FIRST INVESTMENT BANK AD

CONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2013
WITH INDEPENDENT AUDITOR'S REPORT THEREON

KPMG Bulgaria OOD
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INDEPENDENT AUDITORS' REPORT

To the shareholders of
First Investment Bank AD

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of First Investment Bank AD ("the Bank"), which comprise the consolidated statement of financial position as at 31 December 2013, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Bank's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

KPMG

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Bank as at 31 December 2013, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

СПЕЦИАЛИЗИРАНО ОДИТОРСКО ПРЕДПРИЯТИЕ
София
Рег. №045
"КПМГ - България" ООД

Dobrina Kaloyanova
Authorized representative

Margarita Goleva
Registered auditor

KPMG Bulgaria OOD

Sofia, 26 March 2014

Fibank
First Investment Bank

Consolidated statement of comprehensive income for the year ended 31 December 2013

In thousands of BGN

	Note	2013	2012
Interest income		480,380	465,512
Interest expense		(298,669)	(311,277)
Net interest income	6	**181,711**	**154,235**
Fee and commission income		103,596	83,995
Fee and commission expense		(11,821)	(9,691)
Net fee and commission income	7	**91,775**	**74,304**
Net trading income	8	9,381	8,539
Other operating income	9	6,662	2,819
TOTAL INCOME FROM BANKING OPERATIONS		**289,529**	**239,897**
General administrative expenses	10	(161,323)	(160,022)
Impairment losses	11	(70,305)	(36,709)
Gain on bargain purchase of subsidiary		152,310	-
Other expenses, net		(21,982)	(9,218)
PROFIT BEFORE TAX		**188,229**	**33,948**
Income tax expense	12	(3,325)	(3,375)
GROUP PROFIT AFTER TAX		**184,904**	**30,573**
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Revaluation reserve on land and buildings		-	4,500
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		(77)	(77)
Available for sale financial assets		2,421	269
Other comprehensive income for the period		**2,344**	**4,692**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**187,248**	**35,265**
Profit attributable to:			
Owners of the Bank		184,920	30,504
Non-controlling interests		(16)	69
Total comprehensive income attributable to:			
Owners of the Bank		187,264	35,196
Non-controlling interests		(16)	69
Basic and diluted earnings per share *(in BGN)*	13	**1.68**	**0.28**

The consolidated statement of comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 60.

Dimitar Kostov
Executive Director
Chairman of the Managing Board

Vassil Christov
Executive Director

Maya Oyfalosh
Executive Director

Ianko Karakolev
Director of Finance and Accounting Division

Dobrina Kaloyanova
Authorized representative
KPMG Bulgaria OOD

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Margarita Goleva
Registered auditor

Fibank
First Investment Bank

Consolidated statement of financial position as at 31 December 2013

In thousands of BGN

	Note	2013	2012
ASSETS			
Cash and balances with central banks	14	1,347,555	1,140,889
Financial assets held for trading	15	16,423	6,553
Available for sale investments	16	423,640	726,619
Financial assets held to maturity	17	178,658	118,770
Loans and advances to banks and financial institutions	18	120,126	45,939
Loans and advances to customers	19	6,020,792	4,540,389
Property and equipment	20	115,964	120,840
Intangible assets	21	20,263	18,339
Derivative assets held for risk management		3,702	1,088
Deferred tax assets	22	48	-
Current tax assets		1,001	2,120
Other assets	23	529,821	328,902
TOTAL ASSETS		**8,777,993**	**7,050,448**
LIABILITIES AND CAPITAL			
Due to credit institutions	24	5,302	2,580
Due to other customers	25	7,535,756	6,189,721
Liabilities evidenced by paper	26	196,444	62,420
Subordinated term debt	27	24,655	54,988
Perpetual debt	28	99,792	99,584
Hybrid debt	29	205,251	123,901
Derivative liabilities held for risk management		684	1,309
Deferred tax liabilities	22	3,137	3,565
Current tax liabilities		584	255
Other liabilities	30	13,873	6,858
TOTAL LIABILITIES		**8,085,478**	**6,545,181**
Issued share capital	32	110,000	110,000
Share premium	32	97,000	97,000
Statutory reserve	32	39,865	39,861
Revaluation reserve on available for sale investments		3,504	1,083
Revaluation reserve on land and buildings		4,500	4,500
Reserve from translation of foreign operations		(2,854)	(2,777)
Retained earnings	32	438,171	253,255
SHAREHOLDERS' EQUITY		**690,186**	**502,922**
Non-controlling interests		2,329	2,345
TOTAL GROUP EQUITY		**692,515**	**505,267**
TOTAL LIABILITIES AND GROUP EQUITY		**8,777,993**	**7,050,448**

The consolidated statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 60.

Dimitar Kostov
Executive Director
Chairman of the Managing Board

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Executive Director

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Consolidated statement of cash flows for the year ended 31 December 2013

In thousands of BGN

	2013	2012
Cash flows from operating activities		
Profit for the period	184,904	30,573
Adjustment for non-cash items		
Impairment losses	70,305	36,709
Depreciation and amortisation	20,736	21,125
Income tax expense	3,325	3,375
(Profit)/loss from sale and derecognition of tangible and intangible fixed assets, net	8	(19)
(Profit) from sale of other assets, net	(200)	(189)
(Gain) on bargain purchase of subsidiary	(152,310)	-
	126,768	**91,574**
Change in operating assets		
(Increase)/decrease in financial instruments held for trading	(2,840)	2,106
(Increase)/decrease in available for sale investments	354,059	(62,312)
(Increase)/decrease in loans and advances to banks and financial institutions	(10,575)	26,098
(Increase) in loans to customers	(418,432)	(394,862)
Net (increase) in other assets	(183,644)	(243,312)
	(261,432)	**(672,282)**
Change in operating liabilities		
Increase/(decrease) in deposits from banks	(3,994)	798
Increase in amounts owed to other depositors	360,075	801,411
Net increase in other liabilities	1,648	3,265
	357,729	**805,474**
Income tax paid	(3,682)	(4,623)
NET CASH FLOWS FROM OPERATING ACTIVITIES	**219,383**	**220,143**
Cash flows from investing activities		
(Purchase) of tangible and intangible fixed assets	(6,292)	(17,020)
Sale of tangible and intangible fixed assets	149	51
(Increase) /decrease of investments	190,925	(52,884)
NET CASH FLOWS FROM INVESTING ACTIVITIES	**184,782**	**(69,853)**
Cash flows from financing activities		
Increase/(decrease) in borrowings	(156,163)	35,815
NET CASH FLOWS FROM FINANCING ACTIVITIES	**(156,163)**	**35,815**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**248,002**	**186,105**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	**1,174,178**	**988,073**
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD (see note 34)	**1,422,180**	**1,174,178**

The consolidated cash flow statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 60.

Dimitar Kostov
Executive Director
Chairman of the Managing Board

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Margarita Goleva
Registered auditor

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Consolidated statement of changes in equity for the year ended 31 December 2013

In thousands of BGN

	Share capital	Share premium	Retained earnings	Revaluation reserve on available for sale investments	Revaluation reserve on land and buildings	Reserve from translation of foreign operations	Statutory reserve	Non-controlling interests	Total
Balance as at 1 January 2012	**110,000**	**97,000**	**222,751**	**814**	**-**	**(2,700)**	**39,861**	**2,276**	**470,002**
Total comprehensive income									
Profit for the year ended 31 December 2012	-	-	30,504	-	-	-	-	69	30,573
Other comprehensive income									
Revaluation reserve on available for sale investments				269	-	-	-	-	269
Revaluation reserve on land and buildings	-	-	-	-	4,500	-	-	-	4,500
Reserve from translation of foreign operations	-	-	-	-	-	(77)	-	-	(77)
Balance as at 31 December 2012	**110,000**	**97,000**	**253,255**	**1,083**	**4,500**	**(2,777)**	**39,861**	**2,345**	**505,267**
Total comprehensive income									
Profit for the year ended 31 December 2013	-	-	184,920	-	-	-	-	(16)	184,904
Other comprehensive income									
Revaluation reserve on available for sale investments			-	2,421	-	-	-	-	2,421
Reserve from translation of foreign operations	-	-	-	-	-	(77)	-	-	(77)
Statutory reserve	-	-	(4)	-	-	-	4	-	-
Balance as at 31 December 2013	**110,000**	**97,000**	**438,171**	**3,504**	**4,500**	**(2,854)**	**39,865**	**2,329**	**692,515**

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 60.

The consolidated financial statements have been approved by the Managing Board on 25 March 2014 and signed on its behalf by:

Dimitar Kostov
Executive Director
Chairman of the Managing Board

Vassil Christov
Executive Director

Maya Oyfalosh
Executive Director

Ianko Karakolev
Director of Finance and Accounting Division

Dobrina Kaloyanova
Authorized representative
KPMG Bulgaria OOD

Margarita Goleva
Registered auditor

СПЕЦИАЛИЗИРАНО ОДИТОРСКО ПРЕДПРИЯТИЕ
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1. Basis of preparation

(a) Statute

First Investment Bank AD (the Bank) is incorporated in the Republic of Bulgaria and has its registered office in Sofia, at 37 Dragan Tzankov Blvd.

The Bank has a general banking license issued by the Bulgarian National Bank (BNB) according to which it is allowed to conduct all banking transactions permitted by the Bulgarian legislation.

As a result of a successful initial public offering (IPO) of new shares on the Bulgarian Stock Exchange – Sofia the Bank is registered as a public company at the Register of the Financial Supervision Commission in accordance with the provisions of the Bulgarian Public Offering of Securities Act on 13 June 2007.

The consolidated financial statements of the Bank as at and for the year ended 31 December 2013 comprise the Bank and its subsidiaries (see note 37), together referred to as the "Group".

The Group has foreign operations in Cyprus and Albania.

(b) Statement of compliance

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the European Commission.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 2 (p).

(c) Basis of preparation

The financial statements are presented in Bulgarian leva (BGN) rounded to the nearest thousand.

The financial statements are prepared on a fair value basis for derivative financial instruments, financial assets and liabilities held for trading and available-for-sale assets, except those for which a reliable measure of fair value is not available. Other financial assets and liabilities and non-financial assets and liabilities are stated at amortised cost or historical cost convention.

(d) Changes in the accounting policy

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2013:

- Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7) (i)
- IFRS 13 Fair Value Measurement (ii)
- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1) (iii)
- IAS 19 Employee Benefits (2012) (iv)

(i) Offsetting of financial assets and financial liabilities

As a result of the amendments to IFRS 7, the Group has expanded its disclosures about offsetting of financial assets and financial liabilities.

(ii) Fair value measurement

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such disclosures are required or permitted by other IFRSs. In particular, it unifies the definition of fair value as the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date. It also

1. Basis of preparation, continued

(d) Changes in the accounting policy, continued

(ii) Fair value measurement, continued

replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7. As a result the Group has included additional disclosures in this regard.

In accordance with the transitional provisions of IFRS 13, the Group has applied the new fair value measurement guidance prospectively and has not provided any comparative information for new disclosures. Notwithstanding the above, the change had no significant impact on the measurements of the Group's assets and liabilities.

(iii) Presentation of items of other comprehensive income

As a result of the amendments to IAS 1, the Group has modified the presentation of items of other comprehensive income in its statement of comprehensive income, to present separately items that would be reclassifies to profit or loss in the future from those that would never be. Comparative information has also been re-presented accordingly.

The adoption of the amendment to IAS 1 has no impact on the recognised assets, liabilities and comprehensive income of the Group.

(iv) Defined benefit plans

As a result of IAS 19 Employee Benefits (2012), the Group has changed its accounting policy in respect of actuarial gains and losses to recognising all actuarial gains and losses in other comprehensive income.

2. Significant accounting policies

(a) Income recognition

(i) Interest income

Interest income and expense is recognised in profit or loss as it accrues, taking into account the effective yield of the asset (liability) or an applicable floating rate. Interest income and expense include the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

(ii) Fee and commission

Fee and commission income arises on financial services provided by the Group and is recognised in profit or loss when the corresponding service is provided.

(iii) Net trading income

Net gains (losses) on financial assets and liabilities held for trading include those gains and losses rising from disposals and changes in the fair value of financial assets and liabilities held for trading as well as trading income in dealing with foreign currencies and exchange differences from daily revaluation of the net open foreign currency position of the Group.

(iv) Dividend income

Dividend income is recognised when the right to receive dividends is established. Usually this is the ex-dividend date for equity securities.

(b) Basis of consolidation of subsidiaries

(i) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date – i.e. when control is transferred to the Group. Control is the power to govern the financial and operating

2. Significant accounting policies, continued

(b) Basis of consolidation of subsidiaries , continued

***(i)* Business combinations, continued**

policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss. Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to past and/or future service.

(ii) Non-controlling interests

For each business combination, the Group elects to measure any non-controlling interests in the acquiree either:

- at fair value; or
- at their proportionate share of the acquiree's identifiable net assets, which are generally at fair value.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as transactions with owners in their capacity as owners. Adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary. No adjustments are made to goodwill and no gain or loss is recognised in profit or loss.

(iii) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

2. Significant accounting policies, continued

(b) Basis of consolidation of subsidiaries , continued

(iv) Special purpose entities

Special purpose entities (SPEs) are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or lending transaction. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group concludes that it controls the SPE. The following circumstances may indicate a relationship in which, in substance, the Group controls and consequently consolidates an SPE:

- The activities of the SPE are being conducted on behalf of the Group according to its specific business needs so that the Group obtains benefits from the SPE's operation.
- The Group has the decision-making powers to obtain the majority of the benefits of the activities of the SPE or, by setting up an 'autopilot' mechanism, the Group has delegated these decision-making powers.
- The Group has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incident to the activities of the SPE.
- The Group retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

The assessment of whether the Group has control over an SPE is carried out at inception and normally no further reassessment of control is carried out in the absence of changes in the structure or terms of the SPE, or additional transactions between the Group and the SPE. Day-to-day changes in market conditions normally do not lead to a reassessment of control. However, sometimes changes in market conditions may alter the substance of the relationship between the Group and the SPE and in such instances the Group determines whether the change warrants a reassessment of control based on the specific facts and circumstances. Where the Group's voluntary actions, such as lending amounts in excess of existing liquidity facilities or extending terms beyond those established originally, change the relationship between the Group and an SPE, the Group performs a reassessment of control over the SPE.

(v) Loss of control

On the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently that retained interest is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for financial instruments depending on the level of influence retained.

(vi) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(c) Foreign currency transactions

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency').

2. Significant accounting policies, continued

(c) Foreign currency transactions, continued

***(i) Functional and presentation currency*, continued**

The consolidated financial statements are presented in Bulgarian leva, which is the Group's functional and presentation currency.

(ii) Transactions and balances

Transactions in foreign currencies are translated into the respective functional currencies of the operations at the spot exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date. Foreign currency differences arising on translation are difference between amortised cost in functional currency in the beginning of period, adjusted with effective interest and received payments during the period, and amortised cost in foreign currency at the spot exchange rate at the reporting date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined.

(iii) Foreign operations

The assets and liabilities of foreign operations are translated to Bulgarian leva at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Bulgarian leva at exchange rates at the dates of the transactions. Foreign currency differences are recognised in other comprehensive income. The functional currency of the foreign operations in Cyprus is determined by the management to be the Euro. The functional currency of the foreign operations in Albania is determined by the management to be the Albanian lek.

(d) Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

(i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management because its performance is internally evaluated and reported on a fair value basis. Derivatives are also categorised as held for trading unless they are designated as hedges.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable.

(iii) Held-to-maturity

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

2. Significant accounting policies, continued

(d) Financial assets, continued

(iv) Available-for-sale

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

(v) Recognition

Purchases and sales of financial assets at fair value through profit or loss, held to maturity and available for sale are recognised on the date of the actual delivery of the assets. Loans are recognised when cash is advanced to the borrowers. Financial assets are initially recognised at fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

(vi) Measurement

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are recognised in profit or loss. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in other comprehensive income is reclassified in profit or loss.

Interest calculated using the effective interest method is recognised in profit or loss. Dividends on equity instruments are recognised in profit or loss when the Group's right to receive payment is established.

(vii) Fair value measurement

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

When applicable, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at

fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk, are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

(viii) Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

In transactions in which the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if it does not retain control over the asset. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers in which control over the asset is retained, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

(e) Cash and cash equivalents

Cash and cash equivalents comprise cash balances on hand, cash deposited with central banks and short-term highly liquid investments with maturity of three months or less.

2. Significant accounting policies, continued

(f) Investments

Investments that the Group holds for the purpose of short-term profit taking are classified as trading instruments. Debt investments that the Group has the intent and ability to hold to maturity are classified as held-to-maturity assets. Other investments are classified as available-for-sale assets.

(g) Securities borrowing and lending business and repurchase transactions

(i) Securities borrowing and lending

Investments lent under securities lending arrangements continue to be recognised in the statement of financial position and are measured in accordance with the accounting policy for assets held for trading or available-for-sale as appropriate. Cash collateral received in respect of securities lent is recognised as liabilities to either banks or customers. Investments borrowed under securities borrowing agreements are not recognised. Cash collateral placements in respect of securities borrowed are recognised under loans and advances to either banks or customers. Income and expenses arising from the securities borrowing and lending business are recognised on an accrual basis over the period of the transactions and are included in interest income or expense.

(ii) Repurchase agreements

The Group enters into purchases (sales) of investments under agreements to resell (repurchase) substantially identical investments at a certain date in the future at a fixed price. Investments purchased subject to commitments to resell them at future dates are not recognised. The amounts paid are recognised in loans to either banks or customers. The receivables are shown as collateralised by the underlying security. Investments sold under repurchase agreements continue to be recognised in the statement of financial position and are measured in accordance with the accounting policy for either assets held for trading or available-for-sale as appropriate. The proceeds from the sale of the investments are reported as liabilities to either banks or customers.

The difference between the purchase (sale) and resell (repurchase) considerations is recognised on an accrual basis over the period of the transaction and is included in interest income (expense).

(h) Borrowings

Borrowings are recognised initially at ‘cost’, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost and any difference between net proceeds and the redemption value is recognised in profit or loss over the period of the borrowings using the effective yield method.

2. Significant accounting policies, continued

(h) Borrowings, continued

If the Group purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of a liability and the consideration paid is included in other operating income.

(i) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when the Group has a legally enforceable right to set off the recognised amounts and the transactions are intended to be settled on a net basis.

(j) Impairment

The carrying amounts of the Group's assets are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

(i) Loans and advances

The amount of the loss is determined as the difference between the assets's carrying amount and the present value of estimated future cash flows discounted at the instrument's original effective interest rate. If a loan has a variable interest rate, the discount rate is the current effective interest rate determined under the contract. Short-term balances are not discounted. Calculation of the present value of estimated future cash flows includes interest and principal repayments as well as the cash flows that could arise from high-liquid collateral.

Loans and advances are presented net of individual or portfolio allowances for impairment. The carrying amount of the assets is reduced through use of an allowance account. Individual allowances are allocated against the carrying amount of loans and advances for which objective evidence of impairment exists as a result of past events that occurred after the initial recognition of the asset. Objective evidence of impairment include significant financial difficulty of the issuer or obligor; a breach of contract, such as a default or delinquency in interest or principal payments; the borrower will probably enter bankruptcy; observable data indicating that there is a measurable decrease in the estimated cash flows from a group of financial assets. Portfolio allowances are maintained to reduce the carrying amount of portfolios of loans and advances with similar credit risk characteristics that are collectively assessed for impairment. The expected cash flows for portfolios of similar assets are estimated on the basis of historical loss experience for assets with characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. Increases in the allowance account are recognised in profit or loss. When a loan is identified to be not recoverable, all the necessary legal procedures have been completed and the final loss has been determined, the loan is written off.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the write down, the allowance reversal is recognised in profit or loss.

2. Significant accounting policies, continued

(j) Impairment, continued

(ii) Available for sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is removed from equity and recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

If, in a subsequent period, the fair value of a financial instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. Any subsequent increase in the fair value of impaired equity security, available for sale, is recognized directly in the comprehensive income.

(k) Property, plant and equipment

Land and buildings are presented at revalued amount, being their fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. All other Items of property, plant and equipment are stated in the statement of financial position at their acquisition cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on a straight line basis at prescribed rates designed to decrease the cost of fixed assets over their expected useful lives. The following are approximations of the annual rates used:

Assets	**%**
▪ Buildings	3 - 4
▪ Equipment	10 – 50
▪ Fixtures and fittings	10 – 15
▪ Vehicles	10 – 20
▪ Leasehold improvements	2 – 50

Assets are not depreciated until they are brought into use and transferred from assets in the course of construction into the relevant asset category.

(l) Intangible assets

Intangible assets, which are acquired by the Group, are stated at cost less accumulated amortisation and any impairment losses.

Amortisation is calculated on a straight-line basis over the expected useful life of the asset. The annual rates of amortisation are as follows:

Assets	**%**
▪ Licences, trademarks	10 - 20
▪ Computer software	8 - 50

(m) Provisions

A provision is recognised in the statement of financial position when the Group has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect is material, provisions are determined by discounting the expected future cash

2. Significant accounting policies, continued

(m) Provisions, continued

flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(n) Acceptances

An acceptance is created when the Group agrees to pay, at a stipulated future date, a draft drawn on it for a specified amount. The Group's acceptances primarily arise from documentary credits stipulating payment for the goods to be made a certain number of days after receipt of required documents. The Group negotiates most acceptances to be settled at a later date following the reimbursement from the customers. Acceptances are accounted for as liabilities evidenced by paper.

(o) Taxation

Tax on the profit for the period comprises current tax and the change in deferred tax. Current tax comprises tax payable calculated on the basis of the expected taxable income for the year, using the tax rates enacted by the end of each reporting period, and any adjustment of tax payable for previous years.

Deferred tax is provided using the balance sheet liability method on all temporary differences between the carrying amount of an asset or liability for financial reporting purposes and the amount used for taxation purposes.

Deferred tax is calculated on the basis of the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. The effect on deferred tax of any changes in tax rates is charged to profit or loss, except to the extent that it relates to items previously recognised either in other comprehensive income or directly in equity.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(p) Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(i) Impairment losses on loans and advances

The Group reviews its loan portfolios to assess impairment on a monthly basis. In determining whether an impairment loss should be recorded in profit or loss, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

2. Significant accounting policies, continued

(p) Critical accounting estimates and judgements in applying accounting policies, continued

(ii) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant estimates are required in determining the overall provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(q) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options.

(r) Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further amounts. The respective jurisdictions are responsible for providing pensions under a defined contribution pension plan. The Group's contributions to the defined contribution pension plan are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value.

The Bank has obligation to pay certain amounts to each employee who retires with the Bank in accordance with Art. 222, paragraph 3 of the Bulgarian Labor Code. According to these regulations, when a labor contract of an employee of the Bank, who has acquired a pension right, is ended, the Bank is obliged to pay him or her compensations amounted to two gross monthly salaries. In case the employee has service in the Bank during the last 10 years as at retirement date, then the compensation amounts to six gross monthly salaries. As at the end of the reporting period, the management of the Group estimates the approximate amount of the potential expenditures for every employee using the projected unit credit method.

Termination benefits

Termination benefits are recognised as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

2. Significant accounting policies, continued

(r) Employee benefits, continued

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employees, and the obligation can be estimated reliably. The Group recognises as a liability the undiscounted amount of the estimated costs related to annual leave expected to be paid in exchange for the employee's service for the period completed.

(s) New IFRS and interpretations (IFRIC) not yet adopted as at the reporting date

A number of new standards, amendments to standards and interpretations, endorsed by the EC, are available for early adoption in annual period ended 31 December 2013, although they are not yet mandatory until a later period. These changes to IFRS have not been applied in preparing these consolidated financial statements. The Group does not plan to adopt these standards early.

Standards, Interpretations and amendments to published Standards that have not been early adopted – endorsed by the EC:

- IFRS 10 *Consolidated Financial Statements* shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2014. IFRS 10 introduces a single control model to determine whether an investee should be consolidated. The Group does not expect the new standard to have any impact on the financial statements, since the assessment of control over its current investees under the new standard is not expected to change previous conclusions regarding the Group's control over its investees.
- IFRS 11 *Joint Arrangements*, shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2014. The Group does not expect IFRS 11 to have material impact on the financial statements since it is not a party to any joint arrangements.
- IFRS 12 *Disclosures of Interests in Other Entities*, shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2014. The Group does not expect the new Standard will have a material impact on the financial statements.
- IAS 27 *Separate Financial Statements* (2011) which supersedes IAS 27 (2008) shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2014. The Group does not expect the new Standard will have a material impact on the financial statements.
- IAS 28 *Investments in Associates* and Joint Ventures (2011) which supersedes IAS 28(2008) shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2014. The Group does not expect the amendments to Standard to have material impact on the financial statements since it does not have any investments in associates or joint ventures that will be impacted by the amendments.
- Amendments to IAS 32 *Offsetting Financial Assets and Financial Liabilities* shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2014. The Group does not expect the Amendments to have any impact on the financial statements since the Group does not apply offsetting to any of its financial assets and financial liabilities and it has not entered into master netting arrangements

Amendments to IFRS 10, IFRS 12 and IAS 27 – *Investment Entities* shall be applied for annual periods beginning on or after 1 January 2014. The Group does not expect the new standard to

2. Significant accounting policies, continued

(s) New IFRS and interpretations (IFRIC) not yet adopted as at the reporting date, continued

have any impact on the financial statements, since the Bank does not qualify as an investment entity.

- Amendments to IAS 36 – *Recoverable Amount Disclosures for Non-Financial Assets* shall be applied for annual periods beginning on or after 1 January 2014. The Group does not expect the Amendment will have a material impact on the financial statements.
- Amendments to IAS 39 – *Novation of Derivatives and Continuation of Hedge Accounting* shall be applied for annual periods beginning on or after 1 January 2014. The Group does not expect the Amendment will have a material impact on the financial statements.

IASB/IFRIC documents not yet endorsed by EC:

Management believes that it is appropriate to disclose that the following new or revised standards, new interpretations and amendments to current standards, which are already issued by the International Accounting Standards Board (IASB), are not yet endorsed for adoption by the European Commission, and therefore are not taken into account in preparing these consolidated financial statements. The actual effective dates for them will depend on the endorsement decision by the EC.

- IFRS 9 *Financial Instruments* (2009), additions to IFRS 9 (2010 and 2013) and Amendment to IFRS 9 and IFRS 7 *Mandatory effective date and transitional disclosures* (Effective date not yet determined; to be applied prospectively. Earlier application is permitted.)
- Amendments to IAS 19 – *Defined Benefit Plans*: *Employee Contributions* (Effective for annual periods beginning on or after 1 July 2014. Earlier application is permitted. The amendments apply retrospectively).
- IFRIC 21 – *Levies* (Effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively. Earlier application is permitted).

3. Risk management disclosures

A. Trading activities

The Group maintains active trading positions in a limited number of non-derivative financial instruments. Most of the Group's trading activities are customer driven. In anticipation of customer demand, the Group carries an inventory of money market instruments and maintains access to market liquidity by trading with other market makers. These activities constitute the proprietary trading business and enable the Group to provide customers with money market products at competitive prices.

The Group manages its trading activities by type of risk involved and on the basis of the categories of trading instruments held.

(i) Credit risk

Default risk is the risk that counterparties to financial instruments might default on their obligations. Default risk is monitored on an ongoing basis subject to Group's internal risk management procedures and is controlled through minimum thresholds for the credit quality of the counterpart and setting limits on exposure amount. Exposures arising from trading activities are subject to total exposure limits and are authorised by the appropriate person or body as set out in credit risk management procedures.

Settlement risk is the risk of loss due to counterparty failing to deliver value (cash, securities or other assets) under contractually agreed terms. When trades are not cleared through clearing agent settlement risk is limited through simultaneous commencement of the payment and delivery legs.

A. Trading activities, continued

(ii) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Group assumes market risk when taking positions in debt instruments, equities, derivatives and foreign exchange transactions. These risks are managed by enforcing limits on positions taken and their risk sensitivities as measured by value-at-risk, duration or other measures appropriate for particular position in view of its sensitivity to risk factors. The major risk factors that affect Group's trading activities are changes of interest rates (interest rate risk), changes of exchange rates (foreign exchange risk) and changes of equity prices (equity price risk).

Exposure to market risk is formally managed in accordance with risk limits set by senior management by buying or selling instruments.

The quantitative measurement of interest rate risk is performed by applying VaR (Value at Risk) approach. The Value at Risk estimates the maximum loss that could occur over specified horizon, under normal market conditions, due to adverse changes in market rates if the positions remain unchanged for the specified time interval. Value at risk is calculated using one day horizon and 99% confidence level, meaning that there is 1% probability that a portfolio will incur a loss in one day greater than its VaR. Parameters of the VaR model are estimated on the basis of exponentially weighted historical price changes of risk factors.

The Value at Risk is calculated and monitored on a daily basis as part of the Group's ongoing risk management. The following table summarises the range of interest rate VaR for all positions carried at fair value that was experienced in 2013:

	31 December	**Twelve months ended 31 December 2013**			**31 December**
in thousands of BGN	**2013**	**average**	**low**	**high**	**2012**
VaR	764	1,437	731	2,423	1,103

B. Non-trading activities

Below is a discussion of the various risks the Group is exposed to as a result of its non-trading activities and the approach taken to manage those risks.

(i) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk arises in the general funding of the Group's activities and in the management of positions. It includes both the risk of being unable to fund assets at appropriate maturity and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame to meet the liability obligations.

Funds are raised using a broad range of instruments including deposits, liabilities evidenced by paper, subordinated debt instruments and share capital. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. The Group makes its best efforts to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturity. The Group continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Group strategy.

3. Risk management disclosures, continued

B. Non-trading activities, continued

(i) Liquidity risk, continued

The following table provides an analysis of the financial assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment.

Maturity table as at 31 December 2013

In thousands of BGN	Up to 1 Month	From 1 to 3 Months	From 3 months to 1 year	Over 1 year	Maturity not defined	Total
Assets						
Cash and balances with central banks	678,399	-	-	-	669,156	**1,347,555**
Financial assets held for trading	16,423	-	-	-	-	**16,423**
Available for sale investments	357,359	5,045	4,294	50,654	6,288	**423,640**
Financial assets held to maturity	725	30,720	109,425	37,788	-	**178,658**
Loans and advances to banks and financial institutions	88,581	-	15,755	15,790	-	**120,126**
Loans and advances to customers	335,868	301,262	1,409,160	3,974,502	-	**6,020,792**
Other financial assets	3,702	-	-	-	-	**3,702**
Total financial assets	**1,481,057**	**337,027**	**1,538,634**	**4,078,734**	**675,444**	**8,110,896**
Liabilities						
Due to credit institutions	5,302	-	-	-	-	**5,302**
Due to other customers	509,157	993,786	3,122,488	1,445,552	1,464,773	**7,535,756**
Liabilities evidenced by paper	16,017	11,323	32,842	136,262	-	**196,444**
Subordinated term debt	-	-	-	24,655	-	**24,655**
Perpetual debt	-	-	-	-	99,792	**99,792**
Hybrid debt	-	-	-	-	205,251	**205,251**
Other financial liabilities	684	-	-	-	-	**684**
Total financial liabilities	**531,160**	**1,005,109**	**3,155,330**	**1,606,469**	**1,769,816**	**8,067,884**
Net liquidity gap	**949,897**	**(668,082)**	**(1,616,696)**	**2,472,265**	**(1,094,372)**	**43,012**

The table presents available for sale investments mainly within a maturity of up to 1 month as it reflects the managenent's intent to sell them in a short-term period.

3. Risk management disclosures, continued

B. Non-trading activities, continued

(i) Liquidity risk, continued

Maturity table as at 31 December 2012

In thousands of BGN	Up to 1 Month	From 1 to 3 Months	From 3 months to 1 year	Over 1 year	Maturity not defined	Total
Assets						
Cash and balances with central banks	606,992	-	-	-	533,897	**1,140,889**
Financial assets held for trading	6,553	-	-	-	-	**6,553**
Available for sale investments	704,783	3,682	11,707	738	5,709	**726,619**
Financial assets held to maturity	34,652	15,098	32,218	36,802	-	**118,770**
Loans and advances to banks and financial institutions	33,289	-	3,989	8,661	-	**45,939**
Loans and advances to customers	411,853	202,675	1,180,361	2,745,500	-	**4,540,389**
Other financial assets	1,088	-	-	-	-	**1,088**
Total financial assets	**1,799,210**	**221,455**	**1,228,275**	**2,791,701**	**539,606**	**6,580,247**
Liabilities						
Due to credit institutions	2,580	-	-	-	-	**2,580**
Due to other customers	606,985	959,063	2,583,163	1,139,762	900,748	**6,189,721**
Liabilities evidenced by paper	21,280	3,716	4,112	33,312	-	**62,420**
Subordinated term debt	-	-	-	54,988	-	**54,988**
Perpetual debt	-	-	-	-	99,584	**99,584**
Hybrid debt	-	-	-	-	123,901	**123,901**
Other financial liabilities	1,309	-	-	-	-	**1,309**
Total financial liabilities	**632,154**	**962,779**	**2,587,275**	**1,228,062**	**1,124,233**	**6,534,503**
Net liquidity gap	**1,167,056**	**(741,324)**	**(1,359,000)**	**1,563,639**	**(584,627)**	**45,744**

As at 31 December 2013 the funds by the thirty largest non-bank depositors represent 7.31% of total deposits from other customers (31 December 2012: 5.40%).

3. Risk management disclosures, continued

B. Non-trading activities, continued

(i) Liquidity risk, continued

The following table provides remaining maturities analysis of the financial liabilities of the Group as at 31 December 2013 based on the contractual undiscounted cash flows.

In thousands of BGN	**Up to 1 month**	**From 1 to 3 months**	**From 3 months to 1 year**	**Over 1 year**	**Total**
Due to credit institutions	5,302	-	-	-	**5,302**
Due to other customers	1,974,819	1,000,838	3,205,297	1,568,295	**7,749,249**
Liabilities evidenced by paper	16,035	11,397	33,501	157,769	**218,702**
Subordinated term debt	337	330	3,039	25,714	**29,420**
Perpetual debt	-	4,775	6,601	110,030	**121,406**
Hybrid debt	-	-	19,582	254,258	**273,840**
Total financial liabilities	**1,996,493**	**1,017,340**	**3,268,020**	**2,116,066**	**8,397,919**

(ii) Market risk

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature or reprice at different times or in differing amounts. In the case of floating rate assets and liabilities the Group is also exposed to basis risk, which is the difference in repricing characteristics of the various floating rate indices, such as the Bulgarian Base Interest Rate, the LIBOR and EURIBOR, although these indices tend to move in high correlation. In addition, the actual effect will depend on a number of other factors, including the extent to which repayments are made earlier or later than the contracted dates and variations in interest rate sensitivity within repricing periods and among currencies.

In order to quantify the interest rate risk of its non-trading activities, the Group measures the impact of a change in the market rates both on net interest income and on the Group's economic value defined as the difference between fair value of assets and fair value of liabilities. The interest rate risk on the economic value of the Group following a standardised shock of +100bp/-100bp as of 31 December 2013 is BGN +2.4/-2.4 Mio. The interest rate risk on the Group's net interest income one year forward following a standardised shock of +100bp/-100bp as of 31 December 2013 is BGN +8.9/-8.9 Mio.

3. Risk management disclosures, continued

***B.* Non-trading activities, continued**

(ii) Market risk, continued

Interest rate risk, continued

The following table indicates the periods in which financial liabilities and assets reprice at 31 December 2013.

In thousands of BGN	Total	Floating rate instruments	Fixed rate instruments: Less than 1 month	Between 1 month and 3 months	Between 3 months and 1 year	More than 1 year
Assets						
Cash and balances with central banks	251,375	163,883	87,492	-	-	-
Financial assets held for trading	13,237	-	13,237	-	-	-
Available for sale investments	417,352	23,408	333,951	5,045	4,294	50,654
Financial assets held to maturity	178,658	-	725	30,720	109,425	37,788
Loans and advances to banks and financial institutions	75,656	2,293	73,111	-	109	143
Loans and advances to customers	5,583,524	4,464,802	257,558	28,616	188,248	644,300
Total interest-earning assets	**6,519,802**	**4,654,386**	**766,074**	**64,381**	**302,076**	**732,885**
Liabilities						
Due to credit institutions	5,302	2,527	2,775	-	-	-
Due to other customers	7,534,754	1,146,364	1,028,200	993,029	3,120,291	1,246,870
Liabilities evidenced by paper	127,311	9,993	15,915	10,762	28,451	62,190
Subordinated term debt	24,655	-	-	-	-	24,655
Perpetual debt	99,792	-	-	-	-	99,792
Hybrid debt	205,251	-	-	-	-	205,251
Total interest-bearing liabilities	**7,997,065**	**1,158,884**	**1,046,890**	**1,003,791**	**3,148,742**	**1,638,758**

3. Risk management disclosures, continued

B. Non-trading activities, continued

(ii) Market risk, continued

Interest rate risk, continued

The following table indicates the periods in which financial liabilities and assets reprice at 31 December 2012.

In thousands of BGN	Total	Floating rate instruments	Fixed rate instruments: Less than 1 month	Between 1 month and 3 months	Between 3 months and 1 year	More than 1 year
Assets						
Cash and balances with central banks	115,838	97,977	17,861	-	-	-
Financial assets held for trading	3,627	-	3,627	-	-	-
Available for sale investments	720,910	31,587	677,721	3,682	7,182	738
Financial assets held to maturity	118,770	-	34,652	15,098	32,218	36,802
Loans and advances to banks and financial institutions	41,729	2,668	26,411	-	3,989	8,661
Loans and advances to customers	4,175,969	3,351,542	85,558	54,077	257,986	426,806
Total interest-earning assets	**5,176,843**	**3,483,774**	**845,830**	**72,857**	**301,375**	**473,007**
Liabilities						
Due to credit institutions	2,580	2,580	-	-	-	-
Due to other customers	6,183,378	900,748	600,642	959,063	2,583,163	1,139,762
Liabilities evidenced by paper	62,420	4,875	21,280	57	2,896	33,312
Subordinated term debt	54,988	-	-	-	-	54,988
Perpetual debt	99,584	-	-	-	-	99,584
Hybrid debt	123,901	-	-	-	-	123,901
Total interest-bearing liabilities	**6,526,851**	**908,203**	**621,922**	**959,120**	**2,586,059**	**1,451,547**

3. Risk management disclosures, continued

B. Non-trading activities, continued

(ii) Market risk, continued

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group is exposed to currency risk through transactions in foreign currencies and on financial instruments that are denominated in a foreign currency.

As a result of the currency board in place in Bulgaria, the Bulgarian currency is pegged to the Euro. As the currency in which the Group presents it financial statements is the Bulgarian lev, the Group's financial statements are effected by movements in the exchange rates between the Bulgarian lev and currencies other than the Euro.

The Group's transactional exposures give rise to foreign currency gains and losses that are recognised as net trading income in profit or loss. These exposures comprise the monetary assets and monetary liabilities of the Group that are not denominated in the presentation currency of the Group. These exposures were as follows:

In thousands of BGN	**2013**	**2012**
Monetary assets		
Euro	5,576,586	4,898,203
US dollar	568,057	490,105
Other currencies	233,748	186,581
Gold	10,502	10,847
Monetary liabilities		
Euro	3,566,664	3,080,119
US dollar	567,214	492,057
Other currencies	234,296	189,614
Gold	7,404	-
Net position		
Euro	2,009,922	1,818,084
US dollar	843	(1,952)
Other currencies	(548)	(3,033)
Gold	3,098	10,847

In respect of monetary assets and liabilities in foreign currencies that are not economically hedged, the Group manages foreign currency risk in line with policy that sets limits on currency positions and dealer limits.

3. Risk management disclosures, continued

B. Non-trading activities, continued

(iii) Credit risk

Credit risk is the risk that a counterparty to a financial instrument will cause a financial loss for the Group by failing to discharge an obligation. The Group is subject to credit risk through its lending activities and in cases where it acts as an intermediary on behalf of customers or other third parties or issues contingent liabilities. The management of the credit risk exposures to borrowers is conducted through regular analysis of the borrowers' credit worthiness and the assignment of a rating grade. Exposure to credit risk is also managed in part by obtaining collateral and guarantees.

The Group's primary exposure to credit risk arises through its loans and advances. The amount of credit exposure in this regard is represented by the carrying amounts of the assets in the statement of financial position. These exposures are as follows:

31 December 2013 *In thousands of BGN*

Class of exposure	**Gross amount of loans and advances to customers**	**Carrying amount of loans and advances to customers**
Collectively impaired		
Standard	5,029,032	5,021,822
Individually impaired		
Watch	550,678	519,753
Nonperforming	271,058	243,151
Loss	405,816	236,066
Total	**6,256,584**	**6,020,792**

31 December 2012 *In thousands of BGN*

Class of exposure	**Gross amount of loans and advances to customers**	**Carrying amount of loans and advances to customers**
Collectively impaired		
Standard	3,859,270	3,853,724
Individually impaired		
Watch	247,003	232,181
Nonperforming	318,648	295,407
Loss	284,547	159,077
Total	**4,709,468**	**4,540,389**

At 31 December 2013 the total gross amount of past due loans and advances to customers, measured as exposures overdue more than 90 days, is BGN 639,274 thousand (31 December 2012: BGN 442,294 thousand).

In addition, the Group is exposed to off-balance sheet credit risk through commitments to extend credits and issue contingent liabilities (see note 33).

Concentrations of credit risk (whether on or off balance sheet) that arise from financial instruments exist for counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

The major concentrations of credit risk arise also by location and type of customer in relation to the Group's investments, loans and advances and off-balance sheet commitments.

3. Risk management disclosures, continued

B. Non-trading activities, continued

(iii) Credit risk, continued

Total economic sector credit risk concentrations in loans and advances to customers are presented in the table below.

In thousands of BGN	**2013**	**2012**
Trade	1,600,033	1,188,145
Industry	1,407,387	1,179,216
Services	460,801	462,063
Finance	87,648	83,651
Transport, logistics	255,113	252,027
Communications	68,435	70,490
Construction	248,031	185,347
Agriculture	214,462	85,537
Tourist services	182,845	148,290
Infrastructure	320,942	150,482
Private individuals	1,327,336	888,863
Other	83,551	15,357
Less allowance for impairment	(235,792)	(169,079)
Total	**6,020,792**	**4,540,389**

The Group has extended loans to enterprises involved in different types of activities but within the same economic sector - industry. As such the exposures share a similar industry risk. There are three such groups of enterprises at 31 December 2013 with total exposures outstanding amounting to BGN 137,625 thousand (2012: BGN 95,634 thousand) - ferrous and non-ferrous metallurgy, BGN 61,015 thousand (2012: BGN 61,015 thousand) – mining industry and BGN 130,036 thousand (2012: BGN 135,510 thousand) - power engineering.

The Group has extended loans and issued contingent liabilities to 11 individual clients or groups (2012:19) with each individual exposure exceeding 10% of the capital base of the Group. The total amount of these exposures is BGN 1,412,939 thousand which represents 156.33% of the Group's capital base (2012: BGN 1,761,619 thousand which represented 275.81%of capital base) of which BGN 1,362,088 thousand (2012: BGN 1,633,700 thousand) represent loans and BGN 50,851 thousand (2012: BGN 127,919 thousand) represent guarantees, letters of credit and other commitments.

The loans extended by the Cyprus branch amount to BGN 503,656 thousand amortised cost before allowance (2012: BGN 483,331 thousand) and in Albania – BGN 95,103 thousand (2012: BGN 85,357 thousand).

The amounts reflected in the tables represent the maximum accounting loss that would be recognised at the end of the reporting period if counterparties failed completely to perform as contracted and any collateral or security proved to be of no value. The amounts, therefore, significantly exceed expected losses, which are included in the allowance for impairment.

The Group's policy is to require suitable collateral to be provided by customers prior to the disbursement of approved loans. Guarantees and letters of credit are also subject to strict credit assessments before being provided. The agreements specify monetary limits to the Group's obligations. The extent of collateral held for guarantees and letters of credit is 100 percent.

Collateral for loans, guarantees, and letters of credit is usually in the form of mortgage, cash, pledge of inventory, listed investments or other property.

3. Risk management disclosures, continued

B. Non-trading activities, continued

(iii) Credit risk, continued

The table below shows a breakdown of total gross loans and advances extended to customers by the Group by type of collateral, excluding credit cards in the amount of BGN 231,090 thousand (31 December 2012: BGN 212,811 thousand):

In thousands of BGN	**2013**	**2012**
Mortgage	1,992,462	1,612,010
Pledge of receivables	1,003,115	592,400
Pledge of commercial enterprise	527,417	581,575
Securities	123,320	158,282
Bank guarantee	13,114	6,308
Other guaranties	690,652	270,977
Pledge of goods	136,478	167,701
Pledge of machines	458,578	261,300
Money deposit	243,206	171,518
Stake in capital	463,326	374,096
Gold	18	97
Other collateral	297,386	247,952
Unsecured	76,422	52,441
Total	**6,025,494**	**4,496,657**

Other collateral position includes insurance policies limited up to the insurance amount, future money transfers to account, other proceeds as salaries transfers and other.

Residential mortgage lending

The table below represents credit exposures from housing and mortgage loans to individual customers by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan to the value of the collateral. The gross amount excludes any impairment allowances. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is based on the collateral value at origination updated based on changes in house price indices.

In thousands of BGN **Loan to value (LTV) ratio**	**2013**	**2012**
Less than 50%	443,420	176,494
From 50% to 70%	121,653	83,606
From 70% to 90%	107,217	84,023
From 90% to 100%	18,601	16,098
More than 100%	24,005	15,953
Total	**714,896**	**376,174**

3. Risk management disclosures, continued

B. Non-trading activities, continued

(iii) Credit risk, continued

Loans and advances to corporate customers

The Group's loans and advances to corporate customers, small and medium enterprises and microlending are subject to individual credit appraisal and impairment testing. The general creditworthiness of a corporate customer tends to be the most relevant indicator of credit quality of a loan extended to it. However, collateral provides additional security and the Group requests corporate borrowers to provide it. The Group may take collateral in the form of a first charge over real estate, floating charges over all corporate assets and other liens and guarantees.

The Group periodically analyses provided collateral in terms of possible changes in its valuation due to alteration in market conditions, legal framework or because of arrangements of the borrower in respect to the collateral. If these valuation changes lead to insufficient collateral coverage, the Group requires extra collateral security in a certain period of time.

At 31 December 2013 the net carrying amount of individually impaired loans and advances to corporate customers, small and medium enterprises and microlending amounts to BGN 543,620 thousand (31 December 2012: BGN 431,477 thousand) and the value of identifiable collateral held against those loans and advances amounts to BGN 1,996,566 thousand (31 December 2012: BGN 938,070 thousand).

(iv) Government debt exposures

In 2011, concerns became apparent of the credit risk related to government debt issued by member states of the Eurozone. The Group closely manages this risk throughout the year and as a result the overall quality of the government debt portfolio is very high.

The table below shows the carrying amount of the government debt portfolio by country issuer. The assets are presented without any allowance for impairment. The Group does not recognise allowance for impairment against the exposures which are measured at amortised cost as at 31 December 2013 and 31 December 2012 as well as those classified as available for sale.

In thousands of BGN

31 December 2013

Portfolio	**Bulgaria**	**Belgium**	**Albania**	**Italy**	**Spain**	**Portugal**	**European Financial Stability Facility**
Financial assets held for trading	11,178	-	-	2,059	-	-	-
Available for sale investments	220,316	136,853	29,066	-	-	-	9,845
Financial assets held to maturity	-	-	37,437	78,010	35,105	9,763	-
Total	**231,494**	**136,853**	**66,503**	**80,06**	**35,10**	**9,763**	**9,845**

3. Risk management disclosures, continued

B. Non-trading activities, continued

***(iv) Government debt exposures*, continued**

In thousands of BGN
31 December 2012

Portfolio	Bulgaria	Belgium	Albania	Italy	Spain	European Financial Stability Facility
Financial assets held for trading	3,627	-	-	-	-	-
Available for sale investments	304,026	289,156	14,955	-	-	86,293
Financial assets held to maturity	34,652	-	26,419	23,409	15,559	-
Total	**342,305**	**289,156**	**41,374**	**23,409**	**15,559**	**86,293**

Maturity table of government debt securities by country issuer as at 31 December 2013

In thousands of BGN

Country issuer	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Bulgaria	-	9,215	1,215	94,309	126,755	**231,494**
Belgium	-	-	136,853	-	-	**136,853**
Albania	1,052	3,830	20,133	40,074	1,414	**66,503**
Italy	-	39,049	38,961	2,059	-	**80,069**
Spain	-	9,770	25,335	-	-	**35,105**
Portugal	-	9,763	-	-	-	**9,763**
European Financial Stability Facility	-	-	-	9,845	-	**9,845**
Total	**1,052**	**71,627**	**222,497**	**146,287**	**128,169**	**569,632**

Maturity table of government debt securities by country issuer as at 31 December 2012
in thousands of BGN

Country issuer	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Bulgaria	192,038	-	-	72,764	77,503	**342,305**
Belgium	-	113,375	175,781	-	-	**289,156**
Albania	3,353	5,114	14,098	18,809	-	**41,374**
Italy	-	13,666	9,743	-	-	**23,409**
Spain	-	-	15,559	-	-	**15,559**
European Financial Stability Facility	-	58,894	7,816	19,583	-	**86,293**
Total	**195,391**	**191,049**	**222,997**	**111,156**	**77,503**	**798,096**

3. Risk management disclosures, continued

C. Capital adequacy

The Group's lead regulator, the Bulgarian National Bank (BNB) sets and monitors capital requirements both on consolidated and stand-alone basis. Individual banking operations are directly supervised by their local regulators. BNB issued Ordinance 8 on Capital Adequacy of Credit Institutions effective from 1 January 2007 that is the Bulgarian supervisory implementation of the International Convergence of Capital Measurement and Capital Standards (Revised Framework), known as Basel II and complies with EU Directives 2006/48/EC and 2006/49/EC and their amendments. In implementing current capital requirements the Group is required to maintain a minimum prescribed ratio of 12% of total capital to total risk-weighted assets and a minimum prescribed ratio of 6% of Tier 1 capital to total risk-weighted assets. Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. As the Group holds insignificant trading book, the Group does not apply capital requirements to its exposures in trading portfolio in respect to market risk and calculates required capital for trading instruments in accordance with the provisions for banking book.

The Group calculates requirements for credit risk for its exposures in banking and trading portfolios based on standardised approach defined by the BNB. Exposures are taken into account using their carrying amount. Off-balance-sheet credit related commitments are taken into account by applying different categories of conversion factors (0%, 20%, 50%, 100%), designed to convert these items into carrying amount equivalents. The resulting equivalent amounts are then weighted for risk using different percentages (0%, 20%, 35%, 50%, 75%, 100%, 150%) depending on the class of exposure and its credit rating assessment. Various credit risk mitigation techniques are used, for example collateralised transactions and guarantees. Forwards and options based derivative instruments are weighted for counterparty credit risk.

The Group calculates also capital requirements for market risk for foreign currency and commodity instruments in trading book and banking book.

In addition, the Group is required to hold capital for operational risk. The basic indicator approach is used. Required capital is equal to the average gross annual income over the previous three years multiplied by a fixed percentage (15%). Respective risk weighted assets are calculated by further multiplication by 12.5.

The Group's regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes ordinary share capital, share premium, statutory reserve, other general reserves, retained earnings from past years, translation reserve, non-controlling interests and hybrid instruments without incentive to redeem after deductions for goodwill and other intangible assets and unrealised loss from available for sale investments.
- Tier 2 capital, which includes revaluation reserve on land and buildings and qualifying subordinated liabilities, namely perpetual debt and subordinated term debt.

Following limits are applied to elements of the capital base. Qualifying tier 2 capital cannot exceed tier 1 capital; qualifying term subordinated loan capital may not exceed 50 percent of tier 1 capital; and qualifying hybrid debt without incentive to redeem cannot exceed 35 percent of tier 1 capital. Deductions from capital base include specific provisions for credit risk, which at 31 December 2013 amount to BGN 84,874 thousand (2012: BGN 55,468 thousand).

3. **Risk management disclosures, continued**

C. **Capital adequacy, continued**

The Group has complied with all capital requirements.

Capital adequacy level is as follows:

In thousands of BGN	**Carrying amount/notional amount**		**Risk weighted amount**	
	2013	**2012**	**2013**	**2012**
Risk weighted assets for credit risk				
Assets				
Exposure class				
Central governments and central banks	1,531,674	1,711,419	100,579	59,644
Regional governments and local authorities	983	-	197	-
Multilateral development banks	144	-	-	-
Institutions	377,011	191,216	101,023	58,030
Corporates	3,724,460	3,078,881	3,417,912	2,886,798
Retail	741,303	547,232	521,471	395,121
Claims secured by residential property	1,029,860	588,697	468,112	206,044
Past due exposures	446,766	270,026	437,696	270,026
Collective investment undertaking	2,140	1,933	2,140	1,933
Other items	818,087	574,898	650,332	436,145
TOTAL	**8,672,428**	**6,964,302**	**5,699,462**	**4,313,741**
Off-balance sheet items				
Exposure class				
Central governments and central banks	13	-	-	-
Institutions	11,876	11,406	3,175	3,271
Corporates	481,765	494,451	197,649	170,046
Retail	387,537	262,430	8,140	802
Claims secured by residential property	47,763	8,753	22,449	1,523
Other items	-	-	503	24
TOTAL	**928,954**	**777,040**	**231,916**	**175,666**
Derivatives				
Exposure class				
Institutions	1,099	1,669	220	334
Corporates	31	547	31	547
Other items	3,776	1,109	3,776	1,109
TOTAL	**4,906**	**3,325**	**4,027**	**1,990**
Total risk-weighted assets for credit risk			**5,935,405**	**4,491,397**
Risk-weighted assets for market risk			**7,738**	**12,400**
Risk-weighted assets for operational risk			**393,660**	**371,240**
Total risk-weighted assets			**6,336,803**	**4,875,037**

Capital adequacy ratios	**Capital**		**Capital ratios %**	
	2013	**2012**	**2013**	**2012**
Tier 1 Capital	**843,173**	**555,159**	**13.31%**	**11.39%**
Total capital base	**903,810**	**638,713**	**14.26%**	**13.10%**

4. Segment reporting

Segment information is presented in respect of the Group's geographical segments. The primary format is based on the Group's management and internal reporting structure.

Measurement and reporting of segment assets and liabilities and segment revenues and expenses are based on the accounting policies set out in the accounting policy note.

Transactions between segments are conducted on an arm's length basis.

The Group operates principally in Bulgaria, but also has operations in Cyprus and Albania.

In presenting information on the basis of geographical segments, income and expenses are allocated based on the location of the Group affiliate that generates them. Segment assets and liabilities are allocated based on their geographical location.

In thousands of BGN	Bulgarian operations		Foreign operations		Total	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
Interest income	430,033	424,224	50,347	41,288	480,380	465,512
Interest expense	(290,123)	(304,896)	(8,546)	(6,381)	(298,669)	(311,277)
Net interest income	**139,910**	**119,328**	**41,801**	**34,907**	**181,711**	**154,235**
Fee and commission income	101,016	81,903	2,580	2,092	103,596	83,995
Fee and commission expense	(11,506)	(9,515)	(315)	(176)	(11,821)	(9,691)
Net fee and commission income	**89,510**	**72,388**	**2,265**	**1,916**	**91,775**	**74,304**
Net trading income	**9,111**	**8,224**	**270**	**315**	**9,381**	**8,539**
General administrative expenses	**(154,801)**	**(153,951)**	**(6,522)**	**(6,071)**	**(161,323)**	**(160,022)**
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
Segment assets	**8,053,408**	**6,384,181**	**724,585**	**666,267**	**8,777,993**	**7,050,448**
Segment liabilities	**7,841,223**	**6,341,254**	**244,255**	**203,927**	**8,085,478**	**6,545,181**

The following table presents the allocation of assets and liabilities, income and expenses based on business segments as at 31 December 2013 and for the year then ended:

In thousands of BGN

Business segment	**Assets**	**Liabilities**	**Interest income**	**Interest expense**	**Net fee and commission income**	**Net trading income**	**Other operating income**
Commercial banking	4,670,779	1,919,754	344,626	(43,959)	55,148	-	3,979
Retail banking	1,350,013	5,616,002	120,101	(215,930)	15,808	-	-
Cards business	-	-	-	-	18,678	-	-
Treasury	2,090,104	21,856	15,653	(340)	1,125	9,381	2,428
Other	667,097	527,866	-	(38,440)	1,016	-	255
Total	**8,777,993**	**8,085,478**	**480,380**	**(298,669)**	**91,775**	**9,381**	**6,662**

5. Financial assets and liabilities

The Bank's accounting policy on fair value measurements is set out in Note 2(d)(vii).

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Bank determines fair values using other valuation techniques.

Other valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Bank uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

However, where the Bank measures portfolios of financial assets and financial liabilities on the basis of net exposures, it applies judgement in determining appropriate portfolio level adjustments such as bid-ask spread. Such adjustments are derived from observable bid-ask spreads for similar instruments and adjusted for factors specific to the portfolio.

5. Financial assets and liabilities,continued

For more complex instruments, the Bank uses proprietary valuation models, which usually are developed from recognised valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Example of instruments involving significant unobservable inputs include certain over the counter derivatives, certain loans and securities for which there is no active market and retained interests in securitisations. Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in the determination of fair value. Management judgement and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of probability of counterparty default and prepayments and selection of appropriate discount rates.

The Bank has an established control framework with respect to the measurement of fair values. This framework includes an Risk Management function, which is independent of Treasury division and reports to management, and which has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements. Specific controls include:

- verification of observable pricing;
- a review and approval process for new models and changes to models is responsibility of Risk Management division subject to approval by the Managing Board;
- calibration of models against observed market transactions;
- analysis and investigation of significant daily valuation movements;
- review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3 instruments compared to previous month, responsibility of Risk Management division.

Where third-party information, such as broker quotes or pricing services, are used to measure fair value, Risk Management division assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS. This includes:

- verifying that the broker or pricing service is approved by the Bank for use in pricing the relevant type of financial instrument;
- understanding how the fair value has been arrived at and the extent to which it represents actual market transactions;
- when prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement;
- where a number of quotes for the same financial instrument have been obtained, how fair value has been determined using those quotes.

Accounting classification and fair values

The tables below set out analysis of financial instruments measured at fair value at the end of the reporting period classified by fair value hierarchy level framework categorising fair value measurement.

5. Financial assets and liabilities, continued

Accounting classification and fair values, continued

thousands of BGN

31 December 2013	Level 1	Level 2	Level 3	Total
Financial assets held for trading	16,423	-	-	16,423
Available for sale investments	369,548	48,383	5,709	423,640
Derivatives held for risk management	3,702	(684)	-	3,018
Total	**389,673**	**47,699**	**5,709**	**443,081**

thousands of BGN

31 December 2012	Level 1	Level 2	Level 3	Total
Financial assets held for trading	6,553	-	-	6,553
Available for sale investments	694,430	26,480	5,709	726,619
Derivatives held for risk management	1,088	(1,309)	-	(221)
Total	**702,071**	**25,171**	**5,709**	**732,951**

The tables below analyse the fair values of financial instruments not measured at fair value by fair value hierarchy level framework categorising fair value measurement.

In thousands of BGN

31 December 2013	Level 1	Level 2	Level 3	Fair value	Total carrying amount
Assets					
Cash and balances with central banks	-	1,347,555	-	1,347,555	1,347,555
Financial assets held to maturity	122,963	56,496	-	179,459	178,658
Loans and advances to banks and financial institutions	-	120,126	-	120,126	120,126
Loans and advances to customers	-	932,182	5,172,686	6,104,868	6,020,792
Total	**122,963**	**2,456,359**	**5,172,686**	**7,752,008**	**7,667,131**
Liabilities					
Due to credit institutions	-	9,285	-	9,285	5,302
Due to other customers	-	2,220,963	5,323,597	7,544,560	7,535,756
Liabilities evidenced by paper	-	200,555	-	200,555	196,444
Subordinated term debt	-	24,655	-	24,655	24,655
Perpetual debt	-	99,792	-	99,792	99,792
Hybrid debt	-	200,230	-	200,230	205,251
Total	**-**	**2,755,480**	**5,323,597**	**8,079,077**	**8,067,200**

5. **Financial assets and liabilities,continued**

Accounting classification and fair values, continued

In thousands of BGN

31 December 2012	**Level 1**	**Level 2**	**Level 3**	**Fair value**	**Total carrying amount**
Assets					
Cash and balances with central banks	-	1,140,889	-	1,140,889	1,140,889
Financial assets held to maturity	73,614	45,150	-	118,764	118,770
Loans and advances to banks and financial institutions	-	45,939	-	45,939	45,939
Loans and advances to customers	-	753,829	3,786,560	4,540,389	4,540,389
Total	**73,614**	**1,985,807**	**3,786,560**	**5,845,981**	**5,845,987**
Liabilities					
Due to credit institutions	-	2,580	-	2,580	2,580
Due to other customers	-	1,021,548	5,168,173	6,189,721	6,189,721
Liabilities evidenced by paper	-	62,420	-	62,420	62,420
Subordinated term debt	-	54,988	-	54,988	54,988
Perpetual debt	-	99,584	-	99,584	99,584
Hybrid debt	-	123,901	-	123,901	123,901
Total	**-**	**1,365,021**	**5,168,173**	**6,533,194**	**6,533,194**

Where available, the fair value of loans and advances is based on observable market transactions. Where observable market transactions are not available, fair value is estimated using valuation models, such as discounted cash flow techniques. Input into the valuation techniques includes expected lifetime credit losses, interest rates, prepayment rates.

For collateral-dependent impaired loans, the fair value is measured based on the value of the underlying collateral. To improve the accuracy of the valuation estimate for retail and smaller commercial loans, homogeneous loans are grouped into portfolios with similar characteristics such as product and borrower type, maturity, currency, collateral type.

The fair value of deposits from banks and customers is estimated using discounted cash flow techniques, applying the rates that are offered for deposits of similar maturities and terms. The fair value of deposits payable on demand is the amount payable at the reporting date.

6. Net interest income

In thousands of BGN

	2013	2012
Interest income		
Accounts with and placements to banks and financial institutions	2,010	2,210
Retail customers	113,706	99,630
Loans to corporate clients	310,160	316,799
Loans to small and medium enterprises	34,466	28,876
Microlending	6,395	3,110
Debt instruments	13,643	14,887
	480,380	**465,512**
Interest expense		
Deposits from banks	(80)	(213)
Deposits from other customers	(259,889)	(279,229)
Liabilities evidenced by paper	(3,072)	(3,413)
Subordinated term debt	(8,607)	(8,340)
Perpetual debt	(11,583)	(11,583)
Hybrid debt	(15,403)	(8,468)
Lease agreements and other	(35)	(31)
	(298,669)	**(311,277)**
Net interest income	**181,711**	**154,235**

For 2013 the recognised interest income on individually impaired financial assets (loans and advances to customers) amounts to BGN 50,486 thousand (2012: BGN 48,186 thousand).

7. Net fee and commission income

In thousands of BGN

	2013	2012
Fee and commission income		
Letters of credit and guarantees	7,970	8,215
Payments transactions	12,276	9,858
Customer accounts	20,407	15,933
Cards business	28,152	24,953
Other	34,791	25,036
	103,596	**83,995**
Fee and commission expense		
Letters of credit and guarantees	(481)	(686)
Correspondent accounts	(964)	(746)
Cards business	(9,474)	(7,815)
Other	(902)	(444)
	(11,821)	**(9,691)**
Net fee and commission income	**91,775**	**74,304**

8. Net trading income

In thousands of BGN	2013	2012
Net trading gains/(losses) arise from:		
- Debt instruments	91	297
- Equity instruments	213	(131)
- Foreign exchange	9,077	8,373
Net trading income	**9,381**	**8,539**

9. Other operating income

In thousands of BGN	2013	2012
Other operating income arise from:		
- Debt instruments	2,428	2,303
- Equity instruments	-	510
- Operating income from management of loans acquired through business combination	3,979	-
- Other	255	6
Other operating income	**6,662**	**2,819**

10. General administrative expenses

In thousands of BGN	2013	2012
General and administrative expenses comprise:		
- Personnel cost	59,670	53,366
- Depreciation and amortisation	20,736	21,125
- Advertising	6,463	7,998
- Building rent expense	25,601	31,869
-Telecommunication, software and other computer maintenance	14,179	13,341
- Administration, consultancy, audit and other costs	34,674	32,323
General administrative expenses	**161,323**	**160,022**

Personnel costs include salaries, social and health security contributions under the provisions of the respective local legislation. At 31 December 2013 the total number of employees of the Group is 3,554 (31 December 2012: 2,859).

11. Impairment losses

In thousands of BGN	2013	2012
Write-downs		
Loans and advances to customers	(84,205)	(46,091)
Reversal of write-downs		
Loans and advances to customers	13,900	9,382
Net impairment losses	**(70,305)**	**(36,709)**

12. Income tax expense

In thousands of BGN	2013	2012
Current taxes	(3,867)	(3,946)
Deferred taxes (see note 22)	542	571
Income tax expense	**(3,325)**	**(3,375)**

Reconciliation between tax expense and the accounting profit is as follows:

In thousands of BGN	2013	2012
Accounting profit before taxation	**188,229**	**33,948**
Corporate tax at applicable tax rate (10% for 2013 and 10% for 2012)	18,823	3,395
Effect of tax rates of foreign subsidiaries and branches	(77)	(29)
Effect on gain on bargain purchase of subsidiary (non taxable)	(15,231)	-
Tax effect of permanent tax differences	6	122
Other	(196)	(113)
Income tax expense	**3,325**	**3,375**
Effective tax rate	1.77%	9.94%

13. Earnings per share

	2013	2012
Net profit attributable to shareholders *(in thousands of BGN)*	184,920	30,504
Weighted average number of ordinary shares *(in thousands)*	110,000	110,000
Earnings per share *(in BGN)*	**1.68**	**0.28**

The basic earnings per share, calculated in accordance with IAS 33, are based on the profit attributable to ordinary equity holders of the Bank. During 2013 as in the previous year, no conversion or option rights were outstanding. The diluted earnings per share, therefore, correspond to the basic earnings per share.

14. Cash and balances with central banks

In thousands of BGN	**2013**	**2012**
Cash on hand		
- In Bulgarian leva	113,176	87,631
- In foreign currencies	45,543	39,774
Balances with central banks	961,960	917,022
Current accounts and amounts with resident banks	14	109
Current accounts and amounts with foreign banks	226,862	96,353
Total	**1,347,555**	**1,140,889**

15. Financial assets held for trading

In thousands of BGN	**2013**	**2012**
Bonds, notes and other instruments issued by:		
Bulgarian government, assessed with BBB rating :		
- denominated in Bulgarian leva	3,897	3,517
- denominated in foreign currencies	7,281	110
Foreign government		
- government bonds	2,059	-
Other issuers – equity instruments (unrated)	3,186	2,926
Total	**16,423**	**6,553**

16. Available for sale investments

In thousands of BGN	**2013**	**2012**
Bonds, notes and other instruments issued by:		
Bulgarian government		
- denominated in Bulgarian leva	113,287	82,794
- denominated in foreign currencies	107,029	221,232
Foreign governments		
- treasury bills	143,151	370,822
- government bonds	32,613	19,582
Local authorities	97	-
Bulgarian banks	1,955	-
Foreign banks	19,220	26,480
Other issuers – equity instruments	6,288	5,709
Total	**423,640**	**726,619**

17. Financial assets held to maturity

Long-term securities held to maturity represent debt investments that the Group has the intent and ability to hold to maturity.

In thousands of BGN	2013	2012
Securities held to maturity issued by:		
Bulgarian government	-	34,652
Foreign governments	160,314	65,387
Foreign banks	18,344	18,731
Total	**178,658**	**118,770**

18. Loans and advances to banks and financial institutions

(a) Analysis by type

In thousands of BGN	2013	2012
Placements and other amounts due from banks	100,074	41,136
Receivables under resale agreements (see note 31)	13,658	-
Other	6,394	4,803
Total	**120,126**	**45,939**

(b) Geographical analysis

In thousands of BGN	2013	2012
Resident banks and financial institutions	16,827	2,197
Foreign banks and financial institutions	103,299	43,742
Total	**120,126**	**45,939**

19. Loans and advances to customers

In thousands of BGN	2013	2012
Retail customers		
- Consumer loans	389,356	295,486
- Mortgage loans	714,896	376,174
- Credit cards	231,090	212,811
Small and medium enterprises	686,239	316,788
Microlending	93,408	30,075
Corporate customers	4,141,595	3,478,134
Less allowance for impairment	(235,792)	(169,079)
Total	**6,020,792**	**4,540,389**

(a) Movement in impairment allowances

In thousands of BGN

Balance at 1 January 2013	**169,079**
Additional allowances	84,205
Amounts released	(13,900)
Write – offs	(3,580)
Effects of changes in foreign currencies rates	(12)
Balance at 31 December 2013	**235,792**

20. Property and equipment

In thousands of BGN	Land and buildings	Fixtures and fittings	Motor vehicles	Assets under construction	Leasehold improvements	Total
Cost						
At 1 January 2012	**12,915**	**120,638**	**6,113**	**27,269**	**60,405**	**227,340**
Additions	-	65	64	16,872	5	17,006
Depreciation elimination before revaluation	(3,360)	-	-	-	-	(3,360)
Revaluation	5,000	-	-	-	-	5,000
Foreign exchange differences	-	(4)	(2)	-	(6)	(12)
Disposals	-	(2,193)	(358)	(7)	(83)	(2,641)
Transfers	-	9,057	536	(13,484)	2,236	(1,655)
At 31 December 2012	**14,555**	**127,563**	**6,353**	**30,650**	**62,557**	**241,678**
Additions	-	195	55	5,857	36	6,143
Acquired trought business combination	1,882	3,516	-	1,617	679	7,694
Foreign exchange differences	-	(11)	(1)	-	(7)	(19)
Disposals	-	(2,519)	(327)	-	(1,649)	(4,495)
Transfers	1,341	11,107	319	(14,764)	1,295	(702)
At 31 December 2013	**17,778**	**139,851**	**6,399**	**23,360**	**62,911**	**250,299**
Depreciation						
At 1 January 2012	**4,017**	**78,705**	**5,264**	**-**	**20,112**	**108,098**
Foreign exchange differences	-	(8)	(1)	-	(5)	(14)
Charge for the year	448	13,940	404	-	3,931	18,723
Depreciation elimination before revaluation	(3,360)	-	-	-	-	(3,360)
On disposals	-	(2,169)	(358)	-	(82)	(2,609)
At 31 December 2012	**1,105**	**90,468**	**5,309**	**-**	**23,956**	**120,838**
Foreign exchange differences	-	(9)	-	-	(6)	(15)
Charge for the year	546	13,063	353	-	3,955	17,917
On disposals	-	(2,429)	(327)	-	(1,649)	(4,405)
At 31 December 2013	**1,651**	**101,093**	**5,335**	**-**	**26,256**	**134,335**
Net book value						
At 1 January 2012	**8,898**	**41,933**	**849**	**27,269**	**40,293**	**119,242**
At 31 December 2012	**13,450**	**37,095**	**1,044**	**30,650**	**38,601**	**120,840**
At 31 December 2013	**16,127**	**38,758**	**1,064**	**23,360**	**36,655**	**115,964**

The fair value of assets consisting land and buildings was determined by independent property assessors holding recognised professional qualification and recent experience in assessing property with similar location and category. The independent assessors determine the fair value of land and buildings owned by the Group every 12 months. As at 31 December 2013 the fair value of land and buildings was not significantly different from their balance sheet value as at that date. The fair value of land and buildings is categorised as Level 3 fair value on the basis of input data on the valuation technique used.

20. Property and equipment, continued

Valuation technique	Significant unobservable inputs	Connection between key unobservable inputs and fair value
1. Discounted cash flows: this valuation model takes into account the present value of cash flows generated by property, taking into account the expected growth of rental prices, the period required for cancellation, the level of occupancy, premiums such as periods in which no rent is paid and other expenses which are not paid by tenants. The expected net cash flows are discounted using discount rates adjusted for risk. Among other factors, when determining the discount rate, the quality of the building and its location are taken into account (first-rate or second-rate), as well as the creditworthiness of the tenant and the duration of the loan agreement.	1.Expected market growth of rent (2-3%, weighted average 2.6%). 2. Period for cancellation (6 months on average after each rental agreement). 3.Occupancy (90-95%, weighted average 92.5%). 4. Periods when no rent is paid (1 year for new rental agreement). 5. Risk adjusted discount rate (7.5-8%, weighted average 7.75%).	The fair value will increase (decrease) where: • the expected market growth of rent is higher (lower); • periods for cancellation are shorter (longer); • Occupancy is higher (lower); • the periods when no rent is paid are shorter (longer); or • the risk adjusted discount rate is lower (higher).
2. Market approach/Comparative approach. This method is based on the comparison of the property being evaluated to other similar properties which have been sold recently or which are available for sale. Using this method, the value of a given property is determined in direct comparison to other similar properties which have been sold in a period of time close to the time when the valuation is made. Based on detailed research, review and analysis of data from the property market, the value is formed and it is the most accurate indicator of market value. This method consists of using information about actual transactions in the real estate market in the last six months. Successful application of this method is only possible where a trustworthy database is available as regards actual transactions with properties similar to the property being valued. Information from real estate sites, local press and other such refers to future investment intentions of the seller and cannot be deemed a trustworthy source of information. When using such sites, the offer price for each analogous property is discounted at the valuator's discretion, but by no less than 5%.	1. Expected market growth of property (2-3%, weighted average 2.6%). 2. Time required to effect the sale (6 months on average after the offer is placed). 3. Transaction success rate (90-95%, weighted average 92.5%). 4. Location (1.0-1.05, weighted average 1.025). 5. Property status (1.0-1.1, weighted average 1.05).	The fair value will increase (decrease) where: • the expected market growth of property is higher (lower); • the period of time required for the sale is shorter (longer); • there is a change in the technical condition of the property

21. Intangible assets

In thousands of BGN	Software and licences	Greenhouse allowances	Goodwill	Total
Cost				
At 1 January 2012	**22,487**	**3,820**	**721**	**27,028**
Additions	19	-	-	19
Exchange differences on translating foreign operations	(4)	-	-	(4)
Disposals	(168)	-	-	(168)
Transfers	1,655	-	-	1,655
At 31 December 2012	**23,989**	**3,820**	**721**	**28,530**
Additions	149	-	-	149
Acquired trought business combination	3,955	-	-	3,955
Exchange differences on translating foreign operations	(3)	-	-	(3)
Disposals	(61)	-	-	(61)
Transfers	702	-	-	702
At 31 December 2013	**28,731**	**3,820**	**721**	**33,272**
Depreciation				
At 1 January 2012	**7,954**	**-**	**-**	**7,954**
Exchange differences on translating foreign operations	3	-	-	3
Charge for the year	2,402	-	-	2,402
On disposals	(168)	-	-	(168)
At 31 December 2012	**10,191**	**-**	**-**	**10,191**
Exchange differences on translating foreign operations	(1)	-	-	(1)
Charge for the year	2,819	-	-	2,819
At 31 December 2013	**13,009**	**-**	**-**	**13,009**
Net book value				
At 1 January 2012	**14,533**	**3,820**	**721**	**19,074**
At 31 December 2012	**13,798**	**3,820**	**721**	**18,339**
At 31 December 2013	**15,722**	**3,820**	**721**	**20,263**

22. Deferred Taxation

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 10%.

Deferred income tax balances as at 31 December 2012 are attributable to the following items:

In thousands of BGN	Assets	Liabilities	Net
Property, equipment and intangibles	-	3,482	3,482
Other items	(258)	341	83
Net tax (assets)/liabilities	**(258)**	**3,823**	**3,565**

Deferred income tax balances as at 31 December 2013 are attributable to the following items:

In thousands of BGN	Assets	Liabilities	Net Assets	Net Liabilities
Property, equipment and intangibles	(93)	3,066	(93)	3,066
Other items	(296)	412	45	71
Net tax (assets)/liabilities	**(389)**	**3,478**	**(48)**	**3,137**

Movements in temporary differences in 2013 are recognised, as follows:

In thousands of BGN	2012	Recognised in (profit) or loss for the period	Recognised in capital for the period	2013	
	Net			**Net assets**	**Net liabilities**
Property, equipment and intangibles	3,482	(509)	-	(93)	3,066
Other	83	(33)	66	45	71
Net tax (assets)/liabilities	**3,565**	**(542)**	**66**	**(48)**	**3,137**

23. Other assets

In thousands of BGN	2013	2012
Deferred expense	19,547	11,298
Gold bullion	10,502	10,847
Other assets	499,772	306,757
Total	**529,821**	**328,902**

As at 31 December 2013 under Other assets position there are assets obtained by taking possession of collateral, representing mainly real estate, for the amount of BGN 467,814 thousand (31 December 2012: BGN 286,274 thousand), measured at the lower of cost and net realisable value.

24. Due to credit institutions

In thousands of BGN	**2013**	**2012**
Term deposits	2,775	564
Payable on demand	2,527	2,016
Total	**5,302**	**2,580**

25. Due to other customers

In thousands of BGN	**2013**	**2012**
Retail customers		
- current accounts	756,292	504,682
- term and savings deposits	4,859,710	4,522,323
Corporate, state-owned and public institutions		
- current accounts	708,481	396,066
- term deposits	1,211,273	766,650
Total	**7,535,756**	**6,189,721**

26. Liabilities evidenced by paper

In thousands of BGN	**2013**	**2012**
Acceptances under letters of credit	5,763	2,564
Liabilities under repurchase agreements (see note 31)	15,870	20,352
Mortgage bonds	30,634	-
Other term liabilities	144,177	39,504
Total	**196,444**	**62,420**

Other term liabilities comprise mainly financing obtained from financial institutions through extension of loan facilities.

27. Subordinated term debt

As at 31 December 2013 the Bank has entered into three separate subordinated loan agreements. All these subordinated loan agreements are governed by English Law with funds raised outside the Republic of Bulgaria.

Subordinated term debt can be analysed as follows:

In thousands of BGN

Lender	Original principal amount	Orirginal maturity	Maturity date	Amortised cost as at 31 December 2013
Estrado Holding Ltd	9,779	10 years	01.03.2015	10,015
ING Bank NV/ Atlantic Forfaitierungs AG	9,779	10 years	22.04.2015	10,393
Hypo-Alpe-Adria Bank	3,912	10 years	14.04.2015	4,247
Total	**23,470**			**24,655**

The treatment of these liabilities for capital adequacy purposes as tier 2 capital is in accordance with the requirements of the local legislation. Any prepayment of subordinated debt prior to its final maturity is subject to written approval from the Bulgarian National Bank.

28. Perpetual debt

In thousands of BGN	Principal amount	Amortised cost as at 31 December 2013
Step-up guaranteed perpetual subordinated bonds EUR 27 mio	52,807	55,259
Step-up guaranteed perpetual subordinated bonds EUR 21 mio	41,073	44,533
Total	**93,880**	**99,792**

In thousands of BGN	Principal amount	Amortised cost as at 31 December 2012
Step-up guaranteed perpetual subordinated bonds EUR 27 mio	52,807	55,115
Step-up guaranteed perpetual subordinated bonds EUR 21 mio	41,073	44,469
Total	**93,880**	**99,584**

The issue of the step-up subordinated bonds by First Investment Finance B.V., a limited liability company registered under the laws of the Netherlands, a subsidiary 100% owned by the Bank was fully guaranteed by the Bank. The terms and conditions of the subordinated bonds fully comply with Ordinance 8 on Capital Adequacy of Credit Institutions issued by BNB. The amounts received for the perpetual subordinated bonds are included in tier 2 capital after respective permissions by the Bulgarian National Bank.

29. Hybrid debt

In thousands of BGN	Principal amount	Amortised cost as at 31 December 2013
Hybrid debt with principal EUR 40 mio	78,233	84,736
Hybrid debt with principal EUR 60 mio	117,350	120,515
Total	**195,583**	**205,251**

In thousands of BGN	Principal amount	Amortised cost as at 31 December 2012
Hybrid debt with principal EUR 40 mio	78,233	84,244
Hybrid debt with principal EUR 20 mio	39,117	39,657
Total	**117,350**	**123,901**

In March 2011 the Bank issued a hybrid instrument (bond issue) and, after obtaining permission from the Bulgarian National Bank, included it as Tier 1 capital pursuant to Art. 3a of Ordinance 8 on Capital Adequacy of Credit Institutions. The Bank placed the bond issue under private subscription with a total nominal and issue value of EUR 20,000 thousand, constituting the first tranche of a bond issue for up to EUR 40,000 thousand. In June 2012 the Bank issed the second tranche of the instrument with nominal value of EUR 20,000 thousand, which after obtaining permission from the Bulgarian National Bank was included as Tier 1 capital.

In November 2012 the Bank issued a hybrid instrument (bond issue) and, after obtaining permission from the Bulgarian National Bank, included it as Tier 1 capital pursuant to Art. 3a of Ordinance 8 on Capital Adequacy of Credit Institutions. The Bank placed the bond issue under private subscription with a total nominal and issue value of EUR 20,000 thousand, constituting the first tranche of a bond issue for up to EUR 60,000 thousand. In November 2013 the Bank issued the second and the third tranches of the instrument with total nominal value of EUR 40,000 thousand, which after obtaining permission from the Bulgarian National Bank were included as Tier 1 capital.

The bonds under both instruments are registered, dematerialized, interest-bearing, perpetual, unsecured, freely transferable, non-convertible, deeply subordinated and without incentive to redeem.

30. Other liabilities

In thousands of BGN	2013	2012
Liabilities to personnel	2,782	2,277
Other payables	11,091	4,581
Total	**13,873**	**6,858**

31. Repurchase and resale agreements

The Group raises funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate. Repurchase agreements are commonly used as a tool for short-term financing of interest-earning assets, depending on the prevailing interest rates. At 31 December 2013 assets sold under repurchase agreements are as follows:

In thousands of BGN	Fair value of underlying assets	Carrying amount of corresponding liabilities
Bulgarian government securities	15,909	15,870
Total	**15,909**	**15,870**

31. Repurchase and resale agreements, continued

At 31 December 2012 assets sold under repurchase agreements were as follows:

In thousands of BGN	Fair value of underlying assets	Carrying amount of corresponding liabilities
Other government securities	20,424	20,352
Total	**20,424**	**20,352**

The Group also purchases financial instruments under agreements to resell them at future dates ("reverse repurchase agreements"). The seller commits to repurchase the same instruments at an agreed future date. Reverse repurchases are entered into as a facility to provide funds of customers.

At 31 December 2013 assets purchased subject to agreements to resell were as follows:

In thousands of BGN	Fair value of assets held as collateral	Carrying amount of corresponding receivables
Bulgarian government securities	13,850	13,658
Total	**13,850**	**13,658**

At 31 December 2012 there were no outstanding reverse repurchase agreements.

32. Capital and reserves

(a) Number and face value of registered shares as at 31 December 2013

As at 31 December 2013 the registered share capital of the Bank is BGN 110,000,000 divided into 110,000,000 ordinary dematerialized shares with voting rights of BGN 1 par value each. All the shares have been fully paid-up.

The share capital of the Bank was increased from BGN 100,000,000 to BGN 110,000,000 as a result of the successful IPO of new 10,000,000 dematerialized shares through the Bulgarian Stock Exchange – Sofia and was registered at the Commercial Register of Sofia City Court on 4 June 2007. In order to facilitate the IPO and prior to its launching the par value of the Bank's shares was reduced from BGN 10 to BGN 1 by a decision of the General Meeting of the Shareholders without affecting the aggregate amount of the share capital and the individual shareholdings.

(b) Shareholders

The table below shows those shareholders of the Bank holding shares as at 31 December 2013 together with the number and percentage of total issued shares.

	Number of shares	% of issued share capital
Mr. Ivailo Dimitrov Mutafchiev	31,830,000	28.94
Mr. Tzeko Todorov Minev	31,830,000	28.94
Legnano Enterprise Limited Cyprus	8,450,000	7.68
Domenico Ventures Limited, British Virgin Islands	10,695,000	9.72

Rafaela Consultants Limited, British Virgin Islands	10,695,000	9.72
Other shareholders (shareholders holding shares subject to free trade on the Bulgarian Stock Exchange – Sofia)	16,500,000	15.00
Total	**110,000,000**	**100.00**

32. Capital and reserves, continued

(b) Shareholders, continued

Currently all newly issued shares plus the part of the existing shares held by First Financial Brokerage House Ltd. sold to new investors under the IPO (a total of 16,500,000 shares) are freely traded on the floor of the Bulgarian Stock Exchange – Sofia.

(c) Statutory reserve

Statutory reserves comprise amounts appropriated for purposes defined by the local legislation. Under Bulgarian law, the Bank is required to allocate at least 1/10 of its annual profit as statutory reserves until their aggregate amount reaches 1/10 of the Banks' share capital.

In 2013, as in the previous year, the Bank has not distributed dividends.

33. Commitments and contingent liabilities

(a) Memorandum items

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to two years.

The contractual amounts of commitments and contingent liabilities are set out in the following table by category. The amounts reflected in the table represent the maximum accounting loss that would be recognised at the end of the reporting period if counterparties failed completely to perform as contracted and any collateral or security proved to be of no value.

In thousands of BGN	**2013**	**2012**
Bank guarantees		
- in BGN	207,941	178,464
- in foreign currency	157,745	198,306
Total guarantees	**365,686**	**376,770**
Unused credit lines	531,298	383,083
Promissory notes	811	2,448
Letters of credit	31,573	14,739
Total	**929,368**	**777,040**

These commitments and contingent liabilities have off balance-sheet credit risk because only organisation fees and accruals for probable losses are recognised in the statement of financial position until the commitments are fulfilled or expire. Most of the contingent liabilities and commitments will expire without being advanced in whole or in part. Therefore, the amounts in the table do not represent expected future cash flows.

At 31 December 2013 a provision liability for the amount of BGN 414 thousand has been recognised in respect to issued bank guarantees and unused credit lines.

As at the end of the reporting period there are no other significant commitments and contingencies which require additional disclosure.

At 31 December 2013 the extent of collateral held for guarantees and letters of credit is 100 percent.

34. Cash and cash equivalents

For the purposes of the cash flows statement, cash and cash equivalents comprises the following balances with less than 90 days original maturity:

In thousands of BGN	**2013**	**2012**
Cash and balances with central banks	1,347,555	1,140,889
Loans and advances to banks and financial institutions with maturity less than 90 days	74,625	33,289
Total	**1,422,180**	**1,174,178**

35. Average balances

The average carrying amounts of financial assets and liabilities are set out in the table below. The amounts are calculated by using a simple average of monthly balances for all instruments.

In thousands of BGN	**2013**	**2012**
FINANCIAL ASSETS		
Cash and balances with central banks	1,302,729	1,012,504
Financial assets held for trading	8,750	7,765
Available for sale investments	466,239	760,027
Financial assets held to maturity	158,310	88,717
Loans and advances to banks and financial institutions	62,027	69,741
Loans and advances to customers	4,918,801	4,381,081
FINANCIAL LIABILITIES		
Due to credit institutions	3,913	6,531
Due to other customers	6,531,303	5,813,478
Liabilities evidenced by paper	94,104	80,048
Subordinated term debt	54,175	52,222
Perpetual debt	98,915	98,708
Hybrid debt	136,017	69,885

36. Related party transactions

Parties are considered to be related if one party controls or exercises significant influence over the other party on making financial or operational decisions, or the parties are under common control.
A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and other transactions. These transactions are carried out on

commercial terms and at market rates. The volume of these transactions and outstanding balances at the end of respective periods are as follows:

36. Related party transactions, continued

Type of related party	Parties that control or manage the Bank		Enterprises under common control	
In thousands of BGN	**2013**	**2012**	**2013**	**2012**
Loans				
Loans outstanding at beginning of the period	1,349	1,674	24,456	23,161
Loans issued/(repaid) during the period	(118)	(325)	(7,180)	1,295
Loans outstanding at end of the period	1,231	1,349	17,276	24,456
Deposits and other financing received				
Deposits at beginning of the period	12,369	11,466	21,804	12,795
Deposits received/(repaid) during the period	3,785	903	(19,003)	9,009
Deposits at end of the period	16,154	12,369	2,801	21,804
Deposits placed				
Deposits at beginning of the period	-	-	3,989	3,916
Deposits placed/(matured) during the period	-	-	(3,989)	73
Deposits at end of the period	-	-	-	3,989
Off-balance sheet commitments issued by the Group				
At beginning of the period	1,841	1,843	252	2,116
Granted/(expired)	(234)	(2)	(18)	(1,864)
At the end of the period	1,607	1,841	234	252

The key management personnel of the Bank received remuneration of BGN 4,547 thousand for 2013.

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37. Subsidiary undertakings

(a) First Investment Finance B.V.

In April 2003 the Bank created a special purpose entity, incorporated in the Netherlands, First Investment Finance B.V., which is wholly owned by the Bank. Its purpose is to accomplish a narrow and well-defined objective of receiving loans from foreign financial institutions and attracting investors by issuing bonds and other financial instruments, guaranteed by the Bank, the proceeds from which are used to finance the operations of the Bank. The authorised share capital of the company amounts to EUR 90 thousand, divided into 900 common shares of EUR 100 each. Issued and paid up are 180 shares. The Bank consolidates its investment in this company.

(b) Diners Club Bulgaria AD

In May 2005 the Bank acquired 80% of the share capital of Diners Club Bulgaria AD. The company was incorporated in 1996 as a franchise and processing agent of Diners Club International. As at 31 December 2013 the registered share capital of the company is BGN 610 thousand, and the Bank's shareholding is 94.79%. The Bank consolidates its investment in the company.

37. Subsidiary undertakings, continued

(c) First Investment Bank − Albania Sh.a.

In April 2006 the Bank founded First Investment Bank - Albania Sh.a. with a 99.9998% shareholding. On 27 June 2007 First Investment Bank – Albania was granted a full banking licence by the Bank of Albania, and on 1 September 2007 effectively took over the activities of the former FIB-Tirana Branch by assuming all its rights and obligations, assets and liabilities.

As at 31 December 2013 the share capital of First Investment Bank − Albania Sh.a. is EUR 11,975 thousand, fully paid in and the Bank's shareholding is 100%. The Bank consolidates its investment in the company.

(d) Debita OOD and Realtor OOD

Acting jointly the Bank and First Financial Brokerage House OOD (FFBH) set up two new companies Debita OOD and Realtor OOD, which were entered in the Commercial Registry in January 2010. Each of the two companies has a capital of BGN 150,000, which is divided into shares with nominal value of BGN 100 in the following way:

1. Debita OOD – 70% or 1,050 shares held by the Bank and 30% or 450 shares held by FFBH.

2. Realtor OOD – 51% or 765 shares held by the Bank and 49% or 735 shares held by FFBH.

The affiliate companies are set up with the aim to act as servicing companies in accordance to Article 18 of the Special Purpose Investment Companies Act. Debita OOD is engaged in the following activities - acquisition, servicing, management and transactions with receivables, as well as consultancy services in relation to such operations, and Realtor OOD - in management, servicing and maintenance of real estate, organization of construction and renovation of buildings, and consultancy services related to real estate. The Bank consolidates its investments in the companies.

(e) Fi Health Insurance AD

In the second half of 2010 the Bank acquired a majority stake capital of Health Insurance Fund Fi Health AD (formerly Health Insurance Fund Prime Health AD). In June 2013 following a decision by Financial Supervision Commission the company was given a licence to perform insurance activities. The name of the company was changed to Fi Health Insurance AD. It is engaged in insurance business – offering "Illness" and "Accident" insurance policies. As at 31 December 2013 the registered share capital of the company is BGN 5,000 thousand and the Bank's shareholding is 59.10%. The Bank consolidates its investment in the company.

(f) Framas Enterprises Limited

In November 2010 the Bank acquired 10,000 shares, representing 100% of the issued share capital of Framas Enterprises Limited, British Virgin Islands, with the view of providing auxiliary services pursuant to Article 2 (4) of the Law on Credit Institutions. The Bank consolidates its investment in the company.

(g) Balkan Financial Services EAD

In February 2011 the Bank acquired 100 shares representing 100% of the capital of Balkan Financial Services OOD. The company is engaged in consultancy services related to implementation of financial information systems and software development. In January 2012 the company was transformed in a single member joint stock company. As at 31 December 2013 the registered share capital of the

37. Subsidiary undertakings, continued

(g) Balkan Financial Services EAD, continued

company is BGN 50 thousand, and the Bank's shareholding is 100%. The Bank consolidates its investment in the company.

(h) Turnaround Management EOOD , Creative Investment EOOD and Lega Solutions EOOD

In the first half of 2013 the Bank established the companies Turnaround Management EOOD, Creative Investment EOOD and Lega Solutions EOOD as 100% owned by the Bank. The registered capital of each of the companies is the minimum required by law (BGN 2) and they are engaged in production and trade of commodities and services in Bulgaria and abroad (Turnaround Management EOOD, Creative Investment EOOD), acquisition, management and sale of assets, processing of information, financial advisory services (Lega Solutions EOOD) and other activities. The Bank consolidates its investments in the companies.

(i) Unionbank EAD

On 10 October 2013 the Bank has acquired 122 464 965 MKB Unionbank EAD voting shares constituting 100 % of all MKB Unionbank EAD shares. After the acquisition the name of the subsidiary was changed from MKB Unionbank EAD to Unionbank EAD. The principal activities of Unionbank EAD include receiving deposits or other refundable amounts and extension of loans or other financing at its own account and for its own risk. In performance of its activities the subsidiary carries out other commercial transactions stated in its credit institution license in accordance with legal requirements. As a result of the acquisition the Group increased its market share, recognised a gain on bargain purchase of BGN 152,310 thousand and expects to reduce costs through economies of scale. As at 30 September 2013 the total recognised amount of the acquired identifiable assets was BGN 1,506,776 thousand (including BGN 1,132,276 thousand loans and advances to customers) and of the liabilities assumed BGN 1,308,030 thousand (including BGN 985,960 thousand deposits from customers).

(i) Consideration transferred

The consideration agreed for 100% of the shares amounts to EUR 24,000,000 (twenty four million Euros). According to IFRS 3 *Business combinations* the consideration transferred is measured at fair value.

37. Subsidiary undertakings, continued

(i) Unionbank EAD, continued

(ii) Identifiable assets acquired and liabilities assumed

In thousands of BGN

ASSETS	30 Sep 2013 carrying amount	Adjustment	30 Sep 2013 fair value
Cash and balances with BNB	266,460	-	266,460
Financial assets held for trading	7,026	-	7,026
Derivative financial intruments	4	-	4
Available for sale investments	48,390	-	48,390
Loans and advances to banks and financial institutions	22,276	-	22,276
Loans and advances to customers	1,129,864	2,412	1,132,276
Property, equipment and intangible assets	11,649	-	11,649
Deferred tax assets	474	(353)	121
Other assets	18,779	(205)	18,574
Total assets	**1,504,922**	**1,854**	**1,506,776**
LIABILITIES			
Due to credit institutions	6,716	-	6,716
Derivative financial instruments	5	-	5
Due to other customers	986,461	(501)	985,960
Liabilities evidenced by paper, *including:*	310,921	(802)	310,119
Mortgage bond	*29,322*	*882*	*30,204*
Other borrowings	*281,599*	*(1,684)*	*279,915*
Other liabilities	5,230	-	5,230
Total liabilities	**1,309,333**	**(1,303)**	**1,308,030**
Net assets	**195,589**	**3,157**	**198,746**
Present value of consideration transferred			**46,436**
Bargain purchase			**152,310**

37. Subsidiary undertakings, continued

(i) Unionbank EAD, continued

(iii) Measurement of fair values

According to IFRS 3 *Business combinations* the identifiable assets acquired and liabilities assumed are measured at their acquisition date fair values. The valuation techniques used for measuring the fair values of material acquired assets and liabilities are as follows.

Assets acquired / liabilities assumed	Valuation technique
Loan portfolio	Income approach The Income approach is predicated upon the value of future cash flows that an asset will generate over its remaining useful life. The Income method provides an indication of value by converting the future cash flows to a single current capital value. Capitalization involves the conversion of income into a capital sum through the application of an appropriate discount rate. The Income approach is considered as the most appropriate method for valuation of the loan portfolio of Unionbank EAD as at 30 September 2013 due to availability of information for the value of future cash flows that the loans will generate over their remaining useful life. In order to estimate the future cash flows that the loans will generate over the remaining loan term, the loan portfolio is divided into segments corresponding to their risk classification groups. The discount rate used for the fair value estimation of the loan portfolio of Unionbank is based on BNB statistics.
Placements	Income approach The Income approach is considered as the most appropriate method for valuation of the placements of Unionbank EAD as at 30 September 2013 due to availability of information for the value of future cash flows that the placements will generate until maturity. The discount rate used for the fair value estimation of placements is based on the respective Euiribor.

Deposits	Income approach. The following assumptions have been applied in the estimation of the fair value of Unionbank's deposits: 1. Interest on term deposits accrues and is paid off at the end of the deposit term. 2. Book value on saving and current accounts approximates their fair value. The discount rate used for the estimation of fair value of the time deposits is based on BNB statistics.

37. Subsidiary undertakings, continued

(i) Unionbank EAD, continued

(iii) Measurement of fair values, continued

Borrowings and bond obligations	Income approach. The main assumptions that have been applied in the estimation of the fair value of Unionbank's debt obligations: 1. Interest on loans is paid periodically monthly or quarterly intervals, depending on the respective loan contract. 2. The debt obligations will be paid regularly and on time. No penalty interest will be due from Unionbank EAD. No prepayment option exists or will be exercised. 3. The mortgage bond issued by Unionbank EAD matures on 29 September 2014 and pays annual coupon of 5.75%. The discount rate used for the estimation of fair value of the Unionbank's debt is based on average yield on government bonds with comparable maturity.
Property and equipment	• Market comparison method. The Market comparison method involves direct comparison of the subject property with identical or similar assets for which price information is available. • Residual value method. The method is used to arrive at a value for a vacant site or a site or a building that is ripe for redevelopment and has developed construction project. It assumes that the process of development is a business, and by adopting this assumption it is possible to assess the value of land or land and buildings in their existing form, reflecting development potential, as part of the process. The Residual Method comprises the estimation of the value of the site or the buildings in a developed or redeveloped form (either by comparison or by the investment method), and, from this gross development value should be deducted all costs that will be incurred in putting the property into the form that will command the price. • Income method

	• Cost method. The cost method estimates value based on the cost of reproducing or replacing the valued property, less depreciation arising from physical and functional deterioration and economic obsolesence.
Assets held for sale	Market comparison method and residual value method.
Intangible assets	It is assumed that the book value of any intangible assets approximates its fair value, given the fact that First Investment Bank AD and Unionbank EAD will merge.

As at 31 December 2013 the share capital of the company is BGN 122,464,965 and the Bank's shareholding is 100%. The Bank consolidates its investment in the company. Unionbank EAD contributed profit of BGN 4,070 thousand over the last quarter of 2013.

On 29 November 2013 First Investment Bank AD and Unionbank EAD signed a contract for the merger of Unionbank EAD into First Investment Bank AD. On 14 December 2013, as legally required, the agreement was published in the commercial register in the lots of both banks. As at 31 December 2013 First Investment Bank AD and Unionbank EAD were preparing the documents necessary to effect the merger.

38. Subsequent events

(a) Change of the shareholding of the Bank

On 9 January 2014 the holders of shares in the Bank's capital, namely Rafaela Consultants Limited, Domenico Ventures Limited and Legnano Enterprises Limited transferred all their shares in the Bank to Mr. Ivailo Mutafchiev and Mr. Tseko Minev in equal portions. As a result of the completed share transfers, Rafaela Consultants Limited, Domenico Ventures Limited and Legnano Enterprises Limited no longer possess shares in the Bank's capital and each of Mr. Ivailo Mutafchiev and Mr. Tseko Minev will own 46 750 000 registered dematerialized shares of the Bank's share capital, i.e. the two shall own a total of 93 500 000 shares constituting 85% of the Bank's share capital.

As a result of their increased holding of the stock of First Investment Bank AD the major shareholders Mr. Ivailo Mutafchiev and Mr. Tseko Minev made a public offering for purchase of shares to all holders of shares in the Bank's capital in accordance with the requirements of the Public Offering of Securities Act.

The term for acceptance of the public offering ended on 4 March 2014 with no individuals or entities holding shares in the Bank's capital having registered their interest in selling shares to the major shareholders in First Investment Bank AD.

(b) Merger of Unionbank EAD into First Investment Bank AD

On 4 March 2014 the merger of Unionbank EAD into First Investment Bank AD was listed in the Commercial Register. As per the law, with this listing in the Register Unionbank EAD has been terminated and all its rights and obligations have been transferred to the Bank as its universal successor. The procedure for IT and technological merger and the merger for the accounting purposes of the two banks was also completed on 4 March 2014.