First Investment Bank AD

Consolidated statement of shareholders' equity for the year ended 31 December 2014

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 2013	**110 000**	**97 000**	**253 255**	**1 083**	**4 500**	**(2 777)**	**39 861**	**2 345**	**505 267**
Total comprehensive income for the period									
Net profit for 2013	-	-	184 920	-	-	-	-	(16)	184 904
Other comprehensive income for the period									
Revaluation reserve on available for sale investments	-	-	-	2 421	-	-	-	-	2 421
Reserve from translation of foreign operations	-	-	-	-	-	(77)	-	-	(77)
Statutory reserve	-	-	(4)				4		-
Balance at 31 December 2013	**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 2014	-	-	30 836	-	-	-	-	29	30 865
Other comprehensive income for the period									
Revaluation reserve on available for sale investments	-	-	-	3 610	-	-	-	-	3 610
Reserve from translation of foreign operations	-	-	-	-	-	8	-	-	8
Balance at 31 December 2014	**110 000**	**97 000**	**469 007**	**7 114**	**4 500**	**(2 846)**	**39 865**	**2 358**	**726 998**

Dimitar Kostov
Executive Director

Vassil Christov
Executive Director

Jivko Todorov
Chief Financial Officer

First Investment Bank AD

Consolidated statement of comprehensive income for the year ended 31 December 2014

unaudited

	2014	2013
Interest income	528 844	480 380
Interest expense and similar charges:	(237 161)	(298 669)
Net interest income	**291 683**	**181 711**
Fee and commission income	108 179	103 596
Fee and commission expense	(20 462)	(16 905)
Net fee and commission income	**87 717**	**86 691**
Net trading income	11 994	9 381
Other net operating income	15 314	6 662
TOTAL INCOME FROM BANKING OPERATIONS	**406 708**	**284 445**
Administrative expenses	(191 027)	(156 239)
Allowance for impairment	(299 522)	(70 305)
Gain on bargain purchase of subsidiary	-	152 310
Other expenses, net	119 713	(21 982)
PROFIT BEFORE TAX	**35 872**	**188 229**
Income tax expense	(5 007)	(3 325)
GROUP PROFIT AFTER TAX	**30 865**	**184 904**
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	8	(77)
Revaluation reserve on available for sale investments	3 610	2 421
Total other comprehensive income	**3 618**	**2 344**
TOTAL COMPREHENSIVE INCOME	**34 483**	**187 248**
Net profit attributable to:		
Ordinary equity holders	30 836	184 920
Non-controlling interest	29	(16)
Total comprehensive income attributable to:		
Ordinary equity holders	34 454	187 264
Non-controlling interest	29	(16)
Basic and diluted earnings per share (BGN)	**0.28**	**1.68**

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 December 2014

unaudited

in BGN '000

	31 December 2014	31 December 2013
ASSETS		
Cash and balances with Central Banks	1 651 945	1 347 555
Financial assets held for trading	9 646	16 423
Available for sale investments	486 975	423 640
Financial assets held to maturity	63 737	178 658
Loans and advances to banks and other financial institutions	112 078	120 126
Loans and advances to customers	5 801 262	6 020 792
Property and equipment	109 026	115 964
Intangible assets	21 393	20 263
Derivatives held for risk management	4 019	3 702
Deferred tax assets	46	48
Current tax assets	797	1 001
Other assets	567 101	529 821
TOTAL ASSETS	**8 828 025**	**8 777 993**
LIABILITIES AND CAPITAL		
Due to banks	1 393	5 302
Due to other customers	7 601 521	7 535 756
Liabilities evidenced by paper	177 544	196 444
Subordinated term debt	-	24 655
Perpetual debt	99 999	99 792
Hybrid debt	195 447	205 251
Derivatives held for risk management	-	684
Deferred tax liabilities	3 336	3 137
Current tax liabilities	985	584
Other liabilities	20 802	13 873
TOTAL LIABILITIES	**8 101 027**	**8 085 478**
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	7 114	3 504
Revaluation reserve on property	4 500	4 500
Reserve from translation of foreign operations	(2 846)	(2 854)
Retained earnings	469 007	438 171
SHAREHOLDERS' EQUITY	**724 640**	**690 186**
Non-controlling interest	2 358	2 329
TOTAL GROUP EQUITY	**726 998**	**692 515**
TOTAL LIABILITIES AND GROUP EQUITY	**8 828 025**	**8 777 993**

Dimitar Kostov
Executive Director

Vassil Christov
Executive Director

Jivko Todorov
Chief Financial Officer

First Investment Bank AD

Consolidated statement of cash flows for the year ended 31 December 2014

unaudited

in BGN '000

	2014	2013
Net cash flow from operating activities		
Net profit	30 865	184 904
Adjustment for non-cash items		
Allowance for impairment	299 522	70 305
Depreciation and amortization	20 260	20 736
Income tax expense	5 007	3 325
(Profit)/loss from sale and write-off of tangible and intangible fixed assets, net	(104)	8
(Profit) from sale of other assets, net	(141 403)	(200)
(Gain) on bargain purchase of subsidiary	0	(152 310)
	214 147	**126 768**
Change in operating assets		
(Increase)/decrease in financial instruments held for trading	6 777	(2 840)
(Increase)/decrease in available for sale investments	(59 324)	354 059
(Increase)/decrease in loans and advances to banks and financial institutions	19 030	(10 575)
(Increase) in loans to customers	(79 992)	(418 432)
Net (increase)/decrease in other assets	104 020	(183 644)
	(9 489)	**(261 432)**
Change in operating liabilities		
(Decrease) in due to banks	(3 909)	(3 994)
Increase in amounts owed to other depositors	65 765	360 075
Net increase in other liabilities	5 459	1 648
	67 315	**357 729**
Income tax paid	(4 022)	(3 682)
NET CASH FLOW FROM OPERATING ACTIVITIES	**267 951**	**219 383**
Cash flow from investing activities		
(Purchase) of tangible and intangible fixed assets	(14 753)	(6 292)
Sale of tangible and intangible fixed assets	405	149
Decrease in investments	114 921	190 925
NET CASH FLOW FROM INVESTING ACTIVITIES	**100 573**	**184 782**
Financing activities		
(Decrease) in borrowings	(53 152)	(156 163)
NET CASH FLOW FROM FINANCING ACTIVITIES	**(53 152)**	**(156 163)**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**315 372**	**248 002**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	**1 422 180**	**1 174 178**
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	**1 737 552**	**1 422 180**

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 31.12.14

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 year ended 31 December 2014 comprise the Bank and its subsidiaries, together referred to as the “Group”.

The Group has foreign operations in Cyprus and Albania.

(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, 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) Change in 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 2014.

- IFRS 10 Consolidated Financial Statements, IFRS 11 Joint arrangements, IFRS 12 Disclosures of Interests in Other Entities, IAS 27 Separate Financial Statements (2012) and IAS 28 Investments in Associates and Joint Ventures (2012) (see (i)).
- Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment Entities (see (ii)).
- Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities (see (iii)).
- Amendments to IAS 36 – Recoverable Amount Disclosures for Non-Financial Assets (see (iv)).
- Amendments to IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting (see (v)).

(i) New set of standards for consolidation

Due to the application of those standards the Group has changed its accounting policy with regard to determining whether it controls, respectively whether it consolidates enterprises in which investments were made and its participation in joint arrangements. These changes did not lead to changes in the conclusion whether the Group controls and respectively consolidates enterprises in which investments were made, therefore this is not expected to have any impact on the Bank's consolidated financial statements.

(ii) Amendments to IFRS 10, IFRS 12 and IAS 27

These amendments will not have any impact on the financial statements, since the Group does not qualify as an investment entity.

(iii) Offsetting of financial assets and financial liabilities

These amendments will not 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.

(iv) Amendments to IAS 36

These amendments will not have any impact on degree of disclosure in the financial statements.

(v) Amendments to IAS 39

These amendments will not have any impact on the financial statements, since the Group does not novate derivatives defined as hedging instruments in compliance with laws and regulations.

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 2013, with the exception of what has been disclosed in 1 (d).

(a) Income recognition

(i) Interest Income

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. 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 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 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 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.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

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 interest

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 those enterprises 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.

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

(c) Foreign currency transactions, continued

(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.

2. Significant accounting policies, continued

(d) Financial assets, continued

(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.

(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.

2. Significant accounting policies, continued

(d) Financial assets, continued

(vii) Fair value measurement principles, continued

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 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 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.

2. Significant accounting policies, continued

(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).

(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.

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.

2. Significant accounting policies, continued

(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 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.

(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.

2. Significant accounting policies, continued

(j) Impairment, continued

(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
• 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 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 liabilities evidenced by paper.

2. Significant accounting policies, continued

(o) 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.

(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.

(ii) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant estimates are required in determining the worldwide 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.

2. Significant accounting policies, continued

(q) 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.

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

According to these regulations in the LC, when a labour 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.

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.

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.

(s) 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 annual period ending on 31 December 2014, although they are not mandatory. 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 and 2011-2013 cycle. The improvements introduce eleven amendments to nine standards and make related amendments to other standards and interpretations. These amendments are not expected to have significant effects on the Group's financial statements.
- Amendments to IAS 19 – *Defined Benefit Plans: Employee Contributions* 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.

Standards, interpretations and amendments to standards issued by IASB/IFRICs not yet endorsed by the European Commission

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 financial statements. . The effective dates for these will depend on the endorsement decision for adoption by the European Commission.

- IFRS 9 Financial Instruments (issued on 24 July 2014)
- IFRS 14 Regulatory Deferral Accounts (issued on 30 January 2014);
- IFRS 15 — Revenue from Contracts with Customers (issued on 28 May 2014);
- Amendments to IFRS 10, IFRS 12 and IAS 28: *Investment entities: application of related to the application of investment entities exceptions (issued on 18 December 2014);*
- Amendments to IAS 1 under the Disclosure initiative (issued on 18 December 2014).
- *Annual improvements to IFRS 2012-2014 cycle (issued on 25 September 2014)*
- Amendments to IFRS 10 and IAS 28: Sales or contributions of assets between an investor and its associate/joint venture (issued on 11 September 2014);
- Amendments to IAS 27 - *Equity Method in Separate Financial Statements (issued on 12 August 2014)*
- Amendments to IAS 16 and IAS 41 – Bearer plants (issued on 30 June 2014)
- Amendments to IAS 16 and IAS 38 - Acceptable methods of depreciation and amortisation (issued on 12 May 2014);
- Amendments to IFRS 11 - Accounting for Acquisitions of Interests in Joint Operations (issued on 6 May 2014).

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**	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
Interest income	479,107	430,033	49,737	50,347	528,844	480,380
Interest expense and similar charges:	(230,779)	(290,123)	(6,382)	(8,546)	(237,161)	(298,669)
Net interest income	**248,328**	**139,910**	**43,355**	**41,801**	**291,683**	**181,711**
Fee and commission income	104,029	101,016	4,150	2,580	108,179	103,596
Fee and commission expense	(19,990)	(16,590)	(472)	(315)	(20,462)	(16,905)
Net fee and commission income	**84,039**	**84,426**	**3,678**	**2,265**	**87,717**	**86,691**
Net trading income	**11,739**	**9,111**	**255**	**270**	**11,994**	**9,381**
Administrative expenses	**(184,164)**	**(149,717)**	**(6,863)**	**(6,522)**	**(191,027)**	**(156,239)**
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
Assets	**8,072,348**	**8,053,408**	**755,677**	**724,585**	**8,828,025**	**8,777,993**
Liabilities	**7,859,204**	**7,841,223**	**241,823**	**244,255**	**8,101,027**	**8,085,478**

The table below shows assets and liabilities and income and expense by business segments as at 31 December 2014.

in BGN '000

Business	**Assets**	**Liabilities**	**Interest income**	**Interest expense and similar charges:**	**Net fee and commission income**	**Net trading income**	**Other net operating income**
Commercial banking	4,479,677	1,872,530	363,191	(40,414)	45,025	-	13,520
Retail Banking	1,321,585	5,728,991	149,484	(188,079)	24,934	-	-
Card business	-	-	-	-	15,449	-	-
Treasury	2,328,400	1,393	16,169	(94)	1,013	11,994	1,783
Other	698,363	498,113	-	(8,574)	1,296	-	11
Total	**8,828,025**	**8,101,027**	**528,844**	**(237,161)**	**87,717**	**11,994**	**15,314**

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 data 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.

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.

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 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	6,288	486,975
Derivatives held for risk management	3,463	556	-	4,019
Total	**447,823**	**46,529**	**6,288**	**500,640**

in BGN '000

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**

Movements in Level 3 financial instruments in 2014 were, as follows

in BGN '000	**Available for sale investments**
Balance as at 1 January 2014	**5,709**
Increases	
Acquisition of investments at cost, recoginsed in the merger of Unionbank EAD	579
Balance at 31 December 2014	**6,288**

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 *in BGN '000*

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	43,979	19,564	-	63,543	63,737
Loans and advances to banks and other financial institutions	-	112,078	-	112,078	112,078
Loans and advances to customers	-	734,874	5,059,115	5,793,989	5,801,262
Total	**43,979**	**2,518,461**	**5,059,115**	**7,621,555**	**7,629,022**
Liabilities					
Due to banks	-	1,393	-	1,393	1,393
Due to other customers	-	1,899,357	5,718,685	7,618,042	7,601,521
Liabilities evidenced by paper	-	177,544	-	177,544	177,544
Perpetual debt	-	99,999	-	99,999	99,999
Hybrid debt	-	181,636	-	181,636	195,447
Total	**-**	**2,359,929**	**5,718,685**	**8,078,614**	**8,075,904**

in BGN '000

31 December 2013	**Level 1**	**Level 2**	**Level 3**	**Total fair values**	**Total balance sheet value**
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 other 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 banks	-	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. Net interest income

in BGN '000	**2014**	**2013**
Interest income		
Accounts with and placements to banks and financial institutions	652	2,010
Retail Banking	142,571	113,706
Corporate customers	320,189	310,160
Small and medium enterprises	43,002	34,466
Microlending	6,913	6,395
Debt instruments	15,517	13,643
	528,844	**480,380**
Interest expense and similar charges:		
Deposits from banks	(14)	(80)
Deposits from other customers	(228,396)	(259,889)
Liabilities evidenced by paper	(4,741)	(3,072)
Subordinated term debt	(2,189)	(8,607)
Perpetual debt	(11,583)	(11,583)
Hybrid debt	9,804	(15,403)
Lease agreements and other	(42)	(35)
	(237,161)	**(298,669)**
Net interest income	**291,683**	**181,711**

6. Net fee and commission income

in BGN '000	**2014**	**2013**
Fee and commission income		
Letters of credit and guarantees	6,656	7,970
Payments transactions	16,128	12,276
Customer accounts	23,514	20,407
Card services	30,840	28,152
Other	31,041	34,791
	108,179	**103,596**
Fee and commission expense		
Letters of credit and guarantees	(241)	(481)
Card services	(15,390)	(13,974)
Payment systems	(2,054)	(1,548)
Other	(2,777)	(902)
	(20,462)	**(16,905)**
Net fee and commission income	**87,717**	**86,691**

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 5,084 thousand compared to the financial statements at 31 December 2013 in order to present more accurate and clear comparative data.

7. Net trading income

in BGN '000	**2014**	**2013**
Net trading income arises from:		
- Debt instruments	659	91
- Equities	53	213
- Foreign exchange rate fluctuations	11,282	9,077
Net trading income	**11,994**	**9,381**

8. Other net operating income

in BGN '000	**2014**	**2013**
Other net operating income arising from:		
- Debt instruments	1,783	2,428
- Gain on administration of loans acquired through business combination	13,520	3,979
- other	11	255
Other net operating income	**15,314**	**6,662**

9. Administrative expenses

in BGN '000	**2014**	**2013**
General and administrative expenses comprise:		
- Personnel cost	65,859	59,670
- Depreciation and amortisation	20,260	20,736
- Advertising	13,446	6,463
- Building rent expense	30,647	25,601
-Telecommunication, software and other computer maintenance	10,280	9,095
- Administration, consultancy, audit and other costs	50,535	34,674
Total	**191,027**	**156,239**

10. Allowance for impairment

in BGN '000	**2014**	**2013**
Write-downs		
Loans and advances to customers	(324,883)	(84,205)
Reversal of write-downs		
Loans and advances to customers	25,361	13,900
Impairment, net	**(299,522)**	**(70,305)**

11. Earnings per share

	2014	**2013**
Net profit attributable to shareholders (in thousands of BGN)	30,836	184,920
Weighted average number of ordinary shares (in 000's)	110,000	110,000
Earnings per share (BGN)	**0.28**	**1.68**

The basic earnings per share, calculated in accordance with IAS 33, are based on the profit attributable to ordinary equity holders of the Bank. In 2014 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.

12. Cash and balances with Central Banks

in BGN '000	**2014**	**2013**
Cash on hand		
- in BGN	117,419	113,176
- in foreign currency	48,192	45,543
Balances with Central Banks	840,589	961,960
Current accounts and amounts with local banks	16	14
Current accounts and amounts with foreign banks	645,729	226,862
Total	**1,651,945**	**1,347,555**

13. Financial assets held for trading

in BGN '000	**2014**	**2013**
Bonds and notes issued by:		
Bulgarian government, rated BBB:		
- denominated in Bulgarian Leva	4,980	3,897
- denominated in foreign currencies	110	7,281
Foreign governments		
- treasury bonds	1,367	2,059
Other issuers – equity instruments (unrated)	3,189	3,186
Total	**9,646**	**16,423**

14. Available for sale investments

In thousands of BGN	**2014**	**2013**
Bonds and notes issued by:		
Bulgarian Government		
- denominated in Bulgarian Leva	179,418	113,287
- denominated in foreign currencies	193,792	107,029
Foreign governments		
- treasury bills	35,043	143,151
- treasury bonds	26,410	32,613
Local authorities	51	97
Bulgarian banks	1,955	1,955
Foreign banks	44,018	19,220
Other issuers – equity instruments	6,288	6,288
Total	**486,975**	**423,640**

15. Financial assets held to maturity

In thousands of BGN	**2014**	**2013**
Securities held to maturity issued by:		
Foreign governments	44,257	160,314
Foreign banks	19,480	18,344
Total	**63,737**	**178,658**

In June 2014 the Bank sold investments held to maturity with nominal value of EUR 40,000. This sale does not constitute a change in the Group's intent and ability to hold investments to maturity, as it refers to an isolated event which is beyond the Group's control, is not recurrent and the Group had no reasonable grounds to anticipate it.

16. Loans and advances to banks and other financial institutions

(a) Analysis by type

in BGN '000	**2014**	**2013**
Placements with banks	103,851	100,074
Receivables under resale agreements	0	13,658
Other	8,227	6,394
Total	**112,078**	**120,126**

(b) Geographical analysis

in BGN '000	**2014**	**2013**
Domestic banks and financial institutions	18,496	16,827
Foreign banks and other financial institutions	93,582	103,299
Total	**112,078**	**120,126**

17. Loans and advances to customers

in BGN '000	**2014**	**2013**
Retail Banking		
- Consumer loans	412,250	389,356
- Mortgage loans	654,449	714,896
- Credit cards	245,918	231,090
Small and medium enterprises	557,681	686,239
Microlending	88,984	93,408
Corporate customers	4,365,483	4,141,595
Allowance for impairment	(523,503)	(235,792)
Total	**5,801,262**	**6,020,792**

(a) Movement in impairment allowances

in BGN '000	
Balance as at 1 January 2014	**235,792**
Additional allowances	324,883
Amounts released	(25,361)
Receivables written off through an allowance account	(11,808)
Effect from change in exchange rates	(3)
Balance at 31 December 2014	**523,503**

18. Property and equipment

in BGN '000	Land and Buildings	Fixtures and fittings	Motor vehicles	Assets under Construction	Leasehold Improvements	Total
Cost						
At 1 January 2014	**17,778**	**139,851**	**6,399**	**23,360**	**62,911**	**250,299**
Additions		82	31	11,292	19	**11,424**
Additions via business combinations		9				**9**
Exchange rates and other adjustments	-14	-389		195	-139	**-347**
Write - offs	-214	-2,078	-313	-71		**-2,676**
Transfers		4,658	708	-8,499	1,922	**-1,211**
At 31 December 2014	**17,550**	**142,133**	**6,825**	**26,277**	**64,713**	**257,498**
Amortisation						
At 1 January 2014	**1,651**	**101,093**	**5,335**	**-**	**26,256**	**134,335**
Exchange rates and other adjustments	-15	-485			-139	**-639**
Charged in the year	630	11,815	330		4,271	**17,046**
For write offs	-5	-1,974	-291			**-2,270**
At 31 December 2014	**2,261**	**110,449**	**5,374**	**-**	**30,388**	**148,472**
Net book value						
At 31 December 2014	**15,289**	**31,684**	**1,451**	**26,277**	**34,325**	**109,026**
At 1 January 2014	**16,127**	**38,758**	**1,064**	**23,360**	**36,655**	**115,964**

19. Intangible assets

in BGN '000	Software and licences	Quota for greenhouse gas emissions	Goodwill	Total
Cost				
At 1 January 2014	**28,731**	**3,820**	**721**	**33,272**
Additions	153			**153**
Additions via business combinations			3,167	**3,167**
Exchange rates and other adjustments	-820			**-820**
Write - offs	-52			**-52**
Transfers	1,211			**1,211**
At 31 December 2014	**29,223**	**3,820**	**3,888**	**36,931**
Amortisation				
At 1 January 2014	**13,009**	**-**	**-**	**13,009**
Exchange rates and other adjustments	**-633**			**-633**
Charged in the year	3,214			**3,214**
For write offs	-52			**-52**
At 31 December 2014	**15,538**	**-**	**-**	**15,538**
Net book value				
At 31 December 2014	**13,685**	**3,820**	**3,888**	**21,393**
At 1 January 2014	**15,722**	**3,820**	**721**	**20,263**

20. Other assets

in BGN '000	**2014**	**2013**
Deferred expense	13,695	19,547
Gold bullion	9,672	10,502
Other	543,734	499,772
Total	**567,101**	**529,821**

21. Due to banks

In thousands of BGN	2014	2013
Term deposits	-	2,775
Payable on demand	1,393	2,527
Total	**1,393**	**5,302**

22. Due to other customers

In thousands of BGN	2014	2013
Retail customers		
- current accounts	638,890	756,292
- term and savings deposits	5,090,101	4,859,710
Businesses and other non-financial institutions		
- current accounts	601,028	708,481
- term deposits	369,658	1,211,273
- deposit Ministry of Finance	901,844	-
Total	**7,601,521**	**7,535,756**

23. Liabilities evidenced by paper

In thousands of BGN	2014	2013
Acceptances under letters of credit	23,337	5,763
Liabilities under repurchase agreements	-	15,870
Mortgage bonds	-	30,634
Other term liabilities	154,207	144,177
Total	**177,544**	**196,444**

24. Perpetual debt

in BGN '000

	Principal amount	Amortised cost as at 31 December 2014
Step-up Guaranteed Perpetual Subordinated Bonds initial interest EUR 27 mio	52,807	55,391
Step-up Guaranteed Perpetual Subordinated Bonds initial interest EUR 21 mio	41,073	44,608
Total	**93,880**	**99,999**

in BGN '000

	Principal amount	Amortised cost as at 31 December 2013
Step-up Guaranteed Perpetual Subordinated Bonds initial interest EUR 27 mio	52,807	55,259
Step-up Guaranteed Perpetual Subordinated Bonds initial interest EUR 21 mio	41,073	44,533
Total	**93,880**	**99,792**

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. The terms and conditions of the Subordinated Bonds fully comply with the repealed 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 Bulgarian National 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 instruments are subject to grandfathering and as at 31.12.2014 are included in the tier 2 capital with 80% of their initial value.

25. Hybrid debt

in BGN '000

	Principal amount	Amortised cost as at 31 December 2014
Hybrid debt with original principal EUR 40 mio	78,233	78,126
Hybrid debt with original principal EUR 60 mio	117,350	117,321
Total	**195,583**	**195,447**

in BGN '000

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

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 the repealed 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. The bonds are registered, dematerialized, interest-bearing, perpetual, unsecured, freely transferable, non-convertible, deeply subordinated and without incentive to redeem. In June 2012 the Bank issued the second tranche of the instrument, also amounting to 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 new hybrid instrument (bond issue) and, after obtaining permission from the Bulgarian National Bank, included it as Tier 1 capital pursuant to Art. 3a of the repealed 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 tranche of the instrument with a total amount of EUR 40,000 thousand and following permission from the Bulgarian National Bank included in its Tier 1 capital

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

26. Other liabilities

in BGN '000	2014	2013
Liabilities to personnel	2,606	2,782
Other payables	18,196	11,091
Total	**20,802**	**13,873**

27. Shareholders

As at 31 December 2014 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 December 2014 together with the number and percentage of total issued shares.

	Number of shares	% of issued share capital
Mr. Ivailo Dimitrov Mutafchiev	46,750,000	42.5
Mr. Tzeko Todorov Minev	46,750,000	42.5
Other shareholders (shareholders holding shares subject to free trade on the Bulgarian Stock Exchange – Sofia)	16,500,000	15
Total	**110,000,000**	**100**

28. Commitments and contingent liabilities

Contingent liabilities

in BGN '000	2014	2013
Guarantee		
- in BGN	225,041	207,941
- in foreign currency	309,833	157,745
Total guarantees	**534,874**	**365,686**
Unused credit lines	458,045	531,298
Promissory notes	-	811
Letters of credit	13,705	31,573
Total	**1,006,624**	**929,368**

29. Related party transactions

Type of related party	**Parties that control or manage the Bank**		**Enterprises under common control**	
in BGN '000	**2014**	**2013**	**2014**	**2013**
Loans	593	1,231	23,970	17,276
Deposits and loans received:	10,664	16,154	1,788	2,801
Deposits placed	-	-	-	-
Off-balance sheet commitments issued by the Bank	2,108	1,607	591	234

In 2014:

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:

V. CHRISTOV

Executive Director:

S. MOLDOVANSKI

Chief Financial Officer

J. TODOROV