ANNUAL DISCLOSURES FOR 2010
ON AN UNCONSOLIDATED BASIS

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

A Member of Eurobank EFG Group

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II. Policies and procedures for risk management

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

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

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

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

The Board of Directors of the Bank 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.

<u>Credit risk</u>

Credit risk is the most significant risk that the Bank is exposed to. The credit process within Eurobank EFG Bulgaria AD is based on a division of responsibility between the business origination and credit risk management functions, with the business origination function performing preliminary selection to filter out poor credit risks as part of its quest for sustainable revenues. The credit risk management function concentrates its evaluation on the question of whether a given credit risk could prove damaging to the bank, while bearing the risk/ reward relationship in mind.

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
- ✓ Credit Committee – for provisioning management and deteriorated loans management decisions
- ✓ Loans and Product Committee - for approval of products' risk parameters
- ✓ NPL Committee – responsible for management of NPL loans

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

Market risk

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

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

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

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

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

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

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

- protect the Bank against unforeseen market losses and contribute to earnings stability through the independent identification, assessment and understanding of the market risks inherent to the business;
- align the Bank's organisational structure and management processes with best international banking practice and set minimum standards for controlling market risks;
- develop transparent, objective and consistent market risk information as a basis for sound decision making;

- establish a structure that will allow the Bank to link business strategy and operations with the objectives for risk control and supervision.

Liquidity risk

Liquidity risk is the risk that the Bank is unable to 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; for financial assets the risk is that an instrument cannot be sold or otherwise exchanged for its full market value.

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

- the necessary liquidity policies and procedures are in place and followed;
- sufficient liquid assets and adequate liquidity are maintained in order to conduct business in a prudent manner and to be able to meet obligations as they arise;
- high quality liquid assets are kept to ensure that the Bank will successfully face a funding crisis;
- a prudent proportion of medium term assets are funded by medium term liabilities;
- 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 Board of Directors to the Assets and Liabilities Committee (ALCO). The ALCO is the primary responsible body to advise the BoD for the strategic management of assets and liabilities, aiming to manage the liquidity risks of the Bank.

The main responsibilities of ALCO are:

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

The operational management of the Bank's assets and liabilities and the execution of ALCO decisions regarding liquidity is assigned to the Head of Treasury.
Liquidity target ratios are set and approved by the Board of Directors of the Bank in coordination with Group Risk Management. Independent liquidity risk control function with a dual reporting line to the management of the Bank and to the management at Group level is

performed by Market Risk Dept. The latter monitors and reports the liquidity ratios compared with the approved targets, escalating any excesses to the respective management bodies.

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

Operational risk

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

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

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

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

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

Eurobank EFG Bulgaria has implemented the following policies and procedures with regard to the operational risk management:

- Eurobank EFG OpRisk Framework approved by Eurobank EFG Risk Committee – describes the overall Operational Risk environment of EFG Eurobank Ergasias SA and its subsidiaries. It includes a formal record of the high level Operational Risk principles that are applied in day-to-day operations;
- Mandate and Terms of Reference for Operational Risk Department, approved by Eurobank EFG Bulgaria Risk Committee which describes the responsibilities of the OpRisk unit in details;
- Data Collection and Reporting Procedure approved by the Executive Committee of Eurobank EFG Bulgaria which defines the minimum data collection and reporting requirements in respect to operational risk events;
- Fraud Provisioning Policy for Retail Credit Portfolio (approved by the Risk Committee of Eurobank EFG Bulgaria) which defines the requirements in respect to calculation and reporting of provisions related to fraud cases in Retail Credit Portfolio reported as Operational Risk Events;
- Procedure for Provisioning and writing-off of operational losses in Eurobank EFG Bulgaria AD – regulates the rules and procedures for provisioning, writing-off and reconcilement losses from operational risk events;

- Operational Risk Committee, Terms of Reference – provides the governance framework of the ORC in Bulgaria;
- Eurobank EFG Fraud Risk Management Policy and Governance – defines the responsibilities and governance with regard to fraud prevention and fraud detection.

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

- Operational Risk Events database maintenance;
- Operational Risk Indicators (KRIs) – Top-down KRIs are implemented and monitored;
- Risk and Control Self Assessment (RCSA) – Operational Risk profiles are under implementation for all units and subsidiaries of the EFGH Group in Bulgaria;
- Operational Risk Scenario Analysis (i.e. estimates on rare, catastrophic events and their potential impact) – no stress tests and scenario analysis with regard to operational risk events have been conducted so far.

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

III. Structure and elements of the capital base

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

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

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

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

BGN '000s

Structure of the capital	**31/12/2010**	**31/12/2009**
Tier-one capital		
Share capital	452,753	452,753
Reserves	291,175	275,067
Revaluation reserve – available for sale investments	(8,895)	(11,115)
Decreases:		
Intangible assets	(23,903)	(18,270)
50% of the Specific Provisions under Ordinance № 9	(185,136)	(78,905)
Tier-one capital (total)	**525,994**	**619,530**
Tier-two capital		
Long-term debt	122,792	71,940
Revaluation reserve of property owned by the Bank	2,376	2,376
Decreases:		
50% of the Specific Provisions under Ordinance № 9	(125,168)	(74,316)
Tier-two capital (total)	**-**	**-**
Capital base (total)	**525,994**	**619,530**

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

IV. Capital requirements

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

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

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

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

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

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

Capital requirements by exposure classes

BGN '000s

Credit Risk related to:	
Central governments and central banks	5,802
Regional governments and local authorities	330
Institutions	1,518
Corporate customers	97,039
Retail customers	86,375
Secured by real estate property	29,098
Past Due Items	24,077
Short-term rating exposures to institutions	14,651
Exposures belonging to high risk regulatory categories	226
Other items	8,426
Counterparty Risk	1,212
Credit Risk Total	**268,754**
Market Risk (pursuant to Standardised approach)	**6,110**
- Interest rate instruments in the trading book	5,973
- Equity instruments in the trading book	137
Operational Risk	**40,392**
Other own funds requirements 4%=12%-8%	**157,629**
Total Capital Requirement	**472,885**

Capital requirements for market risk

The debt instruments in the trading portfolio of the Bank comprise of:

- ✓ Bulgarian Government Securities issued by the Ministry of Finance, denominated in BGN, EUR and USD;
- ✓ Corporate bonds denominated in BGN, issued by EFG Hellas Plc, part of EFG Group

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

Capital requirements for operational risk

The Bank uses the Basic Indicator Approach, representing 15% of the annual average gross income for 2007, 2008 and 2009. The amounts of the annual gross income for the last three years, which form the capital requirements for operational risk, are as follows:

- ✓ 2007 – BGN 241,352 thousand;
- ✓ 2008 – BGN 298,704 thousand;
- ✓ 2009 – BGN 267,781 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 2010 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	12,889	5,139
Corporate customers	-	10,580
Retail customers	1,303	-
Total	**14,192**	**15,719**

VI. Exposure to credit risk and risk of dispersion

<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 Ordinance № 8 and represent the on-balance-sheet value, calculated according to the applicable accounting standards and adjusted by the specific provisions for credit risk under Ordinance № 9 of BNB on the evaluation and classification of risk exposures of banks and the allocation of specific provisions for credit risk.

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

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

<u>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.</u>

The amounts of balance sheet and off-balance sheet positions for the different exposure classes as of 31 December 2010 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	823,682
Regional governments and local authorities	4,116
Institutions	19,939
Corporate customers	1,126,778
Retail customers	1,411,165
Secured by real estate property	1,030,917
Past Due Items	324,427
Short-term rating exposures to institutions	915,715
Exposures belonging to high risk regulatory categories	1,887
Other items	204,680
Credit risk exposures relating to off-balance sheet items (including repo/reverse repo transactions and derivatives)	682,361
Credit Risk Total	**6,545,667**

Geographic distribution of the exposures

The geographic distribution of balance sheet positions for the different exposure classes as of 31 December 2010 is presented in the table below:

BGN '000s

Exposure Class	Bulgaria	Europe	Canada and USA	Other countries	Balance sheet position
Credit Risk					
Central governments and central banks	792,971	30,711	-	-	**823,682**
Regional governments and local authorities	4,116	-	-	-	**4,116**
Institutions	248	19,691	-	-	**19,939**
Corporate customers	1,121,168	5,610	-	-	**1,126,778**
Retail customers	1,410,474	551	6	134	**1,411,165**
Secured by real estate property	1,029,879	913	-	125	**1,030,917**
Past Due Items	324,392	24	-	11	**324,427**
Short-term rating exposures to institutions	129,530	786,185	-	-	**915,715**
Exposures belonging to high risk regulatory categories	134	1,753	-	-	**1,887**
Other items	204,680	-	-	-	**204,680**
Credit risk exposures relating to balance sheet items Total	**5,017,592**	**845,438**	**6**	**270**	**5,863,306**
Credit risk exposures relating to off-balance sheet items (including repo/reverse repo transactions and derivatives)	608,185	74,040	29	107	**682,361**
Credit Risk Total	**5,625,777**	**919,478**	**35**	**377**	**6,545,667**

Distribution of the exposures by industry

The distribution of balance positions by industry for the different exposure classes as of 31 December 2010 is presented in the table below:

BGN '000s

Exposure Class	Individuals	Trade and Services	Manufacture	Construction	Public Sector	Central Bank, Banks & Non-bank Financial Institutions	Other	Balance position
Credit Risk (pursuant to the Standardized Approach)								
Central governments and central banks	-	-	-	-	276,672	547,010	-	**823,682**
Regional governments and local authorities	-	-	-	-	4,116	-	-	**4,116**
Institutions	-	-	-	-	-	19,939	-	**19,939**
Corporate customers	-	549,515	256,836	107,301	-	21,825	191,301	**1,126,778**
Retail customers	922,527	303,136	84,992	48,397	-	-	52,113	**1,411,165**
Secured by real estate property	785,292	133,441	22,422	56,278	-	-	33,484	**1,030,917**
Past Due Items	64,906	118,429	40,235	70,584	-	-	30,273	**324,427**
Short-term rating exposures to institutions	-	-	-	-	-	915,715	-	**915,715**
Exposures belonging to high risk regulatory categories	-	134	-	-	-	-	1,753	**1,887**
Other items	-	-	-	-	-	-	204,680	**204,680**
Credit risk exposures relating to balance sheet items Total	**1,772,725**	**1,104,655**	**404,485**	**282,560**	**280,788**	**1,504,489**	**513,604**	**5,863,306**
Credit risk exposures relating to off-balance sheet items (inc. repo/reverse repo transactions and derivatives)	291,434	121,668	62,994	73,559	-	106,415	26,291	**682,361**
Credit Risk Total	**2,064,159**	**1,226,323**	**467,479**	**356,119**	**280,788**	**1,610,904**	**539,895**	**6,545,667**

Residual maturity breakdown of the exposures

The residual maturity breakdown of balance positions for the different exposure classes as of 31 December 2010 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	547,010	-	-	257,095	19,577	**823,682**
Regional governments and local authorities	-	-	-	1,208	2,908	**4,116**
Institutions	19,939	-	-	-	-	**19,939**
Corporate customers	60,384	69,330	240,571	360,090	396,403	**1,126,778**
Retail customers	22,096	99,498	156,567	212,797	920,207	**1,411,165**
Secured by real estate property	3,762	3,445	19,636	98,629	905,445	**1,030,917**
Past Due Items	41,693	45,252	48,551	52,657	136,274	**324,427**
Short-term rating exposures to institutions	585,926	329,789	-	-	-	**915,715**
Exposures belonging to high risk regulatory categories	-	-	-	-	1,887	**1,887**
Other items	-	-	-	-	204,680	**204,680**
Credit risk exposures relating to balance sheet items Total	**1,280,810**	**547,314**	**465,325**	**982,476**	**2,587,381**	**5,863,306**
Credit risk exposures relating to off-balance sheet items (including repo/reverse repo transactions and derivatives)	153,456	184,329	174,025	51,837	118,714	**682,361**
Credit Risk Total	**1,434,266**	**731,643**	**639,350**	**1,034,313**	**2,706,095**	**6,545,667**

Impaired loans broken down by industries

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

The amounts of the impaired loans broken down by industries as of 31 December 2010 are presented in the table below:

BGN '000s

Exposure Class	Industry	Balance position of the impaired loans	Impairment
Exposures to Companies	Trade and Services	66,178	5,342
	Manufacture	32,378	4,481
	Construction	46,945	9,163
	Financial Institutions	6,416	642
	Other	41,477	7,603
	Total for the Exposure Class	**193,394**	**27,231**
Retail Exposures	Individuals	157,645	15,969
	Trade and Services	55,562	5,732
	Manufacture	25,889	3,368
	Construction	11,068	824
	Other	8,205	1,003
	Total for the Exposure Class	**258,369**	**26,896**
Exposures Secured on Real Estate Property	Individuals	74,332	1,588
	Trade and Services	14,264	113
	Manufacture	3,781	6
	Construction	7,995	69
	Other	5,713	5
	Total for the Exposure Class	**106,085**	**1,781**
Past Due Items	Individuals	146,319	98,680
	Trade and Services	238,634	166,899
	Manufacture	114,507	75,993
	Construction	109,813	70,656
	Other	46,219	28,367
	Total for the Exposure Class	**655,492**	**440,595**

Geographic distribution of the impaired loans

The impaired loans as of 31 December 2010 are granted only to Bulgarian companies and individuals.

Movement in the allowances for impairment loss

The table below presents the movement in impairment.

BGN '000s

Exposure Class	Provisions as of 31 December 2010	Provisions as of 31 December 2009	Change in the amount of provisions
Exposures to Companies	27,231	5,391	21,840
Retail Exposures	26,896	16,259	10,637
Exposures Secured on Real Estate Property	1,781	15,521	(13,740)
Past Due Items	440,595	284,862	155,733
Total:	**496,503**	**322,033**	**174,470**

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

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

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

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

The exposure classes, for which an external credit assessment is used as of 31 December 2010 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%	683,403	-	-
20%	-	19,939	915,715
50%	135,496	-	-
100%	4,783	-	-
Total:	**823,682**	**19,939**	**915,715**

VIII. Internal models for market risk

Eurobank EFG Bulgaria AD does not apply internal models for market risk as of 31 December 2010.

IX. Exposure to operational risk

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

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

X. Equities in the banking book

Accounting techniques and valuation methodologies used by the Bank

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

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

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

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

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

The balance sheet value and fair value of the equity instruments in the banking book as of 31 December 2010 are represented in the table below:

BGN '000s

Equity instruments in the banking book	Balance sheet value	Fair value
Shares	2,481	2,481
Participations	8,103	8,103
Total:	**10,584**	**10,584**

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 2010 represents of participations in companies. The amount of the private equity investments held by the Bank and classified as bearing high risk is BGN 1,887 thousands. All private equity investments are reported with 150% risk weight.

The equity instruments reported in the banking book of the Bank as of 31 December 2010 are presented in the table below:

BGN '000s

Equity instruments in the banking book	Reported with 100% risk weight in exposure class „Other Items"	Reported with 150% risk weight in exposure class „Items Belonging to Regulatory High-Risk Categories"
Listed equity instruments	2,975	-
Non-listed equity instruments	5,722	-
Items Belonging to Regulatory High-Risk Categories	-	1,887
Total:	**8,697**	**1,887**

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

The realized and unrealized gains or losses for 2010 are presented in the table below:

BGN '000s

Realized gains and losses from equity instruments in the banking book	2010
Realized gains/(losses)	3,175
Unrealized gains / (losses)	589

XI. Interest rate risk in the Banking Book

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

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

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

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

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

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

One of the goals of the established independent market risk management and control function in the Bank is to control and monitor the effects of interest rate risk on the income and the economic value of the Bank. The measurement, monitoring, reporting and management 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 Board of Directors. The levels of these limits are consistent with the loss-bearing capacity and appetite of the Bank and the regulatory capital requirements.

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

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

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

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

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

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

<u>Interest rate sensitivity analysis</u>

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

All amounts in BGN equivalent

Currency	+200 bps	-200 bps
BGN	10,727,563	-10,727,563
EUR	10,300,145	-10,300,145
USD	1,923,266	-1,923,266
CHF	-306,660	306,660
GBP	21,106	-21,106
Other	-15	15
Total:	**22,665,405**	**-22,665,405**

XII. Securitization

Eurobank EFG Bulgaria AD does not apply securitization as of 31 December 2010.

XIII. Internal Rating Based Approach

Eurobank EFG Bulgaria AD does not apply Internal Rating Based Approach as of 31 December 2010.

XIV. Credit risk mitigation techniques

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

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

a) Real estate

b) Pledge on movable property

c) Pledge on commercial enterprises

d) Pledge on receivables

e) Securities

f) Cash

g) Letters of guarantees

h) Personal guarantees /Sureties/

i) Other eligible collaterals

All collaterals are agreed in writing through Collateral Agreement.
For the purposes of credit risk mitigation according to Ordinance № 8, Eurobank EFG Bulgaria AD uses only part of the above mentioned collaterals, namely:

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

Information about the credit risk concentration within the credit risk mitigation taken:

The information about the credit risk concentration of balance sheet positions as of 31 December 2010 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	683,403	-	-	135,496	-	4,783	-	**823,682**
Regional governments and local authorities	-	-	-	-	-	4,116	-	**4,116**
Institutions	-	19,939	-	-	-	-	-	**19,939**
Corporate customers	-	-	-	-	-	1,126,778	-	**1,126,778**
Retail customers	-	-	-	-	1,411,165	-	-	**1,411,165**
Secured by real estate property	-	-	1,030,917	-	-	-	-	**1,030,917**
Past Due Items	-	-	-	24,594	-	299,833	-	**324,427**
Short-term rating exposures to institutions	-	915,715	-	-	-	-	-	**915,715**
Exposures belonging to high risk regulatory categories	-	-	-	-	-	-	1,887	**1,887**
Other items	99,358	-	-	-	-	105,322	-	**204,680**
Total	**782,761**	**935,654**	**1,030,917**	**160,090**	**1,411,165**	**1,540,832**	**1,887**	**5,863,306**

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

The balance sheet position covered by financial or other recognized collaterals for the different exposure classes as of 31 December 2010 is presented in the table below:

BGN '000s

Exposure to Credit Risk Covered by Eligible Collaterals	Recognized financial collaterals	Guarantees	Total
Corporate customers	8,476	505	**8,981**
Retail customers	4,995	8,309	**13,304**
Past Due Items	1,685	9,482	**11,167**
Total	**15,156**	**18,296**	**33,452**

XV. Policy and practice for remuneration

The Bank is in the process of synchronization of its Procedure on Remuneration and all other relevant internal rules and contracts in accordance with Ordinance №4 of the Bulgarian National Bank and within the period specified in its § 4. The Bank will be able to disclose the information under this section after finalization of the process of compliance with these internal rules and procedures.