ANNUAL DISCLOSURES FOR 2014
ON AN UNCONSOLIDATED BASIS

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

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I. Risk management objectives and policies

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.

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

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

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

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

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

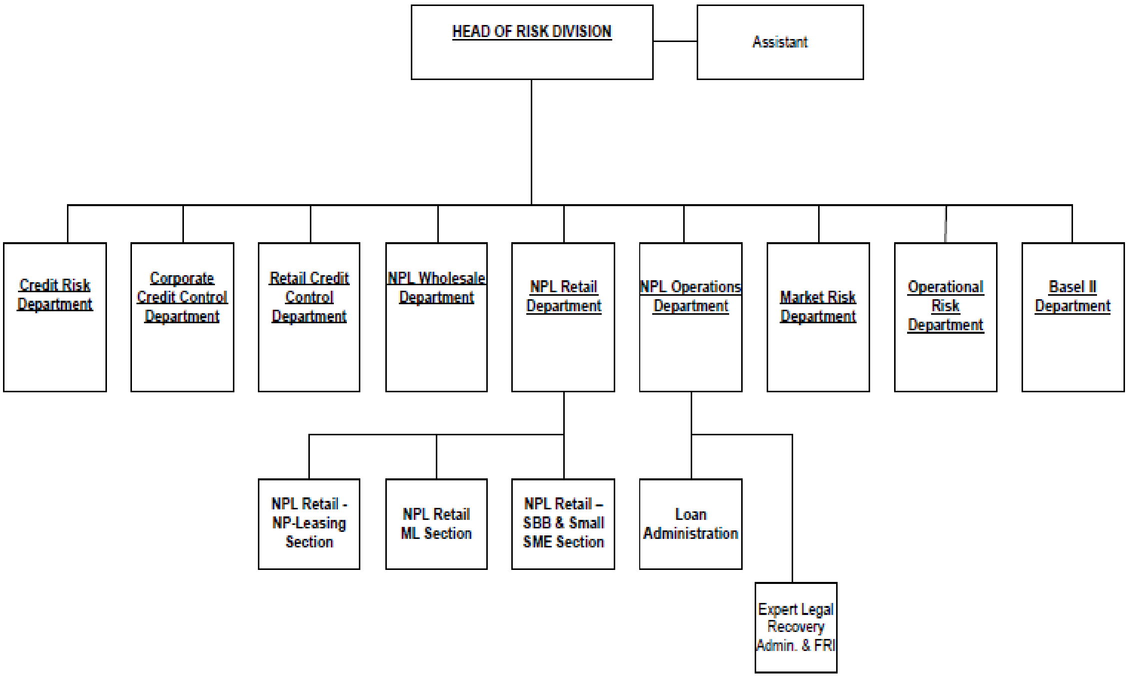
Eurobank Bulgaria AD is exposed to the following types of risks, resulting from its activities with financial instruments:

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

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

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

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



Credit risk

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

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

Risk avoidance: in lending operations, the Bank rejects loan proposals with poor creditworthiness on the basis of internal risk models and ratings, and by defining risk sensitive business focuses by means of specific exposure limits and target portfolio.

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

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

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

- ✓ Risk Committee – for strategic decisions and country risk management
- ✓ Country Credit Committee and Regional Credit Committee – for Credit Approval Process decisions
- ✓ Loans and Product Committee - for approval of products' risk parameters
- ✓ Non-Performing Loans Committee – responsible for the Non-performing loans management

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

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

Risk Committee monitors and periodically adjusts specific limits (absolute values) corresponding to each of the five main economic sectors (ex. Industry, Commerce, Services, Construction, Real Estate):

The credit exposure to any given economic sector (except for real estate) shall not exceed 15% of the credit exposure of the total wholesale portfolio of the Bank, not accounting for corporate bonds. The weight of real estate sector in total corporate portfolio of the Bank should not exceed 25%. Both Construction and Real estate sectors should not exceed 35% of total corporate portfolio.

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

- ✓ Credit Policy Manual for Corporate lending
- ✓ Credit Policy Manual for Small Business banking (SBB)
- ✓ Credit Policy Manual for Mortgage lending

- ✓ Credit Policy Manual for Consumer lending
- ✓ Collateral Rule Book
- ✓ Collaterals allocation instruction
- ✓ Procedure for Corporate NPL management
- ✓ Procedure for SBB NPL management
- ✓ Provisioning policy for corporate exposures
- ✓ Provisioning policies for retail exposures – consumer loans, credit cards, mortgage loans, SBB
- ✓ Stress test methodology
- ✓ Concentration risk methodology

Market risk

The Bank takes on exposures to market risk, which is the risk of potential financial losses due to adverse changes or excessive fluctuations in market variables such as interest rates, foreign exchange rates or security prices. Market risks arise from open positions in interest rate, currency and equity products, all of which may be exposed to general or specific market movements and changes in the level of volatility of market rates or prices.

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

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

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

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

The Bank's Market Risk Policy is approved by the Risk Committee of Eurobank Bulgaria and maintained by Market Risk Department. The Market Risk Department regularly reviews the policy and submits any 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 to the business;
- ✓ align the Bank's organizational structure and management processes with best international banking practice and set minimum standards for controlling market risks;
- ✓ develop transparent, objective and consistent market risk information as a basis for sound decision making;
- ✓ establish a structure that will allow the Bank to link business strategy and operations with the objectives for risk control and supervision.

Liquidity risk

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

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

The Bank's Liquidity Policy, designed in line with the Group Liquidity Risk Guidelines, aims at ensuring that:

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

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

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

ALCO regularly reviews the liquidity ratios; liquid assets and buffers; sources and uses of liquidity and liquidity projections; the deposit base; the cost of funds; the market and macroeconomic outlooks, etc. Within its authority is to take all the necessary decisions regarding the interest rate policy, the liquidity and assets and liabilities management and to set the target parameters of potential external funding. With regard to assets and liabilities management, ALCO regularly reviews the following information:

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

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

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

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

Operational risk

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

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

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

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

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

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

- ✓ **Eurobank Operational Risk Framework** – describes the overall Operational Risk environment of Eurobank Ergasias SA and its subsidiaries. It includes a formal record of the high level operational risk principles that are applied in day-to-day operations;
- ✓ **Mandate and Terms of Reference for Operational Risk Department** - describes the responsibilities of the Operational Risk unit in details;
- ✓ **Data Collection and Reporting Procedure** - defines the minimum data collection and reporting requirements in respect to operational risk events data capturing;
- ✓ **Fraud Provisioning Policy for Retail Credit Portfolio** - defines the requirements in respect to calculation and reporting of provisions related to fraud cases in retail credit portfolio reported as Operational Risk Events;
- ✓ **Procedure for Provisioning and writing-off of operational losses in Eurobank Bulgaria AD** – regulates the rules and procedures for provisioning, writing-off and reconciling operational losses;
- ✓ **Operational Risk Committee, Terms of Reference** – provides the governance framework of the ORC in Eurobank Bulgaria;
- ✓ **Eurobank Fraud Risk Management Policy and Governance** – defines the responsibilities and governance with regard to fraud prevention and fraud detection;
- ✓ **Eurobank Outsourcing Policy** - defines the standard practices and principles that have to be considered before outsourcing operations to outsourcing service providers.

It also defines the roles and responsibilities of management and staff involved in outsourcing decision making, oversight and management;

- ✓ **Group Financial Reporting Policy for Operational Risk – Credit Related Losses Arising from Fraud** - provides the accounting treatment of operational risk - credit related events that are classified as fraud in accordance with the Group accounting policies;
- ✓ **Eurobank Operational Risk Scenario Assessment Policy** - focuses on the approach to and processes for quantifying the exposure of Eurobank to identified material or significant operational risk exposures;
- ✓ **Eurobank Policy for Reporting Unethical Conduct** - describes the stance of the Group and the framework for reporting unethical conduct and it is complementary to related policies - such as Fraud Risk Management Policy & Governance and Conflict of Interest.
- ✓ **Eurobank Operational Risk Events Management Overview** - provides an overview of the management of Operational Risk events, as well as to the roles and responsibilities of those involved.
- ✓ **Eurobank OpRisk Provisioning Policy** - describes the establishment, monitoring and management of all forms of operational risk exposure and loss provisions which relate to any defined operational risk category or causal type which could financially affect Eurobank and its subsidiaries.
- ✓ **Eurobank OpRisk Risk Appetite Statement** - describes Eurobank Group's risk capacity and risk appetite as well as their monitoring and reporting.
- ✓ **Eurobank OpRisk Events Management Policy and Instructions** - focuses on the approach and methodology used to collect information of risk events, the classification and ongoing management of such events.
- ✓ **Eurobank OpRisk KRI Policy** - focuses on the approach to identifying where risk, performance and control effectiveness metrics are required and the methodology used to select and implement appropriate KRIs across Eurobank.
- ✓ **Eurobank OpRisk Reporting Policy** - focuses on the approach and methodology used to prepare, produce and disseminate operational risk-related reports for Eurobank.
- ✓ **Eurobank OpRisk Capital Management Policy** - focuses on the approach to calculating and estimating Pillar 1 and Pillar 2 operational risk capital and verifying the adequacy of Pillar 1 regulatory capital against Pillar 2 capital for Eurobank and its subsidiaries.

Operational risk management in Eurobank Bulgaria is based upon five distinct, even though interrelated and integrated programmes:

- ✓ Operational Risk Events Data Capturing;
- ✓ Key Operational Risk Indicators (KRIs);
- ✓ Risk and Control Self-Assessment (RCSA);
- ✓ Fraud Risk Management

- ✓ Operational Risk Scenario Analysis (i.e. focuses on rare, catastrophic events and their potential impact).

All aforementioned programmes are supported by dedicated IT applications that are provided and managed by Eurobank Group.

II. Scope and methods of consolidation

Eurobank Bulgaria AD reports on an unconsolidated basis.

III. Own funds

The Bank's objectives when managing the capital in respect to the requirements set in Regulation №575 of EU on the Capital Adequacy of Credit Institutions are:

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

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

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

BGN '000s

Structure of the capital	**31/12/2014**
Tier-one capital	
Share capital	452,753
Reserves	353,556
Revaluation reserves	(385)
Decreases:	
Intangible assets	(35,009)
Tier-one capital (total)	**770,915**
Tier-two capital	
Long-term debt	97,792
Revaluation reserve of property owned by the Bank	1,784
Tier-two capital (total)	**99,576**
Capital base (total)	**870,491**

The table below presents the Balance sheet of the Bank per published financial statements and the part of it used in the estimation of the capital adequacy ratio as of 31.12.2014:

BGN '000s

	Balance sheet per published financial statements	Balance sheet for the estimation of the CAD ratio	Portfolio type
Assets			
Cash and balances with the Central Bank	526,711	526,711	Banking portfolio
Loans and advances to banks, of which	1,487,226	1,487,226	Banking / Trading portfolio
- current and term deposits with banks	460,414	460,414	Banking portfolio
- reverse repo with banks	1,026,812	1,026,812	Trading portfolio
Financial assets held for trading	58,794	58,794	Trading portfolio
Loans and advances to customers, of which	3,833,994	3,833,994	Banking portfolio
- reverse repo with corporate customers	1,595	1,595	Banking portfolio
Investment securities available-for-sale	130,514	130,514	Banking portfolio
Derivative financial instruments	2,365	2,365	Banking portfolio
Investment property	876	876	Banking portfolio
Property, plant and equipment	43,140	43,140	Banking portfolio
Intangible assets	35,009	35,009	Capital base
Current income tax recoverable	485	485	Banking portfolio
Other assets	19,231	19,231	Banking portfolio
Total assets:	**6,138,345**	**6,138,345**	
Liabilities			
Deposits from banks	18,860	-	
Derivative financial instruments	4,557	-	
Due to customers	5,077,273	-	
Debt issued and other borrowed funds	180,330	97,792	Capital base
Deferred income tax liabilities	2,344	-	
Provisions for other liabilities and charges	5,460	-	
Retirement benefit and other obligations	6,114	-	
Other liabilities	25,909	-	
Total liabilities:	**5,320,847**	**97,792**	
Shareholders' equity			
Share capital	452,753	452,753	Capital base
Statutory reserves	282,521	274,239	Capital base
Retained earnings and other reserves, net	82,224	80,716	Capital base
Total shareholders' equity:	**817,498**	**807,708**	
Total shareholders' equity and liabilities	**6,138,345**	**905,500**	

IV. Capital requirements

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

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

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

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

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

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

Capital requirements by exposure classes

BGN '000s

Credit Risk related to:	
Central governments and central banks	2,400
Regional governments and local authorities	165
Institutions	13,329
Corporate customers	74,307
Retail customers	53,339
Exposures secured by mortgages on immovable property	45,002
Exposures in default	36,843
Short-term rating exposures to institutions	6,721
Exposures associated with particularly high risk	16
Equity exposures	455
Other items	5,099
Counterparty Risk	1,870
Credit Risk Total	**239,546**
Market Risk (pursuant to Standardised approach)	**3,173**
- Interest rate instruments in the trading book	3,101
- Equity instruments in the trading book	72
Operational Risk	**37,675**
Credit Valuation Adjustment Risk	**17**
Total Capital Requirement	**280,411**

Capital requirements for market risk

Breakdown of the capital requirements for market risk by currencies as of 31 December 2014 is presented in the table below:

BGN '000s

Market Risk	BGN	EUR	USD
Interest rate instruments in the trading book	1,361	1,414	326
Equity instruments in the trading book	72	-	-
Total	**1,433**	**1,414**	**326**

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

The major currencies which form the currency position of the Bank are BGN, EUR, USD, CHF and GBP. Eurobank Bulgaria AD does not allocate capital for currency risk.

Capital requirements for operational risk

The Bank uses the Basic Indicator Approach, representing 15% of the annual average gross income for 2011, 2012 and 2013. The amounts of the annual gross income for the last three years, which form the capital requirements for operational risk, are as follows:

- ✓ 2011 – BGN 281,826 thousand;
- ✓ 2012 – BGN 244,081 thousand;
- ✓ 2013 – BGN 227,602 thousand.

V. Exposure to counterparty credit risk

The allocation of the Bank's deals with securities and derivatives in the banking book as of 31 December 2014 for the different exposure classes using the Market Value Method is represented in the table below:

BGN '000s

Exposure Class	Repos and Reverse Repos	Derivatives
Institutions	-	12,538
Corporate customers	1,595	3,197
Total	**1,595**	**15,735**

VI. Capital buffers

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

Capital buffers are:

- ✓ the capital conservation buffer;

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

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

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

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

Banks maintain a buffer for systemic risk in order to prevent and decrease the long-term non-cyclical systemic and macro prudential risks. As of 31.12.2014 the buffer for systemic risk is 3% of the total risk exposure amount of the Bank.

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

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

As of 31.12.2014 Eurobank Bulgaria AD allocated BGN 87,629 thousand as a capital conservation buffer and BGN 105,154 thousand as a buffer for systemic risk.

VII. Indicators of global systemic importance

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

VIII. Credit risk adjustments

<u>Definitions for accounting purposes of “past due” and “impaired” and description of the approaches and methods adopted for determining value adjustments and impairment.</u>

The exposures value presented in this document are estimated in accordance with the requirements of Regulation (EU) 575/2013 and represent the on-balance-sheet value, calculated according to the applicable accounting standards.

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if there is an objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

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

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

The amounts of balance sheet and off-balance sheet positions for the different exposure classes as of 31 December 2014 without taking into account the effects of credit risk mitigation and the application of Credit Conversion Factors /CCF/ for off-balance sheet positions are presented in the table below:

BGN '000s

Exposure Class	**Balance sheet position**
Credit Risk	
Central governments and central banks	524,351
Regional governments and local authorities	2,057
Institutions	40,353
Corporate customers	953,380
Retail customers	928,132
Exposures secured by mortgages on immovable property	1,559,165
Exposures in default	402,033
Short-term rating exposures to institutions	420,060
Exposures associated with particularly high risk	134
Equity exposures	5,684
Other items	178,421
Credit risk exposures relating to off-balance sheet items (including repo/reverse repo transactions and derivatives)	854,001
Credit Risk Total	**5,867,771**

Geographical breakdown of the exposures

The geographical breakdown of balance sheet positions for the different exposure classes as of 31 December 2014 is presented in the table below:

BGN '000s

Exposure Class	Bulgaria	Greece	Romania	Rest of Europe	Other countries	Balance sheet position
Credit Risk						
Central governments and central banks	519,578	-	4,773	-	-	**524,351**
Regional governments and local authorities	2,057	-	-	-	-	**2,057**
Institutions	-	35,536	1	580	4,236	**40,353**
Corporate customers	953,380	-	-	-	-	**953,380**
Retail customers	926,462	347	127	877	319	**928,132**
Exposures secured by mortgages on immovable property	1,556,762	739	57	920	687	**1,559,165**
Exposures in default	401,156	265	1	32	579	**402,033**
Short-term rating exposures to institutions	-	405,726	48	14,286	-	**420,060**
Exposures associated with particularly high risk	134	-	-	-	-	**134**
Equity exposures	5,644	-	-	40	-	**5,684**
Other items	178,421	-	-	-	-	**178,421**
Credit risk exposures relating to balance sheet items Total	**4,543,594**	**442,613**	**5,007**	**16,735**	**5,821**	**5,013,770**
Credit risk exposures relating to off-balance sheet items (including repo/reverse repo transactions and derivatives)	781,515	12,901	40	59,376	169	**854,001**
Credit Risk Total	**5,325,109**	**455,514**	**5,047**	**76,111**	**5,990**	**5,867,771**

Distribution of the exposures by industry

The distribution of balance positions by industry for the different exposure classes as of 31 December 2014 is presented in the table below:

BGN '000s

Exposure Class	Individuals	Trade and Services	Manu-facture	Construc-tion	Public Sector	Central Bank, Banks & Non-bank Financial Institutions	Other	Balance position
Credit Risk (pursuant to the Standardized Approach)								
Central governments and central banks	-	-	-	-	112,328	412,023	-	**524,351**
Regional governments and local authorities	-	-	-	-	2,057	-	-	**2,057**
Institutions	-	-	-	-	-	40,353	-	**40,353**
Corporate customers	-	281,745	392,938	56,054	-	46,205	176,438	**953,380**
Retail customers	698,299	124,310	51,944	19,332	-	-	34,247	**928,132**
Exposures secured by mortgages on immovable property	977,539	360,280	46,514	105,803	-	4,126	64,903	**1,559,165**
Exposures in default	166,994	141,815	40,964	27,907	-	-	24,353	**402,033**
Short-term rating exposures to institutions	-	-	-	-	-	420,060	-	**420,060**
Exposures associated with particularly high risk	-	134	-	-	-	-	-	**134**
Equity exposures	-	4	7	1	-	-	5,672	**5,684**
Other items	-	-	-	-	-	-	178,421	**178,421**
Credit risk exposures relating to balance sheet items Total	**1,842,832**	**908,288**	**532,367**	**209,097**	**114,385**	**922,767**	**484,034**	**5,013,770**
Credit risk exposures relating to off-balance sheet items (incl. repo/reverse repo transactions and derivatives)	412,802	147,597	119,159	35,214	-	114,684	24,545	**854,001**
Credit Risk Total	**2,255,634**	**1,055,885**	**651,526**	**244,311**	**114,385**	**1,037,451**	**508,579**	**5,867,771**

Residual maturity breakdown of the exposures

The residual maturity breakdown of balance positions for the different exposure classes as of 31 December 2014 is presented in the table below:

BGN '000s

Exposure Class	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Balance position
Credit Risk						
Central governments and central banks	472,030	-	13	27,012	25,296	**524,351**
Regional governments and local authorities	-	-	200	1,857	-	**2,057**
Institutions	40,353	-	-	-	-	**40,353**
Corporate customers	40,818	38,243	477,975	250,706	145,638	**953,380**
Retail customers	13,070	64,844	117,348	232,789	500,081	**928,132**
Exposures secured by mortgages on immovable property	35,906	8,505	108,438	224,638	1,181,678	**1,559,165**
Exposures in default	41,303	3,786	13,381	70,373	273,190	**402,033**
Short-term rating exposures to institutions	420,060	-	-	-	-	**420,060**
Exposures associated with particularly high risk	-	-	-	-	134	**134**
Equity exposures	-	-	-	-	5,684	**5,684**
Other items	-	-	-	-	178,421	**178,421**
Credit risk exposures relating to balance sheet items Total	**1,063,540**	**115,378**	**717,355**	**807,375**	**2,310,122**	**5,013,770**
Credit risk exposures relating to off-balance sheet items (including repo/reverse repo transactions and derivatives)	212,582	213,772	316,666	63,272	47,709	**854,001**
Credit Risk Total	**1,276,122**	**329,150**	**1,034,021**	**870,647**	**2,357,831**	**5,867,771**

Impaired loans broken down by industries

The classification of the risk exposures of the Bank, as well as the conditions, amounts and set of rules for the formation of loans impairment are in accordance with the applicable International Financial Reporting Standards.

The amounts of the impaired loans broken down by industries as of 31 December 2014 are presented in the table below:

BGN '000s

Exposure Class	Industry	Balance position of the impaired loans	Impairment
Exposures to Companies	Trade and Services	30,196	5,133
	Manufacture	42,081	5,250
	Construction	43,189	17,925
	Other	22,373	1,865
	Total for the Exposure Class	**137,839**	**30,173**
Retail Exposures	Individuals	106,023	7,113
	Trade and Services	13,011	267
	Manufacture	5,958	95
	Construction	3,602	73
	Other	2,326	51
	Total for the Exposure Class	**130,920**	**7,599**
Exposures secured by mortgages on immovable property	Individuals	116,661	746
	Trade and Services	33,021	4,065
	Manufacture	4,433	15
	Construction	9,573	154
	Other	12,659	45
	Total for the Exposure Class	**176,347**	**5,025**
Exposures in default	Individuals	352,981	187,153
	Trade and Services	273,729	136,042
	Manufacture	79,275	39,114
	Construction	66,817	41,261
	Other	51,302	27,981
	Total for the Exposure Class	**824,104**	**431,551**

Movement in the allowances for impairment loss

The table below presents the movement in impairment.

BGN '000s

Exposure Class	Impairment as of 31 December 2014	Impairment as of 31 December 2013	Change in the amount of Impairment
Exposures to Companies	30,173	15,531	14,642
Retail Exposures	7,599	6,849	750
Exposures secured by mortgages on immovable property	5,025	2,459	2,566
Exposures in default	431,551	356,784	74,767
Total:	**474,348**	**381,623**	**92,725**

IX. Encumbered assets

Pledged financial assets serving as collateral for liabilities as of 31.12.2014 include government securities pledged for government budget accounts, loans pledged under long-term financing, funds under Credit Support Agreement and funds placed as a cover for letters of credit and guarantees.

The table below presents the fair value and carrying amount of encumbered and unencumbered assets as of 31.12.2014:

BGN '000s

	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets of the institution	128,361	128,361	6,009,984	6,009,984
Debt securities	114,243	114,243	68,342	68,342
Other assets	14,118	14,118	5,941,642	6,218,523

There is no collateral related to encumbered assets as of 31.12.2014.
The table below presents the liabilities related to encumbered assets as of 31.12.2014:

BGN '000s

	Corresponding liabilities, contingent liabilities or lent securities	Assets, received collateral and issued own debt securities other than encumbered with weights covered bonds or asset-backed securities
Carrying amount of selected financial liabilities	**18,180**	**14,038**

X. Use of ECAIs

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

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

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

The exposure classes, for which an external credit assessment is used as of 31 December 2014 are presented in the table below as in determining the risk weights for credit risk the external assessments are related to the different credit quality steps.

BGN '000s

Risk weight depending on External Credit Risk Assessment	Exposures to Central Governments and Central Banks	Exposures to Institutions	Short-term Exposures to Institutions
0%	464,343	-	-
20%	-	4,763	420,060
50%	60,008	54	-
100%	-	-	-
150%	-	35,536	-
Total:	**524,351**	**40,353**	**420,060**

XI. Exposure to market risk

The position risk of the Bank in traded debt instruments under the Standardised approach as of 31.12.2014, broken down by currency, is presented in the table below:

BGN '000s

	Long position (BGN)	**Short position (BGN)**	**Long position (EUR)**	**Short position (EUR)**	**Long position (USD)**	**Short position (USD)**	**Long position (CHF)**	**Short position (CHF)**
General risk. Maturity-based approach								
0 ≤ 1 month	218,147	8,801	1,374,733	702,354	283,327	138,663	187,913	293,370
> 1 ≤ 3 months	504,772	-	4,598	504,574	704	704	-	-
> 3 ≤ 6 months	-	-	49,134	237	80,664	243	-	-
> 6 ≤ 12 months	1	-	41,123	-	142	-	-	-
> 1 ≤ 2 (1,9 for cupon of less than 3%) years	841	-	27,064	27,048	-	-	-	-
> 2 ≤ 3 (> 1,9 ≤ 2,8 for cupon of less than 3%) years	-	-	605	605	-	-	-	-
> 3 ≤ 4 (> 2,8 ≤ 3,6 for cupon of less than 3%) years	1,323	-	1,600	5,488	-	-	-	-
> 4 ≤ 5 (> 3,6 ≤ 4,3 for cupon of less than 3%) years	3,444	-	3,245	13,100	-	-	-	-
> 5 ≤ 7 (> 4,3 ≤ 5,7 for cupon of less than 3%) years	6,653	-	-	10,757	-	-	-	-
> 7 ≤ 10 (> 5,7 ≤ 7,3 for cupon of less than 3%) years	-	-	1,993	-	-	-	-	-
Total:	**735,181**	**8,801**	**1,504,095**	**1,264,163**	**364,837**	**139,610**	**187,913**	**293,370**
Specific risk								
Debt securities under the first category in Table 1	12,262	-	45,413	-	-	-	-	-
Debt securities under the second category in Table 1	-	-	-	-	214	214	-	-
- with residual term ≤ 6 months	-	-	-	-	-	-	-	-
- with a residual term > 6 months and ≤ 24 months	-	-	-	-	-	-	-	-
-with a residual term > 24 months	-	-	-	-	214	214	-	-
Debt securities under the third category in Table 1	-	-	-	-	-	-	-	
Debt securities under the fourth category in Table 1	-	-	-	-	-	-	-	-
Total:	**12,262**	**-**	**45,413**	**-**	**214**	**214**	**-**	**-**

XII. Operational risk

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

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

XIII. Exposures in equities not included in the trading book

Accounting techniques and valuation methodologies used by the Bank

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

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

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

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

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

The balance sheet value and fair value of the equity instruments in the banking book as of 31 December 2014 are represented in the table below:

BGN '000s

Equity instruments in the banking book	Balance sheet value	Fair value
Shares	8	8
Participations	5,810	5,810
Total:	**5,818**	**5,818**

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

The major part of the equity instruments held by the Bank in the banking book as of 31 December 2014 consists of participations in companies. The amount of the private equity investments held by the Bank and classified as bearing high risk is BGN 134 thousand. All private equity investments are reported with 150% risk weight.

The equity instruments reported in the banking book of the Bank as of 31 December 2014 are presented in the table below:

BGN '000s

Equity instruments in the banking book	Reported with 100% risk weight in exposure class "Equity exposures"	Reported with 150% risk weight in exposure class "Exposures associated with particularly high risk"
Listed equity instruments	8	-
Non-listed equity instruments	5,676	-
Items Belonging to Regulatory High-Risk Categories	-	134
Total:	**5,684**	**134**

Realized and unrealized gains or losses from sales and other realizations for the period

The realized and unrealized gains or losses for 2014 are presented in the table below:

BGN '000s

Realized gains and losses from equity instruments in the banking book	2014
Realized gains/(losses)	5,008
Unrealized gains / (losses)	(4,538)

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

Nature, measurement and key assumptions regarding interest rate risk arising from non-trading activities

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

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

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

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

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

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

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

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

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

For the purposes of calculating Interest Rate Risk Equivalent Instruments for current and savings accounts, on the basis of specific assumptions approved by the Group Risk Management, these are distributed in the closest time-band (1 month) to reflect properly their interest rate sensitivity. For instruments with fixed interest rate, the principal payments are distributed into time-bands according to their repayment schedule at the respective payment dates, while floating rate instruments are distributed according to their next interest re-pricing. The Bank's capital is first allocated to cover the fixed assets, participations and other positions without a clear interest rate profile and the remainder (i.e. the cash portion of capital) is allocated to the 1 month time bucket. With relation to early prepayments on loans, the majority of the loans are floating-rate ones and respectively are distributed into closer time-bands based on their re-pricing date and not on their repayment schedule. In the case of instruments with embedded options, these options determine the time-band distribution of the respective instrument.

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

Interest rate sensitivity analysis

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

All amounts in BGN equivalent

Currency	+200 bps	-200 bps
BGN	5,013,097	-5,013,097
EUR	4,685,246	-4,685,246
USD	2,210,208	-2,210,208
CHF	-183,930	183,930
GBP	70,115	-70,115
Other	-322	322
Total:	**11,794,413**	**-11,794,413**

XV. Exposure to securitization positions

Eurobank Bulgaria AD does not apply securitization as of 31 December 2014.

XVI. Remuneration policy

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

Also, the Remuneration Policy 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 behaviours.

Policy on Remuneration is compliant with the Remuneration Policy of Eurobank Ergasias S.A. Greece, with Regulation (EU) 604/2014, Regulation (EU) 575/2013 as well as with all requirements of the Directive 2010/76/EU of the European Parliament and of the Council regarding capital requirements for the trading book and for re-securitizations, and the supervisory review of remuneration policies.

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

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

The Remuneration Committee is established in such a way as to be able to offer specialised and independent advice regarding the Remuneration Policy and its implementation and the incentives created for managing risk, capital and liquidity. To this end, the Bank’s Remuneration Committee consists of up to 5 Supervisory Board members, the majority of whom, including its Chairman, are independent. The Remuneration Committee's objective and key responsibilities are determined by its Terms of Reference.

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

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

- ✓ Safeguard that remuneration is sufficient to retain and attract executives with appropriate skill and experience.
- ✓ Monitor that internal equity between Business Units is applied.
- ✓ Avoid excessive risk taking.

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

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

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

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

The employees who have a material impact on the Bank's risk profile are strictly defined by this policy.

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

Employees' total remuneration consists of fixed and variable components.

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

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

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

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

The number of people, referring to the requirements of Ordinance No 4/2010 of BNB, and covering the definition of "members of the management body" is twenty nine. The annual gross amount to be disclosed, (connected with these people and corresponding to the requirements of Ordinance No 4/2010 of BNB, art. 14 (1) and Regulation (EU) No 575/2013, art. 450), is two million eighty seven thousand and five hundred and ten euro.

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

XVII. Leverage

The leverage ratio is calculated as the Bank's Tier I capital divided by its total exposure and is expressed as a percentage. The leverage ratio should not be less than 3% and is calculated as the simple arithmetic mean of the monthly leverage ratios over a quarter. Total exposure includes all assets and off-balance sheet items not deducted from the calculation of Tier I capital. The leverage ratios of the Bank as of 31.12.2014 are presented in the table below:

Leverage Ratio	October 2014	November 2014	December 2014	Leverage ratio calculated as the simple arithmetic mean of the monthly leverage ratio over a quarter
Leverage Ratio – using a fully phased-in definition of Tier 1	11,43%	11,49%	11,22%	11,38%
Leverage Ratio – using a transitional definition of Tier 1	11,35%	11,40%	11,14%	11,30%

XVIII. Use of IRB Approach to credit risk

Eurobank Bulgaria AD does not apply Internal Rating Based Approach to credit risk as of 31 December 2014.

XIX. Use of credit risk mitigation techniques

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

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

a) Mortgage on immovable property

b) Pledge on movable property

c) Pledge on commercial enterprises

d) Pledge on receivables

e) Securities

f) Cash

g) Letters of guarantees

h) Personal guarantees /Sureties/

i) Other eligible collaterals

All collaterals are agreed in writing through Collateral Agreement.

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

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

Information about the credit risk concentration before credit risk mitigation:

The information about the credit risk concentration of balance sheet positions as of 31 December 2014 is presented in the table below:

BGN '000s

Credit Risk	Supervisory Risk Weights							
	0%	20%	35%	50%	75%	100%	150%	Total
Central governments and central banks	464,343	-	-	60,008	-	-	-	**524,351**
Regional governments and local authorities	-	-	-	-	-	2,057	-	**2,057**
Institutions	-	4,763	-	54	-	-	35,536	**40,353**
Corporate customers	-	-	-	-	-	953,380	-	**953,380**
Retail customers	-	-	-	-	928,132	-	-	**928,132**
Exposures secured by mortgages on immovable property	-	-	1,180,344	378,821	-	-	-	**1,559,165**
Exposures in default	-	-	-	-	-	280,162	121,871	**402,033**
Short-term rating exposures to institutions	-	420,060	-	-	-	-	-	**420,060**
Exposures associated with particularly high risk	-	-	-	-	-	-	134	**134**
Equity exposures	-	-	-	-	-	5,684	-	**5,684**
Other items	114,641	48	-	-	-	63,732	-	**178,421**
Total	**578,984**	**424,871**	**1,180,344**	**438,883**	**928,132**	**1,305,015**	**157,541**	**5,013,770**

<u>Total amount of the exposures covered with financial or other recognized collaterals</u>

The balance sheet position covered by financial or other recognized collaterals for the different exposure classes as of 31 December 2014 is presented in the table below:

BGN '000s

Exposure to Credit Risk Covered by Eligible Collaterals	Recognized financial collaterals	Guarantees	Total
Corporate customers	9,557	92,544	**102,101**
Retail customers	10,387	1,188	**11,575**
Exposures in default	148	2,281	**2,429**
Total	**20,092**	**96,013**	**116,105**

XX. Use of the Advanced Measurement Approaches to operational risk

Eurobank Bulgaria AD does not apply advanced measurement approaches to operational risk as of 31 December 2014.

XXI. Use of Internal Market Risk Models

Eurobank Bulgaria AD does not apply internal models for market risk as of 31 December 2014.