FIRST INVESTMENT BANK AD

CONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2014
WITH INDEPENDENT AUDITOR'S REPORT THEREON

Fibank
First Investment Bank

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

In thousands of BGN

	Note	2014	2013
Interest income		529,072	480,380
Interest expense		(237,161)	(298,669)
Net interest income	6	**291,911**	**181,711**
Fee and commission income		108,179	103,596
Fee and commission expense		(20,754)	(16,905)
Net fee and commission income	7	**87,425**	**86,691**
Net trading income	8	11,997	9,381
Other operating income	9	15,314	6,662
TOTAL INCOME FROM BANKING OPERATIONS		**406,647**	**284,445**
General administrative expenses	10	(190,981)	(156,239)
Impairment losses	11	(299,621)	(70,305)
Gain on bargain purchase of subsidiary		-	152,310
Other income/(expenses), net	12	119,665	(21,982)
PROFIT BEFORE TAX		**35,710**	**188,229**
Income tax expense	13	(4,946)	(3,325)
GROUP PROFIT AFTER TAX		**30,764**	**184,904**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		8	(77)
Available for sale financial assets		3,610	2,421
Other comprehensive income for the period		**3,618**	**2,344**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**34,382**	**187,248**
Profit attributable to:			
Owners of the Bank		30,774	184,920
Non-controlling interests		(10)	(16)
Total comprehensive income attributable to:			
Owners of the Bank		34,392	187,264
Non-controlling interests		(10)	(16)
Basic and diluted earnings per share *(in BGN)*	14	**0.28**	**1.68**

The consolidated statement of comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 70.

Dimitar Kostov
Executive Director
Chairman of the Management Board

Vassil Christov
Executive Director

Svetoslav Moldovanski
Executive Director

Maya Oyfalosh
Executive Director

Jivko Todorov
Chief Financial Officer

FIRST INVESTMENT BANK LTD • SOFIA •

According to independent auditor's report:
Tzvetelinka Koleva
Authorized representative
KPMG Bulgaria OOD

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

Margarita Goleva
Registered auditor

Fibank
First Investment Bank

Consolidated statement of financial position as at 31 December 2014

In thousands of BGN

	Note	2014	2013
ASSETS			
Cash and balances with central banks	15	1,651,945	1,347,555
Financial assets held for trading	16	9,646	16,423
Available for sale investments	17	486,975	423,640
Financial assets held to maturity	18	63,737	178,658
Loans and advances to banks and financial institutions	19	112,078	120,126
Loans and advances to customers	20	5,810,328	6,020,792
Property and equipment	21	109,025	115,964
Intangible assets	22	18,265	20,263
Derivative assets held for risk management		4,019	3,702
Deferred tax assets	23	46	48
Current tax assets		800	1,001
Repossessed assets	24	521,605	467,814
Other assets	25	39,413	62,007
TOTAL ASSETS		**8,827,882**	**8,777,993**
LIABILITIES AND CAPITAL			
Due to credit institutions	26	1,393	5,302
Due to other customers	27	6,699,677	7,535,756
Ministry of Finance deposit	27a	901,844	-
Other borrowed funds	28	177,544	196,444
Subordinated term debt	29	-	24,655
Perpetual debt	30	99,999	99,792
Hybrid debt	31	195,447	205,251
Derivative liabilities held for risk management		-	684
Deferred tax liabilities	23	3,336	3,137
Current tax liabilities		920	584
Other liabilities	32	20,825	13,873
TOTAL LIABILITIES		**8,100,985**	**8,085,478**
Issued share capital	33	110,000	110,000
Share premium	33	97,000	97,000
Statutory reserve	33	39,865	39,865
Revaluation reserve on available for sale investments		7,114	3,504
Revaluation reserve on land and buildings		4,500	4,500
Reserve from translation of foreign operations		(2,846)	(2,854)
Retained earnings	33	468,945	438,171
SHAREHOLDERS' EQUITY		**724,578**	**690,186**
Non-controlling interests		2,319	2,329
TOTAL GROUP EQUITY		**726,897**	**692,515**
TOTAL LIABILITIES AND GROUP EQUITY		**8,827,882**	**8,777,993**

The consolidated statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 70.

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Margarita Goleva
Registered auditor

Fibank
First Investment Bank

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

In thousands of BGN

	2014	2013
Cash flows from operating activities		
Profit for the period	30,764	184,904
Adjustment for non-cash items		
Impairment losses	299,621	70,305
Net interest income	(291,911)	(181,711)
Depreciation and amortisation	20,270	20,736
Income tax expense	4,946	3,325
(Profit)/loss from sale and derecognition of tangible and intangible fixed assets, net	(62)	8
(Profit) from sale of other assets, net	(161,239)	(200)
(Gain) on bargain purchase of subsidiary	-	(152,310)
	(97,611)	**(54,943)**
Change in operating assets		
(Increase)/decrease in financial instruments held for trading	6,845	(2,840)
(Increase)/decrease in available for sale investments	(57,216)	354,059
(Increase)/decrease in loans and advances to banks and financial institutions	16,742	(10,575)
(Increase) in loans to customers	(117,895)	(418,432)
Net (increase) /decrease in other assets	22,490	(200,273)
	(129,034)	**(278,061)**
Change in operating liabilities		
(Decrease) in deposits from banks	(3,909)	(3,994)
Increase in amounts owed to other depositors	97,700	360,075
Net increase in other liabilities	5,505	1,648
	99,296	**357,729**
Interest received	463,534	465,714
Dividends received	546	505
Interest paid	(280,592)	(273,083)
Income tax paid	(4,022)	(3,682)
NET CASH FLOWS FROM OPERATING ACTIVITIES	**52,117**	**214,179**
Cash flows from investing activities		
(Purchase) of tangible and intangible fixed assets	(11,676)	(6,292)
Sale of tangible and intangible fixed assets	405	149
Sale of other assets	200,907	5,204
Acquisition of a subsidiary, net of cash received	-	250,813
(Increase)/decrease of investments	114,953	(59,888)
NET CASH FLOWS FROM INVESTING ACTIVITIES	**304,589**	**189,986**
Cash flows from financing activities		
Repayment of subordinated debt	(24,655)	(30,333)
(Decrease) in borrowings	(17,001)	(125,830)
NET CASH FLOWS USED IN FINANCING ACTIVITIES	**(41,656)**	**(156,163)**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**315,050**	**248,002**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**1,422,180**	**1,174,178**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (see note 35)	**1,737,230**	**1,422,180**

The consolidated cash flow statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 70.

Dimitar Kostov
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Margarita Goleva
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Consolidated statement of changes in equity for the year ended 31 December 2014

In thousands of BGN

	Share capital	Share premium	Retained earnings	Revaluation reserve on available for sale investments	Revaluation reserve on land and buildings	Reserve from translation of foreign operations	Statutory reserve	Non-controlling interests	Total
Balance as at 1 January 2013	**110,000**	**97,000**	**253,255**	**1,083**	**4,500**	**(2,777)**	**39,861**	**2,345**	**505,267**
Total comprehensive income									
Profit for the year ended 31 December 2013	-	-	184,920	-	-	-	-	(16)	184,904
Other comprehensive income									
Revaluation reserve on available for sale investments	-	-	-	2,421	-	-	-	-	2,421
Reserve from translation of foreign operations	-	-	-	-	-	(77)	-	-	(77)
Statutory reserve	-	-	(4)	-	-	-	4	-	-
Balance as at 31 December 2013	**110,000**	**97,000**	**438,171**	**3,504**	**4,500**	**(2,854)**	**39,865**	**2,329**	**692,515**
Total comprehensive income									
Profit for the year ended 31 December 2014	-	-	30,774	-	-	-	-	(10)	30,764
Other comprehensive income									
Revaluation reserve on available for sale investments	-	-	-	3,610	-	-	-	-	3,610
Reserve from translation of foreign operations	-	-	-	-	-	8	-	-	8
Balance as at 31 December 2014	**110,000**	**97,000**	**468,945**	**7,114**	**4,500**	**(2,846)**	**39,865**	**2,319**	**726,897**

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 70.

The consolidated financial statements have been approved by the Management Board on 20 April 2015 and signed on its behalf by:

Dimitar Kostov
Executive Director
Chairman of the Management Board

Vassil Christov
Executive Director

Svetoslav Moldovanski
Executive Director

FIRST INVESTMENT BANK LTD
SOFIA

Maya Oyfalosh
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Tzvetelinka Koleva
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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 the Bulgarian legislation.

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

The consolidated financial statements of the Bank as at and for the year ended 31 December 2014 comprise the Bank and its subsidiaries (see note 38), together referred to as the "Group".

On 10th October 2013 the Bank has acquired 122,464,965 shares with voting rights, which comprise 100% of the share capital of MKB Unionbank EAD. On 4th March 2015 the merger of Unionbank EAD and First Investment Bank AD was registered in the Commercial Register. Under the law, after the registration in the Commercial Register has been accomplished, Unionbank EAD's status of a commercial entity is terminated and all its rights and obligations are transferred to First Investment Bank AD in its capacity of a universal successor. (Please, refer to note 38(i))

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

(b) Statement of compliance

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

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

(c) Basis of preparation

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

The financial statements are prepared on a fair value basis for derivative financial instruments, financial assets and liabilities held for trading and available-for-sale assets. Other financial assets and liabilities and non-financial assets and liabilities are stated at amortised cost or historical cost.

(d) Changes in the accounting policy

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2014:

- IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosures of Interests in Other Entities, IAS 27 Separate Financial Statements (2012) and IAS 28 Investments in Associates and Joint Ventures (2012) (see (i)).
- Amendments to IAS 32- Offsetting Financial Assets and Financial Liabilities (see (ii)).
- Amendments to IAS 36- Recoverable Amount Disclosures for Non-Financial Assets (see (iii)).
- Amendments to IAS 39- Novation of derivatives and continuation of hedge accounting (see (iv)).
- IFRIC 21 Levies (see (v)).

1. Basis of preparation, continued

(d) Changes in the accounting policy, continued

(i) New set of standards for consolidation

As a result of the adoption of IFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over and consequently whether it consolidates its investees. IFRS 10 introduces a new control model that focuses on whether the Group has power over an investee, exposure or right to variable returns from its involvement with the investee and ability to use its power to affect those returns.

In accordance with the transitional provisions of IFRS 10, the Group re-assessed the control conclusion for its investees at 1 January 2014. The change did not have a material impact on the Group's financial statements.

The Group has performed an assessment for the existence of structured entities as per IFRS 12.The adoption of IFRS 11 and IFRS 12 did not have a material impact on the Group's financial statements.

(ii) Offsetting Financial Assets and Financial Liabilities

As a result of the amendments to IAS 32, the Group has change its accounting policy for offsetting financial assets and financial liabilities. The amendments clarify when an entity currently has a legal enforceable right to set-off and when gross settlement is equivalent to net settlement.

The change did not have a material impact on the Group's financial statements.

(iii) Amendments to IAS 36

The change did not have an impact on the Group's financial statements.

(iv) Amendments to IAS 39

The change did not have an impact on the Group's financial statements as the Group does not novate derivatives defined as hedge instruments to the key counterparties as a result of laws or regulations.

(v) IFRIC 21 Levies

As a result of IFRIC 21 Levies, the Group has changed its accounting policy on accounting for a liability to pay a levy that is a liability in the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

The change did not have a material impact on the Group's financial statements.

2. Significant accounting policies

(a) Income recognition

(i) Interest income and expense

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

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

2. Significant accounting policies, continued

(a) Income recognition, continued

(ii) Fee and commission

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

(iii) Net trading income

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

(iv) Dividend income

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

(b) Basis of consolidation

(i) Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The Group measures goodwill at the acquisition date as:

• the fair value of the consideration transferred; plus

• the recognised amount of any non-controlling interests in the acquiree; plus

• if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less

• the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

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

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

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

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

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

2. Significant accounting policies, continued

(b) Basis of consolidation, continued

(ii) Non-controlling interests (NCI)

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date.

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

(iii) Subsidiaries

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

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

(iv) Control assessment over mutual funds

The Group has invested in several mutual funds. In order to assess the control level over those mutual funds, the Group focuses on the assessment of the overall economic interest in the fund (representing investment income) and the right to dismiss the fund management. The Investors do not have the right to dismiss the fund management for all funds in which they have invested. However, the total economic interest in the following funds: FIB Classic, FIB Avangarde, FIB Garant and PFBK VOSTOK is 84.46%, 60.79%, 49.51% and 23.77% respectively. As a result of the assessment the Group has reached a conclusion to consolidate the following mutual funds: FIB Classic, FIB Avangarde and FIB Garant. These mutual funds and AMS Properties EOOD are not included in the consolidated financial statements of the Group for the year ended 31 December 2014, as they are considered immaterial both individually and in aggregate to the financial position, financial result and the cash flow of the Group for the same reporting period. In case those entities have been consolidated the total effect on the consolidated financial position of the Group would have been under 0.01%, and on the consolidated financial result- under 1.26%. The assessment for consolidation of the mutual funds and the other entities is reconsidered at each reporting date.

(v) Loss of control

When the Group losses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and the other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost. Subsequently that retained interest is accounted for as an equity-accounted investee or as financial instruments available for sale depending on the level of influence retained.

2. Significant accounting policies, continued

(b) Basis of consolidation, continued

(vi) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in the preparation of the consolidated financial statements. Unrealised losses are eliminated in the same manner as unrealised gains, but only if there is no evidence of impairment.

(c) Foreign currency transactions

(i) Functional and presentation currency

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

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

(ii) Transactions and balances

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

(iii) Foreign operations

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

(d) Financial assets

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

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

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management because its

performance is internally evaluated and reported on a fair value basis. Derivatives are also categorised as held for trading unless they are designated as hedges.

2. Significant accounting policies, continued

(d) Financial assets, continued

(ii) Loans and receivables

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

(iii) Held-to-maturity

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

(iv) Available-for-sale

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

(v) Recognition

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

(vi) Measurement

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

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

(vii) Fair value measurement

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

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

2. Significant accounting policies, continued

(d) Financial assets, continued

(vii) Fair value measurement, continued

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

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

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

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

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

(viii) Derecognition

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

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

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

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

2. Significant accounting policies, continued

(e) Cash and cash equivalents

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

(f) Investments

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

(g) Securities borrowing and lending business and repurchase transactions

(i) Securities borrowing and lending

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

(ii) Repurchase agreements

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

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

(h) Borrowings

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

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

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

(i) Offsetting

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

2. Significant accounting policies, continued

(j) Impairment

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

(i) Loans and advances

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

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

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

(ii) Available for sale financial assets

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

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

2. Significant accounting policies, continued

(k) Property and equipment

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

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

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

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

(l) Intangible assets

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

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

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

(m) Provisions

A provision is recognised in the statement of financial position when the Group has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(n) Acceptances

An acceptance is created when the Group agrees to pay, at a stipulated future date, a draft drawn on it for a specified amount. The Group's acceptances primarily arise from documentary credits stipulating payment for the goods to be made a certain number of days after receipt of required documents. The Group negotiates most acceptances to be settled at a later date following the reimbursement from the customers. Acceptances are accounted for as other borrowed funds. (Please refer to note 2(h))

(o) Off-statement of financial position commitments

In the ordinary course of its business, the Group enters into off-statement of financial position commitments such as guarantees and letters of credit. The Group recognizes provision for impairment on off-statement of financial position commitments when it has a present obligation as a result of a past event, when it

2. Significant accounting policies, continued

(o) Off-statement of financial position commitments, continued

is probable that an outflow of resources embodying economic benefit will be required to settle the obligation, and when a reliable estimate can be made of the obligation.

(p) Taxation

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

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

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

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

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

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

Information on the valuations and the valuation uncertainty, for which there is a significant risk of change as of 31 December 2014 are stated below and are related to the impairment of financial instruments, income tax and the following notes related to other elements of the financial statements:

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

(i) Impairment losses on loans and advances

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

Individual impairment on loans and advances of the Group is based on the best assessment of the Management for the present value of future cash flows. When evaluating these cash flows the Management makes an assessment of the financial position of every borrower and the net realizable value of the collateral of the loan. Each impaired asset is assessed individually while the strategy for reimbursement and the evaluation of the cash flows, considered as reimbursable,

2. Significant accounting policies, continued

***(i) Impairment losses on loans and advances*, continued**

are approved independently by the Credit Committee. Cash flows could be realized from loan repayments, sale of the collateral, operations with the collateral and others depending on the individual situation and the terms of the loan contract. The expected net realizable value of the collateral is regularly reviewed and it is based on a combination of internal appraisal of the fair value, conducted by internal appraisers, and external independent appraisal reports. The expected future cash flows are discounted at the initial effective interest rate of the financial asset.

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

Portfolio impairment for collective credit risk is based on the historical experience of the Bank when calculating the probability of default of a regular loan, 40% expected loss given default and 1-year period for identification. The sensitivity analysis of the expected loss given default percentage with +/-5 points shows increase/decrease in the total impairment with +389/-389 thousands BGN.

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

(ii) Impairment of repossessed assets from collaterals

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

(iii) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant estimates are required in determining the overall provision for income taxes. Many parts of Albanian and Cyprus tax legislation remain untested and there is uncertainty about the interpretation that the financial authorities may apply in a number of areas. The effect of this uncertainty cannot be quantified and will only be resolved as legislative precedents are set or when the official interpretations of the authorities are available.Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(r) Earnings per share

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

2. Significant accounting policies, continued

(s) Employee benefits

Defined contribution plans

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

Defined benefit plans

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

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

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

Termination benefits

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

Short-term employee benefits

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

(t) Insurance contracts

Insurance contracts are those that transfer significant insurance risk over the Company. The Company defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an specific unpredictable future event which affects unfavorably the insured or the beneficiary. Insurance risk is every risk, which is not financial risk. Financial risk is any risk related to probable future change in one or several of the following: interest, price of the security, market

2. Significant accounting policies, continued

(t) Insurance contracts, continued

prices,currency prices, credit rating, credit index or other variable- if there are the non-financial variables, the variable is not specific for the counterparties Insurance contracts may also transfer part of the financial risk.

Written premiums

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

Reversed premiums

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

Unearned-premium reserve

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

Unexpired risk reserve

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

Claims incurred

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

Outstanding claims reserve

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

Acquisition costs

Acquisition costs include accrued commission expense from agents and brokers.

2. Significant accounting policies, continued

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

A number of new standards, amendments to standards and interpretations, endorsed by the EC, are available for early adoption in annual period ended 31 December 2014, although they are not yet mandatory until a later period. These changes to IFRS have not been applied in preparing these consolidated financial statements. The Group does not plan to adopt these standards early.

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

- Annual improvements to IFRSs 2010-2012 and 2011-2013 Cycles. The improvements introduce eleven amendments to nine standards and consequential amendments to other standards and interpretations. None of these amendments are expected to have a significant impact on the financial statements of the Group;

- Amendments to IAS 19 – Defined benefit plans: Employee contributions. The entity does not expect the Amendments to have any impact on the financial statements since it does have any defined benefit plans that involve contributions from employees or third parties.

IASB/IFRIC documents not yet endorsed by EC:

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

- IFRS 9 Financial instrument (issued 24 July 2014);

- IFRS 14 Regulatory Deferral Accounts (issued 30 January 2014);

- IFRS 15 Revenue from contracts with customers (issued 28 May 2014);

- Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception (issued on 18 December 2014);

- Amendments to IAS 1 Disclosure initiative (issued 18 December 2014);

- Annual improvements to IFRSs 2012-2014 Cycle (issued 25 September 2014)

- Amendments to IFRS 10 and IAS 28: Sale or contribution of assets between an investor and its associated or jointly controlled investee (issued 11 September 2014);

- Amendments to IAS 27 – Equity method in separate financial statements (issued 12 August 2014);

- Amendments to IAS 16 and IAS 38 – Clarification for acceptable methods of depreciation and amortization (issued 12 May 2014);

- Amendments to IFRS 11 – Accounting for acquisitions of interests in joint operations (issued 6 May 2014).

3. Risk management disclosures

A. Trading activities

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

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

(i) Credit risk

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

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

(ii) Market risk

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

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

The quantitative measurement of interest rate risk is performed by applying VaR (Value at Risk) approach. The Value at Risk estimates the maximum loss that could occur over a 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 a one day horizon and 99% confidence level, meaning that there is 1% probability that a portfolio will incur a loss in one day greater than its VaR. Parameters of the VaR model are estimated on the basis of exponentially weighted historical price changes of risk factors.

The Value at Risk is calculated and monitored on a daily basis as part of the Bank's ongoing risk management. The following table summarises the range of interest rate VaR for all positions carried at fair value that was experienced in 2014:

	31 December	**2014**			**31 December**
in thousands of BGN	**2014**	**average**	**low**	**high**	**2013**
VaR	1,368	962	413	2,228	842

3. Risk management disclosures, continued

B. Non-trading activities

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

(i) Liquidity risk

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

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

After the bank-run in June 2014, on 29 June 2014 the Bulgarian government provided the Bank with liquidity support at the amount of BGN 1.2 billion at 2.2% interest as part of the Liquidity Support for Bulgarian Banks – Bulgaria program № SA 38994 (2014/N), approved by the European Commission. Due to constraints in the state budget, this deposit was short-term and matured on 28 November 2014. The Bank returned BGN 300 million of the provided amount at maturity and Bulgaria applied for extention of the maturity for the remaining BGN 900 million for additional 18 months effective from this date.

The European Commission found that the liquidity support provided to the Bank until 28 May 2016 meets the requirements for the support to be classified as government assistance to banks and complies with the stricter requirements as per the Press Relase to Banks from 2013.

On 12 November 2014 First Investment Bank AD provided the European Commission with a liquidity recovey plan. The Bank committed to repay the liquidity support on dates predetermined in the plan. First Investment Bank AD has committed to strengthening of liquidity, improvement of the corporate governance structure and risk management policies. In order to limit any distortion of competition caused by the support, the Bank has also committed to certain limitations for the period of using the support, which include no dividend payments, no use of aggressive business practices and no acquisitions.

An independent supervisor is monitoring the implementation of the plan and will provide regular reports to the European Commission.

As at 31 December 2014 the Bank has fulfilled its commitments as per the liquidity recovery plan.

Taking into consideration the challenges of the external environment and more specifically the liquidity pressure from the end of June 2014, the Bank undertook increased measures for monitoring cash flows and early detect indicators of increased liquidity risk.

In compliance with the requirements of the Law on Credit Institutions, Ordinance No 7 of BNB for the organization and management of risks in banks and Directive 2014/59 / EU of the European Parliament and of the Council for establishing a framework for the recovery and resolution of credit institutions and investment firms, First Investment Bank AD prepared a recovery plan if financial difficulties occur. It includes qualitative and quantitative early warning signals and indicators of recovery such as capital and liquidity indicators, income indicators, market-oriented indicators upon the occurrence of which recovery measures are triggered. Liquidity indicators include Liquidity Coverage Ratio (LCR); net withdrawal of financing; liquid assets to deposits by non-financial customers ratio; Net Stable Funding Ratio (NSFR). Different stress test scenarios related to

3. **Risk management disclosures, continued**

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

(i) Liquidity risk, continued

idiosyncratic shock, system shock and aggregate shock have been prepared. In case of liquidity pressure, there are systems in place to ensure prompt and adequate reaction which include obtaining additional funds from local and international markets through issuance of appropriate financial instruments depending on the specific case as well as sale of highly liquid assets. The levels of decision making are clearly determined.

In order to reduce the liquidity risk, preventive measures have been taken aimed to extend the maturity of borrowings from customers, to encourage long-term relationships with clients and to increase customer satisfaction. In order to adequately manage liquidity risk, the Bank monitors cash flows on a daily basis.

The Liquidity Board is the body that manages liquidity. One of the main ratios used by the Bank for managing liquidity risk is the ratio of total liquid assets to total borrowings.

	31 December 2014	31 December 2013
Liquid assets ratio	26.25%	22.66%

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

Maturity table as at 31 December 2014

In thousands of BGN	Up to 1 Month	From 1 to 3 Months	From 3 months to 1 year	Over 1 year	Maturity not defined	Total
Assets						
Cash and balances with central banks	1,090,025	-	-	-	561,920	**1,651,945**
Financial assets held for trading	9,646	-	-	-	-	**9,646**
Available for sale investments	444,636	7,665	18,414	9,972	6,288	**486,975**
Financial assets held to maturity	2,887	13,349	1,398	46,103	-	**63,737**
Loans and advances to banks and financial institutions	85,991	-	26,087	-	-	**112,078**
Loans and advances to customers	506,984	170,629	1,045,408	4,087,307	-	**5,810,328**
Other financial assets	4,019	-	-	-	-	**4,019**
Total financial assets	**2,144,188**	**191,643**	**1,091,307**	**4,143,382**	**568,208**	**8,138,728**
Liabilities						
Due to credit institutions	1,393	-	-	-	-	**1,393**
Due to other customers	659,388	698,096	2,982,210	1,120,014	1,239,969	**6,699,677**
Due to Ministry of Finance	-	-	301,844	600,000	-	**901,844**
Other borrowed funds	46	3,248	24,841	149,409	-	**177,544**
Subordinated term debt	-	-	-	-	-	-
Perpetual debt	-	-	-	-	99,999	**99,999**
Hybrid debt	-	-	-	-	195,447	**195,447**
Total financial liabilities	**660,827**	**701,344**	**3,308,895**	**1,869,423**	**1,535,415**	**8,075,904**
Net liquidity gap	**1,483,361**	**(509,701)**	**(2,217,588)**	**2,273,959**	**(967,207)**	**62,824**

3. Risk management disclosures, continued

B. Non-trading activities, continued

(i) Liquidity risk, continued

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

Maturity table as at 31 December 2013

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

3. Risk management disclosures, continued

B. Non-trading activities, continued

(i) Liquidity risk, continued

The following table provides remaining maturities analysis of the financial assets and liabilities of the Group as at 31 December 2014 based on the contractual undiscounted cash flows.

In thousands of BGN	Up to 1 Month	From 1 to 3 Months	From 3 months to 1 year	Over 1 year	Total
Financial assets					
Cash and balances with central banks	1,651,945	-	-	-	**1,651,945**
Financial assets held for trading	9,646	-	-	-	**9,646**
Available for sale investments	480,687	-	-	6,288	**486,975**
Financial assets held to maturity	2,804	13,341	1,440	54,868	**72,453**
Loans and advances to banks and financial institutions	85,991	-	26,087	-	**112,078**
Loans and advances to customers	506,984	173,203	1,104,356	4,825,222	**6,609,765**
Total financial assets	**2,738,057**	**186,544**	**1,131,883**	**4,886,378**	**8,942,862**
Financial liabilities					
Due to credit institutions	1,393	-	-	-	**1,393**
Due to other customers	1,900,354	702,383	3,050,666	1,202,331	**6,855,734**
Due to Ministry of Finance	-	-	306,003	618,588	**924,591**
Other borrowed funds	46	3,263	25,228	170,180	**198,717**
Perpetual debt	-	4,949	59,671	45,927	**110,547**
Hybrid debt	-	-	-	277,141	**277,141**
Total financial liabilities	**1,901,793**	**710,595**	**3,441,568**	**2,314,167**	**8,368,123**
Derivatives for trading, net					
Outgoing cash flow	5,525	2,921	8,899	-	17,345
Incoming cash flow	9,042	3,025	9,297	-	21,364
Total derivatives liabilities	**(3,517)**	**(104)**	**(398)**	**-**	**(4,019)**
Total liabilities	**1,898,276**	**710,491**	**3,441,170**	**2,314,167**	**8,364,104**

3. **Risk management disclosures, continued**

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

(i) ***Liquidity risk, continued***

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

In thousands of BGN	Up to 1 Month	From 1 to 3 Months	From 3 months to 1 year	Over 1 year	Total
Financial assets					
Cash and balances with central banks	1,347,555	-	-	-	**1,347,555**
Financial assets held for trading	16,423	-	-	-	**16,423**
Available for sale investments	417,352	-	-	6,288	**423,640**
Financial assets held to maturity	701	60,097	81,079	42,056	**183,933**
Loans and advances to banks and financial institutions	88,581	-	15,755	15,790	**120,126**
Loans and advances to customers	335,868	306,244	1,496,253	4,760,991	**6,899,356**
Total financial assets	**2,206,480**	**366,341**	**1,593,087**	**4,825,125**	**8,991,033**
Financial liabilities					
Due to credit institutions	5,302	-	-	-	**5,302**
Due to other customers	1,974,819	1,000,838	3,205,297	1,568,295	**7,749,249**
Other borrowed funds	16,035	11,397	33,501	157,769	**218,702**
Subordinated term debt	337	330	3,039	25,714	**29,420**
Perpetual debt	-	4,775	6,601	110,030	**121,406**
Hybrid debt	-	-	19,582	254,258	**273,840**
Total financial liabilities	**1,996,493**	**1,017,340**	**3,268,020**	**2,116,066**	**8,397,919**
Derivatives for trading, net					
Outgoing cash flow	71,270	3,386	13,421	2,933	91,010
Incoming cash flow	74,453	3,359	13,303	2,913	94,028
Total derivatives liabilities	**(3,183)**	**27**	**118**	**20**	**(3,018)**
Total liabilities	**1,993,310**	**1,017,367**	**3,268,138**	**2,116,086**	**8,394,901**

The expected cash flows of the Bank from some financial assets and liabilities are different from the cash flows as per the loan contract. The main differences are:

- There is an expectation that the deposits on demand will remain stable and will increase.

- Retail mortgages have original maturity of 25 years on average, but the expected average effective maturity is 14 years as some of the clients take advantage of the early repayment possibility.

As part of the liquidity risk management, the Bank keeps available liquid assets. They consist of cash, cash equivalents and debt securities, which could be sold immediately in order to provide liquidity.

3. Risk management disclosures, continued

B. Non-trading activities, continued

(i) Liquidity risk, continued

Liquid assets

In thousands of BGN	**2014**	**2013**
Balances with BNB	840,589	961,960
Current accounts and amounts with other banks	888,778	418,228
Unencumbered debt securities	380,658	437,510
Gold	9,672	10,502
Total liquid assets	**2,119,697**	**1,828,200**

Reasonable liquidity management requires avoidance of concentration of the borrowings from large depositors. Analysis of the significant borrowings in terms of total amount is performed on a daily basis and the diversity of the total liabilities portfolio is supervised

As of 31 December 2014 the funds borrowed from the top 30 depositors, who are not banks and have no collateral, represent 3.56% of the total amount of the liabilities to other clients (31 December 2013: 7.31%)

(ii) Market risk

Interest rate risk

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

In order to quantify the interest rate risk of its non-trading activities, the Group measures the impact of a change in the market rates both on net interest income and on the Group's economic value defined as the difference between fair value of assets and fair value of liabilities. The interest rate risk on the economic value of the Group following a standardised shock of +100bp/-100bp as of 31 December 2014 is BGN +0.6/-0.6 Mio. The interest rate risk on the Group's net interest income one year forward following a standardised shock of +100bp/-100bp as of 31 December 2014 is BGN +11.7/-11.7 Mio.

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2013.

3. Risk management disclosures, continued

B. Non-trading activities, continued

***(iii) Market risk*, continued**

***Interest rate risk*, continued**

	Profit or loss		Equity	
Effect in millions of BGN	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
2014				
As at 31 December	+11.7	-11.7	+0.6	-0.6
Average for the period	+8.6	-8.6	-5.2	+5.2
Maximum for the period	+11.7	-4.5	+2.7	+14.5
Minimum for the period	+4.5	-11.7	-14.5	-2.7
2013				
As at 31 December	+8.9	-8.9	+2.4	-2.4
Average for the period	+4.9	-4.9	-2.0	+2.0
Maximum for the period	+8.9	-2.7	+3.4	+7.7
Minimum for the period	+2.7	-8.9	-7.7	-3.4

The following table indicates the periods in which financial liabilities and assets reprice at 31 December 2014.

			Fixed rate instruments			
In thousands of BGN	**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	670,755	626,243	44,512	-	-	-
Financial assets held for trading	5,698	-	5,698	-	-	-
Available for sale investments	480,688	47,977	396,660	7,665	18,414	9,972
Financial assets held to maturity	63,737	-	2,887	13,349	1,398	46,103
Loans and advances to banks and financial institutions	103,672	20,643	57,102	-	25,927	-
Loans and advances to customers	5,353,824	4,097,600	299,222	25,488	192,091	739,423
Total interest-earning assets	**6,678,374**	**4,792,463**	**806,081**	**46,502**	**237,830**	**795,498**
Liabilities						
Due to credit institutions	1,393	1,393	-	-	-	-
Due to other customers	6,622,474	1,092,787	729,367	698,096	2,982,210	1,120,014
Due to Ministry of Finance	901,844	-	-	-	301,844	600,000
Other borrowed funds	105,635	36,779	46	849	5,982	61,979
Perpetual debt	99,999	-	-	-	-	99,999
Hybrid debt	195,447	-	-	-	-	195,447
Total interest-bearing liabilities	**7,926,792**	**1,130,959**	**729,413**	**698,945**	**3,290,036**	**2,077,439**

3. Risk management disclosures, continued

B. Non-trading activities, continued

(ii) Market risk, continued

Interest rate risk, continued

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

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

3. Risk management disclosures, continued

B. Non-trading activities, continued

(ii) Market risk, continued

Currency risk

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

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

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

In thousands of BGN	**2014**	**2013**
Monetary assets		
Euro	5,112,346	5,576,586
US dollar	436,960	568,057
Other currencies	199,131	233,748
Gold	9,672	10,502
Monetary liabilities		
Euro	3,258,730	3,566,664
US dollar	445,618	567,214
Other currencies	196,884	234,296
Gold	6,926	7,404
Net position		
Euro	1,853,616	2,009,922
US dollar	(8,658)	843
Other currencies	2,247	(548)
Gold	2,746	3,098

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

3. Risk management disclosures, continued

B. Non-trading activities, continued

(iii) Credit risk

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

The table below sets out information about maximum exposure to credit risk:

In thousands of BGN	**Loans and advances to other customers**		**Loans and advances to banks and balances with central banks**		**Investments and financial assets held for trading**		**Off balance sheet commitments**	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Carrying amount	5,810,328	6,020,792	1,598,412	1,308,962	550,881	609,247	-	-
Amount committed/ guaranteed	-	-	-	-	-	-	841,167	929,368

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

31 December 2014 *In thousands of BGN*

Class of exposure	**Gross amount of loans and advances to customers**	**Carrying amount of loans and advances to customers**
Collectively impaired		
Standard	3,181,717	3,177,051
Watch	12,493	12,164
Nonperforming	778	698
Individually impaired		
Standard	1,991,834	1,928,918
Watch	397,671	278,461
Nonperforming	237,061	195,939
Loss	512,376	217,097
Total	**6,333,930**	**5,810,328**

3. Risk management disclosures, continued

B. Non-trading activities, continued

(iii) Credit risk, continued

31 December 2013		*In thousands of BGN*
Class of exposure	**Gross amount of loans and advances to customers**	**Carrying amount of loans and advances to customers**
Collectively impaired		
Standard	5,029,032	5,021,822
Individually impaired		
Watch	550,678	519,753
Nonperforming	271,058	243,151
Loss	405,816	236,066
Total	**6,256,584**	**6,020,792**

Exposures classification into risk classes reflects the management's estimate regarding the loans recoverable amounts.

In addition, the Group is exposed to off-balance sheet credit risk through commitments to extend credits and issue contingent liabilities (see note 34).

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

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

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

In thousands of BGN	**2014**	**2013**
Trade	1,426,114	1,600,033
Industry	1,538,208	1,407,387
Services	576,602	460,801
Finance	109,577	87,648
Transport, logistics	288,906	255,113
Communications	77,660	68,435
Construction	244,049	248,031
Agriculture	112,595	214,462
Tourist services	172,824	182,845
Infrastructure	424,743	320,942
Private individuals	1,309,274	1,327,336
Other	53,378	83,551
Less allowance for impairment	(523,602)	(235,792)
Total	**5,810,328**	**6,020,792**

3. Risk management disclosures, continued

B. Non-trading activities, continued

(iii) Credit risk, continued

The Group has extended loans to enterprises involved in different types of activities but within the same economic sector - industry. As such the exposures share a similar industry risk. There are three such groups of enterprises at 31 December 2014 with total exposures outstanding amounting to BGN 188,020 thousand (2013: BGN 137,625 thousand) - ferrous and non-ferrous metallurgy, BGN 60,818 thousand (2013: BGN 61,015 thousand) – mining industry and BGN 140,339 thousand (2013: BGN 130,036 thousand) - power engineering.

The Group has extended loans and issued contingent liabilities to 8 individual clients or groups (2013:11) with each individual exposure exceeding 10% of the own funds of the Group. The total amount of these exposures is BGN 1,091,552 thousand which represents 116.24% of the Group’s own funds (2013: BGN 1,412,939 thousand which represented 156.33%of capital base) of which BGN 1,041,053 thousand (2013: BGN 1,362,088 thousand) represent loans and BGN 50,499 thousand (2013: BGN 50,851 thousand) represent guarantees, letters of credit and other commitments.

The biggest loan exposure of the Group extended to a group of connected clients amounts to BGN 160,941 thousand (2013: BGN 161,155 thousand) representing 17.14% of the Group’s own funds (2013: 17.83%).

The loans extended by the Cyprus branch amount to BGN 539,246 thousand amortised cost before allowance (2013: BGN 503,656 thousand) and in Albania – BGN 89,554 thousand (2013: BGN 95,103 thousand).

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

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

Collateral held against different types of assets:

Type of credit exposure	Main type of collateral	Percentage of the exposure that is secured	
		2014	2013
Repurchase agreements	Tradable securities	None	100%
Loans and advances to banks	None	None	None
Mortgage loans	Real estate	93%	94%
Consumer loans	Mortgage, financial and other collateral	97%	99%
Credit cards	none	None	None
Loans to companies	Mortgage, pledge of enterprise, pledge of goods financial and other collateral	97%	99%

3. Risk management disclosures, continued

B. Non-trading activities, continued

(iii) Credit risk, continued

The table below shows a breakdown of total gross loans and advances extended to customers by the Group by type of collateral, excluding credit cards in the amount of BGN 245,918 thousand (31 December 2013: BGN 231,090 thousand):

In thousands of BGN	**2014**	**2013**
Mortgage	1,392,827	1,992,462
Pledge of receivables	1,134,637	1,003,115
Pledge of commercial enterprise	675,902	527,417
Securities	197,097	123,320
Bank guarantee	120,895	13,114
Other guaranties	768,570	690,652
Pledge of goods	173,156	136,478
Pledge of machines	580,236	458,578
Money deposit	157,302	243,206
Stake in capital	400,262	463,326
Gold	18	18
Other collateral	300,625	297,386
Unsecured	186,485	76,422
Total	**6,088,012**	**6,025,494**

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

The table below presents the Group's collaterals held against not impaired loans to customers, measured at fair value to the amount of the loans.

In thousands of BGN	**2014**	**2013**
Loans and advances not past due		
Mortgage	783,326	699,044
Money deposit	74,386	74,884
Securities	33,852	25,201
Other collateral	681,179	469,276
Unsecured	16,032	5,901
	1,588,775	**1,274,306**
Past due loans		
Mortgage	106,623	78,355
Money deposit	567	64,456
Securities	-	165
Other collateral	56,947	15,867
Unsecured	3,038	2,047
	167,175	**160,890**
Total	**1,755,950**	**1,435,196**

3. Risk management disclosures, continued

B. Non-trading activities, continued

(iii) Credit risk, continued

The table below presents the Bank's collaterals held against impaired loans and receivables from banks and other customers, measured at fair value to the amount of the loans.

In thousands of BGN	**2014**	**2013**
Mortgage	320,274	1,126,278
Money deposit	36,186	7,755
Securities	105,410	139,830
Other Collaterals	2,959,178	2,789,724
Unsecured	1,156,932	757,801
Total	**4,577,980**	**4,821,388**

Residential mortgage lending

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

In thousands of BGN	**2014**	**2013**
Loan to value (LTV) ratio		
Less than 50%	180,682	443,420
From 50% to 70%	210,448	121,653
From 70% to 90%	186,632	107,217
From 90% to 100%	27,609	18,601
More than 100%	49,078	24,005
Total	**654,449**	**714,896**

3. Risk management disclosures, continued

B. Non-trading activities, continued

(iii) Credit risk, continued

Loans and advances to corporate customers

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

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

The Group constantly monitors the risk of default on already given loans and if there is available data for potential or actual problems, the Group prepares an action plan and takes measures for managing the possible unwanted results, including restructuring of the loans

For the purposes of the disclosure in these financial statements "renegotiated loans" are defined as loans, which have been renegotiated as a result of a change in the interest rates, repayment schedule, upon a client request, and others.

Renegotiated Loans

In thousands of BGN

Type of renegotiation	**2014**		**2013**	
	Amortised cost	**Impairment**	**Amortised cost**	**Impairment**
Loans to Individuals	**34,341**	**1,114**	**54,500**	**1,020**
Change of maturity	1,149	553	4,279	229
Change of amount of installment	945	174	2,869	140
Change of interest rate	6,815	190	20,639	151
Change due to customers request	14,454	33	7,266	8
Other reasons	10,978	164	19,447	492
Loans to companies	**2,697,066**	**169,340**	**567,865**	**10,875**
Change of maturity	300,304	367	127,857	1,442
Change of amount of installment	237,249	30,510	67,619	945
Change of interest rate	690,245	734	20,530	124
Change due to customers request	1,421,828	136,136	322,609	6,831
Other reasons	47,440	1,593	29,250	1,533
Total	**2,731,407**	**170,454**	**622,365**	**11,895**

3. Risk management disclosures, continued

B. Non-trading activities, continued

(iii) Credit risk, continued

Structure and organization of credit risk management functions

Credit risk management as a comprehensive process is accomplished under the supervision of the Management Board of the Bank. The Supervisory Board exercises control over the activities of the Management Board on the credit risk management either directly or through the Risk Committee, which supports the Supervisory Board with the extensive supervision over the risk management function in the Bank, including over the formation of risk exposures.

There are collective bodies in the Bank the function of which is to support the activities of the Management Board on the credit risk management- Credit Council and Credit Committee. The Credit Council supports the adopted credit risk management and forms an opinion on loans as per its limits of competence. The Credit Committee is a specialized body for supervision of the loan exposures with indicators for deterioration. In addition to the collective bodies in the Bank, there is another independent specialized body, which fulfils the function of identification, evaluation and management of the credit risk, including performing additional second control over the risk exposures- the Risk Management Department. The realization, coordination and current control over the lending process is organized from the following departments: Corporate Banking, SME financing, Retail Banking, and Loan Administration, while the problem assets management is performed by the Problem Assets and Provisioning Department.

(iv) Government debt exposures

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

The table below shows the carrying amount of the government debt portfolio by country issuer. The assets are presented without any allowance for impairment. As at 31 December 2014 and 31 December 2013 the Group does not recognise allowance for impairment against the exposures which are measured at amortised cost as well as those classified as available for sale.

In thousands of BGN

31 December 2014

Portfolio	**Bulgaria**	**Albania**	**Italy**	**Latvia**	**Lithuania**
Financial assets held for trading	5,091	-	-	-	-
Available for sale investments	373,210	37,173	3,995	67	20,218
Financial assets held to maturity	-	34,484	9,773	-	-
Total	**378,301**	**71,657**	**13,768**	**67**	**20,218**

3. Risk management disclosures, continued

B. Non-trading activities, continued

(iv) Government debt exposures, continued

In thousands of BGN
31 December 2013

Portfolio	Bulgaria	Belgium	Albania	Italy	Spain	Portugal	European Financial Stability Facility
Financial assets held for trading	11,178	-	-	2,059	-	-	-
Available for sale investments	220,316	136,853	29,066	-	-	-	9,845
Financial assets held to maturity	-	-	37,437	78,010	35,105	9,763	-
Total	**231,494**	**136,853**	**66,503**	**80,069**	**35,105**	**9,763**	**9,845**

Maturity table of government debt securities by country issuer as at 31 December 2014

In thousands of BGN

Country issuer	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Bulgaria	25,621	-	95,645	123,091	133,944	**378,301**
Albania	4,009	11,241	19,812	27,247	9,348	**71,657**
Italy	-	13,768	-	-	-	**13,768**
Latvia	-	-	-	-	67	**67**
Lithuania	-	-	-	-	20,218	**20,218**
Total	**29,630**	**25,009**	**115,457**	**150,338**	**163,577**	**484,011**

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

in thousands of BGN

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

3. Risk management disclosures, continued

C. Capital adequacy

Since 1 January 2014, the provisions of the CRD IV package have been in force. Through Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms and Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, CRD IV package transposes into European law the provisions of the new capital standards for banks – Basel III.
As a result, the regulatory capital requirements of the Bank for 2013 were based on the provisions of Basel II and those for 2014 - on CRD IV.

Regulatory capital

The equity capital of the Bank for regulatory purposes consists of the following elements:

Common Equity Tier 1 capital
a) issued and paid up capital instruments (ordinary shares);
b) share premium from issuance of ordinary shares;
c) audited retained earnings;
d) accumulated other comprehensive income, including revaluation reserves;
e) other reserves;

Deductions from components of the Common Equity Tier 1 capital include intangible assets.

Additional Tier 1 capital

The instruments of Additional Tier 1 capital include hybrid debt (see note 31). Deductions from components of Tier 1 capital include regulatory adjustments relating to items that are included in the capital balance or the assets of the Bank, but are treated differently for capital adequacy regulation.

Tier 2 capital

Tier 2 capital consists of perpetual debt (see note 30) and regulatory adjustments related to the revaluation reserve on land and buildings.

3. Risk management disclosures, continued

C. Capital adequacy, continued

In thousands of BGN

Own funds

	CRR/CRD IV (Basel III) 2014	Recalculated under CRR/CRD IV 2013	Ordinance 8 (Basel II) as reported 2013
Paid up capital instruments	110,000	110,000	110,000
(-) Indirect shareholding in Common Equity Tier 1 capital instruments	(64)	(95)	(95)
Premium reserves	97,000	97,000	97,000
Other reserves	475,199	471,216	502,512
Minority interests	2,319	2,329	2,329
Accumulated other comprehensive income	11,614	8,004	(1,456)
Deductions from Common Equity Tier 1 capital:			
(-) Intangible assets	(18,265)	(20,263)	(20,263)
Transitional adjustments of Common Equity Tier 1 capital	3,434	8,815	-
Common Equity Tier 1 capital	**681,237**	**677,006**	**690,027**
Additional Tier 1 capital instruments			
Hybrid debt	195,583	195,583	195,583
Tier 1 capital deductions:			
Transitional adjustments of Additional Tier 1 capital	(16,472)	(17,375)	-
(-) 50% of specific provisions for credit risk	-	-	(42,437)
Tier 1 capital	**860,348**	**855,214**	**843,173**
Tier 2 capital			
Perpetual debt	75,104	75,104	93,880
Subordinated term debt	-	4,694	4,694
Revaluation reserve of real estate	-	-	4,500
Transitional adjustments of Tier 2 capital	3,600	3,600	-
Tier 2 capital deductions:			
(-) 50% of specific provisions for credit risk	-	-	(42,437)
Total own funds	**939,052**	**938,612**	**903,810**

3. Risk management disclosures, continued

C. Capital adequacy, continued

The Bank calculates the following ratios:

a) the Common Equity Tier 1 capital ratio is the Common Equity Tier 1 capital of the institution expressed as a percentage of the total risk exposure amount;
b) the Tier 1 capital ratio is the Tier 1 capital of the institution expressed as a percentage of the total risk exposure amount;
c) the total capital ratio is the own funds of the institution expressed as a percentage of the total risk exposure amount.

The total risk exposure amount is calculated as the sum of the risk-weighted assets for credit, market, and operational risk.

The Group calculates the credit risk requirements for the exposures in its banking and trading portfolios based on the standardized approach. Exposures are taken into account at their book value. Off-balance sheet commitments are taken into account by applying conversion factors for the purpose of their approximation to book values. Positions are weighted for risk using different percentages depending on the class of exposure and its credit rating. A variety of techniques are used to reduce credit risk, such as collaterals and guarantees. With derivative instruments, such as forwards and options, the counterparty credit risk is estimated.

The Group also calculates capital requirements for market risk for foreign exchange and commodity instruments in the trading and banking books.

The Group calculates capital requirements for operational risk using the basic indicator approach. The capital requirement is equal to the average gross annual income over the last three years multiplied by a fixed percentage (15%). The respective risk weighted assets are calculated by further multiplication by 12.5.

The total capital adequacy ratio should not be less than 13.5%, the Tier 1 capital adequacy ratio - less than 11.5%, and the Common Equity Tier 1 capital ratio - less than 10% (including the systemic risk capital buffer at the rate of 3% and the capital conservation buffer of 2.5%).

The Group has complied with the regulatory capital requirements.

3. **Risk management disclosures, continued**

C. **Capital adequacy, continued**

Capital adequacy level is as follows:

in BGN '000	Balance sheet amount/notional amount		Risk weighted assets	
	2014 CRD IV	**2013 Basel II**	**2014 CRD IV**	**2013 Basel II**
Risk-weighted assets for credit risk				
Balance sheet items				
Exposure classes				
Central governments or central banks	1,335,682	1,531,674	106,262	100,579
Regional governments or local authorities	50	983	10	197
Multilateral development banks	507	144	0	-
Institutions	812,995	377,011	199,270	101,023
Corporates	3,620,193	3,724,460	3,522,227	3,417,912
Retail	933,820	741,303	560,058	521,471
Secured by mortgages on immovable property	854,736	1,029,860	312,611	468,112
Exposures in default	401,465	446,766	336,128	437,696
Collective investments undertakings	2,199	2,140	2,199	2,140
Equity	7,288	-	8,039	-
Other items	822,730	818,087	649,425	650,332
Total	**8,791,665**	**8,672,428**	**5,696,229**	**5,699,462**
Off-balance sheet items				
Exposure classes				
Central governments or central banks	-	13	-	-
Institutions	-	11,876	161	3,175
Corporates	501,614	481,765	158,872	197,649
Retail	324,618	387,537	2,945	8,140
Secured by mortgages on immovable property	14,935	47,763	2,835	22,449
Other items	-	-	27	503
Total	**841,167**	**928,954**	**164,840**	**231,916**
Derivatives				
Exposure class				
Institutions	45	1,099	9	220
Corporates	715	31	715	31
Other items	3,532	3,776	3,532	3,776
Total	**4,292**	**4,906**	**4,256**	**4,027**
Total risk-weighted assets for credit risk			**5,865,325**	**5,935,405**
Risk-weighted assets for market risk			**6,902**	**7,738**
Risk-weighted assets for operational risk			**434,149**	**393,660**
Total risk-weighted assets			**6,306,376**	**6,336,803**

Capital ratios	**Capital**		**Capital ratios %**	
	2014 CRD IV	**2013 Basel II**	**2014 CRD IV**	**2013 Basel II**
Common Equity Tier 1 capital	**681,237**	**-**	**10.80%**	**-**
Tier 1 Capital	**860,348**	**843,173**	**13.64%**	**13.31%**
Own funds	**939,052**	**903,810**	**14.89%**	**14.26%**

4. Segment reporting

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

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

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

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

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

In thousands of BGN	**Bulgarian operations**		**Foreign operations**		**Total**	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
Interest income	479,335	430,033	49,737	50,347	529,072	480,380
Interest expense	(230,779)	(290,123)	(6,382)	(8,546)	(237,161)	(298,669)
Net interest income	**248,556**	**139,910**	**43,355**	**41,801**	**291,911**	**181,711**
Fee and commission income	104,029	101,016	4,150	2,580	108,179	103,596
Fee and commission expense	(20,282)	(16,590)	(472)	(315)	(20,754)	(16,905)
Net fee and commission Income	**83,747**	**84,426**	**3,678**	**2,265**	**87,425**	**86,691**
Net trading income	**11,742**	**9,111**	**255**	**270**	**11,997**	**9,381**
General administrative expenses	**(184,118)**	**(149,717)**	**(6,863)**	**(6,522)**	**(190,981)**	**(156,239)**
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
Segment assets	**8,072,205**	**8,053,408**	**755,677**	**724,585**	**8,827,882**	**8,777,993**
Segment liabilities	**7,859,162**	**7,841,223**	**241,823**	**244,255**	**8,100,985**	**8,085,478**

The following table presents the allocation of assets and liabilities, income and expenses based on business segments as at 31 December 2014 and for the year then ended:

In thousands of BGN

Business segment	**Assets**	**Liabilities**	**Interest income**	**Interest expense**	**Net fee and commission income**	**Net trading income**	**Other operating income**
Commercial banking	4,488,825	1,872,530	363,419	(40,414)	44,732	-	13,520
Retail banking	1,321,503	5,728,991	149,484	(188,079)	24,934	-	-
Cards business	-	-	-	-	15,449	-	-
Treasury	2,324,380	1,393	16,169	(94)	1,013	11,997	1,783
Other	693,174	498,071	-	(8,574)	1,297	-	11
Total	**8,827,882**	**8,100,985**	**529,072**	**(237,161)**	**87,425**	**11,997**	**15,314**

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

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

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

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

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

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

5. Financial assets and liabilities, continued

Accounting classification and fair values, continued

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

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

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

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

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

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

Accounting classification and fair values, continued

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

in thousands of BGN

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

in thousands of BGN

31 December 2013	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets held for trading	16,423	-	-	16,423
Available for sale investments	369,548	48,383	-	417,931
Derivatives held for risk management	3,702	(684)	-	3,018
Total	**389,673**	**47,699**	**-**	**437,372**

Capital investments amounting to BGN 6,288 thousand at 31 December 2014 and BGN 5,709 thousand at 31 December 2013 are presented in the statements at their acquisition cost, because their fair value cannot be reliably measured.

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

In thousands of BGN

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

5. Financial assets and liabilities,continued

Accounting classification and fair values, continued

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

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

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

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

6. Net interest income

In thousands of BGN	2014	2013
Interest income		
Accounts with and placements to banks and financial institutions	652	2,010
Retail customers	142,571	113,706
Loans to corporate clients	320,417	310,160
Loans to small and medium enterprises	43,002	34,466
Microlending	6,913	6,395
Debt instruments	15,517	13,643
	529,072	**480,380**
Interest expense		
Deposits from banks	(14)	(80)
Deposits from other customers	(228,396)	(259,889)
Other borrowed funds	(4,741)	(3,072)
Subordinated term debt	(2,189)	(8,607)
Perpetual debt	(11,583)	(11,583)
Hybrid debt	9,804	(15,403)
Lease agreements and other	(42)	(35)
	(237,161)	**(298,669)**
Net interest income	**291,911**	**181,711**

For 2014 the recognised interest income on individually impaired financial assets (loans and advances to customers) amounts to BGN 76,767 thousand (2013: BGN 50,486 thousand).

7. Net fee and commission income

In thousands of BGN	2014	2013
Fee and commission income		
Letters of credit and guarantees	6,656	7,970
Payments transactions	16,128	12,276
Customer accounts	23,514	20,407
Cards business	30,840	28,152
Other	31,041	34,791
	108,179	**103,596**
Fee and commission expense		
Letters of credit and guarantees	(241)	(481)
Correspondent accounts	(15,390)	(13,974)
Cards business	(2,054)	(1,548)
Other	(3,069)	(902)
	(20,754)	**(16,905)**
Net fee and commission income	**87,425**	**86,691**

The Group has made a reclassification of the fee and commission expenses on account of administrative expenses (see note 10) for a total of BGN 5,084 thousand compared to the financial statements at 31 December 2013 in order to present more accurate and clear comparative data.

8. Net trading income

In thousands of BGN	2014	2013
Net trading gains/(losses) arise from:		
- Debt instruments	662	91
- Equity instruments	53	213
- Foreign exchange	11,282	9,077
Net trading income	**11,997**	**9,381**

9. Other operating income

In thousands of BGN	2014	2013
Other operating income arise from:		
- Debt instruments		
- Equity instruments	1,783	2,428
- Operating income from management of loans acquired through business combination	13,520	3,979
- Other	11	255
Other operating income	**15,314**	**6,662**

10. General administrative expenses

In thousands of BGN	2014	2013
General and administrative expenses comprise:		
- Personnel cost	65,849	59,670
- Depreciation and amortisation	20,270	20,736
- Advertising	13,445	6,463
- Building rent expense	30,647	25,601
-Telecommunication, software and other computer maintenance	10,280	9,095
- Administration, consultancy, audit and other costs	50,490	34,674
General administrative expenses	**190,981**	**156,239**

Personnel costs include salaries, social and health security contributions under the provisions of the respective local legislation. At 31 December 2014 the total number of employees of the Group is 3,291 (31 December 2013: 3,554).

11. Impairment losses

In thousands of BGN	2014	2013
Write-downs		
Loans and advances to customers	(325,599)	(84,205)
Reversal of write-downs		
Loans and advances to customers	25,978	13,900
Net impairment losses	**(299,621)**	**(70,305)**

12. Other income/(expenses), net

	2014	2013
Net income from transactions and revaluation of gold and precious metals	619	(164)
Rental income	2,332	1,930
Income from sale of assets	158,604	290
Dividend income	546	505
Net earned insurance premiums	2,627	1,665
Premium contribution to deposit insurance schemes	(34,033)	(28,897)
Claims incurred	(1,374)	(930)
Other income/(expenses), net	(9,656)	3,619
Total	**119,665**	**(21,982)**

Under Income from sale of assets, a single large transaction is included for 2014 representing the sale of repossessed assets obtained as collateral with recognised net income of BGN 158,194 thousand.

13. Income tax expense

In thousands of BGN	2014	2013
Current taxes	(4,720)	(3,867)
Deferred taxes (see note 23)	(226)	542
Income tax expense	**(4,946)**	**(3,325)**

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

In thousands of BGN	2014	2013
Accounting profit before taxation	**35,710**	**188,229**
Corporate tax at applicable tax rate (10% for 2014 and 10% for 2013)	3,571	18,823
Effect of tax rates of foreign subsidiaries and branches	301	(77)
Effect of gain on bargain purchase of subsidiary (non taxable)	-	(15,231)
Tax effect of permanent tax differences	189	6
Other	885	(196)
Income tax expense	**4,946**	**3,325**
Effective tax rate	13.85%	1.77%

14. Earnings per share

	2014	2013
Net profit attributable to shareholders *(in thousands of BGN)*	30,394	184,920
Weighted average number of ordinary shares *(in thousands)*	110,000	110,000
Earnings per share *(in BGN)*	**0.28**	**1.68**

The basic earnings per share, calculated in accordance with IAS 33, are based on the profit attributable to ordinary equity holders of the Bank. During 2014 as in the previous year, no conversion or option rights were outstanding. The diluted earnings per share, therefore, correspond to the basic earnings per share.

15. Cash and balances with central banks

In thousands of BGN	2014	2013
Cash on hand		
- In Bulgarian leva	117,419	113,176
- In foreign currencies	48,192	45,543
Balances with central banks	840,589	961,960
Current accounts and amounts with resident banks	16	14
Current accounts and amounts with foreign banks	645,729	226,862
Total	**1,651,945**	**1,347,555**

16. Financial assets held for trading

In thousands of BGN	2014	2013
Bonds, notes and other instruments issued by:		
Bulgarian government, assessed with BBB- rating :		
- denominated in Bulgarian leva	4,980	3,897
- denominated in foreign currencies	110	7,281
Foreign government		
- government bonds	-	2,059
Foreign banks	1,367	-
Other issuers – equity instruments (unrated)	3,189	3,186
Total	**9,646**	**16,423**

17. Available for sale investments

In thousands of BGN	**2014**	**2013**
Bonds, notes and other instruments issued by:		
Bulgarian government		
- denominated in Bulgarian leva	179,418	113,287
- denominated in foreign currencies	193,792	107,029
Foreign governments		
- treasury bills	5,144	143,151
- government bonds	56,309	32,613
Local authorities	51	97
Bulgarian banks	1,955	1,955
Foreign banks	44,018	19,220
Other issuers – equity instruments	6,288	6,288
Total	**486,975**	**423,640**

18. Financial assets held to maturity

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

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

As a result of the bank-run, in June 2014 the Group sold held to maturity investments at the nominal amount of EUR 40,000 thousands. This sale did not represent a change in the Group's intention and ability to hold the investments to their maturity, because it was attributable to an isolated, non-recurring event that was beyond the Bank's control and was not anticipated by the Group.

19. Loans and advances to banks and financial institutions

(a) Analysis by type

In thousands of BGN	**2014**	**2013**
Placements and other amounts due from banks	103,851	100,074
Receivables under resale agreements	-	13,658
Other	8,227	6,394
Total	**112,078**	**120,126**

(b) Geographical analysis

In thousands of BGN	**2014**	**2013**
Resident banks and financial institutions	18,819	16,827
Foreign banks and financial institutions	93,259	103,299
Total	**112,078**	**120,126**

20. Loans and advances to customers

In thousands of BGN	**2014**	**2013**
Retail customers		
- Consumer loans	412,250	389,356
- Mortgage loans	654,449	714,896
- Credit cards	245,918	231,090
Small and medium enterprises	557,681	686,239
Microlending	88,984	93,408
Corporate customers	4,374,648	4,141,595
Less allowance for impairment	(523,602)	(235,792)
Total	**5,810,328**	**6,020,792**

(a) Movement in impairment allowances

In thousands of BGN

Balance at 1 January 2014	**235,792**
Additional allowances	325,599
Amounts released	(25,978)
Elimination of allowance for impairment at merger of Unionbank EAD	(11,265)
Write – offs	(543)
Effects of changes in foreign currencies rates	(3)
Balance at 31 December 2014	**523,602**

The increase in impairment allowance during 2014 with BGN 287,810 thousand as compared to the amount as of 31 December 2013 is due to the development of the credit risk of several individually significant exposures as well as to the more conservative estimates approach of the Group applied in 2014.

21. Property and equipment

In thousands of BGN	Land and buildings	Fixtures and fittings	Motor vehicles	Assets under construction	Leasehold improvements	Total
Cost						
At 1 January 2013	**14,555**	**127,563**	**6,353**	**30,650**	**62,557**	**241,678**
Additions	-	195	55	5,857	36	6,143
Acquired through business combination	1,882	3,516	-	1,617	679	7,694
Foreign exchange differences	-	(11)	(1)	-	(7)	(19)
Disposals	-	(2,519)	(327)	-	(1,649)	(4,495)
Transfers	1,341	11,107	319	(14,764)	1,295	(702)
At 31 December 2013	**17,778**	**139,851**	**6,399**	**23,360**	**62,911**	**250,299**
Additions	1	176	31	11,312	19	11,539
Foreign exchange differences	-	3	-	-	-	3
Depreciation elimination at merger of Unionbank EAD	(15)	(500)	-	-	(139)	(654)
Disposals	(214)	(2,078)	(313)	(10)		(2,615)
Transfers	-	4,658	708	(8,377)	1,922	(1,089)
At 31 December 2014	**17,550**	**142,110**	**6,825**	**26,285**	**64,713**	**257,483**
Depreciation						
At 1 January 2013	**1,105**	**90,468**	**5,309**	**-**	**23,956**	**120,838**
Foreign exchange differences	-	(9)	-	-	(6)	(15)
Charge for the year	546	13,063	353	-	3,955	17,917
On disposals	-	(2,429)	(327)	-	(1,649)	(4,405)
At 31 December 2013	**1,651**	**101,093**	**5,335**	**-**	**26,256**	**134,335**
Foreign exchange differences	-	1	-	-	-	1
Depreciation elimination at merger of Unionbank EAD	(15)	(500)	-	-	(139)	(654)
Charge for the year	630	11,815	330	-	4,271	17,046
On disposals	(5)	(1,974)	(291)	-	-	(2,270)
At 31 December 2014	**2,261**	**110,435**	**5,374**	-	**30,388**	**148,458**
Net book value						
At 1 January 2013	**13,450**	**37,095**	**1,044**	**30,650**	**38,601**	**120,840**
At 31 December 2013	**16,127**	**38,758**	**1,064**	**23,360**	**36,655**	**115,964**
At 31 December 2014	**15,289**	**31,675**	**1,451**	**26,285**	**34,325**	**109,025**

21. Property and equipment, continued

The fair value of assets consisting of land and buildings was determined by independent property assessors holding recognised professional qualification and recent experience in assessing property with similar location and category as of 31 December 2012. The Group's policy requires internal or external appraisers to determine the fair value with sufficient frequency to ensure that the book value does not differ significantly from the fair value at the end of the reporting period. As at 31 December 2014 the fair value of land and buildings was confirmed by the internal appraisers of the Bank and it was not significantly different from their balance sheet value as at that date. The fair value of land and buildings is categorised as Level 3 fair value on the basis of input data on the valuation technique used.

21. 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

Notes to the consolidated financial statements

22. Intangible assets

In thousands of BGN	Software and licences	Greenhouse allowances	Goodwill	Total
Cost				
At 1 January 2013	**23,989**	**3,820**	**721**	**28,530**
Additions	149	-	-	149
Acquired through business combination	3,955	-	-	3,955
Exchange differences on translating foreign operations	(3)	-	-	(3)
Disposals	(61)	-	-	(61)
Transfers	702	-	-	702
At 31 December 2013	**28,731**	**3,820**	**721**	**33,272**
Additions	137	-	-	137
Exchange differences on translating foreign operations	1	-	-	1
Amortisation elimination at merger of Unionbank EAD	(634)	-	-	(634)
Disposals	(52)	-	-	(52)
Transfers	1,089	-	-	1,089
At 31 December 2014	**29,272**	**3,820**	**721**	**33,813**
Amortisation				
At 1 January 2013	**10,191**	**-**	**-**	**10,191**
Exchange differences on translating foreign operations	(1)	-	-	(1)
Charge for the year	2,819	-	-	2,819
At 31 December 2013	**13,009**	**-**	**-**	**13,009**
Exchange differences on translating foreign operations	1	-	-	1
Amortisation elimination at merger of Unionbank EAD	(634)	-	-	(634)
Charge for the year	3,224	-	-	3,224
On disposals	(52)	-	-	(52)
At 31 December 2014	**15,548**	**-**	**-**	**15,548**
Net book value				
At 1 January 2013	**13,798**	**3,820**	**721**	**18,339**
At 31 December 2013	**15,722**	**3,820**	**721**	**20,263**
At 31 December 2014	**13,724**	**3,820**	**721**	**18,265**

23. Deferred Taxation

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

Deferred income tax balances as at 31 December 2014 are attributable to the following items:

In thousands of BGN	Assets	Liabilities	Net Assets	Liabilities
Property, equipment and intangibles	(94)	3,257	(94)	3,257
Other items	(258)	385	48	79
Net tax (assets)/liabilities	**(352)**	**3,642**	**(46)**	**3,336**

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

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

Movements in temporary differences in 2014 are recognised, as follows:

In thousands of BGN	2013				2014	
	Net assets	Net liabilities	Recognised in (profit) or loss for the period	Recognised in capital for the period	Net assets	Net liabilities
Property, equipment and intangibles	(93)	3,066	190	-	(94)	3,257
Other items	45	71	36	(25)	48	79
Net tax (assets)/liabilities	**(48)**	**3,137**	**226**	**(25)**	**(46)**	**3,336**

24. Repossessed Assets

In thousands of BGN	2014	2013
Land	291,367	280,516
Buildings	212,527	180,440
Machines and equipment	16,906	6,053
Fixtures and fittings	805	805
Total	**521,605**	**467,814**

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

The net realizable value of the land and buildings is approximately similar to their fair value. The valuation technique used for land and buildings is presented in Note 21.

25. Other assets

In thousands of BGN	2014	2013
Deferred expense	13,697	19,547
Gold bullion	9,672	10,502
Other assets	16,044	31,958
Total	**39,413**	**62,007**

26. Due to credit institutions

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

27. Due to other customers

In thousands of BGN	2014	2013
Retail customers		
- current accounts	638,969	756,292
- term and savings deposits	5,090,022	4,859,710
Corporate, state-owned and public institutions		
- current accounts	601,000	708,481
- term deposits	369,686	1,211,273
- Ministry of Finance	901,844	-
Total	**7,601,521**	**7,535,756**

The European Commission, DG Competition, approved the liquid support to First Investment Bank AD in the form of a deposit amounting to BGN 900 mln. for a period of 18 months and due date 28 May 2016 with decision C(2014)8959 of 25.11.2014.

28. Other borrowed funds

In thousands of BGN	**2014**	**2013**
Acceptances under letters of credit	23,337	5,763
Liabilities under repurchase agreements	-	15,870
Mortgage bonds	-	30,634
Financing from financial institutions	137,778	113,388
Other term liabilities	16,429	30,789
Total	**177,544**	**196,444**

Financing from financial institutions through extension of loan facilities can be analyzed as follows:

In thousands of BGN

Lender	**Interest rate**	**Maturity**	**Amortised cost as at 31.12.2014**
State Fund Agriculture	1.97% - 2.00%	06.03.2015 - 20.09.2019	6,524
European Investment Fund – JEREMIE 2	0 % - 1.22%	31.12.2024	68,495
Bulgarian Bank for Development AD	3.50 - 5.00%	20.03.2017 - 30.03.2019	62,759
Total			**137,778**

In thousands of BGN

Lender	**Interest rate**	**Maturity**	**Amortised cost as at 31.12.2013**
State Fund Agriculture	1.97% - 2.00%	31.08.2014 - 15.11.2018	4,806
European Investment Fund – JEREMIE 2	0 % - 1.08%	31.12.2024	42,069
Bulgarian Bank for Development AD	3.50 - 5.00%	30.03.2014 - 30.12.2018	66,513
Total			**113,388**

29. Subordinated term debt

In 2014 the Bank prepaid in full before maturity its subordinated term debt.
As at 31 December 2013 the subordinated term debt agreements were as follows:
In thousands of BGN

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

30. Perpetual debt

In thousands of BGN	Principal amount	%	Amortised cost as at 31 December 2014
Step-up guaranteed perpetual subordinated bonds EUR 27 mio	52,807	12.50%	55,391
Step-up guaranteed perpetual subordinated bonds EUR 21 mio	41,073	11.625%	44,608
Total	**93,880**		**99,999**

In thousands of BGN	Principal amount	%	Amortised cost as at 31 December 2013
Step-up guaranteed perpetual subordinated bonds EUR 27 mio	52,807	12.50%	55,259
Step-up guaranteed perpetual subordinated bonds EUR 21 mio	41,073	11.625%	44,533
Total	**93,880**		**99,792**

The issue of the step-up subordinated bonds by First Investment Finance B.V., a limited liability company registered under the laws of the Netherlands and 100% owned by First Investment Bank AD is fully guaranteed by the Bank. After the adoption of Regulation 575/2013 (effective 1 January 2014) on prudential requirements for credit institutions and investment firms, the two issues are subject to grandfathering and as at 31 December 2014 the perpetual bonds are included in the tier 2 capital with 80% of their principal value.

31. Hybrid debt

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

In thousands of BGN	Principal amount	Interest rate	Amortised cost as at 31 December 2013
Hybrid debt with principal EUR 40 mio	78,233	12.75 %	84,736
Hybrid debt with principal EUR 60 mio	117,350	11 %	120,515
Total	**195,583**		**205,251**

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

In November 2012 the Bank issued a hybrid instrument (bond issue) and, after obtaining permission from the Bulgarian National Bank, included it as Tier 1 capital. The Bank placed the bond issue under private subscription with a total nominal and issue value of EUR 20,000 thousand, constituting the

31. Hybrid debt, continued

first tranche of a bond issue for up to EUR 60,000 thousand. In November 2013 the Bank issued the second and the third tranches of the instrument with total nominal value of EUR 40,000 thousand, which after obtaining permission from the Bulgarian National Bank were included as Tier 1 capital.

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

The two hybrid instruments fully comply with the requirements of Regulation 575/2013 and are included in the additional tier 1 capital. *According to Decision C (2014 8959)/25.11.14 of the European Commission regarding liquidity support SA.39854 (2014/N) the accrual of interest on the hybrid instruments has been suspended until the aid repayment.

32. Other liabilities

In thousands of BGN	2014	2013
Liabilities to personnel	2,325	2,782
Insurance contract provisions	1,634	1,162
Other payables	16,866	9,929
Total	**20,825**	**13,873**

33. Capital and reserves

(a) Number and face value of registered shares as at 31 December 2014

As at 31 December 2014 the registered share capital of the Bank is BGN 110,000,000 divided into 110,000,000 ordinary dematerialized shares with voting rights of BGN 1 par value each. All the shares have been fully paid-up.

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

(b) Shareholders

The table below shows those shareholders of the Bank holding shares as at 31 December 2014 together with the number and percentage of total issued shares.

	Number of shares	% of issued share capital
Mr. Ivailo Dimitrov Mutafchiev	46,750,000	42.50
Mr. Tzeko Todorov Minev	46,750,000	42.50
Other shareholders (shareholders holding shares subject to free trade on the Bulgarian Stock Exchange – Sofia)	16,500,000	15.00
Total	**110,000,000**	**100.00**

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

(c) Statutory reserve

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

In 2014, as in the previous year, the Bank has not distributed dividends. Please, refer to to note 3(i).

34. Commitments and contingent liabilities

(a) Memorandum items

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

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

In thousands of BGN	**2014**	**2013**
Bank guarantees		
- in BGN	192,548	207,941
- in foreign currency	94,874	157,745
Total guarantees	**287,422**	**365,686**
Unused credit lines	458,524	531,298
Promissory notes	-	811
Letters of credit	13,347	31,573
Other contingent liabilities	81,874	-
Total	**841,167**	**929,368**

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

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

35. Cash and cash equivalents

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

In thousands of BGN	**2014**	**2013**
Cash and balances with central banks	1,651,945	1,347,555
Loans and advances to banks and financial institutions with maturity less than 90 days	85,285	74,625
Total	**1,737,230**	**1,422,180**

36. Average balances

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

In thousands of BGN	2014	2013
FINANCIAL ASSETS		
Cash and balances with central banks	1,477,224	1,302,729
Financial assets held for trading	10,740	8,750
Available for sale investments	421,505	466,239
Financial assets held to maturity	126,810	158,310
Loans and advances to banks and financial institutions	116,397	62,027
Loans and advances to customers	5 945 596	4,918,801
FINANCIAL LIABILITIES		
Due to credit institutions	2,777	3,913
Due to other customers	7,565,280	6,531,303
Other borrowed funds	196,892	94,104
Subordinated term debt	5,163	54,175
Perpetual debt	99,122	98,915
Hybrid debt	214,170	136,017

37. Related party transactions

Parties are considered to be related if one party controls or exercises significant influence over the other party on making financial or operational decisions, or the parties are under common control.
A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and other transactions. These transactions are carried out on commercial terms and at market rates. The volume of these transactions and outstanding balances at the end of respective periods are as follows:

Type of related party	**Parties that control or manage the Bank**		**Enterprises under common control**	
In thousands of BGN	**2014**	**2013**	**2014**	**2013**
Loans				
Loans outstanding at beginning of the period	1,231	1,349	17,276	24,456
Loans issued/(repaid) during the period	(466)	(118)	(127)	(7,180)
Loans outstanding at end of the period	765	1,231	17,149	17,276
Deposits and other financing received				
Deposits at beginning of the period	16,154	12,369	2,801	21,804
Deposits received/(repaid) during the period	(5,808)	3,785	(1,014)	(19,003)
Deposits at end of the period	10,346	16,154	1,787	2,801
Deposits placed				
Deposits at beginning of the period	-	-	-	3,989
Deposits placed/(matured) during the period	-	-	-	(3,989)
Deposits at end of the period	-	-	-	-
Off-balance sheet commitments issued by the Group				
At beginning of the period	1,607	1,841	234	252
Granted/(expired)	510	(234)	734	(18)
At the end of the period	2,117	1,607	968	234

The key management personnel of the Bank received remuneration of BGN 4,247 thousand for 2014 and other related parties received BGN 3,966 thousand.

38. Subsidiary undertakings

(a) First Investment Finance B.V.

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

(b) Diners Club Bulgaria AD

In May 2005 the Bank acquired 80% of the share capital of Diners Club Bulgaria AD. The company was incorporated in 1996 as a franchise and processing agent of Diners Club International. As at 31 December 2014 the registered share capital of the company is BGN 610 thousand, and the Bank's shareholding is 94.79%. The Bank consolidates its investment in the company.

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

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

As at 31 December 2014 the share capital of First Investment Bank − Albania Sh.a. is EUR 11,975 thousand, fully paid in and the Bank's shareholding is 100%. The Bank consolidates its investment in the company.

(d) Debita OOD and Realtor OOD

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

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

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

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

(e) Fi Health Insurance AD

In the second half of 2010 the Bank acquired a majority stake capital of Health Insurance Fund Fi Health AD (formerly Health Insurance Fund Prime Health AD). In June 2013 following a decision by Financial Supervision Commission the company was given a licence to perform insurance activities. The name of the company was changed to Fi Health Insurance AD. It is engaged in insurance business – offering “Illness” and “Accident” insurance policies. As at 31 December 2014 the registered share capital of the company is BGN 5,000 thousand and the Bank's shareholding is 59.10%. The Bank consolidates its investment in the company.

38. Subsidiary undertakings, continued

(f) Framas Enterprises Limited

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

(g) Balkan Financial Services EAD

In February 2011 the Bank acquired 100 shares representing 100% of the capital of Balkan Financial Services OOD. The company is engaged in consultancy services related to implementation of financial information systems and software development. In January 2012 the company was transformed into a single member joint stock company. As at 31 December 2014 the registered share capital of the company is BGN 50 thousand, and the Bank's shareholding is 100%. The Bank consolidates its investment in the company.

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

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

(i) Unionbank EAD

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

(i) Consideration transferred

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

38. Subsidiary undertakings, continued

(i) Unionbank EAD, continued

(ii) Identifiable assets acquired and liabilities assumed

In thousands of BGN

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

38. Subsidiary undertakings, continued

(i) Unionbank EAD, continued

(iii) Measurement of fair values

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

Assets acquired / liabilities assumed	Valuation technique
Loan portfolio	Income approach The Income approach is predicated upon the value of future cash flows that an asset will generate over its remaining useful life. The Income method provides an indication of value by converting the future cash flows to a single current capital value. Capitalization involves the conversion of income into a capital sum through the application of an appropriate discount rate. The Income approach is considered as the most appropriate method for valuation of the loan portfolio of Unionbank EAD as at 30 September 2013 due to availability of information for the value of future cash flows that the loans will generate over their remaining useful life. In order to estimate the future cash flows that the loans will generate over the remaining loan term, the loan portfolio is divided into segments corresponding to their risk classification groups. The discount rate used for the fair value estimation of the loan portfolio of Unionbank is based on BNB statistics.
Placements	Income approach The Income approach is considered as the most appropriate method for valuation of the placements of Unionbank EAD as at 30 September 2013 due to availability of information for the value of future cash flows that the placements will generate until maturity. The discount rate used for the fair value estimation of placements is based on the respective Euribor.
Deposits	Income approach. The following assumptions have been applied in the estimation of the fair value of Unionbank's deposits: 1. Interest on term deposits accrues and is paid off at the end of the deposit term. 2. Book value on saving and current accounts approximates their fair value. The discount rate used for the estimation of fair value of the time deposits is based on BNB statistics.

38. Subsidiary undertakings, continued

(i) Unionbank EAD, continued

(iii) Measurement of fair values, continued

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

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

38. Subsidiary undertakings, continued

j) AMC Imoti EOOD

AMC Imoti EOOD was registered in September 2010 and was acquired by the Bank through the purchase of MKB Unionbank EAD as its subsidiary. The scope of operations of the company includes activities related to acquisition of property rights and their subsequent transfer, as well as research and evaluation of real estate, property management, consulting and other services. As at 31 December 2014 capital of the company is BGN 500 thousand, and the Bank is the sole owner. The company is not included in the consolidated financial statements of the Group for the year ended 31 December 2014, as it is considered immaterial to the financial position, financial result and the cash flows of the Group for the same reporting period

39. Subsequent events

There have been no events after the reporting date that require additional disclosures or adjustments to the financial statements of the Group.

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INDEPENDENT AUDITORS' REPORT

To the shareholders of
First Investment Bank AD

We have audited the accompanying consolidated financial statements of First Investment Bank AD ("the Bank"), which comprise the consolidated statement of financial position as at 31 December 2014, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

KPMG Bulgaria OOD, a Bulgarian limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Registered with the Commercial Register at the Bulgarian Registry Agency Identity Code 040595851

IBAN BG06 RZBB 9155 1060 2664 18
BIC RZBBBGSF
RaiffeisenBank (Bulgaria) EAD

KPMG

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Bank as at 31 December 2014, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Tzvetelinka Koleva
Authorized representative

Margarita Goleva
Registered auditor

KPMG Bulgaria OOD

Sofia, 22 April 2015

СПЕЦИАЛИЗИРАНО ОДИТОРСКО ПРЕДПРИЯТИЕ
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