INDEPENDENT AUDITOR'S REPORT

To the shareholders of First Investment Bank AD

Report on the unconsolidated financial statements

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

Management's Responsibility for the unconsolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Report on other legal and supervisory requirements

Annual management report of the Bank in accordance with Article 33 of the Law on Accounting

As required under the Accountancy Act, we report that the historical unconsolidated financial information disclosed in the annual report of the activities of the Bank, prepared by Management as required under article 33 of the Accountancy Act, is consistent, in all material aspects, with the unconsolidated financial information disclosed in the audited unconsolidated financial statements of the Bank as of and for the year ended 31 December 2013. Management is responsible for the preparation of the annual report of the activities of the Bank which was approved by the Management Board of the Bank on 10 February 2014.

Dobrina Kaloyanova
Manager

Margarita Goleva
Registered auditor

KPMG Bulgaria OOD

Sofia, 10 February 2014

FIRST INVESTMENT BANK AD

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

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

in BGN '000

	Note	2013	2012
Interest income		446,451	454,979
Interest expense and similar charges:		(284,117)	(307,500)
Net interest income	**6**	**162,334**	**147,479**
Fee and commission income		96,020	81,590
Fee and commission expense		(10,583)	(9,388)
Net fee and commission income	**7**	**85,437**	**72,202**
Net trading income	8	**8,532**	**8,198**
Other net operating income	9	**2,329**	**2,813**
TOTAL INCOME FROM BANKING OPERATIONS		**258,632**	**230,692**
Administrative expenses	10	(145,435)	(152,452)
Allowance for impairment	11	(61,063)	(36,035)
Other expenses, net		(23,265)	(10,067)
PROFIT BEFORE TAX		**28,869**	**32,138**
Income tax expense	**12**	**(3,011)**	**(3,223)**
NET PROFIT		**25,858**	**28,915**
Other comprehensive income for the period			
Items which cannot be reclassified as profit or loss			
Revaluation reserve on property		-	4,500
Items which should or may be reclassified as profit or loss			
Revaluation reserve on available for sale investments		2,014	272
Total other comprehensive income		**2,014**	**4,772**
TOTAL COMPREHENSIVE INCOME		**27,872**	**33,687**

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

Dimitar Kostov
Executive Director
Chairman of the Managing Board

Svetoslav Moldovansky
Executive Director

Vassil Christov
Executive Director

Yanko Karakolev
Director, Finance and Accounting

Dobrina Kaloyanova
Manager
KPMG Bulgaria OOD

Margarita Goleva
Registered auditor

Unconsolidated statement of the financial position as at 31 December 2013

in BGN '000

	Note	2013	2012
ASSETS			
Cash and balances with Central Banks	13	1,062,709	1,121,844
Financial assets held for trading	14	6,466	5,998
Available for sale investments	15	444,614	747,535
Financial assets held to maturity	16	141,222	92,351
Loans and advances to banks and other financial institutions	17	291,459	18,290
Loans and advances to customers	18	4,871,896	4,463,094
Property and equipment	19	104,075	115,613
Intangible assets	20	11,595	13,546
Derivatives held for risk management		3,702	1,088
Current tax assets		228	2,117
Other assets	22	507,977	325,861
TOTAL ASSETS		**7,445,943**	**6,907,337**
LIABILITIES AND CAPITAL			
Due to banks	23	16,728	2,597
Due to other customers	24	6,397,543	6,024,530
Liabilities evidenced by paper	25	147,745	77,304
Subordinated term debt	26	24,655	54,988
Perpetual debt	27	103,068	102,927
Hybrid debt	28	205,251	123,901
Deferred tax liability	21	3,137	3,560
Derivatives held for risk management		684	1,309
Current tax liabilities		446	178
Other liabilities	29	8,082	5,311
TOTAL LIABILITIES		**6,907,339**	**6,396,605**
Issued share capital	31	110,000	110,000
Share premium	31	97,000	97,000
Statutory reserve	31	39,861	39,861
Revaluation reserve on available for sale investments		3,032	1,018
Revaluation reserve on property		4,500	4,500
Retained earnings	31	284,211	258,353
SHAREHOLDERS' EQUITY		**538,604**	**510,732**
TOTAL LIABILITIES AND GROUP EQUITY		**7,445,943**	**6,907,337**

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

Dimitar Kostov
Executive Director
Chairman of the Managing Board

Svetoslav Moldovansky
Executive Director

Vassil Christov
Executive Director

Yanko Karakolev
Director, Finance and Accounting

Dobrina Kaloyanova
Manager
KPMG Bulgaria OOD

Margarita Goleva
Registered auditor

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

in BGN '000

	2013	2012
Net cash flow from operating activities		
Net profit	25,858	28,915
Adjustment for non-cash items		
Allowance for impairment	61,063	36,035
Depreciation and amortization	19,121	20,280
Tax expense	3,011	3,223
(Profit) from sale and write-off of tangible and intangible fixed assets, net	(59)	(19)
(Profit) from sale of other assets, net	(200)	(189)
	108,794	**88,245**
Change in operating assets		
(Increase)/decrease in financial instruments held for trading	(468)	2,661
(Increase)/decrease in available for sale investments	305,159	(66,226)
(Increase)/decrease in loans and advances to banks and financial institutions	(32,708)	26,098
(Increase) in loans to customers	(469,865)	(372,127)
(Increase) in other assets	(187,845)	(245,389)
	(385,727)	**(654,983)**
Change in operating liabilities		
Increase in due to banks	14,131	543
Increase in amounts owed to other depositors	373,013	737,639
Net increase in other liabilities	2,274	3,533
	389,418	**741,715**
Tax on profit, paid	(3,518)	(4,494)
NET CASH FLOW FROM OPERATING ACTIVITIES	**108,967**	**170,483**
Cash flow from investing activities		
(Purchase) of tangible and intangible fixed assets	(5,722)	(14,186)
Sale of tangible and intangible fixed assets	149	51
Sale of other assets	5,204	2,698
(Increase) of investments	(48,871)	(37,390)
NET CASH FLOW FROM INVESTING ACTIVITIES	**(49,240)**	**(48,827)**
Financing activities		
Increase in borrowings	121,599	30,924
NET CASH FLOW FROM FINANCING ACTIVITIES	**121,599**	**30,924**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**181,326**	**152,580**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	**1,127,484**	**974,904**
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD (See Note 33)	**1,308,810**	**1,127,484**

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

Dimitar Kostov
Executive Director
Chairman of the Managing Board

Svetoslav Moldovansky
Executive Director

Vassil Christov
Executive Director

Yanko Karakolev
Director, Finance and Accounting

Dobrina Kaloyanova
Manager
KPMG Bulgaria OOD

Margarita Goleva
Registered auditor

Unconsolidated statement of shareholders' equity for the year ended 31 December 2013

in BGN '000

	Issued share capital	Share premium	Retained earnings	Revaluation reserve on available for sale investments	Revaluation reserve on property	Statutory reserve	Total
Balance as at 1 January 2012	**110,000**	**97,000**	**229,438**	**746**	**-**	**39,861**	**477,045**
Total comprehensive income for the period							
Net profit for the year ended 31 December 2012	-	-	28,915	-	-	-	28,915
Other comprehensive income for the period							
Revaluation reserve on available for sale investments	-	-	-	272	-	-	272
Revaluation reserve on property, net	-	-	-	-	4,500	-	4,500
Balance at 31 December 2012	**110,000**	**97,000**	**258,353**	**1,018**	**4,500**	**39,861**	**510,732**
Total comprehensive income for the period							
Net profit for the year ended 31 December 2013	-	-	25,858	-	-	-	25,858
Other comprehensive income for the period							
Revaluation reserve on available for sale investments	-	-	-	2,014	-	-	2,014
Balance at 31 December 2013	**110,000**	**97,000**	**284,211**	**3,032**	**4,500**	**39,861**	**538,604**

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

The financial statements were approved by the Managing Board on 27 February 2012 and signed on its behalf by:

Dimitar Kostov
Executive Director
Chairman of the Managing Board

Svetoslav Moldovansky
Executive Director

Vassil Christov
Executive Director

Yanko Karakolev
Director, Finance and Accounting

Dobrina Kaloyanova
Manager
KPMG Bulgaria OOD

Margarita Goleva
Registered auditor

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.

The Bank has foreign operations in Cyprus.

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.

(b) Statement of compliance

The unconsolidated financial statements were drawn up in accordance with the International Financial Reporting Standards (IFRS) endorsed by the European Commission.

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

(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.

The present financial statements of the Bank are not consolidated. These individual financial statements form an integral part of the consolidated financial statements. Information about the basic earnings per share is given in the consolidated financial statements.

(d) Change in accounting policy

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

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

(i) Offsetting of financial assets and financial liabilities

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

Notes to the financial statements

1. Basis of preparation, continued

(d) Change in accounting policy, continued

(ii) Fair value measurement principles

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such disclosures are required or permitted by other IFRSs. In particular, it unifies the definition of fair value as the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date. It also replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7. As a result the Bank has included additional disclosures in this regard.

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

(iii) Presentation of Items of Other Comprehensive Income

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

(iv) Defined benefit plans

As a result of IAS 19 Employee Benefits (2012), the Bank has changed its accounting policy in respect of actuarial gains and losses arising from defined benefit plans from using the 'corridor' approach to recognising all actuarial gains and losses in other comprehensive income (OCI).

2. Основни елементи на счетоводната политика

(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 Bank 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 Bank.

Notes to the financial statements

2. Significant accounting policies, continued

(a) Income recognition, continued

(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

Investments in subsidiaries are stated at cost.

(c) Foreign currency transactions

(i) Functional and presentation currency

The financial statements are presented in Bulgarian leva, which is the Bank'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 functional currency of the foreign operations in Cyprus is determined by the management to be the Euro. In determining the functional currency of the foreign operations, the Bank takes into account the fact that they are carried out as an extension of the reporting entity.

(d) Financial assets

The Bank 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.

Notes to the financial statements

2. Significant accounting policies, continued

(d) Financial assets, continued

(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 Bank 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 Bank's management has the positive intention and ability to hold to maturity. Were the Bank 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.

(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 Bank'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 Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When applicable, the Bank 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 Bank 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 Bank 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 Bank 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 Bank 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 Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when the Bank 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 Bank is recognised as a separate asset or liability.

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

The Bank 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 Bank 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 Bank 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.

2. Significant accounting policies, continued

(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 Bank holds for the purpose of short-term profit taking are classified as financial assets for trading. Debt investments that the Bank 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 Bank 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 Bank 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 Bank 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.

Notes to the financial statements

2. Significant accounting policies, continued

(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.

(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	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 acquired by the Bank 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 - 15
• Computer software	8 - 50

(m) Provisions

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

(o) Taxation

Tax on the profit for the 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

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

The Bank 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 Bank 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 Bank 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 Bank 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 Bank recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(q) 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 Bank'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.

Notes to the financial statements

2. Significant accounting policies, continued

(q) 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 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 Bank 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 Bank 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 Bank 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.

(r) 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 2013, although they are not mandatory. These changes 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 published Standards that are not yet effective and have not been early adopted – endorsed by the European Commission

- IFRS 10 Consolidated Financial Statements shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2014. IFRS 10 introduces a single control model to determine whether an investee should be consolidated. The Bank does not expect the new standard to have any impact on the consolidated financial statements, since the assessment of control over its current investees under the new standard is not expected to change previous conclusions regarding the Bank's control over its investees.

- IFRS 11 Joint Arrangements, shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2014. The Bank does not expect IFRS 11 to have material impact on the financial statements since it is not a party to any joint arrangements.

- IFRS 12 Disclosures of Interests in Other Entities, shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2014. The Bank does not expect the new Standard will have a material impact on the financial statements.

- IAS 27 Separate Financial Statements (2011) which supersedes IAS 27 (2008) shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2014. The Bank does not expect the new Standard will have a material impact on the financial statements.

Notes to the financial statements

2. Significant accounting policies, continued

(r) New standards and interpretations not yet effective, continued

- IAS 28 Investments in Associates and Joint Ventures (2011) which supersedes IAS 28(2008) shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2014. The Bank does not expect the amendments to Standard to have material impact on the financial statements since it does not have any investments in associates or joint ventures that will be impacted by the amendments.
- Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2014. The Bank does not expect the Amendments to have any impact on the financial statements since the Bank does not apply offsetting to any of its financial assets and financial liabilities and it has not entered into master netting arrangements.
- Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment Entities shall be applied for annual periods beginning on or after 1 January 2014.
- The Bank does not expect the new standard to have any impact on the financial statements, since the Bank does not qualify as an investment entity.
- Amendments to IAS 36 – Recoverable Amount Disclosures for Non-Financial Assets shall be applied for annual periods beginning on or after 1 January 2014. The Bank does not expect the new Standard will have a material impact on the financial statements.
- Amendments to IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting shall be applied for annual periods beginning on or after 1 January 2014. The Bank does not expect the new Standard will have a material impact on the financial statements.

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

3. Risk management disclosures

A. Trading activities

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

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

Notes to the financial statements

(i) Credit risk

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

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

(ii) Market risk

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

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

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

3. Risk management disclosures, continued

A. Trading activities, continued

(ii) Market risk, continued

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

	31 December	2013			31 December
in BGN '000	**2013**	**average**	**low**	**high**	**2012**
VaR	764	1,437	731	2,423	1,103

B. Non-trading activities

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

(i) Liquidity risk

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

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

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

Notes to the financial statements

3. Risk management disclosures, continued

B. Non-trading activities, continued

(i) Liquidity risk, continued

Maturity table as at 31 December 2013

in BGN '000	Up to 1 Month	From 1 to 3 Months	From 3 months to 1 year	More than 1 year	Maturity not defined	Total
Assets						
Cash and balances with Central Banks	501,928	-	-	-	560,781	**1,062,709**
Financial assets held for trading	6,466	-	-	-	-	**6,466**
Available for sale investments	356,094	-	-	-	88,520	**444,614**
Financial assets held to maturity	-	29,292	93,586	18,344	-	**141,222**
Loans and advances to banks and other financial institutions	260,166	-	15,646	15,647	-	**291,459**
Loans and advances to	306,449	212,835	1,113,630	3,238,982	-	**4,871,896**
Other trading assets	3,702	-	-	-	-	**3,702**
Total financial assets	**1,434,805**	**242,127**	**1,222,862**	**3,272,973**	**649,301**	**6,822,068**
Liabilities						
Due to banks	16,728	-	-	-	-	**16,728**
Due to other customers	576,346	857,059	2,746,307	1,153,272	1,064,559	**6,397,543**
Liabilities evidenced by paper	38,853	5,624	2,477	100,791	-	**147,745**
Subordinated term debt	-	-	-	24,655	-	**24,655**
Perpetual debt	-	-	-	-	103,068	**103,068**
Hybrid debt	-	-	-	-	205,251	**205,251**
Other financial liabilities	684	-	-	-	-	**684**
Total financial liabilities	**632,611**	**862,683**	**2,748,784**	**1,278,718**	**1,372,878**	**6,895,674**
Net liquidity gap	**802,194**	**(620,556)**	**(1,525,922)**	**1,994,255**	**(723,577)**	**(73,606)**

The table shows mainly investments available for sale with a maturity of up to 1 month in order to reflect the management's intent to sell them within a short-term period.

Notes to the financial statements

3. Risk management disclosures, continued

B. Non-trading activities, continued

(i) Liquidity risk, continued

Maturity table as at 31 December 2012

in BGN '000	**Up to 1 Month**	**From 1 to 3 Months**	**From 3 months to 1 year**	**More than 1 year**	**Maturity not defined**	**Total**
Assets						
Cash and balances with Central Banks	601,948	-	-	-	519,896	**1,121,844**
Financial assets held for trading	5,998	-	-	-	-	**5,998**
Available for sale investments	701,430	-	4,525	-	41,580	**747,535**
Financial assets held to maturity	34,652	13,666	25,302	18,731	-	**92,351**
Loans and advances to banks and other financial institutions	5,640	-	3,989	8,661	-	**18,290**
Loans and advances to	406,271	201,147	1,171,436	2,684,240	-	**4,463,094**
Other trading assets	1,088	-	-	-	-	**1,088**
Total financial assets	**1,757,027**	**214,813**	**1,205,252**	**2,711,632**	**561,476**	**6,450,200**
Liabilities						
Due to banks	2,597	-	-	-	-	**2,597**
Due to other customers	582,828	947,193	2,499,650	1,138,502	856,357	**6,024,530**
Liabilities evidenced by paper	36,164	3,716	4,112	33,312	-	**77,304**
Subordinated term debt	-	-	-	54,988	-	**54,988**
Perpetual debt	-	-	-	-	102,927	**102,927**
Hybrid debt	-	-	-	-	123,901	**123,901**
Other financial liabilities	1,309	-	-	-	-	**1,309**
Total financial liabilities	**622,898**	**950,909**	**2,503,762**	**1,226,802**	**1,083,185**	**6,387,556**
Net liquidity gap	**1,134,129**	**(736,096)**	**(1,298,510)**	**1,484,830**	**(521,709)**	**62,644**

As at 31 December 2013 the thirty largest non-bank depositors represent 7.07% of total deposits from other customers (31 December 2012: 5.14%).

Notes to the financial statements

3. Risk management disclosures, continued

B. Non-trading activities, continued

(i) Liquidity risk, continued

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

in BGN '000	**Up to 1 Month**	**From 1 to 3 Months**	**From 3 months to 1 year**	**More than 1 year**	**Total**
Due to banks	16,728	-	-	-	**16,728**
Due to other customers	1,641,971	863,500	2,823,452	1,256,996	**6,585,919**
Liabilities evidenced by paper	38,863	5,640	2,497	108,213	**155,213**
Subordinated term debt	337	330	3,039	25,714	**29,420**
Perpetual debt	-	4,933	3,534	112,894	**121,361**
Hybrid debt	-	-	19,582	254,258	**273,840**
Total financial liabilities	**1,697,899**	**874,403**	**2,852,104**	**1,758,075**	**7,182,481**

(ii) Market risk

Interest rate risk

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

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

Notes to the financial statements

3. Risk management disclosures, continued

B. Non-trading activities, continued

(ii) Market risk, continued

Interest rate risk, continued

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

			Fixed rate instruments			
in BGN '000	**Total**	**Floating rate Instruments**	**Less than 1 month**	**Between 1 month and 3 months**	**Between 3 months and 1 year**	**More than 1 year**
Assets						
Cash and balances with Central Banks	230,834	145,932	84,902	-	-	-
Financial assets held for trading	3,280	-	3,280	-	-	-
Available for sale investments	356,094	23,408	332,686	-	-	-
Financial assets held to maturity	141,222	-	-	29,292	93,586	18,344
Loans and advances to banks and other financial institutions	253,481	-	253,481	-	-	-
Loans and advances to customers	4,444,144	3,383,815	237,714	25,853	165,551	631,211
Total interest-bearing assets	**5,429,055**	**3,553,155**	**912,063**	**55,145**	**259,137**	**649,555**
Liabilities						
Due to banks	16,728	2,537	14,191	-	-	-
Due to other customers	6,396,020	1,063,036	576,346	857,059	2,746,307	1,153,272
Liabilities evidenced by paper	78,612	9,993	38,751	5,063	274	24,531
Subordinated term debt	24,655	-	-	-	-	24,655
Perpetual debt	103,068	-	-	-	-	103,068
Hybrid debt	205,251	-	-	-	-	205,251
Total interest-bearing liabilities	**6,824,334**	**1,075,566**	**629,288**	**862,122**	**2,746,581**	**1,510,777**

3. Risk management disclosures, continued

B. Non-trading activities, continued

(ii) Market risk, continued

Interest rate risk, continued

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

			Fixed rate instruments			
in BGN '000	**Total**	**Floating rate Instruments**	**Less than 1 month**	**Between 1 month and 3 months**	**Between 3 months and 1 year**	**More than 1 year**
Assets						
Cash and balances with Central Banks	100,004	83,963	16,041	-	-	-
Financial assets held for trading	3,072	-	3,072	-	-	-
Available for sale investments	705,955	31,587	674,368	-	-	-
Financial assets held to maturity	92,351	-	34,652	13,666	25,302	18,731
Loans and advances to banks and other financial institutions	13,500	405	445	-	3,989	8,661
Loans and advances to customers	4,101,827	3,292,079	78,236	53,747	256,919	420,846
Total interest-bearing assets	**5,016,709**	**3,408,034**	**806,814**	**67,413**	**286,210**	**448,238**
Liabilities						
Due to banks	2,597	2,597	-	-	-	-
Due to other customers	6,018,568	848,891	584,332	947,193	2,499,650	1,138,502
Liabilities evidenced by paper	77,304	4,875	36,164	57	2,896	33,312
Subordinated term debt	54,988	-	-	-	-	54,988
Perpetual debt	102,927	-	-	-	-	102,927
Hybrid debt	123,901	-	-	-	-	123,901
Total interest-bearing liabilities	**6,380,285**	**856,363**	**620,496**	**947,250**	**2,502,546**	**1,453,630**

Notes to the financial statements

3. Risk management disclosures, continued

B. Non-trading activities, continued

(ii) Market risk, continued

Currency risk

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

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

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

in BGN '000	**2013**	**2012**
Monetary assets		
Euro	4,841,317	4,859,149
US dollar	502,494	486,038
Other	98,866	82,016
Gold bullion	10,384	10,728
Monetary liabilities		
Euro	3,126,893	3,062,103
US dollar	501,594	487,620
Other	97,605	81,999
Gold bullion	7,404	-
Net position		
Euro	1,714,424	1,797,046
US dollar	900	(1,582)
Other	1,261	17
Gold bullion	2,980	10,728

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

(iii) Credit risk

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

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

Notes to the financial statements

3. Risk management disclosures, continued

B. Non-trading activities, continued

(iii) Credit risk, continued

31 December 2013

in BGN '000

Class of exposure	**Gross amount of loans and advances to customers**	**Carrying amount of loans and advances to customers**
Collectively impaired		
Standard	4,035,318	4,030,510
Individually impaired		
Watch	388,219	364,071
Nonperforming	269,484	242,198
Loss	402,948	235,117
Total	**5,095,969**	**4,871,896**

31 December 2012

in BGN '000

Class of exposure	**Gross amount of loans and advances to customers**	**Carrying amount of loans and advances to customers**
Collectively impaired		
Standard	3,791,155	3,786,560
Individually impaired		
Watch	238,554	223,957
Nonperforming	317,468	294,346
Loss	282,153	158,231
Total	**4,629,330**	**4,463,094**

As at 31 December 2013 the gross amount of overdue advances to customers measured as 90+ days exposures is BGN 627,026 thousand (2012: BGN 434,408 thousand).

In addition, the Bank is exposed to off-balance sheet credit risk through commitments to extend credits and issue contingent liabilities (See Note 32).

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

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

3. Risk management disclosures, continued

B. Non-trading activities, continued

(iii) Credit risk, continued

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

in BGN '000	**2013**	**2012**
Trade	1,339,534	1,169,503
Industry	1,304,913	1,173,451
Services	410,189	451,190
Finance	93,763	90,821
Transport, logistics	231,532	248,475
Communications	67,218	70,015
Construction	185,693	173,417
Agriculture	94,547	84,706
Tourist services	150,990	143,869
Infrastructure	320,942	150,482
Private individuals	882,565	858,224
Other	14,083	15,177
Allowance for impairment	(224,073)	(166,236)
Total	**4,871,896**	**4,463,094**

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

The Bank has extended loans, confirmed letters of credit and granted guarantees to 15 individual clients or groups (2012: 22) with each individual exposure exceeding 10% of the capital base of the Bank. The total amount of these exposures is BGN 1,735,041 thousand which represents 242.13% of the capital base (2012: BGN 1,886,855 thousand which represented 307.15 % of the capital base) of which BGN 1,671,176 thousand (2012: BGN 1,696,770 thousand) represent loans and BGN 63,865 thousand (2012: BGN 190,085 thousand) represent guarantees, letters of credit and other commitments.

Loans extended by the branch in Cyprus amount to BGN 503,656 thousand (gross carrying amount before any allowances) (2012: BGN 483,331 thousand).

The amounts reflected in the tables represent the maximum accounting loss that would be recognised at the statement of financial position date if counterparts failed completely to perform as contracted and any collateral or security proved to be of no value. The amounts, therefore, greatly exceed expected losses, which are included in the allowance for impairment.

3. Risk management disclosures, continued

B. Non-trading activities, continued

(iii) Credit risk, continued

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

Collateral for loans, guarantees, and letters of credit is usually in the form of mortgage, cash, plant and equipment, securities, or other property.

The table below shows a breakdown of total loans and advances extended to customers by the Bank by type of collateral, excluding credit cards in the amount of BGN 214,277 thousand (2012: BGN 201,295 thousand):

in BGN '000	**2013**	**2012**
Mortgage	1,121,916	1,540,821
Pledge of receivables	804,279	601,041
Pledge of commercial enterprise	524,001	581,575
Securities	123,320	158,282
Guarantee	5,622	6,308
Other guaranties	689,455	269,780
Pledge of goods	130,353	167,115
Pledge of machines	453,643	258,440
Money deposit	233,468	169,590
Stake in capital	463,326	374,096
Gold	18	97
Other collateral	266,067	250,175
Unsecured	66,224	50,715
Total	**4,881,692**	**4,428,035**

Other collateral includes insurance policies up to the amount of the insurance cover, future receivables, remuneration transfers, etc.

Residential mortgage lending

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

in BGN '000	**2013**	**2012**
Loan to value (LTV) ratio		
Less than 50%	168,544	170,841
51% to 70%	79,338	80,627
71% to 90%	71,204	80,256
91% to 100%	15,687	15,451
More than 100%	21,184	14,531
Total	**355,957**	**361,706**

Notes to the financial statements

3. Risk management disclosures, continued

B. Non-trading activities, continued

(iii) Credit risk, continued

Loans to corporate customers

The loans to corporate customers are subject to individual credit appraisal and impairment testing. The general creditworthiness of a corporate customer tends to be the most relevant indicator of credit quality of a loan. However, collateral provides additional security and the Bank requests corporate borrowers to provide it. The Bank takes collateral in the form of a first charge over real estate, floating charges over all corporate assets, and other liens and guarantees.

The Bank routinely analyses collateral for possible changes in value due to market conditions, legal framework or debtor's actions. Where such changes lead to a breach in the requirements for sufficiency of collateral, the Bank requires provision of additional collateral within a certain timeframe.

As at 31 December 2013 the net carrying amount of individually impaired loans to corporate customers amounts to BGN 471,411 thousand (2012: BGN 427,663 thousand) and the value of collateral held against those loans amounts to BGN 1,293,880 thousand (2012: BGN 927,443 thousand).

(iv) Government debt exposures

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

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

3. Risk management disclosures, continued

B. Non-trading activities, continued

(iv) Government debt exposures, continued

in BGN '000

31 December 2013

Portfolio	Bulgaria	Belgium	Italy	Spain	Portugal	European Financial Stability Facility
Financial assets held for trading	3,280	-	-	-	-	-
Available for sale investments	190,176	136,853	-	-	-	9,845
Financial assets held to maturity	-	-	78,010	35,105	9,763	-
Total	**193,456**	**136,853**	**78,010**	**35,105**	**9,763**	**9,845**

in BGN '000

31 December 2012

Portfolio	Bulgaria	Belgium	Italy	Spain	European Financial Stability Facility
Financial assets held for trading	3,072	-	-	-	-
Available for sale investments	304,026	289,156	-	-	86,293
Financial assets held to maturity	34,652	-	23,409	15,559	-
Total	**341,750**	**289,156**	**23,409**	**15,559**	**86,293**

Notes to the financial statements

3. Risk management disclosures, continued

B. Non-trading activities, continued

(iv) Government debt exposures, continued

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

in BGN '000

Country issuer	Up to 1 Month	From 1 to 3 Months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Bulgaria	-	6,572	1,016	59,320	126,548	**193,456**
Belgium	-	-	136,853	-	-	**136,853**
Italy	-	39,049	38,961	-	-	**78,010**
Spain	-	9,770	25,335	-	-	**35,105**
Portugal	-	9,763	-	-	-	**9,763**
European Financial Stability Facility	-	-	-	9,845	-	**9,845**
Total	**-**	**65,154**	**202,165**	**69,165**	**126,548**	**463,032**

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

in BGN '000

Country issuer	Up to 1 Month	From 1 to 3 Months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Bulgaria	191,991	-	-	72,464	77,295	**341,750**
Belgium	-	113,375	175,781	-	-	**289,156**
Italy	-	13,666	9,743	-	-	**23,409**
Spain	-	-	15,559	-	-	**15,559**
European Financial Stability Facility	-	58,895	7,816	19,582	-	**86,293**
Total	**191,991**	**185,936**	**208,899**	**92,046**	**77,295**	**756,167**

3. Risk management disclosures, continued

C. Solvency ratio (Capital adequacy)

The Bank's lead regulator, the Bulgarian National Bank (BNB) sets and monitors capital requirements both on consolidated and stand-alone basis. BNB issued Ordinance 8 on Capital Adequacy of Credit Institutions effective from 01 January 2007 that is the Bulgarian supervisory implementation of the International Convergence of Capital Measurement and Capital Standards (Revised Framework), known as Basel II and complies with EU Directives 2006/48/EC and 2006/49/EC. In implementing current capital requirements the Bank is required to maintain a minimum prescribed ratio of 12% of total capital to total risk-weighted assets and a minimum prescribed ratio of 6% of Tier 1 capital to total risk-weighted assets. Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. As the Bank holds insignificant trading book, the Bank does not apply capital requirements to its exposures in trading portfolio in respect to market risk and calculates required capital for trading instruments in accordance with the provisions for banking book.

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

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

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

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

- Tier 1 capital, which includes ordinary share capital, share premium, statutory reserve, other general reserves, current half-year audited profit and hybrid instruments without incentive to redeem after deductions for goodwill and other intangible assets and unrealised loss from available for sale investments.
- Tier 2 capital, which includes qualifying subordinated liabilities, namely perpetual debt and subordinated term debt.

Following limits are applied to elements of the capital base: qualifying tier 2 capital cannot exceed tier 1 capital; qualifying term subordinated loan capital may not exceed 50 percent of tier 1 capital; and qualifying hybrid debt without incentive to redeem cannot exceed 35 percent of tier 1 capital. Deductions from the Bank's capital base include the balance-sheet value of unconsolidated investments in subsidiaries and specific provisions for credit risk which as at 31 December 2013 amount to BGN 44,461 thousand (2012: BGN 55,468 thousand).

The Bank has complied with the externally imposed capital requirements throughout the period.

3. Risk management disclosures, continued

C. Capital adequacy, continued

Capital adequacy level was as follows:

in BGN '000	Balance sheet/notional amount		Risk weighted assets	
	2013	**2012**	**2013**	**2012**
Risk weighted assets for credit risk				
Balance sheet assets				
Exposure class				
Central governments and central banks	1,172,278	1,653,774	2,094	2,553
Multirateral development banks	144	-	-	-
Institutions	546,295	163,449	124,202	52,476
Corporates	3,357,530	3,095,352	3,060,809	2,903,269
Retail	506,331	473,392	349,356	341,187
Claims secured by residential property	561,119	574,903	196,392	201,216
Overdue items	402,454	263,979	402,454	263,979
Collective investment undertaking	2,140	1,933	2,140	1,933
Other items	767,017	562,923	621,610	427,382
Total	**7,315,308**	**6,789,705**	**4,759,057**	**4,193,995**
Off balance sheet items				
Exposure class				
Central governments and central banks	13	-	-	-
Institutions	11,876	11,406	2,814	3,271
Corporates	334,876	494,451	117,514	170,046
Retail	344,819	234,215	2,991	171
Claims secured by residential property	6,397	8,753	1,095	1,523
Other items	-	-	165	24
Total	**697,981**	**748,825**	**124,579**	**175,035**
Derivatives				
Exposure class				
Institutions	1,097	1,669	219	334
Corporates	29	547	29	547
Other items	3,776	1,109	3,776	1,109
Total	**4,902**	**3,325**	**4,024**	**1,990**
Total risk-weighted assets for credit risk			**4,887,660**	**4,371,020**
Risk-weighted assets for market risk			**7,740**	**12,396**
Risk-weighted assets for operational risk			**379,546**	**357,990**
Total risk-weighted assets			**5,274,946**	**4,741,406**

Capital adequacy ratios	Capital		Capital ratios %	
	2013	**2012**	**2013**	**2012**
Tier 1 Capital	**661,741**	**548,933**	**12.54%**	**11.58%**
Total capital base	**716,575**	**614,301**	**13.58%**	**12.96%**

4. Segment Reporting

Segment information is presented in respect of the Bank'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 Bank operates principally in Bulgaria, but also has operations in Cyprus.

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**	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
Interest income	411,083	424,242	35,368	30,737	446,451	454,979
Interest expense and similar charges:	(283,642)	(306,642)	(475)	(858)	(284,117)	(307,500)
Net interest income	**127,441**	**117,600**	**34,893**	**29,879**	**162,334**	**147,479**
Fee and commission income	95,150	80,701	870	889	96,020	81,590
Fee and commission expense	(10,578)	(9,380)	(5)	(8)	(10,583)	(9,388)
Net fee and commission income	**84,572**	**71,321**	**865**	**881**	**85,437**	**72,202**
Net trading income	**8,522**	**8,138**	**10**	**60**	**8,532**	**8,198**
Administrative expenses	**(144,523)**	**(151,598)**	**(912)**	**(854)**	**(145,435)**	**(152,452)**
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
Assets	**6,935,791**	**6,416,281**	**510,152**	**491,056**	**7,445,943**	**6,907,337**
Liabilities	**6,881,449**	**6,365,278**	**25,890**	**31,327**	**6,907,339**	**6,396,605**

4. Segment Reporting, continued

The table below shows assets and liabilities and income and expense by business segments as at 31 December 2013.

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	4,026,275	1,413,509	330,807	(40,551)	53,251	-	-
Retail Banking	845,621	4,984,034	103,800	(205,111)	12,871	-	-
Card business	-	-	-	-	17,662	-	-
Treasury	1,866,861	56,163	11,844	(544)	1,042	8,532	2,329
Other	707,186	453,633	-	(37,911)	611	-	-
Total	**7,445,943**	**6,907,339**	**446,451**	**(284,117)**	**85,437**	**8,532**	**2,329**

5. 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.

Notes to the financial statements

5. 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.
- Significant valuation issues are reported to the Audit Committee of the Bank.

5. Financial assets and liabilities, continued

Accounting classification and fair values, continued

The tables below represent an analysis of financial insturments at fair value at the end of the reporting period classified by level within the hierarchy of fair values cateogrised by the measurement of fair values. The amounts are based on the amounts given in the statement of financial position.

in BGN '000

31 December 2013	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets held for trading	6,466	-	-	6,466
Available for sale investments	336,874	19,220	88,520	444,614
Derivatives held for risk management	3,702	(684)	-	3,018
Total	**347,042**	**18,536**	**88,520**	**454,098**

in BGN '000

31 December 2012	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets held for trading	5,998	-	-	5,998
Available for sale investments	679,475	26,480	41,580	747,535
Derivatives held for risk management	1,088	(1,309)	-	(221)
Total	**686,561**	**25,171**	**41,580**	**753,312**

The movement of financial insturments from Level 3 in 2013 was, as follows:

in BGN '000	**Available for sale investments**
Balance as at 1 January 2013	**41,580**
Increases	
Purchases	46,940
Balance at 31 December 2013	**88,520**

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

The tables below analyse the fair values of financial insturments not reported by fair value, by level in the hierarchy of fair values, where the value is categorised by fair value.

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	-	1,062,709	-	1,062,709	1,062,709
Financial assets held to maturity	122,963	17,694	-	140,657	141,222
Loans and advances to banks and other financial institutions	-	291,459	-	291,459	291,459
Loans and advances to	-	841,386	4,035,019	4,876,405	4,871,896
Total	**122,963**	**2,213,248**	**4,035,019**	**6,371,230**	**6,367,286**
Liabilities					
Due to banks	-	16,728	-	16,728	16,728
Due to other customers	-	1,064,559	5,331,269	6,395,828	6,397,543
Liabilities evidenced by paper	-	147,745	-	147,745	147,745
Subordinated term debt	-	24,655	-	24,655	24,655
Perpetual debt	-	103,068	-	103,068	103,068
Hybrid debt	-	200,230	-	200,230	205,251
Total	**-**	**1,556,985**	**5,331,269**	**6,888,254**	**6,894,990**

in BGN '000

31 December 2012	**Level 1**	**Level 2**	**Level 3**	**Total fair values**	**Total balance sheet value**
Assets					
Cash and balances with Central Banks	-	1,121,844	-	1,121,844	1,121,844
Financial assets held to maturity	73,614	18,731	-	92,345	92,351
Loans and advances to banks and other financial institutions	-	18,290	-	18,290	18,290
Loans and advances to customers	-	676,534	3,786,560	4,463,094	4,463,094
Total	**73,614**	**1,835,399**	**3,786,560**	**5,695,573**	**5,695,579**
Liabilities					
Due to banks	**-**	2,597	**-**	2,597	2,597
Due to other customers	**-**	856,357	5,168,173	6,024,530	6,024,530
Liabilities evidenced by paper	**-**	77,304	**-**	77,304	77,304
Subordinated term debt	**-**	54,988	**-**	54,988	54,988
Perpetual debt	**-**	102,927	**-**	102,927	102,927
Hybrid debt	**-**	123,901	**-**	123,901	123,901
Total	**-**	**1,218,074**	**5,168,173**	**6,386,247**	**6,386,247**

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

Where available, the fair value of loans extended to other cunstomers is based on observable market transactions. Where observable market data is not available, the fair value is determined on the basis of valuation models, such as techniques for discounted cash flows. Inputs for valuation techniques include expected loss during the loan's life, market interest levels, expected prepayment. For impaired loans with collateral the fair value is based on assessing the fair value of the collateral provided.
In order to acheve greater valuation accuracy, the loans are grouped in portfolios with similar characteristics such as product, type of company, maturity, currency, collateral type.
The fair value of deposits from customers is caluculated using techniques for discounted cash flows applying interest levels relevant for deposits with similar maturity and conditions. The fair value of demand deposits is the amount payable at the date of the financial statement.

6. Net interest income

in BGN '000	**2013**	**2012**
Interest income		
Accounts with and placements to banks and financial institutions	2,582	1,869
Retail Banking	100,830	96,474
Corporate customers	308,716	318,065
Small and medium enterprises	22,091	23,220
Microlending	2,970	3,110
Debt instruments	9,262	12,241
	446,451	**454,979**
Interest expense and similar charges:		
Deposits from banks	(11)	(5)
Deposits from other customers	(245,662)	(274,327)
Liabilities evidenced by paper	(2,212)	(4,143)
Subordinated term debt	(8,607)	(8,340)
Perpetual debt	(12,187)	(12,186)
Hybrid debt	(15,403)	(8,468)
Lease agreements and other	(35)	(31)
	(284,117)	**(307,500)**
Net interest income	**162,334**	**147,479**

For 2013 the recognized interest income from individually impaired financial assets (loans to customers) amounted to BGN 47,475 thousand (2012: BGN 47,665 thousand).

7. Net fee and commission income

in BGN '000

Fee and commission income	**2013**	**2012**
Letters of credit and guarantees	7,589	8,182
Payments transactions	10,253	9,630
Customer accounts	18,699	15,405
Card services	26,652	23,671
Other	32,827	24,702
	96,020	**81,590**
Fee and commission expense		
Letters of credit and guarantees	(431)	(680)
Deposits to banks and other financial institutions	(734)	(722)
Card services	(8,990)	(7,555)
Other	(428)	(431)
	(10,583)	**(9,388)**
Net fee and commission income	**85,437**	**72,202**

8. Net trading income

in BGN '000	**2013**	**2012**
Net trading income/(expense) arises from:		
- Debt instruments	245	271
- Equities	213	(131)
- Foreign exchange rate fluctuations	8,074	8,058
Net trading income	**8,532**	**8,198**

9. Other net operating income

in BGN '000	**2013**	**2012**
Other net operating income arising from:		
- Debt instruments	2,329	2,303
- Equities	-	510
Other net operating income	**2,329**	**2,813**

Notes to the financial statements

10. Administrative expenses

in BGN '000	**2013**	**2012**
General and administrative expenses comprise:		
- Personnel cost	52,031	50,238
- Depreciation and amortisation	19,121	20,280
- Advertising	6,196	7,670
- Building rent expense	23,430	30,778
-Telecommunication, software and other computer maintenance	14,950	13,882
- Administration, consultancy, audit and other costs	29,707	29,604
Administrative expenses	**145,435**	**152,452**

Personnel costs include salaries, social and health security contributions under the provisions of the local legislation. At 31 December 2013 the total number of employees was 2,708 (31 December 2012: 2,691).

11. Allowance for impairment

in BGN '000	**2013**	**2012**
Write-downs		
Loans and advances to customers	(74,525)	(44,827)
Reversal of write-downs		
Loans and advances to customers	13,462	8,792
Impairment, net	**(61,063)**	**(36,035)**

12. Income tax expense

	2013	**2012**
Current taxes	(3,434)	(3,791)
Deferred taxes (See Note 21)	423	568
Income tax expense	**(3,011)**	**(3,223)**

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

in BGN '000	**2013**	**2012**
Accounting profit before taxation	**28,869**	**32,138**
Corporate tax at applicable tax rate (10% for 2013 and 10% for 2012)	2,887	3,214
Ефект от данъчни ставки в други юрисдикции*	112	-
Tax effect of permanent tax differences	6	85
Other	6	(76)
Income tax expense	**3,011**	**3,223**
Effective tax rate	10.43%	10.03%

* The tax rates in other jurisdictions were increased in 2013.

13. Cash and balances with Central Banks

in BGN '000	**2013**	**2012**
Cash on hand		
- in BGN	99,829	87,391
- in foreign currency	36,178	36,803
Balances with Central Banks	699,919	901,305
Current accounts and amounts with foreign banks	226,783	96,345
Total	**1,062,709**	**1,121,844**

14. Financial assets held for trading

in BGN '000	**2013**	**2012**
Bonds and notes issued by:		
Bulgarian government, rated BBB:		
- denominated in Bulgarian Leva	3,280	3,061
- denominated in foreign currencies	-	11
Other issuers – equity instruments (unrated)	3,186	2,926
Total	**6,466**	**5,998**

15. Available for sale investments

In thousands of BGN	**2013**	**2012**
Bonds and notes issued by:		
Bulgarian Government		
- denominated in Bulgarian Leva	110,644	82,794
- denominated in foreign currencies	79,532	221,232
Foreign governments		
- treasury bills	136,853	355,867
- treasury bonds	9,845	19,582
Foreign banks	19,220	26,480
Other issuers – equity instruments	5,209	5,209
Investments in subsidiaries	83,311	36,371
Total	**444,614**	**747,535**

15. Available for sale investments, continued

Investments in subsidiaries (see Note 36) are as follows:

in BGN '000

Entity:	% held	2013	2012
First Investment Finance B.V., Netherlands	100%	3,947	3,947
Diners Club Bulgaria AD	94.79%	5,443	5,443
First Investment Bank – Albania Sh.a.	100%	23,419	23,419
Debita OOD	70%	105	105
Realtor OOD	51%	77	77
Fi Health Insurance AD	59.10%	3,315	3,315
Framas Enterprises Limited	100%	15	15
Balkan Financial Services EAD	100%	50	50
Turnaround Management EOOD	100%	-	-
Creative Investment EOOD	100%	-	-
Lega Solutions EOOD	100%	-	-
Unionbank EAD	100%	46,940	-
Total		**83,311**	**36,371**

16. Financial assets held to maturity

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

in BGN '000	2013	2012
Securities held to maturity issued by:		
Bulgarian Government	-	34,652
Foreign governments	122,878	38,968
Foreign banks	18,344	18,731
Total	**141,222**	**92,351**

17. Loans and advances to banks and other financial institutions

(a) Analysis by type

in BGN '000	**2013**	**2012**
Placements with banks	271,508	13,486
Receivables under resale agreements (see Note 30)	13,658	-
Other	6,293	4,804
Total	**291,459**	**18,290**

(b) Geographical analysis

in BGN '000	**2013**	**2012**
Domestic banks and financial institutions	256,367	2,197
Foreign banks and other financial institutions	35,092	16,093
Total	**291,459**	**18,290**

18. Loans and advances to customers

in BGN '000	**2013**	**2012**
Retail Banking		
- Consumer loans	315,463	290,477
- Mortgage loans	355,957	361,706
- Credit cards	214,277	201,295
Small and medium enterprises	277,223	251,191
Microlending	32,621	30,075
Corporate customers	3,900,428	3,494,586
Allowance for impairment	(224,073)	(166,236)
Total	**4,871,896**	**4,463,094**

(a) Movement in impairment allowances

in BGN '000	
Balance as at 1 January 2013	**166,236**
Additional allowances	74,525
Amounts released	(13,462)
Write - offs	(3,226)
Balance at 31 December 2013	**224,073**

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 2012	12,915	117,015	5,840	26,391	58,795	220,956
Additions	-	9	-	14,177	-	14,186
Elimination of amortisation prior to revaluation	(3,360)	-	-	-	-	(3,360)
Revaluation	5,000	-	-	-	-	5,000
Disposals	-	(2,193)	(358)	(7)	(83)	(2,641)
Transfers	-	6,572	536	(10,852)	2,236	(1,508)
At 31 December 2012	14,555	121,403	6,018	29,709	60,948	232,633
Additions	-	5	-	5,717	-	5,722
Disposals	-	(2,519)	(327)	-	(1,649)	(4,495)
Transfers	1,341	11,056	319	(14,408)	1,295	(397)
At 31 December 2013	**15,896**	**129,945**	**6,010**	**21,018**	**60,594**	**233,463**
Amortisation						
At 1 January 2012	4,017	76,866	5,160	-	18,971	105,014
Charge for the period	448	13,311	373	-	3,843	17,975
Elimination of amortisation prior to revaluation	(3,360)	-	-	-	-	(3,360)
On disposals	-	(2,169)	(358)	-	(82)	(2,609)
At 31 December 2012	1,105	88,008	5,175	-	22,732	117,020
Accrued during the year	537	12,125	320	-	3,791	16,773
On disposals	-	(2,429)	(327)	-	(1,649)	(4,405)
At 31 December 2013	**1,642**	**97,704**	**5,168**	**-**	**24,874**	**129,388**
Net book value						
At 1 January 2012	**8,898**	**40,149**	**680**	**26,391**	**39,824**	**115,942**
At 31 December 2012	**13,450**	**33,395**	**843**	**29,709**	**38,216**	**115,613**
At 31 December 2013	**14,254**	**32,241**	**842**	**21,018**	**35,720**	**104,075**

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

Notes to the financial statements

19. Property and equipment, continued

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

20. Non-tangible assets

in BGN '000	**Software and licences**	**Total**
Cost		
At 1 January 2012	21,789	21,789
Disposals	(168)	(168)
Transfers	1,508	1,508
At 31 December 2012	23,129	23,129
Transfers	397	397
At 31 December 2013	**23,526**	**23,526**
Amortisation		
At 1 January 2012	7,446	7,446
Charge for the period	2,305	2,305
On disposals	(168)	(168)
At 31 December 2012	9,583	9,583
Accrued during the year	2,348	2,348
At 31 December 2013	**11,931**	**11,931**
Net book value		
At 1 January 2012	**14,343**	**14,343**
At 31 December 2012	**13,546**	**13,546**
At 31 December 2013	**11,595**	**11,595**

21. Deferred Taxation

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

Deferred income tax balances are attributable to the following items in the statement of financial position:

in BGN '000	**Assets**		**Liabilities**		**Net**	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
Property, equipment and intangibles	-	-	3,066	3,482	3,066	3,482
Other	(263)	(256)	334	334	71	78
Net tax (assets)/liabilities	**(263)**	**(256)**	**3,400**	**3,816**	**3,137**	**3,560**

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

in BGN '000

	2012	**Recognised in profit or loss for the period**	**2013**
Property, equipment and intangibles	3,482	(416)	3,066
Other	78	(7)	71
Net tax (assets)/liabilities	**3,560**	**(423)**	**3,137**

22. Other assets

in BGN '000	**2013**	**2012**
Deferred expense	18,771	11,121
Gold bullion	10,384	10,728
Other	478,822	304,012
Total	**507,977**	**325,861**

As at 31 December 2013 "Other" include acquired collateral amounting to BGN 455,120 thousand (31 December 2012: BGN 285,506 thousand) valued at the lower of the acquisition cost or the expected net selling price.

23. Due to banks

in BGN '000	**2013**	**2012**
Term deposits	14,190	-
Payable on demand	2,538	2,597
Total	**16,728**	**2,597**

Notes to the financial statements

24. Due to other customers

in BGN '000	**2013**	**2012**
Retail customers		
- current accounts	549,376	479,900
- term and savings deposits	4,434,658	4,419,293
Businesses and other non-financial institutions		
- current accounts	515,183	376,457
- term deposits	898,326	748,880
Total	**6,397,543**	**6,024,530**

25. Liabilities evidenced by paper

in BGN '000	**2013**	**2012**
Acceptances under letters of credit	5,763	2,564
Liabilities under repurchase agreements (see Note 30)	38,751	35,236
Other term liabilities	103,231	39,504
Total	**147,745**	**77,304**

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

26. Subordinated term debt

As at 31 December 2013 the Bank has entered into three separate subordinated Loan Agreements. All these subordinated Loan Agreements are governed by English Law and the funds raised outside the Republic of Bulgaria.
Subordinated liabilities can be analysed as follows:

in BGN '000

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

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

27. Perpetual debt

in BGN '000

	Principal amount	Amortised cost as at 31 December 2013
Step-up Guaranteed Perpetual Subordinated Bonds EUR 27 mio	52,807	57,512
Step-up Guaranteed Perpetual Subordinated Bonds EUR 21 mio	41,073	45,556
Total	**93,880**	**103,068**

in BGN '000

	Principal amount	Amortised cost as at 31 December 2012
Step-up Guaranteed Perpetual Subordinated Bonds EUR 27 mio	52,807	57,364
Step-up Guaranteed Perpetual Subordinated Bonds EUR 21 mio	41,073	45,563
Total	**93,880**	**102,927**

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 First Investment Bank AD was fully guaranteed by the Bank. The terms and conditions of the debt capital instruments fully comply with Ordinance 8 on Capital Adequacy of Credit Institutions issued by BNB. The amounts received for the perpetual subordinated bonds are included in Tier 2 capital after respective Permissions by Bulgarian National Bank.

28. Hybrid debt

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 BGN '000

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

In March 2011 the Bank issued a hybrid instrument (bond issue) and, after obtaining permission from the Bulgarian National Bank, included it as Tier 1 capital pursuant to Art. 3a of Ordinance 8 on Capital Adequacy of Credit Institutions. The Bank placed the bond issue under private subscription with a total nominal and issue value of EUR 20,000 thousand, constituting the first tranche of a bond issue for up to EUR 40,000 thousand. 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 Ordinance 8 on Capital Adequacy of Credit Institutions. The Bank placed the bond issue under private subscription for a total nominal value of EUR 20 000 thousand, constituting the first tranche of a bond issue with an envisaged total amount of up to EUR 60,000 thousand. In November 2013 the Bank issued the second and third tranche of the instrument, amounting to a total of EUR 40,000 thousand, which, following permission from the Bulgarian National Bank, were included in tier one capital.

29. Other liabilities

in BGN '000	2013	2012
Liabilities to personnel	2,277	2,177
Other payables	5,805	3,134
Total	**8,082**	**5,311**

30. Repurchase and resale agreements

The Bank 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 December 2013 assets sold under repurchase agreements were as follows:

in BGN '000	**Fair value of underlying assets**	**Carrying amount of corresponding liabilities**
Bulgarian government securities	15,909	15,870
Foreign government securities	22,866	22,881
Total	**38,775**	**38,751**

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

in BGN '000	**Fair value of underlying assets**	**Carrying amount of corresponding liabilities**
Foreign government securities	35,285	35,236
Total	**35,285**	**35,236**

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 December 2013 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	13,850	13,658
Total	**13,850**	**13,658**

At 31 December 2012 there were no assets purchased under repurchase agreements.

31. Capital and reserves

(a) Number and face value of registered shares as at 31.12.2013

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

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

(b) Shareholders

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

	Number of shares	**% of issued share capital**
Mr. Ivailo Dimitrov Mutafchiev	31,830,000	28.94
Mr. Tzeko Todorov Minev	31,830,000	28.94
Legnano Enterprise Limited, Cyprus	8,450,000	7.68
Domenico Ventures Limited, British Virgin Islands	10,695,000	9.72
Rafaela Consultants Limited, British Virgin Islands	10,695,000	9.72
Other shareholders (shareholders holding shares subject to free trade on the Bulgarian Stock Exchange – Sofia)	16,500,000	15.00
Total	**110,000,000**	**100.00**

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

(c) Statutory reserve

Statutory reserves include amounts set aside for purposes regulated by local legislation. According to Bulgarian legislation the Bank is obliged to set aside at least 1/10 of its annual profit as statutory reserve until the total amount of reserves reaches 1/10 of the Bank's share capital.

In 2013, as in the previous year, the Bank did not distribute dividends.

32. Commitments and contingent liabilities

(a) Contingent liabilities

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

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

in BGN '000	**2013**	**2012**
Guarantee		
- in BGN	142,699	178,464
- in foreign currency	128,221	197,613
Total guarantees	**270,920**	**376,077**
Unused credit lines	395,058	355,995
Promissory notes	812	2,448
Letters of credit	31,191	14,305
Total	**697,981**	**748,825**

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

As at the date of the report there are no other significant contingent liabilities and commitments requiring additional disclosure.

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

33. Cash and cash equivalents

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

in BGN '000	**2013**	**2012**
Cash and balances with Central Banks	1,062,709	1,121,844
Loans and advances to banks and financial institutions with original maturity less than 3 months	246,101	5,640
Total	**1,308,810**	**1,127,484**

34. Average balances

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

in BGN '000	**2013**	**2012**
FINANCIAL ASSETS		
Cash and balances with Central Banks	1,216,898	992,726
Financial assets held for trading	6,272	7,599
Available for sale investments	478,339	776,324
Financial assets held to maturity	125,467	72,132
Loans and advances to banks and other financial institutions	82,481	88,662
Loans and advances to customers	4,625,583	4,314,648
FINANCIAL LIABILITIES		
Due to banks	8,316	2,598
Due to other customers	6,143,227	5,702,763
Liabilities evidenced by paper	96,917	96,246
Subordinated term debt	54,175	52,222
Perpetual debt	102,457	102,034
Hybrid debt	136,017	69,885

35. Related party transactions

Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party on making financial or operational decisions, or the parties are under common control with the Bank.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and other transactions. These transactions were carried out on commercial terms and at market rates. The volume of these transactions and outstanding balances at the end of respective periods are as follows:

Type of related party	**Parties that control or manage the Bank**		**Enterprises under common control**	
in BGN '000	**2013**	**2012**	**2013**	**2012**
Loans				
Loans outstanding at beginning of the period	1,349	1,674	40,803	34,749
Loans issued/(repaid) during the period	(118)	(325)	(6,620)	6,054
Loans outstanding at end of the period	1,231	1,349	34,183	40,803
Deposits and loans received:				
At beginning of the period	12,369	11,466	147,502	147,633
Received/(paid) during the period	3,785	903	4,033	(131)
At the end of the period	16,154	12,369	151,535	147,502
Deposits placed				
Deposits at beginning of the period	-	-	4,435	3,916
Deposits placed during the year	-	-	235,388	519
Deposits at end of the period	-	-	239,823	4,435
OFF-BALANCE SHEET COMMITMENTS ISSUED BY THE BANK				
At beginning of the period	1,841	1,843	4,221	10,874
Issued/(expired) during the period	(234)	(2)	(50)	(6,653)
At the end of the period	1,607	1,841	4,171	4,221

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

36. Subsidiaries

(a) First Investment Finance B.V.

In April 2003 the Bank created a special purpose entity, incorporated in the Netherlands, First Investment Finance B.V. The purpose for creating the entity is to accomplish a narrow and well-defined objective of receiving loans from foreign financial institutions and attracting investors by issuing bonds and other financial instruments guaranteed by the Bank. The entity's issued and paid up share capital is EUR 90 thousand divided into 900 ordinary shares, each with nominal value of EUR 100. 180 shares have been issued and paid up.

Notes to the financial statements

36. Subsidiaries, continued

(b) Diners Club Bulgaria AD

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

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

In April 2006 the Bank acquired 99.9998% of the capital of First Investment Bank − Albania Sh.a. upon its incorporation. On 27 June 2007 First Investment Bank – Albania was granted a full banking licence by the Bank of Albania, and on 1 September 2007 it effectively took over the activities of the former branch FIB – Tirana, assuming all rights and obligations, assets and liabilities.

As at 31 December 2013 the share capital of First Investment Bank – Albania Sh.a. was EUR 11,975 thousand, fully paid up, and the Bank's shareholding is 100%.

(d) Debita OOD and Realtor OOD

Acting jointly the Bank and First Financial Brokerage House OOD (FFBH) set up two new companies Debita OOD and Realtor OOD, which were entered in the Commercial Registry in January 2010. The capital of the two companies is BGN 150,000 each, distributed in shares with value of BGN 100 each, as follows:

1. Debita OOD - 70%, i.e. 1,050 shares for the Bank and 30%, i.e. 450 shares for FFBH OOD.

2. Realtor OOD - 51%, i.e. 765 shares for the Bank and 49%, i.e. 735 shares for FFBH OOD.

The companies were established as servicing companies within the meaning of Article 18 of the Law on Special Investment Purpose Companies. The main lines of business for Debita OOD include acquisition, servicing, management and disposal of receivables and the related consultancy services; the main lines of business for Realtor OOD include management, servicing and maintenance of real estate, construction and refurbishment works and consultancy in the field of real estate.

(e) Fi Health Insurance AD

In the second half of 2010 the Bank acquired a majority stake capital of Health Insurance Fund FI Health AD (formerly Health Insurance Fund Prime Health AD), a company engaged in voluntary health insurance as well as acquisition, management and sale of investments in other companies. With a decision of the Financial Supervision Commission issued in June 2013 the company has been granted a license to operate as an insurer. The name was changed to FI Health Insurance AD and the principal activity is insurance – Disease and Accident. As at 31 December 2013 the share capital of the company is BGN 5,000 thousand, and the Bank's shareholding is 59.10%.

(f) Framas Enterprises Limited

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

Notes to the financial statements

36. Subsidiaries, continued

(g) Balkan Financial Services EAD

In February 2011 the Bank acquired 100 shares representing 100% of the capital of Balkan Financial Services EOOD. The company is engaged in consultancy services related to implementation of financial information systems and software development. In January 2012 the company was transformed into a sole-shareholder company. As at 31 December 2013 the share capital of the company is BGN 50 thousand, and the Bank's shareholding is 100%.

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

During the first half of 2013 the Bank established as the sole shareholder the companies Turnaround Management EOOD, Creative Investment EOOD and Lega Solutions EOOD. Each company has the minimum required capital of BGN 2 and their principal activities include manufacturing and trade in goods and services in Bulgaria and abroad (Turnaround Management EOOD, Creative Investment EOOD), acquisition, management and sale of assets, information processing, financial consultations (Lega Solutions EOOD), etc.

(i) Unionbank EAD

In October 2013 the Bank acquired 122,464,965 dematerialised voting shares representing 100% of the share capital of MKB Unionbank EAD. Following the acquisition the bank's name was changed from MKB Unionbank EAD to Unionbank EAD. The principal activities of Unionbank EAD include. receiving deposits or other refundable amounts and extension of loans or other financing at its own account and for its own risk. In performance of its activities the bank carries out other commercial transactions stated in its credit institution license in accordance with legal requirements. As at 31 December 2013 the share capital of the company is BGN 122,464,965 thousand, and the Bank's shareholding is 100%.

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

37. Post balance sheet events

On 9 January 2014 First Investment Bank AD was informed in accordance that Rafaela Consultants Limited, Domenico Ventures Limited (both registered in the British Virgin Islands) and Legnano Enterprises Limited (registered in the Republic of Cyprus) transferred the ownership over all 29,840,000 shares from the share capital of First Investment Bank which they owned. As a result these three companies no longer own shares in the share capital of First Investment Bank.

The Bank was also informed that on 9 January 2014 each of the majority shareholders, Messrs Ivaylo Dimitrov Mutafchiev and Tseko Todorov Minev acquired directly 14 920 000 additional First Investment Bank shares. As a result each of said shareholders will own 46 750 000 registered dematerialized shares of the Bank's share capital, i.e. the two shall own a total of 93 500 000 shares constituting 85% of the Bank's share capital.

On January 9, 2014 Messrs Ivaylo Dimitrov Mutafchiev and Tseko Todorov Minev submitted to the Managing Board of FIBank a tender offer registered with the Financial Supervision Commission to purchase the shares of other shareholders of First Investment Bank. In compliance with the requirements of the Law on the Pulbic Offering of Securities, the Managing Board of FIBank made the tender offer available to the employees of FIBank.