portfolios. Still, there are 4.2 billion leva NPEs in the system which are overdue more than 180 days. The capital adequacy ratio decreased from 22.1% in December 2017 to 20.4% in December 2018 as the growth of the risk weighted assets outperformed the ability of the banks to generate capital, while in the same time some of the biggest foreign-owned banks paid significant amount of dividends to their shareholders. The CAD ratio of the system was also supported at the end of 2018 with the €600m share capital increase by DSK Bank for the acquisition of SG Expressbank. Nevertheless, the capital adequacy ratio is still well above the minimum required levels by BNB (13.5-14% depending on the bank) which provides a solid buffer for future expansion.

Major Changes in The Regulatory Environment

On 1 July 2018 BNB discontinued the calculation and publication of the reference rates SOFIBID and SOFIBOR. BNB continues to calculate and publish the LEONIA Plus – a reference rate of concluded and effected overnight deposit transactions in Bulgarian leva on the interbank market in Bulgaria and Base Interest Rate which is based on LEONIA Plus. This required amendments in the Law on Credit Institutions regulating the actions of the banks in case the calculation of a benchmark rate is discontinued. The banks were allowed to replace the discontinued benchmark rate with another acceptable benchmark rate without the explicit approval of the customers, under the condition that the new interest rate cannot be higher than the previously applicable one.

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

BUSINESS OVERVIEW (continued)

Major Changes in The Regulatory Environment (continued)

In September 2018, BNB announced that it will increase the level of the countercyclical capital buffer rate, applicable to credit risk exposures in Bulgaria to 0.5% in effect from 1 October 2019. BNB noted that the credit-to-GDP ratio corresponds to zero value of the reference indicators for the countercyclical buffer, but in the same time it wants to introduce measures to mitigate systemic risks and imbalances in the banking sector.

Eurobank Bulgaria performance and key indicators

Eurobank Bulgaria AD reached new heights in its financial performance. The loans and deposits have been growing steadily, income has been improving and provisions for impairment have been decreasing. The net profit for the year set another record, reaching 157 million leva, or 16% higher than the previous year. Return on equity remains in the double digit range, rising to 12.7%, up from 11.4% in 2017, while the return on assets is above the 2% mark (2.0% in 2018, compared with 1.9% in 2017).

In 2018 the market environment was favorable which allowed the Bank to continue with its organic expansion and improve its positions, especially in terms of deposit gathering. Client deposits rose by 12% YoY to 6.8 billion leva, outperforming the market by a wide margin. Postbank focused on attracting more corporate deposits in order to gain volumes fast, improve its deposit structure and keep its liquidity buffers. Deposits from corporate customers grew by 24% in 2018 to 1.77 billion leva, while as a share of total deposits they increased by 2.5 pp to 26%. The retail deposits (including deposits from small businesses) rose in line with the market – by 8.5% to 5 billion leva. Growth of total assets by 776 million leva (10.5%) to 8.2 billion leva was driven by the deposits attraction and the retained earnings accumulation.

Liquidity buffers were kept intact – at the end of 2018 Eurobank Bulgaria's liquid funds were almost 40% of the client deposit base. The bank is fully self-funded and the deposits from clients are more than 99% of the attracted funds. Cost of funding continued to decrease and in 2018 Eurobank Bulgaria paid on average 0.12% interest rate on its deposits, compared to 0.17% in 2017.

Gross loans rose by 8% (410 million leva) to 5.6 billion leva. The reinvigorated demand for loans by the households balanced the growth between the retail and corporate lending in contrast to the previous year when 80% of the net delta came from the corporate segment. Corporate loans rose by 10% (212 million leva) to 2.36 billion, while mortgages were up by 5.7% (95 million leva) to 1.75 billion leva. Consumer loans and credit cards accelerated their growth from 4.6% in 2017 (30 million leva) to 16.8% (114 million leva) in 2018, reaching a volume of 792 million leva. Only the small business lending segment was with a negative delta – 11 million leva (-1.6%) to 700 million.

Net loans rose faster than gross loans (443 million leva or 9.2% YoY) as the Bank continued to implement its strategy for reducing its nonperforming exposures (NPE) through collection, write offs and portfolio sales, supported by the accommodating market. The NPE ratio dropped by 470 bps to 11.5%, while the NPE coverage improved by 650 bps to 50.4%. The increase of the lending portfolio accounts for over 70% of the increase of the risk weighted assets, the other significant drivers being the fixed assets (acquisition of the company which owned the head office building) and the RWA for operational risk (stemming from the rising revenues of the bank in the last years). The CET1 and total capital adequacy ratio both stood at 20.06%, comfortably above the regulatory requirements.

Interest income on loans rose YoY in line with the net loans – by 9.6% (25 million leva) to 283 million leva. Total interest income grew by the same amount (25 million leva to 323 million) as the higher income from placements and derivatives was fully offset by the lower interest income from

BUSINESS OVERVIEW (continued)

Eurobank Bulgaria performance and key indicators (continued)

hedging and securities. In 2018 interest expenses were further decreased by 18% (2.6 million leva) to just 11.5 million leva, most probably for the last time as the deposit rates cannot fall much further to compensate for the rising volumes. Net interest income for the year grew by close to 10% (27 million leva) to 312 million leva. Net fee and commission income was also up, although more modestly – by 3.2% (2.6 million leva) to 83 million leva. The focus on becoming the main transactional bank for its clients is yielding results and the income from items such as money transfers, account maintenance and sale of services is rising steadily. In the same time, the changes in the legislation and the increased lending in local currency is affecting the fee income from loans and foreign exchange operations which have been significant sources of fees in the past.

Operating expenses rose by 12.5 million leva (9.5%) to 144 million leva. In 2018 the number of staff remained almost unchanged, but staff costs grew by 21% (12.8 million leva). The cost-income-ratio stood at 36%, roughly the same as in 2017, being still one of the lowest in the banking system.

Events after the balance sheet date

There is a significant post balance sheet event – acquisition of Piraeus Bank Bulgaria A.D. expected to be concluded in Q2 2019.

This acquisition of PBB constitutes a step forward for Eurobank Bulgaria to further strengthen its position in the Bulgarian banking sector in both the retail and mainly corporate business segments. The transaction is expected to contribute for significant synergies and will help Postbank sustain its strong capital ratios and substantial liquidity buffers.

RISK MANAGEMENT

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

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of a combination of risks. The risk management policies reflect the Bank's objectives. It is therefore not intended that large risk positions are maintained to increase short-term profitability. The Bank's intent is to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance.

A consistent and effective framework for risk identification, assessment, monitoring and control has been fully documented by the Bank's Risk Management unit, forming the basis for consistent definition of strategies, policies and procedures across all risk taking units within the Bank. The Bank's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems.

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

RISK MANAGEMENT (continued)

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

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

The Risk Management Unit has an active participation in the development and pricing of new products, the design of new procedures, in issues relating to business decision-making and to adopting

the proper risk management and control mechanisms. The Bank ensures that proper identification of risks inherent in new products and activities is undertaken and that these are subject to adequate procedures and controls before being introduced or undertaken.

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

Credit Risk

Credit risk is the risk related to the inability or unwillingness of a customer or a counterparty to fully meet the commitments made to the Bank in relation to lending, trading, settlement, hedging or other transactions within the agreed time period or schedule.

Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities and other bills into the Bank's asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments, and counterparty risk in over-the-counter derivative transactions.

The Bank uses rating systems and slotting methodology to assess the creditworthiness of its corporate borrowers. The rating systems aggregate quantitative and qualitative information on individual obligors to perform the assessment of their creditworthiness and determine the credit rating for the obligor. The Bank assesses the credit quality of the wholesale loans on a case-by-case basis using the borrower's credit rating and based on a profound analysis of a set of qualitative and quantitative factors. The classification of retail clients is based on the full delinquency analysis by groups. The grouping is based on the common characteristics of the respective products, the similar risks they bear and the type of collateral that secures them.

Exposures to credit risk are managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing the lending limits where appropriate. The exposure to any borrower is restricted by limits covering on- and/or off- balance sheet. Off-balance sheet facilities to customers include foreign exchange and interest rate derivatives, letters of credit, letters of guarantee and other financial instruments.

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

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

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

RISK MANAGEMENT (continued)

Market risk

The Bank is exposed to market risk, which is the risk of potential financial loss due to adverse changes in market variables such as interest rates, equity prices or foreign exchange rates. The fair value or future cash flows of a financial instrument may fluctuate because of changes in market variables and thus may influence the Bank's profitability.

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

The market risk control and supervision framework set by the Bank aims to protect the Bank against unforeseen market losses and contribute to earnings stability through the independent identification, assessment and understanding of the market risks inherent in the business as well as to develop objective, transparent and consistent market risk information as a basis for sound decision making.

The Market Risk Control function helps to align the Bank's organizational structure and management processes with best international banking practice and set standards for controlling market risks and to link business strategy and operations with the objectives for risk control and supervision.

The Bank's market risk appetite is expressed in terms of nominal limits set on the exposures to market risks as well as through characteristics such as different types of allowed markets, products, countries, counterparties and currencies. Currently market risk measurement is done using notional exposure data and notional level limits, supported by regular stress testing. The Bank is not using VaR-based limits. Upon senior management decision in the future the Bank may introduce additional value-at-risk analysis.

The market risk measurement system measures risk arising from exposure to the following specific market risk factors:

a) Interest Rate Risk

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

b) Foreign exchange risk

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

c) Equity price risk

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

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

RISK MANAGEMENT (continued)

Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

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

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

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

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

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

Within its authority is to take all the necessary decisions regarding the interest rate policy, the liquidity and assets and liabilities management and to set the target parameters of potential external funding. The operational management of the Bank's liquidity and the execution of ALCO decisions regarding liquidity are assigned to the Head of Capital Markets Division.

IMPORTANT EVENTS DURING THE FINANCIAL YEAR

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

The bank has a 27-year presence among the leaders on the Bulgarian banking market. It has been a leading factor in the innovations and a trend setter in the country's banking sector in recent years and has been awarded for its innovations many times. The financial institution is holding a strategic position in the retail and corporate banking in Bulgaria. The bank is among the market leaders in credit and debit cards, housing and consumer lending, savings products, as well as in corporate customer products – from small companies to major international companies represented in the country. The financial institution has one of the best-developed branch networks and modern alternative banking channels.

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

IMPORTANT EVENTS DURING THE FINANCIAL YEAR (continued)

At the beginning of February 2019 Postbank received the prestigious Employer of the Year Award from the Annual Employer Branding Awards of b2b Media. The prize was awarded for the financial institution's overall strategy to build an employer's brand with prospects to successfully attract, manage and retain talents. It includes various activities focused on the management, improvement of the working environment, opportunities for professional development and involving the employees in projects and campaigns in support of the society and the improvement of the state of the environment.

In June 2018, the Bulgarian Credit Rating Agency (BCRA) confirmed Postbank's long-term rating of BBB-, stable outlook.

In 2018 Postbank continued its development of modern banking products and services, which are unique for the market and provide real added value to the customers. To meet the expectations of the modern consumer, the Bank invested in the development of Momento centers, an initiative which won the silver Effie award for 2018. Momento is the brand of consumer financing hubs of the Bank, which with their convenient locations and extended work time provide a convenient alternative for fast and easy financing.

Postbank has been awarded Bulgaria’s Best Retail Bank for 2018 in World Finance Magazine’s prestigious competition “The 2018 World Finance Banking Awards”. Postbank is the only financial institution in Bulgaria which has received an award in this category since the launch of the awards in 2010. Postbank was recognized for its remarkable achievements which are the result of the institution’s innovative and sustainable retail banking model, the modern products and services the bank has developed, its wide network of comfortable offices throughout the country and the long-term development strategy of the bank. The Bank also won the prestigious award in the *Dynamics of Development* category in the annual awards of the Bank of the Year Association.

In March, the global leader in payment services Western Union awarded Postbank with the special prize for the service - money transactions of Western Union on each of the bank ATMs in Bulgaria. The prize is awarded for the innovation as a recognition for the efficiency and flexibility of the bank's decisions for serving its clients.

Global Custodian – the world's most prestigious magazine in custodian services, known for its annual surveys accepted as a benchmark in the sector – declared Postbank the top custodian in Bulgaria for a seventh consecutive year. The Bank once again reported the highest scores in all categories.

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

Postbank has expanded opportunities for profitable business financing, along with the Black Sea Trade and Development Bank (BSTDB) will jointly provide EUR 58.3 million (EUR 32 million and 26.3 million, respectively) to help finance the construction of a Marriott hotel in Sofia, the first hotel of the reputed international chain in Bulgaria. The 12-year loan will be extended to I Tower Development JSC, a special-purpose company set-up in Bulgaria. BSTDB acted as arranger of the deal. The operation aims at meeting the growing demand for high-quality business and tourist accommodation and conference facilities in the Bulgarian capital. The construction of the 232-room Marriott hotel is to be completed in 2020.

For a fourth consecutive year in 2018, the Bank supported the National contest of 24 Chasa Daily – The Big Small, because it attaches importance to the development of small business.

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

IMPORTANT EVENTS DURING THE FINANCIAL YEAR (continued)

Throughout the year Postbank continued with its series of specialized conferences in support of the business in the country - Postbank Meets Business. In 2018, the Bank's team visited Sofia, Blagoevgrad, Plovdiv, Dobrich and Montana. At the meetings bank's experts presented to local business representatives strategic solutions in support of their business.
Postbank continued developing its modern Private Banking center through its partnership with Eurobank Private Bank Luxembourg and its 100% specialized and strictly personalized private banking services. The Bank's customers can benefit from a set of discretionary asset management and business consulting.

For yet another year Postbank supported innovations in the sphere of financial services and is inviting its partners to join the third regional contest for development of financial technologies, Beyond Hackathon, which is part of the Eurobank's Innovations Centre initiatives. The Bank invites start-ups and people from Bulgaria working in the area of financial technologies – software developers, graphic designers, data analysts and business development and marketing experts.

NEW PRODUCTS

In 2018, Postbank introduced more innovative products and services focusing on providing convenience and additional benefits for its customers.

EVA (Electronic Virtual Assistant) – the first bank loan chatbot in Bulgaria, is one of Postbank's latest financial solutions. It will be available 24/7 to provide useful and structured information for different banking products, such as consumer loans, credit cards and loan consolidation programmes. By launching its own chatbot, Postbank made yet another step in the introduction of innovative financial solutions and services that facilitate the users as much as possible. The chatbot is a software solution, which allows to reply automatically to the most frequently asked questions through text, photos, links and other elements. It is an electronic virtual assistant, which remotely consults the consumers faster and through the devices selected by them. The chatbot is a modern and increasingly preferred mode of communication because it improves the service process; it offers the consumers personalized services and improves their experience.

In 2018, Postbank released an innovative service for those consumers who prefer to receive a debit card at the moment they submit their application in the office. Issuing the plastic now takes a maximum of 15 minutes. The service is available in selected bank offices. Timely issuance of debit cards saves valuable time and combines a high level of security with quick access to all the features and facilities the card provides. The new service is part of Postbank's strategy to offer modern financial solutions, fully tailored to their requirements.

In March the Bank launched a new service after it carried out an in-depth survey of the consumers' attitudes – receiving Western Union international money transfers at Postbank ATMs. The new service enables clients to receive money transfers from 200 countries at Bank’s ATMs. The service is convenient, easy to use and accessible 24/7. The receiver of a Western Union money transfer must have a debit card linked to a payment account in BGN or other currency, issued by the Bank.
Mobile Bankers service has been recognized by our customers as convenient. The service is a free-of-charge professional consultation, as the experts provide solutions tailored to the specific needs of the customers and assist in filling in the required documents and their submission in a bank office. In a place and time of the customer's choice, the mobile bankers answer all questions related to consumer and housing loans, overdrafts, and credit cards.

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

NEW PRODUCTS (continued)

Postbank continued its partnership with Booking.com, the world leader in providing accommodation, as all holders of credit cards MasterCard and Visa issued by Postbank receive additional 3% discount for each booking in Bulgaria or abroad made with Booking.com through the bank's website.

The Bank continued to offer its customers “The More Today” lending programme. It allows the customers to increase the disposable income by up to 50%, and in certain cases even more. It includes a wide range of lending products, and with it, the customers can consolidate their debts on credit cards, consumer and mortgage loans of up to BGN 100,000 quickly and easily. Besides the better personal finance management, the programme allows the users to save time, paying one higher instalment in one bank on a set date. The More Today lending programme is one of our most successful products. The Bank received award from BAPRA Bright Awards for communications campaign for credit program “More today”, category “Debut of the year – campaign for new product or service”.

Additionally, Postbank observed a growing interest in home lending. The increase in property purchases contributed to a hike in the housing loan applications, compared to the same period last year. Bank’s portfolio indicated that mortgage lending continued to be on the greatest demand in the major cities of Bulgaria – Sofia, Plovdiv, Varna, Burgas and Stara Zagora.

In February 2018, Postbank strengthened its image of a modern and digital bank by enriching its presence in social networks with an Instagram profile. The bank received award in category “Banks” from the 10-th edition of the one of a kind consumer ranking “My Lovemarks 2018”.

SUSTAINABLE DEVELOPMENT

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

In 2018, the Bank carried out a number of socially significant projects in education, environmental protection, sports and corporate donation. Postbank is an active member and is supporting initiatives of the KRIB, AmCham, HBCB, Association of Banks in Bulgaria, Borika AD, Endeavour Bulgaria Association, Bulgarian Business Leaders Forum, Bulgarian Donors' Forum, Atanas Burov Foundation, the UN Global Compact Network Bulgaria, the Bulgarian Association of Advertisers and Bulgarian Fintech Association.

The education of children and young people in Bulgaria has always been part of the social responsibility projects developed and supported by Postbank. Therefore, at the beginning of 2018 school year, Postbank launched a joint project with SoftUni in support of the Bulgarian education. It includes various activities, which prepare the young people for the professions of the future and their realization in Bulgaria. The strategic partnership is aimed at encouraging the students to develop their potential as IT and digital leaders prepared for the dynamically changing environment and the new trends in banking. The project is part of the bank's digitalization strategy and its overall corporate social responsibility policy. Within the partnership, the students of the largest educational IT and digital technologies center in Bulgaria will have the unique opportunity to work on real projects and cases in Postbank. They will be able to discuss their ideas and own business plans with the experts, to

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

SUSTAINABLE DEVELOPMENT (continued)

propose and develop different digital solutions to be implemented in the Bank, as some of them will personally participate in their integration. The Bank received award for strategic project with SoftUni in category "Education, training and development" in the annual awards for charity and corporate social responsibility "Golden heart" from magazine „Business lady".

Postbank actively supported events organized by the Bulgarian office of the global entrepreneurial organization Endeavor. The Bank has been a partner for their annual awards for influential mentors and members of the organization who are actively working with the organization's organizations. Postbank also hosted a business breakfast where entrepreneurs had the opportunity to discuss with Ms. Petia Dimitrova and the Postbank team the good practices in working with financial institutions, in particular the innovations and financial decisions that Postbank could offer for the development of scale up companies in Bulgaria. The next step in the partnership with Endeavor's global entrepreneurial network is the launch of a program for a comprehensive support by Postbank - with know-how, expertise and financing, of scale up companies with potential in order to support and develop the business environment and the people in Bulgaria.

In June, Postbank was the main partner in the charity relay run Postbank Business Run, organized every year by Begach Club. It was joined by a record number of participants – 300 teams from 107 companies from various sectors, which competed in support of three charitable causes. Thanks to the initiative, the accumulated funds from over 10 000 BGN were donated to projects initiated by the Cedar Foundation aiming to organize work therapy for children and young adults with physical disabilities, projects initiated by Water Way Foundation for provision of water therapy for children with physical disabilities and to projects of foundation "For our children" providing safe environment assuring personal and life development for children. The biggest regional corporate competition Business Run Plovdiv, where Postbank is once again among the partners, took place for a second time in 2018.

During the year, Postbank participated again in the corporate social responsibility initiative organized by UN Global Compact Network Bulgaria called Proud of my Parents' Work. The campaign aims to help children in their future career developments, by showing them that labor and education are key values, but skills and qualifications are at the base of their successful personal realization. More than 100 students from 2nd, 4th and 5th grade visited the bank's central during the initiative and learned a lot – about the work of different specialists inside the bank, about the power of the team work and about how important is the good education for the professional development.

In 2018, the financial institution supported the National Trade and Banking High School in Sofia for another year and committed to becoming a mentor.

As part of Postbank's regular internship programme, for yet another year, the Bank will give an opportunity to talented students and young people eager to prove their qualities and start their professional career in one of the biggest and leading banks on the market in terms of innovations. The internship programme has been part of the bank's corporate social responsibility policy, which has supported youths over 11 years now.

For a fourth consecutive year, Postbank supported Bulgaria ON AIR and Bloomberg TV Bulgaria's conference – Education and Business. The international forum brought together representatives of leading companies that are working for the young people's development.

Postbank is the only bank in Bulgaria, which has its own Green Board and an Environmental Office unit in its organizational structure, which are working to preserve the environment both through limiting the resources consumed by the Bank and through its financing activities. Moreover, the Board

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

SUSTAINABLE DEVELOPMENT (continued)

members organize different outdoor initiatives involving the other employees as well. The bank invested in its own internal programme Green Together, which is developing with its own funds and is implementing through the voluntary work of its employees.

In 2018, the Bank continued to develop its internal initiative – Green Heroes, which will continue in 2019, as part of its overall policy for sustainable development and environmentally-friendly behavior, and as a socially responsible institution. It is aimed at encouraging socially responsible behavior in its employees. They can apply through the campaign for funding from the bank to implement various local projects, which they chose themselves, and which show that simple actions could achieve sustainable changes. In 2018, the Postbank team successfully realized another two projects to improve the environmental situation.

In September 2018, for a fifth consecutive year, Postbank joined the PARK(ing) Day Global Eco Initiative, as part of its overall active policy for corporate social responsibility, which is focused on the environmental protection and sustainable development. The financial institution turned its parking spot on Alexander Dondukov Blvd into a green corner and offered the visitors the innovative experience E-IDEAS for Hidden Places in Sofia – a virtual walk in 14 beautiful locations. The E-IDEAS for Hidden Places in Sofia provokes in a digital modern way the people's interest in nature and little known cultural places.

For a second consecutive year, Postbank's managers participated in the European Week of Money. The partnered initiative is organized by the European banking federation, a part of which is the Association of Banks in Bulgaria (ABB) and other national bank unions, and aims to improve the level of the financial education of the students in the primary and secondary schools in Europe. During European Week of Money 2018 experts from Postbank team led open lessons for students in different cities in the country. They shared with them the aims of the initiative, the services and main products of the banks, the money history, the ways to save, investments and management of the personal capital.
For a third consecutive year Postbank, as a member of the Association of Banks in Bulgaria (ABB), participated in the European campaign, dedicated to the fight against the money "mules".
Postbank also invests in support of sport teams – the bank has been supporting the volleyball team of the town of Dobrich – Dobrudzha 07, since 2015. Postbank's soccer, basketball and table tennis teams performed well in the International Sports Workers' Festival in 2018 and in the 15th Business Leaders Olympiad, which was held this year.

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

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

AWARDS during 2018:

- Award for "Best Trade Finance Bank Bulgaria" according to the annual rankings for 2017 by Global Banking & Finance Review
- Prestigious award "Employer of the year" at the second annual awards for Employer branding by b2b Media

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

AWARDS during 2018 (continued)

- Petia Dimitrova, Postbank's CEO and Chairperson of the Management Board – awarded with the most renowned bank award on the Bulgarian market – the distinction “Burov” for 2017
- A special award for innovations from Western Union for the service – money transactions of Western Union on each of the bank ATMs in Bulgaria
- Award for a seventh consecutive year for the best bank for custodian services from Global Custodian Magazine
- Award from BAPRA Bright Awards for communications campaign for credit program “More today”, category “Debut of the year – campaign for new product or service”
- Award in category “International communications division of the year” from PR Priz 2018, 3-rd place
- Distinction in the category “Communications campaign for Employer Branding” from PR Priz 2018 for project “Together at the top”- annual strategy for employer brand empowering”, 2-nd place
- Award in the category “Green communications in urban environment” in PR Priz 2018 for the internal initiative “Heroes in green”, 2-nd place
- Business award for “Development dynamic” from the annual awards of the Bank of the Year Association
- Distinction “The best bank in retail banking in Bulgaria for 2018” by the prestigious awards World Finance Banking Awards 2018 by World Finance Magazine
- Award in category “Banks” from the 10-th edition of the one of a kind consumer ranking “My Lovemarks 2018”
- First place in category “New service” in the 5-th edition in the contest BAAwards for the campaign for real estate loans “No interest finish”
- Silver Effie for one of the most innovative bank services – hubs for consumer loans MOMENTO
- Award for strategic project with SoftUni in category “Education, training and development” in the annual awards for charity and corporate social responsibility “Golden heart” from magazine „Business lady“.
- Petia Dimitrova, Postbank's CEO and Chairperson of the Management Board received the prestigious distinction “Mrs. Economic” from the contest “Mr and Miss Economics 2018”, organized by Economy Magazine and Confederation of employers and industrialists in Bulgaria.

SHARE CAPITAL STRUCTURE

As at 31 December, 2018 the total authorized number of ordinary shares of Eurobank Bulgaria AD was 560,323,302 with a nominal value of BGN 1 per share. Eurobank Ergasias S.A. owns directly 56.14%, another 43.85% of the share capital is owned by ERB New Europe Holding B.V. and 0.01% by minority shareholders.

The Bank has no own shares acquired and transferred during the year.

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

MANAGEMENT BOARD

As at 31 of December, 2018 the Management Board consisted of the following members:

- Petia Dimitrova – Chief Executive Officer and Chairperson of the Management Board;
- Dimitar Shoumarov – Executive Director, Chief Financial Officer and Member of the Management Board;
- Ioannis Serafeimidis – Executive Director and Member of the Management Board (effective as of 05.07.2018);
- Asen Yagodin – Executive Director and Member of the Management Board;
- Iordan Souvandjiev – Compliance Officer and Member of the Management Board.

1. Shares and bonds of the company that are acquired, owned and transferred by the members of the Management Board during the year

No member of the Management Board has owned or transferred shares or bonds of the Bank.

2. The Management Board members' rights to acquire shares and bonds of the company

No member of the Management Board holds special rights of acquisition of shares or bonds of the Bank.

3. The Management Board member's ownership in other commercial enterprises, as:

3.1. Partners with unlimited liability

No member of the Management Board has been a partner with unlimited liability in other commercial enterprise.

3.2. Partners/shareholders holding more than 25 per cent of the capital of another company

No member of the Management Board holds more than 25 per cent of the capital of another company.

3.3. Participants in the management of other companies or cooperatives as procurators, managers or board members

- **Petia Dimitrova**

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

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

Endeavor Bulgaria, Association, Bulgaria – Member of the Management Board;

Borica AD, Bulgaria – Member of the Board of Directors;

Foundation Atanas Burov, Bulgaria – Member of the Management Board.

- **Dimitar Shoumarov**

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

- **Asen Yagodin**

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

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

ERB Property Services Sofia EAD, Bulgaria – Member of the Board of Directors (effective as of 31.12.2018);

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

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

MANAGEMENT BOARD (continued)

- **Ioannis Serafeimidis**

ERB Property Services Sofia EAD, Bulgaria – Member of the Board of Directors (effective as of 31.12.2018).

- **Iordan Souvandjiev**

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

IMO Central Office EAD, Bulgaria – Executive Director and Member of the Board of Directors (until 18.12.2018);

ERB Property Services Sofia AD, Bulgaria – Member of the Board of Directors Directors (until 31.12.2018).

4. The Contracts under Article 240b of the Commerce Act

The Bank has not entered into contracts specified in Article 240b, paragraph 1 of the Commerce Act during 2018.

SUPERVISORY BOARD

As at 31 December 2018, the Supervisory Board consisted of the following members:

- Georgios Provopoulos – Chairman and Member of the Supervisory Board;
- Theodoros Karakasis – Deputy Chairman and Member of the Supervisory Board;
- Stavros Ioannou – Member of the Supervisory Board;
- Michalakis Louis – Member of the Supervisory Board;
- Anastasios Nikolaou – Member of the Supervisory Board;
- Christina Theofilidi – Member of the Supervisory Board (resignation date 06.12.2018);
- John David Butts – Member of the Supervisory Board (effective as of 15.09.2018).

1. Shares and bonds of the company that are acquired, owned and transferred by the members of the Supervisory Board during 2018

No member of the Supervisory Board has owned or transferred shares or bonds of the Bank.

2. The Supervisory Board member's rights to acquire shares and bonds of the company

No member of the Supervisory Board holds special rights of acquisition of shares or bonds of the Bank.

3. The Supervisory Board member's ownership in other commercial enterprises, as:

3.1. Partners with unlimited liability

No member of the Supervisory Board has been a partner with unlimited liability in other commercial enterprise.

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

SUPERVISORY BOARD (continued)

3.2. Partners/shareholders holding more than 25 per cent of the capital of another company

Mr. John David Butts has been a partner or a shareholder holding more than 25 per cent of the capital of another company. No member of the Supervisory Board has been a partner or a shareholder holding more than 25 per cent of the capital of another company.

- **John David Butts**

J David Butts EOOD, Bulgaria – Sole Owner;
Lex RX Bulgaria EOOD, Bulgaria – Sole Owner;
Ubad - Toro OOD, Bulgaria – Partner;
Lexrx Capital OOD, Bulgaria – Partner.

3.3. Participants in the management of other companies or cooperatives as procurators, managers or board members

- **Georgios Provopoulos**

Eurobank Private Bank Luxembourg S.A. – Vice Chairman of the Board of Directors;
Ellaktor SA, Chairman of the Board of Directors.

- **Theodoros Karakasis**

ERB Property Services d.o.o. Beograd, Serbia – Chairman of the Supervisory Board;
Eurobank A.D. Beograd, Serbia – Vice Chairman of the Board of Directors (Management Board);
ERB Property Services Sofia A.D., Bulgaria – Chairman of the Board of Directors (until 31.12.2018);
Bulgarian Retail Services A.D., Bulgaria – Chairman of the Board of Directors;
Greek-Serbian Chamber of Commerce – Deputy Chairman of the Board of Directors.

- **Stavros Ioannou**

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

- **Michalakis Louis**

Eurobank Ergasias S.A., Greece - Head of International Activities General Division, Member of the Executive Board;
Eurobank Private Bank Luxembourg S.A., Luxembourg – Member of the Board of Directors;
Eurobank a.d. Beograd, Serbia - Chairman of the Management Board (until 23.10.2018);
Eurobank Cyprus Ltd, Cyprus - Chief Executive Officer
NEU Property Holdings Limited, Cyprus – Chairman of the Board of Directors (until 01.09.2018);
NEU 03 Property Holdings Limited, Cyprus – Chairman of the Board of Directors (until 06.12.2018);
ERB New Europe Funding III Limited, Cyprus – Chairman of the Board of Directors.

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

SUPERVISORY BOARD (continued)

- **<u>Anastasios Nikolaou</u>**

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

- **<u>John David Butts</u>**

Lexrx Capital OOD, Bulgaria – Manager;
CMS (Cameron and McKenna, Sofia, Bulgaria) – Managing partner.

4. The Contracts under Article 240b of the Commerce Act

The Bank has not entered into contracts specified in Article 240b, paragraph 1 of the Commercial Act during 2018.

In 2018 the members of the Management and Supervisory boards have received remuneration amounting to BGN 1,901 thousand.

BANK STRUCTURE

Eurobank Bulgaria AD has one subsidiary as at 31 December 2018 - ERB Property Services Sofia E.A.D. The Bank employs 2,643 people (2017: 2,600).

OBJECTIVES FOR 2019

In 2019 the main financial objectives of the Bank will be to improve further its profitability, expand its lending portfolio, while keeping the liquidity buffers intact, reduce the volume of nonperforming exposures and enhance the sources of income. This will be done in parallel with the main strategic objective – the completion of the acquisition of Piraeus Bank Bulgaria. In November 2018, Eurobank Bulgaria signed a preliminary contract with Piraeus Bank S.A. for the acquisition of its local subsidiary Piraeus Bank Bulgaria. The deal is expected to be finalized in the second quarter of 2019. The acquisition of Piraeus Bank Bulgaria offers a unique opportunity to Eurobank Bulgaria to improve its market position and become the fourth largest bank in the Bulgarian market in terms of assets. The finalization of the deal will improve the financial results of the Group in Bulgaria and is expected to provide a higher return to the shareholders.
The macroeconomic outlook for the next year is positive which will allow the Bank to continue the expansion of the lending portfolio while maintaining a prudent risk appetite. The growth of the lending portfolio will be matched by a balanced growth of the deposit base, leaving the liquidity buffers intact. The Bank will try to maintain its net interest margin which will be a challenging task in ongoing low-rate environment. The capital adequacy ratio will be kept at a level well above the requirements of BNB although they are going to be increased in 2019 with the introduction of a countercyclical buffer from 1 October 2019.

The Bank will continue implementing its strategy for reduction of the nonperforming exposures mainly through portfolio sales and collection activities, while maintaining an adequate coverage ratio. With the interest margins under pressure, the importance of the noninterest income is getting bigger. Therefore, Eurobank Bulgaria will focus on increasing its cross selling activities which are an efficient and cost effective way to increase sales. The Bank has one of the best cost-income ratios in the system and this will be kept through strict cost control.

Eurobank Bulgaria will continue to invent and invest in providing better products and excellent service to its clients through both physical and digital channels. The long-term strategy of the Bank remains unchanged - to be the bank of first choice for its customers, while meeting the constantly evolving expectations of the customers thus creating value for them and the shareholders.

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

MANAGEMENT RESPONSIBILITIES

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

The Directors confirm that suitable accounting policies have been used.

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

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

ЮРОБАНК БЪЛГАРИЯ АД
Postbank
ПУ
Град София

Petia Dimitrova
Chairperson of the Management Board and Chief Executive Officer

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

07 August 2019
Sofia, Bulgaria

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

CORPORATE GOVERNANCE STATEMENT 2018

1. Corporate Governance Code and Practices.

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

2. Compliance with the National Corporate Governance Code

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

2.1. Internal Corporate Governance Code

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

2.2. Ethics Code

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

2.3. Conflict of interest

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

2.4. Remuneration

The adopted Remuneration Policy of the Bank forms an integral part of the Bank's corporate governance practice and is developed in accordance with its operational model, business strategy, short and long- term interests of the Bank and incorporates measures to avoid conflict of interest. Also, the Remuneration Policy is consistent with and promotes sound and effective risk management and does not encourage excessive risk-taking on behalf of the Bank. Accordingly, the operating standards and mechanisms which have been adopted ensure that the levels of remuneration are directly linked to results and desired behavior.

The 2018 Boards and key management remuneration disclosures are included in Annual Disclosures according to the requirements of Regulation (EU) 575/2013 (art. 431-455).

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

3.1. General Meeting of the Shareholders

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

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

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

3.2. Supervisory Board and Supervisory Board Committees

The Supervisory Board ("SB ") is a permanent collective body which exercises overall control over the business and financial activities of the Bank and also ensures the conformity of the Bank's activity with the applicable law, the Statute and the resolutions of the General Meeting of the Shareholders ("GMS") in the best interest of the Bank's shareholders, customers and employees. The SB may consist of 3 (three) to 7 (seven) members, elected by the GMS, for a term of three (3) years. The composition of the SB consists of 6 (six) members as at 31 December 2018, as one of the members (Christina Theofilidi) resigned as of 06.12.2018. The SB adopts its Terms of Reference "ToR" and appoints a Chairperson and a Deputy Chairperson from among its members.

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

As at 31 of December, 2018 the members of the Supervisory Board are:

- Georgios Provopoulos - Chairman of the Supervisory Board;
- Theodoros Karakasis - Deputy Chairman of the Supervisory Board;
- Stavros Ioannou - Member of the Supervisory Board;
- Michalakis Louis - Member of the Supervisory Board;
- Anastasios Nikolaou - Member of the Supervisory Board;
- Christina Theofilidi - Member of the Supervisory Board (resignation date 06.12.2018);
- John David Butts - Member of the Supervisory Board.

The Chairman, the Deputy Chairman and one of the Members are independent members.

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

3.2.1. Risk Committee

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

The members of the RC are appointed by the SB. Currently, the Risk Committee consists of 4 (four) members.

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

3.2.2. Audit Committee

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

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

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

3.2. Supervisory Board and Supervisory Board Committees (continued)

3.2.2. Audit Committee (continued)

- The review of the adequacy of the Internal Control and Risk Management systems and the compliance with rules and regulations monitoring process;
- The review of the financial reporting process and satisfaction as to the integrity of the Bank's Financial Statements;
- The External Auditors' selection, performance and independence;
- The effectiveness and performance of the Internal Audit function;
- The effectiveness and performance of the Compliance function.

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

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

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

The AC meets at least four (4) times per year or more frequently, as circumstances require, and reports on its activities and submits the minutes of its meetings to the Supervisory Board on a quarterly basis. During 2018, the Audit Committee held four (4) regular and four (4) additional meetings.

3.2.3. Remuneration Committee

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

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

The Committee consists of 3 to 5 members. The members are appointed biennially by the Supervisory Board. In 2018, the Remuneration Committee consisted of four members. Meetings are held as required, but not less than twice a year.

3.2.4**.** Nomination Committee

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

The Committee currently consists of two (2) members.

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

3.3. Management Board and Management Board Committees

The Bank is managed by the Management Board ("MB") in accordance with the law, the Statute of the Bank, the Terms of Reference ("ToR") of the MB and other internal rules. The MB is a permanent collective body for management and representation of the Bank exercising its powers under the control of the SB and the General Meeting of Shareholders. The MB may consist of 3 (three) to 9 (nine) members, elected by the SB, for a term of three (3) years. The composition of the MB up to the end of 2018 consisted of 5 (five) members, four of whom appointed as Executive Directors. The MB assigns, with the approval of the SB, the responsibilities for the management and the representation of the Bank to Executive Directors elected amongst Board's members. The authorization of the Executive Directors to represent the Bank can be withdrawn at any time by the MB, with the approval of the SB.

As at 31 of December, 2018 the Management Board consisted of the following members:

- Chief Executive Officer and Chairperson of the Management Board - Petia Dimitrova;
- Executive Director, Chief Financial Officer and Member of the Management Board - Dimitar Shoumarov;
- Executive Director and Member of the Management Board - Asen Yagodin;
- Executive Director and Member of the Management Board – Ioannis Serafeimidis;
- Head of Compliance Division and Member of the Management Board - Iordan Souvandjiev.

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

3.3.1. <u>Assets and Liabilities Committee</u>

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

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

ALCO has the following authority:

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

3.3.2. <u>Regional Credit Committee</u>

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

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

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

3.3. Management Board and Management Board Committees (continued)

3.3.3. Country Credit Committee

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

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

3.3.4. Special Handling Committee I

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

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

3.3.5. Special Handling Committee II

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

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

3.3.6. Troubled Assets Committee

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

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

The main duties and responsibilities of TAC are the following:

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

3.3.7. Loans and Products Committee

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

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

3.3.8. Operational Risk Committee

The Operational Risk Committee ("ORC") has the responsibility to provide oversight of actual operational risk exposure and management and the processes implemented to assess, monitor and mitigate operational risk. The Operational Risk Committee consists of key management personnel in the areas of Risk, Operations, IT, Finance, TAG, Retail and Corporate. There is also a non-voting member from Internal Audit Division.

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

3.3. Management Board and Management Board Committees (continued)

3.3.9. Country Procurement Committee

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

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

3.3.10. Related Employees Committee

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

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

3.3.11. Environmental and Social Steering Committee

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

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

3.4. CEO Management Committees

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

3.4.1. Executive Committee

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

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

3.4.2. Ethics Committee

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

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

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

3.5. Main issues the SB dealt with during 2018

In discharging its responsibilities for 2018 the main issues the Board dealt with are related to:

a) Governance:

- preparation and convocation of GMS;
- approval of some Boards Committees' ToR and credit policies;
- approval of some Board Committees' compositions;
- regular update on MB and SB Committees' meetings;
- registration of IMO Central Office EAD as a financial Institution;
- approval of the merger of IMO Central Office EAD into the Bank;
- signing of a preliminary agreement for acquairing of the 99.99% of the shares of Piraeus Bank Bulgaria AD.

b) Corporate and other actions:

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

c) Capital Adequacy:

- review of the 2017 Internal Capital and Liquidity Adequacy Assessment Process (ICAAP and ILAAP) – Pillar 2 Report. Capital Adequacy report was reviewed every quarter.

d) Business monitoring:

- approval of the 2017 annual financial statements;
- review of business developments and liquidity.

e) Risk Management and Internal Control:

- review of annual reports on evaluation of Internal Control Systems and Compliance Polices;
- review and approval of the 2018 Pillar 3 Report;
- review on the Risk and Capital Strategy and Risk Appetite Framework;
- review of Audit Committee meeting minutes and Key Audit Issues.

4. Board Diversity Policy

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

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

4. Board Diversity Policy (continued)

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

5. System of Internal Controls and Risk Management Main Features

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

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

5.1. Principles of Internal Controls System:

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

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

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

- **Control Environment:** The control environment is the foundation for all components of Internal Control System, providing discipline and structure and influencing the control consciousness of employees. Integrity and high ethical values stem from management’s philosophy and operating style and appropriate recruitment and training policies ensure the competence of the Bank’s people. The Bank’s organisation structure is suitable for its size and complexity with clearly defined responsibilities and reporting lines and clearly specified delegation of authority;

- **Risk Management:** the Bank acknowledges that taking risks is an integral part of its business. It therefore sets mechanisms to identify those risks and assess their potential impact on the achievement of the Bank’s objectives. Because economic, industry, regulatory and operating conditions will continue to change, risk management mechanisms in place shall be set (and evolve) in a manner that enables to identify and deal with the special and new risks associated with changes;

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

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

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

5.1. Principles of Internal Controls System (continued)

- **Information and Communication:** Information must be identified, captured and communicated in a form and timeframe that enables people to carry out their responsibilities. The Bank has set effective communication channels to ensure that information is communicated down, across and up within the organisation. Mechanisms are also in place to obtain appropriate external information as well as to communicate effectively with outside parties including regulators, shareholders and customers;
- **Monitoring:** The Bank has established mechanisms for the ongoing monitoring of activities as part of the normal course of operations. These include regular management and supervisory activities and other actions personnel take in performing their duties that assess the performance of internal control systems. There are also independent evaluations of the internal control system by the Internal Audit function, the scope and frequency of which depend primarily on an assessment of risks and the effectiveness of ongoing monitoring procedures. Internal control deficiencies are reported upstream, with serious matters reported to the Management Board, the Audit Committee and the Supervisory Board.

5.2. Internal Audit

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

Management is responsible for establishing a system of internal controls that is adequate for the size and the complexity of the organisation. IAD is responsible for reporting on the adequacy and effectiveness of the system of internal controls.
In order to safeguard its independence IAD reports to the Audit Committee (AC) of the Bank and is independent of the Bank units with operational responsibilities and for administrative purposes reports to the CEO. The Supervisory Board has delegated the responsibility for monitoring the activity of the IAD to the Audit Committee.

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

- To provide reasonable assurance, in the form of an independent opinion, as to the adequacy and effectiveness of the internal control framework of the Bank. In order to form an opinion, IAD carries out audits based on an audit plan approved by the Audit Committee. The required frequency of audits depends on the level of risk in each business unit,
- To provide proactive support to the Management of the Bank in the promotion of internal controls and risk management through recommending best practices in internal control;
- To assist Management in the prevention of fraud and unethical practices;
- To follow-up aiming to ascertain that appropriate action is taken on reported audit findings within agreed deadlines.

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

5.3. Compliance

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

In order to safeguard its independence, the Head of Compliance Division reports to the Audit Committee, to the Eurobank Group Compliance Sector and for administrative purposes to the CEO. The Head of Compliance attends all Audit Committee meetings and submits quarterly and annual reports summarising the Division's activity and highlighting the main compliance issues. These reports include all matters falling under the scope of the Compliance Division, which the Head of

Compliance believes should be reported to the Audit Committee or matters specifically requested by the latter. Compliance Division duties and responsibilities indicatively include:

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

5.4. Risk management

The Bank's risk governance framework comprises a number of different constituents. In particular, the Supervisory Board has set up a Risk Committee overseeing all risk management functions. It is currently complemented, by the Risk function.

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

The Risk Committee is empowered to:

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

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

5.4. Risk management (continued)

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

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

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

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

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

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

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

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

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

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

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

5.4. Risk management (continued)

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

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

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

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

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

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

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

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

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

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

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

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

6.6. No information for takeover bids has been received by the Bank as of the date of issuance of these Separate Financial statements.

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

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

NON-FINANCIAL DECLARATION 2018

BUSINESS MODEL

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

ENVIRONMENTAL POLICY STATEMENT

Sustainable business development is a key value for Postbank, which puts the principles of good corporate citizenship at the center of its business with priority over the short-term profitability and other commercial benefits. We truly believe that our duty towards our shared natural environment is a crucial ingredient of our commitment to the wellbeing of our stakeholders and the society we operate in. Therefore, we strive to mitigate the adverse environmental impact of our activities and to make use of every opportunity to induce possible ecological changes.

As a major Bulgarian bank and being a part of a powerful international financial group, we recognize that we have variety of opportunities to focus public attention on issues that are important to society as a whole. This strengthens our huge responsibility towards society and we aim to serve as positive example to our colleagues, partners, clients and citizens.

As part of Eurobank Group that boasts through its purposeful policy remarkable achievements in the field of environmental protection, we are also determined to transpose and enrich its best practices in Bulgaria. Therefore we are even more committed to set appropriate objectives and targets, to continuously monitor, assess and improve our own environmental performance and to comply with all relevant local, national and international legislation.

As a socially responsible company with a long-term vision for improving common living environment, we are determined to use our influence and to work actively to preserve our planet. For this purpose, we are determined not only to pursue a high standard policy of environmental responsibility in our everyday operation through our dedicated employees, but also to gradually extend it to our suppliers, clients and society in order to promote beneficial environmental practices and sustainable economic growth.

1. Postbank environmental management overview

Today's world is facing the phenomena of pollution and climate change. There is hardly any individual or organization who would doubt the importance of managing the consequences of the changes created in the environment by pollution and climate change, and the urgent need to implement the appropriate measures to limit them.

There are two main types of environmental impacts due to an organization's activities - direct and indirect. The direct impacts on environment originate from the operation of a company (operational footprint), while the indirect stem from the products and services the company offers.

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

Postbank is committed to actively managing both - the direct and the indirect environmental impacts from its activity. It is the only bank in Bulgaria, which has its own Green Board and an Environmental Office unit in its organizational structure, which are working to preserve the environment both through

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

ENVIRONMENTAL POLICY STATEMENT (continued)

1. Postbank environmental management overview (continued)

limiting the resources consumed by the Bank and through its financing activities. Moreover, the Green Board members organize different outdoor initiatives, focused on environmental protection, involving the other employees as well. The Bank invested in an internal programme named Green Together, implemented with own funds and through the voluntary work of its employees

2. Environmental aspects and impacts management at Postbank

In line with its policy and decisiveness to act, Postbank has identified the following **direct aspect** of its operations related to the internal consumption of energy and its respective CO_2 emissions, water and paper.
A number of initiatives targeting resource use optimization were pursued throughout the years, and kept pace in 2018. The outcome of these is presented in Table 1 below through three **environmental indicators.**

Table 1. Energy, water and paper use in Postbank, 2013-2018

Indicator	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**Δ 2018-2017**
CO2 emissions from electricity consumption	6,069	5,558	5,391	5,289	4,071	4,031	(1%)
Water, m^3	81,740	52,646	46,767	46,899	45,638	49,745	9%
Sheets of paper	34,315,000	32,325,000	30,073,000	31,122,005	30,902,332	30,407,895	(2%)

The activities initiated in 2017 for the implementation of digital signatures of all transactions done by customers at the network of the Bank continued in 2018 as well. Digital devices were gradually installed in all locations of the Bank. The total effect of the project could be measured in the end of 2019 as this will be the first year with the new workflow related to the project fully operational across the bank, but we already could conclude that the implementation of this measure leads to a significant saving in the use of paper.
The efforts towards raising the knowledge and awareness of our staff on various environmental issues continued in 2018. A number of electronic training materials were prepared and they are going to be used for the purpose of building internal expertise in the area particularly of environmental risk management. Staff trainings are scheduled for the beginning of 2019.
In 2018 the internal initiative Green Heroes launched in 2017, continued, as part of the Bank's overall policy for sustainable development and environmentally-friendly behaviour, and as a socially responsible institution. The aim of initiative is to encourage socially responsible behaviour in its employees and to show that even simple actions could achieve sustainable positive changes in the mind-set. The success of an initiative is linked to the fact that employees have the opportunity to choose an environmental cause themselves and to receive funding from the Bank to implement it, making volunteer work for its realization.

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

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

ENVIRONMENTAL POLICY STATEMENT (continued)

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

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

Level of risk	**Low**	**Medium**	**High**
% of credit deals	52.34%	47.38%	0.28%

Postbank has set the following **goals for 2019** in the area of environmental management:

- Training of all SBB and CBD relevant staff on the specificities of the implementation of the Environmental and Social Risk Management Procedure in Lending;
- Continuation and upgrade of the efforts to achieve further resource(energy, paper, water) efficiencies through the implementation of a set of measures;
- Enhancing the automation of environmental risk reporting though further adaptation and precision of methodology;
- Enrich further the existing intranet training materials for the staff on environmental issues important for their work (constant).

Environmental objectives and targets are defined to facilitate achieving the goals for the respective year. The goals for 2019 are presented in Table 3 below.

Table 3. Postbank environmental objectives and targets for 2019

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

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

SOCIAL MATTERS AND MATTERS RELATED TO THE EMPLOYEES

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

Sustainable Postbank policy is to treat all the employees equally, irrespective of gender, nationality, age or other traits. The company aims to build and develop relationships of mutual trust and respect.

The distribution of employees by gender and age group are presented in table 4 below.

Table 4 . Employee distribution based on gender and age group in 2018

< 25 years		25-34 years		35-44 years		45-54 years		> 55 years	
Women	Men	Women	Men	Women	Men	Women	Men	Women	Men
78%	22%	80%	20%	76%	24%	80%	20%	78%	22%

Postbank gives equal opportunities to its employees and values their talent and innovative ideas. Everyone receives remuneration depending on the contribution and the level of responsibility that are determined by the occupied position and the labor market.

Staff distribution by positions and gender are presented in table 5 below.

Table 5. Distributions by areas of occupancy and gender for 2018

	Specialist positions	Expert positions	Managerial positions
Female	87%	74%	58%
Male	13%	26%	42%

2. Development of the Human Capital

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

Dynamic environment and intense competition on the banking market impose ambitious and multidimensional requirements to the management of human resources. They are related from one side to the capability to select the right people for appropriate positions, to be ensured effective trainings in order quickly to develop all the necessary professional skills, and from the other - to develop and motivate talents within the organization.

In 2018, as part of Postbank's Digitization long-term mission, various internal initiatives have been launched to develop its digital ambassadors - employees with a prominent interest and motivation in the field of innovation, working to promote development and creativity in the work environment. New digital services - including an electronic form for self-preparation, have been introduced to support human resource development. Through them were achieved optimization of the processes for upgrading the knowledge and skills of the employees and increasing the opportunities for their development.

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

SOCIAL MATTERS AND MATTERS RELATED TO THE EMPLOYEES (continued)

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

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

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

Postbank strongly encourages the initiative, creativity and readiness of every employee to be part of the development and succsses of the Bank. Proof of this is the IDEINO contest which gives an opportunity to all employees to present their ideas for job optimization directly to the management. The best proposals are realized in practice in the bank and are awarded.

There is a traditional Annual meeting held in 2018 under the motto "Together in the Digital Age". The overall concept was subordinated to the message of achieving team results and strategic goals for Postbank's development. A series of motivational team building events with specific focuses are organized by Postbank in order to be upgraded the skills of the employees. "Meet & Greet the CEO" events are conducted periodic which aim is the ideas between the Executive Director and representatives of various departments to be exchanged.

3. Trade Unions, Compensations and Social Benefits

Postbank is aware of the social impact of its position as a major employer and is determined to provide its staff with various compensations and social benefits. In this context, the Bank has implemented and strives to extend a consistent policy of providing additional benefits to its workforce and of applying strict health and safety standards at the workplace. The Bank provides various forms of support for ad hoc cases. All employees of the Bank are provided with an additional health insurance in a private fund fully covered by the employer. The additional insurance provides for medical treatment costs and can be extended to employees' family members at preferential terms upon choice. The Bank provides its staff with an additional life insurance, covering the expenses upon occurrence of an insurance event. Moreover, the opportunity to use the Banks' products and services at preferential terms is a significant benefit for Postbank's employees. These include housing and consumer loans, credit cards, overdrafts, online banking.

Postbank launched in 2018 an internal donation platform for supporting colleagues in need, called TOGETHER. This is s fund raising charity program of the Bank planned as one of its main long-term projects which aims to upgrade the ongoing efforts to develop loyalty and employee care. The idea of the platform is to create solidarity among colleagues and to be a working mechanism for financially helping employees with serious health problems.

There are no trade unions in the Bank.

4. Performance Management Policy and Procedure

The Bank's commitment to employees' personal and professional development is one of its major values. In this respect, every year each employee' personal performance is evaluated during the annual performance appraisal process, which supports their further purposeful skill development.

SOCIAL MATTERS AND MATTERS RELATED TO THE EMPLOYEES (continued)

Performance management procedures guarantee transparency and equity. Every employee is assessed regardless of their position, having in mind employees' responsibilities and tasks. Moreover, the system assesses not only task performance, but also the way they have been fulfilled, which improves the communication between the evaluators and the evaluated, and encourages employees' personal and professional development.
The system guides employees to the business spheres where their skills and potential will be of the highest value and, at the same time, encourages them to achieve their professional goals.

5. **Health and Safety at Work**

The success and productivity of a business relies on the efficiency of its employees. This is why ensuring healthy and safe working environment for each employee is the basis for health management at the Bank. Postbank not only strictly adheres to all safety standards prescribed by the labour legislation, but also undertakes additional actions to protect its employees' health. These initiatives are the result of the Bank's management's belief that the creation of a safe and healthy work environment is a prerequisite for better employee motivation and conditionality and greater competitiveness.

Postbank works in close cooperation with a labour medicine service to ensure the safety and health of its staff during work. A joint assessment is made of the risks for the staff's health and safety, including assessment upon changes of labour conditions at the workplace and upon introduction of new technologies. All Postbank's employees are represented on the Health and Safety Committee – a centralized committee based in Sofia and is responsible for the Bank's head office and branches.

6. **Human Rights matters**

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

In 2018, the Bank carried out a number of socially significant projects in education, environmental protection, sports and corporate donation.

Postbank is an active member and is supporting initiatives of the KRIB, AmCham, HBCB, Association of Banks in Bulgaria, Borica AD, Endeavour Bulgaria Association, Bulgarian Business Leaders Forum, Bulgarian Donors' Forum, Atanas Burov Foundation, the UN Global Compact Network Bulgaria and the Bulgarian Association of Advertisers.

Throughout the year, the Bank continued its long-standing support and work with socially disadvantaged groups, stimulating their active role in society. It provided support to socially disadvantaged children in the town of Kazanlak, to the elderly people in Russe and others..

MATTERS RELATED TO ANTI-CORRUPTION AND BRIBERY

Eurobank Bulgaria AD has adopted a policy of zero tolerance against bribery. The internal policies and procedures in place aim to establish a robust internal system and controlling environment that minimize corruption risk and to set out a clear approach of action in certain risky situations.
The Bank's anti-bribery instruction expressly prohibits the direct or indirect participation in any corruption-related activities. The prohibition applies to all employees and persons acting in the name and on behalf of the Bank. It is the duty of all employees to be vigilant and to report any cases or attempts of such deeds, as well as suspicions of such.

UN GLOBAL COMPACT NETWORK BULGARIA

Postbank is an active member of the Bulgarian UN Global Compact Network as part of its purposeful support for initiatives for the benefit of society and the protection of the environment. Its participation in the organization's activity is another proof of the company's readiness to pursue a sustainable corporate policy that respects the ten universal principles for social responsibility and environmental protection of the Global Compact, namely:

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

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

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

Anti-Corruption:
Principle 10: Businesses should work against all forms of corruption, including extortion and bribery

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

Separate income statement	Notes	Year ended 31 December 2018	2017
Interest and similar income		323,053	298,316
Interest and similar charges		(11,540)	(14,114)
Net interest income	6	**311,513**	**284,202**
Fee and commission income		99,219	94,071
Fee and commission expense		(16,321)	(13,751)
Net fee and commission income	7	**82,898**	**80,320**
Other operating income, net	8	1,032	8
Dividend income		31	1,715
Net trading income/ (expense)p	9	118	(1,440)
Gains less losses from trading securities	17	(264)	374
Gains less losses from investment securities	19b	4,742	6,511
Repossesed assets impairment		(497)	(518)
Other operating expenses	10	(144,207)	(131,635)
Deposit Insurance Fund expense		(16,358)	(18,774)
Impairment charge for credit losses	12	(63,799)	(69,663)
Profit before income tax		**175,209**	**151,100**
Income tax expense	13	(17,782)	(14,835)
Profit for the year		**157,427**	**136,265**

The separate financial statements were authorized by the management on 07 August 2019.

Petia Dimitrova
Chairperson of the Management Board and Chief Executive Officer

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

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

For KPMG Audit OOD:

Sevdalina Dimova
Registered Auditor responsible for the audit

Ivan Andonov
Authorised representative
For KPMG Audit OOD

Tudor Grecu
Engagement partner
For KPMG Audit OOD

For Baker Tilly Klitou and Partners OOD:

Krassimira Radeva
Registered Auditor responsible for the audit

Spyridon Gkrouits
Authorised representative
For Baker Tilly Klitou and Partners OOD

ЮРОБАНК БЪЛГАРИЯ АД
Postbank
ЦУ
Град София

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 045
КПМГ ОДИТ ООД

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 129
БЕЙКЪР ТИЛИ КЛИТУ И ПАРТНЬОРИ ООД

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

Separate statement of comprehensive income	Notes	Year ended 31 December			
			2018		2017
Profit for the year			157,427		136,265
Items that are or may be reclassified subsequently to profit and loss:			*(8,649)*		*11,768*
Debt securities at FVOCI/ AFS					
-net changes in Fair Value, net of tax	14	(5,824)		12,407	
-reclassified to profit or loss, net of tax	14	(2,825)		(639)	
Items that will not be reclassified to profit or loss:			*73*		*(757)*
Change in FV of property, plant and equipment, net of tax		(36)		-	
Remeasurements of retirement benefit obligations, net of tax		109		(757)	
Other comprehensive income for the year	14		(8,576)		11,011
Total comprehensive income for the year			148,851		147,276

The separate financial statements were authorized by the management on 07 August 2019.

Petia Dimitrova
Chairperson of the Management Board and Chief Executive Officer

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

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

For KPMG Audit OOD:

Sevdalina Dimova
Registered Auditor responsible for the audit

Ivan Andonov
Authorised representative
For KPMG Audit OOD

Tudor Grecu
Engagement partner
For KPMG Audit OOD

For Baker Tilly Klitou and Partners OOD:

Krassimira Radeva
Registered Auditor responsible for the audit

Spyridon Gkrouits
Authorised representative
For Baker Tilly Klitou and Partners OOD

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

Separate statement of financial position	Notes	As at 31 December 2018	As at 31 December 2017
Assets			
Cash and balances with the Central Bank	15	871,393	742,389
Loans and advances to banks	16	1,417,922	1,264,068
Trading assets	17	8,071	14,226
Derivative financial instruments	25	2,400	241
Loans and advances to customers	18	5,271,189	4,828,632
Investment securities	19a	409,407	459,409
Shares in subsidiary undertakings	37	4,868	-
Current income tax recoverable		374	-
Property, plant and equipment	21	125,088	40,602
Investment property	20	406	406
Intangible assets	22	58,536	46,254
Other assets	23	27,545	24,755
Total assets		8,197,199	7,420,982
Liabilities			
Deposits from banks	24	28,079	9,025
Derivative financial instruments	25	5,938	7,793
Due to customers	26	6,814,255	6,080,217
Other borrowed funds	27	22,973	30,420
Current income tax payable		-	1,526
Deferred tax	28	2,001	1,776
Provisions for other liabilities and charges	29	6,817	7,410
Retirement benefit obligations	30	5,429	5,059
Other liabilities	31	61,047	41,169
Total liabilities		6,946,539	6,184,395
Shareholders' equity			
Share capital	32	560,323	560,323
Statutory reserves		282,521	282,521
Retained earnings and other reserves		407,816	393,743
Total shareholders' equity		1,250,660	1,236,587
Total shareholders' equity and liabilities		8,197,199	7,420,982

The separate financial statements were authorized by the management on 07 August 2019.

Petia Dimitrova
Chairperson of the Management Board and Chief Executive Officer

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

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ЮРОБАНК БЪЛГАРИЯ АД
Postbank
ЦУ
Град София

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 045
КПМГ ОДИТ ООД

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 129
БЕЙКЪР ТИЛИ КЛИТУ И ПАРТНЬОРИ ООД

The following notes set out on pages 46 to 173 form an integral part of these separate financial statements
Translation from the original Bulgarian version. In case of divergence the Bulgarian original shall prevail

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

Separate statement of changes in shareholders' equity	Share capital	Property revaluation reserve	Fair value reserve	Statutory Reserves	Retained earnings and other reserves	Total
Balance at 01 January 2017	560,323	1,712	19,284	282,521	284,145	1,147,985
Profit for the year	-	-	-	-	136,265	136,265
Other comprehensive income						
Change in fair value reserve on financial assets at FVOCI	-	-	11,768		-	11,768
Remeasurements of retirement benefit obligations, net of tax	-	-	-	-	(757)	(757)
Total comprehensive income for 2017	-	-	11,768	-	135,508	147,276
Transactions with owners of the Bank						
Contributions and distributions:						
Dividend paid	-	-	-	-	(58,674)	(58,674)
Total transactions with owners of the Bank					(58,674)	(58,674)
Transfer to retained earnings	-	(653)	-	-	653	-
Balance at 31 December 2017	560,323	1,059	31,052	282,521	361,632	1,236,587
Balance at 01 January 2018	560,323	1,059	31,052	282,521	361,632	1,236,587
Impact of adopting IFRS 9 at 1 January 2018, net of tax (note 2.3.2)	-	-	-	-	(77,021)	(77,021)
Reclassification, net of tax	-	-	(131)	-	131	-
Balance at 01 January 2018	560,323	1,059	30,921	282,521	284,742	1,159,566
Profit for the year	-	-	-	-	157,427	157,427
Other comprehensive income						
Change in fair value reserve on financial assets at FVOCI	-	-	(8,649)	-	-	(8,649)
Negative revaluation of property, plant and equipment	-	(36)	-	-	-	(36)
Remeasurements of retirement benefit obligations, net of tax	-	-	-	-	109	109
Total comprehensive income for 2018	-	(36)	(8,649)	-	157,536	148,851
Acquisition of subsidiary					917	917
Transactions with owners of the Bank						
Contributions and distributions:						
Dividend paid		-	-	-	(58,674)	(58,674)
Total transactions with owners of the Bank	-	-	-	-	(58,674)	(58,674)
Balance at 31 December 2018	560,323	1,023	22,272	282,521	384,521	1,250,660

The separate financial statements were authorized by the management on 07 August 2019.

Postbank
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Град София

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Registered Auditor responsible for the audit

Одиторско дружество
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Рег. № 045
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Рег. № 129
Бейкър Тили Клиту и Партньори ООД

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

Separate statement of cash flow

	Year ended 31 December	
	2018	**2017**
Cash flow from operating activities		
Interest received	319,271	310,652
Interest paid	(10,899)	(16,318)
Dividends received	31	1,715
Fees and commission received	99,514	94,500
Fees and commission paid	(14,605)	(12,770)
Amounts paid to and on behalf of employees	(74,343)	(64,459)
Net trading and other income received	3,130	7,372
Other operating expenses paid	(74,626)	(77,417)
Tax paid	(9,925)	(15,000)
Cash from operating activities before changes in operating assets and liabilities	**237,548**	**228,275**
Changes in operating assets and liabilities		
Net (increase) in reserve with the Central Bank	(33,919)	(21,607)
Net decrease/ (increase) in trading securities	6,117	(11,771)
Net (increase) in loans and advances to customers	(630,696)	(696,117)
Net (increase)/decrease in other assets	(3,052)	4,468
Net (decrease)/ increase in derivatives instruments	(2,301)	2,865
Net increase/ (decrease) in due to other banks	19,054	(12,146)
Net increase in amounts due to customers	733,368	557,399
Net increase in other liabilities	1,185	10,929
Net cash flow from operating activities	**327,304**	**62,295**

(Continued on the next page)

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

Separate statement of cash flows (continued)

	Year ended 31 December	
	2018	2017
Cash flow from investing activities		
Payment for acquisition of subsidiary, net of cash acquired (Note 37)	(15,505)	-
Purchase of property, equipment and intangible assets (Notes 21,22)	(35,641)	(18,090)
Purchase of investment securities	-	(68,348)
Proceeds on disposal of property and equipment	581	21
Proceeds from sale of investment securities	39,728	228,100
Net cash flow from investing activities	(10,837)	141,683
Cash flow from financing activities		
Dividend paid	(58,674)	(58,674)
Long-term debt repaid	(7,441)	(48,514)
Net cash used in financing activities	(66,115)	(107,188)
Effect of exchange rate changes on cash and cash equivalents	(1,181)	1,328
Net change in cash and cash equivalents	249,171	98,118
Cash and cash equivalents at beginning of year	1,735,887	1,637,769
Cash and cash equivalents at end of year (Note 33)	1,985,058	1,735,887

The separate financial statements were authorized by the management on 07 August 2019.

Petia Dimitrova

Chairperson of the Management Board and Chief Executive Officer

Dimitar Shoumarov

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

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For Baker Tilly Klitou and Partners OOD:

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

Notes to the separate financial statements

1.General information

Eurobank Bulgaria AD (the Bank), UIC 000694749, was incorporated and is domiciled in Bulgaria. The Bank is a joint stock company limited by shares and was set up in accordance with Bulgarian regulations. The Bank has operated under a full banking licence issued by the Bulgarian National Bank.

Eurobank Bulgaria AD provides retail, corporate banking and investment banking services in Bulgaria. Its Head Office is located in Sofia and it has 178 network locations and 10 business centres (2017: 177 network locations and 10 business centres). The registered office address is: 260 Okolovrasten pat, 1766 Sofia, Bulgaria. The Bank employs 2,643 people (2017: 2,600).
Eurobank Bulgaria AD is a subsidiary of Eurobank Group, Greece. The parent company is incorporated and is domiciled in Greece.

Position of Eurobank Group, Greece

Greece's real GDP grew by 1.9% in 2018 from 1.5% in 2017, according to the Hellenic Statistical Authority's (ELSTAT) first estimate, while the real GDP growth consensus forecast for 2019 stands at 1.9% (compared to an official target of 2.5%). The unemployment rate in December 2018 was at 18.0%, based on the Hellenic Statistical Authority's (ELSTAT) data (31 December 2017: 20.8%). On the fiscal front, Greece's primary balance is expected to register a surplus of 4.0% of GDP in 2018 according to 2019 Budget, (2017: 3.9% of GDP, according to ELSTAT data) while the respective forecast for 2019 is expected at 3.6% of GDP.
In August 2018, Greece concluded successfully the third economic adjustment program (TEAP) and has entered into the Enhanced Post Program Surveillance (EPPS) under EU Regulation 472/2013, which foresees quarterly reviews by the competent committees of the institutions (EC/ECB/ESM/IMF). The post program surveillance's main purpose is to safeguard financial stability, and continue the process of implementation of structural reforms aiming, among others, to boost domestic growth, jobs creation and to modernize the public sector. The first and second quarterly review under the EPPS were completed at the end of November 2018 and early March 2019 respectively. Delays were observed in the implementation of the structural reforms initially planned for the end of 2018 including, among others, the legal framework of the NPE resolution tools and in particular the household insolvency law. As a result, the European Commission has postponed the release of the first set of policy-contingent debt measures of € 970 million for early April 2019 conditional on the progress of the pending reform items. The Greek Government has built up a cash buffer of € 26.5 bn until the end of September 2018, out of the European Stability Mechanism (ESM) loan disbursements, GGBs issuances and other sources, in order to facilitate the country's access to the international markets. This buffer suffices for covering the gross financial needs for two years after the end of the program or four years assuming that the current stock of treasury bills will be rolled over. On the back of this environment, Greek sovereign demonstrated market access as evidenced by the successful issuance of a 5-year bond of € 2.5 bn at a yield of 3.6% on 29 January 2019 and a 10-year reference bond of € 2.5 bn at a yield of 3.9% on 6 March 2019.
The decisive implementation of the reforms agreed in the context both of the TEAP and the EPPS, the implementation of medium term debt relief measures in accordance with 21 June 2018 Eurogroup decisions, the mobilization of European Union funding to support domestic investment and job creation, the attraction of foreign and domestic capital and the adoption of an extrovert economic development model will improve the confidence in the prospects of the Greek economy and the further stabilization of the domestic economic environment.
The main risks and uncertainties stemming from the macroeconomic environment are associated with (a) the adherence to established reforms and the possible delays in the implementation of the reforms' agenda in order to meet the EPPS targets and milestones, (b) the impact on the level of economic activity and on the attraction of direct investments from the fiscal and social security-related measures agreed under the reviews of the TEAP, (c) the ability to attract new investments in the country, (d) the timing of a full lift of restrictions in the free movement of capital abroad and the respective impact on the level of economic activity, (e) the possible slow pace of deposits inflows and/ or possible delays in the effective management of non-performing exposures (NPEs) as a result of the macroeconomic conditions in Greece and (f) the geopolitical conditions in

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

Notes to the separate financial statements (continued)
1. General information (continued)
Position of Eurobank Group, Greece (continued)

the near or in broader region and the external shocks from a slowdown in the regional and/ or global economy. The Group monitors closely the developments in the Greek macroeconomic environment taking into account its direct and indirect exposure to sovereign risk.

In 2018, the expectations for a further improvement of the macroeconomic environment in Greece has enhanced Greece's credibility towards the international markets, improved the domestic economic sentiment and facilitated the return of deposits. Moreover, the restrictions in the free movement of capital within the country have been lifted, while those applied on the transfer of funds abroad have been further relaxed. The prompt implementation of the post-program period's reforms scheme will help further reinstating depositors' confidence, will accelerate the access to the markets for debt issuance and positively influence the financing of the economy.

On 5 May 2018, the ECB announced the results of the Stress Test (ST) for the four Greek systemic banks, including Eurobank. Based on feedback received by the Single Supervisory Mechanism (SSM), the ST outcome pointed to no capital shortfall and no capital plan needed for the Bank as a result of the exercise.

The Group's Common Equity Tier 1 (CET1) ratio stood at 14.2% at 31 December 2018, and the net profit attributable to shareholders amounted to € 91 million (€ 200 million net profit from continuing operations before € 44 million restructuring costs, after tax) for the year ended 31 December 2018.

Going forward, the prime target is the successful execution of the Bank's transformation plan consisting of a) the completion of the merger with Grivalia by May 2019 that will enhance Eurobank's capital position and its earning capacity, b) the acceleration of the NPE reduction plan through a large scale securitization of approximately €7 bn, the entry of a strategic investor into the capital of Financial Planning Services S.A. ("FPS"), the licensed 100%-owned loan servicer of Eurobank and other initiatives leading the Group's NPE ratio at 16% in 2019 and a single digit by 2021 and c) the achievement of a substantially lower cost of risk as of 2020, which is expected to drive strong sustainable earnings per share (EPS).

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

In November 2015, following the completion of Eurobank Ergasias' share capital increase, fully covered by investors, institutional and others the percentage of its ordinary shares with voting rights held by the HFSF decreased from 35.41% to 2.38%.

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

Notes to the separate financial statements (continued)

2. Basis of preparation and principal accounting policies

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

2.1 Basis of preparation

Eurobank Bulgaria AD prepares separate financial statements. The Bank has one subsidiary as at 31 December 2018 - ERB Property Services Sofia E.A.D. The Bank is using the exemption as per the Bulgarian Accountancy act, art.38 (10) and in compliance with IFRS10, para 4 not to prepare consolidated financial statements.

The separate financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by IASB, as endorsed by the European Union (EU), and in particular with those IFRSs and IFRS Interpretation Committee's (IC) interpretations, issued and effective or issued and early adopted as at the time of preparing these statements.

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

- the revaluation of available-for-sale financial assets/financial assets measured at fair value through other comprehensive income (FVOCI) and of financial assets and financial liabilities (including derivative instruments) at fair-value-through-profit-or-loss;
- land and buildings for own use - measured at fair value through other comprehensive income;
- investment property - measured at fair-value-through-profit-or-loss;
- repossessed collaterals – measured at the lower of cost and net realizable value;
- retirement benefit obligations – measured at present value of the retirement benefit obligation.

Use of judgments and estimates

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

2.1.1 New and amended standards and interpretations

The following new and amended standards and interpretations, as issued by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IC) and endorsed by the European Union (EU), apply from 1 January 2018:

IFRIC 22, Foreign Currency Transactions and Advance Consideration

IFRIC 22 provides requirements about which exchange rate to use in reporting foreign currency transactions that involve an advance payment or receipt. The interpretation clarifies that in this case, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income is the date of the advance consideration, i.e. when the entity initially recognized the non-monetary asset (prepayment asset) or non-monetary liability (deferred income liability) arising from the advance consideration. If there are multiple payments or receipts in advance, the entity must determine a date of transaction for each payment or receipt.

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

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

Notes to the separate financial statements (continued)

2.1 Basis of preparation (continued)

2.1.1 New and amended standards and interpretations (continued)

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

The amendment addresses the accounting consequences of the different effective dates of IFRS 9 'Financial Instruments' and the forthcoming new insurance contracts Standard. It introduces two options for entities that issue insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach.
The optional temporary exemption from IFRS 9 is available to entities whose activities are predominantly connected with insurance, allowing them to continue to apply IAS 39 'Financial Instruments: Recognition and Measurement' while they defer the application of IFRS 9 until 1 January 2021 at the latest.
The overlay approach is an option for entities that adopt IFRS 9 and issue insurance contracts, to adjust profit and loss for eligible financial assets, effectively resulting in IAS 39 accounting for those designated financial assets. This approach can be used provided that the entity applies IFRS 9 in conjunction with IFRS 4 and classifies financial assets as fair value through profit and loss in accordance with IFRS 9, when those assets were previously classified at amortized cost or as available-for-sale in accordance with IAS 39.

The amendment is not relevant to the Bank's activities.

IFRS 2, Amendment-Classification and Measurement of Share-based Payment Transactions
The amendment addresses (a) the measurement of cash-settled share-based payments, (b) the accounting for modifications of a share-based payment from cash-settled to equity-settled and (c) the classification of share-based payments settled net of tax withholdings.

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

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

IAS 40, Amendment-Transfers of Investment Property
The amendment clarifies that a transfer of property, including property under construction or development, into or out of investment property should be made only when there has been a change in use of the property. Such a change in use occurs when the property meets, or ceases to meet, the definition of investment property and should be supported by evidence.

The adoption of the amendment had no impact the Bank's separate financial statements.

Annual Improvements to IFRSs 2014-2016 Cycle
The IASB through the 2014-2016 annual improvements cycle, provided a clarification for IAS 28 'Investments in Associates and Joint Ventures': It is clarified that venture capital organizations, mutual funds, unit trusts and similar entities are allowed to elect measuring their investments in associates or joint ventures at fair value through profit and loss. Such election can be performed on an investment-by-investment basis in associates or joint ventures.
The adoption of the interpretation had no impact on the Bank's separate financial statements.

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

Notes to the separate financial statements (continued)

2.1 Basis of preparation (continued)

2.1.1 New and amended standards and interpretations (continued)

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

- Financial instruments and other contractual rights or obligations within the scope of IFRS 9 'Financial Instruments', IFRS 10 'Consolidated Financial Statements', IFRS 11 'Joint Arrangements', IAS 27 'Separate Financial Statements' and IAS 28 'Investments in Associates and Joint Ventures';
- Lease contracts within the scope of IAS 17 'Leases' (or IFRS 16 'Leases'); and
- Insurance contracts within the scope of IFRS 4 'Insurance Contracts'.

Therefore, interest and fee income integral to financial instruments will continue to fall outside the scope of IFRS 15.

IFRS 15 specifies that revenue should be recognized at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services. It introduces the concept of recognizing revenue for performance obligations as they are satisfied and the control of a good or service (i.e. the ability to direct the use of and obtain the benefits from them), is obtained by the customer. For services provided over time, such as management fee income earned for asset management services provided and variable performance fee income based on the return of the underlying asset at a particular date, consideration is recognized as the service is provided to the customer provided that it is probable that a significant reversal of consideration will not occur.

IFRS 15 was amended in April 2016 to provide several clarifications, including that in relation to the identification of the performance obligations within a contract.

The adoption of the standard had no impact on the Bank's separate financial statements as net interest income, which is a primary revenue stream of the Bank, is not impacted by the adoption of IFRS 15. Furthermore, regarding Bank's revenue from contracts with customers, including fee and commission income, for services provided over time, or transactions executed at point in time, there was no change in their accounting treatment as it is consistent with the Bank's existing accounting policy.

A table disaggregating fee and commission revenue from contracts with customers per the Bank's main revenue streams under IFRS 15 is presented in note 7.

IFRS 9, Financial Instruments
On 1 January 2018, the Bank adopted IFRS 9 'Financial Instruments', which replaces IAS 39, 'Financial Instruments: Recognition and Measurement'. The adoption of IFRS 9 in 2018 resulted in changes in accounting policy in two principal areas, classification and measurement of financial assets and liabilities and impairment of financial assets. The Bank elected, as a policy choice permitted under IFRS 9, to continue to apply hedge accounting in accordance with IAS 39.

Differences arising from the adoption of IFRS 9 have been recognized directly in reserves and retained earnings as of 1 January 2018 and are disclosed in note 2.3. The Bank has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9.

Changes in the classification and measurement
IFRS 9 applies a new classification and measurement approach for all types of financial assets that reflects the entity's business model for managing the assets and their contractual cash flow characteristics.

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

Notes to the separate financial statements (continued)

2.1 Basis of preparation (continued)

2.1.1 New and amended standards and interpretations (continued)

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. Reclassifications between categories are made only in rare circumstances.
For the purpose of the transition to IFRS 9, the Bank carried out a business model assessment across various portfolios for its debt instruments to determine any potential changes to the classification and measurement. The assessment has been performed based on the facts and circumstances that exist at the date of initial application i.e. 1 January 2018 (note 2.3.2).

The IAS 39 categories of financial assets (fair value through profit or loss (FVTPL), available for sale (AFS), held-to-maturity (HTM) and Loans and Receivables) have been replaced by:

- Debt instruments measured at amortized cost
- Debt instruments measured at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on de-recognition
- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition
- Financial assets measured at FVTPL

The Bank may at initial recognition, designate a financial asset at FVTPL in order to eliminate or significantly reduce an accounting mismatch.

Furthermore, on initial recognition of an equity instrument that is not held for trading, an entity may irrevocably elect to present subsequent changes in fair value in Other Comprehensive Income (OCI). This election is made on an investment-by-investment basis.

The IFRS 9 eligibility requirements for applying the fair value option to measure financial liabilities at FVTPL are consistent with those of IAS 39. However, for financial liabilities designated at FVTPL, gains or losses attributable to changes in own credit risk shall be presented in OCI and shall not be subsequently transferred to profit or loss unless such a presentation would create or enlarge an accounting mismatch.

Finally, under IFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on the business model and their contractual terms. The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not changed.

The Bank's classification of its financial assets and liabilities is explained in note 2.2. The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed in note 2.3.2.

Changes to the impairment calculation
The adoption of IFRS 9 has changed significantly the Bank's accounting for financial assets' impairment by replacing IAS 39 incurred loss approach with a forward-looking expected credit loss (ECL) approach, which requires the use of complex models and significant judgment about future economic conditions and credit behavior. Credit losses are recognized earlier under IFRS 9 compared to IAS 39.

IFRS 9 requires the Bank to record an allowance for credit loss for all financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts, which are off-balance sheet items. The allowance is based on the ECL calculation of the related probability of default of the debtor in the next twelve months unless there has been a significant increase in credit risk since origination of the exposure, when lifetime ECL is measured. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECL over the life of the asset.

Notes to the separate financial statements (continued)

2.1 Basis of preparation (continued)

2.1.1 New and amended standards and interpretations (continued)

Details of the Bank's impairment policy are disclosed in note 2.2. The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed in note 2.3.2.

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

The Bank has elected to continue applying IAS 39.

Consequential changes in disclosures (IFRS 7 'Financial Instruments: Disclosures')
Effective from 1 January 2018, due to IFRS 9 transition, these separate financial statements include transition disclosures, which provide qualitative and quantitative information about the impact from the revised classification and measurement and ECL principles. In addition, these separate financial statements include, the enhanced classification and measurement, impairment and hedge accounting disclosures as required by the related amendments to IFRS 7 'Financial Instruments: Disclosures'.

New standards, amendments to standards and interpretations not yet adopted by the Bank
A number of new standards, amendments to existing standards and interpretations are effective after 2018, as they have not yet been endorsed by the European Union or have not been early applied by the Bank. Those that may be relevant to the Bank are set out below:

IFRS 9, Amendment–Prepayment Features with Negative Compensation (effective 1 January 2019)

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

The amendment also confirms the modification accounting of financial liabilities under IFRS 9. In specific, when a financial liability measured at amortized cost is modified without this resulting in derecognition, a gain or loss, calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate, should be recognized in profit or loss.

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

IFRIC 23, Uncertainty over Income Tax Treatments (effective 1 January 2019)
The interpretation clarifies the application of the recognition and measurement requirements in IAS 12 'Income Taxes' when there is uncertainty over income tax treatments. In such a circumstance, recognition and measurement of current or deferred tax asset or liability according to IAS 12 is based on taxable profit (tax loss), tax bases, unused tax losses and tax credits and tax rates determined applying IFRIC 23.

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

Notes to the separate financial statements (continued)

2.1 Basis of preparation (continued)

2.1.1 New and amended standards and interpretations (continued)

According to the interpretation, each uncertain tax treatment is considered separately or together as a group, depending on which approach better predicts the resolution of the uncertainty and the entity should assume that a tax authority with the right to examine tax treatments will examine them and will have full knowledge of all relevant information.

If an entity concludes it is probable that the taxation authority will accept an uncertain tax treatment, it should determine its accounting for income taxes consistently with that tax treatment. If it concludes that it is not probable that the treatment will be accepted, the effect of the uncertainty in its income tax accounting should be reflected in the period in which that determination is made, using the method that best predicts the resolution of the uncertainty (ie the most likely amount or the expected value method).
Judgments and estimates made for the recognition and measurement of the effect of uncertain tax treatments should be reassessed whenever circumstances change or new information that affects those judgments arise (eg actions by the tax authority, evidence that it has taken a particular position in connection with a similar item or the expiry of its right to examine a particular tax treatment).

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

IFRS 16, Leases (effective 1 January 2019)
IFRS 16, which supersedes IAS 17 'Leases' and related interpretations, introduces a single, on-balance sheet lease accounting model for lessees, under which the classification of leases for a lessee, as either operating leases or finance leases, is eliminated and all leases are treated similarly to finance leases under IAS 17.

The definition of a lease under IFRS 16 mainly relates to the concept of control. The new standard distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

- The right to obtain substantially all of the economic benefits from the use of an identified asset; and
- The right to direct the use of that asset.

IFRS 16 provides for the recognition of a 'right-of-use-asset' and a 'lease liability' upon lease commencement in case that there is a contract, or part of a contract, that conveys to the lessee the right to use an asset for a period of time in exchange for a consideration.

The right-of-use-asset is, initially, measured at cost, consisting of the amount of the lease liability, plus any lease payments made to the lessor at or before the commencement date less any lease incentives received, the initial estimate of restoration costs and any initial direct costs incurred by the lessee and, subsequently, at cost less accumulated depreciation and impairment. The lease liability is initially recognized at an amount equal to the present value of the lease payments during the lease term that are not yet paid.

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

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

Notes to the separate financial statements (continued)

2.1 Basis of preparation (continued)

2.1.1 New and amended standards and interpretations (continued)

Transition to IFRS 16

The date of initial application of IFRS 16 for the Bank is 1 January 2019. The Bank has chosen the modified retrospective application of IFRS 16 and therefore comparative information will not be restated.
Upon transition, the Bank will make use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, existing contracts previously classified as service contracts such as ATMs and printing services will not be classified as leases under IFRS 16, while the definition set out in IFRS 16 will be applied to all lease contracts entered into or modified on or after 1 January 2019.

Lessee Accounting

In accordance with IFRS 16, at the commencement date of the lease, the Bank as a lessee will recognise right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of the future lease payments. The Bank intends to apply this initial measurement principle to all leases, except for those with lease term of 12 months or less - making use of the short-term leases and leases of low-value assets exemptions.
Accordingly, the estimated impact from IFRS 16 adoption is a recognition of right-of-use assets amounting to BGN 44,684 thousand and corresponding lease liabilities of BGN 44,684 thousand arising from leases of properties and vehicles, while no impact is expected on shareholders' equity.
With regard to subsequent measurement, the Bank, acting as a lessee, will apply the cost model for the measurement of right-of-use asset. Accordingly, the right-of-use asset will be measured at cost less any accumulated depreciation and accumulated impairment losses and adjusted for the remeasurement of the lease liability.
On the other hand, interest expense will be recognized on the lease liabilities, while their carrying amount will be reduced to reflect the lease payments made. In case of any reassessments or lease modifications specified, the carrying amount of the lease liabilities will be remeasured to reflect revised lease payments.

Lessor Accounting

At inception date of the lease, the Bank, acting as a lessor, will classify each of its leases as either an operating lease or a finance lease based on certain criteria. These criteria are unchanged compared to current accounting as described below.

Finance leases

At commencement date, the Bank will derecognize the carrying amount of the underlying assets held under finance lease, recognize a receivable at an amount equal to the net investment in the lease and recognize, in profit or loss, any profit or loss from the derecognition of the asset and the recognition of the net investment. The net investment in the lease will be calculated as the present value of the future lease payments in the same way as for the lessee.
After commencement date, the Bank will recognize finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the lease. The Bank will also recognize income from variable payments that are not included in the net investment in the lease. After lease commencement, the net investment in a lease will not be remeasured unless the lease is modified or the lease term is revised.
The Bank has no finance leases contracts as of 31.12.2018.

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

Notes to the separate financial statements (continued)

2.1 Basis of preparation (continued)

2.1.1 New and amended standards and interpretations (continued)

Operating leases

The Bank will continue to recognize the underlying asset and will not recognize a net investment in the lease on the balance sheet or initial profit (if any) on the income statement.
The Bank will recognize lease payments as income on a straight-line basis. Also it will recognize costs, including depreciation, incurred in earning the lease income as an expense. The Bank adds initial direct costs incurred in obtaining an operating lease to the carrying amount of the underlying asset and recognizes those costs as an expense over the lease term on the same basis as the lease income.

Subleases

The Bank, acting as a lessee, may enter into arrangements to sublease a leased asset to a third party while the original lease contract is in effect. The Bank will act as both the lessee and lessor of the same underlying asset. The sublease will be a separate lease agreement, in which the intermediate lessor will classify the sublease as a finance lease or an operating lease as follows:

- if the head lease is a short-term lease, the sublease will be classified as an operating lease; or
- otherwise, the sublease will be classified by reference to the right-of-use asset arising from the head lease, rather than by reference to the underlying asset.

The Bank has no subleases contracts as of 31.12.2018.

Operating lease commitments as at 31 December 2018, presented in accordance with the disclosure requirements of IAS 17 for the minimum lease payments under non-cancellable operating leases, are set out in note 36.
Amounts disclosed in the aforementioned note reflect the lease payments over the non-cancellable period only, as determined in accordance with the contractual terms of the leases and the applicable legal provisions regarding the minimum lease period.
Accordingly, as at 31 December 2018, for lease contracts where the Bank is the lessee and have a stated maturity, the non-cancellable operating lease rentals payable are BGN 7,087 thousand (note 36), whereas the total future contractual lease payments are BGN 50,190 thousand.

IAS 28, Amendment – Long Term Interests in Associates and Joint Ventures (effective 1 January 2019)
The amendment clarifies that IFRS 9 'Financial Instruments' including its impairment requirements, applies to long term interests in associates or joint ventures that form part of the entity's net investment in the associate or joint venture but are not accounted for using equity accounting.
According to the amendment, an entity should not take into account any adjustments to the carrying amount of long term interests (net investment in the associate or joint venture), resulting from the application of IAS 28 'Investments in Associates and Joint Ventures' when applying IFRS 9.
The adoption of the amendment is not expected to impact the Bank's separate financial statements.

IAS 19, Amendment –Plan Amendment, Curtailment or Settlement (effective 1 January 2019, not yet endorsed by EU)
The amendment clarifies that when a change to a defined benefit plan i.e. an amendment, curtailment or settlement takes place and a remeasurement of the net defined benefit liability or asset is required, the updated actuarial assumptions from the remeasurement should be used to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. Additionally, the amendment includes clarifications about the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.
The adoption of the amendment is not expected to impact the Bank's separate financial statements.

Notes to the separate financial statements (continued)

2.1 Basis of preparation (continued)

2.1.1 New and amended standards and interpretations (continued)

Annual Improvements to IFRSs 2015-2017 Cycle (effective 1 January 2019, not yet endorsed by EU)
The improvements introduce key changes to several standards as set out below:

The amendments to IFRS 3 ‘Business Combinations’ and IFRS 11 ‘Joint Arrangements’ clarified how an entity accounts for increasing its interest in a joint operation that meets the definition of a business. Specifically, when an entity obtains control of a business that is a joint operation, then the transaction constitutes a business combination achieved in stages and the acquiring party re-measures the entire previously held interest in the assets and liabilities of the joint operation at fair value. Conversely, if a party obtains joint control, of a business that is a joint operation then the previously held interest is not re-measured.
The improvement to IAS 12 ‘Income Taxes’ clarified that all income tax consequences of dividends, including payments on financial instruments classified as equity, should be recognized in profit or loss, other comprehensive income or equity, according to where the originating transaction or event that generated distributable profits giving rise to the dividend, was recognized.
IAS 23 ’Borrowing costs’ amendment clarified that any borrowing originally performed to develop a qualifying asset should be treated as part of the funds that the entity borrowed generally, when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.
The adoption of the amendments is not expected to impact the Bank’s separate financial statements.

Amendments to References to the Conceptual Framework in IFRS Standards (effective 1 January 2020, not yet endorsed by EU)
In March 2018, the IASB issued its revised Conceptual Framework. This replaces the previous version of the Conceptual Framework issued in 2010. Revisions performed by IASB introduced a new chapter of measurement, updated definitions of an asset/liability and recognition criteria, as well as clarifications on important areas.
The adoption of the amendments is not expected to impact the Bank’s separate financial statements

Amendments to IFRS 3Business combinations (effective 1 January 2020, not yet endorsed by EU)
The IASB issued amendments to the definition of a business in IFRS 3 “Business Combinations” to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, and add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test.

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

Amendments to IAS 1 and IAS 8: Definition of Material (effective 1 January 2020, not yet endorsed by EU)
The amendments to IAS 1 “Presentation of Financial Statements” and IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors” aim to align the definition of ‘material’ across the standards and to clarify certain aspects of the definition. According to the new definition an information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify that materiality will depend on the nature or magnitude of information, or both.

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

Notes to the separate financial statements (continued)

2.1 Basis of preparation (continued)

2.1.1 New and amended standards and interpretations (continued)

IFRS 17, Insurance Contracts (effective 1 January 2021, not yet endorsed by EU)
IFRS 17, which supersedes IFRS 4 'Insurance Contracts' provides a comprehensive and consistent accounting model for insurance contracts. It applies to insurance contracts issued, all reinsurance contracts and to investment contracts with discretionary participating features that an entity issues provided it also issues insurance contracts. Financial guarantee contracts are allowed to be within the scope of IFRS 17 if the entity has previously asserted that it regarded them as insurance contracts.

According to IFRS 17 general model, groups of insurance contracts which are managed together and are subject to similar risks, are measured based on building blocks of discounted, probability-weighted future cash flows, a risk adjustment and a contractual service margin ('CSM') representing the unearned profit of the contracts. Under the model, estimates are remeasured in each reporting period. A simplified measurement approach may be used if it is expected that doing so a reasonable approximation of the general model is produced or if the contracts are of short duration.

Revenue is allocated to periods in proportion to the value of expected coverage and other services that the insurer provides during the period, claims are presented when incurred and any investment components i.e amounts repaid to policyholders even if the insured event does not occur, are not included in revenue and claims. Insurance services results are presented separately from the insurance finance income or expense.

IFRS 17 is not relevant to the Bank's activities.

The policies set out below have been consistently applied to the years 2018 and 2017, except as described below as well as in notes 2.2.4 (i) Interest income (Calculation of interest income and expense), 2.2.10 Financial assets and 2.2.11 Reclassification of financial assets as result of transition to IFRS 9. Where necessary, comparative figures have been(adjusted to conform to changes in presentation in the current year.

2.2 Principal accounting policy

2.2.1 Shares in subsidiary undertakings
Investments in subsidiaries, including investments acquired through common control transactions, are accounted at cost less any impairment losses. Cost is the fair value of the consideration given being the amount of cash or shares issued, or if that cannot be determined reliably, the consideration paid together with any directly attributable costs.
Legal mergers that involve the combination of the Bank with one or more of its related parties are accounted in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" with reference to the most recent pronouncements of other standard-setting bodies that use a similar conceptual framework and comply with the IFRS general principles.
In such transactions, the Bank incorporates the acquired assets and liabilities of the merged subsidiary at their carrying amounts as of the date of the legal merger without any fair value adjustments. Any difference between the carrying amount of the investment in the merged subsidiary before the legal merger, and the carrying amount of net assets acquired is recognized in the Bank's equity.

2.2.2 Foreign currencies transactions

The Bank's presentation currency is the Bulgarian Lev (BGN) being the functional currency of the primary economic environment in which the Bank operates ('the functional currency'). Except otherwise indicated, financial information presented in Bulgarian Leva has been rounded to the nearest thousand.

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

Notes to the separate financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.2 Foreign currencies transactions (continued)

Transactions and balances

Foreign currency transactions are translated into the functional currency using the Central Bank's exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the income statement.

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

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

At 31 December 2018, monetary assets and liabilities are translated at the reference Central Bank exchange rate – BGN 1 for EUR 0.5113 (2017: BGN 1 for EUR 0.5113) and BGN 1 for USD 0.585429 (2017: BGN 1 for USD 0.6115).

2.2.3 Derivative financial instruments and hedging

Derivatives are financial instruments:

a) whose value is changed in response to changes in a specified interest rate, financial instrument price, foreign exchange rate, index of prices and rates, credit rates or credit index or other variable;
b) that require no initial net investment or an initial net investment is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors;
c) that are settled at a future date.

Derivative financial instruments including foreign exchange contracts, forward currency agreements, FX swaps, interest rate swaps and cross currency interest rate swaps, options and futures are initially recognized in the financial reports on the value/settlement date on which a derivative contract becomes effective.

Forward currency agreements, interest rate swaps (incl. cross currency interest rate swaps), options and futures are subsequently re-measured at their fair value at the end of each reporting month. They are carried as assets when fair value is positive and as liabilities when fair value is negative. Usually the net investment is zero (i.e. the initial net fair value of the receivables and payables is zero). Their fair values are determined based on quoted market prices, including recent market transactions, or by using other valuation techniques, as appropriate. The changes in the fair value of these derivatives are included in the income statement. The principles for the fair value measurement of financial instruments, including derivative financial instruments, are described in note 2.2.14 Fair value measurement of financial assets.

With respect to the treatment of FX swaps, they are subsequently not revalued – the contractual commitments for exchange of notionals at maturity is accounted as off-balance asset and liability respectively and the implied interest differential is accrued (amortized) on the income statement as interest income/expense.

Policy applicable from 1 January 2018

Financial assets that contain embedded derivatives are recognised in the balance sheet in their entirety in the appropriate classification category, following instruments' assessment of their contractual cash flows and their business model as described in note 2.2.10. In addition, certain derivatives, embedded in financial liabilities, are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognized in the income statement.

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

Notes to the separate financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.3 Derivative financial instruments and hedging (continued)

Policy applicable before 1 January 2018

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair-value-through-profit-or-loss. These embedded derivatives are measured at fair value with changes in fair value recognized in the income statement.

The use of derivative financial instruments is inherent in the Bank's activities and aims principally at managing risk effectively.

Accordingly, the Bank, as part of its risk management strategy, may enter into transactions with external counterparties to hedge partially or fully interest rate, foreign currency, equity and other exposures that are generated from its activities.

The objectives of hedging with derivative financial instruments include:

- Reduce interest rate exposure that is in excess of the Bank's interest rate limits
- Manage efficiently interest rate risk and fair value exposure
- Manage future variable cash flows
- Reduce foreign currency risk or inflation risk

Hedge accounting

For hedge accounting purposes, the Bank forms a hedging relationship between a hedging instrument and a related item or group of items to be hedged. A hedging instrument is a designated derivative or a designated non-derivative financial asset or financial liability whose fair value or cash flows are expected to offset changes in the fair value or cash flows of a designated hedged item.

Specifically, the Bank designates certain derivatives as: hedges of the exposure to changes in fair value of recognized assets or liabilities or unrecognized firm commitments (fair value hedge).
In order to implement hedge accounting, specified criteria should be met. Accordingly, at the inception of the hedge accounting relationship, the Bank documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions, together with the method that will be used to assess the effectiveness of the hedging relationship. The Bank also documents its assessment, both at inception of the hedge and on an ongoing basis, an assessment of whether the derivatives that are used in the hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items and whether the actual results of each hedge are within a range of 80-125%. If a relationship does not meet the abovementioned hedge effectiveness criteria, the Bank discontinues hedge accounting prospectively. Similarly, if the hedging derivative expires or is sold, terminated or exercised, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. In addition, the Bank uses other derivatives, not designated in a qualifying hedge relationship, to manage its exposure primarily to interest rate and foreign currency risks. Non qualifying hedges are derivatives entered into as economic hedges of assets and liabilities for which hedge accounting was not applied. The said derivative instruments are classified along with those held for trading purposes.
The method of recognizing the resulting fair value gain or loss depends on whether the derivatives are designated and qualify as hedging instruments, and if so, the nature of the item being hedged.
Furthermore, the Bank may designate groups of items as hedged items, by aggregating recognized assets or liabilities or unrecognized but highly probable transactions of similar risk characteristics that share the exposure for which they are hedged. Although the overall risk exposures may be different for the individual items in the group, the specific risk being hedged will be inherent in each of the items in the group.

Notes to the separate financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.3 Derivative financial instruments and hedging (continued)

(i) Fair value hedge

The Bank applies fair value hedging to hedge exposures primarily to changes in the fair value attributable to interest rate risk and currency risk.
The interest rate and currency risk with respect to the applicable benchmark rate may be hedged using interest rate swaps and cross currency swaps.
The Bank uses the dollar-offset method in order to assess the effectiveness of fair value hedges. This is a quantitative method that involves the comparison of the change in the fair value of the hedging instrument with the change in the fair value of the hedged item attributable to the hedged risk. Even if a hedge is not expected to be highly effective in a particular period, hedge accounting is not precluded if effectiveness is expected to remain sufficiently high over the life of the hedge.

(ii) Derivatives that are not designated as hedging instruments

Changes in the fair value of derivative financial instruments that are not designated as a hedging instrument or do not qualify for hedge accounting are recognized in the income statement.
The fair values of derivative instruments held for trading and hedging purposes are disclosed in note 25.

2.2.4 Income Statement

(i) Interest income and expense

Policy applicable from 1 January 2018

Interest income and expense are recognized in the income statement for all interest bearing financial instruments on an accrual basis, using the effective interest rate (EIR) method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the gross carrying amount of the financial asset or to the amortized cost of a financial liability. When calculating the EIR for financial instruments other than purchased or originated credit-impaired (POCI), the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider expected credit losses. For POCI financial assets, the credit-adjusted EIR is used, which is the interest rate that upon the original recognition of the POCI financial asset discounts the estimated future cash flows (including expected credit losses) to the fair value of the POCI asset.

The amortized cost of a financial asset or liability is the amount at which it is measured upon initial recognition minus principal repayments, plus or minus cumulative amortization using the EIR (as described above) and for financial assets only adjusted for the expected credit loss allowance (“impairment allowance” prior to 01.01.2018), while the gross carrying amount of a financial asset is its amortized cost before adjusting for ECL allowance.
The EIR calculation includes all transaction costs and fees and points paid or received that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.
The Bank calculates interest income and expense by applying the EIR to the gross carrying amount of non-impaired financial assets (exposures in Stage 1 and 2) or to the amortized cost of financial liabilities.
For financial assets that have become credit-impaired subsequent to initial recognition (exposures in Stage 3), the Bank calculates interest income by applying the effective interest rate (calculated as described above) to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the EIR is applied again to the gross carrying amount.

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

Notes to the separate financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.4 Income Statement (continued)

(i) Interest income and expense (continued)

For financial assets that were credit-impaired on initial recognition (POCI) interest income is calculated by applying the credit-adjusted EIR (calculated as described above) to the POCI financial asset's amortized cost. For such assets even if the credit risk improves, interest income does not revert to gross basis calculation.
Interest income for all debt instruments is recognised in the income statement and are presented in the income statement line of net interest income.

Policy applicable before 1 January 2018

Calculation of interest income and expense

Interest income and expense is recognized in the income statement for all interest bearing financial instruments on an accrual basis, using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

(ii) Fees and commissions

Fee and commission received or paid that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate.

Other fee and commission income such as account servicing and asset management fees (including performance based fees) is recognised as the related services are being provided to the customer, to the extent that it is highly probable that a significant reversal of the revenue amount recognized will not occur. Transaction-based fees such as foreign exchange transactions, imports-exports, remittances, bank charges and brokerage activities are recognised at the point in time when the transaction takes place. Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

Policy applicable from 1 January 2018

In the case of a contract with a customer that results in the recognition of a financial instrument in the Bank's financial statements which may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15, the Bank first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and subsequently applies IFRS 15 to the residual part.

2.2.5 Net trading income

Net trading income comprises gains and losses related to derivative financial instruments (Hedging and Non-Hedging. All changes in fair value of financial assets at fair value at profit and loss are recognized as part of the net trading income in the income statement.

2.2.6 Gains less losses from investment securities

Gains less losses from investment securities relate to results deriving from realized gains and losses of securities measured at FVTPL, results deriving from early liquidation of fair value hedging derivative financial instruments (termination fees and reversal of accruals since the last coupon date) associated with OCI bonds, realized gains and losses on sale of securities (bonds) at FVOCI.

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

Notes to the separate financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.7 Property, plant and equipment (PPE)

Property, plant and equipment are initially recognized at cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and comprises purchase price, including import duties and non-refundable purchase taxes and any cost directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The cost is the cash or cash equivalent paid or the fair value of other consideration given to acquire the assets.
Subsequent expenditure is recognized in the asset's carrying amount only when it is probable that future economic benefits will flow to the Bank and the cost of the asset can be measured reliably. All other repair and maintenance costs are recognized in the income statement as incurred.

After initial recognition the Bank measures the land and building at fair value. All other PPE classes are recognised at historical cost less accumulated depreciation and impairment losses.

The fair value of land and buildings is determined from market-based evidence by appraisal that is undertaken by professionally qualified valuers. The main valuation methods include:

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

Revaluation of property is performed at least once in 5 years. Periodically a review for impairment (valuation of all properties) is performed. The last valuation of Bank properties was done at the end of 2018.

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

If an asset’s carrying amount is increased as a result of a revaluation, the increase, net of tax, is recognised in other comprehensive income and accumulated as Property revaluation reserve in shareholder’s equity. However the increase shall be recognised in the income statement to the extent that it reverses a revaluation decrease of the same asset previously recognised in the income statement.

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

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

- Buildings – up to 50 years
- Leasehold improvements – the useful life of the lease
- Computer hardware - 4-10 years
- Other furniture and equipment - 3-20 years
- Motor vehicles- 5 years

The carrying amount of an item of property, plant and equipment is derecognised:

(a) on disposal
(b) when no future economic benefits are expected from its use or disposal.

The gain or loss from derecognition of an item of PPE is included in the income statement when the item is derecognised. The gain or loss from derecognition of an item of PPE is determined as the difference between the net disposal proceeds and the carrying amount of the asset.

Notes to the separate financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.7 Property, plant and equipment (PPE) (continued)

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

2.2.8 Intangible assets

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

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

The costs recognised (Note 22) include the employment costs of those directly involved in creating the asset, and may include some other costs (costs of materials and services used or consumed in generating the asset, legal fees, registration fees, etc).
Intangible assets are amortized using the straight-line method over their useful lives, as follows:

- Computer software- 5-15 years
- Licenses - 5-15 years
- Other intangible assets- 5-15 years

Intangible assets include software, licenses, internally developed and other intangible assets that are separable or arise from contractual or other legal rights.

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

2.2.9 Investment property

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

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

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

Notes to the separate financial statements (continued)

2.2.10 Financial assets

Policy applicable from 1 January 2018

Financial assets - Classification and measurement

The Bank classifies financial assets based on the business model for managing those assets and their contractual cash flow characteristics. Accordingly, financial assets are classified into one of the following measurement categories: amortized cost, fair value through other comprehensive income or fair value through profit and loss.
Purchases and sales of financial assets are recognized on settlement date, which is the date the Bank commits to purchase or sell the assets. Loans originated by the Bank are recognized when cash is advanced to the borrowers. Receivables from customers are initially measured at the transaction price.

Financial Assets measured at Amortized Cost (“AC”)

The Bank classifies and measures a financial asset at AC only if both of the following conditions are met:
(a) The financial asset is held within a business model whose objective is to collect contractual cash flows (hold-to-collect business model) and
(b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).
These financial assets are recognized initially at fair value plus direct and incremental transaction costs, and are subsequently measured at amortized cost, using the effective interest rate (EIR) method.
Interest income, realized gains and losses on derecognition, and changes in credit impairment losses from assets classified at AC, are included in the income statement.

Financial Assets measured at Fair Value through Other Comprehensive Income (“FVOCI”)

The Bank classifies and measures a financial asset at FVOCI only if both of the following conditions are met:
(a) The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (hold-to-collect-and-sell business model) and
(b) The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.
Financial assets that meet these criteria are debt instruments and are measured initially at fair value, plus direct and incremental transaction costs.
Subsequent to initial recognition, FVOCI debt instruments are re-measured at fair value through OCI, except for interest income, related foreign exchange gains or losses and credit impairment losses, which are recognized in the income statement. Cumulative gains and losses previously recognized in OCI are transferred from OCI to the income statement when the debt instrument is derecognised.

Equity Instruments designated at FVOCI

The Bank may make an irrevocable election to designate an equity instrument at 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.

Financial Assets measured at Fair Value through Profit and Loss (“FVTPL”)

The Bank classifies and measures all other financial assets that are not classified at AC or FVOCI, at FVTPL. Accordingly, this measurement category includes debt instruments such as loans and debt securities that are

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

Notes to the separate financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.10 Financial assets (continued)

Financial Assets measured at Fair Value through Profit and Loss ("FVTPL") (continued)

held within the hold–to-collect (HTC) or hold-to-collect-and-sell models (HTCS), but fail the SPPI assessment, equities that are not designated at FVOCI, financial assets held for trading and derivative financial instruments.
Furthermore, a financial asset that meets the above conditions to be classified at AC or FVOCI, may be designated by the Bank at FVTPL at initial recognition, if doing so eliminates, or significantly reduces an accounting mismatch that would otherwise arise.
Financial assets measured at FVTPL are initially recorded at fair value and any unrealized gains or losses arising due to changes in fair value are included in the income statement.

Business model and contractual characteristics assessment

The business model assessment determines how the Bank manages a group of assets to generate cash flows. That is, whether the Bank's objective is solely to collect contractual cash flows from the asset, to realize cash flows from the sale of assets, or both to collect contractual cash flows and cash flows from the sale of assets. In addition, the business model is determined after aggregating the financial assets into groups (business lines) which managed similarly rather than at an individual instrument's level.

The business model is determined by the Bank's key management personnel consistently with the operating model, considering how financial assets are managed in order to generate cash flows, the objectives and how performance of each portfolio is reported to key management personnel and any available information on past sales and on future sales' strategy, where applicable.

Accordingly, in making the above assessment, the Bank will consider a number of factors including the risks associated with the performance of the business model and how those risks are evaluated and managed, the related personnel compensation, and the frequency, volume and reasons of past sales, as well as expectations about future sales activity.

Types of business models

The Bank's business models fall into three categories, which are indicative of the key strategies used to generate returns.
The hold-to-collect (HTC) business model has the objective to hold the financial assets in order to collect contractual cash flows. Sales within this model are monitored and may be performed for reasons which are not inconsistent with this business model. More specifically, sales of financial assets due to credit deterioration, as well as, sales close to the maturity are considered consistent with the objective of hold-to-collect contractual cash flows regardless of value and frequency. Sales for other reasons may be consistent with the HTC model such as liquidity needs in any stress case scenario or sales made to manage high concentration level of credit risk. Such sales are monitored and assessed depending on frequency and value to conclude whether they are consistent with the HTC model.
Financial assets classified within this business model include cash and cash equivalents, bonds, due from banks and loans and advances to customers which are measured at amortized cost, subject to meeting the SPPI assessment criteria.
The hold-to-collect-and-sell business model (HTC&S) has the objective both to collect contractual cash flows and sell the assets. Activities such as liquidity management, interest yield and duration are consistent with this business model, while sales of assets are integral to achieving the objectives of this business model. Debt instruments classified within this business model include investment securities which are measured at FVOCI, subject to meeting the SPPI assessment criteria.

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

Notes to the separate financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.10 Financial assets (continued)

Other business models include financial assets which are managed and evaluated on a fair value basis as well as portfolios that are held for trading. This is a residual category for financial assets not meeting the criteria of the business models of HTC or HTC&S, while the collection of contractual cash flows may be incidental to achieving the business models' objective.

The Bank's business models are reassessed at least annually or earlier, if there is a sales' assessment trigger or if there are any changes in the Bank's strategy and main activities, as evidenced by the Bank's business plan, budget and NPE strategy.

Cash flow characteristics assessment

For a financial instrument to be measured at AC or FVOCI, its contractual terms must give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

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

For the purpose of the SPPI assessment, the Bank considers the existence of various features, including among others, contractually linked terms, prepayment terms, deferred interest-free payments, extension and equity conversion options and terms that introduce leverage including index linked payments.

In case of special lending arrangements such as non-recourse loans, the Bank in its assessment of the SPPI criterion considers various factors such as the nature of the borrower and its business, the pricing of the loans, whether it participates in the economic performance of the underlying asset and the extent to which the collateral represents all or a substantial portion of the borrower's assets.

In certain cases when the time value of money element is modified in that the financial asset's interest rate is periodically reset but the reset frequency does not match the tenor of the interest rate or when a financial asset's interest rate is periodically reset to an average of particular short-term and long-term interest rates, a quantitative assessment is performed ("Benchmark Test") in order to determine whether the contractual cash flows are SPPI.

In particular, the Bank assesses the contractual cash flows of the "Real Instrument" (RI), whose interest rate is reset with a frequency that does not match the tenor of the interest rate, and those of the "Benchmark Instrument" (BI), which are identical in all respects except that the tenor of the interest rate matches exactly the interest period. If the undiscounted cash flows of the former are significantly different from the benchmark cash flows due to the modified time value of money element, the financial asset does not meet the SPPI criterion, and therefore, cannot be measured at amortized cost or at fair value through other comprehensive income. In its assessment, the Bank considers both the effect of the modified time value of money element in each reporting period and cumulatively over the life of the instrument. This is done, as far as the lifetime of the instrument is concerned, by comparing the cumulative projected undiscounted cash flows of the RI and the BI.

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

Notes to the separate financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.10 Financial assets (continued)

In addition, for the purposes of the SPPI assessment, if a contractual feature could have an effect that is de-minimis or not genuine, it does not affect the classification of the financial asset. A contractual feature does not affect the classification of the financial assets if it could have only a de-minimis effect on the contractual cash flows of the financial asset. Moreover, a contractual feature is considered as not genuine by the Bank, if it affects the instrument's contractual cash flows only on the occurrence of an event that is extremely rare, highly abnormal and very unlikely to occur.

The Bank performs the SPPI assessment for its lending exposures on a product basis for the retail and part of the wholesale portfolio where contracts are of standardized form, whereas for the remaining wholesale portfolio the assessment is performed on an individual basis.
The SPPI assessment of debt securities is performed centrally by the Group using an automated solution, at origination and acquisition dates, respectively, by taking into consideration features that introduce variability in the contractual cash flows of a financial instrument which may not result in solely payments of principal and interest.

Derecognition of Financial asset

The Bank derecognizes a financial asset when its contractual cash flows expire, or the rights to receive those cash flows are transferred in an outright sale in which substantially all risks and rewards of ownership have been transferred. In addition, a financial asset is derecognized even if rights to receive cash flows are retained but at the same time the Bank assumes an obligation to pay the received cash flows without a material delay (pass through agreement) or when substantially all the risks and rewards are neither transferred nor retained but the Bank has transferred control of the asset. The control is considered to be transferred if, and only if, the transferee has the practical ability to sell the asset in its entirety to unrelated third party.
The Bank may modify the contractual terms of a financial asset either as a concession granted to a client facing or that is about to face financial difficulties or due to other commercial reasons such as changes in market conditions, competition or customer retention.
In cases where the contractual cash flows of a financial asset have been modified and the modification is considered substantial enough, the original financial asset is then derecognized. The Bank records the modified asset as a 'new' financial asset at fair value and the difference with the net carrying amount of the existing one is recorded in the income statement as de-recognition gain or loss.

Modifications that may result in de-recognition include:
- change in borrower;
- change in the currency that the lending exposure is denominated;
- debt consolidation features where two or more consumer unsecured lending contracts are consolidated into a single new secured lending agreement;
- the removal or addition of conversion features and/or profit sharing mechanisms and;
- any other changes that cause the terms under the modified contract to differ substantially from those under the old contract (e.g. a new term due to which the loan cannot be considered a basic lending arrangement).

Policy applicable before 1 January 2018

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

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

Notes to the separate financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.10 Financial assets (continued)

Policy applicable before 1 January 2018 (continued)

(i) Financial assets held for trading

A financial asset is classified as held for trading if acquired principally for the purpose of selling or repurchasing in the short term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorized as held for trading unless they are designated and effective hedging instruments.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the Bank intends to sell immediately or in the short term, which are classified as held for trading; or (b) those that the Bank upon initial recognition designates as available-for-sale.

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

(iii) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank has the positive intention and ability to hold to maturity. If the Bank were to sell other than an insignificant amount of held-to-maturity assets, the entire category is tainted and reclassified as available for sale.

***(iv)* Available-for-sale**

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Accounting treatment and calculation

Purchases and sales of financial assets are recognised at settlement date – which is the date that the asset is delivered to or by the Bank. Loans originated by the Bank are recognised when cash is advanced to the borrowers. Financial assets are initially recognized at fair value plus transaction costs for all financial assets not classified as held for trading.

Available-for-sale financial assets and financial assets held for trading are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are subsequently carried at amortized cost using the effective interest method. Gains and losses arising from changes in the fair value of the financial assets held for trading category are included in the income statement as net trading income in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognized directly in other comprehensive income, until the financial asset is derecognized or impaired, at which time the cumulative gain or loss previously recognized in equity is recognized as profit and loss. However, interest calculated using the effective interest rate method is recognized in the income statement.

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

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

Notes to the separate financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.10 Financial assets (continued)

De-recognition of financial assets

The Bank derecognizes a financial asset when its contractual cash flows expire, or when the Bank has transferred substantially all risks and rewards of ownership. The control is considered to be transferred if, and only if, the transferee has the practical ability to sell the asset in its entirety to unrelated third party.
In addition, de-recognition of financial asset arises when its contractual cash flows are modified and the modification is considered substantial enough so that the original asset is de-recognized and a new one is recognized. For description of the events that would constitute a substantial modification of an asset, following a modification refer to note 2.2.15 Impairment of financial assets below**.**

2.2.11 Reclassifications of financial assets

Policy applicable from 1 January 2018

The Bank reclassifies a financial asset only when it changes its business model for managing financial assets. Generally, a change in the business model is expected to be rare and occurs when the Bank either begins or ceases to perform an activity that is significant to its operations; for example, when a business line is acquired, disposed of or terminated. In the rare event when there is a change to the existing business models, the updated assessment is approved by the Bank's competent Committees and the amendment is reflected appropriately in the Bank's budget and business plan.
Changes in intention related to particular financial assets (even in circumstances of significant changes in market conditions), the temporary disappearance of a particular market for financial assets or a transfer of financial assets between parts of the Bank with different business models, are not considered by the Bank changes in business model.
The reclassification is applied prospectively from the reclassification date, therefore previously recognized gains, losses (including impairment losses) or interest are not restated.

Policy applicable before 1 January 2018

The Bank may choose to reclassify a non-derivative financial asset held for trading out of the held-for-trading category if the financial asset is no longer held for the purpose of selling it in the near-term. Financial assets other than those that meet the definition of loans and receivables may be reclassified out of the held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near-term. In addition, the Bank may choose to reclassify financial assets that would meet the definition of loans and receivables, out of the held-for-trading or available-for-sale categories, if the Bank has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.
Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortized cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

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

Notes to the separate financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.12 Financial liabilities

Classification and measurement

Policy applicable from 1 January 2018
The Bank may classify its financial liabilities in the following categories: financial liabilities measured at amortized cost and financial liabilities at fair-value-through-profit-or-loss.
Financial liabilities at fair-value-through-profit-or-loss comprise two sub categories: financial liabilities held for trading and financial liabilities designated at fair-value-through-profit-or-loss upon initial recognition.
Financial liabilities held for trading are those liabilities that the Bank incurs principally for the purpose of repurchasing in the near term for short term profit.
The Bank may, at initial recognition, irrevocably designate financial liabilities at fair-value-through-profit-or-loss when one of the following criteria is met:

- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- a group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis; or
- the financial liability contains one or more embedded derivatives which significantly modify the cash flows that otherwise would be required by the contract.

Financial liabilities at FVTPL are initially recognized at fair value. Changes in fair value are recognized in the income statement, except for changes in fair value attributable to changes in the Bank's own credit risk, which are recognised in OCI and are not subsequently reclassified to the income statement upon derecognition of the liabilities. However, if such treatment creates or enlarges an accounting mismatch in the income statement, all gains or losses of this financial liability, including the effects of changes in the credit risk, are recognized in the income statement.
As of the end of 2018 the Bank classifies all its financial liabilities at amortized cost.

Policy applicable before 1 January 2018
The Bank classifies its financial liabilities in the following categories: financial liabilities measured at amortized cost and financial liabilities at fair-value-through-profit-or-loss. Financial liabilities at fair-value-through-profit-or-loss comprise two sub categories: financial liabilities held for trading and financial liabilities designated at fair-value-through-profit-or-loss upon initial recognition.
The Bank designates financial liabilities at fair-value-through-profit-or-loss when any of the following apply:
(a) it eliminates or significantly reduces measurement or recognition inconsistencies; or
(b) financial liabilities share the same risks with financial assets and those risks are managed and evaluated on a fair value basis; or
(c) structured products containing embedded derivatives that could significantly modify the cash flows of the host contract.

De-recognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability of the Bank is replaced by another from the same counterparty on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as an extinguishment of the original liability and the recognition of a new liability and any difference arising is recognized in the income statement.

Notes to the separate financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.12 Financial liabilities (continued)

Classification and measurement (continued)

The Bank considers the terms to be substantially different, if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability.

If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortized over the remaining term of the modified liability.

2.2.13 Offsetting financial instruments

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

2.2.14 Fair value measurement of financial instruments

Fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

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

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

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e. the fair value of the consideration given or received unless the Bank determines that the fair value at initial recognition differs from the transaction price. In this case, if the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. Level 1 input) or based on a valuation technique that uses only data from observable markets, a day one gain or loss is recognized in the income statement. On the other hand, if the fair value is evidenced by a valuation technique that uses unobservable inputs, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price (day one gain or loss). Subsequently the deferred gain or loss is amortized on an appropriate basis over the life of the instrument or released earlier if a quoted price in an active market or observable market data become available or the financial instrument is closed out.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy based on the lowest level input that is significant to the fair value measurement as a whole (note 5.3).

For assets and liabilities that are measured at fair value on a recurring basis, the Bank recognizes transfers into and out of the fair value hierarchy levels annually for the year in which a financial instrument's transfer was effected.

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

Notes to the separate financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.15 Impairment of financial assets

Policy applicable from 1 January 2018

Impairment of financial assets

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.

Accordingly, ECLs are recognized using a three-stage approach based on the extent of credit deterioration since origination:

• Stage 1 – Under IFRS 9, if the credit risk on a lending exposure has not increased significantly at the reporting date in comparison to its origination date, the Bank should measure the loss allowance for that lending exposure at an amount equal to 12-month expected credit losses. The 12-month ECL represents a portion of lifetime ECL that results from default events on a financial instrument that are possible within the next 12 months after the reporting date and is equal to the expected cash shortfalls over the life of the lending exposure or group of lending exposures, due to loss events that could occur in the next 12 months from the reporting date. The lifetime cash shortfalls that will result if a default occurs in the next 12 months after the reporting date (or a shorter period if the expected life of a lending exposure is less than 12 months) is weighted by the probability of a default occurring (PD) in those next 12 months after the reporting date (or earlier, given a shorter tenor).

For lending exposures with a remaining maturity of less than one year, the 12M PD is applied. For debt securities with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used. Not credit-impaired financial assets that are either newly originated or purchased, as well as, assets recognized following a substantial modification accounted for as a de-recognition, are classified initially in Stage 1.

• Stage 2 – The Bank should recognize changes in 12-month ECL through the allowance and move lending exposures to lifetime ECL measurement, providing that there is a significant increase in credit risk of the exposure. The lifetime ECL are the expected credit losses that result from all possible default events over the expected life of a lending exposure (i.e. Stage 2, Stage 3) and POCI. Impairment losses are measured at lifetime ECLs if an instrument's credit risk at origination date has increased significantly since its recognition. If the credit risk of a lending exposure has not increased significantly on a subsequent period, then the Bank reverses the measurement of the impairment allowances from lifetime ECL to 12-month ECL.

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

Notes to the separate financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.15 Impairment of financial assets (continued)

• Stage 3 – Financial instruments that are considered to be credit impaired are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

• Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. ECL are only recognized or released to the extent that there is a subsequent change in the assets' lifetime expected credit losses. POCI exposures are not subject to stage allocation as these exposures are credit impaired at the date of initial recognition by the Bank and are always measured on the basis of lifetime expected credit losses. Apart from purchased assets, POCI assets may also include financial instruments that are considered new assets, following a substantial modification accounted for as a de-recognition. Any subsequent favorable change to their expected cash flows are recognized as impairment gain in the income statement even if the resulting expected cash flows exceed the estimated cash flows at initial recognition.

Definition of default

To determine the risk of default, the Bank applies a default definition for accounting purposes, which is consistent with the European Banking Authority (EBA) definition for non-performing exposure (refer to note 5.2.1.2). The accounting definition of default is consistent with the one used for internal credit risk management reporting purposes.

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.

Sovereign debt securities

For sovereign debt securities, the Bank determines the risk of default using an internal credit rating scale and considers them as credit impaired if the internal credit rating of the issuer/counterparty at the reporting date is equivalent to "C" (Moody's rating scale). Debt instruments with external rating equivalent to "C" are always considered impaired and carry the equivalent internal rating that presents default.

Significant increase in credit risk (SICR) and staging allocation

Determining whether a loss allowance should be based on 12-month expected credit losses or lifetime expected credit losses depends on whether there has been a significant increase in credit risk (SICR) of the financial assets, issued loan commitments and financial guarantee contracts, since initial recognition.

At each reporting date, the Bank performs an assessment as to whether the risk of a default occurring over the remaining expected lifetime of the exposure has increased significantly from the expected risk of a default estimated at origination for that point in time.

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

Notes to the separate financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.15 Impairment of financial assets (continued)

Significant increase in credit risk (SICR) and staging allocation (continued)

The assessment for SICR is performed using both qualitative and quantitative criteria based on reasonable and supportable information that is available without undue cost or effort including forward looking information and macroeconomic scenarios as well as historical experience. Furthermore, regardless of the outcome of the SICR assessment based on the above indicators, the credit risk of a financial asset is deemed to have increased significantly when contractual payments are more than 30 days past due.
As a primary criterion for SICR assessment, the Bank compares the residual lifetime probability of default (PD) at each reporting date to the residual lifetime PD for the same point in time which was expected at the origination.
The Bank uses the below criteria in combination, where appropriate, for the purposes of identifying a significant increase in credit risk:

i. Residual lifetime PD comparison

The Bank considers a significant increase in credit risk (SICR) on a lending exposure when the "Current residual lifetime probability of default" at each reporting date (Current Residual Lifetime PD) is higher than the residual lifetime probability of default at same maturity point on the PD curve expected at the origination by a certain threshold (Residual Lifetime PD threshold).

In cases where the contractual cash flows on a lending exposure have been modified and the original lending exposure has been derecognized, the Bank uses the date of the substantial modification as the origination date of the new modified lending exposure for the purposes of the residual lifetime PD comparison. On the other hand, in cases where the modification is not substantial enough the comparison is performed between the risk of a default occurring at initial recognition (based on the original unmodified contractual terms) and the risk of a default occurring at the reporting date (based on the modified contractual terms).

ii. Forbearance

Concessions granted within the last 24 months to lending exposures as a result of financial difficulty of the borrower that otherwise would not have been considered by the Bank, are identified as associated with significant increase in credit risk SICR and thus allocated into Stage 2.

iii. Backstop indicators

The Bank applies the backstop criterion 30 days past due for the identification of SICR. In particular, lending exposures overdue for more than 30 days and below 90 days, are considered as associated with Significant Increase in Credit Risk and are classified into Stage 2.

Transfers from Stage 2 to Stage 1

A lending exposure, which is classified to Stage 2 due to Significant Increase in Credit Risk (SICR), is reclassified to Stage 1, as long as it does not meet anymore any of the aforementioned Stage 2 criteria.
Where forbearance measures have been applied in the past and the exposure has been categorized as Performing Forborne (PF) Exposure (either due to the application of forbearance measures to Performing exposures or a result of curing from Non – Performing Forborne status) , the following conditions should be met in order to qualify for a transfer back to Stage 1:

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

Notes to the separate financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.15 Impairment of financial assets (continued)

- The facility is considered to be performing, including where it has been reclassified from the non – performing category after an analysis of the financial condition of the borrower showed that it no longer met the conditions to be considered as non - performing;
- A minimum of two years' probation period has passed from the date the forborne exposure was considered to be performing;
- Regular payments of more than an insignificant aggregate amount of principal or interest have been made during at least half of the probation period (i.e. one year);

Transfers from Stage 3 to Stage 2

A financial asset is transferred from Stage 3 to Stage 2, when the criteria based on which the financial asset was characterized as credit impaired, are no longer valid. Specifically the following criteria should be met:

- The exposure meets the exit criteria applied by the Bank for the discontinuation of the default classification;
- The situation of the debtor has improved to the extent that full repayment, according to the original or when applicable the modificed conditions, is likely to be made;
- The debtor does not have any material amount more than 90 days past due.

Where forbearance measures have been applied to Non – Performing Exposures, those exposures shall be considered to have ceased being Non – Performing and as such they shall be transferred back to Stage 2 where all of the following have been met:

- The application of forbearance measures does not lead to the recognition of impairment;
- One year has passed since the forbearance measures were applied;
- There is not, following the forbearance measures, any material past due amount or concern regarding the full repayment of the exposure according to the post – forbearance conditions. The absence of concerns is determined after an analysis of the debtor's financial situation by the Bank (usually in the context of an impairment test). Concerns are demonstrated as no longer existing where the borrower has paid, via its regular payments in accordance with the post – forbearance conditions, a total equal to the amount that was previously past - due (if any) or that has been written – off (where there are no past due amounts) under the forbearance measures or the borrower has otherwise demonstrated its ability to comply with the post-forbearance conditions.

Criteria for grouping of exposures based on shared credit risk characteristics

The Bank segments its lending exposures on the basis of shared credit risk characteristics for the purposes of both assessing significant increase in credit risk and measuring loan loss allowance on a collective basis. The different segments aim to group lending exposures into homogenous pools in terms of estimated PDs and rates of recovery in the event of default.

The shared credit risk characteristics used for the segmentation of lending exposures include the following:

- Instrument type (e.g. lending exposures, debt instruments etc.);
- Portfolio type (e.g. retail, wholesale etc.);
- Observed credit history (i.e. characteristics based on the debt service behavior of borrowers recorded in the Bank's books);
- Asset class (e.g. mortgages, consumer loans, SBBs, large corporate, SMEs etc.);
- Product type (e.g. revolving credit facilities, personal loans, debt consolidation etc.);
- Credit risk rating (i.e. segmentation per rating band);
- Date of initial recognition (i.e. segmentation per vintage);
- Remaining term to maturity (i.e. segmentation based on remaining tenor).

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

Notes to the separate financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.15 Impairment of financial assets (continued)

Lending exposures are allocated into groups based on shared credit risk characteristics upon initial recognition. On subsequent periods, the Bank re-evaluates the grouping of its exposures at least on an annual basis, in order to ensure that the groups remain homogeneous in terms of their response to the identified shared credit risk characteristics, and the exposures are re-segmented in the case where relevant new information becomes available in respect to the credit risk associated with the particular exposures or when there is a change on management's perception compared to the initial recognition.

Measurement of Expected Credit Losses

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

The Bank estimates expected cash shortfalls, which reflect the cash flows expected from all possible sources, including collateral and other credit enhancements that are part of the contractual terms and are not recognized separately. In case of a collateralized financial instrument, the estimated expected cash flows related to the collateral reflect the amount and timing of cash flows that are expected from liquidation less the discounted costs of obtaining and selling the collateral, irrespective of whether liquidation is probable.
ECL are calculated over the maximum contractual period over which the Bank is exposed to credit risk, which is determined based on the substantive terms of the instrument, or in case of revolving credit facilities, by taking into consideration factors such as the Bank's expected credit risk management actions to mitigate credit risk and past practice.
Receivables from customers arising from the Bank's activities other than lending, are presented under Other Assets and are typically short term. Therefore, considering that usually there is no significant financing component, the loss allowance for such financial assets is measured at an amount equal to the lifetime expected credit losses under the simplified approach.

ECL Key Inputs

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

The PD represents the likelihood of default assessed on the prevailing economic conditions at the reporting date, adjusted to take into account estimates of future economic conditions that are likely to impact the risk of default, over a given time horizon.
The Bank uses Point in Time (PiT) PDs in order to remove any bias towards historical data thus aiming to reflect management's view of the future as at the reporting date, incorporating relevant forward looking information including macroeconomic scenarios.

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

Notes to the separate financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.15 Impairment of financial assets (continued)

ECL Key inputs (continued)

Two types of PD are used for calculating ECL:

- 12-month PD, which is the estimated probability of default occurring within the next 12 months (or over the remaining life of the financial asset if this is less than 12 months). It is used to calculate 12-month ECL for Stage 1 exposures.
- Lifetime PD, which is the estimated probability of a default occurring over the remaining life of the financial asset. It is used to calculate lifetime ECLs for Stage 2, Stage 3 and POCI exposures.

For sovereign debt securities, PDs are obtained by an international rating agency using risk methodologies that maximize the use of objective non-judgemental variables and market data. The Bank assigns internal credit ratings to each issuer/counterparty based on these PDs. In case of counterparties for which no information is available, the group assigns internal credit ratings derived from internal models. For corporate debt securities that are part of the Bank's loan portfolio, the loan impairment policies and rules apply.
The Exposure at default (EAD) is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest and expected drawdowns on committed facilities. The EAD includes both on and off balance sheet exposures. The on balance sheet exposure corresponds to the total amount that has been withdrawn and is due to be paid, which includes the outstanding principal, accrued interest and any past due amounts. The off balance sheet exposure represents the credit that is available to be withdrawn, in excess of the on balance sheet exposure.
Furthermore, the CCF factor is used to convert the amount of a credit facility and other off-balance sheet amounts to an EAD amount. It is a modelled assumption which represents a proportion of any undrawn exposure that is expected to be drawn prior to a default event occurring.

In addition, the prepayment rate is an estimate of early prepayments on loan exposure in excess of the contractual repayment according to the repayment schedule and is expressed as a percentage applied to the EAD at each period, reducing the latter amount accordingly.

LGD represents the Bank's expectation of the extent of loss on a defaulted exposure and it is the difference between the contractual cash flows due and those that the Bank expects to receive including any amounts from collateral liquidation. LGD varies by type of counterparty, type and seniority of claim, availability of collateral or other credit support, and is usually expressed as a percentage of EAD. The Bank distinguishes its loan portfolios into two broad categories i.e. secured and unsecured. For secured exposures, the Bank estimates the LGD component using cure rates that reflect cash recoveries, estimated proceeds from collateral liquidation, estimates for timing realization, realization costs, etc. for unsecured exposures, the Bank considers at a minimum the cure rates, recovery rates and time to recovery. Where the LGD's component values are dependent on macro – economic data, such types of dependencies are reflected by incorporating forward looking information, such as forecasted price indices into the respective models. The estimation of the aforementioned component values within LGD reflects available historical data which cover a reasonable period, i.e. a full economic cycle.

For debt securities, the LGD is typically based on historical data derived mainly from rating agencies' studies but may also be determined considering the existing and expected liabilities structure of the obligor and macroeconomic environment.

Furthermore, the seniority of the debt security, any potential collateral by the obligor or any other type of coverage is taken into account for the calculation.

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

Notes to the separate financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.15 Impairment of financial assets (continued)

Forward-looking information

The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk consider information about reasonable and supportable forecasts of future events and macroeconomic conditions. The estimation and application of forward-looking information requires significant judgment.
The Bank uses, at a minimum, three macroeconomic scenarios (i.e. base, adverse and optimistic) to achieve the objective of measuring ECL in a way that reflects an unbiased and probability weighted outcome. The base scenario represents the most likely scenario.
The scenarios are reflected in the risk parameters, and, namely 12-month PD, Lifetime PD and LGD, hence 3 sets of each of these parameters are used, in line with the scenarios developed.
Each scenario is assigned with weight, which represent the probability of occurrence for each of these scenarios. These weights are applied on the 3 sets of calculations of the parameters in order to produce a single scenario weighted risk parameter value which is subsequently used in both SICR assessment and ECL measurement.

Modified Financial Assets

The Bank may, in the normal course of its operating activities, modify the contractual terms of a lending arrangement either as a concession granted to a client facing or that is about to face financial difficulties or due to other commercial reasons such as changes in market conditions, competition within the Banking industry, customer retention, etc.

Upon modification of the contractual terms of a lending arrangement, an assessment of whether the modification of contractual terms is substantial should follow in order to conclude on whether the modification qualifies for derecognition of the original loan and the recognition of a new one based on the revised contractual terms.

In general, a lending exposure is derecognised when, and only when, either the contractual cash flows of the lending exposure expire or the exposure is transferred and the transfer qualifies for derecognition.

The decision of whether a modification of the contractual terms of a lending arrangement is considered substantial enough to trigger derecognition accounting requires the exercise of judgement. In that context, the Bank assesses modifications based on their significance on both the variability of cash flows and the risk profile of the lending exposure by using qualitative criteria that indicate whether an expiration of the contractual rights to those cash flows has occurred. Also other factors such as the driver of the modification are taken into account to the extent to which the latter affect the variability of the expected cash flows and the risk profile of the lending exposure, subject to modification.

In cases where the modification of the contractual cash flows is not considered substantial (following the de-recognition assessment performed using the de-recognition triggers provided above), the modification does not result in de-recognition. The Bank recalculates the gross carrying amount of the financial asset and recognizes the difference as a modification gain or loss, which is reflected in the income statement. When a modification includes debt forgiveness, the portion of the asset subject to forgiveness is de-recognized first and then the calculation of the modification gain/loss is performed.
The Bank has established a structured framework for both the SPPI and de-recognition assessment of its financial assets that takes place to ensure appropriate classification and measurement. In particular, the Bank has introduced several levels of defense by performing reviews both the assessments and their results by senior management with appropriate knowledge for both lending exposures and debt securities.

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

Notes to the separate financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.15 Impairment of financial assets (continued)

Presentation of allowance for credit loss

For debt instruments measured at amortized cost, credit impairment losses are recognized as a loss allowance in the income statement reducing the gross carrying amount of the debt instruments in the balance sheet. For debt instruments measured at FVOCI, credit impairment losses are recognized in other comprehensive income and the accumulated amount does not reduce the carrying amount of the debt instruments in the balance sheet. For off-balance sheet financial instruments arising from lending activities, allowance for credit losses is presented in Other Liabilities, while the respective ECL is recognised within impairment losses.

Write-off of financial assets

Where the Bank has no reasonable expectations of recovering a debt instrument either in its entirety or a portion of it, the gross carrying amount of that instrument is reduced directly, partially or in full, against the impairment allowance. The amount that is written-off is considered as derecognized. Subsequent recoveries of amounts previously written off decrease the amount of the impairment losses in the income statement.

Policy applicable before 1 January 2018

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets, not carried at fair value through profit and loss, is impaired. A financial asset or a group of financial assets is impaired and an impairment loss is incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Impairment indicators

Objective evidence that a financial asset or group of assets is impaired includes observable data about the following loss events:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (for example, equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower’s competitive position;
- Deterioration in the value of collateral and;
- Downgrading below investment grade level;
- Concessions granted to the borrower, facing financial difficulty, that the Bank would not otherwise consider.

(i) Assets carried at amortized cost

Impairment assessment

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

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

Notes to the separate financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.15 Impairment of financial assets (continued)

Impairment losses recognized for financial assets for which no objective evidence of impairment exists (incurred but not reported loss-IBNR), represent an interim step pending to the identification of impairment losses of individual assets in the group. As soon as information is available that specifically identifies losses on individually impaired assets in the group, those assets are removed from it.

Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

In determining whether a loan is individually significant for the purposes of assessing impairment, the Bank considers a number of factors, including the importance of the individual loan relationship and how it is managed, the size of the loan, and the product line. Consequently, loans to wholesale customers and financial institutions, as well as investment securities are generally considered as individually significant. Retail lending portfolios are generally assessed for impairment on a collective basis as they consist of large homogenous portfolios; exposures that are managed on an individual basis are assessed individually for impairment.
The Bank assesses at each reporting date whether there is objective evidence of impairment.

Impairment measurement

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

For collective impairment purposes, the financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the borrowers' ability to pay all amounts due according to the contractual terms of the assets being evaluated.
Future cash flows of a group of financial assets that is collectively assessed for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group.
Estimates of changes in the future cash flows for a group of financial assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). Historical loss experience is adjusted on the basis of current observable data to reflect the effects of conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating the future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

Notes to the separate financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.15 Impairment of financial assets (continued)

Reversals of impairment

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the borrower's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account or the asset's carrying amount, as appropriate. The amount of the reversal is recognized in the income statement.

Write-off of loans and advances

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

Unpaid debt continues to be subject to enforcement activity even after it is written-off, except for cases where it is clearly stipulated in debt forgiveness programs.
Subsequent recoveries of amounts previously written off decrease the amount of the impairment losses for loans and advances in the income statement.

Loan modifications

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

Forbearance measures usually do not lead to de-recognition of the loan, unless, in accordance with note 2.2.10 'Financial assets', the contractual terms of the new loan contract are assessed to be substantially different from those under the original loan, representing the expiry of the rights to the cash flows of the original loan. In this case the initial loan is derecognized and a new loan is recognized at fair value with any difference between the carrying amount of the derecognized asset and the fair value of the new loan recognized in the Bank's income statement.

Modifications that may not result in de-recognition include:

- changes in interest rate that are not considered significant or grace periods;
- changes in collaterals that are not substantial;
- other changes in contractual terms, e.g. increase in maturity, capitalization of accruals, etc.

Notes to the separate financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.15 Impairment of financial assets (continued)

Modifications that may result in de-recognition include:

- change in borrower;
- change in the currency that the lending exposure is denominated;
- debt consolidation features where two or more consumer unsecured lending contracts are consolidated into a single new secured lending agreement;
- the removal or addition of conversion features and/or profit sharing mechanisms and;
- any other changes that cause the terms under the modified contract to differ substantially from those under the old contract (e.g. a new term due to which the loan cannot be considered a basic lending arrangement).

(ii) Available-for-sale assets

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

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

2.2.16 Sale and repurchase agreements and securities lending

(i) Sale and repurchase agreements

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

(ii) Securities lending

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

2.2.17 Operating leases

Accounting for the Bank as a lessee

Leases, where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases under which the leased asset is not recognized on balance sheet. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

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

Notes to the separate financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.17 Operating leases (comtinued)

Accounting for the Bank as a lessor

Assets leased out under operating leases are included in property, plant and equipment or investment property, as appropriate, in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment. Rental income (net of any incentives given to lessees) is recognized on a straight-line basis over the lease term.

2.2.18 Income tax

Taxation has been provided for in the financial statements in accordance with Bulgarian legislation currently in force.

Income tax expense comprises current and deferred tax. It is recognised in the income statement except to the extent that it relates to a business combination, or items recognised directly in equity or in OCI.

Current tax is calculated on the basis of the taxable profit for the year, using the tax rates enacted at the balance sheet date. Income tax payable on profits, based on the applicable tax law is recognised as an expense in the period in which profits arise. The Bank shall offset current tax assets and current tax liabilities if, and only if it has a legally enforceable right to set off the recognised amounts; and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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

The Bank shall offset deferred tax assets and deferred tax liabilities if, and only if it has a legally enforceable right to set off current tax assets against current tax liabilities; and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority.

2.2.19 Employee benefits

(i) Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) Social, pension and health funds

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

(iii) Retirement benefit obligations

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

Notes to the separate financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.19 Employee benefits (continued)

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

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

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

2.2.20 Repossessed collaterals

Land and buildings repossessed through an auction process to recover impaired loans are, except where otherwise stated, included in ‘Other Assets’. Assets acquired from an auction process are held temporarily for liquidation and are valued at the lower of cost and net realizable value, which is the estimated selling price, in the ordinary course of business, less costs necessary to make the sale.

In cases where the Bank makes use of repossessed properties as part of its operations, they may be reclassified to own occupied or investment properties, as appropriate.

Any gains or losses on liquidation are included in the income statement.

2.2.21 Borrowings

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

Borrowings include deposits from banks, due to customers, other borrowed funds.

2.2.22 Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and reliable estimates of the amount of the obligation can be made.

The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at each reporting date, taking into account the risks and uncertainties surrounding the amount of such expenditure.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If, subsequently, it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

2.2.23 Statutory reserve and dividends

According to Article 246 of the Bulgarian Commerce Act, the Bank shall set aside at least one tenth of its profit in a Statutory reserve fund, until it reaches one tenth or more of the Bank’s equity. Disbursement from the reserve fund may be made only to cover losses from the current or previous years. As per Bank legislation, funds accumulated in the Statutory Reserve account cannot be distributed as dividends without the consent of the Local Bank Regulator.

Dividends are recognised as a liability when authorized by the General Assembly of the Shareholders and are deducted from equity.

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

Notes to the separate financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.23 Statutory reserve and dividends (continued)

In 2018 a dividend on ordinary shares in the amount of EUR 30,000 thousand (2017: EUR 30,000 thousand) with equivalent in BGN 58,674 thousand (EUR 0.053541, representing the equivalent of BGN 0.10472 per ordinary share) was approved by the Extraordinary General Meeting of Shareholders. The dividend shall be paid within a five year limitation period beginning on 5 December 2018, pursuant to Art.110 of the Bulgarian Law on Obligations and Contracts.

2.2.24 Cash and cash equivalents

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

2.2.25 Financial guarantees and other related commitments

Policy applicable from 1 January 2018

Financial guarantees

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

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, such guarantees are measured at the higher of the amount of the impairment loss allowance, and the amount initially recognised less any cumulative amortization of the fee earned, where appropriate.

Commitments to extend credit

Commitments represent off-balance sheet items where the Bank commits, over the duration of the agreement, to provide a loan with pre-specified terms to the customer. Such contractual commitments represent commitments to extend credit and standby letters and they are part of the normal lending activities of the Bank, for which an impairment allowance is recognised under IFRS 9.
Impairment allowance for off-balance sheet exposures (financial guarantees and commitments) is included within Other Liabilities.

Policy applicable before 1 January 2018

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are granted to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.
Financial guarantees are initially recognized in the financial statements at fair value. Subsequent to initial recognition, the Bank’s liabilities under such guarantees are measured at the higher of the initial measurement, less amortization calculated to recognize in the income statement the fee income earned on a straight line basis over the life of the guarantee, and the best estimate of the expenditure required to settle any financial obligation arising at the reporting date. These estimates are determined based on experience of similar transactions and history of losses, supplemented by management’s judgment.

Notes to the separate financial statements (continued)

2.2 Principal accounting policy (continued)

2.2.25 Financial guarantees and other related commitments (continued)

Furthermore, commitments to extend credit represent off-balance sheet items where the Bank commits, over the duration of the agreement, to provide a loan with pre-specified terms to the customer. The Bank recognizes a provision in accordance with IAS 37 only when the commitment contract can be considered to be onerous.

2.3 IFRS 9 'Financial Instruments' – Impact of adoption

2.3.1 Adoption of IFRS 9

The Bank adopted IFRS 9 on the date of transition on 1 January 2018. The Bank applied the Standard's exemption not to restate comparative figures for prior periods; therefore the Bank's 2017 comparatives are presented on an IAS 39 basis. The effect on the carrying amounts of financial assets and liabilities at the date of transition to IFRS 9 was recognized as an adjustment to opening reserves and retained earnings. The detailed effects of the adoption of IFRS 9 on 1 January 2018 are presented in note 2.3.2.
A Group-wide IFRS 9 Program, led jointly by Group Risk and Group Finance, was initiated in 2015 to ensure a robust and high quality implementation in compliance with the requirements of the Standard and respective regulatory guidance.
Overall governance was achieved through a central Program Management Office (PMO) that coordinates the implementation of the Program among the various stakeholders and was responsible for the day-to-day management tasks, as well as two Management Committees, namely the Steering Committee and the Technical Committee. The Steering Committee, which comprised senior staff from all the main functions of the Group, was mandated to oversee the implementation in accordance with the Standard, monitor timeliness and the quality of the Program's deliverables, review program's results, approve deliverables and changes in the scope of the program where appropriate, and regularly informed the Executive Board, the Board Risk Committee, the Audit Committee and the Board of Directors on the Program's implementation progress. The Technical Committee was composed of Subject Matter Experts responsible for evaluating key technical issues and analyzing proposed changes in accounting policies and risk management methodologies for the Steering Committee before they were submitted and approved by the competent bodies of the Bank.
Reflecting the scale and complexity of the implementation plan, the Program was structured with various project teams (Group Finance, Group Risk Management, Information Systems, Internal Audit, Lending Business Units, Troubled Assets Group, Operations, Global Markets and Treasury and International General Division) dedicated to the various elements associated with the implementation of the Standard. These teams were supported by two external consultancy firms.

In the context of the Group-wide IFRS 9 Implementation Program, the process of implementation of IFRS 9 requirements by Eurobank Bulgaria AD is managed locally with the establishment of local PMO and Steering Committee. Progress is monitored by the central PMO and the central Steering Committee in the Head Office providing support and guidance to ensure consistent implementation within the Eurobank Group. The Bank Steering Committee comprises senior management members of the Bank and members of the Group PMO. The Bank PMO comprises representatives from the main functions of the Bank and coordinates the implementation of IFRS 9 requirements following the Group guidelines, policies and procedures.
The Bank has committed to ensure a high quality implementation and ongoing application of IFRS 9 which ensures sound governance and internal control framework in the context of the IFRS 9 Program, taking also into consideration all existing frameworks related to risk management and corporate governance. Specifically, the PMO and Management have been involved in the monitoring and oversight of the IFRS 9 application throughout the current financial year, which is the year of adoption. In addition the Bank has performed a broad reassessment of the processes and functions that are involved in the ECL calculation in order to ensure sound governance, proper monitoring as well as alignment with the Bank's overall risk framework and supervisory expectations.

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

Notes to the separate financial statements (continued)

2.3 IFRS 9 'Financial Instruments' – Impact of adoption (continued)

2.3.1 Adoption of IFRS 9 (continued)

Particularly, the ECL calculation is a monthly process that has been fully embedded in the Bank's existing functions, whereby Bank Committees, Business Units and Senior Management have assumed discreet roles and responsibilities as indicated below:

- The Risk Committee which approves the IFRS 9 related policies, ECL methodologies and the validation process results;
- The Credit Committees, which are responsible for the approval of the Impairment Status and other client specific information as appropriate e.g. cash flows available for debt service;
- The Credit Control Department (CCD) which has the primary responsibility for the ECL calculation monitoring both the individual and the collective assessment process of lending exposures. As part of its primary responsibilities, CCD reviews the assumptions used in the individual assessment such as the Cash-Flows Available for Debt Service (CFADS), scenarios and recovery strategies;
- The Credit Risk Methodology and Capital Adequacy Control Department (CRM&CAC), which is responsible for the estimation of the risk parameters used in the IFRS 9 ECL calculation process, for reviewing the grouping of lending exposures and ensuring their homogeneity, and re-assessing and re-developing the significant increase in credit risk (SICR) thresholds; CRM&CAC Department oversees the ECL process ensuring that the assumptions used are appropriate. CRM&CAC performs sanity checks to verify the reasonableness of the outcome of the Staging and ECL calculation process;
- The Wholesale and Retail Banking Sectors (performing loans) and the Troubled Assets Group Division (non-performing loans), which participate in the individual assessment process and are responsible for conducting the impairment test, selecting the recovery strategies, assessing the CFADS and reviewing the assumptions used. They are also responsible for performing the Solely Payments of Principal and Interest (SPPI) test that defines which loans are not measured at amortized cost.

Educational workshops to the involved stakeholders are conducted on an ongoing basis on the impact of IFRS 9 to the Bank's lending practices and day-to-day operational activities in order to ensure that the new requirements are well understood and will be applied consistently across the Bank, thus embedding the impacts of IFRS 9 to the day to day operations and overall business strategy.

2.3.2 Transition to IFRS 9 – Impact

The impact of transitioning to IFRS 9, before tax, amounting to BGN 85,579 thousand as depicted in the table below is mainly attributed to the lending portfolio which amounts to BGN 84,926 thousand.The transition to IFRS 9 results in a decrease of the shareholders' equity by BGN 77,021 thousand, which is net of tax and is recognised as an opening balance adjustment on 1 January 2018.

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

BGN 39,780 thousand of the IFRS 9 FTA impact recognized for credit-impaired loans is due to the expected loss related with the forward looking accelerated non-performing exposures management strategy. The key driver for the accelerated NPEs reduction will be NPE debt sales transactions. The assumptions underlying the NPE strategy, and in particular the additional cost associated with the accelerated NPE sales were reflected in Bank's IFRS 9 FTA impact in accordance with IFRS 9 requirements for forward looking information incorporation.

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

Notes to the separate financial statements (continued)

2.3 IFRS 9 'Financial Instruments' – Impact of adoption (continued)

2.3.1 Adoption of IFRS 9 (continued)

2.3.2 Transition to IFRS 9 – Impact (continued)

As opposed to IAS 39, IFRS 9 does not limit the cash flows that the Bank can expect to receive only to contractual cash flows that are collected from the borrowers. Further it states that credit risk management activities that are aimed at minimizing potential credit losses, such as sales, are integral to a hold-to-collect business model. Accordingly, cash flows that are expected to be recovered from sale of defaulted assets should be included in the measurement of ECLs.

The recoverability of disposable non-performing exposures, amounting to approximately BGN 260 million from retail portfolio and BGN 52 million from wholesale portfolio as at 1.1.2018, and BGN 246 million from retail portfolio and BGN 33 million from wholesale portfolio as at 31.12.2018, has been quantified by taking into account Bank's past practice and future expectations and relevant market information related to bad debt loans sale prices and similar transactions.

More details disclosed in Note 5.2 Financial risk factors, Operational targets for Non-performing exposures (NPEs).

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

Further analysis of the IFRS 9 impact is presented below.

(i) Re-classification and re-measurement of carrying amounts upon IFRS 9 transition

For the purpose of the transition to IFRS 9, the Bank carried out a business model assessment across various portfolios for its financial assets to determine any potential changes to the classification and measurement. The assessment has been performed based on the facts and circumstances that existed at the date of initial application i.e. 1 January 2018.

The table below discloses the changes in the carrying amounts and the classifications of financial assets and financial liabilities upon transition to IFRS 9 as of 1 January 2018.

IFRS 9 transition table

Financial assets	**IAS 39 carrying amount 31.12.2017**	**Reclassifications**	**ECL**	**IFRS 9 carrying amount 1.1.2018**
Amortised cost				
Cash and balances with central banks	742,389	-	(12)	742,377
Due from credit institutions	1,264,068	-	(448)	1,263,620
Closing balance under IFRS 9				**2,005,997**
Loans and advances to customers:	4,828,632	-	(84,926)	4,743,706
Letter of guarantees and commitments	-	-	(119)	(119)
From AFS	-	6,786	-	6,786
Closing balance under IFRS 9				**4,750,373**
Investment securities (DSL)	-	-	-	
Opening balance under IAS 39	19,181	-	-	19 181
To AC (IFRS 9)	-	(19,181)		(19,181)
Closing balance under IFRS 9				**-**
Investment securities (AC)	-	-	-	-
From DSL	-	19,181	(10)	19,171
Closing balance under IFRS 9				**19,171**
Other Financial Assets	8,824	-	(64)	8,760
Total financial assets measured at AC	**6,863,094**	**6,786**	**(85,579)**	**6,784,301**

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

Notes to the separate financial statements (continued)

2.3 IFRS 9 'Financial Instruments' – Impact of adoption (continued)

2.3.2 Transition to IFRS 9 – Impact (continued)

Financial assets	**IAS 39 carrying amount 31.12.2017**	**Reclassifications**	**ECL**	**IFRS 9 carrying amount 1.1.2018**
Trading Assets and Hedging derivatives	14,467	-	-	14,467
Closing balance under IFRS 9				**14,467**
FVTPL				
Trading assets	-	-	-	-
From AFS equity instruments (IAS 39):	-	9,349	-	9,349
Closing balance under IFRS 9			**-**	**9,349**
Total financial assets measured at FVTPL	**14,467**	**9,349**	**-**	**23,816**

Financial assets	**IAS 39 carrying amount 31.12.2017**	**Reclassifications**	**ECL**	**IFRS 9 carrying amount 1.1.2018**
Investment securities - AFS				
Opening balance under IAS 39	440,228	-	-	440,228
To mandatory FVTPL (IFRS 9):	-	-	-	-
To L&R (IFRS 9):	-	(6,786)	-	(6,786)
To FVOCI - debt instruments:	-	(424,093)	-	(424,093)
To FVTPL - equity instruments:	-	(9,349)	-	(9,349)
Closing balance under IFRS 9				**-**
Investment securities FVOCI - (debt instruments)				
From AFS/debt instruments (IAS 39):	-	424,093	-	424,093
Closing balance under IFRS 9				**424,093**
Total financial assets measured at FVOCI	**440,228**	**(16,135)**	**-**	**424,093**

All financial liabilities held by Eurobank Bulgaria AD including deposits from banks, due to customers, borrowed funds and financial liabilities within the other liabilities caption as of the date of transition to IFRS 9 were measured at amortized cost and remained unaffected by the transition.
As a result of the transition to IFRS 9, the most significant changes in classification and measurement of the financial assets of the Bank are as follows:

- The majority of debt securities of carrying amount BGN 424,093 thousand (out of a total amount of AFS investment securities of BGN 440,228 thousand) and previously classified as available-for-sale under IAS 39, is measured at FVOCI under IFRS 9.
- Equity securities of carrying amount BGN 9,349 thousand classified as available-for-sale under IAS 39 are measured at FVTPL under IFRS 9.
- Corporate bonds amounting to BGN 6,786 thousand, previously classified as available-for-sale, are transferred to Loans and advances to customers.

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

Notes to the separate financial statements (continued)

2.3 IFRS 9 ‘Financial Instruments’ – Impact of adoption (continued)

2.3.2 Transition to IFRS 9 – Impact (continued)

The table below presents the impact of transition to IFRS 9 to Fair value reserve and Retained earnings:

	IFRS 9 impact
Fair value reserve	
Closing balance under IAS 39	31,052
of which AFS reserves	*31,052*
Remeasurement under IFRS 9 measurement categories	(824)
Remeasurement under IFRS 9 ECL impairment for FVOCI portfolio	678
Tax	15
Opening balance under IFRS 9	**30,921**
Retained earnings	
Closing balance under IAS 39	361,632
Remeasurement under IFRS 9 ECL impairment including FVOCI portfolio	(85,433)
Tax	8,543
Opening balance under IFRS 9	**284,742**

The following table reconciles the prior period's closing impairment allowance for Loans and advances to customers and Debt Securities measured in accordance with the IAS 39 incurred loss model and the provisions for credit related commitments in accordance with IAS 37 to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 January 2018.

	31 December 2017 as per IAS 39/ IAS 37	**as at 1 January 2018 as per IFRS 9**			
	Provision for impairment	**12-month ECL**	**Lifetime ECL not credit-impaired**	**Lifetime ECL credit-impaired**	**Loss allowance under IFRS 9**
Cash and balances with central banks	-	12	-	-	**12**
Due from credit institutions	-	449	-	-	**449**
Loans and advances to customers at amortised cost	369,500	18,410	11,836	54,680	**454,426**
Letter of guarantees and commitments	19	119	-	-	**138**
Debt securities at amortised cost	-	10	-	-	**10**
Debt securities at FVOCI	-	678	-	-	**678**
Other Financial assets	-	64	-	-	**64**
Total	**369,519**	**19,742**	**11,836**	**54,680**	**455,777**

Additional loss allowance of BGN 85,579 thousand is recognized as a result of the transition to IFRS 9 for the said instruments. The loss allowance relating to credit losses of debt securities at FVOCI (BGN 678 thousand) is recognized in other comprehensive income and does not reduce the carrying amount of the debt securities in the balance sheet.

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

Notes to the separate financial statements (continued)

2.3 IFRS 9 'Financial Instruments' – Impact of adoption (continued)

2.3.2 Transition to IFRS 9 – Impact (continued)

(ii) Regulatory capital

The Bank's estimated capital impact from the initial application of IFRS 9 as shown in the table below:

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

The Bank has elected to apply the phase-in approach as per EU legislation (Regulation EU 2017/2395) for mitigating the impact of IFRS 9 transition on the regulatory capital. The transition period is for five years, with the proportion of the impact to be included being 5% in 2018 and 15%, 30%, 50% and 75% in the subsequent four years. The full impact is expected as of 1 January 2023. As a consequence, CET1 ratio has been reduced approximately by 7 basis points on the first year of IFRS 9 adoption, corresponding to a reduction of BGN 3,972 thousand in regulatory capital by applying regulatory transitional arrangements.

3. Critical accounting estimates and judgments in applying accounting policies

In the process of applying the Bank's accounting policies, the Management makes various judgments, estimates and assumptions that may affect the reported amounts of assets and liabilities, revenues and expenses recognized in the financial statements within the next financial year and the accompanying disclosures. Estimates and judgments are continually evaluated and are based on current conditions, historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The most significant areas in which the Bank makes judgments, estimates and assumptions in applying its accounting policies are set out below:

3.1 Impairment losses on loans and advances

Policy applicable from 1 January 2018

ECL measurement

The ECL measurement requires management to apply significant judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in significant changes to the timing and amount of allowance for credit loss to be recognized.

The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgments and estimates include:

Determination of a significant increase of credit risk

IFRS 9 does not include a definition of what constitutes a significant increase in credit risk (SICR). An assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting period by considering primarily the change in the risk of default occurring over the remaining life of

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

Notes to the separate financial statements (continued)

3. Critical accounting estimates and judgments in applying accounting policies (continued)

3.1 Impairment losses on loans and advances (continued)

the financial instrument. The Bank assesses whether a SICR has occurred since initial recognition based on qualitative and quantitative reasonable and supportable forward-looking information that includes significant management judgment. More stringent criteria could significantly increase the number of instruments migrating to Stage 2.

For all lending exposures the primary criterion is the percentage change in the current residual cumulative lifetime PD compared to origination residual cumulative lifetime PD above specified thresholds. These thresholds are set and vary per portfolio, product type as well as per origination PD level. In general, thresholds for lower origination PDs are higher than those assessed for higher origination PDs.

As of 31 December 2018, the range of lifetime PD thresholds based on the above segmentation, that triggers allocation to Stage 2 for Bulgarian lending exposures are set out below:

Portfolio	Range of SICR thresholds
Consumer	10% - 70%
Mortgage	20% - 30%
SBB	0% - 80%
Wholesale	100% - 2000%

Determination of scenarios, scenario weights and macroeconomic factors

To achieve the objective of measuring ECL, the Bank evaluates a range of possible outcomes in line with the requirements of IFRS 9 through the application of a minimum three macroeconomic scenarios i.e. baseline, adverse and optimistic, in a way that reflects an unbiased and probability weighted outcome. Each of the scenarios is based on management’s assumptions around future economic conditions in the form of macroeconomic, market and other factors. As of 31 December 2018, the probability weights for the above mentioned scenarios applied by the Bank in the ECL measurement calculations are 40% for the baseline scenario and 30% for the adverse and optimistic scenarios. The Bank ensures that impairment estimates and macroeconomic forecasts applicable for business and regulatory purposes are fully consistent.

In terms of macroeconomic assumptions, the Bank assesses a number of indicators in projecting the risk parameters. Regarding the macroeconomic indicators used in the ECL measurement of Bulgarian lending portfolios for the year ended 31 December 2018, the arithmetic averages of the scenarios’ probability-weighted annual forecasts from 2019 to 2023, are set in the following table:

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

Notes to the separate financial statements (continued)

3. Critical accounting estimates and judgments in applying accounting policies (continued)

3.1 Impairment losses on loans and advances (continued)

	Unit	**Arithmetic Average (2019 - 2023) Probability weighted annual forecast**
Gross Domestic Product	YOY % 2010 prices	3.06%
Domestic Demand	YOY % 2010 prices	3.36%
Number of Employed	YOY %	(0.73%)
Unemployment Rate	%	5.47%
3 Month Interest Rate	%	2.30%
Retail Sales	YOY %	4.05%
Average Monthly Wage	YOY %	3.56%
Total Disposable Income Per Person	YOY %	4.54%
House Price Index	YOY % 2015=100	5.47%
Interest Rate Spread (companies)	%	4.15%
Central Bank Policy Rate	%	1.04%
Imports (goods and services)	YOY %	3.48%

Changes in the scenarios and weights, the corresponding set of macroeconomic variables and the assumptions made around those variables for the forecast horizon would have a significant effect on the ECL amount.

Development of ECL models, including the various formulas, choice of inputs and interdependencies

For the purposes of ECL measurement the Bank performs the necessary model parameterization based on observed point-in-time data on a granularity of monthly intervals. The ECL calculations are based on input parameters, i.e. EAD, PDs, LGDs, CCFs, etc. incorporating management's view of the future. The Bank also determines the links between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs.

Furthermore, the PDs are unbiased rather than conservative and incorporate relevant forward looking information including macroeconomic scenarios. The forecasting risk parameters models incorporate a number of explanatory variables, such as GDP, unemployment etc. which are used as independent variables for optimum predictive capability. The models are based on linear and logistic regressions and run under the different macroeconomic scenarios and relevant changes and shocks in the macro environment reflected accordingly.

Segmentation of financial assets when their ECL is assessed on a collective basis

The Bank segments its exposures on the basis of shared credit risk characteristics upon initial recognition for the purposes of both assessing significant increase in credit risk and measuring loan loss allowance on a collective basis. The different segments aim to capture differences in PDs and in the rates of recovery in the event of default. On subsequent periods, the Bank re-evaluates the grouping of its exposures at least on an annual basis, in order to ensure that the groups remain homogeneous in terms of their response to the identified shared credit risk characteristics. Re-segmentation reflects management's perception in respect to the change of credit risk associated with the particular exposures compared to initial recognition.

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

Notes to the separate financial statements (continued)

3. Critical accounting estimates and judgments in applying accounting policies (continued)

3.1 Impairment losses on loans and advances (continued)

Modeling and Management overlays / adjustments

A number of sophisticated models have been developed or modified to calculate ECL, while temporary management adjustments may be required to capture new developments and information available, which are not yet reflected in the ECL calculation through the risk models. Internal counterparty rating changes, new or revised models and data may significantly affect ECL. The models are governed by the Group's validation framework, which aim to ensure independent verification, and are approved by the Risk Committee (RC).

Sensitivity analysis on lending portfolios

The tables below depict the effect in the Bank's ECL measurement upon potential, reasonably combined changes of forecasts in all macroeconomic indicators used for ECL estimation over the next 5 years (2019-2023), compared to the actual probability weighted macroeconomic scenarios:

Sensitivity Scenario

Indicator	Unit	Scenario	2019	2020	2021	2022	2023
Gross Domestic Product	YOY % 2010 prices	Optimal	7.79%	7.27%	7.33%	7.39%	7.43%
		Adverse	(0.90%)	(1.68%)	(1.83%)	(2.03%)	(2.11%)
Domestic Demand	YOY % 2010 prices	Optimal	5.66%	4.91%	4.61%	4.62%	4.59%
		Adverse	2.98%	2.05%	1.57%	1.41%	1.23%
Number of Employed	YOY %	Optimal	1.14%	1.45%	1.05%	1.14%	1.03%
		Adverse	(2.60%)	(2.42%)	(2.86%)	(2.81%)	(2.90%)
Unemployment Rate	%	Optimal	4.12%	4.00%	4.13%	4.09%	4.30%
		Adverse	6.78%	6.70%	6.89%	6.82%	6.99%
3 Month Interest Rate	%	Optimal	0.59%	1.26%	2.70%	3.69%	4.14%
		Adverse	0.24%	0.92%	2.35%	3.31%	3.79%
Retail Sales	YOY %	Optimal	5.67%	5.88%	5.71%	5.79%	5.71%
		Adverse	2.52%	2.55%	2.26%	2.21%	2.04%
Average Monthly Wage	YOY %	Optimal	2.72%	5.66%	5.60%	5.81%	5.61%
		Adverse	0.27%	2.70%	2.46%	2.50%	2.17%
Total Disposable Income Per Person	YOY %	Optimal	8.81%	10.35%	9.83%	10.23%	10.01%
		Adverse	(1.69%)	(0.79%)	(1.48%)	(1.31%)	(1.63%)
House Price Index	YOY % 2015=100	Optimal	11.05%	10.97%	10.82%	11.12%	10.96%
		Adverse	(0.31%)	(0.91%)	(1.26%)	(1.17%)	(1.43%)
Interest Rate Spread (companies)	%	Optimal	3.13%	3.44%	3.70%	4.00%	4.16%
		Adverse	3.99%	4.34%	4.62%	4.94%	5.12%
Central Bank Policy Rate	%	Optimal	0.44%	0.66%	1.16%	1.68%	2.15%
		Adverse	0.09%	0.32%	0.81%	1.31%	1.81%
Imports (goods and services)	YOY %	Optimal	7.44%	7.63%	7.61%	7.51%	7.30%
		Adverse	(0.63%)	(0.67%)	(0.73%)	(0.93%)	(1.18%)

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

Notes to the separate financial statements (continued)

3. Critical accounting estimates and judgments in applying accounting policies (continued)

3.1 Impairment losses on loans and advances (continued)

Lending Portfolio	Scenario	Collective ECL Amount	% of allowance
Retail	Optimal	(2,594)	(0.74%)
	Adverse	2,555	0.73%
Corporate	Optimal	(4,584)	(4.08%)
	Adverse	10,778	9.58%
Total Lending Portfolio	**Optimal**	**(7,177)**	**(1.56%)**
	Adverse	**13,332**	**2.89%**

It is noted that sensitivity analysis when performed on certain key parameters can provide meaningful information only for portfolios where the risk parameters have a significant impact on the overall credit risk of a lending portfolio, particularly where such sensitivities are also used for internal credit risk management purposes. Otherwise, a sensitivity on certain combinations of some risk parameters may not produce meaningful results as in reality there are interdependencies between the various economic inputs rendering any changes in the parameters correlated changes in other factors.
The Bank updates and reviews the reasonability and performs back-testing of the main assumptions used in its methodology assessment for SICR and ECL measurement, at least on an annual basis or earlier, based on facts and circumstances. In this context, experienced and dedicated staff within the Bank's Risk Management function monitors the risk parameters applied for the estimation of ECL. Furthermore, as part of the well-defined governance framework, any revisions to the methodology used are approved by the Bank competent committees and ultimately the Risk Committee (RC).

Policy applicable before 1 January 2018

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

Individual impairment assessment

For loans assessed on an individual basis, mainly the Bank's wholesale lending portfolio, management uses its best estimate to determine the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about the borrower's financial position and the net realizable value of any underlying collaterals. Expected recoveries from real estate collaterals may be affected from the downward trend in the properties' market value. Each individually assessed loan for impairment is assessed on a case-by-case basis.

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

Notes to the separate financial statements (continued)

3. Critical accounting estimates and judgments in applying accounting policies (continued)

3.1 Impairment losses on loans and advances (continued)

Collective impairment assessment

Collective impairment allowance is established for (a) groups of non-impaired or impaired retail homogenous loans that are not considered individually significant and (b) groups of corporate or retail loans that are individually significant but that were not found to be individually impaired.
In determining whether an impairment loss should be recorded in the income statement, management makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows of a loan portfolio before the decrease can be identified on an individual loan basis in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

3.2 Impairment of available-for-sale equity investments

Policy applicable from 1 January 2018

The Bank recognizes expected credit losses on the previously classified as available-for-sale equity investments reclassified to the new categories (FVOCI, FVTPL) under IFRS 9 requirements according to the policy described in note 2.2.15.

Policy applicable before 1 January 2018

The Bank determines that available-for-sale equity investments are impaired when there has been a significant (drop down of the average market price below 60%-70% of the cost price) or prolonged decline (continuing decline of the market price for the last 12 months) in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Bank evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

3.3 Fair value of financial instruments

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

The fair value of financial instruments that are not quoted in an active market are determined by using other valuation techniques that include the use of valuation models. In addition, for financial instruments that trade infrequently and have little price transparency, fair value is less objective and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or using other valuation techniques.

The valuation models used include present value methods and other models based mainly on observable inputs and to a lesser extent to non-observable inputs, in order to maintain the reliability of the fair value measurement.
Valuation models are used mainly to value over-the-counter derivatives and securities measured at fair value.

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

Notes to the separate financial statements (continued)

3. Critical accounting estimates and judgments in applying accounting policies (continued)

3.3 Fair value of financial instruments (continued)

Where valuation techniques are used to determine the fair values of financial instruments that are not quoted in an active market, they are validated and periodically reviewed by qualified personnel independent of the personnel that created them. All models are certified before they are used, and are calibrated to ensure that outputs reflect actual data and comparative market prices. The main assumptions and estimates, considered by management when applying a valuation model include:

- the likelihood and expected timing of future cash flows;
- the selection of the appropriate discount rate, which is based on an assessment of what a market participant would regard as an appropriate spread of the rate over the risk-free rate; and
- judgment to determine what model to use in order to calculate fair value.

To the extent practicable, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates to reflect uncertainties in fair values resulting from the lack of market data inputs. Inputs into valuations based on unobservable data are inherently uncertain because there is little or no current market data available. However, in most cases there will be some historical data on which to base a fair value measurement and consequently even when unobservable inputs are used, fair values will use some market observable inputs.

Information in respect of the fair valuation of the Bank's financial assets and liabilities is provided in note 5.3.

3.4 Classification of financial instruments

The Bank applies significant judgment in assessing the classification of its financial instruments and especially, in the below areas:

Business model assessment

Judgment is exercised in order to determine the appropriate level at which to assess the business model. The Bank's business models are determined at a key management personnel level for loan portfolio and centrally by the Group for debt securities. In assessing the business model of financial instruments, these are aggregated into groups (business lines) based on their characteristics, and the way they are managed in order to achieve the Bank's business objectives. In general the assessment is performed at the business unit level both for loans and debt securities.

In assessing the business model for financial instruments, the Bank performs a past sales evaluation of the financial instruments and assesses their expected evolution in the future. Judgment is exercised in determining the effect of sales to a "hold to collect" business model depending on their objective and thei acceptable level and frequency.

Contractual cash flow characteristics test (SPPI test)

The Bank performs the SPPI assessment of loans and debt securities by considering all the features which might potentially lead to SPPI failure. Judgment is applied by the responsible Business Divisions when considering whether certain contractual features significantly affect future cash flows. Accordingly, for non-recourse loans, the Bank assesses jointly criteria such as the adequacy of equity, LTV (Loan-to-Value) and DSCR (Debt-Service-Coverage-Ratio) ratios as well as the existence of corporate and personal guarantees. Furthermore, in order to assess whether any variability in the cash flows is introduced by the modified time value of money element, the Bank performs a quantitative assessment (as described in note 2). Moreover, the Bank evaluates certain cases on whether the existence of performance-related terms exposes the Bank to asset risk rather to the borrower's credit risk.

The Bank has established a robust framework to perform the necessary assessments in accordance with Bank's policies in order to ensure appropriate classification of financial instruments, including reviews by experienced staff for both lending exposures and debt securities

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

Notes to the separate financial statements (continued)

3. Critical accounting estimates and judgments in applying accounting policies (continued)

3.5 Retirement benefit obligations

The present value of the retirement benefit obligations depends on a number of factors th are determined on an actuarial basis using a number of assumptions, such as the discount rate and future salary increases. Any changes in these assumptions will impact the carrying amount of pension obligations.
The Bank determines the appropriate discount rate used to calculate the present value of the estimated retirement obligations, at the end of each year. In determining the appropriate discount rate, interest rates of Bulgarian government bonds at the end of the reporting period are used. The currency and term to maturity of the bonds used are consistent with the currency and estimated term to maturity of the retirement benefit obligations. The salary rate increase assumption is based on future inflation estimates reflecting also the Bank's reward structure and expected market conditions. The assumed rate of salary increase is determined by reviewing the Bank's salary increases each year. Other assumptions for pension obligations, such as the inflation rate, are based in part on current market conditions.
For information in respect of the sensitivity analysis of the Bank’s retirement benefit obligations to reasonably possible, at the time of preparation of these financial statements, changes in the abovementioned key actuarial assumptions, refer to note 30.

3.6 Provisions and contingent liabilities

The Bank recognizes provisions when it has a present legal or constructive obligation, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of its amount.
A provision is not recognized and a contingent liability is disclosed when it is not probable that an outflow of resources will be required to settle the obligation, when the amount of the obligation cannot be measured reliably or in case that the obligation is considered possible and is subject to the occurrence or non - occurrence of one or more uncertain future events.

Considering the subjectivity and uncertainty inherent in the determination of the probability and amount of the abovementioned outflows, the Bank takes into account a number of factors such as legal advice, the stage of the matter and historical evidence from similar cases. Further information in relation to the Bank’s provisions and contingent liabilities is provided in note 35.

3.7 Fair value of land and buildings and repossessed collateral

Fair value of land and buildings

The Bank determines the fair value of land and building from market-based evidence by appraisal that is undertaken by professionally qualified valuators.

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

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

Fair value of repossessed collateral

Non-current assets are classified in the Balance sheet as ‘repossessed collateral’ when their carrying amount will be recovered principally through a sale transaction. They are stated at the lower cost and net realizable value, which is the estimated selling price, in the ordinary course of business, less costs necessary to make the sale. The fair value is determined annually by external appraiser company.

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

Notes to the separate financial statements (continued)

3. Critical accounting estimates and judgments in applying accounting policies (continued)

3.7 Fair value of land and buildings and repossessed collateral (continued)

The fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. In the absence of such information, the fair value estimation of the external appraiser company is based on the cost of the asset with adjustments to reflect any changes in economic conditions and the management's best estimate regarding the future trend of properties market.

4. Capital management

The Bank prepares quarterly statutory reports and monthly reports for internal purposes, in accordance with the requirements of Regulation (EU) 575/2013 and Regulation №8 of the Bulgarian National Bank (BNB) on capital buffers of banks. The Bank applies the standardised approach for credit and market risks and the Basic Indicator Approach for operational risk since 1 of January 2007.

According to supervisory statements of the Bank for the purposes of the Bulgarian National Bank in accordance with Regulation (EU) 575 of the European Parliament and the Council as of 31 December 2018, the Bank was in compliance with capital adequacy requirements maintaining CET 1 ratio comfortably above the regulatory required level. As disclosed in the regulatory reports to the Central Bank, the capital adequacy ratio of the Bank is 20.06 %.

The Bank's Management objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheets, are:

- To comply with the capital requirements set by the regulators of the banking markets where the Bank operates;
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

In accordance with Law on Credit Institutions each bank or banking group is required to hold the minimum level of paid-in capital amounting to BGN 10,000 thousand.
Capital adequacy and the use of regulatory capital are monitored by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee and Regulation № 575/2013 and Directive 2013/36 of the European Union. The required information is filed with the Bulgarian National Bank on a quarterly basis.

Regulatory capital consists of Common Equity Tier 1 capital, Additional Tier 1 capital and Tier 2 capital. Tier 1 capital includes shareholders' ordinary equity, „Reserve" fund, retained earnings from previous year, unrealized gains/losses from available for sale financial instruments and is reduced by intangible assets. Tier II capital includes subordinated debt and hybrid instruments.
The own funds requirements under Basel III are the following (as a percentage of risk-weighted assets, RWA):

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

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

Notes to the separate financial statements (continued)

4. Capital management (continued)

Additionally, capital conservation buffer, systemic risk buffer and capital buffer for other systemically important institutions (O-SIIs) are introduced. The capital conservation buffer equals 2.5% of RWA; the systemic risk buffer equals 3% of RWA and the O-SIIs buffer – 0.25%. The risk-weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature of − and reflecting an estimate of credit, market and other risks associated with − each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

5. Financial risk management and fair value

5.1 Use of financial instruments

By their nature the Bank's activities are principally related to the use of financial instruments including derivatives. The Bank accepts deposits from customers for various periods and seeks to earn above average interest margins by investing these funds in high quality assets. The Bank seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due.

The Bank also seeks to raise its interest margins by obtaining above average margins, net of provisions, through lending to commercial and retail borrowers within a range of credit standing. Such exposures include both on-balance sheet loans and advances and off-balance sheet guarantees and other commitments such as letters of credit.

The Bank also trades in financial instruments where it takes positions in traded and over the counter financial instruments, including derivatives, to take advantage of short-term market movements in the equity and bond markets and in currency and interest rates.

5.2 Financial risk factors

Due to its activities, the Bank is exposed to a number of financial risks, such as credit risk, market risk (including currency and interest rate risk), liquidity and operational risks. The Bank's overall risk management strategy seeks to minimize any potential adverse effects on its financial performance, financial position and cash flows.

Risk Management objectives and policies

The Bank acknowledges that taking risks is an integral part of its operations in order to achieve its business objectives. Therefore, the Bank's management sets adequate mechanisms to identify those risks at an early stage and assesses their potential impact on the achievement of these objectives.

Due to the fact that economic, industry, regulatory and operating conditions will continue to change, risk management mechanisms are set (and adjusted) in a manner that enables the Bank to identify and deal with the risks associated with those changes. The Bank's structure, internal processes and existing control mechanisms ensure both the independence principle and the exercise of sufficient supervision.

The Bank's Management considers effective risk management as a top priority, as well as a major competitive advantage, for the organization. As such, the Bank has allocated significant resources for upgrading its policies, methods and infrastructure, in order to ensure compliance with the requirements of

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

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

Risk Management objectives and policies (continued)

the European Central Bank (ECB), with the guidelines of the European Banking Authority (EBA) and of the Basel Committee for Banking Supervision, with Bulgarian National Bank and with the best international banking practices. The Bank implements a well-structured credit approval process, independent credit reviews and effective risk management policies for credit, market, liquidity and operational risk. The risk management policies implemented by the Bank are reviewed annually.

The Bank's Risk strategy, which has been formally documented, outlines the Bank's overall direction regarding risk and capital management issues, including the risk management mission and objectives, risk definitions, risk management principles, risk appetite framework, risk governance framework, strategic objectives and key management initiatives for the improvement of the risk management framework in place.

The maximum amount of risk which the Bank is willing to assume in the pursuit of its strategic objectives is articulated via a set of quantitative and qualitative statements for specific risk types, including specific tolerance levels. The objectives are to support the Bank's business growth, balance a strong capital position with higher returns on equity and to ensure the Bank's adherence to regulatory requirements.

Risk Committee

The Bank's risk governance framework comprises a number of different constituents. In particular, the Supervisory Board has set up a Risk Committee overseeing all risk management functions. It is currently complemented by the Risk function.

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

The Risk Committee is empowered to:

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

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

Non-Performing Exposures (NPEs) management

The Bank has established an organizational and hierarchical model in order to empower the management of troubled assets and to be adequate to the macro environment, adopting the regulatory requirements.

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

Non-Performing Exposures (NPEs) management (continued)

Proactive measures have been taken in this regard, as the Bank has transformed its troubled assets operating model by establishing a dedicated Troubled Assets Group Division (TAG) and respective troubled assets governance bodies, namely the Troubled Assets Committee (TAC) and the Special Handling Monitoring Committee (SHMC).

Troubled Assets Committee (TAC)
The Troubled Assets Committee (TAC) is established as a committee of Troubled Assets Group Division under the Bank`s Management Board. The TAC oversees and monitors the Bank's troubled assets' management. In particular, the main competencies that have been delegated to TAC relate to the monitoring of loans in arrears and the management of non-performing loans, the determination and implementation of the troubled assets' management strategy, as well as approving and assessing the sustainability of the forbearance and closure procedure measures.

Special Handling Monitoring Committee (SHMC)
The Special Handling Monitoring Committee (SHMC) is established as a dedicated committee that monitors Corporate watch-listed, problematic and non-performing relationships. The main competences of the SHMC are related to monitoring and decisions on the strategy for handling of problematic Corporate relationships.

Troubled Assets Group Division (TAG)
The TAG has been established as an independent body, reporting directly to the Chief Executive Officer of the Bank is the overall responsible body for the management of the Bank's troubled assets portfolio, for the whole process, from the pre-delinquency status in case of high risk exposures up to legal workout. It ensures close monitoring, tight control and course adjustment taking into account the continuous developments in the macro environment, the regulatory and legal requirements, the international best practices and new or evolved internal requirements.
TAG comprises the Retail TAG Department, the Wholesale TAG Department, Risk and policy Department and TAG Retail Underwriting Department. TAG structure is completely segregated from the Bank's business units both in terms of account management, as well as credit approval process, which ensures transparency, flexibility, better prioritization and management accountability and shifts the management from bad debt minimization to bad debt value management, in line with the Bank's risk appetite.
The TAG cooperates with the Bank`s Risk Division, being responsible for the overall risk management framework and the development and validation of credit assessment methodologies and tools (i.e. models and scorecards). Interaction with the Risk Division is in place with regard to the elaboration, validation and updating of the TAG Credit Policy, evaluation and opinion on TAG business proposals and approval of forbearance measures (risk representatives participate in the approval process).
The overall results of the management of troubled assets are presented to the regular Risk Committees.

The key governing principles of the TAG are to:

- Preserve the clear demarcation line between business units and troubled assets management;
- Ensure direct top management involvement in troubled assets management and close monitoring of the respective portfolio;
- Deploy a sound credit workout strategy through innovative propositions that will lead to viable solutions, ensuring a consistent approach for managing troubled assets across portfolios;

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

Troubled Assets Group Division (TAG) (continued)

- Engineer improvements in monitoring and offering targeted solutions by segmenting delinquent borrowers and tailoring the remedial and workout approach to specific segment;
- Ensure a consistent approach for managing troubled assets across portfolios;
- Deploy a sound credit workout strategy through innovative propositions that will lead to viable solutions, ensuring a consistent approach for managing troubled assets across portfolios;
- Engineer improvements in monitoring and offering targeted solutions by segmenting delinquent borrowers and tailoring the remedial and workout approach to specific segment;
- Ensure a consistent approach for managing troubled assets across portfolios;
- Prevent non performing loans formation through early intervention and clear definition of primary financial objectives of troubled assets;
- Monitor the loan delinquency statistics, as well as define targeted risk mitigating actions to ensure portfolio risk reduction;
- Target maximization of borrowers who return to current status through modifications or collections;
- Monitor losses related to troubled assets; and
- Define criteria to assess the sustainability of proposed forbearance or resolution and closure measures and design decision trees.

Operational targets for Non-performing exposures (NPEs)

In line with the requirements of the supervisory arm of the European Central Bank (ECB) and the Group guidance, the Bank has designed an operational targets framework for NPEs management, supported by several key performance indicators. Pursuant to the said framework, the Bank developed a set of NPEs operational targets together with a detailed NPEs management strategy with a 3-year time horizon, which is henceforth revised annually in order to align with changes in the operating environment and the Bank's strategic priorities. In February 2018, the Management of the Bank approved a NPEs management strategy for the years 2018-2021, which envisages projected NPEs stock to reach BGN 566 million by the end of 2019, and BGN 344 million (NPE ratio 5%) by the end of 2021, representing a reduction of 187% in NPE volumes from December 2017 to 2021.

The key driver for the accelerated NPEs reduction will be NPE debt sales transactions. The assumptions underlying the NPE strategy, and in particular the additional cost associated with the accelerated NPE sales were reflected in Bank's IFRS 9 FTA impact in accordance with IFRS 9 requirements for forward looking information incorporation as described in note 2.3.2 Transition to IFRS 9 – Impact.

Additional measures for NPE reduction envisaged in the plan are write offs (partial and full) carried out against accumulated ECL from previous periods.

In March 2019, the Bank has prepared an update of NPE Strategy and Operational Targets (2019-2021), as required by SSM in alignment of reporting cycles with other EU Significant Institutions as per the ECB guidance. The new submission of the Bank was incorporated in the Group NPE reduction Acceleration Plan that was announced in the context of the Eurobank Ergasias Transformation Plan, which aims to achieve a Group NPE ratio of 16% in 2019 and a single digit by 2021.

5.2.1 Credit Risk

Credit risk is the risk that a counterparty will be unable to fulfill its payment obligations in full when due.

Settlement risk is the risk arising when payments are settled, for example for trades in financial instruments, including derivatives and currency transactions. The risk arises when the Bank remits payments before it can ascertain that the counterparties' payments have been received.

Credit risk arises principally from the corporate and retail lending activities of the Bank, including from credit enhancement provided, such as financial guarantees and letters of credit. The Bank is also exposed to

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

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

credit risk arising from other activities such as investments in debt securities, trading activities, capital markets and settlement activities. Taking into account that credit risk is the principal risk the Bank is exposed to, it is rigorously managed and is monitored by centralized dedicated risk units, reporting to the Bank Chief Risk Officer and to the Group Chief Risk Officer.

(a) Credit approval process

There are currently two distinct Groups of Credit Committees -Performing Clients Committees and Special Handling Committees

The performing clients committees are responsible for implementing the functions of credit evaluation, approval and periodic review of performing clients. The mandate is to concurrently meet the objectives of having a robust loans portfolio together with maintaining profits for the Bank and sustainable growth.

The scope of the Special Handling Committees includes the handling of borrowers with Risk Classification Medium and High. Their primary emphasis is placed on accurately evaluating their financial viability in order to define the account strategy.

The segregation of duties ensures independence among executives responsible for the customer relationship, the approval process and the loan disbursement, as well as monitoring of the loan during its lifecycle.

Credit Committees

The credit approval process in Corporate Banking is centralized through establishment of Credit Committees with escalating Credit Approval Levels, in order to manage the corporate credit risk. Main Committees of the Bank are considered to be the following:

- Credit Committees (Central and Local) authorized to approve new financing, renewals or amendments in the existing credit limits, in accordance with their approval authority level, depending on total limit amount and customer risk category (i.e. high, medium or low), as well as the value and type of security;
- Special Handling Credit Committees authorized to approve credit requests and take actions for distressed clients;
- International Credit Committees (Regional and Country) established for credit underwriting to wholesale borrowers for the subsidiaries within the Group, authorized to approve new limits, renewals or amendments to existing limits, in accordance with their approval authority level, depending on total customer exposure and customer risk category (i.e. high, medium or low), as well as the value and type of security; and
- International Special Handling Committees established for handling distressed wholesale borrowers of the subsidiaries within the Group

The Credit Committees meet on a weekly basis or more frequently, if needed.

Credit Risk Department

The main responsibilities of Credit Risk Department are:

- Review and evaluation of credit requests of:
    - ✓ Domestic large and medium scale corporate entities of every risk category;
    - ✓ Specialized units, such as Project Finance, Factoring;
    - ✓ Cross-border customers; and
    - ✓ Retail sector’s customers (small business and individual banking) above a predetermined threshold and for predetermined types of exceptions.

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

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

Credit Risk Department (continued)

- Issuance of an independent risk opinion for each credit request, which includes:
  - ✓ Assessment of the customer credit profile based on the qualitative and quantitative risk factors identified (market, operations, structural and financial);
  - ✓ A focused sector analysis; and
  - ✓ Recommendations to structure a bankable, well-secured and well-controlled transaction.
- Review and confirmation of the ratings of each separate borrower, to reflect the risks acknowledged;
- Participation in all credit committees (for both performing and TAG customers), as per the credit approval procedures and having voting rights for the local ones.
- Active participation in all external/regulatory audits of the Bank;
- Preparation of specialized reports to International Credit Sector (ICS) on a regular basis, with regards to expired credit reviews, leveraged transactions, as well as various statistics on the existing and newly approved financings at a request;
- Safeguarding compliance of the Lending Units with the approved Bank's policies; and
- Provision of specialized knowledge, expertise and support to other divisions of the Bank, in relation to operational and credit procedures, security policies, new lending products and restructuring schemes.

Retail Banking approval process

The approval process for loans to small businesses (turnover up to € 3 million) is centralized following specific guidelines for eligible collaterals as well as the 'four-eyes' principle. The assessment is based on an analysis of the borrower's financial position and statistical scorecards.

The credit approval process for Individual Banking (consumer and mortgage loans) is also centralized. It is based on specialized credit scoring models and credit criteria taking into account the payment behavior, personal wealth and financial position of the borrowers, including the existence of real estate property, the type and quality of securities and other factors. The ongoing monitoring of the portfolio quality and of any other deviations that may arise, leads to an immediate adjustment of the credit policy and procedures, when deemed necessary.

(b) Credit risk monitoring

Credit Control Department

The Bank's Credit Control Department monitors and assesses the quality of all of the Bank's loan portfolios and operates independently from the business units of the Bank. The department reports directly to the CRO. The main responsibilities of the department are to:

- monitor and review the performance of all of the Bank's loan portfolios;
- conduct field reviews and prepare written reports to the Management on the quality of all of the Bank's loan portfolios and adherence with EBA prevailing regulations;
- supervise, support and maintain the credit rating and impairment systems used to assess the wholesale lending customers;
- monitor on a regular basis and report on a quarterly basis to the Country Risk Committee of risk exposures, along with accompanying analyses;
- participate in the approval of new credit policies and new loan products;

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

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

(b) Credit risk monitoring (continued)

Credit Control Department (continued)

- participate in the Troubled Asset Committee;
- attend meetings of Credit Committees and Special Handling Committees, without voting right;
- monitor and evaluate the efficiency of adopted strategies and proposed solutions in terms of dealing with Non Performing Exposures (NPEs) and the achievement of targets for NPEs reduction;
- formulate the provisioning policy and regularly monitor the adequacy of provisions of all of the Bank's loan portfolios.

Credit Risk Methodology and Capital Adequacy Control Department

The ***Credit Risk Methodology and Capital Adequacy Control (CRM-CAC) Department*** report to the Bank's CRO.
Specifically, the main responsibilities of the ***CRM-CAC Department*** are to:

- manage the models development, implementation, maintenance and validation of the IRB models of Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD) for evaluating credit risk;
- manage the models development, implementation, maintenance and validation of the risk related scoring models;
- manage the models development, implementation, maintenance and validation of the IFRS9 models of 12m ECL and lifetime ECL calculation;
- implementation, monitoring and maintenance of IFRS9 impairment calculation engine;
- implementation, monitoring and maintenance of credit rating systems;
- perform stress tests, both internal and external (EBA/Bulgarian National Bank (BNB)), and maintain the credit risk stress testing infrastructure;
- prepare the credit risk analyses for Internal Capital Adequacy Assessment (ICAAP)/ Pillar 2 purposes;
- prepare the Basel Pillar 3 disclosures for credit risk;
- participate in the preparation of the business plan, the NPE targets plan and the recovery plan of the Bank in relation to asset quality and capital requirements for the loan book (projected impairments and RWAs), as well as participate in the relevant committees;
- support the business units in the use of credit risk models in business decisions, for funding purposes, in the capital impact assessment of strategic initiatives and the development and usage of risk related metrics such as risk adjusted pricing, Risk Adjusted Return on Capital (RAROC) etc.;
- monitor the regulatory framework in relation to the above, to perform impact assessment, to initiate and manage relevant projects;
- regularly report to the CRO and Group Chief Risk Officer, to the Management Risk Committee and to the Board Risk Committee on: risk models performance, risk parameters (PD, LGD, EAD), updates on regulatory changes and impact assessment and asset quality reviews.

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

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

Market Risk Department

Market Risk Department is responsible for the measurement, monitoring and reporting of the Bank's exposure to counterparty risk, which is the risk of loss due to the customer's failure to meet its contractual obligations in the context of treasury activities, such as securities, derivatives, repos, reverse repos, interbank placings, etc.

The Bank sets limits on the level of counterparty risk (see also below 5.2.1 (f) credit risk mitigation) that may be undertaken based mainly on the counterparty's credit rating, as provided by international rating agencies, and the product type (e.g. control limits on net open derivative positions by both amount and term, sovereign bonds exposure, interbank transactions and operating account balances). The utilization of the abovementioned limits, any excess of them, as well as the aggregate exposure per counterparty and product type are monitored by the department on a daily basis. Risk mitigation contracts are taken into account for the calculation of the final exposure.

In case of uncollateralized derivative transactions, the Bank measures the current exposure along with the potential future exposure (PFE) using financial models. The combined exposure is used for the monitoring of limit utilization.

(c) Credit related commitments

The primary purpose of credit related commitments is to ensure that funds are available to a customer as agreed. Financial guarantee contracts carry the same credit risk as loans since they represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are secured by the underlying shipment of goods to which they relate and therefore carry less risk than a loan. Commitments to extend credit represent contractual commitments to provide credit under pre-specified terms and conditions (note 35) in the form of loans, guarantees or letters of credit for which the Bank usually receives a commitment fee. Such commitments are irrevocable over the life of the facility or revocable only in response to a material adverse effect.

(d) Concentration risk

The Bank structures the levels of credit risk it undertakes by placing exposure limits by borrower, or groups of borrowers, and by industry segments.

Concentration risk is monitored regularly and reported to the Risk Committee.

e) Rating systems

<u>*Rating of wholesale lending exposures*</u>

The Bank employs a number of rating models and tools in order to reflect appropriately the risk arising from wholesale lending customers with different characteristics. Accordingly, the Bank employs the following rating models for the wholesale portfolio:

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

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

(e) Rating systems (continued)

Rating of wholesale lending exposures (continued)

- Moody's Risk Analyst model ("MRA" or "Fundamental Analysis"-"FA") is used to assess the risk of borrowers for Corporate Lending.
- Slotting models: in view of assessing the risk of specialized exposures, which are part of the Specialized Lending corporate portfolio, slotting rating models are employed.
- Internal Credit Rating model ("ICR") is used for those customers that cannot be rated by neither MRA nor Slotting methodology.

Moody's Risk Advisor credit rating system allows the assessment of the creditworthiness of corporate borrowers through the analysis of (a) quantitative criteria (min two financial years' statements) which are compared with the financial statements of a peer group (i.e. companies with similar business activity) and (b) qualitative parameters such as company reputation and status, management characteristics and skills etc. MRA takes into account the entity's balance sheets, income statement accounts and cash flow statements to calculate key ratios. Its ratio analysis includes assessments of each ratio's trend across multiple periods, both in terms of the slope and volatility of the trend. It also compares the value of the ratio for the most recent period with the quartile values for a comparable peer group. Moreover, MRA is supplied with a commonly used set of qualitative factors relating to the quality of the company's management, the standing of the company within its industry and the perceived riskiness of the industry. MRA uses financial data for companies operating on the Bulgarian market.

With reference to Specialized Lending portfolio (for which the Bank is using Slotting rating models) and in line with European Banking Authority (EBA) definitions, it comprises types of exposures towards entities specifically created to finance or operate physical assets, where the primary source of income and repayment of the obligation lies directly with the assets being financed. The rating system New Credit Rating (NCR) is applied to real estate projects, i.e. financing real estate projects (for example, office buildings that can be rented out, commercial areas, residential building, industrial or warehouse areas) where the expected cash flows for the repayment of the loan will be generated by the asset under consideration (leasing payments, rent payments or sale of the asset). The rating system for real estate projects is used for investment real estate (Investors) and real estate in process of development (Developers). According to the slotting methodology, four keys aspects of the project are evaluated: financial stability, characteristics of the asset, stability of the investor/developer, collaterals.

The MRA is not employed for certain types of entities that use special characteristics of different accounting methods to prepare their financial statements, such as Insurance companies and brokerage firms. Moreover, entities such as start-ups that have not produced financial information for at least two annual accounting periods are not rated with MRA.

In case a client is not eligible neither for MRA nor rating based on Slotting methodology, the Internal Credit Rating ("ICR") is used. The ICR is based on a thorough analysis of a set of qualitative factors (company management, industry, operating conditions, market sector, collateral servicing the loan, etc.) and quantitative factors (financial indicators such as profitability, leverage, liquidity, etc., derived from the financial statements of the client). Each client must be individually rated, but customers who belong to a group of companies should be considered together. In the event that the related company provides corporate guarantee, then the company, which is the borrower must obtain a credit rating of the company providing the guarantee.

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

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

(e) Rating systems (continued)

Rating of wholesale lending exposures (continued)

In the context of IFRS9 implementation, the Bank has further enhanced its corporate credit risk assessment models linking risk parameters estimation with macro-economic factors allowing the forecasting of rating transitions under different macroeconomic scenarios (base, adverse and optimistic).

The rating systems described above are an integral part of the wholesale banking decision-making and risk management processes:

- the credit approval or rejection, both at the origination and review process;
- the allocation of competence levels for credit approval;
- the impairment calculation (staging criteria and subsequent ECL estimation of forecasted risk parameters)

Rating of retail lending exposures

The Bank assigns credit scores to its retail customers using a number of statistically-based models both at the origination and on ongoing basis through behavioral scorecards. These models have been developed to predict, on the basis of available information, the probability of default, the loss given default and the exposure at default. They cover the entire spectrum of retail products (credit cards, consumer lending, mortgages and small business loans).

The Bank's models were developed based on historical data and credit bureau data. Behavioral scorecards are calculated automatically on a monthly basis, thus ensuring that the credit risk assessment is up to date.
The models are applied in the credit approval process, the credit limits management, as well as the collection process for the prioritization of the accounts in terms of handling.
In the context of IFRS9 implementation, the Bank has further enhanced its retail credit risk assessment models linking risk parameters estimation with macro-economic factors allowing their forecasting over one year and lifetime horizon under different macroeconomic scenarios (base, adverse and optimistic) and supporting the staging analysis and allocation to risk classes under homogeneous pools.

The Credit Risk Methodology and Capital Adequacy Control Department monitors the capacity of rating models and scoring systems to classify customers according to risk, as well as to predict the probability of default and loss given default and exposure at default on an ongoing basis. The Bank verifies the validity of the rating models and scoring systems on an annual basis and the validation includes both quantitative and qualitative aspects.

(f) Credit risk mitigation

A key component of the Bank's business strategy is to reduce risk by utilizing various risk mitigating techniques. The most important risk mitigating means are collateral's pledge, guarantees and master netting agreements.

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

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

(f) Credit risk mitigation (continued)

Types of collateral commonly accepted by the Bank

The Bank has internal policies in place which set out the following types of collateral that are usually accepted in a credit relationship:

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

A specific coverage ratio is pre-requisite, upon the credit relationship's approval and on ongoing basis, for each collateral type, as specified in the Bank's credit policy.
For interbank exposures (i.e. reverse repos, derivatives), the Bank accepts as collateral only cash or liquid bonds.

Valuation principles of collaterals

In defining the maximum collateral ratio for loans, the Bank considers all relevant information available, including the collaterals' specific characteristics, if market participants would take those into account when pricing the relevant assets. The valuation and hence eligibility is based on the following factors:

- the collateral's fair value, i.e. the exit price that would be received to sell the asset in an orderly transaction under current market conditions;
- the fair value reflects market participants' ability to generate economic benefits by using the asset in its highest and best use or by selling it;
- a reduction in the collateral's value is considered if the type, location or condition (such as deterioration and obsolescence) of the asset indicate so; and
- no collateral value is assigned if a pledge is not legally enforceable.

Collateral policy and documentation

Regarding collaterals, Bank's policy emphasizes the need that collaterals and relevant processes are timely and prudently executed, in order to ensure that collaterals and relevant documentation are legally enforceable at any time. The Bank holds the right to liquidate collateral in the event of the obligor's financial distress and can claim and control cash proceeds from the liquidation process.

Guarantees

The guarantees used as credit risk mitigation by the Bank are largely issued by central government, local banks and funds (Bulgarian Development Bank and National Guarantee Fund) and international financial institutions (European Investment Fund (EIF), International Financial Corporation (IFC), etc.).

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

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

(f) Credit risk mitigation (continued)

Counterparty risk

The Bank mitigates counterparty risk arising from treasury activities by entering into master netting arrangements and similar agreements, as well as collateral agreements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in the offset of balance sheet assets and liabilities, as the transactions are usually settled on a gross basis. However, the respective credit risk is reduced through a master netting agreement to the extent that if an event of default occurs, all amounts with the counterparty are terminated and settled on a net basis.

In the case of derivatives, the Bank makes use of International Swaps and Derivatives Association (ISDA) contracts, which limit the exposure via the application of netting, and Credit Support Annex (CSAs), which further reduce the total exposure with the counterparty. Under these agreements, the total exposure with the counterparty is calculated on a daily basis taking into account any netting arrangements and collaterals. The same process is applied in the case of repo transactions where standard Global Master Repurchase Agreements (GMRAs) are used. The exposure (the net difference between repo cash and the market value of the securities) is calculated on a daily basis and collateral is transferred between the counterparties thus minimizing the exposure.

5.2.1.1 Maximum exposure to credit risk before collateral held

Amounts under IFRS 9

	As at 31 December 2018
Loans and advances to banks	1,418,148
Less: Impairment allowance	(226)
Loans and advances to customers:	
- Mortgages	1,751,030
- Consumer lending (including credit cards)	792,274
- Small Business lending	700,029
- Corporate lending	2,364,851
Less: Impairment allowance	(336,995)
Trading assets - debt securities	7,096
Derivative financial instruments	2,400
Debt securities at fair value through other comprehensive income	378,858
Debt securities at amortised cost	19,181
Less: Impairment allowance	(583)
Other financial assets (*)	15,404
Less: Impairment allowance	(1,337)
Credit risk exposures relating to off-balance sheet items are as follows (note 35):	
Guarantees and Letters of credit	196,064
Loan commitments	1,089,966
Less: Impairment allowance	(589)
Total	**8,395,571**

(*) it refers to financial assets subject to IFRS 9 requirements, which are recognized within other assets

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

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

5.2.1.1 Maximum exposure to credit risk before collateral held (continued)

The above table represents the Bank's maximum credit risk exposure as at 31 December 2018, without taking account of any collateral held or other credit enhancements attached.

Amounts under IAS 39

	As at 31 December 2017
Loans and advances to banks	1,264,068
Loans and advances to customers:	
- Mortgages	1,579,204
- Consumer lending (including credit cards)	647,655
- Small Business lending	570,201
- Corporate lending	2,031,572
Trading assets - debt securities	13,263
Derivative financial instruments	241
Debt securities at fair value through other comprehensive income	430,877
Debt securities at amortised cost	19,181
Other assets	8,824
Credit risk exposures relating to off-balance sheet items are as follows (note 35):	
Guarantees	80,561
Letters of credit	38,226
Undrawn Loan commitments	835,455
Total	**7,519,328**

The above table represents the Bank's maximum credit risk exposure as at 31 December 2017, without taking account of any collateral held or other credit enhancements attached.

For on-balance sheet assets, the exposures set out above are based on the net carrying amounts as reported in the balance sheet.

5.2.1.2 Loans and advances to customers

The section below provides an overview of the Bank's exposure to credit risk arising from its customer lending portfolios. Following the adoption of IFRS 9 from 1 January 2018, the Bank updated the disclosures in relation to the guidelines set in order to comply with the revised IFRS 7 'Financial Instruments: Disclosures'. Given that the Bank has adopted IFRS 9 without restatement of comparative information, the information applicable under IFRS 9 is presented in separate sections from the respective disclosures under IAS 39, where appropriate.

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

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

5.2.1.2 Loans and advances to customers (continued)

(a) Credit quality of loans and advances to customers

Applicable from 1 January 2018

Loans and advances to customers carried at amortised cost are classified depending on how ECL is measured.

Accordingly, loans reported as non-impaired include loans for which a ‘12-month ECL allowance’ is recognized as they exhibit no significant increase in credit risk since initial recognition and loans for which a ‘Lifetime ECL allowance’ is recognized as they exhibit a significant increase in credit risk since initial recognition but are not considered to be in default .

Credit impaired loans category includes loans that are considered to be in default, for which a loss allowance equal to ‘Lifetime ECL’ is recognized and loans classified as ’Purchased or originated credit impaired’ (POCI) which are always measured on the basis of lifetime ECL.

The Bank’s accounting policy regarding impairment of financial assets is set out in note 2.2.15.

Applicable before 1 January 2018

Loans and advances to customers are classified as ‘neither past due nor impaired’, ‘past due but not impaired’ and ‘impaired’.

Loans reported as ‘neither past due nor impaired’ include loans with no contractual payments in arrears and no other indications of impairment.

‘Past due but not impaired’ category includes loans with contractual payments overdue by at least one day but which are not impaired unless specific information indicates to the contrary. For retail exposures, this is typically when loans are in arrears less than 90 days while for wholesale exposures both the delinquency status and the internal rating, which reflects the borrower’s overall financial condition and outlook, are assessed.

For loans in the above categories, although not considered impaired, the Bank recognizes a collective impairment loss.

‘Impaired’ loans that are individually assessed include all wholesale exposures as well as small business and mortgage loans which carry an individual impairment allowance. The rest of retail exposures are considered impaired when they are in arrears for more than 90 days or earlier in case there is an objective evidence of impairment and carry a collective impairment allowance. Furthermore, impaired retail loans under forbearance measures may include loans in arrears less than 90 days.

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

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

5.2.1.2 Loans and advances to customers (continued)

(a) Credit quality of loans and advances to customers (continued)

Regulatory definitions

'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 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 552,986 thousand.

'Non-performing exposures' as currently monitored and reported by the Bank, in line with the guidelines set by the European Banking Authority (EBA Implementing Technical Standards), include material exposures that are in arrears for more than 90 days, or assessed as unlikely to pay, impaired exposures, exposures categorized as defaulted for regulatory purposes, as well as forborne non performing exposures. The Bank has aligned its accounting definition of default with the EBA definition of default, as described above.

As at 31 December 2018, the Bank's non-performing exposures amounted to BGN 647,378 thousand. Correspondingly, 'Performing exposures' include exposures without arrears, those that are less than 90 days past due or are not assessed as unlikely to pay, non-impaired and non-defaulted for regulatory purposes exposures. As at 31 December 2018, the Bank's performing exposures amounted to BGN 4,960,806 thousand.

'Unlikely to pay' category refers to exposures where a borrower's ability to repay his credit obligations in full without realization of collateral is assessed as unlikely, regardless the existence of any past due amounts or the number of days past due.

Qantitative information

Amounts under IFRS 9

The following tables present the total gross amount, representing the maximum exposure to credit risk before the impairment allowance, of loans and advances that are classified as non-impaired (Stage 1 and Stage 2) and those classified as impaired (Stage 3 and POCI). They also present the total impairment allowance recognized in respect of all loans and advances and credit related commitments, analyzed into individually or collectively assessed, based on how the respective impairment allowance has been calculated, the carrying amount of loans and advances, as well as the value of collateral held to mitigate credit risk.

For credit risk management purposes, the Public Sector, which includes exposures to the central government, local or regional authorities, state-linked companies and entities controlled and fully or partially owned by the state, is incorporated in wholesale lending.

In addition, the value of collateral presented in the tables below is capped to the respective gross loan amount.

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

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

5.2.1.2 Loans and advances to customers (continued)

(a) Credit quality of loans and advances to customers (continued)

The total impairment provision for loans and advances is BGN 336,995 thousand, of which BGN 156,061 thousand represents the individually impaired loans provision and the remaining amount of BGN 180,934 thousand represents the portfolio provision. During 2018, the Bank's total net loans and advances increased by 9%. In order to minimize the potential increase of credit risk exposure, the Bank has focused more on the business with large corporate enterprises with good credit rating or retail customers providing sufficient collateral.

The following table presents information about the credit quality of the gross carrying amount of loans and advances to customers carried at amortised cost, the nominal exposures of credit related commitments and the respective impairment allowance as at 31 December 2018:

	As at 31 December 2018										
	Non-impaired		Credit-impaired			Impairment allowance					
			Lifetime ECL credit-impaired					Lifetime ECL credit-impaired			
	12-month ECL	Lifetime ECL not credit-impaired	Individually assessed	Collectively assessed	**Total gross carrying amount/ nominal exposure**	12-month ECL	Lifetime ECL not credit-impaired	Individually assessed	Collectively assessed	**Carrying amount**	Value of collateral
Retail Lending	**2,486,198**	**245,637**	**238,325**	**273,173**	**3,243,333**	**(17,386)**	**(10,810)**	**(106,658)**	**(143,675)**	**2 964 804**	**2,086,528**
- Mortgage	1,369,416	121,637	103,032	156,945	1,751,030	(2,860)	(3,276)	(40,561)	(65,275)	1,639,058	
Value of collateral	*1,327,718*	*108,016*	*54,135*	*84,827*	-	-	-	-	-	-	*1 574 696*
- Consumer lending	679,571	68,220	-	44,483	792,274	(8,037)	(3,538)	-	(29,217)	751,482	
Value of collateral	*9,350*	*4,641*	-	*116*	-	-	-	-	-	-	*14 107*
- Small business	437,211	55,780	135,293	71,745	700,029	(6,489)	(3,996)	(66,097)	(49,183)	574,264	
Value of collateral	*380,084*	*45,646*	*60,888*	*11,107*	-	-	-	-	-	-	*497 725*
Corporate lending	**1,893,769**	**335,201**	**127,484**	**8,397**	**2,364,851**	**(3,047)**	**(2,150)**	**(49,403)**	**(3,866)**	**2,306,385**	**1,638,085**
Value of collateral	*1,274,119*	*297,047*	*62,749*	*4,170*							*1 638 085*
Total	**4,379,967**	**580,838**	**365,809**	**281,570**	**5,608,184**	**(20,433)**	**(12,960)**	**(156,061)**	**(147,541)**	**5,271,189**	
Total Value of collateral	***2,991,271***	***455,350***	***177,772***	***100,220***							***3,724,613***
Credit related Commitments	**1,185,506**	**99,270**	**587**	**667**	**1,286,030**	**(358)**	**(10)**	**(81)**	**(140)**		
Loan Commitments	1,033,661	55,868	199	237	**1,089,965**	-	-	-	-		
Financial guarantee contracts and other commitments	151,845	43,402	388	430	**196,065**	(358)	(10)	(81)	(140)		

POCI loans are presented along with the credit impaired loans (BGN 9,389 thousand gross carrying amount).

The Bank assesses the credit quality of its loans and advances to customers and credit related commitments that are subject to ECL. The Bank's internal credit rating systems in the wholesale portfolio are based on a variety of quantitative and qualitative factors, while the credit quality in the retail portfolio is based on their probability of default (PD's).

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

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

5.2.1.2 Loans and advances to customers (continued)

(a) Credit quality of loans and advances to customers (continued)

The following tables present the distribution of the gross carrying amount of loans and advances and the nominal exposure of credit related commitments based on the credit quality classification categories and stage allocation:

		31 December 2018			
		Non impaired		**Credit-impaired**	
	Internal credit rating	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total gross carrying amount
Retail Lending					
- Mortgage	PD<2.5%	1,368,129	85,751	30,812	**1,484,692**
	2.5%<=PD<4%	1,207	1,828	866	**3,901**
	16%<=PD<99.99%	80	34,057	228,300	**262,437**
- Consumer	PD<2.5%	75	9	-	**84**
	2.5%<=PD<4%	619,569	9,975	2,317	**631,861**
	4%<=PD<10%	58,377	28,353	3,475	**90,205**
	10%<=PD<16%	484	5,718	30	**6,232**
	16%<=PD<99.99%	1,066	24,165	38,661	**63,892**
- Small business	PD<2.5%	24	-	-	**24**
	2.5%<=PD<4%	379,463	13,795	4,785	**398,043**
	4%<=PD<10%	56,900	30,678	13,964	**101,542**
	10%<=PD<16%	824	5,781	776	**7,381**
	16%<=PD<99.99%	-	5,527	187,512	**193,039**
Corporate Lending					
	Strong	904,193	-	-	**904,193**
	Satisfactory	989,576	-	-	**989,576**
	Watch list	-	335,201	-	**335,201**
	Impaired	-	-	135,881	**135,881**
Total		**4,379,967**	**580,838**	**647,379**	**5,608,184**

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

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

5.2.1.2 Loans and advances to customers (continued)

(a) Credit quality of loans and advances to customers (continued)

		31 December 2018			
		Non impaired		**Credit-impaired**	
	Internal credit rating	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total nominal amount
Credit Related Commitments					
Retail Lending					
Loan Commitments					
	PD<2.5%	142,708	2,135	1	**144,844**
	2.5%<=PD<4%	188,048	554	-	**188,602**
	4%<=PD<10%	93,807	22,527	-	**116,334**
	10%<=PD<16%	272	2,566	4	**2,842**
	16%<=PD<99.99%	1,154	7,397	51	**8,602**
Financial Guarantee contracts and Other Commitments					
	2.5%<=PD<4%	15,891	-	19	**15,910**
Wholesale Lending					
Loan Commitments					
	Strong	223,134	-	-	**223,134**
	Satisfactory	384,538	-	-	**384,538**
	Watch list	-	20,689	-	**20,689**
	Impaired	-	-	381	**381**
Financial Guarantee contracts and Other Commitments	Strong	90,349	-	-	**90,349**
	Satisfactory	45,605	-	-	**45,605**
	Watch list	-	43,402	-	**43,402**
	Impaired	-	-	798	**798**
Total		**1,185,506**	**99,270**	**1,254**	**1,286,030**

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

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

5.2.1.2 Loans and advances to customers (continued)

(a) Credit quality of loans and advances to customers (continued)

The table below depicts the internal credit rating bands (MRA/ NCR/ ICR rating scale) for the wholesale portfolio that correspond to the credit quality classification categories presented in the above tables, 1st and only criteria for category assignment being the borrower's stage.

Quality classification	Stage	Rating (MRA/ ICR/ NCR)
Strong	Stage 1	1-4
Satisfactory	Stage 1	4,1-8,6
Watchlist	Stage 2	2-9
Impaired	Stage 3	3-10

The following tables present the movement of the gross carrying amounts for loans and advances to customers by product line by reference to opening and closing balances for the reporting period from 01.01.2018 to 31.12.2018:

	31 December 2018												
	Wholesale			Mortgage			Consumer			Small business			
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Gross carrying amount at 1 January 2018	**1,871,587**	**58,192**	**222,661**	**1,205,613**	**156,530**	**293,892**	**467,576**	**158,385**	**52,504**	**360,743**	**76,740**	**273,708**	**5,198,131**
New financial assets originated or purchased	305,370	-	-	298,848	-	-	236,986	-	-	137,945	-	-	**979,149**
Transfers:													
to 12-month ECLs	*38,048*	*(37,740)*	*(308)*	*46,116*	*(45,555)*	*(562)*	*79,443*	*(79,275)*	*(167)*	*21,025*	*(20,978)*	*(47)*	-
to lifetime ECLs -not credit-impaired loans	*(305,436)*	*305,742*	*(306)*	*(29,986)*	*50,695*	*(20,708)*	*(15,994)*	*22,682*	*(6,689)*	*(27,047)*	*29,616*	*(2,569)*	-
to lifetime ECLs -credit-impaired loans	*(6,666)*		*6,666*	*(4,113)*	*(17,364)*	*21,477*	*(3,079)*	*(8,799)*	*11,878*	*(2,566)*	*(10,284)*	*12,850*	-
Loans and advances derecognized during the year	-	-	(52,504)	-	-	(8,056)	-	-	(580)	-	-	(293)	**(61,433)**
Amounts written-off	-	-	(44,999)	-	-	(9,405)	-	-	(7,451)	-	-	(56,229)	**(118,084)**
Repayments	(430,619)	(4,379)	(14,153)	(161,897)	(24,410)	(21,922)	(134,196)	(34,869)	(7,855)	(82,887)	(21,332)	(22,990)	**(961,509)**
Foreign exchange differences and other movements	421,485	13,386	18,824	14,835	1,741	5,261	48,835	10,096	2,843	29,998	2,018	2,608	**571,930**
Gross carrying amount at 31 December 2018	**1,893,769**	**335,201**	**135,881**	**1,369,416**	**121,637**	**259,977**	**679,571**	**68,220**	**44,483**	**437,211**	**55,780**	**207,038**	**5,608,184**
Cumulative Loss Allowance	(3,047)	(2,150)	(53,269)	(2,860)	(3,276)	(105,836)	(8,037)	(3,538)	(29,217)	(6,489)	(3,996)	(115,280)	**(336,995)**
Net carrying amount at 31 December 2018	**1,890,722**	**333,051**	**82,612**	**1,366,556**	**118,361**	**154,141**	**671,534**	**64,682**	**15,266**	**430,722**	**51,784**	**91,758**	**5,271,189**

Loans and advances derecognized during the year present loans sold and those that are modified (where the modification resulted in de-recognition) during the period.

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

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

5.2.1.2 Loans and advances to customers (continued)

(a) Credit quality of loans and advances to customers (continued)

Credit impaired loans and advances to customers

The following table presents the ageing analysis of credit impaired (Stage 3) loans and advances by product line at their gross carrying amounts, as well as the respective cumulative loss allowance:

	As at 31 December 2018				
	Mortgage	**Consumer**	**Small business**	**Corporate lending**	**(Lifetime ECL credit-impaired)**
up to 90 days	60,101	14,573	22,252	50,262	**147,188**
90 to 179 days	24,033	6,214	7,536	4,543	**42,326**
180 to 360 days	10,522	8,144	5,882	12,747	**37,295**
more than 360 days	165,321	15,552	171,368	68,328	**420,569**
Total gross carrying amount	**259,977**	**44,483**	**207,038**	**135,880**	**647,378**
Impairment Allowance	(105,836)	(29,217)	(115,280)	(53,269)	(303,602)
Carrying amount	**154,141**	**15,266**	**91,758**	**82,611**	**343,776**
Value of collateral	**138,961**	**116**	**71,995**	**66,920**	**277,992**

As at 31 December 2018, total gross carrying amount of credit impaired loans includes POCI loans of BGN 9,389 thousand.

Amounts under IAS 39

The following table presents the total gross amount, representing the maximum exposure to credit risk before impairment allowance, of loans and advances that are classified as non-impaired (i.e. 'neither past due nor impaired' and 'past due but not impaired') and those classified as impaired. They also present the total impairment allowance recognized in respect of all loans and advances as well as the total net amount:

	As at 31 December 2017
Loans and advances to customers	
Neither past due nor impaired	4,037,424
Past due but not impaired	317,944
Impaired	842,764
Total gross amount	**5,198,132**
Impairment allowance	(369,500)
Total net amount	**4,828,632**
Included in gross loans and advances are:	
Past due more than 90 days	627,968

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

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

5.2.1.2 Loans and advances to customers (continued)

(a) Credit quality of loans and advances to customers (continued)

Loans and advances neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired at 31 December 2017 can be assessed by reference to the internal standard grading system.
The following information is based on that system:

Satisfactory risk	**As at 31 December 2017**
Mortgages	1,249,441
Corporate Lending	1,825,849
Consumer Lending	583,949
SBB Lending	375,165
Total Satisfactory risk	**4,034,404**
Watch list (Corporate Lending)	3,020

Loans and advances past due but not impaired

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

Impaired loans and advances

Loans and advances collectively assessed

For collectively assessed accounts, loans are treated as impaired based on historical loss data for groups of loans with similar characteristics. The criteria used by the Bank to determine that there is objective evidence of impairment are provided in note 5.2.1.

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

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

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

5.2.1.2 Loans and advances to customers (continued)

(a) Credit quality of loans and advances to customers (continued)

Classification of retail clients is based on the full delinquency analysis by groups. The grouping is based on common characteristics of the respective products, similar risks they bear and the type of collateral that secures them.

Loans and advances individually impaired

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

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

The criteria used by the Bank to determine that there is objective evidence of impairment are provided in note 5.2.1.

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

Wholesale borrowers are rated on a case-by-case basis following the Credit Rating Systems: a) the Real Estate Rating System (NCR) – applied only to Real estate projects i.e. funding to real estate; b) The Moody’s Risk Advisor (RA) system – used for assessment of all types of clients, excluding start-ups, insurance/financing companies, SPVs, real estate projects and financing; and c) Internal Credit Rating (ICR) – for the rest companies not rated with the above-mentioned ratings. The credit rating is based on a profound analysis of qualitative and quantitative factors. Qualitative factors are those that deal with the borrower’s management, industry, operating conditions, the market sector in which the borrower operates, securities, loan servicing etc. Quantitative factors are those that refer to a set of ratios (main ratios: profitability, leverage, liquidity) emerging from the borrower’s financial statements (balance sheet, income statement, Notes to the separate financial statements etc.)
Small business lending loans over 90 days overdue are assessed on a case-by-case basis, following the Bank’s provisioning policy.

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

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

5.2.1.2 Loans and advances to customers (continued)

(a) Credit quality of loans and advances to customers (continued)

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

The table below provides information about collateral at 31 December 2017 as follows:

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

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

(b) Collaterals and repossessed collaterals

Collaterals

The Loan-to-Value (LTV) ratio of the mortgage lending reflects the gross loan exposure at the balance sheet date over the market value of the property held as collateral.

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

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

5.2.1.2 Loans and advances to customers (continued)

(b) Collaterals and repossessed collaterals (continued)

The LTV ratio of the mortgage portfolio is presented below:

	As at 31 December:	
	2018	**2017**
Mortgages		
Less than 50%	281,815	241,323
50%-70%	396,795	345,933
71%-80%	322,401	271,199
81%-90%	266,948	232,657
91%-100%	60,093	70,719
101%-120%	149,046	166,578
121%-150%	98,606	131,098
Greater than 150%	175,326	196,529
Total exposure	**1,751,030**	**1,656,036**
Average LTV	**66.46%**	**69.49%**

Collaterals type held as security and other credit enhancements are presented in the table below:

Type of exposure	**Percentage of exposure that is subject to collateral requirements**		**Principal type of collateral held**
	31.12.2018	**31.12.2017**	
Trading derivative assets	100	100	Cash
Derivative financial instruments	100	100	Cash
Loans and advances to retail customers			
Small Banking Business - Secured loans	100	100	Properties (residential, commercial, administrative), cash collaterals, guarantees, equipments
Small Banking Business - Unsecured loans	below 100, not fixed % of coverage	below 100, not fixed %	Properties (residential, commercial, administrative), cash collaterals, guarantees, equipments

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

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

5.2.1.2 Loans and advances to customers (continued)

(b) Collaterals and repossessed collaterals (continued)

Type of exposure	**Percentage of exposure that is subject to collateral requirements**		**Principal type of collateral held**
	31.12.2018	**31.12.2017**	
Small Banking Business - Factoring	100	100	Factoring invoices
Mortgage lending	100	100	Residential property
Consumer lending incl. credit cards	-	-	None
Loans and advances to wholesale customers			
Wholesale - Factoring	100	100	Factoring invoices
Wholesale lending	not fixed obligatory % of coverage	not fixed obligatory % of coverage	Properties (residential, commercial, administrative), cash collaterals, equipments

The breakdown of collateral and guarantees is presented below:

	As at 31 December 2018			
	Value of collateral received			
	Real Estate	**Financial**	**Other Collateral**	**Total**
Retail Lending	1,849,748	54,613	182,167	2,086,528
Wholesale Lending	756,933	55,187	825,966	1,638,086
Total	**2,606,681**	**109,800**	**1,008,133**	**3,724,614**

<u>Repossessed collaterals</u>

The Bank recognizes collateral assets on the balance sheet by taking possession usually through legal processes or by calling upon other credit enhancements. The main type of collateral that the Bank repossesses against repayment or reduction of the outstanding loan is real estate, which is recognized within repossessed assets. They are included in Other assets (note 23). Assets acquired from an auction process are held temporarily for liquidation and are valued at the lower of cost and net realizable value, which is the estimated selling price, in the ordinary course of business, less costs necessary to make the sale. In cases where the Bank makes use of repossessed collaterals as part of its operations, they are classified as own-used or investment properties, as appropriate.

The following tables present a summary of collaterals that the Bank took possession, and were recognized as repossessed assets, as well as the movement during 2018 and 2017:

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

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

5.2.1.2 Loans and advances to customers (continued)

(b) Collaterals and repossessed collaterals (continued)

Repossessed collaterals (continued)

Nature of assets	**2018**	**2017**
Commercial property	4,714	6,183
Residential property	3,139	4,520
Land	635	946
Total	**8,488**	**11,649**

Reconciliation of Level 3 movement:	**2018**	**2017**
Balance at 1 January	**11,649**	**8,715**
Sales	(2,664)	(1,140)
Impairment	(497)	(518)
Transfers	-	4,592
Balance at 31 December	**8,488**	**11,649**

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

Class property	**Fair value 31/12/2018 (BGN th)**	**Valuation technique**	**Input**	**Range (BGN) (weighted average) 2018**	**Range (BGN) (weighted average) 2017**	**Connection between the unobservable input and FV**
Land	635	Market comparison approach	price per m2	0.50 - 94.29 (12.40)	0.50 - 318.18 (17.89)	A significant increase in price per m2 would result in a higher fair value
Residential	3,139	Market comparison approach	price per m2	1.47 - 1521.64 (373.70)	1.51 - 2523.02 (467.59)	A significant increase in price per m2 would result in a higher fair value
		Cost approach	price per m2	62.45	116.12	A significant increase in price per would result in a higher fair value
Mixed	4,714	Market comparison approach	price per m2	44.34 - 1441.23 (330.92)	48.27 - 1419.38 (260.41)	A significant increase in price per m2 would result in a higher fair value
		Income approach	rent per m2	1.25 - 7.20 (2.94)	1.55 - 7.16 (3.81)	A significant increase in price per m2 would result in a higher fair value
		Cost approach	price per m2	8.79 - 288.00 (75.77)	0.88 - 279.39 (47.75)	A significant increase in price per m2 would result in a higher fair value

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

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

5.2.1.2 Loans and advances to customers (continued)

(c) Geographical and industry concentrations of loans and advances to customers

The Bank holds diversified portfolios across markets and implements limits on concentrations arising from the geographical location or the activity of groups of borrowers that could be similarly affected by changes in economic or other conditions, in order to mitigate credit risk.

Amounts under IFRS 9:

The following table breaks down the Bank's exposure into loans and advances to customers and credit related commitments at their gross carrying amount and nominal amount respectively by stage, product line, industry and geographical region as well as the impairment allowance.

	Bulgaria				**Greece**				**Rest of Europe**				**Other Countries**			
	Gross carrying/ nominal amount				**Gross carrying/ nominal amount**				**Gross carrying/ nominal amount**				**Gross carrying/ nominal amount**			
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	**Impairment allowance**	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	**Impairment allowance**	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	**Impairment allowance**	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	**Impairment allowance**
Retail Lending	**2,466,976**	**244,406**	**507,258**	**277,176**	**2,919**	**367**	**873**	**384**	**11,966**	**487**	**1,511**	**334**	**4,337**	**377**	**1,856**	**635**
-Mortgage	*1,356,230*	*120,940*	*256,096*	*110,966*	*2,020*	*217*	*815*	*324*	*8,209*	*198*	*1,280*	*124*	*2,957*	*282*	*1,786*	*558*
-Consumer	*673,559*	*67,686*	*44,124*	*40,445*	*899*	*150*	*58*	*60*	*3,733*	*289*	*231*	*210*	*1,380*	*95*	*70*	*77*
-Small business	*437,187*	*55,780*	*207,038*	*125,765*	-	-	-	-	*24*	-	-	-	-	-	-	-
Wholesale Lending	**1,621,973**	**334,207**	**135,287**	**57,555**	-	-	-		**267,762**	**994**	**594**	**909**	**4,034**	-	-	**2**
-Commerce and services	*413,170*	*8,546*	*32,275*	*17,327*	-	-	-	-	*33,608*	*28*	*404*	-	-		-	-
-Manufacturing	*337,552*	*104,214*	*15,402*	*7,426*	-	-	-	-	*135,659*	-	-	-	-		-	-
-Construction	*201,224*	*11,100*	*16,974*	*7,258*	-	-	-	-	*974*	*966*	-	-	-		-	-
-Tourism	*172,314*	*128,245*	*8,407*	*1,281*	-	-	-	-	-	-	-	-	-		-	-
-Energy	*92,981*	-	*25,738*	*3,490*	-	-	-	-	-	-	-	-	-		-	-
-Other	*404,732*	*82,102*	*36,491*	*20,773*	-	-	-	-	*97,521*	-	*190*	*909*	*4,034*		-	*2*
Total	**4,088,949**	**578,613**	**642,545**	**334,731**	**2,919**	**367**	**873**	**384**	**279,728**	**1,481**	**2,105**	**1,243**	**8,371**	**377**	**1,856**	**637**
Credit related commitmemnts	**1,063,403**	**98,817**	**952**	**589**	**1,005**	**150**	**5**		**120,829**	**277**	**297**	-	**268**	**27**	-	-
Loan commitments	*911,723*	*55,415*	*135*	-	*840*	*150*	*5*	-	*120,829*	*277*	*297*	-	*268*	*27*	-	-
Financial guarantee contracts and other commitments	*151,680*	*43,402*	*817*	*589*	*165*	-	-		-	-	-	-	-	-	-	-

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

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

5.2.1.2 Loans and advances to customers (continued)

(c) Geographical and industry concentrations of loans and advances to customers (continued)

Amounts under IAS 39:

The following tables break down the Bank's exposure into loans and advances to customers at their gross amounts, by product line, industry and geographical region:

	Bulgaria	**Greece**	**Rest of Europe**	**Other countries**	**Total**
Loans and advances to customers:					
- Mortgages	1,565,793	2,921	8,116	2,374	1,579,204
- Consumer lending incl.credit cards	643,202	755	3,177	521	647,655
- Small business lending	570,199	-	2	-	570,201
- Corporate lending	2,017,602	-	10,879	3,091	2,031,572
31 December 2017	**4,796,796**	**3,676**	**22,174**	**5,986**	**4,828,632**

	Commerce and services	**Manufac turing**	**Private individuals**	**Con-struction**	**Public sector**	**Financial institution s**	**Other**	**Total**
Loans and advances to customers:								
- Mortgages	-	-	1,579,204	-	-	-	-	1,579,204
-Consumer lending incl. credit cards	-	-	647,655	-	-	-	-	647,655
-Small business lending	345,006	89,705	7,303	50,985	-	161	77,041	570,201
-Corporate lending	827,589	558,946	-	247,124	1,291	60,883	335,739	2,031,572
31 December 2017	**1,172,595**	**648,651**	**2,234,162**	**298,109**	**1,291**	**61,044**	**412,780**	**4,828,632**

(d) Forbearance practices on lending activities

Modifications of the loans' contractual terms may arise due to various factors, such as changes in market conditions, customer retention and other factors as well as due to the potential deterioration in the borrowers' financial condition. The Bank has employed a range of forbearance options in order to enhance the management of customer relationships and the effectiveness of collection efforts, as well as to improve the recoverability of cash flows and minimize credit losses for both retail and wholesale portfolios.

Forbearance practices' classification

Forbearance practices as monitored and reported by the Bank based on the European Banking Authority Implementing Technical Standards (EBA ITS) guidelines occur only in the cases where the contractual payment terms of a loan have been modified, as the borrower is considered unable to comply with the existing loan's terms due to apparent financial difficulties, and the Bank grants a concession by providing more favorable terms and conditions that it would not otherwise consider had the borrower not been in financial difficulties.

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

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

5.2.1.2 Loans and advances to customers (continued)

(d) Forbearance practices on lending activities (continued)

All other types of modifications granted by the Bank, where there is no apparent financial difficulty of the borrower and may be driven by factors of a business nature are not classified as forbearance measures.

Forbearance solutions

Forbearance solutions granted following an assessment of the borrower's ability and willingness to repay and can be of a short or longer term nature. The objective is to assist financially stressed borrowers by rearranging their repayment cash outflows into a sustainable modification, and at the same time, protect the Bank from suffering credit losses. The Bank deploys targeted segmentation strategies with the objective to tailor different short or long term and sustainable management solutions to selected groups of borrowers for addressing their specific financial needs.

The nature and type of forbearance options may include but is not necessarily limited to, one or more of the following:

- debt consolidations, whereby existing loan balances of the borrower are combined in a single loan;
- interest-only payments;
- grace period;
- reduced payment plans;
- arrears repayment plan;
- loan term extensions/ partial debt forgiveness/ write down;
- interest rate reduction;
- split balance (combination of forbearance options that mainly includes capitalization of arrears, loan term extensions and interest rate reduction).
- operational restructuring

Specifically for unsecured consumer loans (including credit cards), forbearance programs (e.g. term extensions), are applied in combination with debt consolidation whereby all existing consumer balances are pooled together. Forbearance solutions are applied in order to ensure a sufficient decrease on installment and a viable solution for the borrower. In selected cases, the debt consolidations may be combined with mortgage establishment to convert unsecured lending exposures to secured ones.

In the case of mortgage loans, a decrease of installment may be achieved through forbearance measures such as extended payment periods, capitalization of arrears, split balance and reduced payment plans.

Wholesale exposures are subject to forbearance when there are indications of financial difficulties of the borrower, evidenced by a combination of factors including the deterioration of financials, credit rating downgrade, payment delays and other.

Retail business units are responsible for all first modifications of loans delinquent from 1 to 89 dpd.

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

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

5.2.1.2 Loans and advances to customers (continued)

(d) Forbearance practices on lending activities (continued)

The Troubled Assets Division (TAG) is the independent body, which has the overall responsibility for the management of the Bank's troubled assets portfolio, including forborne loans, in alignment with the acting regulations. TAG ensures tight control and close monitoring of the effectiveness of the forbearance schemes and the performance of the portfolios under management. TAG also warrants the continuous improvement and adjustment of policies and procedures, by performing quality assurance reviews and by assessing and taking into account the macroeconomic developments, the regulatory and legal requirements and changes, international best practices, and any existing or new internal requirements.

TAG cooperates with Risk Management to reach a mutual understanding and develop an appropriate methodology for the evaluation of the risks inherent in every type of modification and delinquency bucket, per portfolio.

Policy applicable from 1 January 2018

i. Classification of Forborne loans

Forborne loans are classified either as non-impaired (Stage 2), or impaired (Stage 3) by assessing their delinquency and credit quality status.

Credit impaired forborne loans enter initially a probation period of one year where the borrowers' payment performance is closely monitored. If at the end of the abovementioned period, the borrowers have complied with the terms of the program and there are no past due amounts and concerns regarding the loans' full repayment, the loans are then reported as non-impaired forborne loans (Stage 2). In addition, non-impaired forborne loans, including those that were previously classified as credit impaired and complied with the terms of the program, are monitored over a period of two years. If, at the end of that period, the borrowers have made payments more than an insignificant aggregate amount, there are no past due amounts over 30 days and the loans are neither credit impaired nor any other SICR criteria are met they exit forborne status and are classified as Stage 1.

Particularly, the category of credit impaired forborne loans includes those that (a) at the date when forbearance measures were granted, were more than 90 days past due or assessed as unlikely to pay, (b) at the end of the one year probation period met the criteria of entering the non - impaired status and during the two years monitoring period new forbearance measures were extended or became more than 30 days past due, and (c) were initially classified as non- impaired and during the two years monitoring period met the criteria for entering the credit impaired status.

Furthermore, forborne loans that fail to perform under the new modified terms and are subsequently denounced cease to be monitored as part of the Bank's forbearance activities and are reported as denounced credit impaired loans (Stage 3) consistently with the Bank's management and monitoring of all denounced loans.

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

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

5.2.1.2 Loans and advances to customers (continued)

(d) Forbearance practices on lending activities (continued)

ii. Loan restructurings

In cases where the contractual cash flows of a forborne loan have been substantially modified, the original forborne loan is de-recognized and a new loan is recognized.The Bank records the modified asset as a 'new' financial asset at fair value and the difference with the carrying amount of the existing one is recorded in the income statement as derecognition gain or loss.
In some circumstances there may be evidence that the new loan is credit-impaired at initial recognition, and thus, it is recognized as an originated credit-impaired (POCI) loan.
In cases where the modification, as a result of forbearance measures, is not considered substantial, the Bank recalculates the gross carrying amount of the loan and recognizes the difference as a modification gain or loss in the income statement. The Bank continues to monitor the modified forborne loan in order to determine if the financial asset exhibits significant increase in credit risk since initial recognition during the forbearance period.

Policy applicable before 1 January 2018

i Classification of Forborne loans

Forborne loans are classified either as impaired or non-impaired by assessing their delinquency and credit quality status at the date when forbearance measures were granted as well as at each reporting date.

Impaired loans enter initially a probation period of one year where the borrowers' payment performance is closely monitored. If, at the end of the abovementioned period, the borrowers have complied with the terms of the program and there are no past due amounts and concerns regarding the loans' full repayment, the loans are then reported as non-impaired. In addition, non-impaired loans, including those that were previously classified as impaired and complied with the terms of the program, are monitored over a period of two years. If, at the end of that period, the borrowers have made regular payments of a significant amount, there are no past due amounts over 30 days and the loans are not impaired, the loans exit forborne status.

Particularly, the category of impaired loans includes those that (a) at the date when forbearance measures were granted, were more than 90 dpd or assessed as unlikely to pay, (b) at the end of the one year probation period met the criteria of entering the non-impaired status and during the two years monitoring period new forbearance measures were extended or became more than 30 days past due, and (c) were initially classified as non-impaired and during the two years monitoring period met the criteria for entering the impaired status.

Additionally, the non-impaired retail loans are classified as either in Stage 1 or Stage 2 based on their delinquency status at the reporting date while for wholesale exposures' classification both the borrowers' rating and delinquency status are assessed.

Furthermore, forborne loans that fail to perform under the new modified terms and are subsequently denounced cease to be monitored as part of the Bank's forbearance activities and are reported as denounced impaired loans consistently with the Bank's management and monitoring of all denounced loans.

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

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

5.2.1.2 Loans and advances to customers (continued)

(d) Forbearance practices on lending activities (continued)

ii Impairment assessment

Where forbearance measures are extended, the Bank performs an assessment of the borrower's financial condition and its ability to repay, under the Bank's impairment policies. Specifically, the retail loans are segregated from other loan portfolios and the collective impairment assessment reflects the risk of higher losses, resulting in higher provision charges/coverage relative to non-modified loans. The impairment assessment of the wholesale exposures is performed on an individual basis taking into consideration various risk aspects (such as borrower's rating, financial position, adherence to the forbearance program and level of collaterals) and the respective impairment charge is calculated.

iii Loan restructurings

An existing loan whose terms have been modified may be derecognized and the forborne loan may be recognized as a new loan, when changes to the original contractual terms result in the forborne loan, being considered, as a whole, a substantially different financial asset. Upon de-recognition, any difference between the old loan and the fair value of the new loan is recognized in the income statement. Impaired loans that are de-recognized as a result of forbearance measures continue to be classified as impaired until there is a sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows and there are no other indicators of impairment.

The following tables present an analysis of Bank's forborne activities for loans measured at amortised cost. The relevant tables below are presented on a gross carrying amount basis, while cumulative impairment allowance is presented separately, in line with the Bank's internal credit risk monitoring process under IFRS 9 principles.

The following table presents a summary of the types of the Bank's forborne activities:

Forbearance measures:	**2018**	**2017**
Split balance	-	507
Loan term extension	208,050	269,261
Reduced payment below interest owed	22,878	-
Interest rate reduction	216,280	62,414
Reduced payment above interest owed	27,978	-
Arrears repayment plan	55,973	27,656
Interest only	17,521	-
Total gross carrying amount	**548,680**	**359,838**
Less: cumulative impairment allowance	(68,796)	(82,862)
Total carrying amount	**479,884**	**276,976**

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

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

5.2.1.2 Loans and advances to customers (continued)

(d) Forbearance practices on lending activities (continued)

The following tables present a summary of the credit quality of forborne loans and advances to customers:

	As at 31 December 2018		
	Total loans and advances	**Forborne loans and advances**	**% of Forborne loans and advances**
Gross carrying amounts:			
12-month ECL	4,379,967		**0%**
Lifetime ECL non credit-impaired	580,839	364,592	**63%**
Lifetime ECL credit-impaired	647,378	184,088	**28%**
Total Gross Amount	**5,608,184**	**548,680**	**10%**
Cumulative ECL Loss allowance :			
12-month ECL allowance	(20,432)	-	
Lifetime ECL (not credit-impaired) allowance	(12,961)	(3,571)	
Lifetime ECL (credit-impaired) allowance of which:	(303,602)	(65,225)	
- *Individually assessed*	*(156,061)*	*(26,106)*	
- *Collectively assessed*	*(147,541)*	*(39,119)*	
Total carrying amount	**5,271,189**	**479,884**	**9%**
Collateral received	**3,724,613**	**413,765**	

The following table presents the movement of forborne loans and advances:

	As at 31 December 2018
Gross carrying amount at 1 January 2018	**354,884**
Forbearance measures in the year	337,000
Repayment of loans	(20,344)
Write-offs of forborne loans	(42,743)
Loans and advances that exited forbearance status	(80,117)
Less cumulative impairment allowance	(68,796)
Carrying amount at 31 December 2018	**479,884**

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

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

5.2.1.2 Loans and advances to customers (continued)

(d) Forbearance practices on lending activities (continued)

The following table presents the Bank's exposure to forborne loans and advances by product line:

	As at 31 December 2018
Retail Lending	**196,687**
- Mortgage	126,372
- Consumer	28,977
- Small business	41,338
Wholesale Lending	**351,993**
Total gross carrying amount	**548,680**
Less cumulative impairment allowance	(68,796)
Total carrying amount	**479,884**

The following table presents the Bank's exposure to forborne loans and advances by geographical region:

	As at 31 December 2018
Bulgaria	548,516
Greece	154
Rest of Europe	7
Other countries	3
Total gross carrying amount	**548,680**
Less cumulative impairment allowance	(68,796)
Total carrying amount	**479,884**

The following table provides information on modifications due to forbearance measures on lending exposures which have not resulted in derecognition. Such financial assets were modified while they had a loss allowance measured at an amount equal to lifetime ECL:

Modified loans during the year	**31 December 2018**
Gross carrying amount at 31 December	548,680
Modification (loss)	(4,692)
Modified loans since initial recognition	
Gross carrying amount at 31 December for which loss allowance has changed to 12-month ECL measurement	13,468

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

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

5.2.1.3 Debt securities, loans and advances to banks and derivatives

The table below presents an analysis of debt securities, derivatives and banks placements net of ECL allowance by rating agency designation, based on the credit assessments of nominated External Credit Assessment Institutions. Debt securities, banks placements and financial assets are classified in Stage 1 as per the IFRS 9 requirements.

	31 December 2018 Non-impaired					
Rating	**Trading securities**	**Debt securities at FVOCI**	**Debt securities at AC**	**Loans and advances to banks**	**Derivatives**	**Total**
AA- to AA+	-	-	-	7,300	-	**7,300**
BBB- to BBB+	7,096	378,858	-	110,991	-	**496,945**
BB- to BB+	-	-	-	206	-	**206**
Lower than BB-	-	-	18,598	1,299,010	2,400	**1,320,008**
Unrated	-	-	-	415	-	**415**
Total	**7,096**	**378,858**	**18,598**	**1,417,922**	**2,400**	**1,824,874**

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

Concentration of risks of financial assets with credit risk

The following table breaks down the Bank's financial instruments (excluding Loans and advances to custome at their carrying amounts, as categorized by geographical region as of 31 December 2018. For this table, Bank has allocated exposures to regions based on the country of domicile of its counterparties.

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

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

5.2.1.3 Debt securities, loans and advances to banks and derviatives (continued)

(a) Geographical sectors

	Bulgaria	Greece	Rest of Europe	Other countries	Total
Loans and advances to banks	-	1,299,010	85,936	32,976	1,417,922
Trading assets – debt securities	7,096	-	-	-	7,096
Debt securities at fair value through other comprehensive income	378,858	-	-	-	378,858
Derivative financial instruments	-	2,400	-	-	2,400
Debt securities at amortised cost	-	-	18,598	-	18,598
31 December 2018	**385,954**	**1,301,410**	**104,534**	**32,976**	**1,824,874**

	Bulgaria	Greece	Rest of Europe	Other countries	Total
Loans and advances to banks	-	1,151,635	96,946	15,487	1,264,068
Trading assets – debt securities	13,263	-	-	-	13,263
Investment debt securities – AFS	426,701	-	4,176	-	430,877
Derivative financial instruments	50	191	-	-	241
Investment debt securities – DSL	-	-	19,181	-	19,181
31 December 2017	**440,014**	**1,151,826**	**120,303**	**15,487**	**1,727,630**

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

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.1 Credit risk (continued)

5.2.1.4 Offsetting of financial assets and financial liabilities

The Bank does not have offsetting assets/liabilities that fall under the scope of IAS 32, i.e. are offset on Balance Sheet when an entity has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.
The Bank has master netting arrangements with counterparty banks, which are enforceable in case of default. In addition, applicable legislation allows the Bank to unilaterally set off trade receivables and payables that are due for payment, denominated in the same currency and outstanding with the same counterparty. These fall in the scope of the disclosure as if they were set off in the Balance sheet. The Bank also made margin deposits as collateral for its outstanding derivative positions. The counterparty may set off the Bank's liabilities with the margin deposit in case of default.

	Gross amounts before offsetting in BS	Gross amounts set off in BS	Net amount after offsetting in BS	Financial or cash collateral received or given either recognised on BS or not, not offset on BS	Net amount of exposure
	(a)	(b)	(c) = (a) - (b)	(d)	(c) - (d)
Assets as of 31 December 2018					
Derivative assets	2,400	-	2,400	(2,400)	-
Liabilities as of 31 December 2018					
Derivative liabilities	(5,397)	-	(5,397)	5,138	**(259)**

	Gross amounts before offsetting in BS	Gross amounts set off in BS	Net amount after offsetting in BS	Financial or cash collateral received or given either recognised on BS or not, not offset on BS	Net amount of exposure
	(a)	(b)	(c) = (a) - (b)	(d)	(c) - (d)
Assets as of 31 December 2017					
Derivative assets	173	-	173	(173)	-
Liabilities as of 31 December 2017					
Derivative liabilities	(7,135)	-	(7,135)	6,823	**(313)**

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

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.2 Market risk

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

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

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

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

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

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

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

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

The Bank’s Market and Counterparty Risk Policy is approved by the Risk Committee of Eurobank Bulgaria AD and maintained by Market Risk Department. Market Risk Department reviews the policy at least annually and submits changes to the Risk Committee for approval.

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

- protect the Bank against unforeseen market losses and contribute to earnings stability through the independent identification, assessment and understanding of the market risks inherent in the business;
- help align the Bank’s organizational structure and management processes with best international banking practice and set minimum standards for controlling market risks;
- develop transparent, objective and consistent market risk information as a basis for sound decision making;
- establish a structure that will allow the Bank to link business strategy and operations with the objectives for risk control and supervision

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.2 Market risk (continued)

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

Market risk measurement techniques

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

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

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

Foreign exchange risk

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

Sensitivity of assets and liabilities

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

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

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

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.2 Market risk (continued)

Sensitivity of assets and liabilities (continued)

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

	31 December 2018			
	Total Effect on Economic Value	**Direct P&L Effect**	**Direct Equity Effect**	**Banking Book Effect**
<u>Interest Rate</u>				
+100 bps parallel shift for all currencies	**(9,614)**	(398)	(10,836)	1,620
<u>Equities / Equity Indices / Mutual Funds</u>				
-10% equity price drop across the board	**(98)**	(98)	-	-
<u>Foreign exchange</u>				
-10% depreciation of local currency	**879**	879	-	-

	31 December 2017			
	Total Effect on Economic Value	**Direct P&L Effect**	**Direct Equity Effect**	**Banking Book Effect**
<u>Interest Rate</u>				
+100 bps parallel shift for all currencies	**(9,727)**	(737)	(14,469)	5,479
<u>Equities / Equity Indices / Mutual Funds</u>				
-10% equity price drop across the board	**(98)**	(96)	(2)	-
<u>Foreign exchange</u>				
-10% depreciation of local currency	**622**	622	-	-

The following table sets out the allocation of assets and liabilities subject to market risk between trading and non-trading portfolios:

		Market risk measure	
As at 31 December 2018	**Carrying amount**	**Trading portfolios**	**Non-trading portfolios**
Assets subject to Market risk			
Cash and balances with Central Bank	871,393	-	871,393
Trading assets	8,071	8,071	-
Derivative financial instruments	2,400	2,400	-
Loans and advances to banks	1,417,922	-	1,417,922
Loans and advances to customers	5,271,189	-	5,271,189
Investment securities	409,407	-	409,407
Other financial assets	14,067	-	14,067
Total assets subject to Market risk	**7,994,449**	**10,471**	**7,983,978**
Liabilities subject to Market risk			
Derivative financial instruments	5,938	2,640	3,298
Deposits from banks	28,079	-	28,079
Due to customers	6,814,255	-	6,814,255
Other borowed funds	22,973	-	22,973
Other financial liabilities	25,818	-	25,818
Total liabilities subject to Market risk	**6,897,063**	**2,640**	**6,894,423**

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

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.2 Market risk (continued)

Sensitivity of assets and liabilities (continued)

		Market risk measure	
As at 31 December 2017	**Carrying amount**	**Trading portfolios**	**Non-trading portfolios**
Assets subject to Market risk			
Cash and balances with Central Bank	742,389	-	742,389
Trading assets	14,226	14,226	-
Derivative financial instruments	241	241	-
Loans and advances to banks	1,264,068	-	1,264,068
Loans and advances to customers	4,828,632	-	4,828,632
Investment securities	459,409	-	459,409
Other financial assets	8,824	-	8,824
Total assets subject to Market risk	**7,317,789**	**14,467**	**7,303,322**
Liabilities subject to Market risk			
Derivative financial instruments	7,793	5,061	2,732
Deposits from banks	9,025	-	9,025
Due to customers	6,080,217	-	6,080,217
Other borowed funds	30,420	-	30,420
Other financial liabilities	26,685	-	26,685
Total liabilities subject to Market risk	**6,154,140**	**5,061**	**6,149,079**

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

1. Foreign exchange risk sensitivity has been calculated directly on the total net open position (excluding Euro) of the Bank as a 10% depreciation of the local currency against all foreign currencies (except Euro), which include mainly USD, CHF and GBP. The BGN/EUR exchange rate is fixed at 1.95583 as part of the Currency Board Arrangement.
2. Interest rate risk sensitivity has been estimated by applying a parallel yield curve shift to all of the Bank's relevant on- and off-balance sheet positions and calculating the changes in their present value. The results have been allocated to three columns depending on the accounting treatment of each position:

- Direct P&L effect - for items with fair value changes recorded through profit and loss (trading portfolio securities and derivatives);
- Direct equity effect - for items with fair value changes included in OCI (FVOCI securities);
- Banking book effect - for items with no accounting revaluation (assets and liabilities not measured at fair value), the effect is through changes in the economic value of capital.

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

Equity price risk sensitivity has been calculated by applying a 10% drop in equity prices across the board.

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

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.2 Market risk (continued)

Foreign exchange risk concentration

The following table presents the Bank's exposure to foreign exchange risk as at 31 December 2018 and 2017:

	As at 31 December 2018					
Assets	**BGN**	**EUR**	**USD**	**CHF**	**OTHER**	**Total**
Cash and balances with the Central Bank	707,916	153,749	5,530	1,181	3,017	**871,393**
Loans and advances to banks	195	1,363,029	37,532	5,203	11,963	**1,417,922**
Trading assets	8,040	-	31	-	-	**8,071**
Derivative financial instruments	319	-	2,000	-	81	**2,400**
Loans and advances to customers	3,787,304	1,373,729	53,546	56,610	-	**5,271,189**
Investment securities	7,711	397,557	4,139	-	-	**409,407**
Other financial assets	6,068	5,658	1,693	63	585	**14,067**
Total financial assets	**4,517,553**	**3,293,722**	**104,471**	**63,057**	**15,646**	**7,994,449**
Liabilities						
Deposits from banks	7,141	16,625	4,271	-	42	**28,079**
Derivative financial instruments	-	5,801	-	137	-	**5,938**
Due to customers	4,359,339	2,007,940	394,904	7,751	44,321	**6,814,255**
Other borrowed funds	22,973	-	-	-	-	**22,973**
Other financial liabilities	14,687	5,200	5,442	351	138	**25,818**
Total financial liabilities	**4,404,140**	**2,035,566**	**404,617**	**8,239**	**44,501**	**6,897,063**

	As at 31 December 2017					
Assets	**BGN**	**EUR**	**USD**	**CHF**	**OTHER**	**Total**
Cash and balances with the Central Bank	369,899	363,082	5,768	1,299	2,341	**742,389**
Loans and advances to banks	5	1,191,993	55,293	5,461	11,316	**1,264,068**
Trading assets	14,165	-	61	-	-	**14,226**
Derivative financial instruments	137	36	-	50	18	**241**
Loans and advances to customers	3,444,028	1,290,534	27,893	66,177	-	**4,828,632**
Investment securities	5,851	450,142	3,416	-	-	**459,409**
Other financial assets	5,529	2,406	747	35	107	**8,824**
Total financial assets	**3,839,614**	**3,298,193**	**93,178**	**73,022**	**13,782**	**7,317,789**
Liabilities						
Deposits from banks	3,201	5,822	1	-	1	**9,025**
Derivative financial instruments	-	7,793	-	-	-	**7,793**
Due to customers	3,727,605	1,934,328	363,988	7,457	46,839	**6,080,217**
Other borrowed funds	30,420	-	-	-	-	**30,420**
Other financial liabilities	17,637	8,131	-	-	917	**26,685**
Total financial liabilities	**3,778,863**	**1,956,074**	**363,989**	**7,457**	**47,757**	**6,154,140**

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

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.3 Liquidity risk

Basel Committee defines liquidity as "the ability of the Bank to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses".
Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend.
The Bank has a limited appetite for liquidity risk and accepts the potentially increased costs of maintaining sufficient liquidity buffers to ensure a sound liquidity position.

Liquidity risk management process

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

Market Risk Department holds an important position in monitoring the market risks and in producing reports to the senior management for observation of risks.

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

In addition to the internally defined liquidity ratios and reports, further to Regulation (EU) No 575/2013, Regulation (EU) No 2015/61 and Regulation No 2016/313 the Bank also prepares the reports under the Liquidity Coverage Ratio (LCR), Additional Liquidity Monitoring Metrics (ALMM) on a monthly basis and the Net Stable Funding Ratio (NSFR) on a quarterly basis. In 2018, the Liquidity Report under BNB Ordinance 11 was replaced by a new Maturity Ladder Report for monitoring of the maturity structure of inflows and outflows. The Maturity Ladder report is prepared under the EBA methodology as per Annex 23 of Commission Implementing Regulation (EU) 2017/2114.

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

The Management Board (MB) of the Bank assigns the Assets and Liabilities Committee (ALCO) as the primary responsible body to advise the MB for the strategic management of assets and liabilities with aim to manage the interest rate and liquidity risks of the Bank.

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

Within its authority is to take all the necessary decisions regarding the interest rate policy, the liquidity and assets and liabilities management and to set the target parameters of potential external funding.

Regarding Assets and Liabilities management, ALCO shall regularly review the following:

- Structure, current state and trends of the assets and liabilities of the Bank;
- Interest income margin generated on assets and cost of funding base (deposit base and external funding);
- Interest rates offered by main competitors and market shares;
- Capital Adequacy.

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

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.3 Liquidity risk (continued)

Liquidity risk management process (continued)

Regarding Liquidity management, ALCO shall regularly review the following:

- Liquidity Ratios and liquidity buffers as defined by BNB or the EU regulations;
- Internal Liquidity ratios;
- Liquid buffers;
- Sources and uses of Liquidity and Liquidity Projections;
- Liquidity Stress tests, reflecting the changes on the asset-liability maturity tables in different stress scenarios.

On a strategic level ALCO manages the Bank's assets and liabilities to ensure regular and timely meeting of current and future obligations.

The operational management of the Bank's liquidity and the execution of ALCO decisions regarding liquidity are assigned to the Head of Capital Markets Division. If necessary, ALCO can be directly engaged in the liquidity management via activating all resources of the Bank to meet all payment obligations.

Cash flows

The table below presents the cash flows receivables and payable by the Bank under financial assets/ liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows for the year 2018 and 2017. Liabilities without contractual maturities (sight and saving deposits) are presented in "less than 1 month" time bucket.

As at 31 December 2018	**Carrying**	**Gross nominal**	**Less than**	**1-3**	**3-12**	**1-5**	**More than**
Financial Assets	**amount**	**inflow/ (outflow)**	**1 month**	**months**	**months**	**years**	**5 years**
Non-derivative assets	***7,992,049***	***8,523,300***	***3,306,114***	***147,093***	***532,450***	***2,437,181***	***2,100,462***
Cash and balances with Central Bank	871,393	871,393	871,393	-	-	-	-
Loans and advances to banks	1,417,922	1,418,265	1,418,265	-	-	-	-
Loans and advances to customers	5,271,189	5,797,045	1,001,394	142,203	528,854	2,152,267	1,972,327
Financial assets held for trading	8,071	8,230	979	55	30	1,331	5,835
Investment securities	409,407	414,300	16	4,835	3,566	283,583	122,300
Other financial assets	14,067	14,067	14,067	-	-	-	-
Derivative financial instruments	***2,400***	***1,245,654***	***1,235,689***	***823***	***853***	***6,822***	***1,467***
Inflow from net settled		9,965	-	823	853	6,822	1,467
Inflow from gross settled		1,235,689	1,235,689	-	-	-	-
Total assets (contractual maturity)	**7,994,449**	**9,768,954**	**4,541,803**	**147,916**	**533,303**	**2,444,003**	**2,101,929**

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

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.3 Liquidity risk (continued)

Liquidity risk management process (continued)

As at 31 December 2018	**Carrying**	**Gross nominal**	**Less than**	**1-3**	**3-12**	**1-5**	**More than**
Financial liabilities	**amount**	**inflow/ (outflow)**	**1 month**	**months**	**months**	**years**	**5 years**
Non-derivative liabilities	***6,891,125***	***(6,895,080)***	***(5,125,442)***	***(508,815)***	***(1,050,503)***	***(204,942)***	***(5,378)***
Due to other banks	28,079	(28,079)	(28,079)	-	-	-	-
Due to customers	6,814,255	(6,816,963)	(5,071,545)	(508,717)	(1,046,715)	(189,986)	-
Other borrowed funds	22,973	(24,220)	-	(98)	(3,788)	(14,956)	(5,378)
Other financial liabilities	25,818	(25,818)	(25,818)	-	-	-	-
Derivative financial instruments	***5,938***	***(1,251,818)***	***(1,237,382)***	***(1,173)***	***(1,862)***	***(9,959)***	***(1,442)***
(Outflow) from net settled		(14,436)	-	(1,173)	(1,862)	(9,959)	(1,442)
(Outflow) from gross settled		(1,237,382)	(1,237,382)	-	-	-	-
Total liabilities (contractual maturity)	**6,897,063**	**(8,146,898)**	**(6,362,824)**	**(509,988)**	**(1,052,365)**	**(214,901)**	**(6,820)**

As at 31 December 2018	**Gross nominal**	**Less than**	**1-3**	**3-12**	**1-5**	**More than**
Off Balance sheet items	**inflow/ (outflow)**	**1 month**	**months**	**months**	**years**	**5 years**
Credit commitments	(1,089,966)	-	(61,364)	(561,137)	(445,306)	(22,159)
Guarantees and other committments	(196,064)	(23,099)	(63,420)	(41,396)	(57,477)	(10,672)
Total amount	**(1,286,030)**	**(23,099)**	**(124,784)**	**(602,533)**	**(502,783)**	**(32,831)**

As at 31 December 2017	**Carrying**	**Gross nominal**	**Less than**	**1-3**	**3-12**	**1-5**	**More than**
Financial Assets	**amount**	**inflow/ (outflow)**	**1 month**	**months**	**months**	**years**	**5 years**
Non-derivative assets	***7,317,548***	***8,079,273***	***2,942,364***	***137,844***	***558,580***	***2,389,775***	***2,050,710***
Cash and balances with Central Bank	742,389	742,389	742,389	-	-	-	-
Loans and advances to banks	1,264,068	1,264,169	1,264,169	-	-	-	-
Loans and advances to customers	4,828,632	5,570,341	925,998	132,336	550,738	2,083,827	1,877,442
Financial assets held for trading	14,226	14,418	968	28	53	5,478	7,891
Investment securities	459,409	479,132	16	5,480	7,789	300,470	165,377
Other financial assets	8,824	8,824	8,824	-	-	-	-
Derivative financial instruments	***241***	***1,280,264***	***948,241***	***304,464***	***15,498***	***8,798***	***3,263***
Inflow from net settled		13,736	-	832	843	8,798	3,263
Inflow from gross settled		1,266,528	948,241	303,632	14,655	-	-
Total assets (contractual maturity)	**7,317,789**	**9,359,537**	**3,890,605**	**442,308**	**574,078**	**2,398,573**	**2,053,973**

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

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.2 Financial risk factors (continued)

5.2.3 Liquidity risk (continued)

Liquidity risk management process (continued)

As at 31 December 2017 **Financial liabilities**	**Carrying amount**	**Gross nominal inflow/ (outflow)**	**Less than 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**More than 5 years**
Non-derivative liabilities	***6,146,347***	***(6,150,541)***	***(4,518,291)***	***(564,280)***	***(901,001)***	***(157,938)***	***(9,031)***
Due to other banks	9,025	(9,025)	(9,025)	-	-	-	-
Due to customers	6,080,217	(6,082,782)	(4,482,581)	(560,260)	(897,174)	(142,767)	-
Other borrowed funds	30,420	(32,049)	-	(4,020)	(3,827)	(15,171)	(9,031)
Other financial liabilities	26,685	(26,685)	(26,685)	-	-	-	-
Derivative financial instruments	***7,793***	***(1,280,845)***	***(945,055)***	***(304,929)***	***(16,675)***	***(11,303)***	***(2,883)***
(Outflow) from net settled		(17,357)	-	(1,174)	(1,997)	(11,303)	(2,883)
(Outflow) from gross settled		(1,263,488)	(945,055)	(303,755)	(14,678)	-	-
Total liabilities (contractual maturity)	**6,154,140**	**(7,431,386)**	**(5,463,346)**	**(869,209)**	**(917,676)**	**(169,241)**	**(11,914)**

As at 31 December 2017 **Off Balance sheet items**	**Gross nominal inflow/ (outflow)**	**Less than 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**More than 5 years**
Credit commitments	(835,455)	-	(47,140)	(463,048)	(294,141)	(31,126)
Guarantees and other committments	(118,787)	(11,230)	(15,061)	(39,670)	(49,129)	(3,697)
Total amount	**(954,242)**	**(11,230)**	**(62,201)**	**(502,718)**	**(343,270)**	**(34,823)**

Off-balance sheet items

(a) *Loan commitments*

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

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

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

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

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.3. Fair values of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions (i.e. an exit price). When a quoted price for an identical asset or liability is not observable, fair value is measured using valuation techniques that are appropriate in the circumstances, and maximise the use of relevant observable inputs and minimise the use of unobservable inputs. Observable inputs are developed using market data, such as publicly available information about actual events or transactions, and reflect assumptions that market participants would use when pricing financial instruments, such as quoted prices in active markets for similar instruments, interest rates and yield curves, implied volatilities and credit spreads.

Fair values of financial assets and liabilities not measured at fair value

The following table presents the carrying amounts and fair values of financial assets and liabilities which are not carried at fair value on the balance sheet, analysed by the level in the fair value hierarchy into which each fair value measurement is included:

	At 31 December 2018				
	Level 1	**Level 2**	**Level 3**	**Total Fair Value**	**Total Carrying Amount**
Financial assets					
Loans and advances to customers					
- Corporate	-	-	2,116,779	**2,116,779**	**2,306,385**
- SBB	-	-	563,474	**563,474**	**574,264**
- Consumer	-	-	838,076	**838,076**	**751,482**
- Mortgage	-	-	1,748,441	**1,748,441**	**1,639,058**
Total	**-**	**-**	**5,266,770**	**5,266,770**	**5,271,189**

	At 31 December 2017				
	Level 1	**Level 2**	**Level 3**	**Total Fair Value**	**Total Carrying Amount**
Financial assets					
Loans and advances to customers					
- Corporate	-	-	1,951,474	**1,951,474**	**2,031,572**
- SBB	-	-	576,091	**576,091**	**570,201**
- Consumer	-	-	748,616	**748,616**	**647,655**
- Mortgage	-	-	1,782,650	**1,782,650**	**1,579,204**
Total	**-**	**-**	**5,058,831**	**5,058,831**	**4,828,632**

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

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.3 Fair values of financial assets and liabilities (continued)

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

The assumptions and methodologies underlying the calculation of fair values of financial instruments not carried at fair value on the balance sheet date are in line with those used to calculate the fair values for financial instruments carried at fair value and are as follows:

a) Loans and advances to customers

For loans and advances to customers quoted market prices are not available as there are no active markets where these instruments are traded. The fair values are estimated by discounting future expected cash flows over the time period they are expected to be recovered, using constructed risk-adjusted rates to eliminate credit risk. Loans are grouped into homogenous pools of assets based on shared credit risk characteristics, such as product type, borrower type, vintages and credit history. In estimating future cash flows, the Bank takes into account information for the contractual terms, remaining maturity and credit risk parameters of the exposures.

For other financial instruments which are short term (cash and balances with central banks, loans and advances to banks, due to central banks and other banks) or re-priced at frequent intervals (due to customers) and other borrowed funds the carrying amounts represent reasonable approximations of fair values.

Financial instruments measured at fair value

Trading assets, derivatives and other transactions undertaken for trading purposes, as well as FVOCI securities and assets and liabilities designated at fair-value-through-profit-or-loss are measured at fair value by reference to quoted market prices when available. If quoted prices are not available, the fair values are estimated using appropriate valuation techniques.

These financial instruments carried at fair value are categorised into the three levels of the fair value hierarchy as at 31 December 2018 based on whether the inputs to the fair values are observable or unobservable, as follows:

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

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

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

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

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.3 Fair values of financial assets and liabilities (continued)

Financial instruments measured at fair value (continued)

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

	31 December 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value:				
Trading assets				
-Debt securities	7,096	-	-	**7,096**
-Equity securities	975	-	-	**975**
Derivative financial instruments	-	2,400	-	**2400**
Investment securities				
- Investment securities at FVOCI	378,858	-	-	**378,858**
- Investment securities at FVTPL	1	-	11,950	**11,951**
Total financial assets	**386,930**	**2,400**	**11,950**	**401,280**
Financial liabilities measured at fair value:				
Derivative financial instruments	-	5,938	-	**5,938**
Total financial liabilities	**-**	**5,938**	**-**	**5,938**

	31 December 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value:				
Financial assets held for trading				
-Debt securities	13,263	-	-	**13,263**
-Equity securities	963	-	-	**963**
Derivative financial instruments	-	241	-	**241**
Available-for-sale investment securities				
-Debt securities	424,092	-	6,786	**430,878**
-Equity securities	16	3,416	5,918	**9,350**
Total financial assets	**438,334**	**3,657**	**12,704**	**454,695**
Financial liabilities measured at fair value:				
Derivative financial instruments	-	7,793	-	**7,793**
Total financial liabilities	**-**	**7,793**	**-**	**7,793**

Reconciliation of Level 3 fair value measurement	**2018**	**2017**
Balance at 1 January	**12,704**	**15,574**
Transfers into Level 3	3,584	-
Total gain/ (loss) for the period included in profit or loss	2,448	-
Transfers to Loans and advances to customers	(6,786)	-
Total loss for the period included in other comprehensive income	-	(2,870)
Balance at 31 December	**11,950**	**12,704**

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

Notes to the separate financial statements (continued)

5. Financial risk management and fair value (continued)

5.3 Fair values of financial assets and liabilities (continued)

Financial instruments measured at fair value (continued)

Bank's valuation processes

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

Where valuation techniques are used to determine the fair values of financial instruments, they are validated against historical data and published forecasts and, where possible, against current or recent observed transactions in different instruments, and periodically reviewed by qualified personnel independent of the personnel that created them. All models are certified before they are used and models are calibrated to ensure that outputs reflect actual data and comparative market prices. Fair values estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that market participants would take them into account in pricing the instrument. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank and the counterparty, where appropriate.

The Bank follows fair valuation processes and procedures, which are established at a Group level by Global Market Counterparty Risk Sector. Some of the specific valuation controls include: verification of observable pricing, re-performance of model valuations, a review and approval process for new models and/or changes to models, calibration and back-testing against observable market transactions, where available, analysis of significant valuation movements, etc. Where third parties' valuations are used for fair value measurement, these are reviewed in order to ensure compliance with the requirements of IFRS 13.

Valuation techniques

OTC derivative financial instruments are fair valued by discounting expected cash flows using market interest rates at the measurement date. Counterparty credit risk adjustments and own credit risk adjustments are applied to OTC derivatives, where appropriate. Bilateral credit risk adjustments consider the expected cash flows between the Bank and its counterparties under the relevant terms of the derivative instruments and the effect of the credit risk on the valuation of these cash flows. As appropriate in circumstances, the Bank considers also the effect of any credit risk mitigating arrangements, including collateral agreements and master netting agreements on the calculation of credit risk valuation adjustments (CVAs).

The Bank determines fair values for debt securities held using quoted market prices in active markets for securities with similar credit risk, maturity and yield or by using discounted cash flows method.

The fair values of unquoted equity instruments are estimated mainly (i) using third parties' valuation reports based on investees' net assets, where management does not perform any further significant adjustments, (ii) net assets' valuations, adjusted where considered necessary and (iii) dividend discount models, where deemed appropriate

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

Notes to the separate financial statements (continued)

6 Net interest income

Interest and similar income	**2018**	**2017**
Loans and advances to customers	283,023	258,338
Loans and advances to banks	21,304	19,886
Investment securities	7,518	9,030
Hedging instruments	4,035	5,668
Derivative instruments	7,076	5,294
Trading securities	97	100
Total	**323,053**	**298,316**

The unwinding of the discount of the ECL allowance (note 18) amounting to BGN 21,528 thousand is included in interest income on impaired loans and advances to customers for 2018. Interest income includes BGN 30,037 thousand (2017: BGN 18,106 thousand) interest income, recognised on impaired loans to customers, out of which BGN 8,307 thousand (2017: BGN 3,700 thousand) remain due by the customer as of year-end.

Interest and similar charges	**2018**	**2017**
Deposits from customers	7,830	9,976
Hedging instruments	2,733	3,386
Other borrowed funds	405	496
Derivative instruments	-	74
Deposits from banks	572	182
Total	**11,540**	**14,114**

7 Net fee and commission income

Fees and commission income	**2018**	**2017**
Money transfers	32,710	30,005
Account maintenance	24,580	23,274
Foreign exchange operations	10,853	11,107
Loans' fees and commissions	9,955	9,601
Receipts from sales of services	9,444	8,771
Cash operations	7,518	7,442
Documentary business	2,180	1,748
Management, brokerage and securities trading	616	969
Other fees	1,363	948
Operations with derivatives	-	206
Total	**99,219**	**94,071**

Fee and commission expense	**2018**	**2017**
Loans related fees	3,497	2,112
Transactions processing	11,173	10,187
Cash transactions and correspondent accounts	771	791
Other fees	648	459
Management, brokerage and securities trading	232	202
Total	**16,321**	**13,751**

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

Notes to the separate financial statements (continued)

8 Other operating income, net	**2018**	**2017**
Net gain arising from derecognition of financial assets	2,255	-
Net (loss) from Modification of non-forborne loans	(1,885)	-
Net gain from non-current fixed assets	581	20
Rental income	186	260
Investment and own property impairment	(105)	(272)
Total	**1,032**	**8**

9 Net trading income / (expense)	**2018**	**2017**
Net results from derivative instruments	118	(1,440)
of which:		
Gains / (Losses) on derivative fin. Instruments – Hedging (Note 25)	*(44)*	*26*
Gains / (Losses) on derivative fin. instruments - Non-Hedging	*162*	*(1,466)*
Net trading income/ (expense)	**118**	**(1,440)**

10 Other operating expenses	**2018**	**2017**
Staff costs (Note 11)	74,940	62,139
Operating lease rentals	20,683	20,652
Repairs and maintenance	8,631	8,821
External services	5,707	5,793
Depreciation of property, plant and equipment (Note 21)	6,866	6,964
Advertising and marketing	5,865	6,877
Amortisation of intangible assets (Note 22)	6,814	6,473
Software costs	5,518	5,199
Security	4,834	4,363
Other operating costs	1,035	959
Communication	550	541
Materials and utilities	1,441	1,598
Insurance	530	576
Travel and accommodation	793	689
VAT refund	-	(8)
Total	**144,207**	**131,635**

The amounts accrued in 2018 for the services provided by the registered auditors for statutory joint independent financial audit are as follows: for KPMG Audit OOD - BGN 192 thousand excluding VAT, for Baker Tilly Klitou and Partners OOD - BGN 27 thousand excluding VAT.

In 2018 the Bank has charged amounts for other non-statutory audit services provided by KPMG Audit OOD at a total amount of BGN 121 thousand excluding VAT, for Baker Tilly Klitou and Partners OOD - BGN 3 thousand excluding VAT.

For 2017 the accrued amount for the provided audit and non-audit services by PricewaterhouseCoopers Audit OOD amounts to BGN 253 thousand excluding VAT and BGN 29 thousand for the services provided by Moore Stephens Bulgaria - Audit OOD.

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

Notes to the separate financial statements (continued)

11 Staff costs	**2018**	**2017**
Wages and salaries	61,883	51,329
Social security costs	4,513	3,942
Pension costs – defined contribution plans	5,753	4,765
Pension costs – defined benefit plans (Note 30)	585	288
Other	2,206	1,815
Total staff cost	**74,940**	**62,139**

12 Impairment charge for credit losses	**2018**	**2017**
Loans and advances to customers (Note 18)	(63,274)	(70,085)
Credit commitments (charge)/ release of impairment	(453)	422
Other impairment losses	(72)	-
Total	**(63,799)**	**(69,663)**

Other impairment losses include the ECL charge during 2018 as per IFRS 9 regarding financial assets other than loans and advances to customers (securities, placements, etc.)

13 Income tax expense	**2018**	**2017**
Deferred tax expense/ (benefit) (Note 28)	217	(310)
Current income tax	17,565	15,145
Total	**17,782**	**14,835**

Tax is payable at an actual rate of 10% (2017: 10%) on adjusted profits under Corporate Tax Act.

The tax on the operating profit differs from the theoretical amount that would arise using the basic tax rate as follows:

	2018 Tax rate	**2018 Amount**	**2017 Tax rate**	**2017 Amount**
Profit before income tax		**175,209**		**151,100**
Tax calculated at the basic tax rate	10.0%	17,521	10.0%	15,110
Tax effect of:				
Non tax deductible expenses	0.3%	544	0.4%	581
Non taxable income	(0.2%)	(271)	(0.5%)	(712)
(Gain)/ loss recognized in OCI	0.0%	(12)	(0.1%)	(144)
Income tax expense	**10.1%**	**17,782**	**9.8%**	**14,835**

Additional information about deferred tax is presented in Note 28.

The tax authorities may at any time inspect the books and records within 5 years subsequent to the reported tax year, and may impose additional taxes and penalties. The management of the Bank is not aware of any circumstances, which can potentially raise material tax obligations.
The last full-scope tax audit of the Bank has been carried out in 2014, covering the periods 2008 – 31.03.2013 with respect to VAT and 2008 – 2012 with respect to CITA.

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

Notes to the separate financial statements (continued)

14 Income tax effects relating to comprehensive income

	Year ended 31 December					
	2018			2017		
	Before tax amount	**Tax (expense)/ benefit**	**Net of tax amount**	**Before tax amount**	**Tax (expense)/ benefit**	**Net of tax amount**
Investment Securities at FVOCI/ AFS	(9,610)	961	(8,649)	13,076	(1,308)	11,768
Change in FV of property, plant and equipment	(40)	4	(36)	-	-	-
Remeasurements of retirement benefit obligation	121	(12)	109	(841)	84	(757)
Total	**(9,529)**	**953**	**(8,576)**	**12,234**	**(1,223)**	**11,011**

15 Cash and balances with the Central Bank

	2018	**2017**
Cash in hand	116,689	107,873
Balances with Central bank	754,704	634,516
Total	**871,393**	**742,389**
of which:		
Mandatory reserve with Central Bank in accordance with BNB Regulation 21	608,978	541,139

Mandatory reserves with Central bank represent the minimum level of deposits which the Bank is required to maintain with BNB. As at the end of 2018 and 2017 the Bank has fulfilled the requirement for a minimum 100% coverage of mandatory reserves with balances with Central bank on a monthly basis. Balances with Central bank can be freely used daily provided the average monthly minimum deposits are maintained.

16 Loans and advances to banks

	2018	**2017**
Deposits in other banks	1,418,148	1,264,068
Less impairment loss allowance	(226)	-
Total	**1,417,922**	**1,264,068**

Included in the amount of loans and advances to banks is accrued interest of BGN 59 thousand (2017: BGN 160 thousand).
Approximately 100 % (2017: 100 %) of the amounts due from other banks represent funds placed in banks domiciled in OECD (Organisation for Economic Co-operation and Development) countries.

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

Notes to the separate financial statements (continued)

17 Trading assets

	2018	2017
Bulgarian government bonds	7,096	13,263
Shares	975	963
Total	**8,071**	**14,226**
Equity securities:		
- Listed	975	963
Debt securities:		
- Listed	7,064	13,202
- Unlisted	32	61

Included in the amount of the bonds is accrued interest in the amount of BGN 22 thousand (2017: BGN 37 thousand).

Gains less (losses) from trading securities	2018	2017
Debt securities	(75)	327
Equity securities	(189)	47
Total	**(264)**	**374**

18 Loans and advances to customers

	2018	2017
Consumer lending (including credit cards)	792,274	678,464
Small Business lending	700,029	711,189
Mortgages	1,751,030	1,656,039
Corporate lending	2,364,851	2,152,440
Gross loans and advances	**5,608,184**	**5,198,132**
Less allowance for impairment losses on loans and advances	(336,995)	(369,500)
Net outstanding balance of loans and advances to customers	**5,271,189**	**4,828,632**

Included in the amount of loans and advances to customers is accrued interest of BGN 28,650 thousand (2017: BGN 32,514 thousand). In 2018 Eurobank Bulgaria AD purchased loans from BRS in the amount of BGN 12,538 thousand (2017: BGN 46,437 thousand). The company is related party of the Bank.

	2018	2017
The ten largest exposures to customers	371,412	584,424
Percentage of gross loans	6.62%	11.24%

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

Notes to the separate financial statements (continued)

18 Loans and advances to customers (continued)

The following table presents the impairment allowance movement by product line:

Applicable from 1 January 2018

	31 December 2018												
	Wholesale			Mortgage			Consumer			Small business			
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Imparment allowance as at 1 January 2018	**4,936**	**305**	**132,799**	**2,670**	**4,461**	**109,960**	**5,320**	**4,306**	**25,442**	**5,869**	**5,124**	**153,234**	**454,426**
New financial assets originated or purchased	594	-	-	735	-	-	6,028	-	-	2,552	-	-	**9,909**
Transfers:													
to 12-month ECLs	*510*	*(273)*	*(237)*	*1,741*	*(1,016)*	*(725)*	*1,684*	*(1,492)*	*(192)*	*1,558*	*(1,512)*	*(46)*	-
to lifetime ECLs -not credit-impaired loans	*(367)*	*531*	*(164)*	*(67)*	*7,580*	*(7,513)*	*(447)*	*2,501*	*(2,054)*	*(441)*	*1,212*	*(771)*	-
to lifetime ECLs -credit-impaired loans	*(4)*	-	*4*	*(84)*	*(778)*	*862*	*(48)*	*(695)*	*743*	*(57)*	*(894)*	*951*	-
Remeasurement impact of transfers between 12M/Lifetime ECLs during the period	(2,663)	1,385	6,446	415	(5,570)	6,935	(397)	(1,207)	11,381	(724)	792	(3,567)	**13,226**
Changes due to changes in ECL risk parameters (Other than transfers)	404	97	6,140	(1,333)	(315)	11,758	(3,221)	(142)	4,768	(1,002)	(287)	16,928	**33,795**
Recoveries from written - off loans	-	-	(5,755)	-	-	(2,146)	-	-	(4,214)	-	-	(2,915)	**(15,030)**
Changes to contractual cash flows due to modifications not resulting in de-recognition	-	-	(10)	(44)	(735)	(2,587)	(12)	(230)	(432)	(2)	(34)	(395)	**(4,481)**
Financial assets derecognised during period	(162)	(51)	-	(1,015)	(173)	-	(80)	(3)	-	(754)	(17)	-	**(2,255)**
Amounts written off	-	-	(97,503)	-	-	(17,462)	-	-	(8,030)	-	-	(56,522)	**(179,517)**
Unwinding of Discount	-	-	1,958	6	1	7,759	6	56	1,329	-	-	10,414	**21,529**
Foreign exchange and other movements	(201)	156	9,591	(164)	(179)	(1,005)	(796)	444	476	(510)	(388)	(2,031)	**5,393**
Impairment allowance as at 31 December 2018	**3,047**	**2,150**	**53,269**	**2,860**	**3,276**	**105,836**	**8,037**	**3,538**	**29,217**	**6,489**	**3,996**	**115,280**	**336,995**

Applicable before 1 January 2018

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

Loan commitments, financial guarantees and other commitments	**31 December 2018**			
	12-month ECL	**Lifetime ECL not credit-impaired**	**Lifetime ECL credit-impaired**	**Total**
Impairment allowance as at 1 January 2018	**53**	**6**	**79**	**138**
New financial assets originated or purchased	167	-	-	**167**
Amounts charged during the year	138	1	142	**281**
Foreign exchange and other movements	-	3	-	**3**
Impairment allowance as at 31 December 2018	**358**	**10**	**221**	**589**

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

Notes to the separate financial statements (continued)

19 Investment securities

a) Investment securities breakdown	2018	2017
Investment securities at FVTPL	11,951	-
Investment securities measured at amortised cost	19,181	-
ECL on investment securities measured at amortised cost	(583)	-
Investment securities at FVOCI - debt instruments	378,858	-
Available for sale investment securities	-	440,228
Debt securities lending	-	19,181
Total	**409,407**	**459,409**

Equity securities		
Listed	1	16
Unlisted	11,950	9,335
Debt securities		
Listed	397,456	445,619
Unlisted	-	4,439
Total	**409,407**	**459,409**

The movement of the previously classified as AFS investment securities to the new category – investment securities at FVOCI is presented in the table below:

b) Investment securities at FVOCI/ AFS movement

Fair value as at 31 December 2016	**431,067**
Additions	49,181
Disposals	(51,116)
Change in accrued interest	348
Amortization of discounts or premium	(575)
Net fair value gain	13,328
Foreign Exchange differences from translation into entity currency	(2,005)
Fair value as at 31 December 2017	**440,228**
IFRS 9 reclassification to Loans and advances to customers	(6,786)
Reclassification from AFS to inv.securities at AC/ inv.securities at FVTPL	(9,349)
Disposals	(39,728)
Change in accrued interest	(699)
Amortization of discounts or premium	(757)
Net fair value loss	(4,051)
Fair value as at 31 December 2018	**378,858**

Gains less (losses) and impairment of investment securities	2018	2017
Transfer the fair value reserve from equity to income statement	2,480	2,659
Gains/ (Losses) OCI Bonds (Securities)	(100)	277
Gain/ (Losses) recognized on investment securities	2,409	(2,005)
Gains recognized on sale of Debt securities lending	-	5,580
Gains/ (Losses) on derivative fin. instruments (Hedging):	(47)	-
Total	**4,742**	**6,511**

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

Notes to the separate financial statements (continued)

19 Investment securities (continued)

c) Investment securities measured at amortized cost	2018	2017
Bonds issued by banks	19,181	19,181
ECL	(583)	-
Total	**18,598**	**19,181**

The following table presents the movement of loss allowance on Investment Securities during 2018:

	Investment securities measured at amortised cost 12-month ECL	**Investment securities measured at FVOCI** 12-month ECL
Balance at 1 January 2018	**10**	**678**
Changes due to change in ECL risk parameters (other than transfers)	573	(241)
Financial assets disposed during period	-	(29)
Balance at 31 December 2018	**583**	**408**

20 Investment property

Investment property is held for capital appreciation and is not occupied by the Bank.

Fair value of investment properties

The fair value of the investment property is updated in order to reflect the market conditions at the end of the reporting period by using the valuation reports of licensed appraiser company. The fair value of the investment property is the price that would be received to sell the asset in an orderly transaction between market participants at the measurement date. The best evidence of the fair value is current prices in an active market for similar properties. In the absence of such information, the fair value estimation of the external appraiser company is based on recent prices of properties with different condition or location, adjusted to reflect those differences.

For disclosure purposes fair value is based on reports prepared by a valuation company at the end of each reporting period. As a result of the current economic environment and market conditions, the frequency of property transactions is relatively low. Nevertheless, it is management's assessment that there remains sufficient market activity to provide comparable prices for orderly transactions with similar properties when determining the fair value.

Investment property	**2018**	**2017**
Beginning of the year	406	678
Negative revaluation	-	(272)
End of the year	**406**	**406**

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

Class property	**Fair value 31/12/2018 (BGN th)**	**Valuation technique**	**Significant Unobservable Input**	**Range (weighted average) 2018 (BGN)**	**Range (weighted average) 2017 (BGN)**	**Connection between the unobservable input and FV**
Land	406	Market comparison approach	price per m2	11.97	11.97	A significant increase in price per m2 would result in a higher fair value

Translation from the original Bulgarian version, in case of divergence the Bulgarian original shall prevail

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

Notes to the separate financial statements (continued)

21. Property, plant and equipment

	Land and buildings	Leasehold improvements	Plant and equipment	Total tangible fixed assets
At 31 December 2016				
Gross amount	18,806	25,902	90,434	**135,142**
Accumulated depreciation	(5,518)	(17,320)	(71,304)	**(94,142)**
Net book amount	**13,288**	**8,582**	**19,130**	**41,000**
Year ended 31 December 2017				
Opening net book amount	13,288	8,582	19,130	**41,000**
Additions	448	1,223	9,487	**11,158**
Transfers	(4,547)	(45)	-	**(4,592)**
Depreciation charge (Note 10)	(247)	(1,783)	(4,934)	**(6,964)**
Closing net book amount	**8,942**	**7,977**	**23,683**	**40,602**
At 31 December 2017				
Gross amount	12,959	27,068	84,939	**124,966**
Accumulated depreciation	(4,017)	(19,091)	(61,256)	**(84,364)**
Net book amount	**8,942**	**7,977**	**23,683**	**40,602**
Year ended 31 December 2018				
Opening net book amount	8,942	7,977	23,683	**40,602**
Additions	13,286	1,423	7,608	**22,317**
Negative revaluation and write offs	(145)	-	(6)	**(151)**
Arising from acquisition of subsidiaries	68,292	-	894	**69,186**
Depreciation charge (Note 10)	(393)	(1,858)	(4,615)	**(6,866)**
Closing net book amount	**89,982**	**7,542**	**27,564**	**125,088**
At 31 December 2018				
Gross amount	94,394	27,864	87,960	**210,218**
Accumulated depreciation	(4,412)	(20,322)	(60,396)	**(85,130)**
Net book amount	**89,982**	**7,542**	**27,564**	**125,088**

Acquired assets through IMO Central Office subsidiary acquisition of BGN 69,186 in December 2018.

	2018	2017
Land and buildings at revalued amount	**89,982**	**8,942**
Revaluation reserve, net of tax	(1,023)	(1,059)
Difference between accumulated depreciation based on cost and based on revalued amount not yet transferred to retained earnings	683	764
Deferred tax on revaluation	(113)	(118)
Land and buildings at cost less accumulated depreciation	**89,529**	**8,529**

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

Class property	**Fair value 31/12/2018 in BGN thousands**	**Valuation technique**	**Significant Unobservable Input**	**Range (weighted average) 2018 in BGN**	**Range (weighted average) 2017 in BGN**
Land	13,506	Income approach	price per m2	22	-
Office	71,297	Income approach	rental price per m2	6.14 - 21.87 (20.05)	1.50 - 19.56 (3.95)
Office	5,179	Market comparison approach	price per m2	112.03 - 3122.44 (535.38)	400.95 - 1662.46 (1080.91)
Total	**89,982**				

Translation from the original Bulgarian version, in case of divergence the Bulgarian original shall prevail

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

Notes to the separate financial statements (continued)

21. Property, plant and equipment (continued)

Land and buildings in their entirety are classified as Level 3 assets in the fair value hierarchy, thus the Level 3 movement reconciliation for the year can be found in the above tables.

22 Intangible assets

At 31 December 2016	Sotware	Licenses	Internally developed	Other	Total intangible assets
Gross book amount	30,797	33,453	4,910	19,715	**88,875**
Accumulated amortisation	(15,776)	(23,194)	(1,047)	(9,316)	**(49,333)**
Net book amount	**15,021**	**10,259**	**3,863**	**10,399**	**39,542**
Year ended 31 December 2017					
Opening net book amount	15,021	10,259	3,863	10,399	**39,542**
Additions	7,249	2,576	967	2,393	**13,185**
Transfers	150	(150)	-	-	**-**
Amortisation charge (Note 10)	(2,047)	(2,870)	(586)	(970)	**(6,473)**
Closing net book amount	**20,373**	**9,815**	**4,244**	**11,822**	**46,254**
At 31 December 2017					
Gross book amount	37,954	25,570	5,877	23,135	**92,536**
Accumulated amortisation	(17,581)	(15,755)	(1,633)	(11,313)	**(46,282)**
Net book amount	**20,373**	**9,815**	**4,244**	**11,822**	**46,254**
Year ended 31 December 2018					
Opening net book amount	20,373	9,815	4,244	11,822	**46,254**
Additions	7,387	8,445	995	2,269	**19,096**
Transfers	(16)	49	-	(33)	**-**
Amortisation charge (Note 10)	(2,476)	(2,555)	(605)	(1,178)	**(6,814)**
Closing net book amount	**25,268**	**15,754**	**4,634**	**12,880**	**58,536**

At 31 December 2018	Sotware	Licenses	Internally developed	Other	Total intangible fixed assets
Gross book amount	44,588	34,015	6,829	25,077	**110,509**
Accumulated amortisation	(19,320)	(18,261)	(2,195)	(12,197)	**(51,973)**
Net book amount	**25,268**	**15,754**	**4,634**	**12,880**	**58,536**

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

Notes to the separate financial statements (continued)

23 Other assets	**2018**	**2017**
Amounts in transit	10,894	4,215
Repossessed collaterals	8,488	11,649
Other debtors	2,963	4,030
Prepaid expenses	4,966	4,261
Other assets	1,547	1,692
Materials	24	21
Less: impairment on other financial assets	(1,337)	(1,113)
Total	**27,545**	**24,755**

The financial assets contained in the Other assets note amounted to BGN 14,067 thousand (2017: BGN 8,824 thousand). The impairment on financial assets amounted to BGN 1,337 thousand (2017: BGN 1,113 thousand). BGN 13,478 thousand (2017: 15,931 thousand) of the non-financial assets are expected to be realized within 12 months.

Impairment on other financial assets	**2018**	**2017**
Opening balance at 1st of January	1,113	1,214
Charged to the income statement	179	379
Reversed to the income statement	(15)	(51)
Used during year	60	(429)
Closing balance	**1,337**	**1,113**

24 Deposits from banks	**2018**	**2017**
Current accounts from other banks	2,183	3,353
Deposits from other banks	25,896	5,672
Total	**28,079**	**9,025**

25 Derivative financial instruments

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

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

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

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

Notes to the separate financial statements (continued)

25 Derivative financial instruments (continued)

Interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of interest rates. The expected and maximum potential exposure profiles for an interest rate swap are estimated by a modeling exercise at inception. These depend on the "diffusion effect" (volatility of the underlying as well as other stochastic properties) and "amortization effect" (the passage of time). The peak exposure occurs at an intermediate point during the swap's life. Since the notional amounts themselves are not exchanged, the percentage of notional amount at risk is relatively low in normal market conditions.

A forward rate agreement (FRA) is an agreement between two parties in which one party, the buyer or the long, agrees to make a known interest payment to the other party, the seller or the short, at a future date, with the seller agreeing to make an interest payment to the buyer based on an unknown rate that will be determined when the contract expires. Most FRAs are based on well-established interest rates such as dollar LIBOR or EURIBOR.

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

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

		Fair values	
Year ended 31 December 2018	**Contract / notional amount**	**Assets**	**Liabilities**
Derivatives that do not qualify for hedge accounting and held for trading			
Foreign exchange derivatives			
OTC currency swaps	1,228,543	2,400	1,323
Total OTC currency derivatives for trading	**1,228,543**	**2,400**	**1,323**
Interest rate derivatives			
OTC interest rate swaps	38,334	-	1,317
OTC IR options bought and sold	39,383	-	-
Total OTC interest rate derivatives for trading	**77,717**	**-**	**1,317**
Derivatives designated as fair value hedges			
OTC interest rate swaps	107,571	-	3,298
Total OTC interest rate derivatives for hedging	**107,571**	**-**	**3,298**
Total recognised derivative assets / liabilities		**2,400**	**5,938**

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

Notes to the separate financial statements (continued)

25 Derivative financial instruments (continued)

		Fair values	
Year ended 31 December 2017	**Contract / notional amount**	**Assets**	**Liabilities**
Derivatives that do not qualify for hedge accounting and held for trading			
Foreign exchange derivatives			
OTC currency forwards	17,625	69	18
OTC currency swaps	1,211,279	172	3,513
Total OTC currency derivatives for trading	**1,228,904**	**241**	**3,531**
Interest rate derivatives			
OTC interest rate swaps	38,334	-	1,530
OTC IR options bought and sold	64,564	-	-
Total OTC interest rate derivatives for trading	**102,898**	**-**	**1,530**
Derivatives designated as fair value hedges			
OTC interest rate swaps	111,482	-	2,732
Total OTC interest rate derivatives for hedging	**111,482**	**-**	**2,732**
Total recognised derivative assets / liabilities		**241**	**7,793**

The Bank hedges a proportion of its existing interest rate risk resulting from any potential change in the fair value of fixed rate debt securities held, denominated both in local and in foreign currencies, using interest rate swaps.
In 2018 the Bank recognized a loss of BGN 704 thousand (2017: BGN 1,975 thousand gain) from changes in the fair value of the hedging instruments, used as the basis of recognising hedge ineffectiveness and BGN 659 thousand gain (2017: BGN 1,949 thousand loss) from changes in the fair value of the hedged items attributable to the hedged risk. The amount of hedge ineffectiveness recognized for 2018 in income statement was BGN 44 thousand loss (2017 BGN 26 thousand gain), as presented in note 9. In 2018 the fair value hedges were highly effective (2017: highly effective).

Fair value hedges

At 31 December 2018, the amounts relating to items designated as FV hedged items were as follows:

Year ended 31 December 2018 **Fair Value Hedges**	**Carrying amount**	**Accumulated amount of FV hedge adjustments on the hedged item**
Debt securities	119,495	(2,223)
Total	**119,495**	**(2,223)**

At 31 December 2018 and 2017, the accumulated amount of fair value hedge adjustments remaining in the statement of financial position for any hedged items that have ceased to be adjusted for hedging gains and losses was BGN 0.

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

Notes to the separate financial statements (continued)

25 Derivative financial instruments (continued)

At 31 December 2018, the timing of the nominal amount of the financial instruments designated by the Bank in Fair value hedge relationships is presented in the table below:

Year ended 31 December 2018

	Fair Value Hedges					
Nominal Amount	**Less than 1 month**	**1 - 3 months**	**3 - 12 months**	**1-5 years**	**Over 5 years**	**Total**
Interest rate swaps	-	-	-	58,675	48,896	107,571
Total	**-**	**-**	**-**	**58,675**	**48,896**	**107,571**

26 Due to customers	**2018**	**2017**
Large corporate customers	1,540,547	1,167,551
Medium corporate customers	228,046	262,928
Total due to corporate customers	**1,768,593**	**1,430,479**
Retail customers	5,045,662	4,649,738
Total due to customers	**6,814,255**	**6,080,217**

Included within due to customers is related accrued interest payable of BGN 2,231 thousand (2017: BGN 1,560 thousand).

27 Other borrowed funds	**2018**	**2017**
Long term debt from Bulgarian Development Bank	22,973	26,508
European Investment Bank Loan	-	3,912
Total	**22,973**	**30,420**

Reconciliation of movements of liabilities to cash flows arising from financing activities is presented in the table below:

	2018	**2017**
Opening balance at 1 January	**30,420**	**78,959**
Repayment of long-term debt (principal)	(7,441)	(48,514)
Interest expense	405	496
Interest paid	(411)	(522)
Balance at 31 December	**22,973**	**30,420**

a) Loans received from the Bulgarian Development Bank

In July 2015, Eurobank Bulgaria signed a Loan Agreement with Bulgarian Development Bank (NAPRED) for on-lending to MSMEs combining funding and risk-sharing. The total size of the facility is BGN 30,000 thousand, disbursable in 3 tranches of BGN 10,000 thousand each in accordance with the contracted disbursement plan. As of 31 December 2018 the total liability amounted to BGN 22,973 thousand (2017: BGN 26,508 thousand).

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

Notes to the separate financial statements (continued)

27 Other borrowed funds (continued)

b) Loan received from the European Investment Bank

In October 2009, Eurobank Bulgaria and the European Investment Bank signed a Loan Agreement for the total amount of EUR 50,000 thousand (BGN 97,792 thousand) for financing of investment projects and supporting working capital needs of small and medium-sized enterprises in Bulgaria. The contract has repayment schedule with final repayment date in 2018. As of 31 December Eurobank Bulgaria has no outstanding liabilities under that facility (2017: 3,912 thousand).

c) Financing under the Guarantee Agreement between Eurobank Bulgaria and International Finance Corporation (IFC), member of World Bank Group.

In February 2012, Eurobank Bulgaria and the International Finance Corporation (IFC), member of World Bank Group, signed a Trade Finance Agreement for facilitation of trade transactions of local enterprises (short-term funding of pre-export/import transactions, issuance of bank guarantees and letters of credit). The total limit of the line was initially set at USD 20,000 thousand. In December 2013 the Limit was increased up to USD 40,000 thousand.

As of December 2018 and 2017 the utilization of that line is BGN 0.

28 Deferred tax

Deferred tax is calculated on all temporary differences under the liability method using a principal tax rate of 10% (2017: 10%). The movement on the deferred tax account is as follows:

	2018	2017
Deferred tax liability at the beginning of year	1,776	2,243
Deferred tax liability net recognized in OCI	8	(157)
Deferred tax expense/ (benefit) (Note 13)	217	(310)
Net deferred tax liability at end of year	**2,001**	**1,776**

Deferred tax assets and liabilities are attributable to the following items

	2018	2017
Deferred tax liabilities		
Accelerated tax depreciation	3,689	3,642
Property revaluation	113	117
Gain on share exchange	416	416
	4,218	**4,175**
Deferred tax assets		
Unused holidays	128	137
Provision for legal proceedings	787	625
Provision for retirement benefit obligations	523	473
Deferred tax assets on actuarial loss	20	32
Deferred tax assets on provisions for restructuring	181	336
Other temporary differences	578	796
	2,217	**2,399**

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

Notes to the separate financial statements (continued)

28 Deferred tax (continued)

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

	2018	2017
Depreciation	46	(83)
Unused holidays	9	11
Provision for legal proceedings and off balances	(162)	(14)
Other temporary differences	218	(392)
Provisions for restructuring and other liabilities	156	201
Provision for retirement benefit obligations	(50)	(33)
Net deferred tax expense/ (benefit) (Note 13)	**217**	**(310)**

29. Provisions for other liabilities and charges

(a) Legal proceedings

The Bank is subject to a number of legal proceedings arising in the normal course of business. The timing of the expected cash outflow of the court cases provided for could not be precisely estimated. Based on management's estimation it is expected that in two years' time the outflow may be realized. Further details are presented in Note 35a.

The table below represents the movement in provisions for legal claims:

Legal provisions	**2018**	**2017**
Opening balance at 1st of January	6,243	6,117
Charged to the income statement	1,642	1,438
Used during year	(1,372)	(1,312)
Closing balance	**6,513**	**6,243**

(b) Provisions for restructuring

The table below presents movement in provision for restructuring for 2018:

Provisions for restructuring	**2018**	**2017**
Opening balance at 1st of January	1,167	4,366
Charged to the income statement	-	66
Used during year	(863)	(3,265)
Closing balance	**304**	**1,167**

(c) Assets pledged

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

	Asset		**Related liability**	
	2018	**2017**	**2018**	**2017**
Cash with Central bank (held as MRR)	608,978	541,139	6,813,134	6,082,615
Trading and investment securities (pledged under government accounts)	65,355	34,016	47,564	29,494
Loans pledged under long term debt agreement	18,604	23,967	22,973	26,508
Total	**692,937**	**599,122**	**6,883,671**	**6,138,617**

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

Notes to the separate financial statements (continued)

29 Provisions for other liabilities and charges (continued)

The total financial assets that have been pledged as collateral for liabilities (including amounts reflected above) as of 31 December 2018 was BGN 692,937 thousand (2017: BGN 599,122 thousand). These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities, as well as requirements determined by exchanges where the Bank acts as an intermediary. As of 31 December 2018 the Bank has no amounts placed as a cover for letter of credit and letter of guarantee transactions (2017: BGN 82 thousand). The amount of BGN 263 thousand (2017: BGN 192 thousand) is blocked in a BNB account under a disputed court ruling. Pledged funds under Credit Support agreements are BGN 2,738 thousand (2017: BGN 6,650 thousand).

The Bank has determined that it retains substantially all the risks and rewards of the pledged loans and trading and investment securities, therefore the specific assets have not been derecognized. The related liability is recognised in Due to customers (Note 26) and Other borrowed funds (Note 27), as appropriate.

30 Retirement benefits obligations

IAS 19 establishes the principle that the cost of providing employee benefits should be recognised in the period in which the benefit is earned by the employee, rather than when it is paid or payable.

Defined benefit plans involves incorporating actuarial assumptions into measurement of the obligation and the expenses. Therefore, actuarial gain and losses arise. Obligations are measured on a discounted basis, as they might be settled many years after the employees render the related services.

According to the revised IAS 19, the liability for employee benefits recognized on the balance sheet at the end of the fiscal year is equal to the balance sheet obligation at the beginning of the year after the effect of:

- service cost
- interest cost
- employers contributions п
- paid benefits
- gains or losses from curtailment and settlements
- gains or losses in actuarial liability or in the assets of the plan

	2018	2017
Retirement benefit obligation at 01 January	5,059	3,886
Service cost	485	391
Interest cost	91	89
Benefits paid	(94)	(191)
Settlement/Curtailment	9	43
Remeasurement	(121)	841
Retirement benefit obligation at 31 December	**5,429**	**5,059**
Expenses recognised in profit or loss		
Service cost	485	391
Interest cost	91	89
Settlement/Curtailment	9	43
Other expense	-	(235)
Total expense included in staff costs (Note 11)	**585**	**288**
Total remeasurement recognised in OCI	**(121)**	**841**

Significant actuarial assumptions	**2018**	**2017**
Discount rate	2.01%	1.80%
Future salary increase:		
2019:	5.00%	3.00%
2020:	5.00%	3.00%
2021:	5.00%	3.00%

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

Notes to the separate financial statements (continued)

30 Retirement benefits obligations (continued)

IAS19 requires the use of a discount rate determined by reference to the yield at the measurement date on high quality corporate debt, or Government bonds if there is no deep market in such debt. The discount rate should reflect the rate at which the liabilities could effectively be settled. The discount rate was set by reference to the yield on long-term fixed interest bonds issued by the Bulgarian Government.

Sensitivity analysis

A quantitative sensitivity analysis based on reasonable changes to significant actuarial assumptions as at 31 December 2018 is as follows:

An increase/ (decrease) of the discount rate assumed by 0.5%/ (0.5%) would result in a (decrease)/ increase of the standard legal staff retirement obligations by (BGN 429 thousand)/ BGN 478 thousand.

An increase/ (decrease) of the future salary increases assumed, by 0.5%/ (0.5%), would result in an increase/ (decrease) of the standard legal staff retirement obligations by BGN 472 thousand/ (BGN 423 thousand).

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated.
The methods and assumptions used in preparing the above sensitivity analysis were consistent with those used to estimate the retirement benefit obligation and did not change compared to the previous period.

31 Other liabilities

	2018	2017
Other creditors	20,467	19,377
Accrued expenses	25,948	19,169
Unused paid leave accrual	1,279	1,365
Withholding tax obligations	12,582	214
Other	771	1,044
Total	**61,047**	**41,169**

The financial liabilities contained in the Other liabilities note amounted to BGN 25,818 thousand (2017: BGN 26,685 thousand).

32 Share capital

As of 31 December 2018 the total authorized number of ordinary shares of Eurobank Bulgaria AD was 560,323,302 (2017: 560,323,302) with a nominal value of BGN 1 per share. All issued shares are fully paid. Eurobank Ergasias S.A. owns directly 56.14%, another 43.85% of the share capital is owned by ERB New Europe Holding B.V. and 0.01% by minority shareholders.

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

Notes to the separate financial statements (continued)

33 Cash and cash equivalents

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

	2018	**2017**
Cash in hand (Note 15)	116,689	107,873
Balances with Central bank excluding the minimum level of mandatory reserves	450,221	363,946
Loans and advances to banks (Note 16)	1,418,148	1,264,068
Total amount of cash and cash equivalent	**1,985,058**	**1,735,887**
Less impairment allowance	(226)	-
Net amount of cash and cash equivalent	**1,984,832**	**1,735,887**

50% of the minimum level of mandatory reserves held in BNB are considered cash equivalent, as the Bank is allowed to use them at any time and free of interest.

34 Related party transactions

Eurobank Bulgaria AD is a subsidiary of Eurobank Ergasias S.A., which is listed on the Athens Stock Exchange.

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

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions. The volumes of related-party transactions, outstanding balances at the year end, and relating expense and income for the year are as follows:

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

Notes to the separate financial statements (continued)

34 Related party transactions (continued)

	31 December 2018			31 December 2017		
	Parent company	**Other Group companies***	**Key management personnel**	**Parent company**	**Other Group companies***	**Key management personnel**
Purchased loans and advances to customers from related parties (Note 18)	-	12,538	-	-	46,437	-
Loans and advances to banks (weighted interest rate 2018: 0.98%, 2017: 1.46%)	1,299,229	174	-	1,151,635	432	-
Loans and advances to customers (weighted interest rate 2018: 2.10%, 2017: 2.09%)	-	-	108	-	92,177	32
Debt securities lending	-	19,181	-	-	19,181	-
Derivative financial instruments assets	2,400	-	-	192	50	-
Other assets	-	163	-	-	1,212	-
Shares in subsidiary undertakings	-	4,868	-	-	-	-
Due to other banks	908	776	-	1,011	174	-
Due to customers (weighted interest rate 2018: 0.02% , 2017: 0.00%)	-	24,262	95	-	20,301	215
Derivative financial instruments liabilities	- 5,397	-	-	- 6,917	-	-
Other liabilities	-	63	-	-	64	-
Interest income	32,098	1,601	2	30,454	1,461	2
Interest expense	(2,748)	(5)	-	(3,421)	(9)	-
Fee and commission income	7	748	-	417	591	-
Fee and commission expense	(73)	(2)	-	(102)	(3)	-
Net trading (expense)/ income	(608)	(50)	-	512	(3,710)	-
Salaries and other short-term benefits	-	-	1,801	-	-	1,618
Rental expense	-	(6,964)	-	-	(7,234)	-
Valuation expenses	-	(266)	-	-	(283)	-
Other expenses	(643)	(606)	-	(684)	(551)	-
Letters of guarantee issued	-	79	-	-	7	-
Letters of guarantee received	2,816	-	-	4,320	-	-
Total	**1,338,783**	**56,560**	**2,006**	**1,191,251**	**170,297**	**1,867**

*represent other entities under common control

All loans lent to related parties as at 31 December 2018 are categorized as non impaired (Stage 1) according to the Bank's provision policy.

The ultimate controlling party of the Group is Eurobank Ergasias S.A

Key management personnel include the members of the Management and Supervisory Boards.

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

Notes to the separate financial statements (continued)

34 Related party transactions (continued)

A list of the related parties of the Bank during 2018 is presented in the table below:

Related party (company name)	Country	Related company category
Eurobank Ergasias S.A.	Greece	Parent company
ERB Hellas Plc	United Kingdom	Other company within the Group
Eurobank Factors S.A.	Greece	Other company within the Group
Be-Business Exchanges S.A.	Greece	Other company within the Group
Bancpost S.A.	Romania	Other company within the Group
Bulgarian Retail Services A.D.	Bulgaria	Other company within the Group
Eurobank EFG a.d. Beograd	Serbia	Other company within the Group
ERB Retail Services IFN S.A.	Romania	Other company within the Group
ERB Leasing EAD	Bulgaria	Other company within the Group
ERB Property Services Sofia E.A.D.	Bulgaria	Other company within the Group
Eurobank Fund Management Company (Luxembourg) S.A.	Luxembourg	Other company within the Group
ERB IT Shared Services S.A.	Romania	Other company within the Group
Eurobank Holding (Luxembourg) S.A.	Luxembourg	Other company within the Group
Eurobank Cyprus Limited	Cyprus	Other company within the Group
CEH Balkan Holdings Limited	Cyprus	Other company within the Group
IMO Property Investments Sofia E.A.D.	Bulgaria	Other company within the Group
IMO Central Office E.A.D.	Bulgaria	Other company within the Group
IMO 03 E.A.D.	Bulgaria	Other company within the Group
Eurobank Private Bank Luxembourg S.A.	Bulgaria	Other company within the Group
ERB Leasing Bulgaria E.A.D.	Bulgaria	Other company within the Group

35 Contingent liabilities and other commitments

(a) Legal proceedings

The Bank is subject to a number of legal proceedings arising in the normal course of business. Besides the provision made (Note 29) no contingent liabilities associated with legal actions have been disclosed as professional advice indicates that the possibility of any significant loss is remote.

(b) Loan commitments, guarantee and letters of credit

As at 31 December 2018, the Bank had the contractual amounts of its off-balance sheet financial instruments that commit it to extend credit to customers, guarantee and other facilities as follows:

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

Notes to the separate financial statements (continued)

35 Contingent liabilities and other commitments (continued)

	2018	2017
Guarantees	140,604	80,561
Letters of credit	55,460	38,226
Loan commitments	1,089,966	835,455
Total	**1,286,030**	**954,242**

(c) Capital Expenditures

As at 31 December 2018, the Bank had the following capital expenditure commitments:

	2018	2017
Capital Expenditures	**8,362**	**5,480**

36 Operating leases

(a) Operating lease commitments-Bank as a lessee

The Bank has entered into commercial leases on premises and vehicles. Where the Bank is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

Future minimum lease payments	**2018**	**2017**
No later than one year	5,433	9,755
Later than one year and no later than five years	1,654	40
Total	**7,087**	**9,795**

(b) Operating lease commitments-Bank as a lessor

The Bank has entered into commercial leases on premises. Where the Bank is the lessor, the amount of the future minimum rentals under non-cancellable operating leases as of 31 December 2018 is BGN 92 thousand (2017: BGN 30 thousand).

37 Shares in subsidiary undertakings

In January 2018, Eurobank Bulgaria A.D. acquired 100 % of the shares of ERB Property Services Sofia A.D for the amount of BGN 4,868 thousand (In June 2018, following the aforementioned transactions, the company’s name changed to ERB Property Services Sofia E.A.D).

During the year the Bank has acquired 100% of the shares of IMO Central Office E.A.D subsidiary for the amount of BGN 10,636 thousand and subsequently a legal merger between the two entities took place prior the year end. The Bank incorporated the acquired assets and liabilities of IMO Central Office E.A.D at their carrying amounts as of the date of the legal merger without any fair value adjustments in accordance with existing accounting policy described in note 2.2.1.

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

Notes to the separate financial statements (continued)

38 Events after the balance sheet date

On 7 November 2018, Eurobank Bulgaria announced that an agreement was concluded between Eurobank Ergasias S.A. and Piraeus Bank S.A. for the acquisition of Piraeus Bank Bulgaria A.D. (“PBB”), a subsidiary of Piraeus Bank S.A. by Eurobank Bulgaria (the “Transaction”) for a consideration of BGN 147 million.

On 13 June 2019 the acquisition of Piraeus Bank Bulgaria A.D. by Eurobank Bulgaria A.D. was completed with the acquisition of 99.9819% of PBB shares all of which with voting rights, after the respective regulatory approvals were obtained as follows - the Governing Council of the Bulgarian National Bank on 28 March 2019, the Commission for Protection of Competition on 9 May 2019 and HFSF on 12 June 2019. This is a key event in the Eurobank Bulgaria strategy to expand and further strengthen its position in the Bulgarian banking sector.

Piraeus Bank Bulgaria will be a subsidiary of Eurobank Bulgaria until the legal merger of the two banks takes place, expected within 2019.

The fair value measurement of PBB assets and liabilities has not been finalized due to the short time period between the completion of the shares acquisition and the date these financial statements were authorized for issue. Based on the latest available book values at the transaction date, the PBB assets amount to BGN 2,865 million, including BGN 1,066 million of cash, BGN 99 million due from banks and BGN 1,576 million net loans to customers, while total liabilities assumed amount to BGN 2,481 million, of which BGN 2,141 million are deposits from customers and BGN 340 million other liabilities of which BGN 134 million are Hybrid capital and subordinated debt.

The operational systems merge, the rebranding of offices acquired and all resulting changes are expected to be finalized until the end of 2019.

On 29 March 2019 the transacton of bad debt portfolio sale to EOS Matrix was accomplished as a result of credit risk management aiming at maximizing the recoveries inflow from the Bank’s NPEs.

Other significant and post balance sheet events

Merger Agreement between Eurobank and Grivalia

On 26 November 2018, the Boards of Directors (“BoD”) of Eurobank Ergasias S.A. and Grivalia Properties REIC (“Grivalia”) announced that they unanimously decided to commence the merger of the two companies by absorption of Grivalia by Eurobank (the “Merger”).

On 7 February 2019, the European Commission (DG Competition) decided that the Merger is in line with Eurobank Ergasias’ commitments and State Aid rules considering that the strengthening of its capital base through the Merger will enable Eurobank Ergasias to significantly reduce its non-performing loans in the near future.

On 22 February 2019, the Board of Directors of Eurobank Ergasias and Grivalia approved the Draft Merger Agreement for the absorption of Grivalia by Eurobank Ergasias according to the provisions of the Greek Codified Law 2190/1920, in conjunction with the provisions of Greek laws 2166/1993 and 2515/1997, as in force. The merger shall be conducted by accounting consolidation of assets and liabilities of the companies being merged and, specifically, by contribution of Grivalia’s assets and liabilities to Eurobank Ergasias, as described on the merger balance sheet of 31 December 2018 of

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

Notes to the separate financial statements (continued)

38 Events after the balance sheet date (continued)

Other significant and post balance sheet events (continued)

Merger Agreement between Eurobank and Grivalia (continued)

Grivalia. The proposed share exchange ratio is 15.80000000414930 new Eurobank Ergasias ordinary registered shares for every 1 Grivalia ordinary registered share, while Eurobank shareholders will retain the number of Eurobank Ergasias ordinary shares they currently hold. The Merger will result in an ownership split of the enlarged share capital of c. 58.9% owned by existing Eurobank Ergasias shareholders and c. 41.1% by existing Grivalia shareholders.
The above is subject to the fulfillment of certain conditions, including the approval of the Draft Merger Agreement by the General Meetings of shareholders of the merging companies on 5 April 2019 and the receipt of the remaining necessary permissions and approvals by the competent authorities, which are expected by May 2019. The Merger will enhance Eurobank Ergasias capital position and its earnings capacity, which in turn will enable the acceleration of its NPE reduction plan.

Following the completion of the merger, Fairfax group, which currently holds 18.40% and 51.43% in Eurobank Ergasias and Grivalia, respectively, will become the largest shareholder in the merged entity with a ca. 33.03% shareholding.

As at December 2018, Grivalia group had total assets of € 1.16 bn and total liabilities of € 0.29 bn. The Annual Financial Report of Grivalia for the year ended 31 December 2018 is available at the company’s website.

<u>Agreement with the Real estate management company</u>

On 22 February 2019, the Board of Directors of Eurobank Ergasias approved the upcoming agreement (SLA), pursuant to article 100 of Greek Law 4548/2018, of the Bank with the newly established company under the name “Grivalia Management Company SA”, which will be a related party to Eurobank Ergasias, since a member of the Bank’s Board of Directors shall hold the majority (70%) of the shares of the company and shall be an executive member of the board of directors of the company.
The Bank shall conclude a 10-year advisory services agreement with Grivalia Management Company S.A. for the combined real estate portfolio of the merging entities, which will come into force upon completion of the merger.

Further information on the above transactions are provided in the Eurobank Ergasias’s Report of the Directors for the year ended 31 December 2018 and in the relevant announcements on the Eurobank Ergasias website dated 26 November 2018 and 8 February, 25 February and 1 March 2019.