Materials

for

the Regular Annual General Meeting of Shareholders

of First Investment Bank AD

to be held on 21 May 2014

1. Notice and Agenda for the Annual General Meeting of Shareholders of First Investment Bank AD
2. Item 1 – FIBank's Annual Report for 2013
3. Item 2 – Auditor's Report on FIBank's financial statement for 2013
4. Item 3 – Annual financial statements of FIBank for 2013
5. Other:
    - Sample power of attorney

NOTICE AND AGENDA
FOR THE ANNUAL ORDINARY GENERAL MEETING OF SHAREHOLDERS
OF FIRST INVESTMENT BANK AD

First Investment Bank AD (Fibank AD), having its seat and management address at 37, Dragan Tsankov Blvd., Iztok Region, Sofia, Bulgaria, registered in the Commercial Register kept by the Registry Agency under UIC 831094393, acting by and through the Executive Directors Dimitar Kostov Kostov and Vassil Christov Christov, pursuant to Article 25, para. 1 and Article 26, para. 1 of the By-Laws of First Investment Bank AD, Sofia in conjunction with Article 222 and Article 223 of the Commercial Act and Article 115, Paras. 1 and 2 of the Public Offering of Securities Act, the Managing Board of First Investment Bank AD is hereby convening an Annual Ordinary General Meeting of Shareholders (GMS). The GMS shall take place on 21 May, 2014 at 11:00 AM at the Serdika Hall of Sheraton Sofia Hotel Balkan, 5, Sveta Nedelya Square, Sofia. The Agenda shall be as follows:

1. Management Report of First Investment Bank AD for 2013.

   ***Draft resolution**: The General Meeting of Shareholders approves the consolidated and non consolidated Management Report of the Bank for 2013.*

2. Report of the specialised audit company on the audit of the annual financial statements of the Bank for 2013.

   ***Draft resolution**:* *The General Meeting of Shareholders approves the Report of the specialised audit company on the audit of the annual financial statements of the Bank for 2013.*

3. Approval of the Annual Financial Statements of the Bank for 2013.

   ***Draft resolution**:* *The General Meeting of Shareholders approves the Annual Financial Statement of the Bank for 2013 – consolidated and non consolidated.*

4. Decision for the distribution of the profit of First Investment Bank AD for 2013.

   Draft resolution: *The General Meeting of Shareholders approves that the entire profit of the Bank for 2013 be retained as other general reserves.*

5. Adoption of resolution not to pay dividends and not to make any other deductions from the 2014 profit

   ***Draft resolution**:* *The General Meeting of Shareholders resolves that no dividends shall be paid to the shareholders and no other deductions from the profit of the Bank for the year 2014 shall be made with a view to including the profit as at June 30th in the Bank's capital.*

6. Relief of responsibility of the members of the Managing and Supervisory Board of First Investment Bank AD for their activities in 2013.

   ***Draft resolution**:* *The General Meeting of Shareholders relieves of responsibility the members of the Managing and Supervisory Board of First Investment Bank AD for their activities in 2013.*

7. Report of First Investment Bank's Investor Relations Director for 2013.

   ***Draft resolution**:* *The General Meeting of Shareholders approves the Report of First Investment Bank's Investor Relations Director for 2013.*

8. Report of the Internal Control Specialized Unit Director for 2013

    Draft resolution: *The General Meeting of Shareholders approves the Report of the Internal Control Specialized Unit Director for 2013*

9. Appointment of registered auditor for 2014.

    Draft resolution: *The General Meeting of Shareholders appoints the specialised audit company KPMG Bulgaria OOD to audit the annual financial statements of the Bank for 2014.*

10. Report of the Audit Committee for its activities in 2013

    Draft resolution: *The General Meeting of Shareholders approves the Report of the Audit Committee for its activities in 2013*

11. Approval of a new limit of total remuneration of the members of the Managing and Supervisory Board of the Bank which shall not exceed BGN 5,000,000 (five million) per annum.

    Draft resolution: *The current total remuneration paid per annum to the members of the Managing and Supervisory Board of the Bank shall remain unchanged and in view of the consolidation of the two credit institutions (acquisition of Unionbank EAD by First Investment Bank AD) and expected increase in the chief executive numbers the limit of total remuneration of the members of the Managing and Supervisory Board of the Bank shall be raised to BGN 5,000,000 (five million) per annum*

12. Amendments to the nature of business of First Investment Bank AD

Draft resolution: *The General Meeting of Shareholders shall adopt the following amendments to the nature of business of the Bank:*

“The Bank is engaged in the business of publicly accepting deposits or other repayable funds and extending loans and other financing for its own account and at its own risk. The Bank may also conduct the following activities:

1\. providing money transfer services as defined in the Law on Payment Services and Payment Systems;

2\. issuance and administration of other means of payment (payment cards, traveler’s cheques and bills of credit) in so far as these activities do not fall within the scope of item 1;

3\. acceptance of valuables on deposit;

4\. depository and custodian services;

5\. financial leasing;

6\. guarantee transactions;

7\. trading for its own account or for customers’ account with foreign currency and precious metals except for derivative financial instruments over foreign currency and precious metals;

8\. rendering of services and/or performance of activities under Article 5, Paragraph 2 and Paragraph 3 of the Law on Markets in Financial Instruments;

9\. financial brokerage;

10\. acquisition of receivables arising out of loans and other forms of financing (factoring, forfeiting and other);

11. equity acquisition and management;

12. safe deposit box rental;

13. collection and distribution of information and references on customers' creditworthiness;

14. issue of electronic money;

15. other such activities defined in an ordinance of the Bulgarian National Bank (BNB).

13. adoption of changes in the By-Laws of First Investment Bank AD

<u>Draft resolution:</u> *The General Meeting of Shareholders adopts the following amendments to the By-Laws of the Bank:*

13.1 Article 4, para 2 shall be amended and supplemented as follows:

a) the phrase *"providing money transfer services; starting as from November 1st, 2009"* in item 1 shall be deleted;

b) it. 7 shall be amended as follows: letter "a", letter "b" and letter "c" shall be deleted, with the text under letter "b" becoming text of item 7 and having the following wording: *"trading for its own account or for customers' account with foreign currency and precious metals except for derivative financial instruments over foreign currency and precious metals"*

c) item 8 shall be amended as follows: *"rendering of services and/or performance of activities under Article 5, Paragraph 2 and Paragraph 3 of the Law on Markets in Financial Instruments"*

d) item 10 shall be deleted;

e) item 11 shall be amended as follows: "*acquisition of receivables arising out of loans and other forms of financing (factoring, forfeiting and other)";*

13.2 Article 15, para. 4 shall be amended as follows:

"Natural or legal persons, or persons acting in coordination, may not acquire directly or indirectly any shares in the Bank's capital or voting rights without the prior permission of BNB, if following the share acquisition such persons will have qualified shareholding or the shareholding will reach or exceed the thresholds of 20, 33, or 50 per cent of the shares or the voting rights; or if the Bank is becoming an affiliate company. Where the shares under the previous sentence are acquired without prior permission by BNB on public offering of shares on the stock exchange or any other regulated securities market, the transferees may not exercise the voting rights on these shares until receipt of BNB's written permission, for the issuance of which they shall submit an application within one month of the occurrence of the relevant fact requiring obtaining of such permission."

13.3 Article 42, para. 5 and para. 7 of the Bylaws shall be supplemented as follows:

a) para. 5 shall be supplemented by adding *"and having the required skills, knowledge, experience, trustworthiness and aptitude in compliance with criteria set forth by ordinance of BNB"* at the end*;*

b) para. 7 shall be supplemented by adding the following as first sentence: *"The Supervisory Board shall elect a committee among its members for the selection of candidate members of the Managing Board"* and the former first sentence shall be supplemented by adding *"other"* after *"In order to support its activity the Supervisory Board may set up"*

Registration of shareholders for participation in the annual GMS shall take place between 9:45 AM and 10:45 AM, before the meeting begins.

The Managing Board of First Investment Bank AD declares that the total number of shares and voting rights of the shareholders in the company as at the date of resolution of the Managing Board to summon the annual ordinary general meeting of shareholders, i.e. 08.04.2014, amounts to 110 000 000 (one hundred and ten million) dematerialized registered voting shares. Each share entitles its holder to the right to participate in the General Meeting of Shareholders and to have one vote.

Shareholders having held at least 5 per cent of the capital of First Investment Bank AD for more than 3 months may, after the notice is posted in the Commercial Register, request the inclusion of items and propose draft resolutions on items already on the agenda of the general meeting; they can do so by submitting a list of items which they want included on the agenda and the proposed resolutions no later than 06.05.2014 for posting in the Commercial Register. Once posted in the Commercial Register the items shall be considered included in the agenda. No later than the following working day shareholders shall present the list of issues, the proposed draft resolutions and the written materials at the company's management address and to the Financial Supervision Commission.

During the general meeting shareholders shall have the right to raise questions pertaining to all items on the agenda, as well as other issues, related or not to the agenda.

Persons and legal entities registered as shareholders of First Investment Bank AD in the Register of the Central Depository no later than 14 days before the date of the General Meeting – 07.05.14 as per a list issued by Central Depository AD shall be entitled to vote at the GMS. Only persons listed as shareholders at the date quoted in the previous sentence shall have the right to attend the general meeting and vote.

In order to register and attend the Annual Ordinary General Meeting, shareholders and their proxies shall identify themselves: private individuals shall do so by presenting an identification document. Shareholders that are legal entities shall be allowed to participate in the Meeting after they present the original or a notarized copy of a certificate of good standing or a certificate for registration in a relevant register. Legal representatives shall identify themselves by presenting a document for personal identification.

Rules for voting by proxy.

In cases where a shareholder is represented at the general meeting by proxy pursuant to Art. 29, para. 1 of the company's By-Laws, a power of attorney issued for the specific meeting and certified by a notary public and drafted in accordance with Article 116, para. 1 of the Public Offering of Securities Act needs to be presented by the proxy together with a document for personal identification. In cases where the legal entity is not represented by its legal representative, the proxy shall present an identification document, an original or a notarized copy of a certificate of good standing of the company and a power of attorney issued for the specific meeting and certified by a notary public and drafted in accordance with Article 116, para. 1 of the Public Offering of Securities Act. In cases where a shareholder is represented by a proxy legal entity, the latter shall present an identity document of its legal representative, a certificate of good standing of the proxy legal entity in the original, and a power of attorney issued for the specific meeting and certified by a notary public and drafted in accordance with Article 116, para. 1 of the Public Offering of Securities Act.

Powers of Attorney shall be enclosed with the other General Meeting instruments.

Delegation to another person of any of the powers given to the proxy according to the power of attorney shall be null and void, as shall be the power of attorney given in violation of the provisions of Article 116, Paragraph 1 of the Public Offering of Securities Act.

Rules for Instruments Drafted in a Foreign Language

Should a shareholder or a shareholder's proxy deposit instruments (Power of Attorney, Certificate of Good standing, or another instrument used to identify the shareholder) drafted in a language other than Bulgarian, such instruments are to be accompanied by a translation in Bulgarian and legalised in accordance with the requirements of current legislation; the signature of the translator must be verified by the Consular Affairs Directorate at the Ministry of Foreign Affairs of the Republic of Bulgaria.

The Managing Board of First Investment Bank AD provides a sample power of attorney in hard copy and digital copy along with the materials for the general meeting. The sample power of attorney is also available on the Bank's website - www.fibank.bg. Upon request, a sample power of attorney may also be presented after the summoning of the ordinary general meeting of shareholders.

First Investment Bank AD will receive and accept valid notices and powers of attorney by electronic means at the following email address shareholders.meeting@fibank.bg; electronic messages need to be signed with a qualified electronic signature (QES) by the authorizer and accompanied by an electronic copy of the power of attorney which is also signed with a qualified electronic signature by the authorizer. The terms and conditions for receiving powers of attorney by electronic means are also published on First Investment Bank's website – http://www.fibank.bg/bg/page/2961. Voting by correspondence or by electronic means is not permissible according to the By-laws of First Investment Bank AD.

The written materials on the agenda for the General Meeting will be made available to shareholders pursuant to Art. 224 of the Commercial Code and Art. 27 of the By-Laws of First Investment Bank AD no later than 17.04.2014, each working day between 9.00 AM and 5.00 PM on the premises of First Investment Bank AD, at 37, Dragan Tsankov Blvd, Sofia, Bulgaria. The notice and the written materials on the agenda for the general meeting will be published on First Investment Bank's website www.fibank.bg for the period from the posting of the notice in the Commercial Register to the adjourning of the general meeting.

All shareholders of First Investment Bank AD are invited to participate in the Annual Ordinary General Meeting of Shareholders, either personally or through a proxy.

In case of a lack of quorum at the opening hour of the GMS, it shall be postponed until 11.00 AM on 05.06.2014, with the place and agenda remaining unchanged in compliance with Article 115, para. 12 of the Public Offering of Securities Act and Art. 227, para. 3 of the Commercial Act,. New items may not be included in the agenda pursuant to Article 223a of the Commercial Act.

Dimitar Kostov	Vassil Christov
Executive Director	Executive Director

On item 1 of the Agenda
for the Regular Annual General Meeting of Shareholders
of First Investment Bank AD

Annual Report 2013

ANNUAL REPORT

(ON A CONSOLIDATED BASIS)

OF FIRST INVESTMENT BANK AD
FOR 2013

MARCH 2014

The present report is prepared on the grounds of and in compliance with the requirements of art.33, par. 3 of the Accounting Act, of art.100н of the Law on Public Offering of Securities, Ordinance №2 of the Financial Supervision Commission from 17.09.2003 for the prospects of public offering and admittance for trade on a regulated market of securities and for the disclosure of information by public companies and other issuers of securities, Ordinance №8 of the BNB on the capital adequacy of credit institutions and the National corporate governance code.

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MACROECONOMIC DEVELOPMENT

In 2013 the Bulgarian economy reported diverse dynamics in the main structural indicators, including higher net exports and public consumption, but still a slow recovery in the areas of investment activity, private consumption and the labor market. The balanced fiscal policy, the existing currency board system and the stability of the banking system continued to contribute towards preserving the macroeconomic stability of the country.

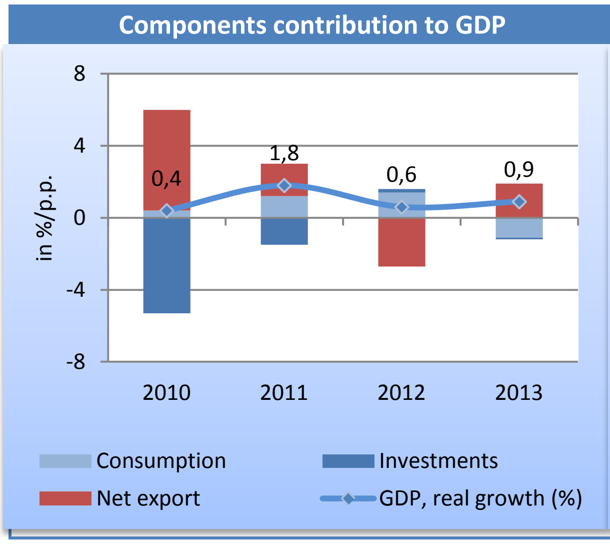
	2013	2012	2011	2010	2009
Gross domestic product, real growth (%)	0.9	0.6	1.8	0.4	(5.5)
Consumption, real growth (%)	(1.4)	2.9	1.5	0.5	(7.3)
Gross fixed capital formation, real growth (%)	(0.3)	4.0	(6.5)	(18.3)	(17.6)
Inflation at period-end (%)	(1.6)	4.2	2.8	4.5	0.6
Average annual inflation (%)	0.9	3.0	4.2	2.4	2.8
Unemployment (%)	11.8	11.4	10.4	9.2	9.1
Current account (% of GDP)	2.0	(1.3)	0.1	(1.5)	(8.9)
Trade balance (% of GDP)	(5.7)	(8.7)	(5.6)	(7.7)	(11.9)
Foreign exchange reserves of BNB (EUR million)	14,426	15,553	13,349	12,977	12,919
Foreign direct investments (% of GDP)	3.0	3.7	3.5	3.2	7.0
Gross external debt (% of GDP)	91.4	94.9	94.3	102.7	108.3
Public sector external debt (% of GDP)	10.0	11.6	10.9	12.0	12.0
Consolidated budget balance (% of GDP)	(1.8)	(0.5)	(2.0)	(4.0)	(0.9)
Exchange rate of USD (BGN for USD 1)	1.42	1.48	1.51	1.47	1.36

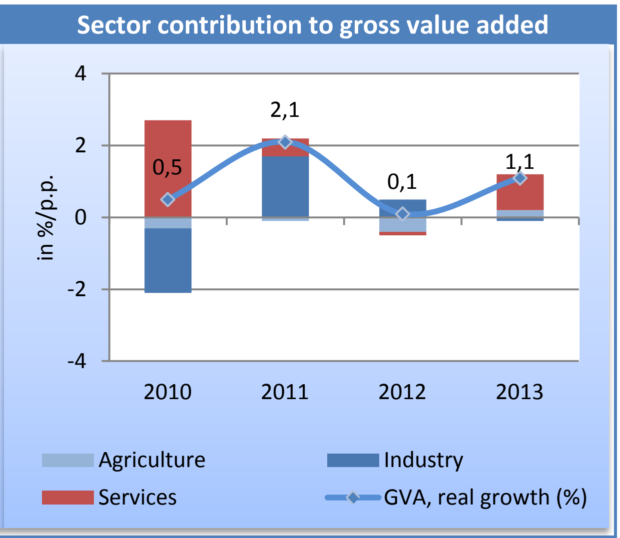
Source: BNB, Ministry of Finance, NSI

In 2013 the real growth of the economy in the country amounted to 0.9% year-on-year (2012: 0.6%), due to the acceleration in economic activity in the second half of the year – 1,1% for Q313 and 1,6% for Q413, resulting from the recovery of economic growth in the EU and Euro Area countries.

The main growth contributor was the physical volume of exports, which increased by 8.9% during the year (2012: -0.4%), influenced by the higher external demand. The volume of imports showed a more gradual increase of 5.7% during 2013, against 3.3% the prior year.

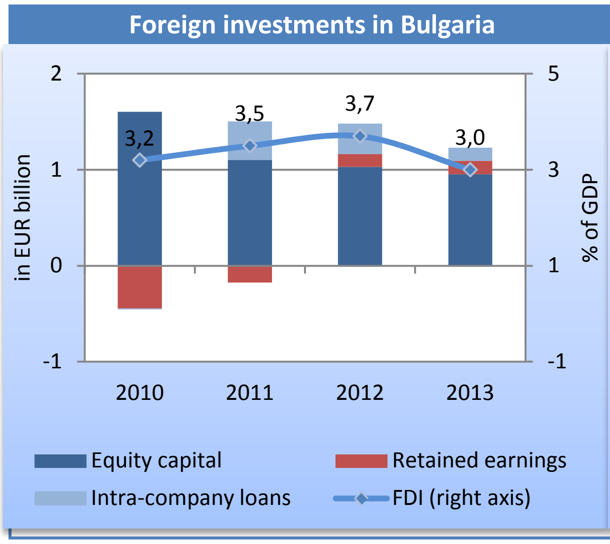
Final consumption remained a constraint on growth, including private consumption which decreased and amounted to -1.4% during the whole 2013 (2012: 2.9%). Internal demand remained under the influence of labour market dynamics and continuing conservativeness in expenditures. Investment activity showed signs of recovery, reporting positive values in the third (2.1%) and fourth (4.6%) quarters of the year, but remained negative at -0.3% for the whole 2013 (2012: 4.0%).

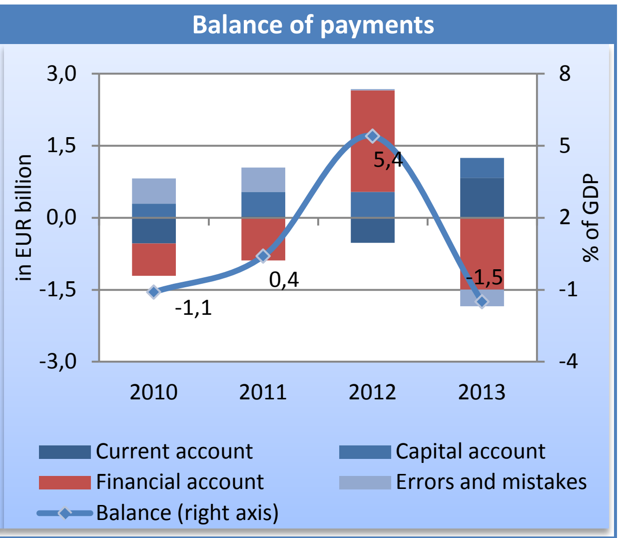




During the period the gross value added in the economy increased by 1.1% year-on-year (2012: 0.1%), mainly due to the contribution of the services sector, which grew by 1.6% during 2013 (2012: -0.2%) and the positive influence in the spheres of financial and insurance business, state government and telecommunications. An increase of 3.4% was registered in agriculture (2012: -7.2%), due to the good harvest during the year. A negative contributor was the industrial sector, which reported a decrease of -0.3% (2012: 1.6%), including in the mining and manufacturing industry and construction.

The labour market remained unstable with irregular recovery of employment in separate spheres, in accordance with current economic activity and companies' behaviour, which continued their conservativeness in terms of hiring labour. During the year unemployment increased and remained high at 11.8% as at end-2013 (2012: 11.4%; 2011: 10.4%), but was comparable to EU and Euro Area averages.

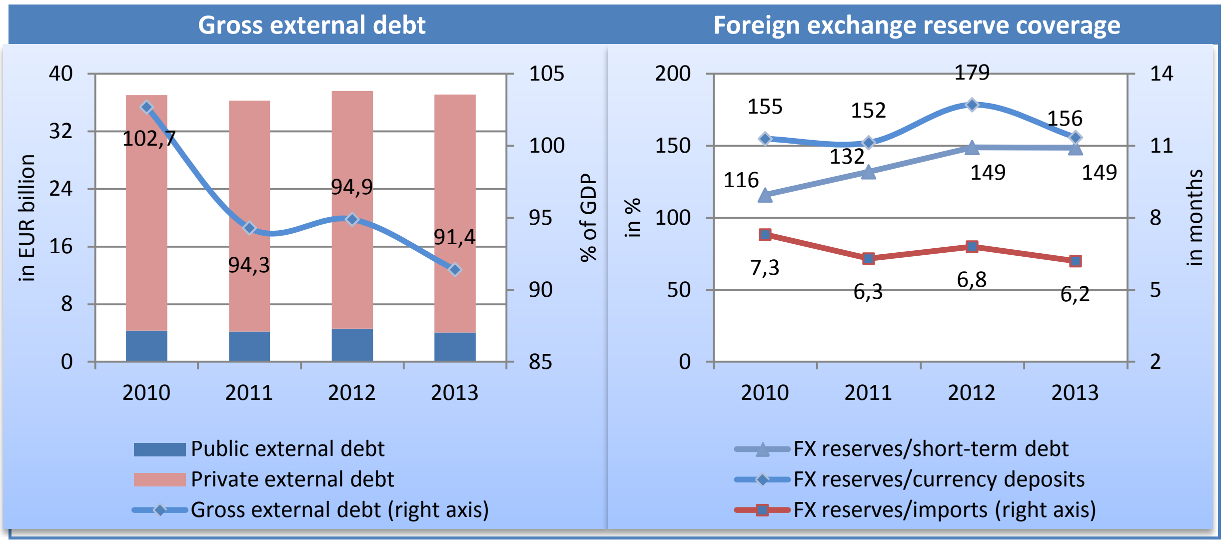




In 2013 foreign direct investments in the country decreased to EUR 1,229 million (3.0% of GDP), compared to EUR 1,481 million (3.7% of GDP) a year earlier. The decline reflected the lower inflow in the form of equity capital, which reached EUR 953 million at year-end (2012: EUR 1,032 million) and of other capital, which showed the change in net obligations between companies with foreign shareholdings and foreign direct investors on financial, contractual and commercial credits. Retained earnings amounted to EUR 140 million, against EUR 132 million the same period a year earlier. By sectors, the largest inflow of investments were in transport (EUR 429 million), trade (EUR 328 million) and manufacturing (EUR 273 million), while net payments were registered in financial intermediary (EUR -63 million) and real estate operations (EUR -58 million). Other investments, which include mainly bank transactions and the external receivables and obligations of the state on commercial credits and loans decreased, as a result of which the financial account of the balance of payments was negative by EUR 1,494 million at the end of 2013, compared to positive by EUR 2,117 million the prior year.

In December 2013 Bulgaria successfully finalized the private placement of three transferrable loans "Schuldschein" on the total amount of EUR 290 million, which was the first operation of such a kind made by a country in Southeast Europe, thus showing the confidence of the international investor community regarding Bulgaria's creditworthiness.

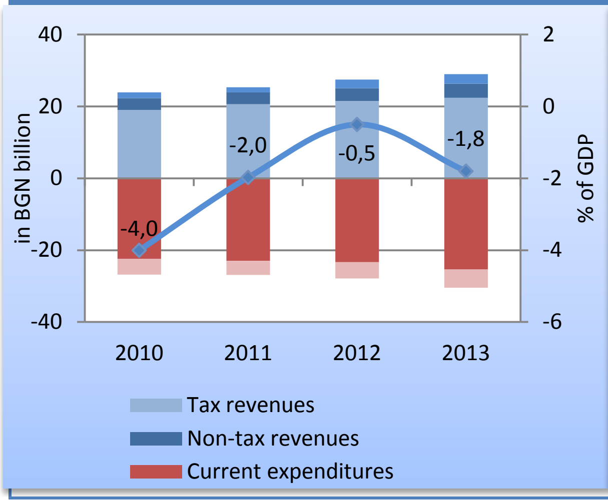
The current account balance for 2013 was positive by EUR 831 million (2.0% of GDP), compared to a deficit of EUR 521 million (1.3% of GDP) a year earlier. The main contributor was the reduction of the trade deficit by EUR 1,125 million, to EUR 2,336 million or 5.7% of GDP (2012: EUR -3,460 million, or -8.7% of GDP) and the positive flow of current transfers (2013: EUR 2,327 million; 2012: 2,069 million). Exports grew more than imports, reaching EUR 22,200 million or 6.9% more compared to a year earlier, mainly due to recovering external demand, including a growth in the main trading partners of the country. Imports grew by 1.3% (2012: 8.1%) amounting to EUR 24,535 million, against EUR 24,230 million the prior year, resulting from the still slow recovery of internal demand, including private consumption and the investment activity of companies. During 2013, the European Union increased its role as the main trading partner of the country, accounting for 60.5% of exports (2012: 58.9%) and 48.6% of imports (2012: 47.7%). An increase was also registered in trade with third countries, including Turkey, Ukraine, Asia countries and others.



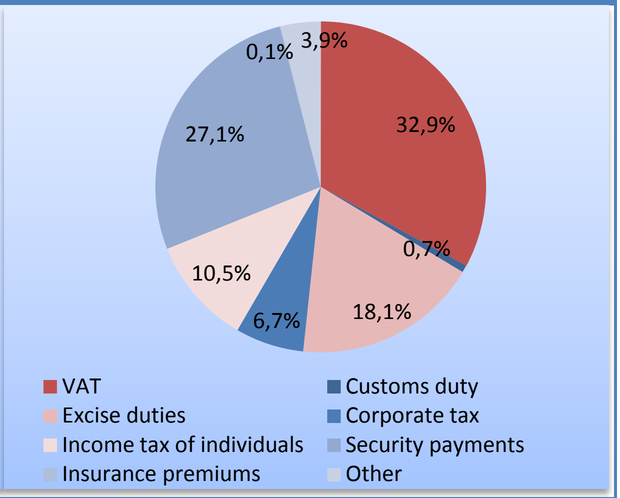
Gross external debt decreased by 1.3% to EUR 37,129 million or 91.4% of GDP at the end of 2013 (2012: EUR 37,635 million or 94.9% of GDP). This reduction mainly came from public sector external debt, which decreased to EUR 4,062 million at the end of the period (2012: EUR 4,588 million) and remained low as a percentage of GDP at 10.0% (2012: 11.6%) compared to most EU countries. Private external debt remained almost unchanged at EUR 33,067 million, compared to EUR 33,048 million a year earlier. Currency reserve assets covered 148.7% of short-term external liabilities (2012: 148.9%) and 155.8% of currency deposits (2012: 178.5%) in the country.

In 2013 the deficit on the consolidated budget increased to BGN 1,448 million (1.8% of GDP), against BGN 359 million (0.5% of GDP) a year earlier, due mainly to higher expenditures compared to revenues and benefits. Expenses on the consolidated fiscal program grew by 9.4% to BGN 30,430 million at end-December 2013, against BGN 27,820 million the prior year. An increase was registered in all main expense groups, with the biggest growth in current non-interest expenses and more specifically in social expenses (by 8.4% to BGN 889 million) as well as in social and health insurance payments (by 7.9% to BGN 11,561 million).

Consolidated budget



Structure of tax revenues for 2013



For the period the revenues and contributions under the consolidated budget increased by 5.5% to BGN 28,981 million (2012: BGN 27,469 million), due mainly to higher tax revenues. VAT revenues grew by 3.0% to BGN 7,367 million (2012: BGN 7,152 million), influenced by measures undertaken during the second half of the year for improving the effectiveness of the process for VAT recovery. Revenues from excise duties amounted to BGN 4,056 million, compared to BGN 4,048 million a year earlier, due to an increase in revenues from fuel and tobacco products. Indirect tax on insurance premiums was BGN 22 million, compared to BGN 25 million the previous year. Corporate tax revenues during 2013 amounted to BGN 1,497 million, or 7.3% more than a year earlier (2012: BGN 1,395 million), as a result mainly of the higher revenues from non-financial companies. Revenues from income tax on individuals grew by 2.3% to BGN 2,334 million (2012: BGN 2,282 million), influenced by the increase amount of the average wage. The tax on interest income on deposit accounts, which is applied from 2013, generated additional revenue of BGN 83 million as at end-year. Proceeds from contributions increased to BGN 6,060 million (2012: 5,590 million), a main contributor being social security contributions, which reached BGN 4,257 million (2012: BGN 3,862 million), due to increased social security income.

In 2013 the annual consumer price index in the country followed a decreasing trend. During the second half of the year it registered negative values and at end-2013 was -1.6% (2012: 4.2%). Major contributors for deflation were overheads and utilities (by 7.2%), including electricity prices and food prices (by 0.9%), which had the largest relative shares of 17.8% and 35.1% in the consumer price index formation. The decrease in international prices of the main raw materials and goods was also a factor, as well as the still slow recovery of internal demand. Average annual inflation in the country was 0.9% in 2013, against 3,0% in 2012 and 4.2% in 2011, while harmonized values amounted to 0.4% (2012: 2.4%; 2011: 3.4%).

During the year Bulgaria's credit ratings in local and foreign currency were confirmed by the international rating agency Standard & Poor's – long-term rating "BBB", short-term rating "A-2", reflecting the stable fiscal policy and resilience of public finance. The outlook was changed from "stable" to "negative" in line with economic growth perspectives, resulting from weak internal demand and the political situation.

The main challenges for further development and recovery of economic activity in Bulgaria during 2014 remain the continuing unfavourable conditions in the labour market and the slow recovery of domestic consumption. The effective absorption of EU funds, political stability, as well as a strengthening of structural reforms continue to be among the factors for sustainable and long-term economic development. Expectations for 2014 include gradual acceleration of economic activity under the conditions of moderate recovery of private consumption and investment activity, as forecast values showed a real growth of around 1.7%-1.8%, as per forecasts made by the Ministry of Finance and by the European Commission. The decrease in prices is expected to gradually diminish under the influence of recovering economic activity, while labour market dynamics remain diverse, despite some separate signals for stabilizing gross employment.

THE BANKING SYSTEM

In 2013 the banking system in Bulgaria maintained its stability, by reporting sustainable results and development in accordance with the external environment. The banking sector succeeded in maintaining the accumulated buffers in terms of capital base and liquidity and retained its capacity for credit intermediation activisation. The effective regulatory and supervisory framework developed in line with EU regulations and standards, contributing to the good results, the retained confidence and the resilience of the banking system in the country.

in % / change in p.p.	2013	2012	2011	%	%
Capital adequacy ratio	16.85	16.66	17.53	0.19	(0.87)
Tier 1 capital ratio	16.04	15.16	15.74	0.88	(0.58)
Ratio of liquid assets	27.07	26.00	25.57	1.07	0.43
Loans/deposits ratio (to customers)	91.29	98.82	103.42	(7.53)	(4.60)
Leverage ratio (equity/assets)	13.02	13.17	13.60	(0.15)	(0.43)
Return-on-equity (ROE)	6.1*	5.71	6.10	0.39	(0.39)
Return-on-assets (ROA)	0.70	0.71	0.78	(0.01)	(0.07)
Problem loans (90 days past due)	16.87	16.62	14.93	0.25	1.69

*data as at 30.09.2013 Source: Bulgarian National Bank

In 2013 the capital adequacy ratio grew by 0.19 percentage points to 16.85% at the end of the period (2012: 16.66%, 2011: 17.53%), while the tier 1 capital ratio rose by 0.88 percentage to 16.04% (2012: 15.16%, 2011: 15.74%). The increase was due mainly to a growth in issued share capital and retained earnings, compared to the more conservative dynamics in risk-weighted assets, resulting from the cautious banking policy for risk taking.

The liquidity of the banking system remained at high levels, in accordance with the policies for conservativeness of placements and disposal in every moment. The growing high liquid instruments ensured coverage of the attracted funds, as the ratio of liquid assets reached 27.07% at the end of the period, against 26.00% the prior year (2011: 25.57%). Loans/deposits ratio was 91.29% (2012: 98.82%; 2011: 103.42%), reflecting the moderate credit activity and the growing of customer deposits.

in BGN million / change in %	2013	2012	2011	%	%
Net interest income	2,541	2,625	2,869	(3.2)	(8.5)
Net fee and commission income	819	779	786	5.1	(0.9)
Administrative expenses	1,783	1,755	1,732	1.6	1.3
Impairment	1,067	1,209	1,290	(11.7)	(6.3)
Net profit	585	567	586	3.2	(3.2)

Source: Bulgarian National Bank

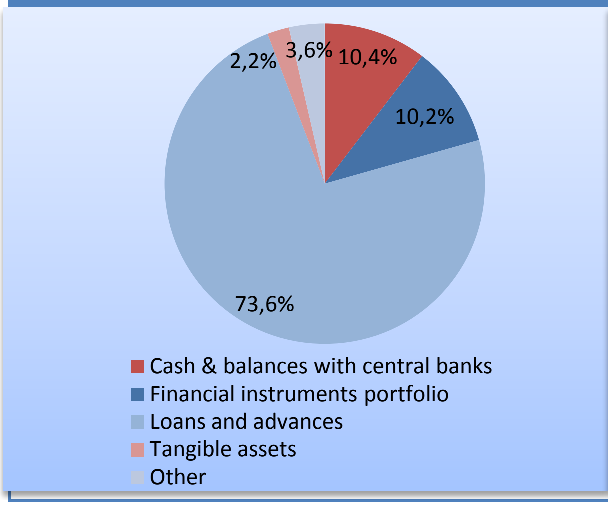
In 2013 the net profit of the banking system amounted to BGN 585 million or 3.2% more compared to a year earlier (2011: BGN 586 million), as the income from the main activities of the system generated enough coverage of the impairment charges and operating expenses. The slowing trend of net interest income continued (2013: BGN 2,541 million; 2012: BGN 2,625 million; 2011: BGN 2,869 million), due to the economic activity in the country, the increased volumes of attracted funds and the related interest expenses. Net fee and commission income grew to BGN 819 million (2012: BGN 779 million; 2011: BGN 786 million), in accordance with the increased volumes and business operations. For 2013 return-on-assets (ROA) was 0.70% (2012: 0.71%; 2011: 0.78%), while return-on-equity (ROE) was 6.1% as at end-September 2013 (2012: 5.71%; 2011: 6.10%), reflecting the banking sector's ability to generate income in line with economic cycle specifics.

in BGN million / change in %	2013	2012	2011	%	%
Assets	85,747	82,416	76,811	4.0	7.3
Loans to corporate	38,306	38,166	36,104	0.4	5.7
Loans to individuals	18,504	18,415	18,513	0.5	(0.5)
Deposits from corporate	22,982	21,387	20,907	7.5	2.3
Deposits from individuals	39,248	35,869	31,902	9.4	12.4

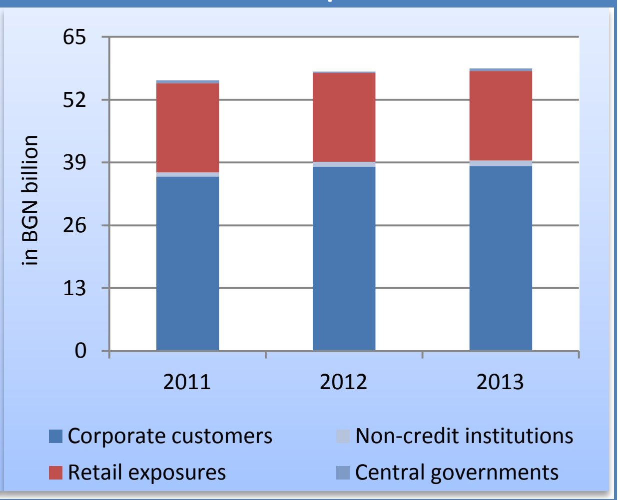
Source: Bulgarian National Bank

Total balance-sheet assets of the system rose by 4.0% year-on-year to BGN 85,747 million (2012: BGN 82,416 million; 2011: BGN 76,811 million). Loans increased their relative share to 73.6% of total assets, remaining structure-determining for the system (2012: 73.0%; 2011: 78.6%).

Asset structure



Gross loan portfolio

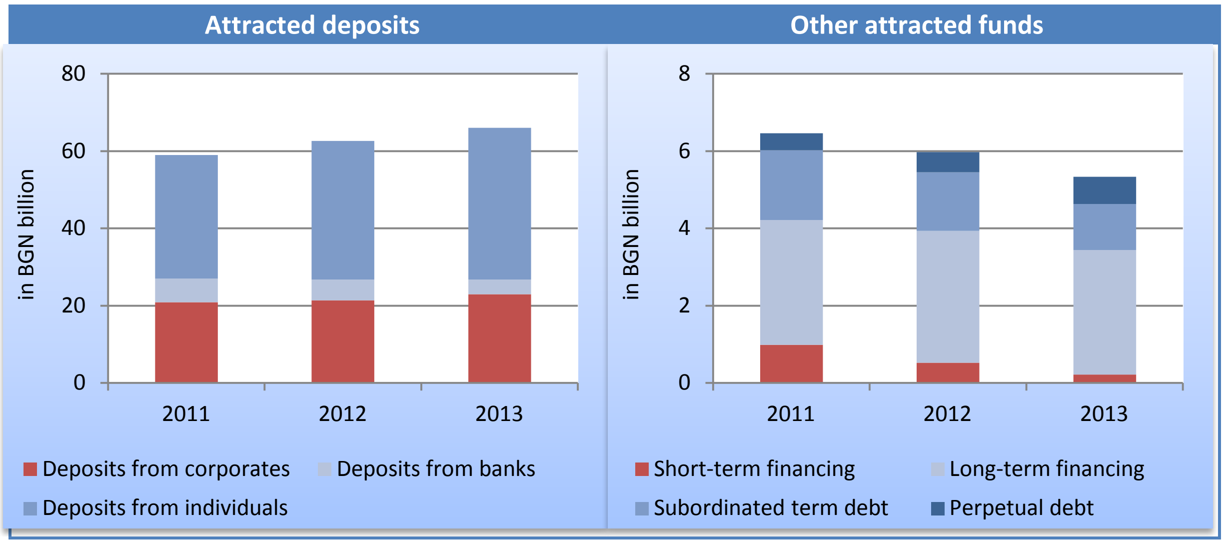


Gross loan portfolio (without credit institutions) grew by 1.1% to BGN 58,489 million, resulting from an increased in loans to corporate customers, which reached BGN 38,306 million or 0.4% more compared to end-2012 (2012/2011 г.: 5.7%) and an increase in loans to individuals by 0.5% to BGN 18,503 million. In retail loan dynamics a decrease was reported in mortgage loans by 0.6% to BGN 9,389 million, while an increase in consumer loans by 1.6% to BGN 9,115 million.

Problem loans (classified as non-performing and loss) increased by 0.25 percentage points (2012/2011: 1.69 p.p.) to 16.87% of gross loan portfolio (2012: 16.62%; 2011: 14.93%), as the growth rate continued to slow-down. The increase was adequately covered by impairment and the additionally accumulated buffers from the system.

In 2013 attracted funds in the banking system grew by 4.5% and reached BGN 73,882 million (2012: BGN 70,702 million; 2011: BGN 65,607 million). The increase resulted from the growing trend in deposits from individuals by 9.4% (BGN 3,379 million) to BGN 39,248 million (2012: BGN 35,869 million; 2011: BGN 31,902 million). Deposits from corporates also increased by 7.5% to BGN 22,982 million (2012: BGN 21,387 million; 2011: BGN 20,907 million), due to the slow recovery of investment activity in the country.

The currency structure of attracted funds grew in the BGN portion to 49.7% (2012: 48.1%; 2011: 45.2%) at the expense of those in EUR to 43.6% (2012: 44.9%; 2011: 48.0%) and those in other currencies to 6.7% (2012: 6.9%; 2011: 6.8%).



During 2013 a number of regulatory changes took place in the national and European legislation.

In January 2013 a new Ordinance № 28 of the Ministry of Finance and the BNB was adopted on the information and documents submitted to payment service providers when making cross-border transfers and payments to a third country. It confirmed the existing regime for cross-border transfers to third countries, specifying the necessary documents that customers should provide for such payments when they equal or exceed BGN 30 000 or the equivalent in another currency.

In March 2013 amendments and supplements were adopted to the Law on Consumer Protection, regulating the protection of rights of consumers in terms of distance contracts.

Amongst the most important changes in the European regulatory framework regarding banking activity, was the newly adopted Regulation (EU) № 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms, as well as Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms. These acts introduce the new requirements of the Basel Committee on Banking Supervision, known as the Basel III framework, which establish uniform rules regarding capital requirements, limiting large exposures, liquidity risk management and public disclosure.

In November 2013 amendments and supplements were adopted in the Law on income tax of individuals, setting a gradual decrease during the next four years in the tax rate to local individuals on gross amounts of acquired interest income from deposit accounts (for 2014: 8%; for 2015: 6%; for 2016: 4%; for 2017 and the following: 0%).

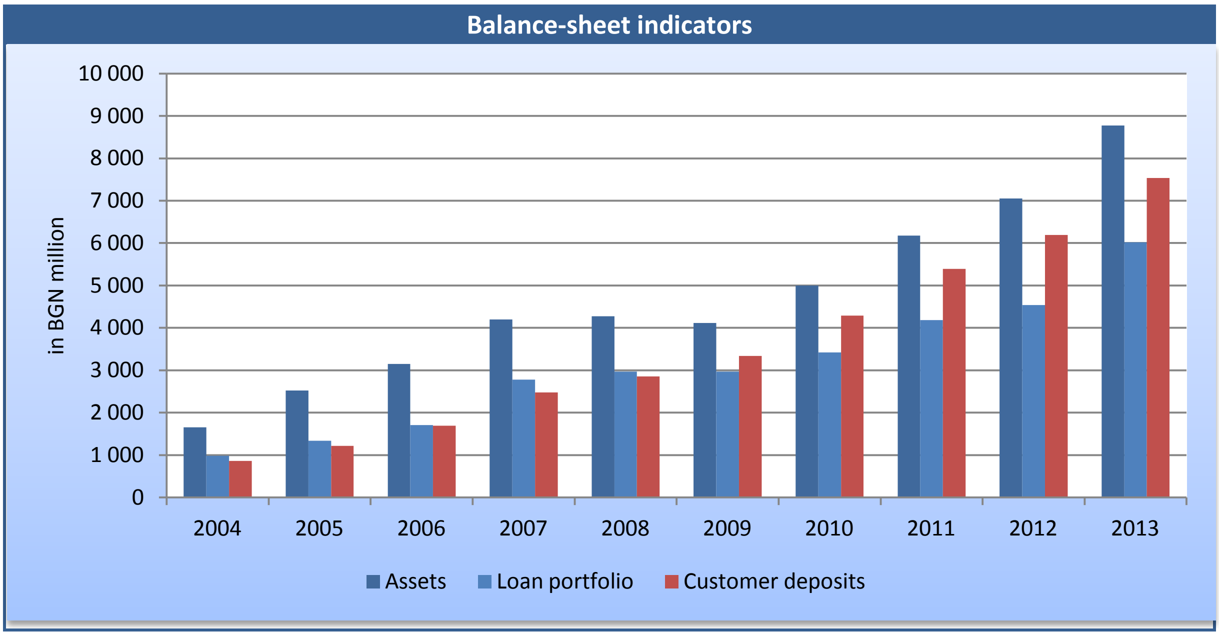
At year-end the BNB Government Securities Registration and Settlement System (BNBGSSS) was successfully included as an auxiliary system in the national system component of TARGET2-BNB. This is expected to allow Bulgarian banks that are direct participants in BNBGSSS to effect cross-border transfers of government debt instruments issued in the domestic market, irrespective of their currency denomination.

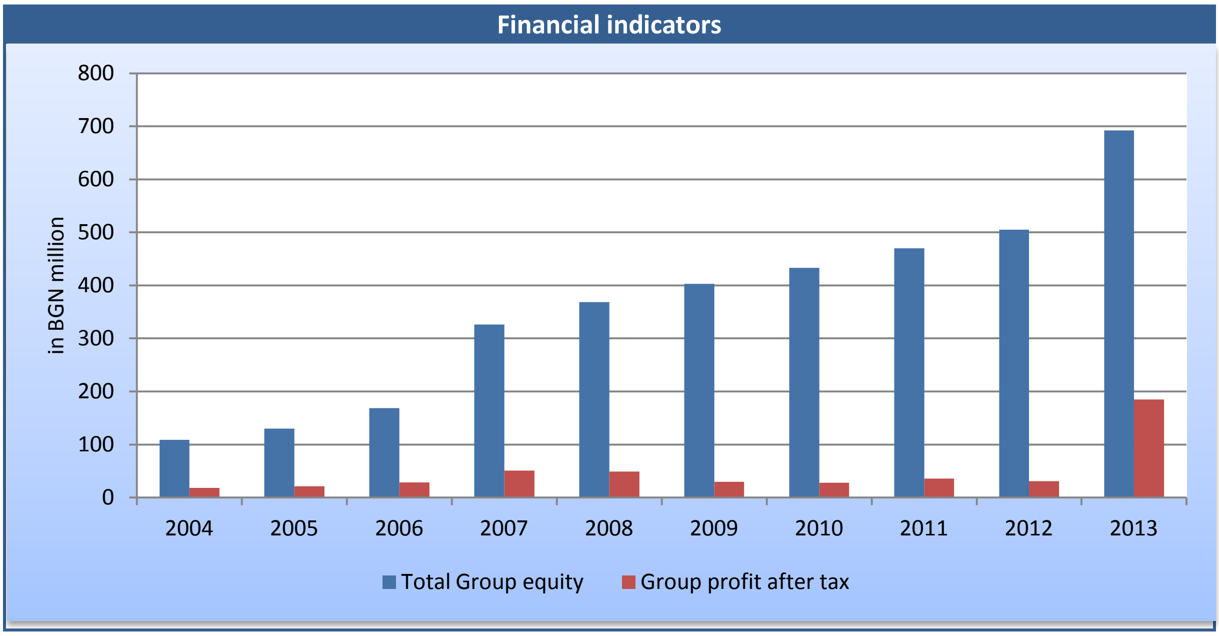
As at 31 December 2013, 30 credit institutions operated in the country, including 6 branches of foreign banks. The balance sheet capital of the banking system amounted to BGN 11,164 million (2012: BGN 10,850 million; 2011: BGN 10,448 million), with predominantly foreign participation of investors from the European Economic Area. The subsidiary banks from the EU formed 62.2% of system assets, local banks held 30.2%, branches of banks from EU held 5,5%, while banks and branches outside EU stood at 1.3% and 0.8% respectively.

MISSION

First Investment Bank AD aspires to continue to be one of the best banks in Bulgaria, recognized as a rapidly growing, innovative, customer-oriented bank, offering outstanding products and services to its customers, ensuring excellent careers for its employees, and contributing to the community. The Bank will continue to develop high-technological solutions providing its customers with opportunities for banking from any place around the world at any time.

GROWTH





In the fourth quarter of 2013 First Investment Bank successfully finalised the transaction for acquiring 100% of the capital of MKB Unionbank EAD from the Hungarian MKB Bank Zrt., a subsidiary of the Bayerische Landesbank AG. This was the most important transaction of such a kind in the Bulgarian banking market in the last years.

In November 2013 First Investment Bank AD and Unionbank EAD (former MKB Unionbank EAD) signed a contract under the meaning of the Commerce Act for the merger of Unionbank EAD into First Investment Bank AD. After receiving the respective approvals from the competent authorities, on 4 March 2014 the merger was listed in the Commercial Register. Thus Unionbank EAD has been terminated and all its rights and obligations have been transferred to the Bank as its universal successor.

The integration and development of the best practices and know-how of the two institutions, together with the gained experience, knowledge, innovation, flexibility and quality of service, will make it possible to offer even more competitive services for businesses and individuals, as well as benefits for society. New banking opportunities will open up before customers, with even wider access to various banking products.

BANK PROFILE

CORPORATE STATUS

First Investment Bank is a joint-stock company registered with Sofia City Court pursuant to a ruling dated 8 October 1993. Since 28 February 2008 the Bank has been registered in the Commercial Register at the Registry Agency.

First Investment Bank is a public company registered in the Commercial Register of Sofia City Court by a decision dated 4 June 2007 and in the register of public companies and other issuers held by the Financial Supervision Commission by a decision dated 13 June 2007.

The Bank owns a universal banking license for domestic and international operations.

First Investment Bank is a licensed primary dealer in government securities and is a registered investment intermediary.

PARTICIPATIONS AND MEMBERSHIPS

- Association of Banks in Bulgaria
- Bulgarian Stock Exchange – Sofia AD
- Central Depository AD
- BORICA – Bankservice AD
- MasterCard International
- VISA International
- S.W.I.F.T.

MARKET POSITION*

- Among the leading banks in the cards business
- Among the leading banks in international settlements and trade finance
- Third in assets
- Third in lending
  - Third in corporate lending
- Third in deposits
  - Second in deposits from individuals
- Fourth in profit
- Ninth in shareholders' equity

MARKET SHARE*

- 6.75% of sent and 9.43% of received international transfers in foreign currency
- 4.02% of sent and 5.24% of received cross-border transactions for trade finance

* Market positions and shares are based on unconsolidated data from the BNB, Borica – Bankservice AD, MasterCard International, VISA Europe and SWIFT.

- 8.68% of bank assets in Bulgaria
- 8.88% of loans in Bulgaria
    - 10.99% of corporate lending
    - 5.81% of consumer lending
    - 3.79% of mortgage lending
- 10.28% of deposits in Bulgaria
    - 12.70% of deposits from individuals

CORRESPONDENT RELATIONS

Fibank has a wide network built up of over 600 correspondent banks, through which it performs international payments and trade finance operations in almost all parts of the world. The Bank executes international transfers in over 140 foreign currencies, and issues cheques and performs different documentary operations.

Fibank is a respected, reliable and fair partner, which has built over the years a good reputation among international financial institutions and gained valuable experience and know-how from its numerous business partners, investors, customers and counterparties.

BRANCH NETWORK

As at 31 December 2013 the Group of First Investment Bank had a total of 221 branches and offices: the Head Office, 150 branches and offices throughout Bulgaria, one foreign branch in Cyprus, a Head Office and 9 branches of the subsidiary bank First Investment Bank – Albania Sh.a., as well as a Head Office and 58 branches of the subsidiary bank Unionbank EAD.

SUBSIDIARY COMPANIES

FIRST INVESTMENT BANK – ALBANIA SH.A.

In June 2007 First Investment Bank – Albania Sh.a. was granted a full banking licence by the Bank of Albania, and in September 2007 effectively took over the activities of the former FIB-Tirana Branch, which had operated in the Albanian market since 1999, by assuming all its rights and obligations, assets and liabilities.

First Investment Bank – Albania Sh.a. offers a full range of products and services for individuals and small and medium enterprises. The bank develops card payments by offering debit and credit cards, based on EMV compliant chip technology, as well as by offering e-banking tailored to clients' needs and requirements. The bank was the first to offer products of investment gold and other precious metals in the Albanian market.

First Investment Bank – Albania Sh.a.'s corporate governance comprises of the Executive management (Directorate), the Managing Board (Steering Council) and the Audit Committee. The CEO of First Investment Bank – Albania Sh.a. is Mr. Bojidar Todorov, who has extensive professional experience in the banking sector including several top-level management positions in First Investment Bank AD related to corporate asset management.

DINERS CLUB BULGARIA AD

Diners Club Bulgaria AD is a joint-stock company registered in November 1996 as an issuer of Diners Club credit cards and a processor of payments. In 2010 the company was licensed by BNB as a payment institution to perform payment operations through payment cards and the issuing and acceptance of payments by payment instruments.

Throughout the years Diners Club Bulgaria AD has worked systematically and consistently to increase the penetration of the Diners Club brand in the local market, by offering new services to cardholders and expanding the network of POS terminals which accept payments with Diners Club cards.

Diners Club Bulgaria AD has a one-tier management system, comprising the Executive management (Executive Director) and the Board of Directors. The Executive Director, entitled to represent Diners Club Bulgaria AD is Mrs. Anna Angelova, who has extensive professional experience in the card business, including management positions in First Investment Bank AD related to card payments.

FI HEALTH INSURANCE AD

In 2010 First Investment 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, thus becoming the first among voluntary health insurance funds in the country, which ensures financial security of expenses related to medical care in the sphere of non-hospital medical services, hospital treatment, expenses for medical goods and dental services. The name of the company was changed to Fi Health Insurance AD, while its business activity – in line with the Insurance Code – is offering “Illness” and “Accident” insurance policies.

Fi Health Insurance AD has a one-tier management system, comprising the Executive management (Executive Director) and the Board of Directors. The Executive Director, entitled to represent Fi Health Insurance AD is Mr. Nikola Bakalov, who has extensive professional experience in the financial sector, including management positions in First Investment Bank AD related to card payments.

As at 31 December 2013 First Investment Bank AD has other subsidiary companies as follows: First Investment Finance B.V., Debita OOD, Realtor OOD, Framas Enterprises Limited, Balkan Financial Services EAD, Turnaround Management EOOD , Creative Investment EOOD, Lega Solutions EOOD and Unionbank EAD.

For further information regarding subsidiary companies see note 37 “Subsidiary undertakings” of the Consolidated Financial Statements as at 31 December 2013 together with the Report of the Independent Auditor.

AWARDS 2013

Fibank was honored with three awards at the annual competition of the „Bank of the Year" Association:

- „Bank of the Client" award for 2012, for the sixth time in its history;
- „Market Share" award, for a third consecutive year, as the bank which has attracted the most funds from households and businesses in the country, and returned the highest portion of these funds into the economy;
- „Mystery Client" award, which is the result of a marketing survey of the quality of performance at over 500 banking branches and offices in the country, and reflects the high quality of service offered by Fibank.

FIRST INVESTMENT BANK: DATES AND FACTS

1993	First Investment Bank was established on 8 October 1993 in Sofia. Fibank was granted a full banking licence for carrying out operations in Bulgaria and abroad.
1994-95	The Bank developed and specialised in servicing corporate clients.
1996	Fibank was the first in Bulgaria to offer services enabling banking from home or from the office. Fibank was the first bank to receive a 5-year loan from the European Bank for Reconstruction and Development for financing small and medium-sized enterprises in Bulgaria.
1997	The Bank started issuing Cirrus/Maestro debit cards, Eurocard/Mastercard credit cards and the American Express card. Fibank was the first Bulgarian bank to offer debit cards with international access. Thompson Bankwatch awarded Fibank its first credit rating. The Bank opened its first branch abroad, in Cyprus.
1998	Fibank obtained its first syndicated loan from foreign banks. The Bank negotiated financing for the import of investment goods from Austria, Belgium, Denmark, Finland, France, Germany, Italy, the Netherlands, Norway, Portugal, Spain, Sweden and Switzerland, guaranteed by export insurance agencies.
1999	The Bank negotiated a syndicated loan organized by EBRD on the total amount of EUR 12.5 million. Fibank received a midium-term loan for EUR 6.6 million from a German government organization for financing of Bulgarian companies. The Bank opened a foreign branch in Tirana, Albania offering banking services to Albanian companies and individuals.
2000	First Investment Bank started developing its business in the field of retail banking. Deposits from private individuals grew 2.3 fold.
2001	First Investment Bank launched the first virtual bank branch in Bulgaria, allowing customers to bank via the Internet. The Bank was awarded the prize “Bank of the Year” by ‘Pari’ (‘Money’) daily. Maya Georgieva (Executive Director of Fibank), received the prize “Banker of the Year” from ‘Banker’ Weekly.
2002	Fibank was named “Bank of the Client“ in the annual rating of ‘Pari’ daily.
2003	Products and services to individuals became the focus of the Bank’s activities. Loans to individuals increased over five times during the year. Fibank was named “Bank of the Client” for the second time in the annual rating of ‘Pari’ daily.
2004	The Bank expanded its infrastructure. The branch network expanded by 27 new branches and offices, the ATM network more than doubled. The Bank was awarded the prize “Financial Product of the Year” for its Mortgage Overdraft product.

2005	Fibank acquired 80% of the capital of Diners Club Bulgaria AD. The Bank issued Eurobonds at the amount of EUR 200 million on the Luxembourg Stock Exchange. Fibank was also the first Bulgarian bank to issue perpetual subordinated bonds. Matthew Mateev (Deputy Chief Executive Director of Fibank) was awarded the prize “Banker of the Year” by ‘Banker’ weekly.
2006	Fibank negotiated financing for SMEs, at the amount of USD 10 million for a 5-year term, covered by OPIC. Share capital was increased from BGN 10 million to BGN 20 million through the issuance of 1 million shares. Fibank was named “Bank of the Client” for the third time in the annual rating of ‘Pari’ daily. Fibank received a syndicated loan, at the amount of EUR 185 million, organised by Bayerische Landesbank, in which 33 banks participated. Fibank’s share capital was increased from BGN 20 million to BGN 100 million by transforming retained profits into 8 million new shares with a nominal value of BGN 10 each.
2007	Fibank realized the biggest banking initial public offering of shares in Bulgaria. The Bank became a public company and increased its issued share capital from BGN 100 million to BGN 110 million. „Fibank Mobile“ – the first banking mobile portal created by Fibank with useful financial information for its customers, started functioning. Fibank was one of the first banks in Bulgaria to implement the new chip technology when issuing debit and credit cards. The processing of card transactions was transferred to the new authorization centre in Macedonia – CaSys International. The Albanian Central Bank issued a full banking licence to First Investment Bank – Albania Sh.a. Fibank became an official representative of the New Zealand Mint for Bulgaria and the Balkans.
2008	The Bank repaid on maturity EUR 200 million of principal and EUR 15 million of interest on a long-term bond, issued by First Investment Finance B.V. Fibank successfully completed the first stage of the new centralized and integrated core banking information system FlexCube, suitable for retail banking as well as for corporate banking, with a module for Internet banking and a module for work processes management. Fibank was named “Bank of the Client” for the fourth time in the annual rating of ‘Pari’ daily. First Investment Bank received a syndicated loan at the amount of EUR 65 million from 11 leading banks all over the world. Fibank became the first bank in Bulgaria with its own corporate blog – an Internet platform where clients, employees and fans of Fibank can exchange ideas, share impressions of the Bank in general, its products and services, its initiatives and values. Fibank received the prestigious card business award OSCARDS of Publi-News in

	the Europe region for innovation in the card business.
2009	◈ Fibank became the first and only bank in Bulgaria to start offering the sale and redemption of investment diamonds. ◈ Fibank offered a new Internet service "My FIBank" – part of the Bank's Ecological program, which provides e-statements on customers' current and deposit accounts and credit cards. ◈ Two syndicated loans received from leading banks all over the world were repaid. ◈ Part of Fibank's Head Office was moved to a new modern building, situated on 81G, Bulgaria Blvd in Sofia with the aim of improving the working processes and optimizing and exploiting maintenance costs. ◈ Fibank signed an agreement for partnership with the Export-Import Bank of China.
2010	◈ Fibank welcomed its one millionth client. ◈ Fibank was named "Bank of the Client" for the fifth time in the annual bank awards of 'Pari' daily. ◈ Fibank signed an agreement with IFC (International Finance Corporation) for cooperation in the field of trade finance. ◈ Fibank was the first Bank in Bulgaria to offer contactless payments based on PayPass technology – an innovative service of a new bank card generation. ◈ Fibank's loyalty program YES started with a new credit card and a bonus points program for loyal clients. ◈ Fibank acquired four new subsidiaries – Debita OOD, Realtor OOD, Health Insurance Fund FI Health AD, Framas Enterprises Limited.
2011	◈ Fibank was recognized as the Best Bank in Bulgaria in 2011 by the financial magazine Euromoney, for introducing the most innovative market solutions and products, and demonstrating strong growth and stable indicators for efficiency and profit. ◈ Fibank developed its services for financing and project management under EU Programmes, by providing clients with full administrative and financial support at every stage of the project cycle. ◈ The Bank issued new hybrid debt on the amount of EUR 20 million, placing perpetual subordinated bonds under private subscription, which was included as Tier 1 capital. ◈ Fibank offered new services for remote banking, including telephone banking, new mobile version and integration of mass transfers service within the Virtual Banking Branch, and a new platform for virtual banking at the Cyprus branch. ◈ New Executive Directors of the Bank were appointed – Dimitar Kostov, Vassil Christov, Svetoslav Moldovansky. ◈ Maya Georgieva (Executive Director of First Investment Bank) received the Banker of the Year 2011 award from "Banker" Weekly for market sustainability achieved and customer confidence earned.
2012	◈ New products for contactless payments were launched – Visa Classic payWave credit cards and Visa Electron payWave debit cards.

	- Fibank was granted the prestigious "Bank of the Year" award in the annual ranking of "Bank of the Year" Association, with the best complex performance in terms of market share, efficiency and development dynamics. - Fibank issued new hybrid debt (bond issues) under private subscription with a total amount of EUR 40 million (two tranches), which was included in the Bank's tier 1 capital. - Fibank was included in the Top 1000 World Banks ranking of the prestigious magazine The Banker in terms of Tier 1 capital. - Vassil Christov, Executive Director of First Investment Bank won the prestigious award Banker of the Year 2012 of the "Banker" Weekly. - The Bank signed an agreement with the European Investment Fund for the financing of small and medium enterprises under the JEREMIE initiative on the total amount of EUR 70 million, at twice lower interest rates and preferential terms for collateral and fees and commissions.

HIGHLIGHTS 2013

JANUARY

- Fibank offered investment and working capital loans at lower interest rates in BGN and EUR for small and medium businesses under the JEREMIE initiative.
- New loan products were introduced for financing projects approved under the Operational Programme for the Fisheries Sector, guaranteed by the National Guarantee Fund.
- Clients were provided with the opportunity to purchase online products of investment gold and other precious metals.

FEBRUARY

- A new loan for agricultural producers was launched, based on SAPS subsidies for 2013, with simplified approval procedure for loans up to BGN 500 thousand.
- Special Fibank offers for Valentine's Day and the 8th of March: „St. Valentine” and „Bulgarian Rose” silver coins, and palladium medallion bars.
- New „Green Loan for Home” product for energy-saving housing improvements, with the option of receiving up to 50% financial assistance under the Energy Renovation of Bulgarian Homes project.

MARCH

- A new working capital loan was offered: the „Super J – Credit” under the JEREMIE initiative, with a maximum amount of BGN 200 thousand and a term of up to 12 months.
- Fibank offered its borrowers more competitive terms on consumer loans, as well as on debit card overdrafts with automatic renewal.
- The issuing of „Fibank News” continued for a second consecutive year: a special edition with information on products and services, corporate events and initiatives of Fibank, professional advice and useful comments for clients, distributed free at the Bank's branches.

APRIL

- „Easter Credit”: a promotional loan product with fixed interest rate for the first three years and no application fee.

- Maya Oyfalosh was elected Executive Director of First Investment Bank AD.
- Fibank offered a new collection of gold and silver bullion medallions named „IcOns Wave”. A promotional campaign of precious metals articles for Palm Sunday, Easter and St. George's Day was held.
- Three new subsidiary companies of First Investment Bank AD were established: Creative Investment EOOD, Turnaround Management EOOD, and Lega Solutions EOOD.

MAY

- „Six and a Half” housing loan: a new loan product with better interest rates and fixed interest rate for the first three years of the term.

Жилищен кредит „Шест и половина”

- Fibank supported a charity football match, the proceeds of which went to help children suffering from leukemia.
- A new silver pendant „Glagolitsa” was offered, as well as the new silver coin collection „Cats and Dogs” from the Swiss PAMP refinery.
- A Regular Annual General Shareholders Meeting of First Investment Bank was held, at which decisions were taken for the capitalization of profits, selection of a specialized auditing company, and amendments to the Statute of the Bank.

JUNE

- Fibank was included in the CGIX index, comprising the seven companies with best corporate governance admitted to trading on the exchange. First Investment Bank was the only credit institution to be included in the index, and the only bank to appear in it for a second consecutive year.

- A new Debit MasterCard was launched, with the innovative functionality for contactless payments and no withdrawal fee for ATMs in the country.
- The Bank’s subsidiary company FiHealth Health Insurance Fund AD was renamed to FiHealth Insurance AD, and relicensed by the Financial Supervision Commission to carry out insurance against accidents and illness under the Insurance Code.
- Fibank’s football team became the champion of the Bank Football Tournament 2013: a competition between the mini-football teams of financial institutions in Bulgaria.

JULY

- Fibank won three awards at the annual competition of the Bank of the Year Association: „Bank of the Client for 2012", „Market Share", and „Mystery Client".
- A new campaign was launched named "Your Business with Fibank", under which anyone bringing a mortgage loan borrower to an office of the Bank would receive a commission of 0,5% of the loan amount after disbursement.
- New additional functionalities and procedures were implemented aiming at optimizing the monitoring and management of credit risk.

AUGUST

- First Investment Bank AD signed an agreement with the Hungarian MKB Bank Zrt. for the acquisition of 100% of the shares of MKB Unionbank EAD.

- A six-month campaign for newly issued Visa and MasterCard credit cards was launched, offering preferential terms on interest rates, annual maintenance fees, and withdrawal fees from ATMs in Bulgaria and abroad.
- The Bank conducted training seminars for employees aimed at developing and improving their skills for working with clients, offering and selling bank products and services. A new EU project was organized: „Development – a Matter of Tradition".

SEPTEMBER

- The ratings of First Investment Bank AD were fully confirmed by the international credit rating agency Fitch Ratings, as follows: long-term rating „BB-" with a stable outlook, short-term rating „B", viability rating „b-", support rating „3 and level of support rating „BB-".

- A new consumer loan „Otlichnik" („Excellent Student") was launched, with fixed interest rate for the first year and no application fee. The maximum amount is BGN 50 thousand, and the repayment period up to 10 years.
- For a second consecutive year, Fibank organized the competition „Best Bulgarian Firm of the Year", aimed at supporting Bulgarian companies and creating increased confidence among them.

OCTOBER

- First Investment Bank AD acquired 100% of the shares of MKB Unionbank EAD, thus becoming the sole owner of the company. The transaction was successfully completed after being duly approved by the competent bodies.

- Fibank signed two agreements with the National Guarantee Fund, aimed at guaranteeing loans to small and medium enterprises granted for financing projects under the Programme for Rural Development.
- First Investment Bank marked the 20th anniversary of its establishment.
- Bank servicing of merchants involved in the technical inspection of motor vehicles was introduced, with flexible terms for payment of the annual license tax.
- Fibank offered its clients new gold and silver bars, and a silver coin commemorating the Year of the Horse 2014.

NOVEMBER

- A conversion agreement was signed between First Investment Bank AD and Unionbank EAD, stating the intent of the parties intend to carry out a conversion under the Commerce Act, thereby merging Unionbank EAD into First Investment Bank AD.
- A residential loan was offered at promotional terms: fixed interest rate, financing up to 80% of the purchased property, and no application or prepayment fees.
- Fibank renewed its partnership agreement with the Bulgarian Athletics Federation (BAF), including support for the Federation in major competitions and sports events during 2014.
- Cardholders were offered an international revolving chip credit card Visa Classic in British pounds.
- Fibank issued new hybrid debt (bond issues) under the terms of a private placement, to the total amount of EUR 40 million (in two tranches), to be included in the Tier I capital.
- The Bank was approved by the European Investment Fund for financing under the Risk Sharing Instrument guarantee scheme, aimed at innovative small and medium enterprises, with a total guarantee portfolio amount of EUR 15 million.

DECEMBER

- The Framework Agreement between First Investment Bank and Taiwan's Eximbank for granting of loans to finance deliveries of goods from Taiwan was renewed for another year.
- An agreement was signed between the Bank and German partners for offering of deposit accounts through the WeltSparen (SavingGlobal) Internet platform, aimed at attracting deposits from the German market, under the conditions for provision of financial services at a distance.
- The Bank conducted active preparatory work in connection with the merger of Unionbank EAD into First Investment Bank AD and integrating the activities within the unified structure.

KEY INDICATORS

	2013	2012	2011	2010	2009
Financial indicators (BGN thousand)					
Net interest income	181,711	154,235	161,989	137,854	128,150
Net fee and commission income	91,775	74,304	72,328	55,923	50,864
Net trading income	9,381	8,539	11,294	8,752	10,321
Total income from banking operations	289,529	239,897	243,472	206,976	189,950
Administrative expenses	(161,323)	(160,022)	(157,926)	(144,568)	(144,358)
Impairment	(70,305)	(36,709)	(35,263)	(27,099)	(10,965)
Group profit after tax	184,904	30,573	35,962	27,851	29,796
Earnings per share (in BGN)	1.68	0.28	0.33	0.25	0.27
Balance-sheet indicators (BGN thousand)					
Assets	8,777,993	7,050,448	6,174,452	4,998,776	4,112,284
Loans and advances to customers	6,020,792	4,540,389	4,182,236	3,417,094	2,966,461
Loans and advances to banks and financial institutions	120,126	45,939	100,427	21,736	26,187
Due to other customers	7,535,756	6,189,721	5,388,310	4,285,693	3,339,546
Liabilities evidenced by paper	196,444	62,420	112,306	116,725	193,363
Total Group equity	692,515	505,267	470,002	433,175	403,035
Key ratios (in %)					
Capital adequacy ratio	14.26	13.10	12.57	13.23	13.83
Tier 1 capital ratio	13.31	11.39	10.18	10.21	10.39
Liquidity ratio	22.63	27.64	26.17	26.06	19.79
Loans/deposits	83.03	76.09	80.08	82.02	91.02
Loan provisioning ratio	4.12	3.99	3.29	2.95	2.56
Net interest income/total income from banking operations	62.76	64.29	66.53	66.60	67.47
Return-on-equity (after tax)	33.34	6.29	7.95	6.67	7.65
Return-on-assets (after tax)	2.47	0.46	0.64	0.61	0.72
Cost/income ratio	55.72	66.70	64.86	69.85	76.00
Resources (in numbers)					
Branches and offices	221	162	173	172	170
Staff	3,554	2,859	2,838	2,690	2,486

RATINGS

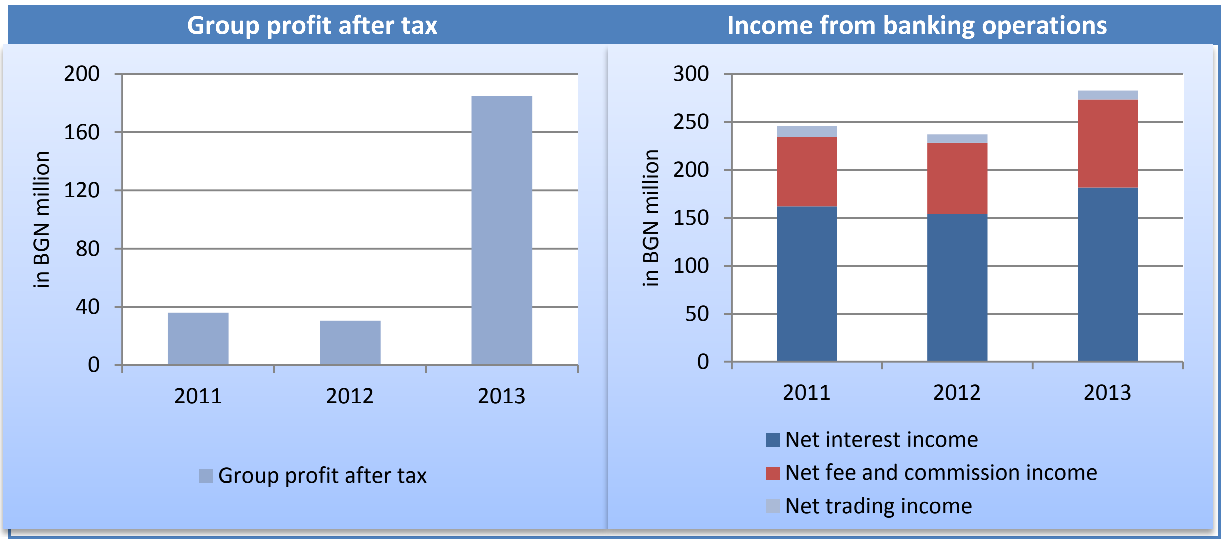
	2013	2012	2011
Long-term rating	BB-	BB-	BB-
Short-term rating	B	B	B
Viability rating / Individual rating	b-	b-	b+ / D
Support rating	3	3	3
Support rating floor	BB-	BB-	BB-
Outlook	Stable	Stable	Watch

In September 2013 the international rating agency Fitch Ratings confirmed First Investment Bank’s ratings as follows: long-term rating „BB-” with stable outlook, short-term rating „B”, viability rating „b-”, support rating „3” and support rating floor „BB-”.

FINANCIAL RESULTS

In 2013 group profit after tax of the First Investment Bank Group increased and reached BGN 184,904 thousand, compared to BGN 30,573 thousand a year earlier. The increase resulted mainly from realized gain on bargain purchase of Unionbank EAD on the amount of BGN 152,310 thousand. For the purposes of accounting consolidation the income and expenses of Unionbank EAD's operations are included for the last quarter of 2013, since when the company has been under the control of First Investment Bank AD.

During the period Fibank improved its market position, ranking fourth in terms of profit amongst banks in the country on an unconsolidated basis (2012: fifth; 2011: seventh). The Bank's market share amounted to 4.42% (2012: 5.10%; 2011: 6.23%). Return-on-equity (after tax) was 33.34% (2012: 6.29%; 2011: 7.95%), return-on-assets (after tax) was 2.47% (2012: 0.46%; 2011: 0.64%), while earnings per share was BGN 1.68 (2012: BGN 0.28; 2011: BGN 0.33).

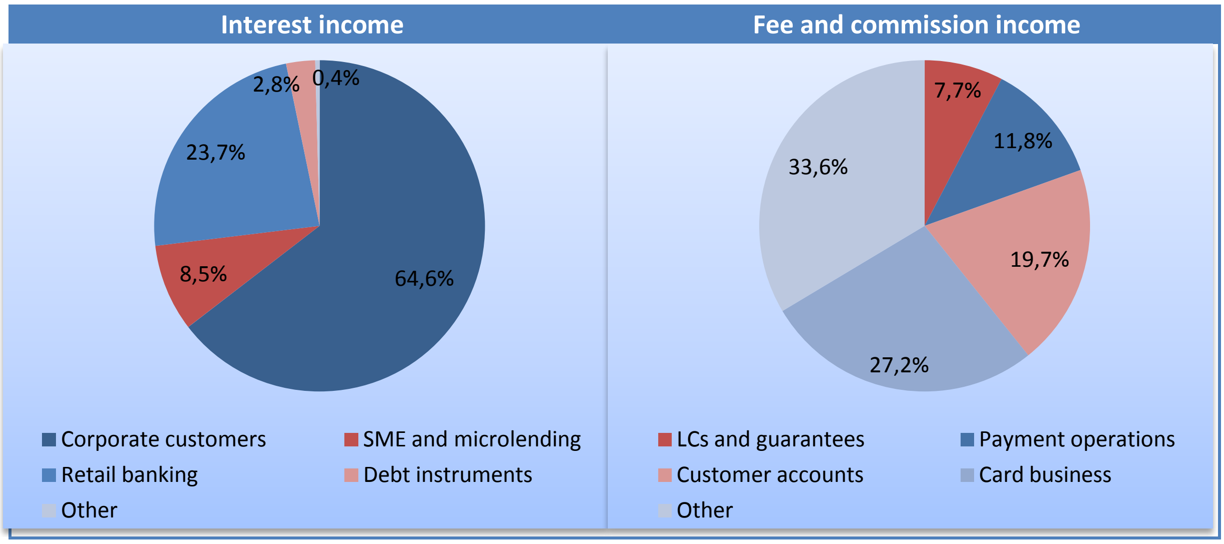


During 2013 First Investment Bank continued its business development in accordance with the economic environment and the needs for financing. Total income from banking operations increased to BGN 289,529 thousand, against BGN 239,897 thousand the prior year (2011: BGN 243,472 thousand), contributors being the higher net interest income and the growing net fee and commission income.

For the year net interest income increased to BGN 181,711 thousand, compared to BGN 154,235 thousand a year earlier (2011: BGN 161,989 thousand), remaining the main source of income for the Bank, accounting for 62.8% of total income from banking operations. Fibank's foreign operations (in Cyprus and Albania) also increased forming 23.0% of net interest income (2012: 22.6%; 2011: 16.4%).

Interest income amounted to BGN 480,380 thousand or 3.2% more than the previous year (2012: BGN 465,512 thousand; 2011: BGN 440,803 thousand). The structure of interest income remained unchanged, as those related to corporate customers amounted to BGN 310,160 thousand (2012: BGN 316,799 thousand; 2011: BGN 303,170 thousand) and remained structure-determing, forming 64.6% of the Bank's interest income. An increase was registered in interest income related to retail customers, which reached BGN 113,706 thousand (2012: BGN 99,630 thousand; 2011: BGN 93,466 thousand), as well as those related to microlending and small and medium enterprises to BGN 40,861 thousand (2012: BGN 31,986 thousand; 2011: BGN 30,405 thousand). A decrease was registered in interest income related to debt instruments, which amounted to BGN 13,643 thousand at period-end (2012: BGN 14,887 thousand; 2011: BGN 10,225 thousand).

During the year the Bank continued to optimize the structure and cost of funding in accordance with market conditions. Interest expenses decreased by 4.1% to BGN 298,669 thousand (2012: BGN 311,277 thousand; 2011: BGN 278,814 thousand), resulting mainly from a decline in expenses on deposits from other customers, which reached BGN 259,889 thousand, against BGN 279,229 thousand the prior year (2011: BGN 250,862 thousand) and formed 87.0% of total interest expenses. A decrease was also registered in interest expenses on liabilities evidenced by paper to BGN 3,072 thousand (2012: BGN 3,413 thousand; 2011: BGN 4,769 thousand). For the year interest expenses on hybrid debt amounted to BGN 15,403 thousand (2012: BGN 8,468 thousand; 2011: BGN 4,013 thousand).

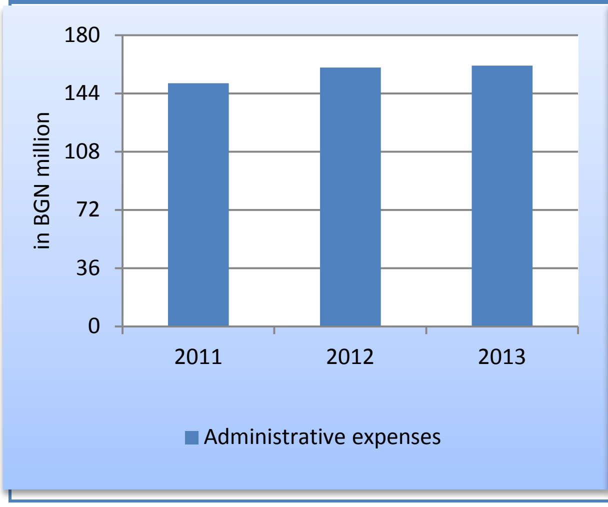


Net fee and commission income grew by 23.5% and reached BGN 91,775 thousand (2012: BGN 74,304 thousand; 2011: BGN 72,328 thousand), as a result of the growth in business operations and customers of the Bank. An increase was reported in the major business lines generating fee and commission income, including: customer accounts by 28.1% to BGN 20,407 thousand (2012: BGN 15,933 thousand; 2011: BGN 14,859 thousand), cards business by 12.8% to BGN 28,152 thousand (2012: BGN 24,953 thousand; 2011: BGN 23,116 thousand), payment transactions by 24.5% to BGN 12,276 thousand (2012: BGN 9,858 thousand; 2011: BGN 9,233 thousand) and other services by 39.0% to BGN 34,791 thousand (2012: BGN 25,036 thousand; 2011: BGN 25,084 thousand), which also included commission income related to the preparation and execution of europrojects. Net fee and commission income continued to increase its relative share to 31.7% of total income from banking operations against 31.0% in 2012 and 29.7% in 2011, as a result of the Bank's consistent policy for the diversification of income from banking operations. Fibank's foreign operations formed 2.5% of net fee and commission income (2012: 2.6%; 2011: 1.3%).

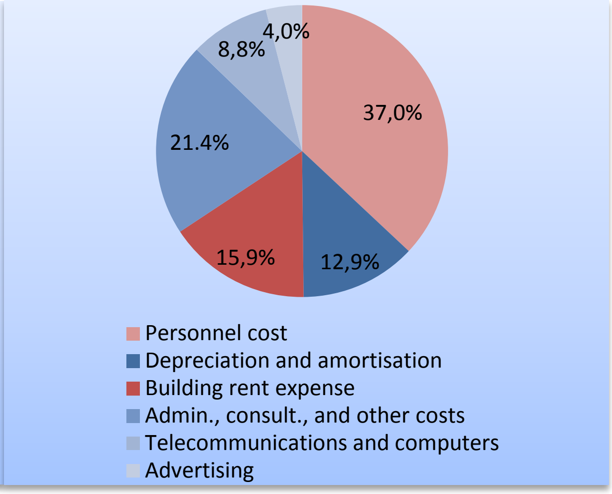
Net trading income grew and reached BGN 9,381 thousand for the period, compared to BGN 8,539 thousand a year earlier (2011: BGN 11,294 thousand). The increase was due mainly to higher gains arising from foreign exchange (2013: BGN 9,077 thousand; 2012: BGN 8,373 thousand; 2011: BGN 7,635 thousand) and from equity instruments (2013: BGN 213 thousand; 2012: BGN -131 thousand; 2011: BGN -284 thousand). Net trading gains arising from debt instruments decreased to BGN 91 thousand, against BGN 297 thousand the prior year (2011: BGN 3,943 thousand). The relative share of net trading income remained insignificant at 3.2% of total income from banking operations (2012: 3.6%; 2011: 4.6%).

For the reporting period administrative expenses amounted to BGN 161,323 thousand (2012: BGN 160,022 thousand; 2011: BGN 157,926 thousand), remaining at levels close to those of the previous year, which was influenced by the policy of optimizing operating expenses and increasing efficiency. A decrease was reported in building rent expenses to BGN 25,601 thousand (2012: BGN 31,869 thousand; 2011: BGN 30,746 thousand), in advertising to BGN 6,463 thousand (2012: BGN 7,998 thousand; 2011: BGN 8,008 thousand) and in depreciation and amortization to BGN 20,736 thousand (2012: BGN 21,125 thousand; 2011: BGN 22,043 thousand). Expenses for administration, consultancy, audit and other costs remained close to the prior period at BGN 34,674 thousand (2012: BGN 32,323 thousand; 2011: BGN 31,581 thousand). Personnel costs grew and reached BGN 59,670 thousand, against BGN 53,366 thousand a year earlier, reflecting the increased number of staff and the higher social contributions in connection with the increased maximum amount of social security income in the country. For the period cost-to-income ratio amounted to 55.72% (2012: 66.70%; 2011: 64.86%), resulting mainly from the higher income compared to operating expenses.

Administrative expenses



Structure of the expenses

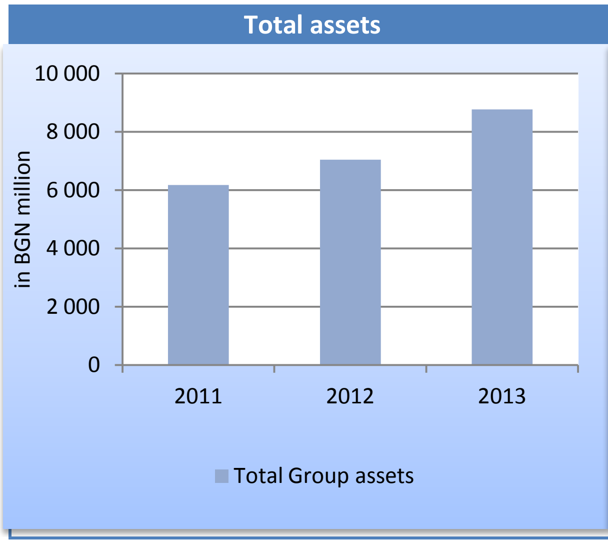


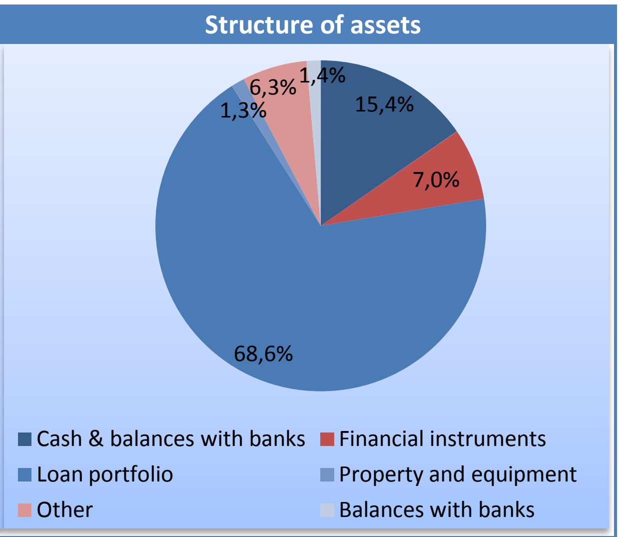
First Investment Bank Group's impairment on credit exposures amounted to BGN 70,305 thousand, against BGN 36,709 thousand a year earlier (2011: BGN 35,263 thousand), reflecting the continuing influence of the economic cycle and unstable external environment. During the year the additional write-downs were BGN 84,205 thousand, while the reversal of write-downs was BGN 13,900 thousand.

BALANCE

Total assets of the Group of First Investment Bank continued to grow and reached BGN 8,777,993 thousand as at the end of December 2013, compared to BGN 7,050,448 thousand a year earlier (2011: BGN 6,174,452 thousand). The increase resulted mainly from the growing loan portfolio and attracted funds from customers and counterparties during the year, including the effect registered from the consolidation of the subsidiary company Unionbank EAD, which was acquired during the fourth quarter of 2013.

Fibank retained its market position, ranking third in terms of assets amongst the banks in the country on an unconsolidated basis (2012: third; 2011: fifth). The Bank's market share was 8.68% (2012: 8.38%; 2011: 7.94%).





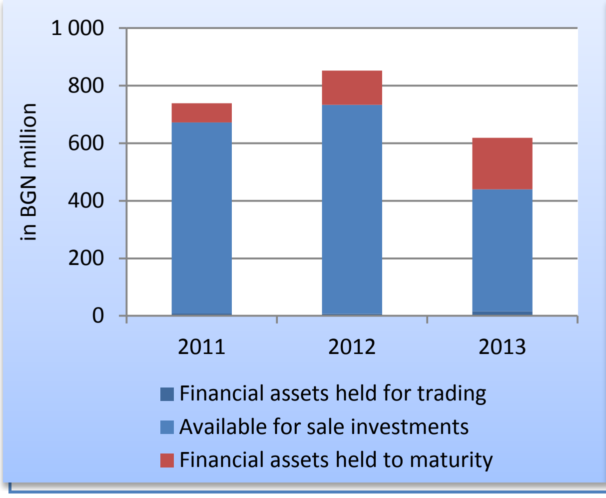
The asset structure remained relatively unchanged, reflecting market conditions and the Bank's strategy for maintaining an adequate balance between risk, capital and return. The share of loans and advances to customers remained structure-determining at 68.6% (2012: 64.4%; 2011: 67.7%) of total assets, followed by cash and balances with central banks at 15.4% (2012: 16.2%; 2011: 15.0%) and by portfolio of financial instruments (financial assets held for trading, available for sale investments and financial assets held to maturity) at 7.0% (2012: 12.1%; 2011: 12.0%).

Cash and balances with central banks grew to BGN 1,347,555 thousand, against BGN 1,140,889 thousand a year earlier (2011: BGN 926,394 thousand). The dynamics reflected an increase in current accounts and amounts with foreign banks (2013: BGN 226,862 thousand; 2012: BGN 96,353 thousand; 2011: BGN 140,647 thousand), as well as in balances with central banks (2013: BGN 961,960 thousand; 2012: BGN 917,022 thousand; 2011: BGN 655,739 thousand). The Group continued to manage the cash balances in accordance with the market environment and external conditions. Cash on hand increased to BGN 158,719 thousand, against BGN 127,405 thousand the prior year (2011: BGN 129,905 thousand).

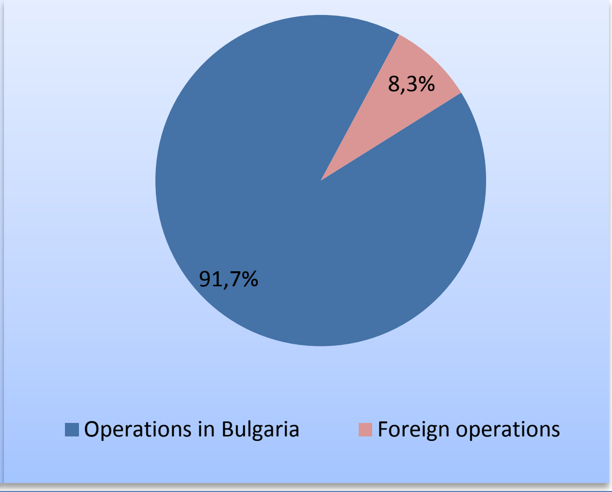
Loans and advances to banks and financial institutions grew to BGN 120,126 thousand (2012: BGN 45,939 thousand; 2011: BGN 100,427 thousand), due mainly to an increase in placements due from foreign banks. Receivables under resale agreements also registered an increase and reached BGN 13,658 thousand as at 31 December 2013.

Available for sale investments decreased to BGN 423,640 thosuand, compared to BGN 726,619 thousand the prior year (2011: BGN 663,925 thousand). The decrease resulted mainly from a decline in treasury bills issued by foreign governments to BGN 175,764 thousand (2012: BGN 390,404 thousand; 2011: BGN 526,804 thousand), in bonds and notes issued by the Bulgarian government to BGN 220,316 thousand (2012: BGN 304,026 thousand; 2011: BGN 103,649 thousand) and in bonds, notes and other instruments issued by foreign banks to BGN 19,220 thousand (2012: BGN 26,480 thousand; 2011: BGN 26,934 thousand).

Portfolio of financial instruments



Geographical structure of assets



At the end of the period financial assets held for trading amounted to BGN 16,423 thousand (2012: BGN 6,553 thousand; 2011: BGN 8,659 thousand), reflecting the Bank's investment policy and its limited engagement in operations with assets held for the purpose of realizing profit from short-term price fluctuations. Financial assets, which the Bank intends and has the ability to hold to maturity, increased to BGN 178,658 thousand (2012: BGN 118,770 thousand; 2011: BGN 65,886 thousand) as a result of securities issued by foreign governments, which were acquired during the year, which amounted to BGN 160,314 thousand at period-end.

The Bank aimed at optimal risk management of exposures related to government debt. This portfolio amounted to BGN 569,632 thousand as at end-2013, against BGN 798,096 thousand the previous year (2011: BGN 682,955 thousand).

Fibank's foreign operations registered an increase as assets reached BGN 724,585 thousand or 8.3% of Group's assets (2012: BGN 666,267 thousand or 9.4%; 2011: BGN 401,169 thousand or 6.5%).

Other assets amounted to BGN 529,821 thousand (2012: BGN 328,902 thousand; 2011: BGN 87,344 thousand), comprising acquired collaterals, measured at the lower of acquisition price and net realisable value.

LOAN PORTFOLIO

LOANS

In 2013 the Group's loan portfolio before impairment rose by 32.9% and reached BGN 6,256,584 thousand at period-end (2012: BGN 4,709,468 thousand; 2011: BGN 4,315,059 thousand), as an increase was registered in all business lines, while the effect from Unionbank EAD's loan portfolio consolidation amounted to BGN 1,064 million. Fibank's market share grew to 8.88% on an unconsolidated basis (2012: 8.14%; 2011: 7.71%). The Bank improved its market position ranking third in terms of lending amongst banks in the country (2012: fifth; 2011: sixth).

in BGN thousand / % of total	2013	%	2012	%	2011	%
Retail customers	1,335,342	21.3	884,471	18.8	795,830	18.5
Small and medium enterprises	686,239	11.0	316,788	6.7	268,162	6.2
Microlending	93,408	1.5	30,075	0.6	26,612	0.6
Corporate customers	4,141,595	66.2	3,478,134	73.9	3,224,455	74.7
Gross loan portfolio	**6,256,584**	**100**	**4,709,468**	**100**	**4,315,059**	**100**
Impairment	(235,792)		(169,079)		(132,823)	
Loan portfolio after impairment	**6,020,792**		**4,540,389**		**4,182,236**	

During the reporting period lending to large corporate customers decreased in relative share, but remained structure-determining for the Group's loan portfolio at 66.2% as at end-2013 (2012: 73.9%; 2011: 74.7%). Fibank continued to support competitive projects in accordance with the needs for financing and the market conditions in the country, including under the programs and funds of the EU. Loans to small and medium enterprises increased their relative share to 11.0% of total loans (2012: 6.7%; 2011: 6.2%), microlending to 1.5% (2012: 0.6%; 2011: 0.6%), while retail lending rose to 21.3% (2012: 18.8%; 2011: 18.5%), which enhanced credit risk diversification.

in BGN thousand / % of total	2013	%	2012	%	2011	%
Loans in BGN	1,631,203	26.1	1,054,329	22.4	969,144	22.5
Loans in EUR	4,321,896	69.1	3,328,544	70.7	3,012,599	69.8
Loans in other currency	303,485	4.8	326,595	6.9	333,316	7.7
Gross loan portfolio	**6,256,584**	**100**	**4,709,468**	**100**	**4,315,059**	**100**
Impairment	(235,792)		(169,079)		(132,823)	
Loan portfolio after impairment	**6,020,792**		**4,540,389**		**4,182,236**	

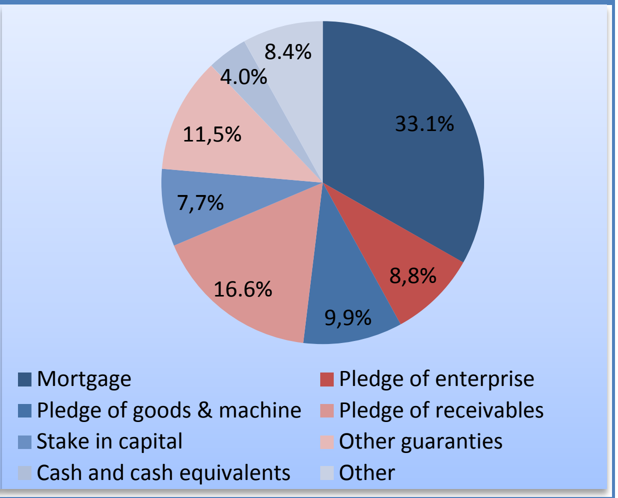
In the currency structure of the loan portfolio loans in EUR formed a predominant share of 69.1% (2012: 70.7%; 2011: 69.8%). They continued to grow and reached BGN 4,321,896 thousand at period-end (2012: BGN 3,328,544 thousand; 2011: BGN 3,012,599 thousand), contributors being the Currency Board Arrangement effective in the country, which minimizes currency risk, as well as commerce with EU member states. Loans in BGN also increased to BGN 1,631,203 thousand (2012: BGN 1,054,329 thousand; 2011: BGN 969,144 thousand) or 26.1% of total loan portfolio (2012: 22.4%; 2011: 22.5%), at the expense of loans in other currencies, which decreased to BGN 303,485 thousand (2012: BGN 326,595 thousand; 2011: BGN 333,316 thousand) or 4.8% total loans (2012: 6.9%; 2011: 7.7%).

Gross loans extended by the Bank's units abroad amounted to BGN 598,759 thousand or 5.3% more than the previous year (2012: BGN 568,688 thousand; 2011: BGN 351,009 thousand).

Portfolio impairment for calculating potential losses from credit risk increased and reached BGN 235,792 thousand at the end of the period (2012: BGN 169,079 thousand; 2011: BGN 132,823 thousand), influenced by the credit risk developments and continuing challenges in the market environment. The Bank applies rules for the classification and impairment of risk exposures which are in compliance with the effective legislation. During the year loans and advances to customers amounting BGN 3,580 thousand were written off, against BGN 441 thousand the prior year (2011: BGN 301 thousand). The loan provisioning ratio was 4.12% (2012: 3.99%; 2011: 3.29%).

Loan portfolio and impairment

Loan portfolio by type of collateral



The policy of the Bank requires proper collateral before granting a loan. In this respect, it accepts all types of collateral permitted by law and applies discount rates depending on the expected realizable net value of the collateral. At the end of 2013 collaterals with the largest share in the Group's portfolio were mortgages at 33.1%, followed by pledges of receivables at 16.6%, other guarantees at 11.5%, pledges of commercial enterprise at 8.8% and stakes in capital at 7.7%.

For further information regarding credit risk see note 3 "Risk management" of the Consolidated Financial Statements as at 31 December 2013 together with the Report of the Independent Auditor.

RELATED PARTY TRANSACTIONS

In the normal course of business the Bank carries out transactions with related parties. These transactions are effected in market conditions. The internal rules and regulations of the Bank with respect to such loans are in compliance with the effective legislation.

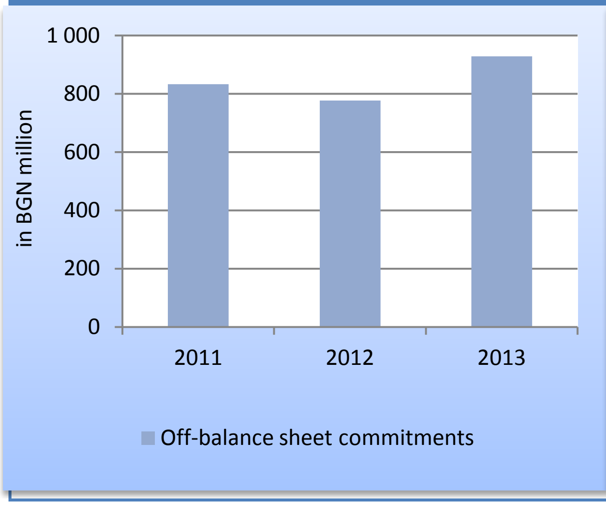
in BGN thousand	2013	2012	2011
Loans			
Parties that control or manage the Bank	1,231	1,349	1,674
Enterprises under common control	17,276	24,456	23,161
Off-balance sheet commitments			
Parties that control or manage the Bank	1,607	1,841	1,843
Enterprises under common control	234	252	2,116

For more information regarding related party transactions, see Note 36 "Related party transactions" of the Consolidated Financial Statements as at 31 December 2013 together with the Report of the Independent Auditor.

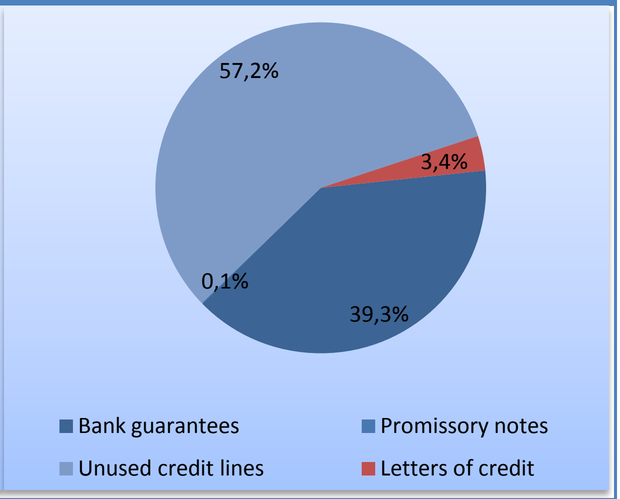
COMMITMENTS AND CONTINGENT LIABILITIES

Commitments and contingent liabilities of the Bank include bank guarantees, letters of credit in foreign currency, credit lines and promissory notes. These are issued in compliance with the general loan policy of the Bank on risk assessment and collateral sufficiency. Contingent liabilities are preferred instruments for credit institutions because they carry lower credit risk and at the same time are good sources of fee and commission income. They are also preferred by clients because they not only facilitate payments but also reduce the cost of financing as compared to direct financing and immediate payment.

Off-balance sheet commitments



Structure of off-balance sheet commitments



At the end of the reporting period the total amount of off-balance sheet commitments amounted to BGN 929,368 thousand, compared to BGN 777,040 thousand the prior year (2011: BGN 833,070 thousand). The increase was due to a growth in unused credit lines to BGN 531,298 thousand (2012: BGN 383,083 thousand; 2011: BGN 385,569 thousand) and in letters of credit to BGN 31,573 thousand (2012: BGN 14,739 thousand; 2011: BGN 91,270 thousand). Bank guarantees in BGN and in foreign currency amounted to BGN 365,686 thousand at period-end (2012: BGN 376,770 thousand; 2011: BGN 351,305 thousand), while promissory notes were BGN 811 thousand (2012: BGN 2,448 thousand; 2011: BGN 4,926 thousand).

ATTRACTED FUNDS

In 2013 attracted funds from customers grew by 21.7% (BGN 1,346,035 thousand) and reached BGN 7,535,756 thousand (2012: BGN 6,189,721 thuosand; 2011: BGN 5,388,310 thousand), remaining the main source of financing for the Group, which formed 93.2% of total liabilities (2012: 94.6%; 2011: 94.5%). The increase reflected the various and flexible savings products offered to customers, which are in line with the market environment and market conditions, and represent the most important indicator for customers' trust and satisfaction. The effect of Unionbank EAD's deposit base consolidation amounted to BGN 931 million.

During the year First Investment Bank retained its market position, by ranking third in terms of deposits amongst banks in Bulgaria on an unconsolidated basis (2012: third; 2011: third). Fibank's market share amounted to 10.28% (2012: 10.52%; 2011: 10.01%) at the end of the period.

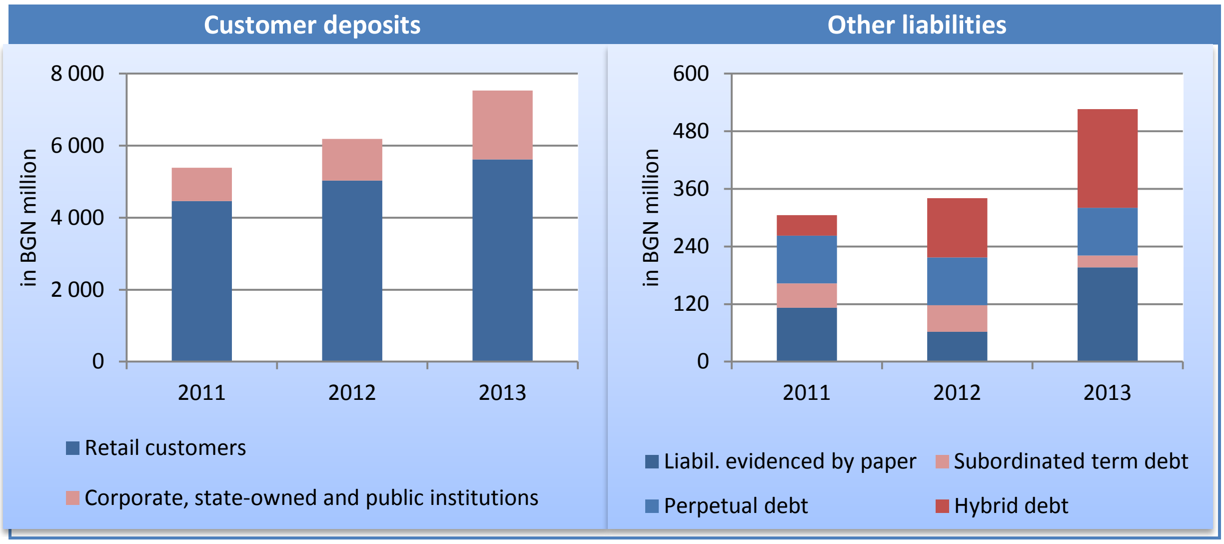
Attracted funds from individuals slowed their growth to 11.7% during the year (2012/2011: 12.8%) and amounted to BGN 5,616,002 thousand (2012: BGN 5,027,005 thousand; 2011: BGN 4,458,512 thousand) in accordance with the trend from the last few years. They retained their structure-determining share in total attracted funds from customers at 74.5% (2012: 81.2%; 2011: 82.7%). In the currency structure of attracted funds from retail customers those in BGN dominated at 33.9% (2012: 35.8%; 2011: 31.8%) of total attracted funds from customers, followed by those in EUR at 32.7% (2012: 36.9%; 2011: 42.8%) and in other currency at 7.9% (2012: 8.5%; 2011: 8.1%).

in BGN thousand / % of total	2013	%	2012	%	2011	%
Attracted funds from individuals	**5,616,002**	**74.5**	**5,027,005**	**81.2**	**4,458,512**	**82.7**
in BGN	2,553,382	33.9	2,214,064	35.8	1,712,193	31.8
in EUR	2,469,339	32.7	2,284,859	36.9	2,309,132	42.8
in other currency	593,281	7.9	528,082	8.5	437,187	8.1
Attracted funds from corporate, state-owned and public institutions	**1,919,754**	**25.5**	**1,162,716**	**18.8**	**929,798**	**17.3**
in BGN	1,167,169	15.5	688,951	11.1	548,124	10.2
in EUR	572,793	7.6	339,559	5.5	305,561	5.7
in other currency	179,792	2.4	134,206	2.2	76,113	1.4
Total attracted funds from customers	**7,535,756**	**100**	**6,189,721**	**100**	**5,388,310**	**100**

First Investment Bank sets aside the required annual premiums in accordance with the Bank Deposit Guarantee Act, which serves to increase the safety of the Bank's depositors. According to regulatory requirements the amount guaranteed by the Fund on customer's bank accounts held with the Bank is BGN 196,000 per customer.

Attracted funds from corporate, state-owned and public institutions rose by 65.1% to BGN 1,919,754 thousand (2012: BGN 1,162,716 thousand; 2011: BGN 929,798 thousand) during the year, as their relative share continued to grow by 6.7 percentage points to 25.5% of total attracted funds from customers (2012: 18.8%; 2011: 17.3%). In the currency structure of attracted funds from corporate, state-owned and public institutions those in BGN formed 15.5% of total attracted funds from customers (2012: 11.1%; 2011: 10.2%), those in EUR were 7.6% (2012: 5.5%; 2011: 5.7%), while those in other currency were 2.4% (2012: 2.2%; 2011: 1.4%).

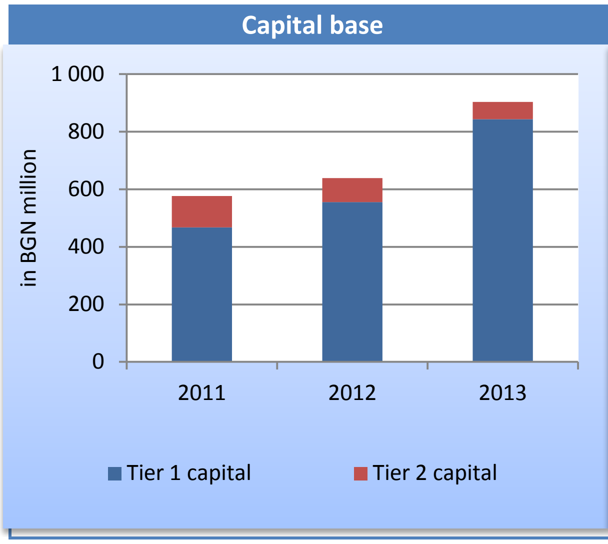
As at 31 December 2013 the funds of the thirty largest non-bank depositors represented 7.31% of the total amount due to other customers (2012: 5.40%; 2011: 5.62%).

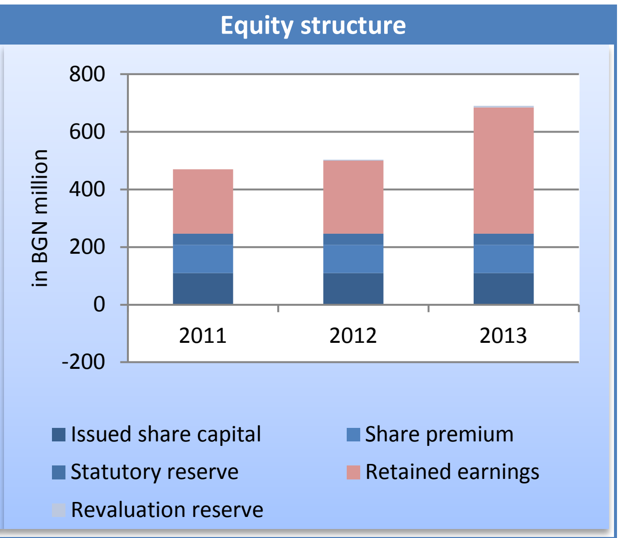


Liabilities evidenced by paper increased to BGN 196,444 thousand, against BGN 62,420 thousand a year earlier (2011: BGN 112,306 thousand) resulting mainly from a growth in other term liabilities, which comprised mainly financing obtained from financial institutions through the extension of loan facilities. They reached BGN 144,177 thousand at period-end (2012: BGN 39,504 thousand; 2011: BGN 75,138 thousand), a contributor being utilized funds from the European Investment Fund, extended under the JEREMIE initiative. For the liabilities evidenced by paper dynamics contributed the consolidation of bonds issued by Unionbank EAD on the amount of BGN 30,634 thousand. An increase was registered also in acceptances under letters of credit to BGN 5,763 thousand (2012: BGN 2,564 thousand; 2011: BGN 9,217 thousand). Liabilities under repurchase agreements decreased to BGN 15,870 thousand (2012: BGN 20,352 thousand; 2011: BGN 27,951 thousand), comprising deals with Bulgarian government securities.

CAPITAL

The total capital base of the Group of First Investment Bank increased by 41.5% and reached BGN 903,810 thousand at end-2013 (2012: BGN 638,713 thousand; 2011: BGN 576,921 thousand), a reflection of the Bank's consistent policy for capital development with a focus on tier 1 capital. Tier 1 capital rose by 51.9% (BGN 288,014 thousand) during the year to BGN 843,173 thousand (2012: BGN 555,159 thousand; 2011: BGN 467,303 thousand), as a result of the issuance of new hybrid debt and capitalization of profits. The registered gain on the bargain purchase of Unionbank EAD also had an effect.





In November 2013 the Bank successfully issued the second and third tranche of the hybrid instrument (bond issue), whose first tranche on the amount of EUR 20,000 thousand was placed in November 2012 under private subscription. The new two tranches with the total amount of EUR 40,000 thousand were placed under identical conditions as the previous, thus successfully reaching the total expected amount of the bond issue of EUR 60,000 thousand. The bonds were registered, dematerialized, interest-bearing, perpetual, unsecured, freely transferable, non-convertible, deeply subordinated and without incentive to redeem. The new two tranches were included in the Bank's tier 1 capital, after obtaining permission from the Bulgarian National Bank. The amortised cost of the hybrid debt as at end-2013 was BGN 205,251 thousand, compared to BGN 123,901 thousand a year earlier (2011: BGN 42,800 thousand). Both hybrid instruments (the bond issue with ISIN: BG2100008114 and the bond issue with ISIN: BG2100022123), issued by First Investment Bank qualify as additional tier 1 capital under the new Regulation (EU) № 575/2013 of the European Parliament and of the Council, which has a direct effect on credit institutions and investment intermediaries in the country and entered into force from 1 January 2014.

To develop its capital base Fibank also uses perpetual debt instruments and subordinated term debt, which are recognized as Tier 2 capital. As at 31 December 2013 the Bank had entered into three separate subordinated loan agreements on the amount of BGN 24,655 thousand, against BGN 54,988 thousand the prior year (2011: BGN 50,596 thousand). During the period three subordinated loan agreements were repaid before maturity, after received approval by the BNB. At end-2013 perpetual debt comprised of two step-up guaranteed perpetual subordinated bonds on the amount of BGN 99,792 thousand (2012: BGN 99,584 thousand; 2011: BGN 99,376 thousand).

As at 31 December 2013 the capital indicators of the First Investment Bank Group were above the established regulatory requirements – the total capital adequacy ratio amounted to 14.26% (2012:

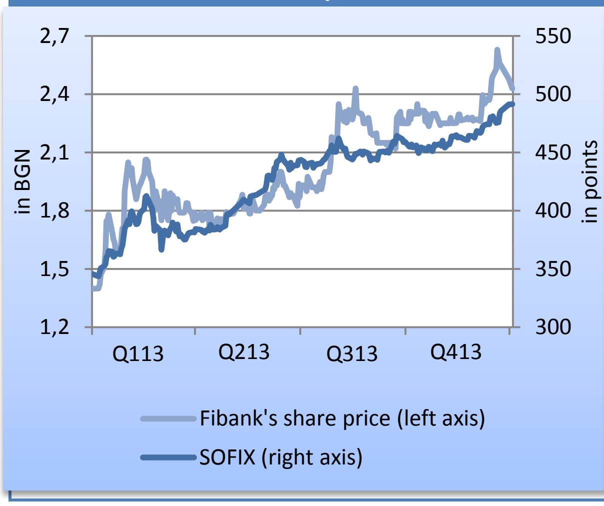
13.10%; 2011: 12.57%), while tier 1 capital ratio was 13.31% (2012: 11.39%; 2011: 10.18%). As at the end of the reporting period in calculating its capital adequacy, the Bank applied the Basel capital standards (Basel II), as adopted in the EU Directives and Ordinance №8 of the BNB, setting aside capital for credit, market and operational risk. During the year preparations were made with the aim at applying since 2014 the new European regulations, implementing the Basel III capital framework, including Regulation (EU) № 575/2013.

In BGN thousand/ % of risk-weighted assets	2013	%	2012	%	2011	%
Tier 1 capital	843,173	13.31	555,159	11.39	467,303	10.18
Total capital base	903,810	14.26	638,713	13.10	576,921	12.57
Risk-weighted assets	**6,336,803**		**4,875,037**		**4,588,589**	

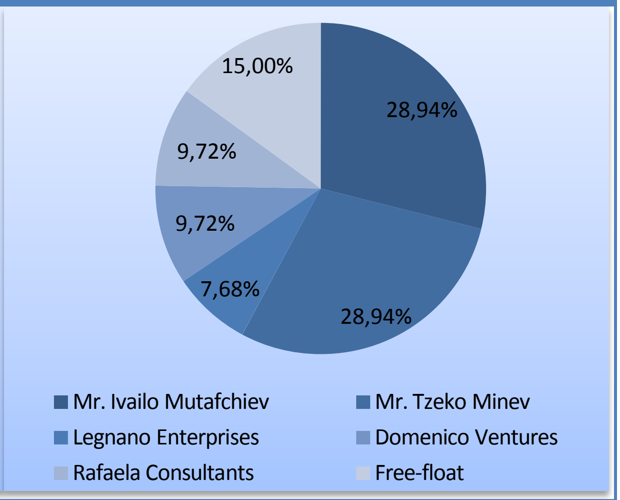
Total Group equity rose by 37.1% to BGN 692,515 thousand (2012: BGN 505,267 thousand; 2011: BGN 470,002 thousand), resulting from an increase in retained earnings, which reached BGN 438,171 thousand at year-end (2012: BGN 253,255 thousand; 2011: BGN 222,751 thousand) and included the gain on the bargain purchase of Unionbank EAD. First Investment Bank's issued share capital was BGN 110,000 thousand, divided into 110,000,000 common voting shares with a nominal value of BGN 1 each.

As at 31 December 2013 the shareholder structure of First Investment Bank remained unchanged. The major shareholders were Mr. Tzeko Minev (28.94%), Mr. Ivailo Mutafchiev (28.94%), Domenico Ventures Limited (9.72%), Rafaela Consultants Limited (9.72%) and Legnano Enterprises Limited (7.68%). The remaining 15% of the Bank's issued share capital (BGN 16.5 million) was owned by other shareholders, holding shares subject to free trade on the Bulgarian Stock Exchange – Sofia (free-float). In January 2014 changes were made to the shareholder structure of the Bank – *for further information regarding subsequent events see note 38 "Subsequent events" of the Consolidated Financial Statements as at 31 December 2013 together with the Report of the Independent Auditor.*

Fibank's share price in 2013



Shareholders' structure



During the reporting period the price of the Bank's shares fluctuated in the range between BGN 1.34 and BGN 2.63. The last price of the shares of First Investment Bank for the reporting period was BGN 2.43 (2012: BGN 1.40; 2011: BGN 1.89). A total of 2,355 transactions were concluded with shares of the Bank on the regulated market, amounting to a turnover of BGN 5,107 thousand, compared to 1,258 transactions and a BGN 2,953 thousand turnover a year earlier. As at 31 December 2013 the

Bank's shares were traded on the Main market, Premium Equities Segment of the Bulgarian Stock Exchange and are included in three stock indices – SOFIX, BG40 and BGTR30, which bring together the largest, most traded and most liquid companies on the stock market in Bulgaria.

RISK MANAGEMENT

First Investment Bank builds, maintains and develops a reliable risk management system, which ensures the timely identification, estimation and management of risks inherent to its activity.

Fibank's strategy for risk management is part of the overall strategy for the development of the Bank. The general risk profile of the Bank is managed in order to achieve a good balance between risk, return and capital. The Bank determines its propensity for risk and risk tolerance at levels which correspond to its strategic objectives and stable functioning.

The framework for risk management in First Investment Bank comprises written policies, rules and procedures, mechanisms for the identification, measurement, monitoring and control of risks as well as risk mitigation. The fundamental principles embedded in it are: objectivity, dual control of each operation, centralized management, separation of duties, and clearly defined authority levels.

In 2013 Fibank continued to further improve and develop the applied systems for the forecasting, assessment and management of risks according to the external conditions and good banking practices, while maintaining flexibility and adaptability to the market needs. During the year a new scoring model for retail customers was implemented, which reflected the risk profile of the customer and their segmentation in a respective risk segment. New additional functionalities and procedures were implemented aiming at optimizing the monitoring and management of credit risk, including centralized management of collaterals as a unified data base.

In relation to operational risk management and prevention of fraud, new functionality modules were implemented to the card system of the Bank during the period, as well as additional activities done aiming at registration of operational events. The Bank continued to develop its infrastructure for maintaining sufficient capital buffers in accordance with the environmental risks and the regulatory requirements, including in connection with the preparation of activity in compliance with the new European regulations implementing the Basel Committee on Banking Supervision requirements, known as Basel III framework – Regulation (EU) № 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms was adopted, amending Regulation (EC) № 648/2012, which has direct effect and entered into force from 1 January 2014, as well as a new Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.

COLLECTIVE RISK MANAGEMENT BODIES

For the purpose of managing various types of risks complying with the regulatory requirements of the Bulgarian National Bank, the Basel Committee recommendations and internationally established standards, the following collective management bodies operate at the head office of Fibank: the Credit Council, the Liquidity Council, the Credit Committee and the Operational Risk Committee.

The Credit Council administers the credit risk undertaken by the Bank by issuing opinions on loan transactions in accordance with the authority level assigned thereto. As at the end of 2013 the Credit Council consisted of six members elected by the Managing Board – representatives of the Corporate Banking, SME Lending, Legal, Risk Management and Branch Network departments.

The Liquidity Council oversees on an ongoing basis the Bank's assets, liabilities and liquidity. It conducts systemic analyses of the interest and maturity structure of assets and liabilities, and of liquidity indicators with a view to their optimisation. As at 31 December 2013, it comprised five members – two members of the Managing Board and the heads of the Finance and Accounting Treasury and Risk Management Departments.

The Credit Committee is a specialised body for monitoring loan exposures with indicators for impairment. As at 31 December 2013, it had seven members elected by the Managing Board – representatives of the Impaired Assets and Provisioning, Finance and Accounting, Corporate Banking, SME Lending, Retail Banking, Risk Management and Legal departments. The Credit Committee members are employees of the Bank who are not members of bodies which are directly involved in decision-making on the extension of loans. The Credit Committee monitors and analyses asset impairment and allowances both generally (at the portfolio level) and in terms of specific, individually significant exposures.

The Operational Risk Committee is a consultative body established to facilitate the adequate management of operational risk by monitoring and analyzing operating events. The Committee proposes measures for the minimizing of operational risks, as well as preventive measures. As at 31 December 2013, the Committee included seven members – representatives of the following departments: Risk Management, Methodology, Finance and Accounting, Operations, Card Payments, Branch Network and Legal.

In addition to these collective management bodies, Fibank employs a specialised unit – the Risk Management department. The department exercises secondary control over risk exposures, monitors and assesses the bank's risk profile, and is responsible for the implementation of the requirements related to risk assessment and capital adequacy.

In addition **a Risk Committee** functions as an auxiliary body to the Supervisory Board of the Bank. It is responsible for the supervision of the risk management activities of the Managing Board and for a broad strategic and tactical supervision of the activities of the risk management function within the Bank, including the approval of large risk exposures. As at 31 December 2013, the Risk Committee comprised three members of Fibank's Supervisory Board.

Considering the external environment, the Bank's management continued its conservative approach to risk management, centralized management of the loan portfolio and the application of forecasting models, stress tests and programs for the internal analysis of capital adequacy (ICAAP).

The primary mechanisms and tools for the management of different types of risk are summarised below:

CREDIT RISK

Credit risk is the risk arising from the debtor's inability to meet the requirements of a contract with the bank or inability to act in accordance with the agreed terms. Credit risk is the major source of risk to the banking business and its effective assessment and management are crucial for the long-term success of credit institutions.

First Investment Bank establishes and applies a system for credit risk management, which includes internal rules for lending and for managing of problem exposures, methodology for impairment and provisioning of risk exposures, levels of competence in origination of loan exposures, as well as loan analyses and internal credit ratings (scoring models) with regards to customers' creditworthiness.

Fibank regularly updates its internal rules and procedures to optimise the full and timely detection, analysis and minimization of present and potential risks. The Bank applies limits on all exposures to credit risk, including to individual customers, customer groups, counterparts, to types of instruments, industries etc.

Internal models for credit risk assessment based on statistical methods for processing and analysis of historical information, help assess the probability of default (PD) and loss on default (LGD) for certain classes of exposures that allows the calculation of risk-adjusted return. Internal rating models for credit assessment applied by the Bank are integrated in an integrated information system, which includes centralized data base. All credit risk exposures are controlled on an ongoing basis.

Fibank requires collateral for credit risk exposures, including for contingent liabilities. For reduction of the credit risk First Investment Bank applies established techniques, procedures and rules, ensuring effective credit protection, including through monitoring and control of outstanding risk. Secured protection is ensured to assets, which are liquid enough and have relatively unchanged value in time, as the Bank applies internal written rules, regulating the accepted collaterals by type and amount, while in compliance with regulatory requirements for their recognision, as well as for their documentary structuring.

Considering the impact of the economic cycle the Bank continued to actively manage its problem exposures – aiming at their timely diagnosis and taking measures consistent with the repayment capacity of the clients and the Bank's policy on risk-taking.

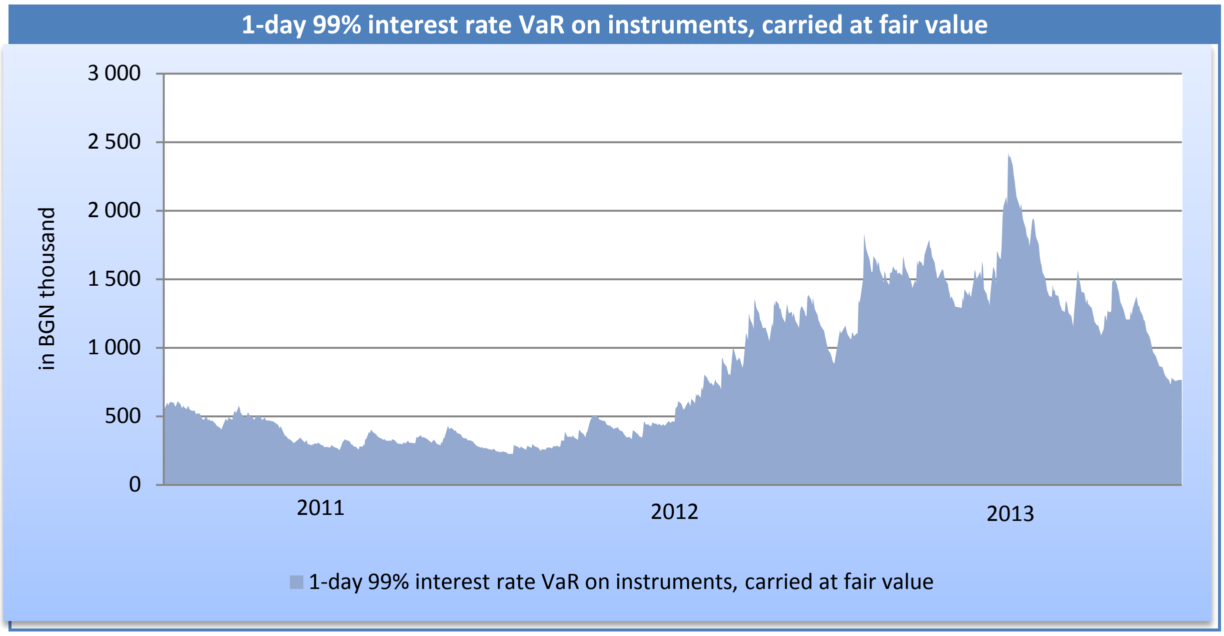
For further information regarding credit risk see note 3 "Risk management" of the Consolidated Financial Statements as at 31 December 2013 together with the Report of the Independent Auditor.

MARKET RISK

Market risk is the risk of losses due to changes in the price of financial instruments resulting from general risk factors not related to the specific characteristics of individual instruments, such as changes in interest rates, exchange rates and / or specific risk factors relating to the issuer.

Interest rate risk is the risk of change in the income of the Bank as a result of adverse changes in interest rates. Fibank manages interest rate risk in the banking book though written rules, limits and procedures aimed at reducing the mismatch between interest-sensitive assets and liabilities. Interest rate risk in the banking book is measured using models that assess the impact of interest rate scenarios on the economic value of the Bank and on the net interest income with a one-year horizon. Evaluation of the impact on the economic value of the Bank is based on models of the duration of interest-bearing assets and liabilities. The evaluation of the impact on net interest income is based on a maturity/repricing table of assets and liabilities and the estimated change in interest rates by classes of instruments following a change in market interest rates.

To manage the interest rate risk of securities carried at fair value, Fibank applies VaR analysis (see infra), duration analysis and analysis of standardised interest rate shocks.



Currency risk is the risk of loss resulting from an adverse change in exchange rates. Fibank controls this risk by limiting its open foreign exchange position to 2 per cent of its capital base. Fibank is also exposed to currency risk when effecting proprietary trading in foreign exchange. The volume of such trading operations is very limited, and is controlled through limits on open foreign currency positions and stop-loss limits on open positions.

For further information regarding market risk see note 3 "Risk management" of the Consolidated Financial Statements as at 31 December 2013 together with the Report of the Independent Auditor.

LIQUIDITY RISK

Liquidity risk originates from the funding of the banking business and in positions management. It includes the risk of failure to meet a payment when due, or failure to sell certain assets at a fair price and in the short term to meet an obligation.

Fibank manages liquidity risk through an internal system for monitoring and daily liquidity management, the maintenance of a sufficient amount of cash in view of the maturity and currency structure of assets and liabilities, a monthly gap analysis of inflows and outflows, maintaining a low risk portfolio of assets to meet current liabilities, and operations on the interbank market. Fibank's policy on liquidity management is specified and pursued so as to ensure that the Bank can meet all obligations under external (systemic) or idiosyncratic stress, as well as to maintain an adequate level and structure of liquid buffers and the application of appropriate mechanisms for the distribution of costs, profits and risk, related to liquidity.

During the reporting year Fibank continued to maintain an adequate amount of liquid assets – as at 31 December 2013 the liquidity ratio amounted to 22.63% on a consolidated basis (2012: 27.64%; 2011: 26.17%). The decrease during 2013 reflected the placement of available liquidity resources after the deal for Unionbank EAD's acquisition, while maintaining the amount of liquid assets at a level exceeding the regulatory requirements. Loans/deposits ratio as at end-2013 was 83.03% on a consolidated basis (2012: 76.09%; 2011: 80.08%).

For further information regarding liquidity risk see note 3 "Risk management" of the Consolidated Financial Statements as at 31 December 2013 together with the Report of the Independent Auditor.

OPERATIONAL RISK

In the context of the Basel standards operational risk is the risk of loss resulting from inadequate or failed processes, people or systems, or from external events. In order to mitigate the risks arising from operational events Fibank applies written policies, rules and procedures that are based on the requirements laid down in Bulgarian and EU legislation and good banking practices.

The managing of operational risk is based on the principles of not assuming unsound risk, strict compliance with the authority levels and applicable laws, and the active management of operational risk.

The Bank also maintains a system for the registration, tracking and control of operational incidents and near-misses that complies with Ordinance No.8 of the BNB. The Risk Management department defines and categorises operational events across event types and business lines inherent in banking; the department also defines the responsibilities of the employees tasked with data collection. The Operational Risk Committee regularly reviews operating events and suggests to the managing Board measures for the immediate correction of the reasons for them, as well for the optimization of the processes, activities, products and services of all levels in the Bank's system.

RISK-WEIGHTED ASSETS

As at 31 December 2013 Fibank applied the standardised approach for the calculation of risk-weighted assets for credit risk under Basel standards and the provisions of Ordinance No.8 of the BNB on the capital adequacy of credit institutions. Due to the limited volume of financial instruments in the trading book (bonds and other securities) capital requirements are calculated in accordance with the requirements of Ordinance No.8 of the BNB as applied to the banking book. The Bank applies the basic indicator approach for calculation of the capital requirement to cover the risk of operational losses.

In BGN thousand/ % of total	2013	%	2012	%	2011	%
For credit risk	5,935,405	93.7	4,491,397	92.1	4,224,125	92.1
For market risk	7,738	0.1	12,400	0.3	6,100	0.1
For operational risk	393,660	6.2	371,240	7.6	358,364	7.8
Risk-weighted assets	**6,336,803**	**100**	**4,875,037**	**100**	**4,588,589**	**100**

Apart from Supervisory purposes, Fibank also calculates the economic capital that will ensure its solvency and business continuity in adverse market conditions. For that purpose, an internal capital adequacy analysis (ICAAP) is made.

INTERNAL CAPITAL ADEQUACY ANALYSIS

The capital needs of First Investment Bank are determined according to its business strategy and risk profile. In this regard, the assessment of the required economic capital of the Bank reflects the risk profile of its activity. The main indicators are the quantitative evaluation methods which are used take into account unfavorable economic environment scenarios.

The internal system for assessing the required internal capital is based on the VaR forecasting models for credit and market risk, on stress tests for liquidity and interest rate risk in the banking book, on using the Basic Indicator Approach regarding operational risk, and on analytical tools and techniques which provide the opportunity for detailed assessment of capital adequacy in accordance with the risk profile of the Bank and the current operating environment.

For calculation of capital adequacy in relation to credit risk exposure, First Investment Bank uses internal valuation models, except in particular cases, e.g. in exposure classes with a negligible impact on the risk profile. For exposure to classes of substantial importance, which constitute the main credit activity of Fibank, the economic capital is determined based on a single-factor model for the credit portfolio VaR, which determines the probable distribution of losses that may be incurred within one year ahead, at 99 5% confidence interval.

As regards concentration risk, its quantitative evaluation is part of the overall assessment of the exposure to credit risk. For the purposes of ICAAP, First Investment Bank assesses the concentration risk due to uneven distribution of credit exposures by client, or by group of related persons, from the perspective of its financial stability and ability to carry out its core business.

The Bank's exposure to market risk is limited and involves assessment of capital adequacy in relation to position risk, foreign exchange risk, and commodity risk. For calculation of the economic capital for market risk, internal value-at-risk (VaR) models are used, with a time horizon of 10 days and a confidence level of 99.5%.

For the purposes of internal analysis of capital adequacy, Fibank manages the interest rate risk in its banking book by managing the structure of investments, controlling the costs and terms of financial liabilities, as well as controlling the interest rate structure of the loan portfolio and the other interest-bearing assets. Approaches are used to evaluate the effect of interest rates on the net interest income on a horizon of one year, and the effect on the economic value of the Bank.

With regard to operational risk, First Investment Bank applies the Basic Indicator Approach; for the purposes of ICAAP it is assumed that the economic capital is comparable to that for supervisory purposes.

For assessing the required internal capital for liquidity risk, the Bank applies conservative stress tests using combined shock scenarios with a horizon of one month, taking into account the amount of losses that the Bank would incur in order to meet its cash outflows.

DISTRIBUTION CHANNELS

First Investment Bank uses various types of distribution channels for its products and services – a well developed branch network, a broad network of ATM and POS terminals, distant access to information and services through its own contact centre, direct sales, e-banking and telephone banking.

In 2013 Fibank continued to develop the distribution channels in accordance with the external environment and customer needs, focusing on services offered by remote means of communication.

BRANCH NETWORK

The branch network is the basic channel for the distribution of the bank products and services of First Investment Bank.

During 2013 Fibank continued to work on optimizing the branch network, while taking into account the external environment and business volumes. With the aim of increasing efficiency during the year three new offices were opened in Sofia and three others were closed.

As of 31 December 2013 the branch network of the First Investment Bank Group included a total of 221 branches and offices on a consolidated basis (2012: 162), which are situated in over 60 populated areas – a Head Office and 50 offices in Sofia, 100 branches and offices throughout the rest of Bulgaria, one foreign branch in Cyprus, a subsidiary bank in Albania, which operated through a Head Office in Tirana and nine branches in Albania, as well as a Head Office and 58 branches of the subsidiary bank Unionbank EAD.

The increased number of branches as at end-2013 resulted from the consolidation of the branch network of Unionbank EAD in the aggregate structure of the Group of First Investment Bank.

CONTACT CENTRE – *BANK (*2265), 0800 11 011

In 2013 Fibank's Contact centre continued to function as an effective channel for communication and for the active sale of specific banking products and services.

The Bank has worked systematically throughout the years on the development and diversification of the services offered by the Contact Centre in accordance with customers' needs and new technologies. As at end-2013 through it customers could apply for credit and debit cards, for a debit card overdraft, receive accurate and correct information on products and services and the Bank's Terms and Conditions (Tariff) and interest rates, the location of branches and bank offices' working times, as well as professional assistance from Contact Centre employees whenever questions or problems occur. Customers are provided the opportunity for communication through a chat in real time through the Bank's corporate website.

During the year various campaigns were conducted through the Contact centre, including information campaigns, campaigns for the direct offering of banking products and services and such related to support collectivity of receivables from customers.

CORPORATE BLOG

The corporate blog of First Investment Bank was established in 2008 has operated as an alternative channel for communication, aiming at open dialogue in an accessible language with customers and partners. It publicises a range of social and corporate initiatives, presents the employees of the Bank, and assesses the use of products and services through open discussion and interactive inquires. It presents interesting analysis and research made by the Bank with regard to the market for credit products and the tendencies in this sector.

In 2013 the design of the corporate blog was updated aiming to present information to consumers in an easier and more understandable way, in line with contemporary trends for communication in the Internet environment.

During the year First Investment Bank maintained active communication in real time with its customers and stakeholders through leading social networks – Facebook, Twitter, Youtube, Svejo.net, Foursquare, Google+.

SALES

In 2013 First Investment Bank used direct sales as an additional opportunity for the distribution of products and services, including for complex banking servicing to institutional and corporate customers.

This approach contributes to attracting new customers and establishing long-term relations with key customers, as well as for receiving direct feed-back on the Bank's products and services. During the year new corporate customers from different market segments were attracted through direct sales from First Investment Bank.

Sales Department employees represent Fibank at trade fairs and exhibitions and actively take part in promotional campaigns for selling the Bank's services. The Department has considerable experience in taking part in tender procedures and the servicing of budget spending units, state and municipal companies.

REMOTE BANKING

VIRTUAL BANKING BRANCH (e-fibank)

First Investment Bank continued to develop the services offered by e-banking in accordance with customers' needs and with the aim of adding new functionalities. Fibank has successfully offered electronic banking since 2001 and is among the pioneers in this field, providing its customers with a modern, fast, cheap and safe way to use a wide range of banking products and services. Customers are provided the opportunity to access the Virtual Banking Branch by using a qualified electronic signature or token device.

In line with the aim of maintaining the highest standards of customer service and effectiveness, in 2013 an online mail (chat) for servicing e-banking customers was integrated. The new communication channel was designed for better understanding and satisfaction of customers' needs and ensuring professional support in cases of questions or difficulties.

For the period, the outgoing transfers through the Virtual Banking Branch increased and reached 46% of the number (2012: 40%) and 51% of the amount (2012: 47%) of all outgoing transfers performed by the Bank. The number of new customers using the remote banking services of First Investment Bank continued to grow, as during the year the registered growth was 23%. Around 80% of the Bank's corporate customers use passive or active internet banking.

TELEPHONE BANKING – *bank (*2265), 0700 19 599

During 2013 First Investment Bank continued to offer customers active and passive banking operations through the services of telephone banking.

Telephone banking allows customers of the Bank to order money transfers, to negotiate exchange rates and to purchase currency with one phone call. Furthermore, they can make inquiries about balances on their accounts, about performed transactions, and acquire information on exchange rates.

Customers can perform active banking operations through telephone banking during the working hours of the Bank, and passive operations without time limitations, 7 days a week, 24 hours a day.

MY Fibank

First Investment Bank has offered its customers electronic banking services through My Fibank for more than four years, and has systematically and consistently worked to develop new services and improving the existing functionalities.

My Fibank provides customers with electronic statements from their current and deposit accounts, their credit cards, as well as payments of utility bills and of other obligations on accounts and cards kept with the Fibank. Clients are provided with information about sent and received interbank transfers in foreign currency, as well as registration of 3D Card Security, which aims at increasing the security of payments over the Internet.

During the year a new mobile application of Fibank for iPhone and Android was developed for customers through registration in My Fibank. The main functionalities of the application include information on account balances, payments with credit and debit cards, currency exchange, branches and ATM terminals of the Bank.

INFORMATION TECHNOLOGIES

In 2013, First Investment Bank continued to develop and improve its information technologies, pursuing its mission and strategic priority to be among the most innovative and technologically advanced institutions in the Bulgarian banking market, offering high-tech solutions and superior customer service.

For Fibank, the modern infrastructure and the information and technological environment are essential for the implementation and development of the full range of banking products and services of the latest generation, according to the European and international standards. The aim of the Bank is to provide fast and superior servicing at a high level of security, the performing of banking transactions with parameterized dual control, and using modern methods for the prevention of unauthorized access, including in remote transactions.

To facilitate the development and adding of functionalities, a new application was introduced to the main banking information system during the year, which aims at the optimization of processes and seamless parameterization of innovative banking products and services.

The server device infrastructure of the Bank was updated, with the Oracle FlexCube operational database now being managed by a last generation dedicated database server Oracle Exadata X2-8. This contributes to increasing the speed and improving the productivity of the system.

First Investment Bank continued to consistently pursue a policy of increasing the level of security through the introduction of specialized modules for added protection and prevention. In 2013, the Bank implemented a new system for monitoring transactions with cards issued by Fibank, and on terminals served by it, aiming at added flexibility and quick response in case of identified risks of abuse. The new module of the card system allows carrying out of more effective monitoring through dynamic changes of rules and new functionalities, giving the opportunity to prevent card abuse and minimize the risks for the Bank.

During the period, several projects for the development and implementation of new services and functionalities were completed, including „My Fibank" and the Virtual Banking Branch, the servicing of merchants involved in technical inspections of vehicles, and some new card products.

Towards the end of the year, preparatory work was done and efforts and resources dedicated to the migrating of data and integrating of systems and processes in connection with the merging of Unionbank EAD into First Investment Bank AD. The accumulated experience and successful implementation of previous projects for migration of IT systems served as a good basis for carrying out a smooth transition, and integrating the information systems into a single structure.

CORPORATE GOVERNANCE

Fibank`s corporate governance is a system with clearly defined functions, rights and responsibilities at all levels – the General Meeting of Shareholders (GMS), the Supervisory Board and its committees, the Managing Board, the Specialised Internal Audit Service, and internal councils and committees and structures at the Head Office and the branches. First Investment Bank has a two-tier management system, comprising the Supervisory Board and the Managing Board.

The Supervisory Board does not participate directly in the Bank`s management. It sets the main business objectives of the Bank and the attainment strategy, elects and discharges members of the Managing Board, as well as approving the major strategic decisions of the Bank. The Supervisory Board's activity is supported by four committees – Presiding committee, Risk committee, Remuneration committee and Audit Committee. The **Presiding committee** is primarily responsible for the supervision of the activities of the Managing Board in regards to important strategic decisions, including the issuance of new shares, bonds, hybrid instruments, and the adoption of programs and budgets in relation to the activity of the Bank. The **Remuneration committee** assists the Supervisory Board in overseeing the application of the Bank's remuneration policy and its further amendments as well as in any other matters regarding remunerations, in compliance with the regulatory requirements and best practices in this sphere. The **Risk committee** assists the supervision of the risk management activities of the Managing Board and for a broad strategic and tactical supervision of the activities of the risk management function within the Bank, including the approval of large risk exposures. The **Audit Committee** which carries out its activities on the basis of a predetermined written structure, scope of activities and functions, which is related to the observation of the financial reporting process, the independent financial audit, as well as of the effectiveness of the Bank`s internal control systems and risk management systems.

The Managing Board carries out the management of the Bank by resolving all issues in its line of business, except those within the exclusive competence of the General Meeting of Shareholders or the Supervisory Board. The Managing Board of Fibank holds sessions every week. The Managing Board's activity is supported by internal bodies such as: the Credit Council, the Credit Committee, the Liquidity Council, the Operational Risk Committee, and the Deposit Products Committee which carry out their activities on the basis of written internal rules.

The General Meeting of Shareholders of Fibank has the right to amend and supplement the Bank`s by-laws, to increase and reduce share capital, as well as to transform and terminate the Bank. The General Meeting of Shareholders has competences to elect and dismiss the members of the Supervisory Board and the management of the Specialised Internal Audit Service of the Bank.

In May 2013 a regular annual general meeting of shareholders was held, at which a decision was taken that the entire net profit of the Bank for 2012 should be capitalized and that no dividends should be paid, or any other deductions made from the profit for 2013. KPMG Bulgaria OOD was selected as the specialized auditing company which would verify the annual financial statements of Fibank for 2013. Amendments were made to the Statute of Fibank authorizing the Managing Board, subject to approval by the Supervisory Board, to decide on the issuance of mortgage bonds with a total nominal value of up to BGN 100 million, as well as envisaging the option for the issuing of electronic money, should this activity be included in the license of Fibank.

During the year First Investment Bank developed its policies in the sphere of corporate governance in compliance with the best practices and the effective regulatory framework, including with the new European regulations regarding prudential requirements to credit institutions and investment intermediaries.

Fibank follows a Programme for the Implementation of Internationally Recognised Good Corporate Governance Standards consistent with the practices of the Organisation for Economic Cooperation and Development (OECD), the National Corporate Governance Code (the Code) and the regulatory requirements which the Bank reconsiders every year in terms of its adherence and effectiveness. For establishing contemporary professional and ethical standards, required and applicable to the Bank as a business company, working environment and credit institution, Fibank has a Code of Conduct that determines the major principles, ethical norms and corporate values which underlie the policies and business plans, rules, procedures and daily operational work of the Bank.

During the reporting period, by decision of the National Committee on Corporate Governance, Fibank was included in the CGIX (Corporate Governance Index) of the Bulgarian Stock Exchange, comprising the seven companies with the best corporate governance admitted to trading on the exchange. Fibank was the only credit institution included in the index and the only bank appearing in it for a second consecutive year. The bank was included in the index after covering the minimum operational requirements and liquidity criteria, and following an independent assessment by the National Committee on Corporate Governance on application of the principles of the National Corporate Governance Code.

Being a public company Fibank discloses to the public (through the news agency www.x3news.com) regular information including annual and semi-annual financial statements audited by an independent auditor, as well as interim quarterly financial statements and activity reports. The Bank immediately discloses additional ad hoc information regarding important events in connection with its business activity. The information is also available on Fibank`s website: www.fibank.bg, section “Investor information”.

During the reporting period Fibank met the requirements set in its Programme for the Implementation of Internationally Recognised Good Corporate Governance Standards, including the requirements for providing regular information in connection with its financial calendar for 2013. In addition every year, together with its annual report and financial statements, the Bank issues to the public a card for the assessment of its corporate governance, which has been developed in accordance with the National Corporate Governance Code.

HUMAN CAPITAL

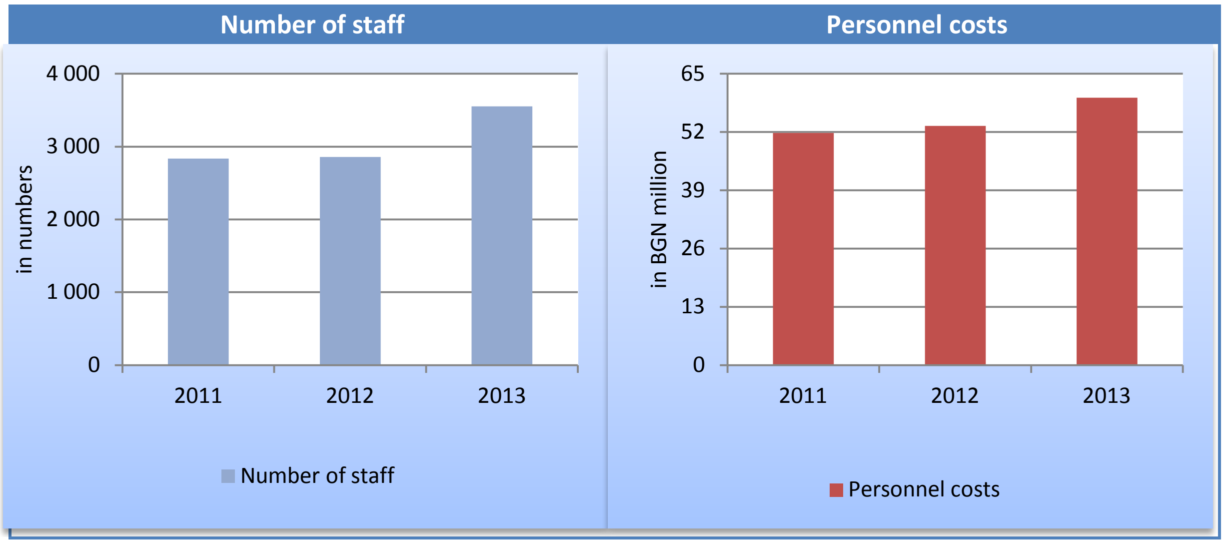
Human capital management in First Investment Bank in 2013 remained a strategic function, essential to accomplishing the mission and achieving the objectives of the Bank in the conditions of a competitive and dynamic environment.

Activities aimed at effective management of people and teams were deployed at all organizational levels of the Bank, in line with the increasing demands for flexible and rapid response to business needs. The main efforts were directed towards improvement and development of tools and practices for selection and the management of performance, as well as towards expanding the opportunities for education and training. New working practices and activities were introduced to support the organizational and structural development of units and building of teams: initiatives studying the attitudes and expectations of employees, measures for the effective introduction of new hires in the working process, programs for analysis and the development of a motivational environment.

First Investment Bank continued its targeted efforts aimed at improving the employees' qualifications, at their education and development: 78% of the Bank's staff underwent various forms of training during the year. The main focus was on types of training involving customer care skills, offering and selling of bank products and services, persuasion and negotiation skills, and others, within specific areas of competence.

In 2013, Fibank successfully implemented its second project under the Operational Programme „Human Resources Development", named „Development – a Matter of Tradition". 565 employees of the Bank took part in various trainings along the project, the competences including cross-selling and negotiation, debt collection, customer service, cask desk operations, and the English language.

As at 31 December 2013, the number of staff of the Group on a consolidated basis reached 3,554 employees (2012: 2,859; 2011: 2,838).



The established social practice for supplementary health insurance for all employees of the Bank was preserved and extended, allowing them to use the services of qualified medical staff, provided at modern medical centers. This care for the health of employees includes measures related to health surveillance through annual check-ups, free vaccination campaigns, development and implementation of measures to assess health risks and safety at work, and providing preferential health care for family members of the Bank employees.

REMUNERATION POLICY

First Investment Bank applies a Remuneration policy pursuant to the Law on Credit Institutions and Ordinance No. 4 of the BNB on the Requirements for Remunerations in Banks, which is consistent with the business strategy, objectives and values of the Bank and is based on effective risk management.

The Policy is aimed at motivating employees to achieve high results at a moderate level of risk, and in accordance with the long-term interests of the Bank and its shareholders. It is based on the principles of transparency, non-conflict of interest and equal treatment of all employees, on accountability, objectivity and reliable management of risks, in order to attract and retain highly qualified personnel and affirm the Bank as a preferred workplace for employees.

The policy sets out the general principles in forming remunerations. There are fixed and variable remunerations, the purpose of the Bank being to adhere to the optimal ratio (balance) between them, with a sufficiently high proportion of fixed remuneration – so that, depending on the category of staff, greater flexibility of the variable part can be ensured, including the possibility of non-payment thereof.

A Remuneration Committee functions at First Investment Bank, its role being to assist the Supervisory Board in its work on monitoring the implementation of the Remuneration policy, taking into account the risk impact and the long-term interests of shareholders, investors and other stakeholders.

The remuneration of key management staff of the Bank for 2013 amounted to BGN 4,547 thousand.

SOCIAL RESPONSIBILITY

In 2013, First Investment Bank supported socially significant projects and initiatives, implementing its program for corporate social responsibility and actively participating in the country's social life. In this context, Fibank and its subsidiary FiHealth Insurance AD supported a charity initiative for the creation of a puppet theater in the village of Bardarski Geran, for joint activities between disadvantaged children from the Center for family-type accommodation and other children from the village. During the period Fibank supported a charity football match, the proceeds of which went to help children suffering from leukemia. The successful cooperation with the Workshop for Civic Initiatives Foundation was continued with the donation of vaccines for disadvantaged people early in the year.

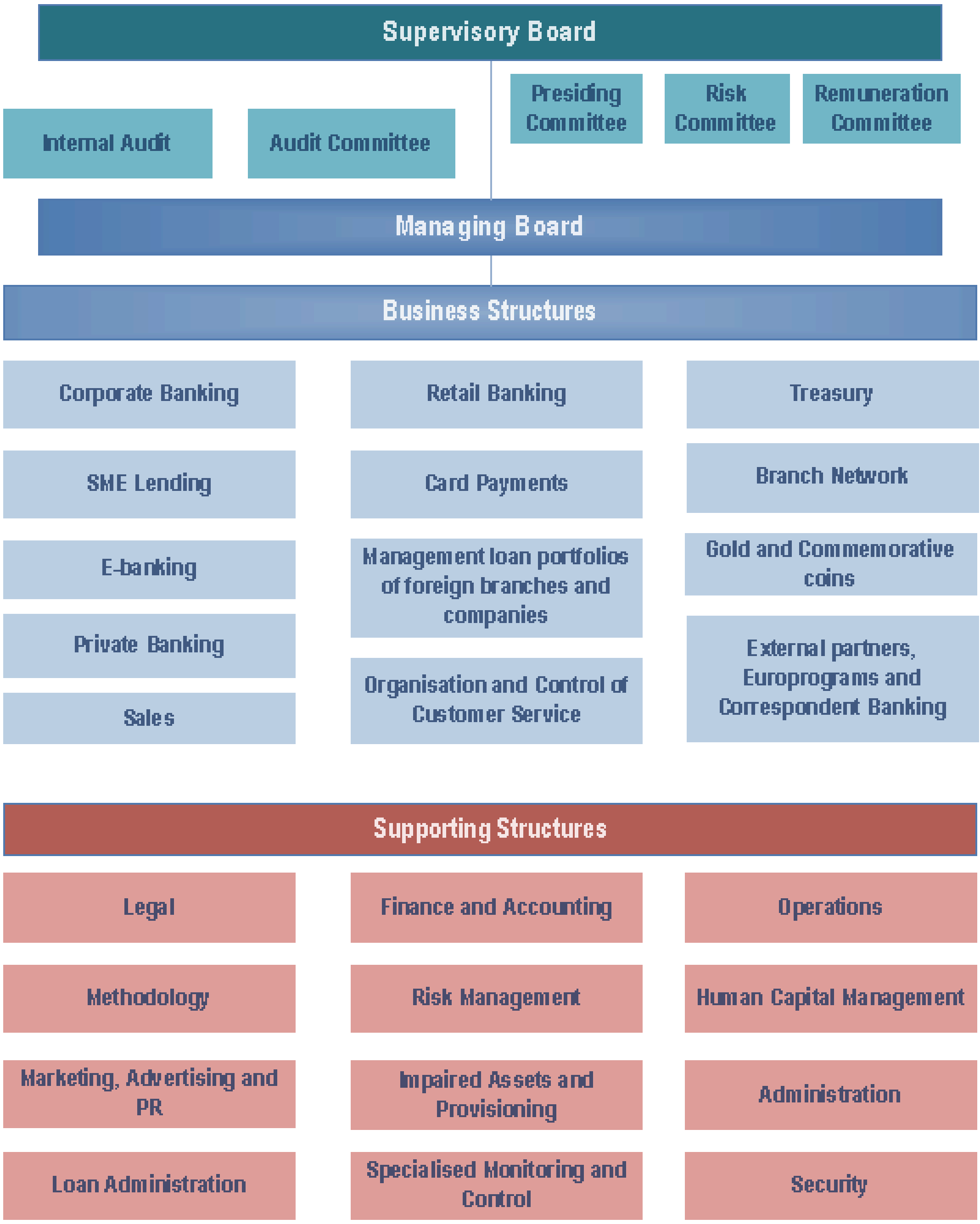
During the year, Fibank also supported activities of educational importance. It joined the initiative of the Ministry of Labor and Social Policy „OpenEDU 2013 - School of Life" by inviting students from the National Trade and Banking High School in Sofia to get closely acquainted with the work of the institution. Together with its subsidiary Diners Club Bulgaria AD, Fibank supported the publication of a book on business etiquette. The Bank participated in the project „The successful children of Bulgaria – 2012", helping the distribution of the project's annual almanac, which features gifted children from across the country and their achievements throughout the year.

In order to assist consumers and increase their awareness, financial literacy and knowledge, Fibank started a new specialized section of its official publication „Fibank News" which is distributed free of charge at the Bank's branches. For a second consecutive year, Fibank organized the competition „Best Bulgarian Firm of the Year" aimed at supporting Bulgarian companies and creating increased confidence among them, as well as at drawing attention to positive and successful business examples in the country.

In pursuance of its policy of supporting significant cultural and musical projects Fibank sponsored, for the eleventh consecutive year, the organization of the Bansko Jazz Festival. Sponsorship was also provided for other events, including fashion shows and cultural initiatives.

First Investment Bank continued its support for the development of sports in Bulgaria as a socially responsible cause. In January 2013, Fibank renewed its partnership agreement with the Bulgarian Athletics Federation (BAF), which includes support for the Federation in major competitions and sports events during the year. At the end of 2013, the partnership with BAF was extended for still another year. In March 2013, Fibank and Diners Club Bulgaria awarded several Bulgarian athletes, including the European champion in 60 m running, with a red Diners Club First Lady credit card.

BUSINESS STRUCTURE



SUPERVISORY BOARD

Evgeni Krastev Lukanov	Chairman of the Supervisory Board
Maya Lubenova Georgieva	Deputy Chair of the Supervisory Board
Georgi Dimitrov Mutafchiev	Member of the Supervisory Board
Radka Vesselinova Mineva	Member of the Supervisory Board
Jordan Velichkov Skortchev	Member of the Supervisory Board

During 2013 the composition of the Supervisory Board of the Bank remained unchanged.

As at 31 December 2013 the members of the Supervisory Board held a total of 208,706 shares of Fibank and none of them owned more than 1% of the issued share capital.

Number of shares / % of issued share capital	2013	%
Evgeni Krastev Lukanov	168,739	0.15
Maya Lubenova Georgieva	11,388	0.01
Georgi Dimitrov Mutafchiev	9,454	0.01
Radka Vesselinova Mineva	0	0
Jordan Velichkov Skortchev	19,125	0.02
Total number of shares, held by members of the Supervisory Board	**208,706**	**0.19**

The business address of all Supervisory Board members is 37, Dragan Tsankov Blvd., 1797 Sofia.

MANAGING BOARD

Dimitar Kostov Kostov	Executive Director, Chairman of the Managing Board
Vassil Christov Christov	Executive Director
Svetoslav Stoyanov Moldovansky	Executive Director
Maya Ivanova Oyfalosh	Executive Director

In April 2013 Mrs. Maya Oyfalosh was listed as an Executive Director and Memebr of the Managing Board of First Investment Bank AD.

As at 31 December 2013 the members of the Managing Board held a total of 24,026 shares of Fibank and none of them owned more than 1% of the issued share capital.

Number of shares / % of issued share capital	2013	%
Dimitar Kostov Kostov	0	0
Vassil Christov Christov	21,676	0.02
Svetoslav Stoyanov Moldovansky	0	0
Maya Ivanova Oyfalosh	2,350	0.00
Total number of shares, held by members of the Managing Board	**24,026**	**0.02**

The business address of all Managing Board members is 37, Dragan Tsankov Blvd., 1797 Sofia.

INVESTOR RELATIONS DIRECTOR

Vassilka Momchilova Stamatova	Investor Relations Director

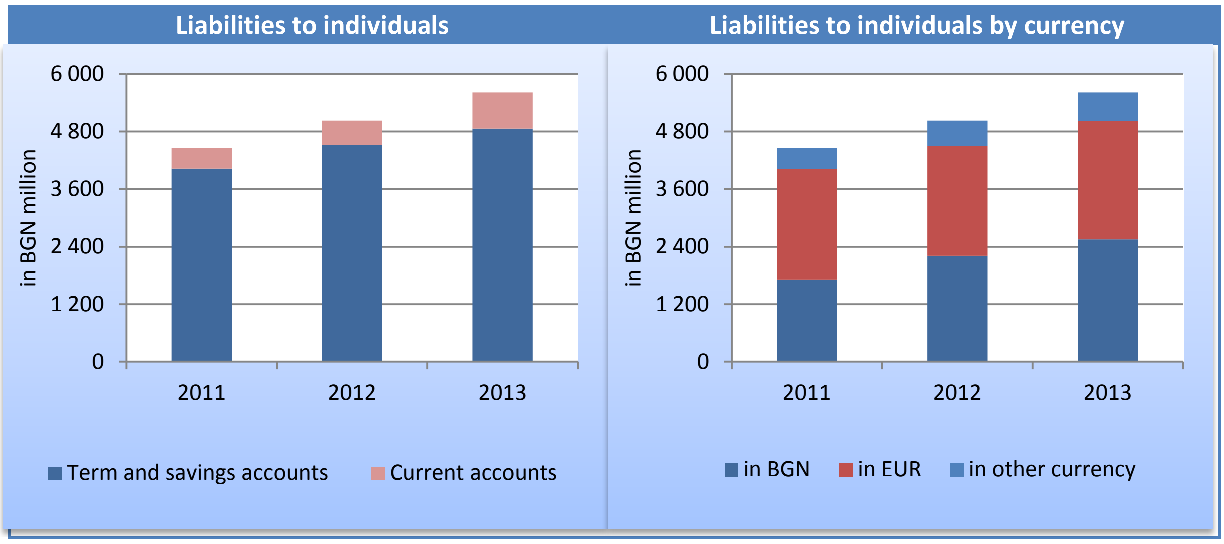
The business address of the Investor Relations Director is 37, Dragan Tsankov Blvd., 1797 Sofia, tel. +359 2 / 81 71 430, email: vstamatova@fibank.bg.

BUSINESS OVERVIEW

RETAIL BANKING

DEPOSITS

In 2013 attracted funds from individuals grew by 11.7% and reached BGN 5,616,002 thousand (2012: BGN 5,027,005 thousand; 2011: BGN 4,458,512 thousand), resulting from an increase in the current and term accounts. At the end of the period current accounts amounted to BGN 756,292 thousand or 49.9% (BGN 251,610 thousand) more compared to the previous year (2012: BGN 504,682 thousand; 2011: BGN 430,325 thousand). Contributing factors for the increase were the growing customer base, the various current accounts offered by the Bank, as well as the value added services.



At period-end the term and savings accounts reached BGN 4,859,710 thousand (2012: BGN 4,522,323 thousand; 2011: BGN 4,028,187 thousand), retaining their structure-determing share of 86.5% in the attracted funds from individuals (2012: 90.0%; 2011: 90.3%). Fibank continued to adapt its various and flexible deposit products in accordance with market conditions and customer necessities, together with maintainance of high standards of customer service.

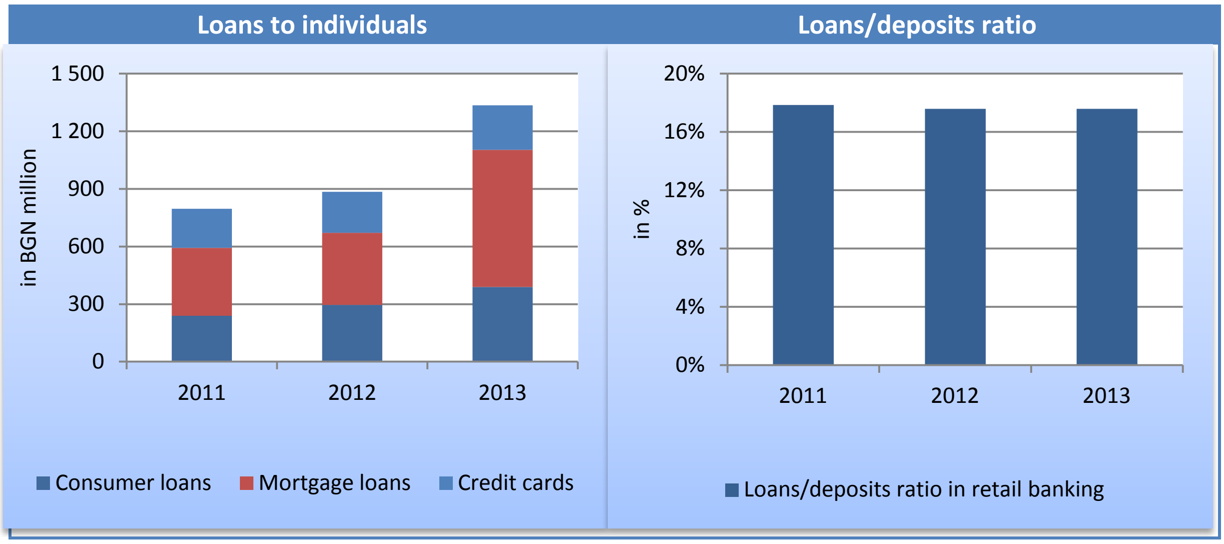
In terms of attracted funds from individuals Fibank was placed second among banks in the country on an unconsolidated basis (2012: second; 2011: second). As at end-2013 the market share amounted to 12.70% (2012: 13.66%; 2011: 13.68%).

LOANS

Loan portfolio of individuals grew by 51.0% to BGN 1,335,342 thousand (2012: BGN 884,471 thousand; 2011: BGN 795,830 thousand) as a result of an increase in all types of loans, a major contributor being mortgage loans, including registering the loan portfolio of Unionbank EAD.

Mortgage loans amounted to BGN 714,896 thousand as at end-December 2013, compared to BGN 376,174 thousand the prior year (2011: BGN 354,732 thousand), increasing their structure-determining share to 53.5% of the Group's loan portfolio of individuals (2012: 42.5%; 2011: 44.6%). In May 2013 Fibank started a new mortgage loan „Six and a half" with a fixed interest rate for the first three years, no fee for early repayment with own funds and financing of up to 90% of the value of the purchased property. In July the campaign "Your Business with Fibank" started, under which anyone bringing a mortgage loan borrower to an office of the Bank would receive a commission of

0,5% of the loan amount after disbursement. At the end of the period a new housing loan was offered with promotional interest rates and no commission for early repayment and no fee for loan application. As at 31 December 2013 Fibank's market share was 3.79% on an unconsolidated basis (2012: 3.83%; 2011: 3.68%), as the Bank was placed seventh (2012: eighth; 2011: eighth) amongst banks in the country.



Consumer loans increased by 31.8% to BGN 389,356 thousand, against BGN 295,486 thousand a year earlier (2011: BGN 238,603 thousand), forming 29.2% of the loan portfolio to individuals on a consolidated basis (2012: 33.4%; 2011: 30.0%). Contributors to the dynamics were the competitive terms offered by the Bank, the easy loan application procedure and the development of new products, including seasonal offerings in line with customer needs and market nessecities. During the year new promotional consumer loans were offered „Easter Loan" and „For Excellent Students" with a maximum amount of up to BGN 50,000, a fixed interest rate during the first years from the loan term and no application fees. During the period more competitive terms for debit card overdrafts with authomatic prolongation were offered. To customers a new „Green Loan for Home" product for energy-saving housing improvements was developed, with the option of receiving up to 50% financial assistance under the Energy Renovation of Bulgarian Homes project. First Investment Bank's market share in this segment increased to 5.81% on an unconsolidated basis (2012: 5.48%; 2011: 4.66%), as the Bank retained its market position at seventh place in terns of consumer loans among banks in the country.

Utilized limits on credit cards grew by 8.6% and reached BGN 231,090 thousand (2012: BGN 212,811 thousand; 2011: BGN 202,495 thousand), a contributor being the various and innovative card products and services offered by Fibank, as well as the Bank's consistent policy for stimulating this type of non-cash payment. The relative share of loans utilized by credit cards in the total retail loan portfolio stood at 17.3% (2012: 24.1%; 2011: 25.4%).

CARD PAYMENTS

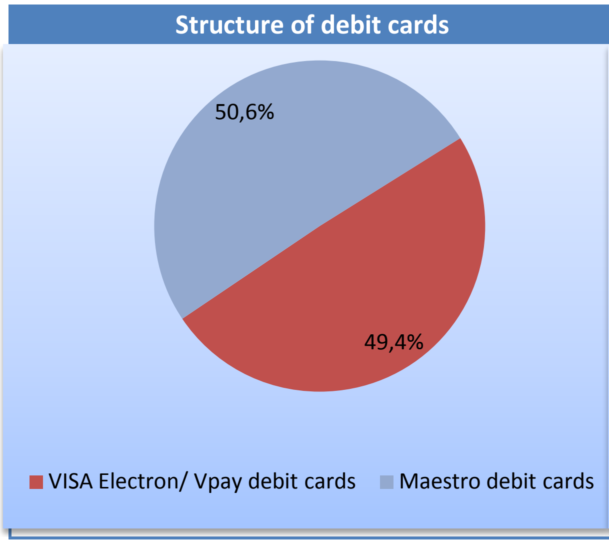
In 2013 First Investment Bank extended and developed the cards products and services offered. The Bank continued to popularize contactless payments and affirmed its leading position in the card business in the country.

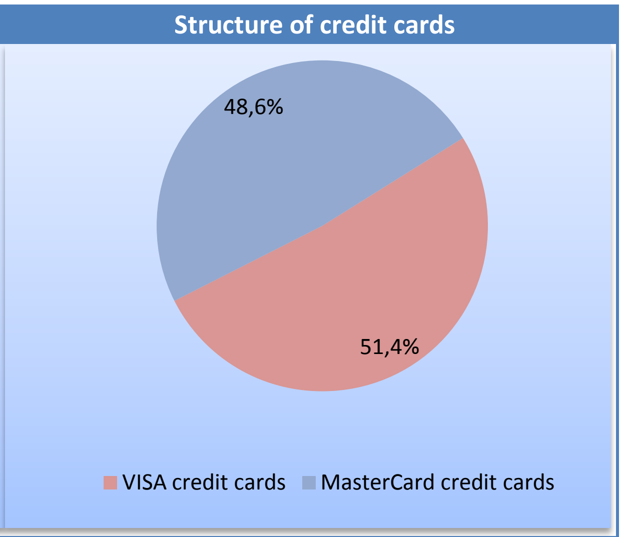
During the period Fibank started offering a new card product – debit card MasterCard Debit with innovative functionality for contactless payments and opportunity for performing payments through the Internet. The card is included in Fibank's YES loyalty program and has no fee for cash withdrawal from an ATM terminal in the country and no fee for payments via POS terminal. First Investment Bank is the first bank in Bulgaria which started issuing and servicing contactless cards MasterCard PayPass (since 2010) and Visa payWave (since 2012).

For maximum satisfaction of cardholders' needs, a new EMV compliant international revolving credit card Visa Classic in British pounds was offered during the year.

In executing its consistent policy for stimulating non-cash payments, in 2013 the Bank organized different campaigns, related to card products and services, including a six-month campaign for newly issued credit cards Visa and MasterCard with preferential conditions in terms of interest rates, fees for annual support and withdrawal from an ATM terminal in Bulgaria and abroad.

As at 31 December 2013 the number of cards issued by Fibank grew against the prior year, due to the new card products offered during the year and promotional campaigns. The structure of cards remained almost unchanged.





With the aim at further developing and enhancing the systems for the prevention of misappropriation and abuse with payment cards, a new system for the monitoring of terminals and transactions with cards, issued and serviced by Fibank was implemented at the end of the reporting period.

During the year First Investment Bank extended the terminal network, including through developing the network of terminals servicing contactless payments. At the end of 2013 the Bank operated a network of over 9,700 POS terminals and 650 ATM terminals (2012: 9,498 POS terminals and 641 ATM terminals respectively). Separately the subsidiary bank in Albania has its own network of ATM terminals.

During 2013 Diners Club Bulgaria AD developed new services for cardholders, including the opportunity for performing utility payments with Diners Club cards via Fibank's ATM terminals, as well as payment of obligations through the ePay.bg system. During the period the company successfully achieved an expansion of the network of POS terminals in the country which accept payments with Diners Club cards.

GOLD AND COMMEMORATIVE COINS

In 2013 First Investment Bank developed the business with products of investment gold and other precious metals by offering new products and conducting promotional campaigns. The extended product catalogue and the unique products offered to the Bulgarian market contributed to affirming the Bank's image as a leading institution in this segment in the country.

During the reporting period Fibank continued the successful distribution of products of the New Zealand Mint and the Swiss Mint PAMP, by offering customers a new silver coin dedicated to the Year of the horse, luxury collection coins based on favorite and rare race of cats and dogs, as well as gold and silver medallion-shaped bars IcOns WAVE. A number of deals for individual orders of customers were performed as well.

Fibank is one of the few banks which offer on the local market redemption of investment bars and coins and is the only bank with online sale of products of investment gold and other precious metals.

During the years First Investment Bank has established successful cooperation with a number of leading financial institutions all over the world. In carrying out transactions with gold and other precious metal articles, Fibank has invariably complied with all the quality criteria of the London Metal Exchange and with international standards for ethical trade.

For 2013 revenues from the sale of investment gold and other precious metals articles amounted to BGN 1,047 thousand (2012: BGN 1,800 thousand; 2011: BGN 3,167 thousand). The decrease was due mainly to the sale of bigger volume of silver products, including silver bars and coins.

PRIVATE BANKING

First Investment Bank has successfully offered private banking for individuals since 2003 and for corporate customers since 2005. Throughout the years the Bank has systematically and consistently worked for extending the channels and scope of services offered by private banking, aiming to attract new wealthy customers and improve the individual schemes of banking.

In 2013 growth was registered in the number of attracted customers of private banking, as well as in the attracted funds, compared to a year earlier. Contributors to the increase were the high quality of customer service, the activity with present and potential customers, the offering of structured and exclusive products and services, as well as the competitive conditions offered by the Bank.

Private banking gives the opportunity for personal attention by an individual Bank officer who is responsible for the entire servicing of a customer, as well as a joint team principle for performing more complex banking services. This banking is offered in the branches and offices of the Bank, as well as by visiting the client's office.

Private banking is offered to individuals and legal entities matching a number of criteria: a definite amount of collections and turnover on accounts with the Bank on a monthly basis as well as use of additional products and services and investment strategies.

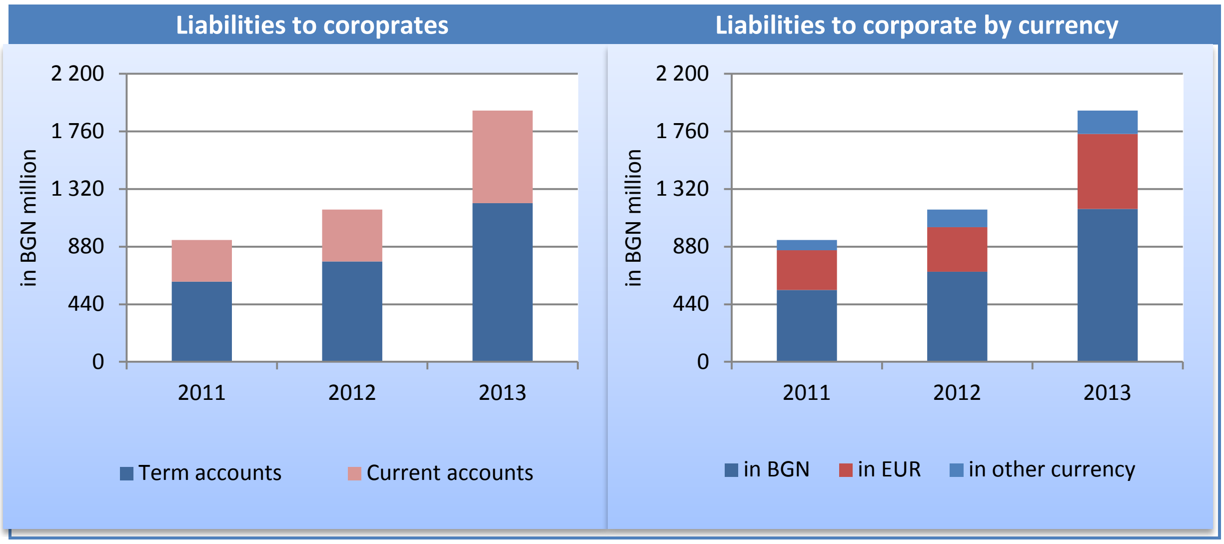
CORPORATE BANKING

DEPOSITS

In 2013 attracted funds from corporate, state-owned and public institutions rose by 65.1% (BGN 757,038 thousand) to BGN 1,919,754 thousand, against BGN 1,162,716 thousand the prior year (2011: BGN 929,798 thousand). The increase was mainly due to a growth in term deposit accounts, as well as in current accounts.

Term accounts reached BGN 1,211,273 thousand (2012: BGN 766,650 thousand; 2011: BGN 613,782 thousand), or 58.0% more compared to the previous year. They retained their structure-determining share at 63.1% (2012: 65.9%; 2011: 66.0%).

Current accounts also grew by 78.9% to BGN 708,481 thousand (2012: BGN 396,066 thousand; 2011: BGN 316,016 thousand), as their relative share amounted to 36.9% of attracted funds from corporate, state-owned and public institutions (2012: 34.1%; 2011: 34.0%).



LOANS

Corporate banking

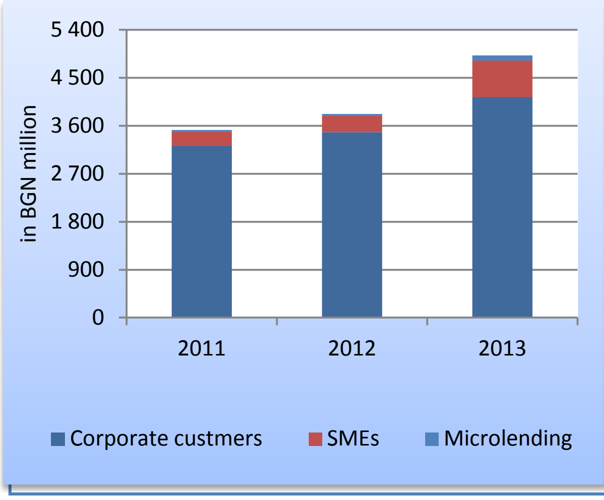
In 2013 the portfolio of loans to corporate clients grew by 28.7% and reached BGN 4,921,242 thousand (2012: BGN 3,824,997 thousand; 2011: BGN 3,519,229 thousand) resulting from an increase in all business segments and mainly from loans to large corporate customers. The Bank provides varied financing to its corporate customers including working capital loans, investment loans, guarantees, financing under the programs and funds of the EU, etc.

The Bank's market share in terms of this indicator increased to 10.99% of the loans to corporates in the banking system on an unconsolidated basis (2012: 9.89%; 2011: 9.66%), while Fibank's market position was third place (2012: second; 2011: third) amongst banks in the country.

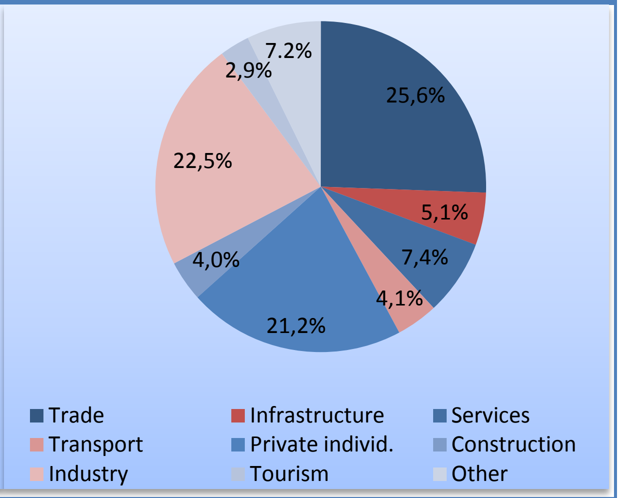
in BGN thousand/ % of total	2013	%	2012	%	2011	%
Corporate customers	4,141,595	84.2	3,478,134	90.9	3,224,455	91.6
Small and medium enterprises	686,239	13.9	316,788	8.3	268,162	7.6
Microlending	93,408	1.9	30,075	0.8	26,612	0.8
Total loans to corporates	**4,921,242**	**100**	**3,824,997**	**100**	**3,519,229**	**100**

Loans to large corporate customers grew by 19.1% to BGN 4,141,595 thousand (2012: BGN 3,478,134 thousand; 2011: BGN 3,224,455 thousand), retaining their structure-determining share in the portfolio of loans to corporates at 84.2% at year-end (2012: 90.9%; 2011: 91.6%). Loans to small and medium enterprises increased their share to 13.9% of company loans (2012: 8.3%; 2011: 7.6%), while microlending to 1.9% (2012: 0.8%; 2011: 0.8%), as a result of the consistent policy for risk diversification, as well as Unionbank EAD's corporate loan portfolio consolidation.

Corporate portfolio



Portfolio breakdown by sector



During the year the biggest growth was registered in loans in the sector of trade to BGN 1,600,033 thousand (2012: BGN 1,188,145 thousand; 2011: BGN 953,599 thousand) and in the industry sector to BGN 1,407,387 thousand (2012: BGN 1,179,216 thousand; 2011: BGN 1,130,651 thousand), supported mainly by the successful development in export-oriented companies. Loans to these sectors formed 25.6% and 22.5% of all loans respectively (2012: 25.2% and 25.0%; 2011: 22.1% and 26.2%).

A growth was registered in loans in the infrastructure sector which reached BGN 320,942 thousand at period-end (2012: BGN 150,482 thousand; 2011: BGN 161,993 thousand). Contributors to this were the infrastructural projects started during the year and increased public consumption. The loans to this sector increased in relative share to 5.1% of all loans (2012: 3.2%; 2011: 3.8%).

A growth was registered in other economic sectors as well in line with economic activity, including in agriculture to BGN 214,462 thousand (2012: BGN 85,537 thousand; 2011: BGN 85,503 thousand), in tourism to BGN 182,845 thousand (2012: BGN 148,290 thousand; 2011: BGN 121,215 thousand) and in construction to BGN 248,031 thousand (2012: BGN 185,347 thousand; 2011: BGN 183,957 thousand).

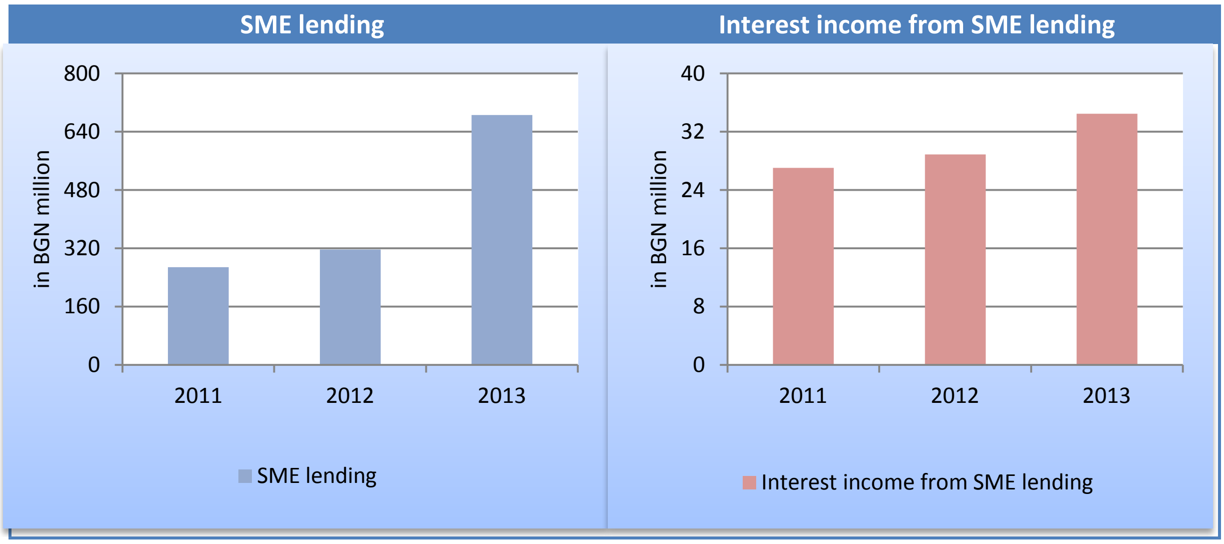
A decrease was registered mainly in loans in the services sector, which amounted to BGN 460,801 thousand at end-period (2012: BGN 462,063 thousand; 2011: BGN 442,324 thousand), reflecting the still slow recovery of private consumption and retained savings rate of individuals.

In 2013 Fibank started offering investment and working capital loans in BGN and in EUR to corporate clients under the JEREMIE initiative at lower interest rates and preferential terms for collateral and servicing fees, including a new working capital loan product Super J – Loan with a maximum amount of up to BGN 200 thousand and a term of 12 months.

Aiming at additional flexibility and alignment with business needs, new terms were added to the Super Loan product during the year, including a longer term for working capital loans (up to 5 years), a longer grace period (up to 36 months) and an opportunity for fixed interest rate during the first 3 years of the loan term. For customers of the Bank using conditional loans, a faster process for issuing bank guarantees and letters of credit was implemented, as well as preparations made aiming at the improved monitoring of corporate customers.

SME lending

In 2013 loans to SMEs by the Group grew by 116.6% and reached BGN 686,239 thousand at period-end, against BGN 316,788 thousand a year earlier (2011: BGN 268,162 thousand). The dynamics reflected the consolidation of the SME portfolio of Unionbank EAD.



At the beginning of the year the Bank started offering loans aiming at financing projects under the Operative program for the development of the Fisheries sector, with the support of the Executive Agency for Fisheries and Aquacultures and the National Guarantee Fund. The loans have a fixed interest rate for the whole period and preferential terms for collateral and servicing fees. To farm producers a new loan was started, based on SAPS subsidies with a simplified approval procedure for loans up to BGN 500 thousand.

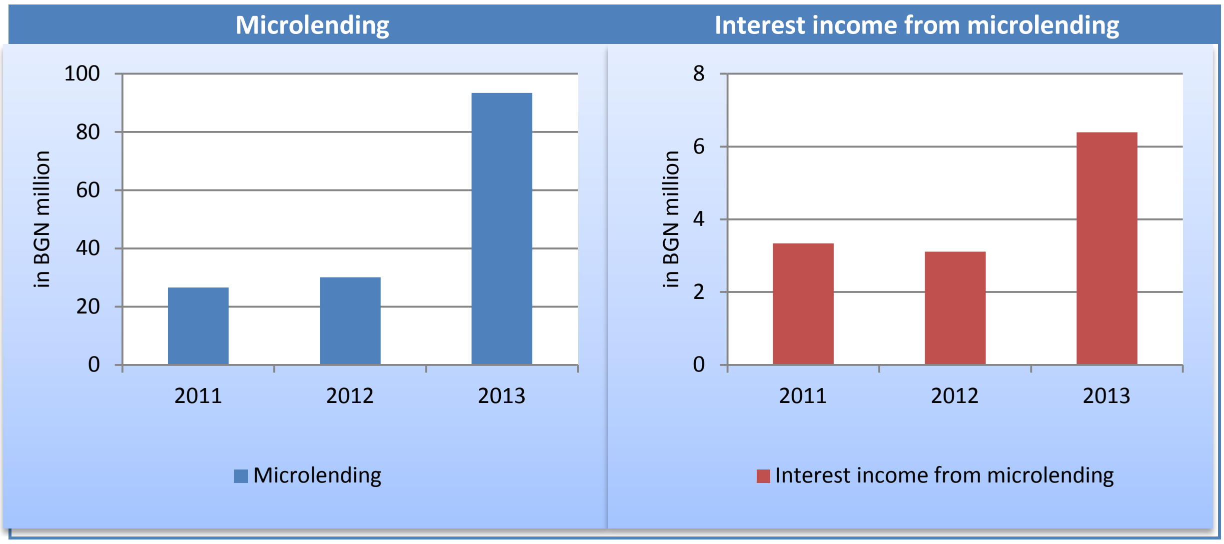
During the reporting period Fibank continued its successful cooperation with the National guarantee fund through new agreements aiming to guarantee loans to SMEs granted for financing projects under the Rural Development program. Under this scheme new investment loans were offered in BGN and in foreign currency with a term of up to 10 years and with no management or application fees and commissions.

In financing SMEs the Bank also has a joint cooperation with the Bulgarian Agency for Export Insurance and the Municipal Guarantee Fund of Sofia Municipality. Through its flexible financing Fibank also actively supports companies/beneficiaries under programs for the utilization of funds from the European structural and cohesion funds, including under the initiative "Joint European Resources for Micro, Small and Medium Enterprises", the JEREMIE initiative.

Microlending

First Investment Bank's program for microlending comprises financing to a wide spectrum of traders, producers, farmers and freelancers, including start-up companies and companies with less market experience.

In 2013 the portfolio of loans of the Group to micro enterprises grew and reached BGN 93,408 thousand at end-period (2012: BGN 30,075 thousand; 2011: BGN 26,612 thousand), including the effect registered from the consolidation of the loans to microcompanies of the subsidiary company Unionbank EAD.



During the reporting period the Bank continued to diversify its products offered, including for financing microcompanies under the programs and funds of the EU, while at the same time maintaining the heightened requirements in relation to credit risk and creditworthiness specific to this segment.

EUROPROGRAMS

During 2013 First Investment Bank actively developed and extended the opportunities for supporting customers in the utilization of funds from the European programs.

The successful cooperation with the European Investment Fund (EIF) continued during the year. In addition to the on-going agreement under the JEREMIE initiative, Fibank was approved for financing under the Risk Sharing Instrument guarantee scheme aimed at innovative small and medium enterprises. The new agreement gives First Investment Bank the opportunity to offer additional financing to innovative companies in Bulgaria at favourable conditions on the amount up to EUR 15 million during the next two years, throughout 50% guarantee coverage, provided by EIF.

During the period Fibank also signed two agreements with the National Guarantee Fund (NGF), aiming at guaranteeing loans to small and medium enterprises, granted for financing of projects under the Program for Rural Development. The guarantee schemes included an 80% financial guarantee from NGF and a guarantee portfolio of BGN 40 million and BGN 70 million.

The Bank continued to offer the service “Full Support”, which gives integrated customer assistance in the utilization of funds from European funds. Through it Fibank provides assistance in the preliminary research of the administrative and financial eligibility of the project idea, ensures expert assistance in the development and implementation of the project, and full servicing of the implementation phase following approval. During the year by means of the service “Full Support” Fibank supported its customers in the successful realization of projects financed by the operational program “Competitiveness of the Bulgarian Economy” and by the operational program “Human Resources Development” to an investment amount of BGN 30 million and receiving grants of nearly BGN 17 million.

Fibank offers a wide range of products and services related to the utilization of funds under EU operational programs and others, including investment loans for the overall implementation of projects, bridge financing to the amount of the approved financial assistance, issuance of bank guarantees to secure advance payments of approved grant amounts, and other banking products specifically tailored to cover customer needs.

PAYMENT SERVICES

First Investment Bank carries out its activity related to money transfers and other payment services in compliance with Bulgarian and European legislation, including the Law on Payment services and Payment Systems and Ordinance №3 of the BNB on the Conditions and Procedure for the Execution of Payment Transactions and for the Use of Payment Instruments. The Bulgarian regulatory frame in this sphere has been harmonized to that of the European Community in regards to Payment Services Directive and reflects contemporary European tendencies in the establishment of the single European market for payment services.

In 2013 Fibank was a member and participant in the payment systems and agent of other payment service providers, as follows:

- Bank Integrated System for Electronic Transactions (BISERA)
- Real-Time Gross Settlement System (RINGS)
- System for Servicing of Clients Transfers in Euro (BISERA7-EUR)
- Trans-European Automated Real-Time Gross Settlement Express Transfer system (TARGET2)
- Bank Organisation for Payments Initiated by Cards (BORICA)
- MoneyGram Agent
- Express-M Agent
- EasyPay Agent

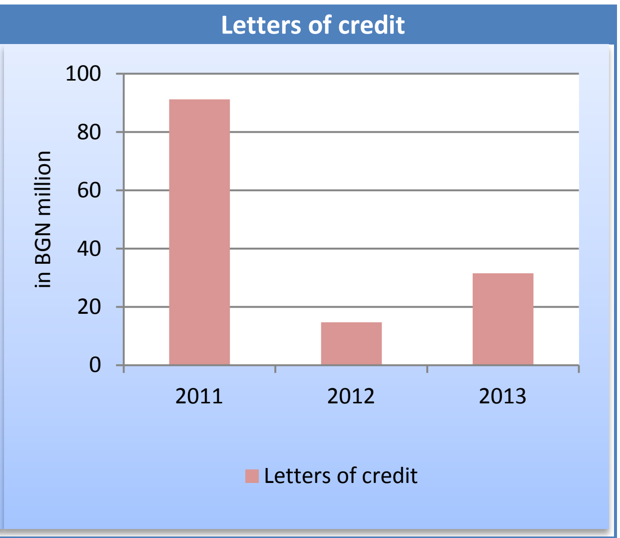
INTERNATIONAL PAYMENTS

First Investment Bank is among the leading banks in Bulgaria in the sphere of international payments and trade financing. Fibank is a popular, reliable and fair business partner which has built a good reputation during the years among international financial institutions and has gained valuable experience and know-how from its numerous international business partners, investors, customers and contractors.

In 2013 the Bank reported a better market share in international transfers in foreign currency (as per SWIFT data) with 6.75% of outgoing transfers (2012: 6.61%) and 9.43% of incoming transfers (2012: 8.62%). Contributors to the growth were the increased incoming and outgoing transfers in foreign currency in terms of number and amount, resulting from the growing customer base, competitive conditions offered by the Bank and the high quality of customer service.

During the period Fibank furthered its cooperation with Eximbank Taiwan, as the framework agreement for granting loans meant to effect shipments of goods from Taiwan was renewed for one more year. During 2009 First Investment Bank was the first Bulgarian bank to conclude a long-term banking partnership agreement with Eximbank China (The Export-Import Bank of China), while in 2011 a similar agreement was signed with Eximbank Taiwan.

As at end-2013 Fibank carried out 4.02% of outgoing (2012: 4.85%) and 5.24% of incoming (2012: 6.81%) trade finance operations as per SWIFT data.

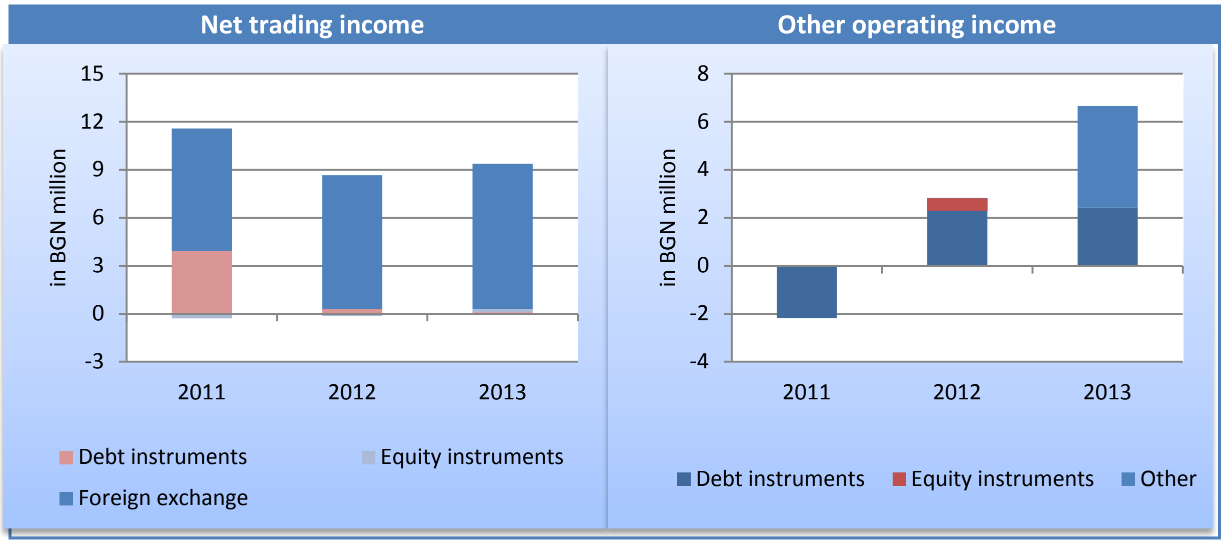


During the reporting period the letters of credit and bank guarantees in foreign currency issued by the Group to guarantee the performance of customers to third parties amounted to BGN 189,318 thousand (2012: BGN 213,045 thousand; 2011: BGN 293,881 thousand), forming 20.4% of total off-balance sheet commitments (2012: 27.4%; 2011: 35.3%). Fibank maintains a wide network of correspondent banks and services international bank guarantees and letters of credit in almost every part of the world.

CAPITAL MARKETS

In 2013 the Group's net trading income increased to BGN 9,381 thousand (2012: BGN 8,539 thousand; 2011: BGN 11,294 thousand), mainly as a result of higher gains from equity instruments. Other operating income amounted to BGN 6,662 thousand, against BGN 2,819 thousand the prior year (2011: BGN -2,139 thousand).

The portfolio of financial instruments as at the end of the year amounted BGN 618,721 thousand, compared to BGN 851,942 thousand a year earlier (2011: BGN 738,470 thousand), of which available for sale investments were BGN 423,640 thousand (2012: BGN 726,619 thousand; 2011: BGN 663,925 thousand), financial assets held for trading were BGN 16,423 thousand (2012: BGN 6,553 thousand; 2011: BGN 8,659 thousand) and financial assets held to maturity were BGN 178,658 thousand (2012: BGN 118,770 thousand; 2011: BGN 65,886 thousand).



During the year First Investment Bank continued to develop its investment services in accordance with the regulatory requirements and market environment.

During the period the Bank joined the project for inclusion the BNB Government Securities Registration and Settlement System (BNBGSSS) as an auxiliary system in the national system component of TARGET2-BNB, which was successfully finalized at the end of 2013. The inclusion will allow Bulgarian banks that are direct participants in BNBGSSS to effect cross-border transfers of government debt instruments issued in the domestic market, irrespective of their currency denomination. This will ensure better protection of customer assets of domestic and foreign investors in Bulgarian government debt instruments, and will facilitate their more successful integration into the European market infrastructures.

In its capacity as an investment intermediary and a primary dealer of government securities, First Investment Bank carries out transactions with financial instruments in the country and abroad including transactions of government securities, shares, corporate and municipal bonds, compensatory instruments as well as primary money market instruments. The Bank also offers trust portfolio management, investment consultation, as well as depositary and custodian services to private individuals and corporates, including maintaining registers of investment intermediaries, of accounts of securities, income payments and servicing payments under transactions in financial instruments. Fibank's activities are in compliance with MiFID regulations in accordance with the Markets in Financial Instruments Act and Ordinance №38 of the Financial Supervision Commission, which ensures a higher level of protection for non-professional customers. The Bank has a unit for the control of investment services and activities, which ensures the observing of the requirements regarding Fibank's activity as an investment intermediary.

Orders for the subscription/redemption of units in four mutual funds (FIB Garant Mutual Fund, FIB Classic Mutual Fund, FIB Avangard Mutual Fund and FFBH Vostok Mutual Fund, managed by the Management company FFBH Asset Management AD) can be accepted in Fibank's offices which are registered with the Financial Supervision Commission.

SUBSEQUENT EVENTS

For further information regarding subsequent events see note 38 "Subsequent events" of the Consolidated Financial Statements as at 31 December 2013 together with the Report of the Independent Auditor.

FULLFILMENT OF THE GOALS FOR 2013

N	Goals	Fullfilment
1	To strengthen its position among the leading banks in the country, enjoying the confidence of shareholders and customers, while maintaining an appropriate balance between risk, capital and return.	Fibank affirmed its market positions on an unconsolidated basis: in terms of assets (third place), deposits (third place), retail deposits (second place), loans (third place), loans to corporate (third place), profit (fourth place). The increase of attracted funds is a proof of confidence, while capital adequacy and liquidity indicators ensure adequate balance compared to risk taking.
2	To increase the shareholders' equity, aiming at the sustainable growth of assets and business operations.	The capital base of the Group grew by 16.6% and reached BGN 716,575 thousand at end-2013, as part of the ongoing policy of the Bank for capital development, with a focus on tier 1 capital. Tier 1 capital increased by 20.6% (BGN 112,808 thousand) during the year to BGN 661,741 thousand as a result of new EUR 40 million hybrid debt issuance and capitalization of profits. Shareholders' equity also grew to BGN 538,604 thousand, against BGN 510,732 thousand the prior year.
3	To continue to maintain adequate liquidity and capital adequacy in accordance with the market environment.	As at 31 December 2013 the capital indicators of First Investment Bank on a consolidated basis were above the regulatory requirements – total capital adequacy ratio was 14.26% (2012: 13.10%), while tier 1 capital ratio was 13.31% (2012: 11.39%). The Bank complies with the liquid assets maintainance in line with regulatory requirements and BNB recommendations. As at end-December 2013 the liquidity ratio was 22.63%.
4	To increase its loan portfolio in accordance with market conditions, while maintaining high standards of risk management and focusing on loans to small and medium enterprises.	In 2013 the gross loan portfolio of the Group grew by 32.9% (BGN 1,547,116 thousand) and reached BGN 6,256,584 thousand at period-end in accordance with financing needs and market conditions. Loans to SMEs increased their relative share to 11.0% of total loans.
5	To continue to finance competitive projects, with an emphasis on programs for the utilization of EU funds.	During the period the Bank actively supported projects, related to the utilization of EU funds, including under the JEREMIE initiative, the cooperation with the NGF under the Rural Development Program sector "Fisheries", and under the program for the energy renovation of Bulgarian houses. The Bank was approved for financing from the EIF under a Risk Sharing Instrument guarantee scheme, aimed at innovative SMEs.

6	To maintain its position in the deposit market as the preferred bank for savings from individuals and corporates.	At end-2013 Fibank's market shares amounted to: 10.28% of total customer deposits (2012: 10.52%) and 12.7% of retail deposits (2012: 13.7%) on an unconsolidated basis, as Fibank remained the second most preferable bank for savings of individuals and third in terms of attracted funds from companies and households. The Bank continued to optimize the cost on attracted funds in accordance with the market environment.
7	To preserve its leading position in the field of card payments offering innovative market solutions and products.	During the year new card products were offered – the debit card MasterCard Debit with innovative functionality for contactless payments and the opportunity for performing payments through the Internet. For maximum satisfaction of cardholders' needs, a new EMV compliant international revolving credit card Visa Classic in British pounds was offered. The number of cards issued grew, as did the network of ATM and POS terminals.
8	To remain among the leading credit institutions in Bulgaria in the area of international transactions and documentary payments, as a demanded, reliable and fair partner.	In 2013 the Bank reported better market shares on an unconsolidated basis in international payments in foreign currency (as per SWIFT data) – 6.75% of the outgoing (2012: 6.61%) and 9.43% of the incoming (2012: 8.62%). During the period the Bank renewed its framework agreement with Eximbank Taiwan for granting loans for goods deliveries from Taiwan for one consecutive year.
9	To further develop electronic banking in accordance with the necessities and the needs of the customers.	During the year a new mobile application of Fibank was developed providing information for account balances, card payments, currency exchange. An online mail (chat) was integrated for servicing customers of e-banking.
10	To maintain its strategic focus on high standards of customer service.	A measure of the high quality of customer services was the growth in number of customers and the deposit base, as well as the awards received during the year, including: "Bank of the Customer" for the sixth time in its history and the "Secret Customer" award.

GOALS FOR DEVELOPMENT DURING 2014

- To strengthen its position among the leading banks in the country as a stable and competitive credit institution.
- To maintain its successful development and stable financial position, registering sustainable growth of assets and business operations.
- To successfully finalize the integration of the newly acquired Unionbank EAD.
- To continue to maintain adequate liquidity and capital adequacy in accordance with the market environment and the regulatory framework.
- To increase its loan portfolio in accordance with the market conditions, focusing on loans to small and medium enterprises.
- To continue to support innovative projects financed under the programs and funds of the European Union.
- To expand its range of products and offer more competitive services to individuals and companies, while maintaining its strategic focus on high standards of customer service.
- To remain among the leading banks in the Bulgarian market in the main business lines, such as payment transactions, including card payments, attracting funds, international operations and trade financing.
- To maintain its profile as an initiator of new products for the local market and carrying out innovative technologies, while applying conservative risk taking and risk management.
- To maintain high banking standards in compliance with EU regulations, local legislation and the best international practices.

OTHER INFORMATION

MEMBERS OF THE SUPERVISORY BOARD

Evgeni Lukanov - Chairman of the Supervisory Board

Mr. Lukanov joined First Investment Bank AD in 1998 as Deputy Director, and later as Director and General Manager of the Tirana Branch, Albania. From 2001 to 2003 he was Director of the Bank's Vitosha Branch (Sofia).

Mr. Lukanov has occupied a number of senior positions with Fibank (First Investment Bank AD).

From 2003 to 2007 he was Director of the Risk Management Department and Member of the Managing Board.

From 2004 to 2012 - Executive Director and Member of the Managing Board of First Investment Bank AD.

During his 16-year experience with the Bank, Mr. Lukanov has been Chairman of the Credit Council and the Liquidity Council of the Bank. He has been in charge of the following departments: Risk Management, Impaired Assets and Provisioning, Loan Administration, Specialized Monitoring and Control, Retail Banking, Methodology, and Liquidity.

Mr. Lukanov has also been member of the Managing Board of First Investment Bank – Albania Sh.a.

At the beginning of February 2012, Mr. Lukanov was elected as Chairman of the Supervisory Board of First Investment Bank AD and as Chairman of the Risk Committee to the Supervisory Board of the Bank.

Mr. Lukanov holds a Masters Degree in Economics from the University of National and World Economy, Sofia. Prior to joining Fibank, Mr. Evgeni Lukanov has worked as currency broker with First Financial Brokerage House OOD.

Besides his position on the Supervisory Board of the Bank, Mr. Lukanov is also Chairman of the Audit Committee of First Investment Bank - Albania Sh.a, Chairman of the Board of Directors of Fi Health Insurance AD, and Manager of Debita OOD and Realtor OOD. He is owner of ET Imeksa-Evgeni Lukanov and holds more than 10% of the capital of Avea OOD.

Maya Georgieva - Deputy Chair of the Supervisory Board

Prior to joining Fibank (First Investment Bank), Ms. Maya Georgieva worked with the Bulgarian National Bank for 19 years where she gained considerable experience in international banking relationships and payments, banking statistics and firm crediting. Her last appointment with BNB was as Head of the Balance of Payments Division.

Ms. Maya Georgieva joined Fibank in 1995 as Director of the International Department. From 1998 to 2012 she served as Executive Director of First Investment Bank and Member of the Managing Board. During her 19-year experience with the Bank she was responsible for the following departments: SME Lending Department, HR Department, Administrative Department, Sales Department, Retail Banking, Marketing, Advertising and PR, Branch Network, Private Banking and the Vault.

Alongside her responsibilities at the Bank, Ms. Georgieva has also occupied a number of other senior executive positions. From 2003 to 2011 she chaired the Supervisory Board of CASYS International - a Macedonia-based card processing company servicing card payments in Bulgaria, Macedonia and Albania. From 2009 to 2011 she was Chair of the Board of Directors of Diners Club Bulgaria AD – a franchise company of Diners Club International, owned by First Investment Bank. In this capacity she inspired the launch of a number of products, including the first female-oriented credit card.

From 2006 to 2011 she was also member of the Managing Board of First Investment Bank - Albania Sh.a., a subsidiary of First Investment Bank.

In the beginning of February 2012, Ms. Georgieva was elected as Deputy Chair of the Supervisory Board of Fibank and Chair of the Presiding Committee to the Supervisory Board of Fibank.

Ms. Georgieva holds a Masters Degree in Macroeconomics from the University of National and World Economy in Sofia and has post-graduate specializations in International Payments with the International Monetary Fund and Banking from a specialized postgraduate course of BNB jointly with the Bulgarian Union of Science and Technology.

In both 2001 and 2011, she was granted the "Banker of the Year" award of the Bulgarian financial weekly "Banker".

Georgi Mutafchiev, Ph.D. - Member of the Supervisory Board

Mr. Mutafchiev began his career in 1985 as an expert, and later as a senior expert on development of the system for management and coordination of enterprises of the Electronic Industry Association.

In 1987 he joined Techno-Import-Export Foreign Trade Company as a senior expert with the Department of Coordination and Development under the Executive Director.

In 1991 Mr. George Mutafchiev started work at the Bulgarian National Bank as Head Reserve Manager with the Foreign Currency Operations Department. During his six-year experience with the National Bank, he was responsible for the investment of foreign currency reserves and controlled their management.

From 1997 to 2011 he was Executive Director of Flavia AD and Flavin AD. Flavia AD is one of the largest light industry companies in Bulgaria.

Along with its responsibilities in Flavia, as of the year 2000 Mr. Mutafchiev was elected as member of the Supervisory Board of First Investment Bank.

Mr. Mutafchiev graduated in law at the Sofia University St. Kliment Ohridski in 1982. From 1982 to 1984 he studied at the Sorbonne in Paris, where he received a PhD degree in Business Law. The same year Mr. Mutafchiev also acquired an MBA degree from Schiller University, Paris.

He is a member of the Board of Directors of Flavia AD and owns more than 25% of the company capital.

Radka Mineva - Member of the Supervisory Board

Prior to joining Fibank (First Investment Bank AD), Ms. Mineva worked as a capital markets dealer at the Bulgarian National Bank where she gained considerable experience in banking. During the time spent with the Central bank, she specialized at the Frankfurt Stock Exchange and the London Stock Exchange as a capital markets dealer.

Ms. Mineva started her career with the foreign trade enterprise Main Engineering Office, where she worked for 9 years; she also spent three years as an expert at RVM Trading Company.

Since 2000, Ms. Mineva has been a Member of the Supervisory Board of First Investment Bank AD.

She is a graduate of the University of National and World Economy in Sofia, with a degree in Trade and Tourism.

Besides her position on the Supervisory Board of the Bank, Ms. Mineva is Manager of Balkan Holidays Services OOD - a company with activities in the sphere of tourism, transportation, hotel business, tour operation, and tour agency services. Ms. Mineva is also Manager of Balkan Holidays Partners OOD – a company engaged in international and domestic tourism services, foreign economic transactions, and financial management. She owns more than 25% of the capital of Balkan Holidays Partners OOD.

Jordan Skortchev - Member of the Supervisory Board

Before joining Fibank (First Investment Bank), Mr. Jordan Skortchev worked for two years with the Central and Latin America Department of the foreign trade organization Intercommerce, followed by five years with First Private Bank, Sofia as an FX Dealer and Head of the Dealing Division.

Mr. Skortchev joined First Investment Bank in 1996 as Chief Dealer, FX Markets.

From 2000 to 2012 Mr. Skortchev was Member of the Managing Board and Executive Director of the Bank.

During his 18-year experience with the Bank, Mr. Skortchev has been responsible for the following departments: Card Payments, Operations, Gold and Numismatics, Internet Banking, Dealing, Security and Office Network-Sofia.

Alongside his responsibilities at the Bank, Mr. Skortchev has also occupied other senior executive positions.

Mr. Skortchev has been Chairman of the Supervisory Board of UNIBank, Republic of Macedonia, member of the Supervisory Board of CaSys International, Republic of Macedonia, member of the Board of Directors of Diners Club Bulgaria AD, member of the Board of Directors of Bankservice AD, member of the Board of Directors of Medical center FiHealth AD, and Manager of FiHealth OOD.

In the begining of February 2012, as a Member of the Supervisory Board of the Fibank, Mr. Skortchev was elected as Chairman of the Remuneration Committee to the Supervisory Board of the Bank.

Mr. Skortchev holds a Masters Degree in International Economic Relations from the Higher Institute of Economics (now the University of National and World Economy) in Sofia. He has specialized in banking in Luxembourg, in swap deals at Euromoney, and in futures and options at the Chicago Stock Exchange.

Mr. Skortchev holds more than 10% of the capital of Delta Stock AD.

MEMBERS OF THE MANAGING BOARD

Dimitar Kostov – Chairman of the Managing Board and Executive Director

Mr. Dimitar Kostov joined Fibank's team in 2003 as a specialist in the "Risk Management" Department. Later he held a position as a head of "Evaluation of risk exposures" Division. From 2004 to 2007 he was a deputy director of "Risk Management" Department, and from 2007 to 2011 he was a director of "Risk Management" Department. In 2010, Mr. Kostov was elected as a member of the Managing Board of Fibank, and in the beginning of 2011 he was appointed as a Deputy Executive Director. Since the end of 2011 Mr. Kostov has been an Executive Director of the Bank and since the beginning of 2012 has been Chairman of the Managing Board of the Bank.

Previously, Mr. Kostov had worked as a manager "Customer relations" at Raiffeisenbank (Bulgaria) EAD and in United Bulgarian Bank AD as a senior bank officer "Large Corporate Clients". He holds a Master's degree in Business Administration from the Sofia University "St. Kliment Ohridski". Mr.Kostov is a CFA charterholder.

In the Bank he is responsible for the Risk Management Department, the Loan Administration Department, the Impaired Assets and Provisioning Department, the Specialized Monitoring and Control Department, the Methodology Department, the Legal Department and the Administration Department.

Besides his position in the Bank, Mr. Kostov is also a Chairman of the Supervisory Board of UNIBank, Republic of Macedonia.

Vassil Christov - Member of the Managing Board and Executive Director

Mr. Vassil Christov joined Fibank in 2001 as a head of the "Mortgage loans" Division. From 2002 he was a director of the "Retail banking" Department, and from 2005 to 2010 he was a director of "Branch network Department". In 2010 Mr.Christov was elected as a member of the Managing Board of Fibank, and in beginning of 2011 was appointed as a Deputy Executive Director. Since the end of 2011 Mr. Christov has been an Executive Director of the Bank.

Previously, Mr. Christov had worked as a senior credit officer of "Large corporate customers" at United Bulgarian Bank AD. He holds a Master's in accounting and control from the University of National and World Economy in Sofia.

In the Bank he is responsible for the Retail Banking Department, the Branch Network Department, the Marketing, Advertising and PR Department, the Private Banking Department, the Organization and Control of Customer Service Department and the Vault.

Besides his position in the Bank, Mr. Christov is also a Chairman of the Managing Board (Steering Council) of the First Investment Bank – Albania Sh.a. and a member of the Board of Directors of Diners Club Bulgaria AD. Mr. Christov is a member of the Board of Directors of Medical centers FiHealth AD and Medical centers FiHealth Plovdiv AD.

In 2012 Mr. Christov was granted the prestige "Banker of the Year" award of the Bulgarian financial weekly "Banker".

Svetoslav Moldovansky - Member of the Managing Board and Executive Director

Mr. Svetoslav Moldovansky joined Fibank in 2005 as a director of "Specialised internal control service". From 2007 to 2008 he was a Chief Executive Officer of "First Investment Bank – Albania Sh.a". From 2008 to 2010 he held a position as a director of "Operations" Department. In 2010 he was elected as a member of the Managing Board of Fibank, and at the beginning of 2011 he was appointed as a Deputy Executive Director. Since the end of 2011 Mr. Moldovansky has been an Executive Director of the Bank.

Previously, Mr. Moldovansky had worked as a manager "Management of the corporate risk" at KPMG Bulgaria OOD and as a senior auditor at Deloitte&Touche (now Deloitte), Bulgaria. He holds a Master's in Finance from the University of National and World Economy in Sofia. Mr. Moldovansky is certified auditor from the Information Systems Audit and Control Association (ISACA), USA.

In the Bank he is responsible for the Operations Department, the Card Payments Department, the E-banking Department, the Gold and Commemorative Coins Department, Human Capital Management Department and the Security Department.

Besides his position in the Bank, Mr. Moldovansky is also a member of the Audit Committee of First Investment Bank – Albania Sh.a., a member of the Supervisory Board of UNIBank, Republic of Macedonia, a member of the Supervisory Board of Casys International, Republic of Macedonia, a member of the Board of Directors of Diners Club Bulgaria AD, a chairman of the Board of Directors of Balkan Financial Services EAD. Mr. Moldovansky possesses more than 10% of Next DC OOD, of the capital of Club 12 OOD and of the capital of Cook and More OOD.

Maya Oyfalosh - Member of the Managing Board and Executive Director

Mrs. Maya Oyfalosh joined the Bank in 1993 as a credit specialist. Later she was promoted to a Director of "Analysis of Corporate Loans" and elected as a member of the Credit Council of the Bank. In 2004, Mrs. Oyfalosh was appointed Director of Corporate Banking Department and elected as a member of the Managing Board. In the beginning of 2011 she was appointed as a Director of the "Management of Loan Portfolios of Foreign Branches and Companies" Department and is a member of the Managing Board of Fibank. Since April 2013 Mrs. Oyfalosh has been an Executive Director of the Bank and is a member of the Managing Board.

Previously, Mrs. Oyfalosh had worked as a department director at First West Finance House and as a credit specialist at First Private Bank.

In the Bank she is responsible for the Corporate Banking Department, the Management of Loan Portfolios of Foreign Branches and Companies Department, the SME Lending Department, the Treasury Department and the Sales Department.

Mrs. Oyfalosh does not hold outside professional positions.

The present Annual report (on a consolidated basis) for 2013 was approved by the Managing Board of First Investment Bank AD in accordance with the Bank's internal regulations at a meeting dated 25 March 2014.

Dimitar Kostov	Vassil Christov
Executive Director	*Executive Director*
(signed)	(signed)
Maya Oyfalosh	Ianko Karakolev
Executive Director	*Director Finance and Accounting Department*
(signed)	(signed)

On item 2 of the Agenda
for the Regular Annual General Meeting of Shareholders
of First Investment Bank AD

Auditor’s Reports

INDEPENDENT AUDITOR'S REPORT

To the shareholders of First Investment Bank AD

Report on the unconsolidated financial statements

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

Management's Responsibility for the unconsolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Report on other legal and supervisory requirements

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

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

Dobrina Kaloyanova
Manager

Margarita Goleva
Registered auditor

KPMG Bulgaria OOD

Sofia, 10 February 2014

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Sofia 1404
Bulgaria

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Telefax +359 (2) 9805 340
E-mail bg-office@kpmg.com
Internet www.kpmg.bg

INDEPENDENT AUDITORS' REPORT

To the shareholders of
First Investment Bank AD

Report on the Consolidated Financial Statements

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

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

Dobrina Kaloyanova
Authorized representative

Margarita Goleva
Registered auditor

KPMG Bulgaria OOD

Sofia, 26 March 2014

On item 3 of the Agenda
for the Regular Annual General Meeting of Shareholders
of First Investment Bank AD

Annual financial statements of FIBank for 2013

FIRST INVESTMENT BANK AD

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

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

in BGN '000

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

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

Dimitar Kostov
Executive Director
Chairman of the Managing Board

Svetoslav Moldovansky
Executive Director

Vassil Christov
Executive Director

Yanko Karakolev
Director, Finance and Accounting

Dobrina Kaloyanova
Manager
KPMG Bulgaria OOD

Margarita Goleva
Registered auditor

Unconsolidated statement of the financial position as at 31 December 2013

in BGN '000

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

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

Dimitar Kostov
Executive Director
Chairman of the Managing Board

Svetoslav Moldovansky
Executive Director

Vassil Christov
Executive Director

Yanko Karakolev
Director, Finance and Accounting

Dobrina Kaloyanova
Manager
KPMG Bulgaria OOD

Margarita Goleva
Registered auditor

Fibank

Първа инвестиционна банка

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

in BGN '000

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

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

Dimitar Kostov
Executive Director
Chairman of the Managing Board

Svetoslav Moldovansky
Executive Director

Vassil Christov
Executive Director

Yanko Karakolev
Director, Finance and Accounting

Dobrina Kaloyanova
Manager
KPMG Bulgaria OOD

Margarita Goleva
Registered auditor

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

in BGN '000

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

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

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

Dimitar Kostov
Executive Director
Chairman of the Managing Board

Svetoslav Moldovansky
Executive Director

Vassil Christov
Executive Director

Yanko Karakolev
Director, Finance and Accounting

Dobrina Kaloyanova
Manager
KPMG Bulgaria OOD

Margarita Goleva
Registered auditor

1. Basis of preparation

(a) Statute

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

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

The Bank has foreign operations in Cyprus.

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

(b) Statement of compliance

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

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

(c) Presentation

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

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

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

(d) Change in accounting policy

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

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

(i) Offsetting of financial assets and financial liabilities

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

Notes to the financial statements

1. Basis of preparation, continued

(d) Change in accounting policy, continued

(ii) Fair value measurement principles

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

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

(iii) Presentation of Items of Other Comprehensive Income

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

(iv) Defined benefit plans

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

2. Основни елементи на счетоводната политика

(a) Income recognition

(i) Interest Income

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

(ii) Fee and Commission

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

(iii) Net trading income

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

Notes to the financial statements

2. Significant accounting policies, continued

(a) Income recognition, continued

(iv) Dividend income

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

(b) Basis of consolidation of subsidiaries

Investments in subsidiaries are stated at cost.

(c) Foreign currency transactions

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

(iii) Foreign operations

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

(d) Financial assets

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

Notes to the financial statements

2. Significant accounting policies, continued

(d) Financial assets, continued

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

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

(ii) Loans and receivables

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

(iii) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. Were the Bank to sell or re-classify other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available for sale.

(iv) Available-for-sale

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

(v) Recognition

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

(vi) Measurement

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

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

(vii) Fair value measurement principles

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

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

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

2. Significant accounting policies, continued

(d) Financial assets, continued

(vii) Fair value measurement principles, continued

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

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

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

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

(viii) Derecognition

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

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

The Bank enters into transactions whereby it transfers financial assets recognised in its statement of financial position, but retains either all or substantially all risks and rewards of the transferred asset. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised in the statement of financial position (an example of such transactions are repo deals).

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

Notes to the financial statements

2. Significant accounting policies, continued

(e) Cash and cash equivalents

Cash and cash equivalents comprise cash balances on hand, cash deposited with the central bank and short-term highly liquid accounts and advances to banks with maturity of up to three months.

(f) Investments

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

(g) Securities borrowing and lending business and repurchase transactions

(i) Securities borrowing and lending

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

(ii) Repurchase agreements

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

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

(h) Borrowings

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

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

(i) Offsetting

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

(j) Impairment of Assets

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

Notes to the financial statements

2. Significant accounting policies, continued

(i) Loans and advances

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

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

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

(j) Impairment, continued

(ii) Available for sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in profit or loss. The amount of the cumulative loss that is removed from equity and recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

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

(k) Property and equipment

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

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

Assets	**%**
• Buildings	3 - 4
• Equipment	10 - 50
• Fixtures and fittings	10 - 15
• Motor vehicles	20
• Leasehold Improvements	2 - 50

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

(l) Intangible assets

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

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

Assets	**%**
• Licences	10 - 15
• Computer software	8 - 50

(m) Provisions

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

(n) Acceptances

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

(o) Taxation

Tax on the profit for the year comprises current tax and the change in deferred tax. Current tax comprises tax payable calculated on the basis of the expected taxable income for the year, using the tax rates enacted by the statement of financial position date, and any adjustment of tax payable for previous years.

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

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

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

2. Significant accounting policies, continued

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

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

(i) Impairment losses on loans and advances

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

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

(ii) Income taxes

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

(q) Employee benefits

Defined contribution plans

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

Defined benefit plans

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

Notes to the financial statements

2. Significant accounting policies, continued

(q) Employee benefits, continued

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

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

Termination benefits

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

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

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

(r) New standards and interpretations not yet effective

A number of new standards, amendments to standards and interpretations endorsed by the European Commission may be applied early for the annual period ending on 31 December 2013, although they are not mandatory. These changes have not been applied early in preparing these financial statements. The Bank does not plan to adopt these standards early.

Standards, Interpretations and amendments to published Standards that are not yet effective and have not been early adopted – endorsed by the European Commission

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

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

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

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

Notes to the financial statements

2. Significant accounting policies, continued

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

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

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

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

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

3. Risk management disclosures

A. Trading activities

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

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

Notes to the financial statements

(i) Credit risk

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

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

(ii) Market risk

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

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

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

3. Risk management disclosures, continued

A. Trading activities, continued

(ii) Market risk, continued

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

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

B. Non-trading activities

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

(i) Liquidity risk

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

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

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

Notes to the financial statements

3. Risk management disclosures, continued

B. Non-trading activities, continued

(i) Liquidity risk, continued

Maturity table as at 31 December 2013

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

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

Notes to the financial statements

3. Risk management disclosures, continued

B. Non-trading activities, continued

(i) Liquidity risk, continued

Maturity table as at 31 December 2012

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

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

3. Risk management disclosures, continued

B. Non-trading activities, continued

(i) Liquidity risk, continued

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

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

(ii) Market risk

Interest rate risk

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

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

Notes to the financial statements

3. Risk management disclosures, continued

B. Non-trading activities, continued

(ii) Market risk, continued

Interest rate risk, continued

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

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

3. Risk management disclosures, continued

B. Non-trading activities, continued

(ii) Market risk, continued

Interest rate risk, continued

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

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

3. Risk management disclosures, continued

B. Non-trading activities, continued

(ii) Market risk, continued

Currency risk

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

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

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

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

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

(iii) Credit risk

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

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

3. Risk management disclosures, continued

B. Non-trading activities, continued

(iii) Credit risk, continued

31 December 2013 *in BGN '000*

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

31 December 2012 *in BGN '000*

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

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

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

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

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

3. Risk management disclosures, continued

B. Non-trading activities, continued

(iii) Credit risk, continued

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

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

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

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

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

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

3. Risk management disclosures, continued

B. Non-trading activities, continued

(iii) Credit risk, continued

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

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

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

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

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

Residential mortgage lending

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

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

Notes to the financial statements

3. Risk management disclosures, continued

B. Non-trading activities, continued

(iii) Credit risk, continued

Loans to corporate customers

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

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

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

(iv) Government debt exposures

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

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

3. Risk management disclosures, continued

B. Non-trading activities, continued

(iv) Government debt exposures, continued

in BGN '000

31 December 2013

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

in BGN '000

31 December 2012

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

Notes to the financial statements

3. Risk management disclosures, continued

B. Non-trading activities, continued

(iv) Government debt exposures, continued

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

in BGN '000

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

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

in BGN '000

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

Notes to the financial statements

3. Risk management disclosures, continued

C. Solvency ratio (Capital adequacy)

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

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

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

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

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

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

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

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

3. Risk management disclosures, continued
C. Capital adequacy, continued

Capital adequacy level was as follows:

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

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

Notes to the financial statements

4. Segment Reporting

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

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

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

The Bank operates principally in Bulgaria, but also has operations in Cyprus.

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

in BGN '000	**Bulgarian operations**		**Foreign operations**		**Total**	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
Interest income	411,083	424,242	35,368	30,737	446,451	454,979
Interest expense and similar charges:	(283,642)	(306,642)	(475)	(858)	(284,117)	(307,500)
Net interest income	**127,441**	**117,600**	**34,893**	**29,879**	**162,334**	**147,479**
Fee and commission income	95,150	80,701	870	889	96,020	81,590
Fee and commission expense	(10,578)	(9,380)	(5)	(8)	(10,583)	(9,388)
Net fee and commission income	**84,572**	**71,321**	**865**	**881**	**85,437**	**72,202**
Net trading income	**8,522**	**8,138**	**10**	**60**	**8,532**	**8,198**
Administrative expenses	**(144,523)**	**(151,598)**	**(912)**	**(854)**	**(145,435)**	**(152,452)**
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
Assets	**6,935,791**	**6,416,281**	**510,152**	**491,056**	**7,445,943**	**6,907,337**
Liabilities	**6,881,449**	**6,365,278**	**25,890**	**31,327**	**6,907,339**	**6,396,605**

4. Segment Reporting, continued

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

in BGN '000

Business	Assets	Liabilities	Interest income	Interest expense and similar charges:	Net fee and commission income	Net trading income	Other net operating income
Commercial banking	4,026,275	1,413,509	330,807	(40,551)	53,251	-	-
Retail Banking	845,621	4,984,034	103,800	(205,111)	12,871	-	-
Card business	-	-	-	-	17,662	-	-
Treasury	1,866,861	56,163	11,844	(544)	1,042	8,532	2,329
Other	707,186	453,633	-	(37,911)	611	-	-
Total	**7,445,943**	**6,907,339**	**446,451**	**(284,117)**	**85,437**	**8,532**	**2,329**

5. Financial assets and liabilities
Accounting classification and fair values

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

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

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

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

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

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

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

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

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

However, where the Bank measures portfolios of financial assets and financial liabilities on the basis of net exposures, it applies judgement in determining appropriate portfolio level adjustments such as bid-ask spread.

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

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

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

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

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

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

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

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

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

in BGN '000 **31 December 2013**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets held for trading	6,466	-	-	6,466
Available for sale investments	336,874	19,220	88,520	444,614
Derivatives held for risk management	3,702	(684)	-	3,018
Total	**347,042**	**18,536**	**88,520**	**454,098**

in BGN '000 **31 December 2012**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets held for trading	5,998	-	-	5,998
Available for sale investments	679,475	26,480	41,580	747,535
Derivatives held for risk management	1,088	(1,309)	-	(221)
Total	**686,561**	**25,171**	**41,580**	**753,312**

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

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

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

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

in BGN '000

31 December 2013	Level 1	Level 2	Level 3	Total fair values	Total balance sheet value
Assets					
Cash and balances with Central Banks	-	1,062,709	-	1,062,709	1,062,709
Financial assets held to maturity	122,963	17,694	-	140,657	141,222
Loans and advances to banks and other financial institutions	-	291,459	-	291,459	291,459
Loans and advances to	-	841,386	4,035,019	4,876,405	4,871,896
Total	**122,963**	**2,213,248**	**4,035,019**	**6,371,230**	**6,367,286**
Liabilities					
Due to banks	-	16,728	-	16,728	16,728
Due to other customers	-	1,064,559	5,331,269	6,395,828	6,397,543
Liabilities evidenced by paper	-	147,745	-	147,745	147,745
Subordinated term debt	-	24,655	-	24,655	24,655
Perpetual debt	-	103,068	-	103,068	103,068
Hybrid debt	-	200,230	-	200,230	205,251
Total	**-**	**1,556,985**	**5,331,269**	**6,888,254**	**6,894,990**

in BGN '000

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

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

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

6. Net interest income

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

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

7. Net fee and commission income

in BGN '000

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

8. Net trading income

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

9. Other net operating income

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

10. Administrative expenses

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

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

11. Allowance for impairment

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

12. Income tax expense

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

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

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

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

13. Cash and balances with Central Banks

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

14. Financial assets held for trading

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

15. Available for sale investments

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

15. Available for sale investments, continued

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

in BGN '000

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

16. Financial assets held to maturity

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

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

17. Loans and advances to banks and other financial institutions

(a) Analysis by type

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

(b) Geographical analysis

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

18. Loans and advances to customers

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

(a) Movement in impairment allowances

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

19. Property and equipment

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

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

Notes to the financial statements

19. Property and equipment, continued

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

20. Non-tangible assets

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

21. Deferred Taxation

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

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

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

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

in BGN '000

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

22. Other assets

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

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

23. Due to banks

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

24. Due to other customers

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

25. Liabilities evidenced by paper

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

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

26. Subordinated term debt

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

in BGN '000

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

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

27. Perpetual debt

in BGN '000

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

in BGN '000

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

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

28. Hybrid debt

in BGN '000

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

in BGN '000

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

In March 2011 the Bank issued a hybrid instrument (bond issue) and, after obtaining permission from the Bulgarian National Bank, included it as Tier 1 capital pursuant to Art. 3a of Ordinance 8 on Capital Adequacy of Credit Institutions. The Bank placed the bond issue under private subscription with a total nominal and issue value of EUR 20,000 thousand, constituting the first tranche of a bond issue for up to EUR 40,000 thousand. The bonds are registered, dematerialized, interest-bearing, perpetual, unsecured, freely transferable, non-convertible, deeply subordinated and without incentive to redeem. In June 2012 the Bank issued the second tranche of the instrument, also amounting to EUR 20,000 thousand and following permission from the Bulgarian National Bank included in its Tier 1 capital.

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

29. Other liabilities

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

30. Repurchase and resale agreements

The Bank raises funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate. Repurchase agreements are commonly used as a tool for short-term financing of interest-bearing assets, depending on the prevailing interest rates.

At 31 December 2013 assets sold under repurchase agreements were as follows:

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

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

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

The Bank also purchases financial instrument under agreements to resell them at future dates ("reverse repurchase agreements"). The seller commits to repurchase the same or similar instruments at an agreed future date. Reverse repurchases are entered into as a facility to provide funds of customers. At 31 December 2013 assets purchased subject to agreements to resell them are as follows:

in BGN '000	**Fair value of underlying assets**	**Carrying amount of liabilities**
Bulgarian government securities	13,850	13,658
Total	**13,850**	**13,658**

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

31. Capital and reserves

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

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

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

(b) Shareholders

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

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

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

(c) Statutory reserve

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

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

Notes to the financial statements

32. Commitments and contingent liabilities

(a) Contingent liabilities

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

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

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

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

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

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

33. Cash and cash equivalents

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

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

34. Average balances

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

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

35. Related party transactions

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

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

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

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

36. Subsidiaries

(a) First Investment Finance B.V.

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

Notes to the financial statements

36. Subsidiaries, continued

(b) Diners Club Bulgaria AD

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

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

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

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

(d) Debita OOD and Realtor OOD

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

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

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

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

(e) Fi Health Insurance AD

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

(f) Framas Enterprises Limited

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

36. Subsidiaries, continued

(g) Balkan Financial Services EAD

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

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

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

(i) Unionbank EAD

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

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

37. Post balance sheet events

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

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

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

FIRST INVESTMENT BANK AD

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

Fibank
First Investment Bank

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

In thousands of BGN

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

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

Dimitar Kostov
Executive Director
Chairman of the Managing Board

Vassil Christov
Executive Director

Maya Oyfalosh
Executive Director

Ianko Karakolev
Director of Finance and Accounting Division

Dobrina Kaloyanova
Authorized representative
KPMG Bulgaria OOD

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 2013

In thousands of BGN

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

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

Dimitar Kostov
Executive Director
Chairman of the Managing Board

Vassil Christov
Executive Director

Maya Oyfalosh
Executive Director

Ianko Karakolev
Director of Finance and Accounting Division

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

Dobrina Kaloyanova
Authorized representative
KPMG Bulgaria OOD

Margarita Goleva
Registered auditor

Fibank
First Investment Bank

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

In thousands of BGN

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

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

Dimitar Kostov
Executive Director
Chairman of the Managing Board

Vassil Christov
Executive Director

Maya Oyfalosh
Executive Director

Ianko Karakolev
Director of Finance and Accounting Division

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Authorized representative
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СПЕЦИАЛИЗИРАНО ОДИТОРСКО ПРЕДПРИЯТИЕ
София
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Margarita Goleva
Registered auditor

Fibank
First Investment Bank

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

In thousands of BGN

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

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

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

Dimitar Kostov
Executive Director
Chairman of the Managing Board

Vassil Christov
Executive Director

Maya Oyfalosh
Executive Director

Ianko Karakolev
Director of Finance and Accounting Division

Dobrina Kaloyanova
Authorized representative
KPMG Bulgaria OOD

Margarita Goleva
Registered auditor

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

1. Basis of preparation

(a) Statute

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

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

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

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

The Group has foreign operations in Cyprus and Albania.

(b) Statement of compliance

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

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

(c) Basis of preparation

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

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

(d) Changes in the accounting policy

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

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

(i) Offsetting of financial assets and financial liabilities

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

(ii) Fair value measurement

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

1. Basis of preparation, continued

(d) Changes in the accounting policy, continued

(ii) Fair value measurement, continued

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

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

(iii) Presentation of items of other comprehensive income

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

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

(iv) Defined benefit plans

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

2. Significant accounting policies

(a) Income recognition

(i) Interest income

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

(ii) Fee and commission

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

(iii) Net trading income

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

(iv) Dividend income

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

(b) Basis of consolidation of subsidiaries

(i) Business combinations

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

2. Significant accounting policies, continued

(b) Basis of consolidation of subsidiaries , continued

(i) Business combinations, continued

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

The Group measures goodwill at the acquisition date as:

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

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

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

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

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

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

(ii) Non-controlling interests

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

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

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

(iii) Subsidiaries

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

2. Significant accounting policies, continued

(b) Basis of consolidation of subsidiaries , continued

(iv) Special purpose entities

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

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

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

(v) Loss of control

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

(vi) Transactions eliminated on consolidation

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

(c) Foreign currency transactions

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

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

2. Significant accounting policies, continued

(c) Foreign currency transactions, continued

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

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

(ii) ***Transactions and balances***

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

(iii) ***Foreign operations***

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

(d) Financial assets

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

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

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

(ii) ***Loans and receivables***

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

(iii) ***Held-to-maturity***

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

2. Significant accounting policies, continued

(d) Financial assets, continued

(iv) Available-for-sale

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

(v) Recognition

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

(vi) Measurement

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

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

(vii) Fair value measurement

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

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

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

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

2. Significant accounting policies, continued

(d) Financial assets, continued

***(vii) Fair value measurement*, continued**

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

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

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

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

(viii) Derecognition

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

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

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

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

(e) Cash and cash equivalents

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

2. Significant accounting policies, continued

(f) Investments

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

(g) Securities borrowing and lending business and repurchase transactions

(i) Securities borrowing and lending

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

(ii) Repurchase agreements

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

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

(h) Borrowings

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

2. Significant accounting policies, continued

(h) Borrowings, continued

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

(i) Offsetting

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

(j) Impairment

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

(i) Loans and advances

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

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

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

2. Significant accounting policies, continued

(j) Impairment, continued

(ii) Available for sale financial assets

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

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

(k) Property, plant and equipment

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

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

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

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

(l) Intangible assets

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

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

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

(m) Provisions

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

2. Significant accounting policies, continued

(m) Provisions, continued

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

(n) Acceptances

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

(o) Taxation

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

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

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

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

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

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

(i) Impairment losses on loans and advances

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

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

2. Significant accounting policies, continued

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

(ii) Income taxes

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

(q) Earnings per share

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

(r) Employee benefits

Defined contribution plans

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

Defined benefit plans

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

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

Termination benefits

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

2. Significant accounting policies, continued

(r) Employee benefits, continued

Short-term employee benefits

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

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

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

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

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

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

2. Significant accounting policies, continued

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

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

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

IASB/IFRIC documents not yet endorsed by EC:

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

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

3. Risk management disclosures

A. Trading activities

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

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

(i) Credit risk

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

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

3. Risk management disclosures, continued

A. Trading activities, continued

(ii) Market risk

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

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

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

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

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

B. Non-trading activities

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

(i) Liquidity risk

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

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

3. Risk management disclosures, continued

B. Non-trading activities, continued

(i) Liquidity risk, continued

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

Maturity table as at 31 December 2013

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

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

3. Risk management disclosures, continued

B. Non-trading activities, continued

(i) Liquidity risk, continued

Maturity table as at 31 December 2012

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

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

3. Risk management disclosures, continued

B. Non-trading activities, continued

(i) Liquidity risk, continued

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

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

(ii) Market risk

Interest rate risk

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

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

3. **Risk management disclosures, continued**

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

(ii) ***Market risk, continued***

Interest rate risk, continued

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

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

3. Risk management disclosures, continued

B. Non-trading activities, continued

(ii) Market risk, continued

Interest rate risk, continued

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

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

3. Risk management disclosures, continued

B. Non-trading activities, continued

(ii) Market risk, continued

Currency risk

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

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

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

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

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

3. Risk management disclosures, continued

B. Non-trading activities, continued

(iii) Credit risk

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

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

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

31 December 2012		*In thousands of BGN*
Class of exposure	**Gross amount of loans and advances to customers**	**Carrying amount of loans and advances to customers**
Collectively impaired		
Standard	3,859,270	3,853,724
Individually impaired		
Watch	247,003	232,181
Nonperforming	318,648	295,407
Loss	284,547	159,077
Total	**4,709,468**	**4,540,389**

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

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

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

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

3. Risk management disclosures, continued

B. Non-trading activities, continued

(iii) Credit risk, continued

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

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

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

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

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

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

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

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

3. Risk management disclosures, continued

B. Non-trading activities, continued

(iii) Credit risk, continued

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

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

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

Residential mortgage lending

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

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

3. Risk management disclosures, continued

B. Non-trading activities, continued

(iii) Credit risk, continued

Loans and advances to corporate customers

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

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

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

(iv) Government debt exposures

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

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

In thousands of BGN

31 December 2013

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

3. Risk management disclosures, continued

B. Non-trading activities, continued

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

In thousands of BGN
31 December 2012

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

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

In thousands of BGN

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

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

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

3. Risk management disclosures, continued

C. Capital adequacy

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

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

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

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

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

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

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

3. **Risk management disclosures, continued**

C. **Capital adequacy, continued**

The Group has complied with all capital requirements.

Capital adequacy level is as follows:

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

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

4. Segment reporting

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

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

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

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

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

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

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

In thousands of BGN

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

5. Financial assets and liabilities

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

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

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

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

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

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

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

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

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

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

5. Financial assets and liabilities,continued

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

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

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

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

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

Accounting classification and fair values

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

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

Accounting classification and fair values, continued

thousands of BGN

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

thousands of BGN

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

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

In thousands of BGN

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

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

Accounting classification and fair values, continued

In thousands of BGN

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

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

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

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

6. Net interest income

In thousands of BGN

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

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

7. Net fee and commission income

In thousands of BGN

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

8. Net trading income

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

9. Other operating income

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

10. General administrative expenses

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

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

11. Impairment losses

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

12. Income tax expense

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

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

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

13. Earnings per share

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

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

14. Cash and balances with central banks

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

15. Financial assets held for trading

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

16. Available for sale investments

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

17. Financial assets held to maturity

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

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

18. Loans and advances to banks and financial institutions

(a) Analysis by type

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

(b) Geographical analysis

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

19. Loans and advances to customers

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

(a) Movement in impairment allowances

In thousands of BGN

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

20. Property and equipment

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

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

20. Property and equipment, continued

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

21. Intangible assets

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

22. Deferred Taxation

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

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

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

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

In thousands of BGN			Net	
	Assets	Liabilities	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 2013 are recognised, as follows:

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

23. Other assets

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

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

24. Due to credit institutions

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

25. Due to other customers

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

26. Liabilities evidenced by paper

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

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

27. Subordinated term debt

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

Subordinated term debt can be analysed as follows:

In thousands of BGN

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

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

28. Perpetual debt

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

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

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

29. Hybrid debt

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

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

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

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

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

30. Other liabilities

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

31. Repurchase and resale agreements

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

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

31. Repurchase and resale agreements, continued

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

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

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

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

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

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

32. Capital and reserves

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

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

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

(b) Shareholders

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

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

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

32. Capital and reserves, continued

(b) Shareholders, continued

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

(c) Statutory reserve

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

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

33. Commitments and contingent liabilities

(a) Memorandum items

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

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

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

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

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

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

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

34. Cash and cash equivalents

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

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

35. Average balances

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

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

36. Related party transactions

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

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

36. Related party transactions, continued

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

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

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37. Subsidiary undertakings

(a) First Investment Finance B.V.

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

(b) Diners Club Bulgaria AD

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

37. Subsidiary undertakings, continued

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

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

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

(d) Debita OOD and Realtor OOD

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

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

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

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

(e) Fi Health Insurance AD

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

(f) Framas Enterprises Limited

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

(g) Balkan Financial Services EAD

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

37. Subsidiary undertakings, continued

(g) Balkan Financial Services EAD, continued

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

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

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

(i) Unionbank EAD

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

(i) ***Consideration transferred***

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

37. Subsidiary undertakings, continued

(i) Unionbank EAD, continued

(ii) Identifiable assets acquired and liabilities assumed

In thousands of BGN

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

37. Subsidiary undertakings, continued

(i) Unionbank EAD, continued

(iii) Measurement of fair values

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

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

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

37. Subsidiary undertakings, continued

(i) Unionbank EAD, continued

(iii) Measurement of fair values, continued

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

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

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

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

38. Subsequent events

(a) Change of the shareholding of the Bank

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

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

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

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

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

Sample Power of Attorney
for the Regular Annual General Meeting of Shareholders
of First Investment Bank AD

POWER OF ATTORNEY

The undersigned ....
(name, surname, family name, personal identification number and identity card / personal identity card №................, issued on .... by ...., respectively - name, surname, family name, personal identification number and identity card / personal identity card №................, issued on .... by ...., acting in and for .... (company, number, batch, volume and page of inscription in the Trade Register and BULSTAT or Unified Identification Number (UIN), with seat and registered office), in the capacity of shareholder having...... (.................................) dematerialized registered shares of the capital of First Investment Bank AD, UIN 831094393

pursuant to article 226 of the Commercial Code (CC) in conjunction with Article 116 of the Public Offering of Securities Act (POSA)

DO HEREBY AUTHORISE ....,...................... ....
(name, surname, family name, personal identification number, place of residence and address, personal identity card № ………………, issued on .... by ...., respectively Company, number, batch, volume and page of inscription in the Trade Register and BULSTAT or Unified Identification Number (UIN), with seat and registered office ....)
to represent me jointly / severally at the Annual Ordinary General Meeting of Shareholders (GMS) of First Investment Bank AD which shall be held on 21 May 2014 at 11:00 AM in the Serdika Hall of Sheraton Sofia Hotel Balkan at 5, Sveta Nedelya Sq., Sofia, or, in case of a lack of quorum - on 5 June 2014 at 11.00 AM, at the same place and under the same agenda, and to vote with …………. (…………) shares of the capital of First Investment Bank AD held by me (by the company) on the items on the agenda as indicated below:

1. Management Report of First Investment Bank AD for 2013.

   ***Draft resolution**: The General Meeting of Shareholders approves the consolidated and non consolidated Management Report of the Bank for 2013.*

2. Report of the specialised audit company on the audit of the annual financial statements of the Bank for 2013.

   ***Draft resolution**:* *The General Meeting of Shareholders approves the Report of the specialised audit company on the audit of the annual financial statements of the Bank for 2013.*

3. Approval of the Annual Financial Statements of the Bank for 2013.

   ***Draft resolution**:* *The General Meeting of Shareholders approves the Annual Financial Statement of the Bank for 2013 – consolidated and non consolidated.*

4. Decision for the distribution of the profit of First Investment Bank AD for 2013.

   <u>Draft resolution:</u> *The General Meeting of Shareholders approves that the entire profit of the Bank for 2013 be retained as other general reserves.*

5. Adoption of resolution not to pay dividends and not to make any other deductions from the 2014 profit

   <u>Draft resolution</u>: *The General Meeting of Shareholders resolves that no dividends shall be paid to the shareholders and no other deductions from the profit of the Bank for the year 2014 shall be made with a view to including the profit as at June 30^{th} in the Bank's capital.*

6. Relief of responsibility of the members of the Managing and Supervisory Board of First Investment Bank AD for their activities in 2013.

   <u>Draft resolution</u>: *The General Meeting of Shareholders relieves of responsibility the members of the Managing and Supervisory Board of First Investment Bank AD for their activities in 2013.*

7. Report of First Investment Bank's Investor Relations Director for 2013.

   <u>Draft resolution</u>: *The General Meeting of Shareholders approves the Report of First Investment Bank's Investor Relations Director for 2013.*

8. Report of the Internal Control Specialized Unit Director for 2013

   <u>Draft resolution:</u> *The General Meeting of Shareholders approves the Report of the Internal Control Specialized Unit Director for 2013*

9. Appointment of registered auditor for 2014.

   <u>Draft resolution</u>: *The General Meeting of Shareholders appoints the specialised audit company KPMG Bulgaria OOD to audit the annual financial statements of the Bank for 2014.*

10. Report of the Audit Committee for its activities in 2013

    <u>Draft resolution:</u> *The General Meeting of Shareholders approves the Report of the Audit Committee for its activities in 2013*

11. Approval of a new limit of total remuneration of the members of the Managing and Supervisory Board of the Bank which shall not exceed BGN 5,000,000 (five million) per annum.

    <u>Draft resolution:</u> *The current total remuneration paid per annum to the members of the Managing and Supervisory Board of the Bank shall remain unchanged and in view of the consolidation of the two credit institutions (acquisition of Unionbank EAD by First Investment Bank AD) and expected increase in the chief executive numbers the limit of total remuneration of the members of the Managing and Supervisory Board of the Bank shall be raised to BGN 5,000,000 (five million) per annum*

12. Amendments to the nature of business of First Investment Bank AD

<u>Draft resolution:</u> *The General Meeting of Shareholders shall adopt the following amendments to the nature of business of the Bank:*

"The Bank is engaged in the business of publicly accepting deposits or other repayable funds and extending loans and other financing for its own account and at its own risk. The Bank may also conduct the following activities:

1. providing money transfer services as defined in the Law on Payment Services and Payment Systems;

2. issuance and administration of other means of payment (payment cards, traveler's cheques and bills of credit) in so far as these activities do not fall within the scope of item 1;

3. acceptance of valuables on deposit;

4. depository and custodian services;

5. financial leasing;

6. guarantee transactions;

7. trading for its own account or for customers' account with foreign currency and precious metals except for derivative financial instruments over foreign currency and precious metals;

8. rendering of services and/or performance of activities under Article 5, Paragraph 2 and Paragraph 3 of the Law on Markets in Financial Instruments;

9. financial brokerage;

10. acquisition of receivables arising out of loans and other forms of financing (factoring, forfeiting and other);

11. equity acquisition and management;

12. safe deposit box rental;

13. collection and distribution of information and references on customers' creditworthiness;

14. issue of electronic money;

15. other such activities defined in an ordinance of the Bulgarian National Bank (BNB).

13. adoption of changes in the By-Laws of First Investment Bank AD

<u>Draft resolution:</u> *The General Meeting of Shareholders adopts the following amendments to the By-Laws of the Bank:*

13.1 Article 4, para 2 shall be amended and supplemented as follows:

a) the phrase *"providing money transfer services; starting as from November 1st, 2009"* in item 1 shall be deleted;

b) it. 7 shall be amended as follows: letter "a", letter "b" and letter "c" shall be deleted, with the text under item 7 renumbered as letter "b" and having the following wording: *"trading for its own account or for customers' account with foreign currency and precious metals except for derivative financial instruments over foreign currency and precious metals"*

c) item 8 shall be amended as follows: *"rendering of services and/or performance of activities under Article 5, Paragraph 2 and Paragraph 3 of the Law on Markets in Financial Instruments"*

d) item 10 shall be deleted;

e) item 11 shall be amended as follows: *"acquisition of receivables arising out of loans and other forms of financing (factoring, forfeiting and other)";*

13.2 Article 15, para. 4 shall be amended as follows:

"Natural or legal persons, or persons acting in coordination, may not acquire directly or indirectly any shares in the Bank's capital or voting rights without the prior permission of BNB, if following the share acquisition such persons will have qualified shareholding or the shareholding will reach or exceed the thresholds of 20, 33, or 50

per cent of the shares or the voting rights; or if the Bank is becoming an affiliate company. Where the shares under the previous sentence are acquired without prior permission by BNB on public offering of shares on the stock exchange or any other regulated securities market, the transferees may not exercise the voting rights on these shares until receipt of BNB's written permission, for the issuance of which they shall submit an application within one month of the occurrence of the relevant fact requiring obtaining of such permission."

13.3 Article 42, para. 5 and para. 7 of the Bylaws shall be supplemented as follows:

a) para. 5 shall be supplemented by adding "*and having the required skills, knowledge, experience, trustworthiness and aptitude in compliance with criteria set forth by ordinance of BNB*" at the end*;*

b) para. 7 shall be supplemented by adding the following as first sentence: "*The Supervisory Board shall elect a committee among its members for the selection of candidate members of the Managing Board*" and the former first sentence shall be supplemented by adding "*other*" after "*In order to support its activity the Supervisory Board may set up*".

Voting – (express instructions must be given as to how to vote on each of the proposed draft resolutions on items in the agenda. Where voting instructions are not given for the proposed draft resolutions, the proxy shall have the right, at his/her discretion, to decide whether to vote and how).

The authorization hereunder extends / does not extend to items which are included in the agenda under the terms of Article 231, paragraph 1 of the Commercial Code and which are not announced or promulgated in accordance with Article 223 and Article 223a of the Commercial Code. In the cases under article 231, paragraph 1 of the Commercial Code, the proxy may not / may decide at his/her own discretion whether and how to vote.

Pursuant to article 116, paragraph 4 of the POSA, delegation to another person of any of the above listed powers shall be null and void.

Date: Authorizer(s):

...................2014
City of ....

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