FIRST INVESTMENT BANK AD

Consolidated statement of comprehensive income for the three months ended 31 March 2015

unaudited

	three months ended on 31 March 2015	three months ended on 31 March 2014
Interest income	122,072	134,267
Interest expense	(58,402)	(75,980)
Net interest income	**63,670**	**58,287**
Fee and commission income	23,225	24,466
Fee and commission expense	(4,922)	(4,833)
Net fee and commission income	**18,303**	**19,633**
Net trading income	**3,392**	**3,258**
Other net operating income	**3,205**	**4,794**
TOTAL INCOME FROM BANKING OPERATIONS	**88,570**	**85,972**
Administrative expenses	(45,874)	(49,999)
Allowance for impairment	(33,866)	(26,650)
Other expenses, net	(6,043)	(5,749)
PROFIT BEFORE TAX	**2,787**	**3,574**
Income tax expense	**(194)**	**(822)**
GROUP PROFIT AFTER TAX	**2,593**	**2,752**
Other comprehensive income for the period		
Items which should or may be reclassified as profit or loss		
Exchange rate differences from translation of foreign operations	(29)	(10)
Revaluation reserve on available for sale investments	6,641	1,617
Total other comprehensive income	**6,612**	**1,607**
TOTAL COMPREHENSIVE INCOME	**9,205**	**4,359**
Net profit attributable to:		
Ordinary equity holders	2,600	2,764
Non-controlling interest	(7)	(12)
Total comprehensive income attributable to:		
Ordinary equity holders	9,212	4,371
Non-controlling interest	(7)	(12)
Basic and diluted earnings per share (BGN)	**0.02**	**0.03**

Dimitar Kostov
Executive Director

Vassil Christov
Executive Director

Jivko Todorov
Chief Financial Officer

FIRST INVESTMENT BANK AD
Consolidated statement of the financial position as at 31 March 2015

unaudited *in BGN '000*

	31 March 2015	31 December 2014
ASSETS		
Cash and balances with Central Banks	1,679,225	1,651,945
Financial assets held for trading	8,900	9,646
Available for sale investments	670,861	486,975
Financial assets held to maturity	108,633	63,737
Loans and advances to banks and other financial institutions	97,080	112,078
Loans and advances to customers	5,819,533	5,810,328
Property and equipment	106,961	109,025
Intangible assets	17,495	18,265
Derivatives held for risk management	4,833	4,019
Deferred tax assets	49	46
Current tax assets	131	800
Repossessed assets	542,064	521,605
Other assets	66,516	39,413
TOTAL ASSETS	**9,122,281**	**8,827,882**
LIABILITIES AND CAPITAL		
Due to banks	4,625	1,393
Due to other customers	7,097,545	6,699,677
Ministry of Finance deposit	756,166	901,844
Liabilities evidenced by paper	205,006	177,544
Perpetual debt	98,133	99,999
Hybrid debt	195,469	195,447
Deferred tax liabilities	3,250	3,336
Current tax liabilities	1,103	920
Other liabilities	24,882	20,825
TOTAL LIABILITIES	**8,386,179**	**8,100,985**
Issued share capital	110,000	110,000
Share premium	97,000	97,000
Statutory reserve	39,865	39,865
Revaluation reserve on available for sale investments	13,755	7,114
Revaluation reserve on property	4,500	4,500
Reserve from translation of foreign operations	(2,875)	(2,846)
Retained earnings	471,545	468,945
SHAREHOLDERS' EQUITY	**733,790**	**724,578**
Non-controlling interest	2,312	2,319
TOTAL GROUP EQUITY	**736,102**	**726,897**
TOTAL LIABILITIES AND GROUP EQUITY	**9,122,281**	**8,827,882**

Dimitar Kostov
Executive Director

Vassil Christov
Executive Director

Jivko Todorov
Chief Financial Officer

FIRST INVESTMENT BANK AD
Consolidated statement of changes in equity for the three months ended 31 March 2015
unaudited

in BGN '000

	Issued share capital	Share premium	Retained earnings	Revaluation reserve on available for sale investments	Revaluation reserve on property	Reserve from translation of foreign operations	Statutory reserve	Non-controlling interest	Total
Balance as at 1 January 2014	**110,000**	**97,000**	**438,171**	**3,504**	**4,500**	**(2,854)**	**39,865**	**2,329**	**692,515**
Total comprehensive income for the period									
Net profit for the three months ended on 31 March 2014	-	-	2,764	-	-	-	-	2,764	5,528
Other comprehensive income for the period									
Revaluation reserve on available for sale investments	-	-	-	1,617	-	-	-	-	1,617
Reserve from translation of foreign operations	-	-	-	-	-	(10)	-	-	(10)
Balance as at 31 March 2014	**110,000**	**97,000**	**440,935**	**5,121**	**4,500**	**(2,864)**	**39,865**	**5,093**	**699,650**
Balance as at 1 January 2015	**110,000**	**97,000**	**468,945**	**7,114**	**4,500**	**(2,846)**	**39,865**	**2,319**	**726,897**
Total comprehensive income for the period									
Net profit for the three months ended on 31 March 2015			2,600					(7)	2,593
Other comprehensive income for the period									
Revaluation reserve on available for sale investments				6,641					6,641
Reserve from translation of foreign operations						(29)			(29)
Balance as at 31 March 2015	**110,000**	**97,000**	**471,545**	**13,755**	**4,500**	**(2,875)**	**39,865**	**2,312**	**736,102**

Dimitar Kostov
Executive Director

Vassil Christov
Executive Director

Jivko Todorov
Chief Financial Officer

FIRST INVESTMENT BANK AD
Consolidated statement of cash flows for the three months ended 31 March 2015
unaudited

In BGN '000

	three months ended on 31 March 2015	three months ended on 31 March 2014
Net cash flow from operating activities		
Net profit	2 593	2 752
Adjustment for non-cash items		
Allowance for impairment	33 866	26 650
Net interest income	(63 670)	(58 287)
Depreciation and amortization	4 475	5 236
Income tax expense	194	822
(Profit) from sale and write-off of tangible and intangible fixed assets, net	(104)	(13)
(Profit) from sale of other assets, net	(47)	(95)
	(22 693)	**(22 935)**
Change in operating assets		
Decrease in financial instruments held for trading	719	7 970
(Increase) in available for sale investments	(177 833)	(39 569)
(Increase) in loans and advances to banks and financial institutions	(1 314)	(12 337)
(Increase) in loans to customers	(32 164)	(2 625)
(Increase)/decrease in other assets	(27 277)	3 693
	(237 869)	**(42 868)**
Change in operating liabilities		
Increase in due to banks	3 232	(2 480)
Increase in amounts owed to other depositors	243 253	103 724
Net increase in other liabilities	3 951	3 678
	250 436	**104 922**
Interest received	91 911	69 318
Interest paid	(50 854)	(56 355)
Profit tax paid	(732)	(382)
NET CASH FLOW FROM OPERATING ACTIVITIES	**30 199**	**51 699**
Cash flow from investing activities		
(Purchase) of tangible and intangible fixed assets	(1 821)	(6 087)
Sale of tangible and intangible fixed assets	284	23
Other assets	(9)	544
(Increase) in investments	(44 691)	(47 319)
NET CASH FLOW FROM INVESTING ACTIVITIES	**(46 237)**	**(52 839)**
Financing activities		
Payment of subordinated term debt	-	(20 709)
Increase in borrowings	27 006	4 035
NET CASH FLOW FROM FINANCING ACTIVITIES	**27 006**	**(16 674)**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**10 968**	**(17 814)**
ПАРИЧНИ СРЕДСТВА В НАЧАЛОТО НА ПЕРИОДА	**1 737 230**	**1 422 180**
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	**1 748 198**	**1 404 366**

Dimitar Kostov
Executive Director

Vassil Christov
Executive Director

Jivko Todorov
Chief Financial Officer

ADDENDUM TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS OF FIRST INVESTMENT BANK AD AS AT 31.03.15

NOTES

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 Bulgarian legislation.

Following the successful Initial Public Offering of new shares at the Bulgarian Stock Exchange – Sofia, on June 13th 2007 the Bank was registered as a public company in the Register of the Financial Supervision Commission pursuant to the provisions of the Law on the Public Offering of Securities.

The consolidated financial statements of the Bank as at and for the quarter ended 31 March 2015 comprise the Bank and its subsidiaries, together referred to as the "Group".

The Group has foreign operations in Cyprus (Cyprus Branch) and Albania (subsidiary).

(b) Statement of compliance

These condensed interim financial statements were drawn up in accordance with IAS 34: Interim Financial Reporting.

(c) Presentation

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. Other financial assets and liabilities and non-financial assets and liabilities are stated at amortised cost or historical cost convention.

2. Significant accounting policies

The accounting policy applied by the Group in the preparation of these interim condensed financial statements is the same as the one applied in the preparation of the last annual financial statements for the year ended on 31 December 2014.

(a) Income recognition

(i) Interest income and expense

Interest income and expense is recognised in the profit or loss as it accrues, taking into account the effective yield of the asset (liability) or an applicable floating rate. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The calculation of the effective interest rate includes all fees paid or received as well as discount and premiums which are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

(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 includes those gains and losses arising 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 income is established. Usually this is the ex-dividend date for equity securities.

(b) Basis of consolidation

(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. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

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.

Negative goodwill arising on acquisition is re-assessed and any excess remaining after the reassessment is recognised in the income statement.

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

2. Significant accounting policies, continued

(b) Basis of consolidation, continued

(i) Business combinations, continued

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 interest

Non-controlling interest is measured at its proportionate share of the acquiree's identifiable net assets at the acquisition date.

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, they are recognised directly in equity.

(iii) Subsidiaries

Subsidiaries are those enterprises controlled by the Bank. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(iv) Control assessment over mutual funds

The Group has invested in several mutual funds. In order to assess the control level over those mutual funds, the Group focuses on the assessment of the overall economic interest in the fund (representing investment income) and the right to dismiss the fund management. The Investors do not have the right to dismiss the fund management for all funds in which they have invested. As a result of the assessment the Group has reached a conclusion to consolidate the following mutual funds: FIB Classic, FIB Avangarde and FIB Garant. These mutual funds and AMS Properties EOOD are not included in the consolidated financial statements of the Group for the year ended 31 December 2014, as they are considered immaterial both individually and in aggregate to the financial position, financial result and the cash flow of the Group for the same reporting period.

The assessment for consolidation of the mutual funds and the other entities is reconsidered at each reporting date.

(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 income, expenses, balances and transactions, and any unrealised income and expenses 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'). 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 assessed and monitored on the basis of its fair value. 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's management has the positive intention and ability to hold to maturity. Were the Group to sell or re-classify other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available for sale.

(iv) Available-for-sale

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

(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.

2. Significant accounting policies, continued

(d) Financial assets, continued

(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 this 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 principles

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 Bank 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.

2. Significant accounting policies, continued

(d) Financial assets, continued

(viii) Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when the Group transfers these rights in a transaction in which substantially all the risks and rewards of ownership of the financial assets are transferred to the buyer. 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 financial assets recognised in its statement of financial position, but retains either all or substantially all risks and rewards of the transferred asset. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised in the statement of financial position (an example of such transactions are repo deals).

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 the central bank and short-term highly liquid accounts and advances to banks with original maturity of up to three months.

(f) Investments

Investments that the Group holds for the purpose of short-term profit taking are classified as financial assets for trading. 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 (expenses).

2. Significant accounting policies, continued

(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 recognized in profit or loss over the period of the borrowings using the effective yield method.

The borrowings of the Group include Due to credit institutions, Due to customers, Ministry of Finance deposit and other borrowed funds.

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 of Assets

The carrying amounts of the Bank's assets are reviewed at each balance sheet date 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

Impairment loss on loans and receivables is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. If the interest rate for the loan is a floating interest rate, the loan is discounted at the current effective contractual interest rate. Short-term balances are not discounted. The calculation of the present value of estimated future cash flows reflects not only interest and principal payments, but also cash flows that may result from foreclosure less costs for obtaining and selling the collateral for a given exposure.

Loans and advances are presented net of specific and general allowances for impairment. The carrying amount of the asset is reduced through use of an allowance account. Specific allowance for impairment is accounted for loans for which there is objective evidence of impairment as a result of a past event that occurred after initial recognition of the asset. Objective evidence of impairment includes significant financial difficulty of the issuer or obligor; a breach of contract, such as a default or delinquency in interest or principal payments; it becoming probable that the borrower will enter bankruptcy; observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets. The portfolio allowance is accounted for decreasing the carrying amount of a portfolio of loans with similar credit risk characteristics, which are collectively assessed for impairment. The estimated cash flows for a group of similar assets are determined on the basis of past practice and historical loss experience for portfolios with comparable characteristics. Historical loss experience should be adjusted, on the basis of 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 recognized 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 directly.

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. 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 and equipment

Land and buildings are presented in the statement of financial position at their revalued amount which is the fair value of the asset as at the date of revaluation less any subsequent amortisation and depreciation and accumulated impairment losses. All others classes of items of property, plant and equipment are stated in the statement of financial position at their acquisition cost less accumulated depreciation and allowance for impairment.

Depreciation is calculated on a straight line basis at prescribed rates designed to decrease the cost or valuation of fixed assets over their expected useful lives. The annual rates of amortisation are as follows:

Assets	**%**
• Buildings	3 - 4
• Equipment	10 - 50
• Fixtures and fittings	10 - 15
• Motor 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	10 - 20
• Software and licences	8 - 50

2. Significant accounting policies, continued

(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 an reliable assessment of the amount due can be made. If the effect is material, provisions are determined by discounting the expected future cash 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 other borrowed funds. (Please refer to note 2(h))

(o) Off balance sheet commitments

In the ordinary course of its business, the Group enters into off-statement of financial position commitments such as guarantees and letters of credit. The Group recognizes provision for impairment on off-statement of financial position commitments when it has a present obligation as a result of a past event, when it is probable that an outflow of resources embodying economic benefit will be required to settle the obligation, and when a reliable estimate can be made of the obligation.

(p) Taxation

Tax on the profit for the year 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 statement of financial position date, 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 amounts for financial reporting purposes and the amounts 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.

2. Significant accounting policies, continued

(q) 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.

Information on the valuations and the valuation uncertainty, for which there is a significant risk of change as of 31 March 2015 are stated below and are related to the impairment of financial instruments, income tax and the following notes related to other elements of the financial statements:

- Note 5 - determining of the fair value of the financial instruments through valuation techniques, in which the input data for the financial assets and liabilities are not based on the available market information.
- Note 21 - determining of the fair value of land and buildings through valuation techniques, in which the input data for the assets are not based on available market information. fair value measurements using inputs for the asset that are not based on observable market data.

(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.

Individual impairment on loans and advances of the Group is based on the best assessment of the Management for the present value of future cash flows. When evaluating these cash flows the Management makes an assessment of the financial position of every borrower and the net realizable value of the collateral of the loan. Each impaired asset is assessed individually while the strategy for reimbursement and the evaluation of the cash flows, considered as reimbursable, are approved independently by the Credit Committee. Cash flows could be realized from loan repayments, sale of the collateral, operations with the collateral and others depending on the individual situation and the terms of the loan contract. The expected net realizable value of the collateral is regularly reviewed and it is based on a combination of internal appraisal of the fair value, conducted by internal appraisers, and external independent appraisal reports. The expected future cash flows are discounted at the initial effective interest rate of the financial asset.

Group impairment covers loan losses inherent to a loan portfolio with similar loan characteristics, when there is objective evidence, that it contains impaired loans, but specific impaired positions could still not be identified. In assessing the need for group impairment 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

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

(i) Impairment losses on loans and advances, continued

Portfolio impairment for collective credit risk is based on the historical experience of the Bank when calculating the probability of default of a regular loan, 40% expected loss given default and 1-year period for identification.

The accuracy of the impairment depends on the evaluation of the future cash flows when determining the individual impairment and on the assumptions made and the parameters used in the model when determining the group impairment.

(ii) Impairment of repossessed assets from collaterals

Assets accepted as collateral are recognized at the lower of the cost and the net realizable value. When evaluating the net realizable value of the assets the Management prepares several models for appraisal (e.g. discounted cash flows) and makes comparison to available market data (e.g. similar market transactions, offers from potential buyers).

(iii) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant estimates are required in determining the worldwide provision for income taxes. Many parts of Albanian and Cyprus tax legislation remain untested and there is uncertainty about the interpretation that the financial authorities may apply in a number of areas. The effect of this uncertainty cannot be quantified and will only be resolved as legislative precedents are set or when the official interpretations of the authorities are available. 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.

(r) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for the Bank's ordinary shares. Basic EPS is calculated by dividing the profit or loss for the period 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 granted to employees.

(s) Employee benefits

Defined contribution plans
A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. The Government of Bulgaria is responsible for providing pensions in Bulgaria under a defined contribution pension plan.

The Bank'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.

2. Significant accounting policies, continued

(s) Employee benefits, continued

The Bank has an obligation to pay certain amounts to each employee who retires with the Bank in accordance with Art. 222, § 3 of the Labor Code.

According to these regulations in the LC, when a labor contract of a bank's employee, who has acquired a pension right, is ended, the Bank is obliged to pay him compensations amounted to two gross monthly salaries. Where the employee has been with the same employer for the past 10 years, this employee is entitled to a compensation amounting to six gross monthly salaries. As at balance sheet date, the Management of the Bank estimates the approximate amount of the potential expenditures for every employee using the projected unit credit method.

For the last two years the Bank has prepared estimates for the due provisions for pensions and has not identified significant liabilities.

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 Bank 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.

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 employee, 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.

(t) Insurance Contracts

Classification of insurance contracts

Insurance contracts are those that transfer significant insurance risk from another party (insured party) over the Group. The Company defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an specific unpredictable future event which affects unfavorably the insured or the beneficiary.

Insurance risk is every risk, which is not financial risk. Financial risk is any risk related to probable future change in one or several of the following: interest, price of the security, market prices, currency prices, credit rating, credit index or other variable- if there are the non-financial variables, the variable is not specific for the counterparties. Insurance contracts may also transfer part of the financial risk.

Written premiums

Written premiums are recognized as income on the basis of the due premium from the insured individuals for the underwriting year, which begins during the financial year, or the due single premium installment for the total period of insurance coverage of the insurance contracts signed within the financial year. Gross written premiums are not recognized when future cash flows related to them are not guaranteed. Written premiums are presented gross of the due agents' commissions.

Reversed premiums

Reversed insurance premiums are insurance premiums for which there has been an violation of the General terms of the insurance contract or a change in the terms of the contract. Reversed premiums within the current year, related to policies written within the current year, decrease the Gross Written Premiums of the Group. Reversed premiums within the current year, related to policies written within the previous year, increase the Gross Written Premiums of the Group.

2. Significant accounting policies, continued

(t) Insurance contracts, continued

Unearned-premium reserve

The unearned premium reserve is formed to cover the claims and administrative expenses, which are expected to arise on the respective type of insurance contract after the end of the reporting period. The basis for calculation of the unearned premium reserve corresponds to the base for recognition of the Group's written premiums. The amount of the reserve is calculated under the precise day method, under which the premium is multiplied with a coefficient for deferral. The coefficient for deferral is calculated as a ratio between the number of the days within the following reporting period during which the conctract is valid to the total number of days during which the contract is valid.

Unexpired risk reserve

Unexpired risk reserve is formed to cover risks for the period between the end of reporting period and the date on which the insurance contract expires in order to cover the payments and expenses related to these risks which are expected to exceed the UPR formed.

Claims incurred

Claims incurred include claims paid and claims-handling expenses due within the financial year including the change in outstanding claims reserve.

Outstanding claims reserve

Outstanding claims reserve is calculated on the basis all claims from events incurred within the current and previous reporting periods, which have not been paid as of year-end. OCR also includes the total amount of incurred but not reported claims (IBNR), calculated as a percentage from the earned premiums for the financial year and the incurred claims.

Acquisition costs

Acquisition costs include accrued commission expense from agents and brokers.

(u) New standards and interpretations not yet effective

A number of new standards, amendments to standards and interpretations endorsed by the European Commission may be applied early for the interim three-month period ending on 31 March 2015, although they are not mandatory until a later period. These changes to IFRS have not been applied early in preparing these financial statements. The Bank does not plan to adopt these standards early.

Standards, interpretations and amendments to standards which have not been applied early – endorsed by the European Commission

- Annual improvements to IFRC, 2010-2012 cycle. The improvements introduce six amendments to six standards and make related amendments to other standards and interpretations. Most of these amendments become effective for annual periods beginning on or after 1 February 2015. These amendments are not expected to have a significant impact on the financial statements of the Bank.

- Amendments to IAS 19 – *Defined Benefit Plans: Employee Contributions*. Effective for annual periods beginning on or after 1 February 2015. These amendments are not expected to impact the financial statements because there are no defined benefit plans which include instalments from employees or third parties.

3. Segment Reporting

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

Reporting and measurement of segment assets and liabilities and segment revenues and results is based on the accounting policies set out in the accounting policy notes.

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, revenue and operating income is allocated based on the location of the Bank branch that generated the revenue. Segment assets and liabilities are allocated based on their geographical location.

in BGN '000	**Bulgarian operations**		**Foreign operations**		**Total**	
	three months ended on 31 March 2015	**three months ended on 31 March 2014**	**three months ended on 31 March 2015**	**three months ended on 31 March 2014**	**three months ended on 31 March 2015**	**three months ended on 31 March 2014**
Interest income	110,249	121,809	11,823	12,458	122,072	134,267
Interest expense	(57,270)	(74,038)	(1,132)	(1,942)	(58,402)	(75,980)
Net interest income	**52,979**	**47,771**	**10,691**	**10,516**	**63,670**	**58,287**
Fee and commission income	22,462	23,740	763	726	23,225	24,466
Fee and commission expense	(4,827)	(4,734)	(95)	(99)	(4,922)	(4,833)
Net fee and commission income	**17,635**	**19,006**	**668**	**627**	**18,303**	**19,633**
Net trading income	**3,296**	**3,197**	**96**	**61**	**3,392**	**3,258**
Administrative expenses	**(44,027)**	**(48,294)**	**(1,847)**	**(1,705)**	**(45,874)**	**(49,999)**
	31 March 2015	**31 December 2014**	**31 March 2015**	**31 December 2014**	**31 March 2015**	**31 December 2014**
Assets	**8,356,617**	**8,072,205**	**765,664**	**755,677**	**9,122,281**	**8,827,882**
Liabilities	**8,116,489**	**7,859,162**	**269,690**	**241,823**	**8,386,179**	**8,100,985**

The table below shows assets and liabilities and income and expense by business segments as at 31 March 2015.

in BGN '000

Business	**Assets**	**Liabilities**	**Interest income**	**Interest expense**	**Net fee and commission income**	**Net trading income**	**Other net operating income**
Commercial banking	4,523,556	1,777,271	81,180	(8,157)	8,988	-	1,680
Retail Banking	1,295,977	6,076,439	36,618	(46,313)	5,407	-	-
Card business	-	-	-	-	3,544	-	-
Treasury	2,533,161	24,899	4,274	(12)	37	3,392	1,525
Other	769,587	507,570	-	(3,920)	327	-	-
Total	**9,122,281**	**8,386,179**	**122,072**	**(58,402)**	**18,303**	**3,392**	**3,205**

4. Financial assets and liabilities

Accounting classification and fair values

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 are observable date for a given asset or liability. 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.

4. Financial assets and liabilities, continued
Accounting classification and fair values, continued

Such adjustments are derived from observable bid-ask spreads for similar instruments and adjusted for factors specific to the portfolio.

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 involving Risk Management division and Management 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, by 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.

4. Financial assets and liabilities, continued
Accounting classification and fair values, continued

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 The amounts are based on the amounts in the statement of financial position.

in BGN '000 **31 March 2015**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets held for trading	8,900	-	-	8,900
Available for sale investments	608,698	55,875	-	664,573
Derivatives held for risk management	3,247	1,586	-	4,833
Total	**620,845**	**57,461**	**-**	**678,306**

in BGN '000 **31 December 2014**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets held for trading	9,646	-	-	9,646
Available for sale investments	434,714	45,973	-	480,687
Derivatives held for risk management	3,463	556	-	4,019
Total	**447,823**	**46,529**	**-**	**494,352**

Capital investments amounting to BGN 6,288 thousand at 31 March 2015 and BGN 6,288 thousand at 31 December 2014 are presented in the statements at their acquisition cost, because their fair value cannot be reliably measured.

The tables below set out analysis of the fair values of financial instruments not recognised at fair value, classified by fair value hierarchy level framework categorising fair value measurement

31 March 2015	**Level 1**	**Level 2**	**Level 3**	**Total fair values**	**Total balance sheet value**
Assets					
Cash and balances with Central Banks	-	1,679,225	-	1,679,225	1,679,225
Financial assets held to maturity	59,199	49,189	-	108,388	108,633
Loans and advances to banks and other financial institutions	-	97,080	-	97,080	97,080
Loans and advances to customers	-	760,908	5,048,036	5,808,944	5,819,533
Total	**59,199**	**2,586,402**	**5,048,036**	**7,693,637**	**7,704,471**
Liabilities					
Due to banks	-	4,625	-	4,625	4,625
Due to other customers	-	1,860,484	5,256,935	7,117,419	7,097,545
Ministry of Finance deposit	-	-	749,981	749,981	756,166
Liabilities evidenced by paper	-	203,594	-	203,594	205,006
Perpetual debt	-	100,850	-	100,850	98,133
Hybrid debt	-	186,412	-	186,412	195,469
Total	**-**	**2,355,965**	**6,006,916**	**8,362,881**	**8,356,944**

31 December 2014	Level 1	Level 2	Level 3	Total fair values	Total balance sheet value
Assets					
Cash and balances with Central Banks	-	1,651,945	-	1,651,945	1,651,945
Financial assets held to maturity	45,091	18,452	-	63,543	63,737
Loans and advances to banks and other financial institutions	-	112,078	-	112,078	112,078
Loans and advances to customers	-	704,359	5,098,694	5,803,053	5,810,328
Total	**45,091**	**2,486,834**	**5,098,694**	**7,630,619**	**7,638,088**
Liabilities					
Due to banks	-	1,393	-	1,393	1,393
Due to other customers	-	1,899,357	4,822,211	6,721,568	6,699,677
Ministry of Finance deposit	-	-	889,977	889,977	901,844
Liabilities evidenced by paper	-	176,864	-	176,864	177,544
Perpetual debt	-	100,192	-	100,192	99,999
Hybrid debt	-	181,636	-	181,636	195,447
Total	**-**	**2,359,442**	**5,712,188**	**8,071,630**	**8,075,904**

5. Net interest income

in BGN '000	**Three months ended on 31 March 2015**	**Three months ended on 31 March 2014**
Interest income		
Accounts with and placements to banks and financial institutions	43	258
Retail Banking	34,989	35,081
Corporate customers	71,880	81,960
Small and medium enterprises	9,300	11,078
Microlending	1,629	2,184
Debt instruments	4,231	3,706
	122,072	**134,267**
Interest expense		
Deposits from banks	(2)	(3)
Deposits from other customers	(54,640)	(65,153)
Liabilities evidenced by paper	(823)	(1,292)
Subordinated term debt	0	(965)
Perpetual debt	(2,909)	(2,895)
Hybrid debt	(22)	(5,665)
Lease agreements and other	(6)	(7)
	(58,402)	**(75,980)**
Net interest income	**63,670**	**58,287**

6. Net fee and commission income

in BGN '000	**Three months ended on 31 March 2015**	**Three months ended on 31 March 2014**
Fee and commission income		
Letters of credit and guarantees	1,237	1,169
Payments transactions	3,305	3,786
Customer accounts	5,418	5,678
Card services	7,422	7,730
Other	5,843	6,103
	23,225	**24,466**
Fee and commission expense		
Letters of credit and guarantees	(59)	(27)
Card services	(3,705)	(3,649)
Payment systems	(396)	(519)
Other	(762)	(638)
	(4,922)	**(4,833)**
Net fee and commission income	**18,303**	**19,633**

The Group has made a reclassification of the fee and commission expenses on account of administrative expenses (see note 9) for a total of BGN 1,324 thousand compared to the financial statements at 31 March 2014 in order to present more accurate and clear comparative data.

7. Net trading income

in BGN '000	**Three months ended on 31 March 2015**	**Three months ended on 31 March 2014**
Net trading income arises from:		
- Debt instruments	75	518
- Equities	30	265
- Foreign exchange rate fluctuations	3,287	2,475
Net trading income	**3,392**	**3,258**

8. Other net operating income

in BGN '000	**Three months ended on 31 March 2015**	**Three months ended on 31 March 2014**
Other net operating income arising from:		
- Debt instruments	1,524	139
- Gain on administration of loans acquired through business combination	1,681	4,654
- other	0	1
Other net operating income	**3,205**	**4,794**

9. Administrative expenses

in BGN '000	**Three months ended on 31 March 2015**	**Three months ended on 31 March 2014**
General and administrative expenses comprise:		
- Personnel cost	15,884	18,331
- Depreciation and amortisation	4,475	5,236
- Advertising	3,577	2,531
- Building rent expense	8,248	9,144
-Telecommunication, software and other computer maintenance	2,584	2,630
- Administration, consultancy, audit and other costs	11,106	12,127
Total	**45,874**	**49,999**

10. Allowance for impairment

in BGN '000	**Three months ended on 31 March 2015**	**Three months ended on 31 March 2014**
Write-downs		
Loans and advances to customers	(51,717)	(28,966)
Reversal of write-downs		
Loans and advances to customers	17,851	2,316
Impairment, net	**(33,866)**	**(26,650)**

11. Other income/(expenses), net

	Three months ended on 31 March 2015	**Three months ended on 31 March 2014**
Net income from transactions and revaluation of gold and precious metals	244	(285)
Rental income	683	459
Income from sale of assets	153	106
Net earned insurance premiums	745	786
Premium contribution to deposit insurance schemes	(8,109)	(8,422)
Claims incurred	(478)	(395)
Other income/(expenses), net	719	2,002
Total	**(6,043)**	**(5,749)**

12. Earnings per share

	Three months ended on 31 March 2015	**Three months ended on 31 March 2014**
Net profit attributable to shareholders (in thousands of BGN)	2,600	2,764
Weighted average number of ordinary shares (in 000's)	110,000	110,000
Earnings per share (BGN)	**0.02**	**0.03**

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 the first three months of 2015 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.

13. Cash and balances with Central Banks

in BGN '000	**31 March 2015**	**31 December 2014**
Cash on hand		
- in BGN	88,636	117,419
- in foreign currency	39,065	48,192
Balances with Central Banks	868,277	840,589
Current accounts and amounts with local banks	20	16
Current accounts and amounts with foreign banks	683,227	645,729
Total	**1,679,225**	**1,651,945**

14. Financial assets held for trading

in BGN '000	**31 March 2015**	**31 December 2014**
Bonds and notes issued by:		
Bulgarian government, rated BBB-:		
- denominated in Bulgarian Levs	4,025	4,980
- denominated in foreign currencies	98	110
Foreign banks	1,567	1,367
Other issuers – equity instruments (unrated)	3,210	3,189
Total	**8,900**	**9,646**

15. Available for sale investments

In thousands of BGN	**31 March 2015**	**31 December 2014**
Bonds and notes issued by:		
Bulgarian Government		
- denominated in Bulgarian Levs	171,349	179,418
- denominated in foreign currencies	256,596	193,792
Foreign governments		
- treasury bills	52,705	5,144
- treasury bonds	127,998	56,309
Local authorities	51	51
Bulgarian banks	1,955	1,955
Foreign banks	53,919	44,018
Other issuers – equity instruments	6,288	6,288
Total	**670,861**	**486,975**

16. Financial assets held to maturity

in BGN '000	**31 March 2015**	**31 December 2014**
Securities held to maturity issued by:		
Foreign governments	87,869	44,257
Foreign banks	20,764	19,480
Total	**108,633**	**63,737**

17. Loans and advances to banks and other financial institutions

(a) Analysis by type

in BGN '000	**31 March 2015**	**31 December 2014**
Placements with banks	78,735	103,851
Receivables under resale agreements	12,868	-
Other	5,477	8,227
Total	**97,080**	**112,078**

(b) Geographical analysis

in BGN '000	31 March 2015	31 December 2014
Domestic banks and financial institutions	16,075	18,819
Foreign banks and other financial institutions	81,005	93,259
Total	**97,080**	**112,078**

18. Loans and advances to customers

in BGN '000	31 March 2015	31 December 2014
Retail Banking		
- Consumer loans	416,322	412,250
- Mortgage loans	634,536	654,449
- Credit cards	250,057	245,918
Small and medium enterprises	546,717	557,681
Microlending	92,042	88,984
Corporate customers	4,435,057	4,374,648
Allowance for impairment	(555,198)	(523,602)
Total	**5,819,533**	**5,810,328**

(a) Movement in impairment allowances

in BGN '000

Balance as at 1 January 2015	**523,602**
Additional allowances	51,717
Amounts released	(17,851)
Receivables written off through an allowance account	(2,270)
Balance as at 31 March 2015	**555,198**

19. Property and equipment

in BGN '000	Land and Buildings	Fixtures and fittings	Motor vehicles	Assets under Construction	Leasehold Improvements	Total
Cost						
At 1 January 2015	**17,550**	**142,110**	**6,825**	**26,285**	**64,713**	**257,483**
Additions		3		1,817		**1,820**
Exchange rates and other adjustments		-5	-1		-2	**-8**
Write - offs	-185		-84			**-269**
Transfers		1,177	1	-1,652	463	**-11**
At 31 March 2015	**17,365**	**143,285**	**6,741**	**26,450**	**65,174**	**259,015**
Amortisation						
At 1 January 2015	**2,261**	**110,435**	**5,374**	**-**	**30,388**	**148,458**
Exchange rates and other adjustments		**-4**			**-1**	**-5**
Начислена през годината	157	2,490	110		936	**3,693**
For write offs	-8		-84			**-92**
At 31 March 2015	**2,410**	**112,921**	**5,400**	**-**	**31,323**	**152,054**
Carrying amount						
At 31 March 2015	**14,955**	**30,364**	**1,341**	**26,450**	**33,851**	**106,961**
At 1 January 2015	**15,289**	**31,675**	**1,451**	**26,285**	**34,325**	**109,025**

20. Intangible assets

in BGN '000	Software and licences	Greenhouse allowances	Goodwill	Total
Cost				
At 1 January 2015	**29,272**	**3,820**	**721**	**33,813**
Additions	**1**			**1**
Exchange rates and other adjustments	**-1**			**-1**
Transfers	**11**			**11**
At 31 March 2015	**29,283**	**3,820**	**721**	**33,824**
Amortisation				
At 1 January 2015	**15,548**	**-**	**-**	**15,548**
Exchange rates and other adjustments	**-1**			**-1**
Accrued during the year	782			**782**
At 31 March 2015	**16,329**	**-**	**-**	**16,329**
Carrying amount				
At 31 March 2015	**12,954**	**3,820**	**721**	**17,495**
At 1 January 2015	**13,724**	**3,820**	**721**	**18,265**

21. Repossessed Assets

in BGN '000	31 March 2015	31 Dec 2014
Land	296,902	291,367
Buildings	226,454	212,527
Machines and equipment	17,903	16,906
Fixtures and fittings	805	805
Total	**542,064**	**521,605**

Repossessed assets acquired as collateral are measured at the lower of cost and net realisable value.

21a. Other assets

in BGN '000	31 March 2015	31 Dec 2014
Deferred expense	38,215	13,697
Gold	9,969	9,672
Other	18,332	16,044
Total	**66,516**	**39,413**

22. Due to banks

In thousands of BGN	31 March 2015	31 December 2014
Term deposits	1,812	-
Payable on demand	2,813	1,393
Total	**4,625**	**1,393**

23. Due to other customers

In thousands of BGN	31 March 2015	31 December 2014
Retail customers		
- current accounts	643,927	638,969
- term and savings deposits	5,432,512	5,090,022
Businesses and other non-financial institutions		
- current accounts	595,483	601,000
- term deposits	425,623	369,686
Total	**7,097,545**	**6,699,677**

23a Ministry of Finance deposit

With decision C(2014)8959 of 25.11.14 the European Commission, DG Competition, approved the provision of liquid support to First Investment Bank AD in the form of a deposit amounting to BGN 900 mln. for a period of 18 months and due date 28 May 2016.

In thousands of BGN	**31 March 2015**	**31 December 2014**
	756,166	**901,844**

24. Liabilities evidenced by paper

in BGN '000	**31 March 2015**	**31 December 2014**
Acceptances under letters of credit	23,038	23,337
Liabilities under repurchase agreements	20,274	-
Financing from financial institutions	146,047	137,778
Other term liabilities	15,647	16,429
Total	**205,006**	**177,544**

in BGN '000

Lender	**Interest rate**	**Maturity**	**Amortised cost as at 31.03.15**
State Fund Agriculture	1.97% - 2.00%	20.10.2015 - 15.02.2020	6,465
European Investment Fund – JEREMIE 2	0 % - 1.021%	31.12.2024	78,318
Bulgarian Bank for Development AD	3.50 - 5.00%	20.03.2017 - 30.03.2019	61,264
Total			**146,047**

in BGN '000

Lender	**Interest rate**	**Maturity**	**Amortised cost as at 31.12.14**
State Fund Agriculture	1.97% - 2.00%	06.03.2015 - 20.09.2019	6,524
European Investment Fund – JEREMIE 2	0 % - 1.22%	31.12.2024	68,495
Bulgarian Bank for Development AD	3.50 - 5.00%	20.03.2017 - 30.03.2019	62,759
Total			**137,778**

25. Perpetual debt

in BGN ‘000

	Principal amount	Interest rate	Amortised cost as at 31.12.2015
Step-up Guaranteed Perpetual Subordinated Bonds initial interest EUR 27 mio	52,807	12.50%	57,076
Step-up Guaranteed Perpetual Subordinated Bonds initial interest EUR 21 mio	41,073	11.625%	41,058
Total	**93,880**		**98,133**

in BGN ‘000

	Principal amount	Interest rate	Amortised cost as at 31.12.2014
Step-up Guaranteed Perpetual Subordinated Bonds initial interest EUR 27 mio	52,807	12.50%	55,391
Step-up Guaranteed Perpetual Subordinated Bonds initial interest EUR 21 mio	41,073	11.625%	44,608
Total	**93,880**		**99,999**

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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 and 100% owned by the Bank was fully guaranteed by the Bank. After the entry into force of Regulation 575/2013 (effective 1 January 2014) on prudential requirements for credit institutions and investment firms, the two Step-up Guaranteed Perpetual Subordinated Bonds are subject to grandfathering and as at 31.03.2015 are included in the tier 2 capital with 70% of their initial value.

26. Hybrid debt

in BGN ‘000

	Principal amount	Interest rate*	Amortised cost as at 31 March 2015
Hybrid debt with original principal EUR 40 mio	78,233	0 %	78,145
Hybrid debt with original principal EUR 60 mio	117,350	0 %	117,324
Total	**195,583**		**195,469**

in BGN ‘000

	Principal amount	Interest rate*	Amortised cost as at 31 December 2014
Hybrid debt with original principal EUR 40 mio	78,233	0 %	78,127
Hybrid debt with original principal EUR 60 mio	117,350	0 %	117,320
Total	**195,583**		**195,447**

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. 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 issued the second tranche of the instrument with a total amount of EUR 20,000 thousand and following permission from the Bulgarian National Bank included in its 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. 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.

The two hybrid instruments fully comply with the requirements of Regulation 575/2013 and are included in the additional tier 1 capital.

*With relation to Decision C (2014 8959)/25.11.14 of the European Commission regarding SA.39854 (2014/N) the accrual of interest on the hybrid instruments has been suspended until the aid has been repaid.

27. Other liabilities

in BGN '000	**31 March 2015**	**31 December 2014**
Liabilities to personnel	2,526	2,325
Insurance contract provisions	1,681	1,634
Other payables	20,675	16,866
Total	**24,882**	**20,825**

28. 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-bearing assets, depending on the prevailing interest rates.

At 31 March 2015 assets sold under repurchase agreements were as follows:

in BGN '000	**Fair value of underlying assets**	**Carrying amount of corresponding liabilities**
Bulgarian government securities	12,941	13,037
Other government securities	7,237	7,237
Total	**20,178**	**20,274**

At 31 December 2014 no assets were sold under repurchase agreements.

The Bank also purchases financial instrument under agreements to resell them at future dates (“reverse repurchase agreements“). The seller commits to repurchase the same or similar instruments at an agreed future date. Reverse repurchases are entered into as a facility to provide funds of customers. At 31 March 2015 assets purchased subject to agreements to resell them are as follows:

in BGN '000	**Fair value of underlying assets**	**Carrying amount of liabilities**
Bulgarian government securities	12,896	12,868
Total	**12,896**	**12,868**

At 31 December 2014 there were no assets purchased under repurchase agreements.

29. Shareholders

As at 31 December 2015 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 shares have been fully paid up.

The table below shows those shareholders of the Bank holding shares as at 31 March 2015 together with the number and percentage of total issued shares.

	Number of shares	% of issued share capital
Mr. Ivailo Dimitrov Mutafchiev	46,750,000	42.50
Mr. Tzeko Todorov Minev	46,750,000	42.50
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**

30. Commitments and contingent liabilities

Contingent liabilities

in BGN '000	31 March 2015	31 December 2014
Guarantee		
- in BGN	224,405	192,548
- in foreign currency	76,935	94,874
Total guarantees	**301,340**	**287,422**
Unused credit lines	461,793	458,524
Letters of credit	17,032	13,347
Other contingent liabilities	81,874	81,874
Total	**862,039**	**841,167**

31. Related party transactions

Type of related party	**Parties that control or manage the Bank**		**Enterprises under common control**	
in BGN '000	**31 March 2015**	**31 December 2014**	**31 March 2015**	**31 December 2014**
Loans	855	765	12,284	17,149
Deposits and loans received:	11,031	10,346	2,801	1,787
Deposits placed		-		-
Off-balance sheet commitments	2,490	2,117	982	968

During the first three months of 2015:

1. There were no unusual (in terms of amount, nature or timing) assets, liabilities, equity, net income and cash flows.
2. There were no unusual changes in contingent assets and liabilities since the last annual financial statements.
3. There were not issued, repaid or repurchased capital instruments.
4. No dividends were accrued or paid.

Executive Director:

signed

D. KOSTOV

Executive Director:

signed

M. OYFALOSH

Chief Financial Officer

signed

J. TODOROV