BULGARIAN DEVELOPMENT BANK GROUP

CONSOLIDATED ANNUAL MANAGEMENT REPORT
INDEPENDENT AUDITORS' REPORT AND
CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

BULGARIAN
DEVELOPMENT BANK

**CONSOLIDATED ACTIVITY REPORT
OF BULGARIAN DEVELOPMENT BANK GROUP
2015**

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INFORMATION ABOUT THE BANKING GROUP

Bulgarian Development Bank Group (the "Group") includes Bulgarian Development Bank AD (BDB) and its subsidiaries – National Guarantee Fund EAD (NGF) and Micro Financing Institution JOBS EAD (MFI), in which BDB is the sole owner of the capital.

Bulgarian Development Bank AD

Bulgarian Development Bank AD (BDB AD/ the"Bank") was established on 11 March 1999 as a joint-stock company under the name "Encouragement Bank" AD.

The Bulgarian Development Bank Act (BDBA) was adopted on 23 April 2008. The law regulates the scope of the Bank's activities, including those of its subsidiaries envisaged for incorporation.

The registered address of the Bank is at 10, Stefan Karadzha Str., Sredets district, Sofia 1000.

BDB is a key instrument and channel for conducting government economic policies, including in specific areas, regions, industries and social groups. The Bank actively collaborates with all government state structures in order to ensure maximum impact of the public funds targeted on support of the economic development. Priority focus is set on pre-export, export and bridge financing. Traditionally, the Bank will continue to provide investment financing for SMEs with extended initial maturity and relaxed collateral requirements. As of 31 December 2015 the paid-in share capital amounted to BGN 601,774 thousand (31 December 2014: BGN 601,774 thousand), consisting of 6,017,735 ordinary registered voting shares with nominal value of BGN 100 each. The Bank has complied with the requirements of BNB for minimum share capital for banking activity, as well as with the capital requirements of the BDBA. The ownership of the capital is as follows: 99.9999% is owned by the Republic of Bulgaria represented by the Ministry of Finance; 0.0001% is owned by DSK Bank.

On 05 May 2015 amendments and supplementations to the Statute of BDB were registered with the Commercial Register at the Registry Agency.

Pursuant to the Statute, the Bank's lending activity is directed towards:

Pre-export and export financing of SME; financing SME operations and projects either through intermediary banks or directly; refinancing banks granting loans to SME; financing SME investments abroad.

The Bank extends also other types of loans according to a procedure set by the Management Board, whereas the exposure to one customer or a group of related customers, other than credit institutions, central governments and central banks within the meaning of Regulation 575/2013/EU, cannot exceed 10 (ten) percent of the eligible capital (the equity) of the Bank after taking into account the effect of credit risk reduction. In case of exposure in violation of the above limit and as a result of a business combination and/or another transaction, the Management Board shall notify the Supervisory Board and shall make a proposal regarding the method, term and need of their regulation, asking for the approval of the Supervisory Board.

The Bank does not provide loans to the following activities/borrowers:

1. Activities not compliant with the National law, including for environment protection;
2. Companies with unknown ultimate controlling owner;
3. Political parties and their related parties;

4. Non-profit companies and organisations;
5. Media;
6. Activities relating to sports and sport initiatives;
7. Other activities prohibited by law.

After the approval of the Supervisory Board and with the aim to support the economic development and to ensure financial support for businesses, the Bank may finance/refinance companies with liabilities, which have been classified in the credit register of BNB in the groups „Non-performing“ or „Loss“ (or equivalent classification in case of amendments to legislation) at the time of filing a loan application to BDB.

The Management Board shall pass a unanimous decision to form an exposure to one customer or a group of related customers if its amount exceeds 5% of the Bank's equity, in compliance with the requirements of the Law on Credit Institutions and the internal rules of the Bank.

National Guarantee Fund EAD (NGF)

National Guarantee Fund EAD (NGF) is a company established on 12 August 2008 on the grounds of the Bulgarian Development Bank Act and registered with the Commercial Registry on 22 August 2008. According to the Law on Credit Institutions (LCI), National Guarantee Fund EAD is a financial institution, registered in 2009 by BNB in the register under Art.3, paragraph 2 of the Law on Credit Institutions (LCI). In accordance with its Statute, the scope of activity of the Fund includes:

1. Issuing guarantees to supplement collaterals for loans to small and medium enterprises;
2. Offering other products for small and medium enterprises such as: guarantee for participation in tender; guarantee for good performance; guarantee for advance payment; guarantee for payment of loan to exporter, etc.;
3. Issuing guarantees to supplement collaterals for loans to small and medium enterprises involved in research and development activities, as well as for deployment of the results thereof in industry;
4. Other activities that are not particularly prohibited by the Law.

Micro Financing Institution JOBS EAD (MFI Jobs)

Micro Financing Institution JOBS EAD (MFI) is registered with the Commercial Register on 14 January 2011. The main scope of activity includes: micro financing, including granting of micro-loans, acquisition from third parties and leasing out of industrial equipment, cars and other vehicles, as well as other goods (financial leasing), purchase, sale and import of such goods, consultancy services, agency and brokerage for local and foreign individuals and legal entities, operating in the country, as well as any other activities not prohibited by Law.

The headquarters of Micro Financing Institution JOBS EAD (MFI Jobs) and National Guarantee Fund EAD is at 105 Arsenalski Boulevard, Sofia. As of 31 December 2015 the BDB Group's employees were 178.

MAIN FOCUS, ACTIVITIES AND PROJECTS OF THE BDB GROUP IN 2015

In 2015 the Bank's development was marked by certain significant in scope reorganisation activities and projects. For example, as of the end of the first half of the year an organisational and financial modelling was conducted with the aim to reflect the changes in the business model of BDB. The branch network development ideas and projects elaborated in previous periods, and the introduction of institutionalised product lines within the Bank, were rejected as contrary to the original idea of building a development bank. A limit of up to BGN 300 thousand was imposed on the financing provided by international financial institutions (IFIs) and thus, the company, in its capacity of a product line, undertook on a priority basis the servicing of micro-enterprises.

During the year of 2015, the internal normative rules of the Bank were updated to a large extent in order to be brought into conformity with the amendments to the EU banking law. Major attention was given to the transposition of the provisions and definitions of Regulation 575/2013. With the assistance of Ernst & Young Bulgaria OOD, the Bank made the necessary arrangements for the forthcoming quality review of the assets to be carried out by BNB.

Quite intensive is the development of the Bank's credit portfolio. Programs for purchase of liabilities of budget spending units were elaborated. A number of companies from the construction industry, implementing projects financed under Operational Programs, benefited from the accelerated payment that was made possible thanks to the programs of BDB.

BDB offered a new product line for indirect financing of small and medium-sized enterprises, given the high liquidity in the system and the low credit demand by the commercial banks. The innovative product, the program titled „FORWARD", combines attractive pricing offers with the ability to share the credit risk with the partner banks. Moreover, the scope of the targeted group of intermediaries was enlarged (by involving also cooperatives and leasing companies) by elaborating specific products. Thus, the sub-portfolio of products for indirect SME financing was further developed.

BDB had made a significant contribution towards the implementation of the National Energy Efficiency Program as well. It should be noted that BDB conducted successful negotiations with a number of IFIs in order to ensure the necessary financing. Furthermore, the Bank provided the required financial and banking expertise in all stages of program organisation.

NGF launched a new guarantee scheme for newly originated investment working capital loans, under which 10 agreements were signed with commercial banks for more than BGN 326 million within the last quarter of 2015. Moreover, NGF extended the term for inclusion of loans into the guaranteed portfolio under the Rural Development Operational Programme (RDOP) in line with the extraordinary reception under Measure 121.

OVERVIEW OF THE EXTERNAL ENVIRONMENT - MACROECONOMIC ENVIRONMENT AND BANKING SYSTEM, IN WHICH THE BDB GROUP OPERATES

Macroeconomic environment

In 2015, the Bulgarian economy marked one of the highest growth rates over the last years and the situation at the labour market improved significantly. The growth in GDP volume amounted to 3% in 2015. All components of GDP by final use contributed to that growth.

The external demand, measured through the dynamics of net exports, had made a higher contribution to the growth achieved in the first half of the year, while in the second half of the year the domestic demand, in terms of final consumption and investments, was the leading contributor to the dynamics of the Bulgarian economy. The dynamics in the labour market were favourable as well. The employment rate continued to grow reaching 3,061 thousand people (Labour Force Survey) in the third quarter of 2015, while the unemployment rate dropped to 7.9%. The average nominal salary reported an 8.8% growth, an acceleration compared to the level over the period 2012-2013, which was conditioned by the regular amendments to the labour legislation (most of all, the minimum social insurance thresholds) and the higher demand for qualified labour by certain businesses.

Thanks to the relatively higher growth in exports observed in the first half of the year, the current account balance remained positive over the entire year of 2015. The current account balance amounted to EUR 541 million, or 1.2% of GDP. Simultaneously, the export structure improved as well, where the relative share of the export of goods with higher level of processing increased and the relative share of exported raw materials decreased.

The direct foreign investments in 2015 amounted to EUR 1,575 million, or 3.5% of GDP.

The cash balance of the State budget for 2015 amounted to BGN 2,472.9 million or 2.9% of GDP. There was a relatively high growth in the revenue side of the budget. Revenues and grants received under the consolidated fiscal program (CFP) for 2015 amounted to BGN 32,205.1 million, or by 1.8% more than the updated annual program and by 9.5% (BGN 2,796.0 million) more than those reported in 2014. Structurally, tax revenues had grown by BGN 1,828.6 million (7.9%), non-tax revenue by BGN 245.1 million (7.1%), and revenue from grants (mainly funds reimbursed by the European Commission) by BGN 722.3 million (24.7%) respectively. If compared to the gross domestic product, income and grants under the consolidated fiscal program grew from 35.2 % of GDP in 2014 to 37.3% of GDP in 2015, or an increase by 2.1 percentage points. The deficit on the consolidated fiscal frame was primarily due to the high rate of utilisation of funds under the EU Operational Programmes.

There was a considerable decrease in the private foreign debt in 2015. The private foreign debt decreased by about EUR 4,650 million (by 13.6% as a ratio to GDP) over the year and as of the end of 2015 it amounted to EUR 28,146 million. The external sovereign debt reached its peak in March and then it started to decrease and at the end of 2015 it reported even a lower value than that reported as of the end of 2014. At the end of December 2015, the external sovereign debt amounted to EUR 5,998 million, or 13.4% of GDP.

For a second consecutive year the Bulgarian economy registered deflation, where in the first half of 2015 the deflation of the country was one of the highest among all EU Members States. The harmonized index of consumer prices (HICP) for 2015 amounted to minus 0.9%, and its average value amounted to minus 1.1%. It is expected that the period of low inflation (below the targeted value of 2% per year) will continue within the EU and the Eurozone, or as the President of the ECB, Mario Dragi, summarised it in its October speech: *there is a growing likelihood that in 2016 ECB will increase its range of stimulus measures as an instrument to fight the risks of deflation.*

A major factor, which contributed to the negative inflation in the country, is the dynamics of international prices of fuel that resulted in lower prices of goods and services directly related thereto (such as heating, household gas, liquid gas for motor vehicles, transport services, etc.). Other commodities and services, which contributed to the decrease in the general price index of the country, are the consumer durables, as well as the decrease in prices of the group of utilities (rents, repair and maintenance of residential properties, water supply, electricity, gas, etc.).

Banking sector

In 2015 the banking system remained stable and well capitalized. In general, it was characterised by high levels of profitability and according to the initial not yet audited data it realized a high financial result, the highest over the last five years.

The financial assets of the banking system at the end of 2015 amounted to BGN 87.5 billion. They increased by BGN 2.4 billion (2.8%) over the year. The highest growth was reported by the more liquid portion of assets (cash in bank accounts and financial assets). One of the reasons underlying this result was that at the end of 2014 and the beginning of 2015 the Bulgarian Deposit Insurance Fund refunded the deposits of the depositors of Corporate Commercial Bank AD (CCB AD) guaranteed by law, an amount that the remaining commercial banks was not able to allocate subsequently as loans to customers from the non-financial sector. Moreover, the deposits of companies and households continued to grow throughout the entire year (in the second half of 2015 this development was supported to an extent by the flow of Greek legal entities and individuals wishing to open accounts in Bulgaria), while the loans and receivables of non-financial institutions changed insignificantly during the year. In the end of 2015 the deposits from individuals amounted to BGN 44.4 billion, growing by BGN 3.4 billion (8.3%) over the year, while the deposits of non-credit institutions (enterprises, state government and financial institutions, other than credit institutions) grew by BGN 2.2 billion (9.5%).

Loans to enterprises decreased by BGN 1 billion (3.0%) in 2015 and amounted to BGN 33.3 billion at the end of the year. Amount of loans to households at the end of 2015 remained almost the same as that at the end of the previous year: BGN 18.3 billion (an increase by BGN 21.6 million or 0.1%). It should be noted that in 2015 the amount of both residential loans (by BGN 540 million or 5.8%) and consumer loans (by BGN 268 million or 2.9%) decreased. Thus, at the end of 2015 the residential loans amounted to BGN 8.8 billion and the consumer loans for households amounted to BGN 8.7 billion. Only other loans to household had increased and compensated the decrease in the other two types of loans to households.

The decrease in loans to enterprises, as well as in residential and consumer loans to companies, was observed under conditions of continuous improvement of the terms and conditions of offering loan funds (most of all, reduced interest rates on loans).

The high liquidity of commercial banks (the liquid asset ratio of the banking system was 36.71% at the end of 2015 vs. 30.12% at the end of 2014) and the improving terms and conditions of loans show that the offering of loan funds by the banks is high. The low dynamic of loans to enterprises and households is due to the weak demand for loan funds by the customers, as well as to the insufficient amount of viable business projects to be approved for financing by the commercial banks.

The quality of the banking system loan portfolio improved gradually in 2015. This is the first year since 2008 that there has been a constant trend of decrease in the share of loans past due over 180 days. At the end of 2015 the share of „bad" debts in the overall portfolio to non-credit institutions amounted to 15.35%, while at the end of 2014 this indicator amounted to 16.86%. According to data of Monetary Statistics of BNB, the amount of „bad" and restructured loans dropped by BGN 426 million and at the year-end they amounted to BGN 8.8 billion. Alongside improvements in the loan portfolio, there was a certain decrease in costs of impairment of the banking system. In 2015 commercial banks incurred impairment costs amounting to BGN 1.1 billion, or by BGN 51.3 million less than the amount reported in 2014 (4.5%). It should be noted that almost one third of the impairment for the entire year of 2015 was incurred in December and most probably related to the preparation of the commercial banks for the forthcoming asset quality review in 2016. The banking system closed the year of 2015 with a high financial result, with an after-tax profit amounting to BGN 898 million (unaudited data), the highest financial result of the banking system since 2009. The return on banking system assets reached 1% and the return on equity exceeded 8%. The increase in profit compared to 2014 is due to the higher net interest income (an increase by BGN 139 million), the higher net fee and commission income (an increase by BGN 62 million) and the lower impairment costs (a decrease by BGN 51 million). In 2015, the major trend in interest rate levels, of both deposits and loans, was downwards. This development resulted by the high liquidity of the banking system and offering of loan funds, as well as by the very low interest rate levels at the foreign markets as a consequence of the ECB and FED policies. At the year-end, BNB also contributed to the decrease in interest rates, primarily with respect to the borrowings offered in the country, by introducing a negative interest rate of minus 0.3% for the funds in accounts with the Central Bank exceeding by more than 5% the needs for maintaining minimum required reserves.

During the first quarter of 2015, the interest rates on loans, new business, fluctuated within the range of 7-7.5%. Since the second quarter of 2015 however, the interest rates on new loans headed downwards again. The commercial banks, due to the low price funding available, stabilisation of the macro-environment in the country and improvements of growth estimates for the next years for both Bulgaria and the EU as a whole, strengthened competition among themselves in attracting new customers and granting new loans. The processes of renegotiating the terms on existing corporate loan contracts intensified and in most cases the new terms and conditions were more favourable for the companies. During the third and fourth quarter of 2015, the average interest rates on loans, new business by original maturity, fluctuated around and a bit below 5%. It is expected that EURIBOR will remain low in 2016, which implies that there would hardly be a serious pressure to reverse the trend in the dynamics of interest rates on loans over the next twelve months. At the same time, it is highly probable that the interest rates on new business, will be close to their minimum and most probably they will fluctuate within the range of 4.5-5.0% before the trend in their dynamics to reverse.

In 2015 interest rates on deposits of companies and households also decreased. The main factors driving this trend are the high liquidity of the banking system and the low inflation rate, while particularly in December the negative interest rate on the "excess reserves" introduced by BNB contributed further to this development.

Although the interest rates on deposits reached the lowest levels historically, the actual interest rate continued to be positive.

OVERVIEW OF THE ACTIVITY OF THE BDB GROUP

In 2015 the process of modernisation and upgrade of the activities of the BDB Group companies continued. Simultaneously, they proceeded with the expansion of their business.

Bulgarian Development Bank AD

Aiming at improving the efficiency of the Bank's processes, a draft of a new Organisational structure of BDB was developed in the first six months of the year, which was implemented on 1 June. The position list, the functional characteristics of the units and the job descriptions of the Bank's employees were changed simultaneously with the change in its structural units.

In 2015 the National Multifamily Buildings Energy Efficiency Program was launched with the aim to renovate multifamily residential buildings. The total amount of the first stage of the Program is BGN 1 billion. BDB participates in the negotiation of the funds financing the implementation of the Program, for which it receives a State guarantee. The Bank concludes special-purpose financing agreements and maintains a public register of applications and contracts concluded under the Program.

At the end of the first half of 2015, BDB launched a program for purchase of receivables of construction companies from municipalities under contracts concluded for the implementation of investment projects under Operational Programmes „Environment", „Regional Development", „Transport", as well as programs of SF „Agriculture". Through this program, the companies operating in the sector have the opportunity to make the payments due to their subcontractors in the shortest possible period, thus multiplying the effect and improving the overall liquidity of the sector.

Over the past year a concept for the participation of BDB in co-financing (syndication) of loans jointly with commercial banks was elaborated. BDB participates with up to 50% in co-financing of syndicated loans. As at 31 December 2015 there were 8 co-financing agreements signed with commercial banks.

BDB continues to implement its targeted export financing program, including joint initiatives with Bulgarian Export Insurance Agency (BAEZ). Thereby, the Bank promotes the competitiveness of the Bulgarian exporters.

In 2015 a new partner program titled „FORWARD" for indirect financing of micro, small and medium-sized enterprises was launched. The initial volume of the program is BGN 150 million and it combines classic on-lending with an option for BDB to share with its partner banks the credit risk of non-payment of the sub-loans extended under the program within a limit of payment (CAP).

National Guarantee Fund EAD (NGF)

In 2015 the procedure for selecting partner banks of NGF under a new guarantee scheme was initiated. From the beginning of October 2015 to the beginning of January 2016 guarantee agreements were signed with 10 commercial banks for the total amount of BGN 326 million. Eligible for inclusion are only new loans for investment needs and working capital. According to the scheme, NGF guarantees up to 50% of the loan amount, but not more than BGN 1 million at a related party level. The term for inclusion of loans into the guaranteed portfolio ends on 31 March 2017. A maximum limit of payments per guaranteed portfolio of up to 25 % is approved under the guarantee scheme, where in case of non-compliance with the terms and conditions of the scheme NGF has the right to exclude loans from the guaranteed portfolio. The banks pay a guarantee fee based on the volume achieved, while the borrowers are exempt from fees on the guarantees provided by the NGF.

In 2015 NGF continued its active work on the issuance of guarantees in support of beneficiaries under the Operational Programme for Rural Development 2007-2013 (RDOP) and Operational Programme Fisheries Sector Development 2007-2013 (FSDOP). As of September 2014 the guaranteed portfolio to commercial banks under RDOP was adjusted to BGN 300 million on the grounds of a decision of the Program's Advisory Committee. The capital released under the scheme amounting to BGN 154,586 thousand (EUR 79 million) was reimbursed to Ministry of Agriculture and Food (MAF) on 19 October 2015 in accordance with a notification for amendment of RDOP approved by the EC. An extension of the term for inclusion of loans into the guaranteed portfolio until 30 November 2015 was agreed upon in the Annex, in view of the extraordinary reception under Measure 121. In the end of September 2015 a tender procedure for selection of partner banks was carried out. Five banks filed documents for participation in the tender procedure under the Public Procurement Act, and a guarantee portfolio amounting to BGN 60 million was allocated among the selected 4 banks, with which guarantee agreements were signed at the beginning of October 2015.

Micro Financing Institution JOBS EAD (MFI JOBS)

By decision of the Management Board of BDB dated 05 March 2015, the decision dated 31 October 2013 was repealed with respect to the merger of MFI JOBS into BDB. As a result of this reassessment, it was resolved that the relationships with micro-enterprises should be developed through MFI JOBS as an independent specialised subsidiary. The Board of Directors (BD) of MFI JOBS approved changes in its internal rules and regulations enabling it to commence its activity relating to direct financing of end customers on behalf of MFI JOBS.

During the second quarter of 2015, the company started to grant micro-loans directly; 48 loan agreements and lease contracts were signed and financing amounting to BGN 3,443 thousand was extended to end customers in 2015. Moreover, 58 loan contracts amounting to BGN 3,179 thousand were transferred by BDB by assignment contracts. At 31 December 2015 the outstanding loan and lease portfolio of the company amounted to BGN 8,582 thousand at amortised debt before impairment and consisted of 290 loan and lease facilities. In addition, MFI JOBS has receivables from 16 non-profit partnerships amounting to BGN 686 thousand before impairment.

The management of the Group adheres to a consistent conservative risk assessment policy, in line with the economic environment and the specific characteristics of the loan portfolio. In 2015 impairment coverage of exposures to non-financial institutions was 18.8%.

Financial information about the BDB Group

As at 31 December 2015 the financial result of the Group after taxes was a profit amounting to BGN 38,677 thousand (2014: BGN 7,781 thousand). The financial result in 2014 was significantly influenced by the individual impairments of the receivables from Corporate Commercial Bank AD, in insolvency, amounting to BGN 43,603 thousand. The net result from costs of impairment of loans, in their portion of loans to companies, was a reversal of the amount of BGN 1,629 thousand in 2015 (2014: BGN 3,286 thousand).

The realised operating income of the Group in 2015 reached BGN 59,770 thousand (2014: BGN 60,599 thousand). The net interest income for 2015 remained almost the same: BGN 54,879 thousand (2014: BGN 56,124 thousand), where the result was formed from the increase in the loan portfolio and the lower interest rates on loans granted.

The general and administrative expenses in 2015 amounted to BGN 8,900 thousand (2014: BGN 4,319 thousand). Their growth was primarily due to the contributions paid in 2015 to the Bank Resolution Fund amounting to BGN 3,073 thousand and to the Bulgarian Deposit Insurance Fund amounting to BGN 2,004 thousand (2014: BGN 735 thousand). Costs of personnel at 31 December 2015 amounted to BGN 9,782 thousand (2014: BGN 8,457 thousand). The BDB Group continued to maintain the lowest cost-to-income ratio before impairment for the Bulgarian banking system of 31.3% for 2015 (2014: 21.1%).

At 31 December 2015 the Group's balance sheet figure reached BGN 1,597 million. The decline by 16% in comparison with the end of 2014 (BGN 298 million) was due to the reimbursement of the unutilised funds under guarantees on the Rural Development Program.

In 2015, the Group continued to actively develop its activities supporting the Bulgarian business in a difficult economic environment. The Group's loan portfolio (net of loans to banks) increased by 6% to BGN 789,742 thousand (2014: BGN 743,363 thousand). BDB Group continued to maintain a diversified industry structure of its loan portfolio. Higher dynamics are observed in the relative shares of the following industries: manufacturing (a growth by 4.5 pp), financial services (a growth by 8.3 pp), transport (a decline by 4.7 pp), and trade (a decline by 4.8 pp).

The volume of receivables from banks amounted to BGN 267,536 thousand as of 31 December 2015 (2014: BGN 547,024 thousand). Part of the decline was due to impaired exposures to Corporate Commercial Bank AD on term deposits and loans. After the withdrawal of the banking license of CCB AD, the Group's receivables were reclassified to "Loans and advances to customers". In addition, the volume of indirect lending through intermediation of commercial banks (on-lending) reached BGN 135,607 thousand at 31 December 2015 compared to BGN 234,298 thousand at the end of 2014. The actual repayments on on-lending programs in 2015 amounted to BGN 123 million and the volume of newly extended loans amounted to BGN 68 million. The change in the volume of term deposits related primarily to the general decrease in the balance sheet figure and reflected the decrease in the funds available under RDOP.

The Group's portfolio of securities amounted to BGN 262,968 thousand (2014: BGN 296,995 thousand), predominantly consisting of government securities.

At 31 December 2015 the utilised funds from international financial institutions amounted to BGN 178,723 thousand (2014: BGN 221,065 thousand). The cooperation with key international partners for the Group continued. In 2015 the amount of BGN 51 million was repaid, while the drawdown funds amounted to BGN 8 million. The volume of deposits from credit institutions at 31 December 2015 amounted to BGN 842 thousand (2014: BGN 75,956 thousand). The decrease in the volume was due primarily to deposits maturing within the year.

Deposits from customers, other than credit institutions, amounted to BGN 566,144 thousand at 31 December 2015 (2014: BGN 535,593 thousand). The decrease was mainly due to the reduced amount of funds of NGF in relation to the Rural Development Program.

In 2015 the Bank conducted negotiations for the provision of financing under the National Multifamily Buildings Energy Efficiency Program, for its general lending activity, as well as on projects in common interest with CEDB, KfW, European Investment Bank, European Investment Fund, the World Bank, Industrial and Commercial Bank of China, China Exim Bank, China Development Bank, Black Sea Trade and Development Bank, MIGA, BNP Paribas - on providing financing for MFI JOBS.

In the third quarter of 2015 the European Commission sent a letter-reply that the State guarantee provided under the external financing did not represent a State aid. Thereby, all potential difficulties in ensuring a State guarantee on the special-purpose funding for the Energy Efficiency Program were eliminated.

Bulgarian Development Bank (BDB) contracted a loan amounting to EUR 5 million from the European Investment Fund under the EC European "Progress" Microfinance Facility. Part of the agreed loan – up to EUR 1.5 million – will be provided to Micro Financing Institution JOBS EAD (MFI JOBS) for granting micro-loans and micro-leases. The purpose of the loan is to extend the access to micro-financing. Companies with up to 10 employees and annual turnover of up to EUR 2 million, as well as self-employed persons wishing to develop business are allowed to apply for these loans. The maximum amount of the loans will be up to BGN equivalent of EUR 25,000.

In 2015 three applications were sent (for BDB, NGF and MFI JOBS) under the COSME Program of EIF for the total amount of guarantees and counter-guarantees of EUR 56.25 million.

RISK MANAGEMENT OF THE BDB GROUP

In the course of its ordinary activity the BDB Group companies may be exposed to various financial risks that, if occur, may result in losses and deterioration of the Group's financial stability. Financial risks are identified, measured and monitored using different control mechanisms for their management and for avoidance of any unjustified concentration of a particular risk. The risk management process is essential for the Group's profitability and existence. The most significant risks are the following: credit risk, market risk and operational risk.

Credit risk

Credit risk is the main risk for BDB and therefore, its management is fundamental for its activity. Credit risk management is performed in accordance with the law for BDB AD and the effective laws and regulations of the Republic of Bulgaria regulating credit activity, as well as the international regulations and best banking practices.

In assessing and managing the credit (including the counterparty risk) risk of its exposures, the Group applies models for internal rating generation. Loan portfolio quality monitoring, control and assessment units are established and function within the Group. Loan portfolio current monitoring, reporting and management procedures and mechanisms are implemented, which require periodical, and if necessary, extraordinary, reports on the financial and credit status of each borrower and liable persons. If new circumstances are established, which could result in changes in the borrowers' risk profile, including in higher risks of default of the credit exposure, adequate and conforming to the debtor's risk profile measures are taken.

In managing its credit risk, the Group applies an intra-bank system of limits by economic sectors, instruments, and other credit restrictions and limits on concentration, and the results from their monitoring are reported to the competent authorities. The system of limits is reviewed and updated periodically.

Management of credit risk arising from off-balance sheet commitments (guarantees) underwritten by NGF is carried out at two levels - an individual transaction (guarantee) level and a portfolio level. Credit risk at the individual level is governed by internal rules and procedures relating to guarantee activity as the proposal for issuance (assuming guarantee commitment) is reviewed and approved by the Risk Manager of the company before issuing a guarantee confirmation by the representing bodies of NGF. The guarantee scheme under RDOP has a second level of approval – the so-called Advisory Committee composed of representatives of MAF and BDB, which approves underwriting of guarantee commitments over BGN 500,000. Portfolio level credit risk is managed by capping the payment, limiting the commitment of NGF to pay up to a certain proportion of the value of the portfolio of guarantees issued under a program at a certain bank. Subsequent management of the commitment of NGF credit risk is carried out through monitoring procedures under which NGF may exclude from coverage certain portfolio loans that do not meet the specific requirements of the signed guarantee agreements.

The policy that MFI Jobs has adopted to minimize the credit risk consists of making a preliminary assessment of the creditworthiness of customers and requiring additional collateral for the lease and loan contracts, and transferred receivables - insurance of the leased assets, registration of leases with the Special Pledges Registry, guarantee instruments, promissory notes and special pledges of receivables, mortgage of immovable property and / or movables when granting loans.

Market risks to which the BDB Group is exposed

In managing the foreign currency risk the BDB Group follows the principle of maintaining minimum open currency positions within the specified limits. Foreign currency positions are not formed with speculative purposes, but are due to foreign currency transactions arising in the ordinary course of activity of the Group. The Group does not carry out significant transactions and does not hold significant open positions in currencies other than EUR and BGN. Until the exchange rate of the Bulgarian Lev is pegged to the Euro, the Euro is not considered as a currency bearing FX risk for the cash flows and the financial position of the Group.

As part of the interest rate risk management, regular reports on financial assets and liabilities are prepared, divided in time buckets depending on their sensitivity to changes in interest rates. In case of disbalances in periods, an assessment of expected changes in interest rate curve is applied and potential risk for the interest income and capital of the Group is measured.

Risks in transactions on money and capital markets are controlled by a system of limits reflecting the risk profile of investments and certain parameters of the portfolio, such as counterparty, financial instrument, maturity, etc. The system of limits is reviewed periodically, and implementation of the limits is subject to daily monitoring. The portfolio of securities formed by the Group companies for the purposes of investing free cash is characterised by short duration, low interest rate risk and relatively liquid securities issued by reliable institutions, i.e. they bear a low price risk. As there is no trading portfolio in accordance to the regulatory provisions, there is no regulatory requirement for capital allocation to cover the market risk.

The BDB Group's liquidity is managed by closely monitored ratios indicating the liquidity position by periods. Liquidity risk is measured by applying additional scenarios for cash flows from operations.

Measured and monitored are also the liquidity buffers of the BDB Group and the additional sources of funding in cases of market-wide or idiosyncratic shocks. The compliance with the ratios indicating the liquidity position is monitored and reported regularly to the competent authorities.

Operational risk

Operational risk management is implemented through close observation and recording of all operational events, which occur in the activity of various units and processes of the Group. Events of higher frequency as well as higher severity serve as bases for the operational risk analyses in different scenarios. The operational risk is measurable and controllable as in the process of work an operational event registry is kept, which is used as a basis for analysing and improving the work processes and minimising the conditions that would potentially result in operational events and loss for the Group. The required capital to cover the operational risk is calculated by applying the "Basic indicator approach" in compliance with the applicable regulatory framework.

BANKING REGULATIONS UNDER THE BULGARIAN LEGISLATION

In accordance with the requirements of laws and regulations governing the banking activity in the country, BDB should comply with limits related to certain ratios in its consolidated financial statements. As at 31 December 2015 BDB complied with all regulatory requirements of the BNB and the Bulgarian legislation.

The Group should comply in its activities with the regulatory requirements for capital adequacy while executing the main objectives for its establishment – support of the national economic policies and the development of small and medium-sized enterprises. The capital adequacy ratio on consolidated basis as of 31 December 2015 was 56.22% under Regulation 575/2013/EU (31 December 2014 – 54.17% under Basel III). The coverage of assets with capital buffers substantially exceeds the required minimum regulatory level.

CREDIT RATING AND INTERNATIONAL ACTIVITIES OF THE BDB GROUP

The international rating agency "Fitch Ratings" performed its regular annual review and reaffirmed all ratings of BDB. The long-term investment rating of the bank remains "BBB-". The rating's perspective is stable which maintains the position of BDB among the banks with the highest credit rating in the country. The short-term rating and the support rating are confirmed respectively at levels F3 and 2. The ratings of BDB were reaffirmed at the beginning of 2016.

BDB continues to develop successful partnership with leading European and international financial institutions by participating in international specialised associations. These relations enable the Bank to be preferred business partner, to benefit from the best banking practices, know-how, information for financial products, and to participate in their development and implementation.

BDB has direct access to up-to-date general and specific information about the newest changes in the legislative base at EU level and its implementation in the area of the development banks, and has an opportunity to participate directly in the process of these changes. Membership in international specialized associations allows the Bank to participate in seminars and summits with the European Commission representatives and its divisions.

BDB has been an active member of the European Association of Public Banks (EAPB) since 2005. The membership in EAPB contributes for the exchange of experience and best practices between BDB and the European public banks.

BDB has been a full member at the Network of European Financial Institutions (NEFI), an organisation in which 17 institutions from different European countries participate, since 2007. The mission of NEFI is to improve the exchange of information and ideas in order to facilitate the access to the SME financing. BDB was a host of the regular meeting of NEFI held in Sofia in February 2015. During the event, a seminar was held for export products successfully offered by the development banks within the European Union, attended by BDB Loan department representatives. The effective national strategies for implementation of the Juncker's Plan were discussed at the workshop, as well as the application of the financial instruments over the period 2014-2020, and the national mandates of the EU Member States development banks. BDB presented its joint products with the Bulgarian Export Insurance Agency (BAEZ) for support of export companies.

In 2015 BDB continued its participation in the European Association of Long-Term Investors (ELTI). BDB is a co-founder of this organisation.

BDB is a shareholder of the European Investment Fund (EIF), holding 3 shares of its equity, and participates regularly in the discussions of the Group of the financial institutions – shareholders, where the guidelines for development of the activities and policy of the EIF are discussed. BDB participates also in the on-line voting on various topics, such as the enrollment of new shareholders and other organisational issues.

In 2015 National Guarantee Fund EAD continued its membership in the European Association of Guarantee Institutions (AECM), with members being 42 companies from 25 countries of EU, Russia and Turkey. The key goal of the association is to support small and medium enterprises with viable business projects, but with insufficient collateral or own funds.

MFI Jobs EAD continued to work as a partner of EIF under the European Microfinance "Progress" mechanism (debt and guarantee products). The guarantee facilitates access to finance for Bulgarian micro-enterprises through relaxed collateral requirements. This guarantee line is the second agreement between the MFI Jobs and EIF and is the result of good relations between the two institutions. On 17 July 2015 an Annex was signed with EIF for the extension of the term of the agreement by 18 months.

BDB GROUP GOVERNANCE

Bulgarian Development Bank AD has a two-tier management structure consisting of Supervisory Board and Management Board. There were no changes in the management body's structure in 2015.

In 2015 the following individuals were members of the Supervisory Board (SB) of BDB: Atanas Slavchev Katzartchev – Chairman of SB, Kiril Milanov Ananiev – Vice Chairman and member of SB, Dimitar Kirilov Dimitrov – member of SB.

In 2015 the following individuals were members of the Management Board (MB) of BDB: Angel Kirilov Gekov - Chairman of MB and Executive Director; Bilian Lyubomirov Balev – Vice Chairman of MB and Executive Director; Iliya Vasilev Kirchev – member of MB and Executive Director. The Bank is represented jointly by any two of the three Executive Directors.

No contracts, which fall beyond the ordinary course of business or significantly deviate from market conditions, within the meaning of Art. 240 "b" of the Commercial Law, were concluded between members of the SB, MB or related persons on one side, and the Bank on the other side.

The participation of members of the SB and MB in commercial entities as general partners with unlimited liability, or possession of more than 25 percent of the capital of a legal entity, as well as participation in the management of other companies or associations as procurators, managers or Board members, within the meaning of Art.247, paragraph 2, item 4 of the Commercial Law, is as follows:

The members of the SB of BDB have the following participations in the management of other companies:

- Atanas Slavchev Katzartchev does not participate in the capital and the management of other companies.
- Kiril Milanov Ananiev does not participate in the capital and the management of other companies.
- Dimitar Kirilov Dimitrov is a partner at PGD OOD (UIC 175247211) and holds 50% of the company shares. The company does not carry out any activities. Mr Dimitrov participates in the management of "Eurohold Bulgaria" AD, UIC 175187337, as member of the MB.

The members of the MB of BDB have the following participations in the capital and management of other companies:

- Angel Kirilov Gekov participates in the management of National Guarantee Fund EAD, UIC 200321435 as Chairman of the Board of Directors.

Mr Gekov participates in the management of "PCA" OOD, UIC 201477526 and holds 25% of the company's capital. Mr Gekov holds 19% of the capital of BULGARPLOD CHERRY OOD, UIC 200204916.

- Bilian Lyubomirov Balev participates in the management of Micro Financing Institution JOBS EAD, UIC 201390740 as Chairman of the Board of Directors.

Mr Balev is a partner in "Fininvest" OOD and holds 99% of the capital of the company. The company is a foreign legal entity, established and existing under the laws of the United Kingdom of Great Britain and Northern Ireland. Mr Balev is a member of the administrative board of the European Association of Public Banks (EAPB) domiciled in Brussels, Belgium.

- Iliya Vasilev Kirchev participates in the management of Microfinance Institution JOBS EAD, UIC 201390740 as Deputy Chairman of the Board of Directors.

Mr. Kirchev is a member of the management bodies of the following non-profit organisations:

1. Foundation "Academy 2007", town of Kardzhali, UIC 108688838;
2. Cultural Center "Dr. Hristo Adjarov"- Plovdiv, UIC 175962774.

BDB is a sole shareholder of the capital of its subsidiaries NGF EAD and MFI Jobs EAD.

NGF EAD has a one-tier management structure consisting of Board of Directors (BD), which during 2015 consisted of three members.

In 2015 the Board of Directors comprised three members.

NGF is represented jointly by any two of the members of the Board of Directors.

From the beginning of the year the Board of Directors was composed by Dimo Spassov - Chairman of the Board, Mihail Sotirov – member of the Board, and Samuil Pavlov Shiderov - member of the Board and Executive Director.

On 03 February 2015, by decision of the Management Board of Bulgarian Development Bank AD, the discharge of Mr Dimo Spassov as a member of the Board of Directors (BD) of National Guarantee Fund and the appointment of Mr Angel Gekov as a member of the BD of NGF were approved. On 09 February 2015, at a meeting of BD of NGF, Mr Angel Gekov was elected as Chairman of BD of the company and Mr Samuil Shiderov was elected as Vice Chairman of BD and Executive Director.

The change in the composition of the Board of Directors of NGF was registered with the Commercial Register at the Registry Agency on 16 February 2015.

On 17 March 2015, by decision of the Management Board of Bulgarian Development Bank AD, the discharge of Mr Mihail Sotirov as a member of the Board of Directors (BD) of National Guarantee Fund and the appointment of Mr Alexander Georgiev as a member of the BD of NGF were approved. On 23 March 2015 г., at a meeting of BD of NGF, Mr Angel Gekov was elected as Chairman of BD of the company and Mr Samuil Shiderov was re-elected as Vice Chairman of BD and Executive Director.

The change in the composition of the Board of Directors of NGF was registered with the Commercial Register at the Registry Agency on 27 March 2015.

At 31 December 2015 the following individuals were members of the Board of Directors: Angel Gekov – Chairman of BD, Alexander Georgiev – member of BD, and Samuil Shiderov – Vice Chairman of BD and Executive Director of NGF.

The Fund is represented jointly by any two of the members of the Board of Directors.

The members of the Board of Directors of NGF EAD do not hold shares of the Fund and do not have special rights to acquire such shares.

No contracts within the meaning of Art. 240 "b" of the Commercial Law (outside the scope of the usual activities or significantly deviating from markets conditions) are concluded between the members of the BD of NGF EAD or related persons on one side and the company on the other side.

The participation within the meaning of Art.247, paragraph 2, item 4 of the Commercial Law, of members of the BD of NGF EAD in commercial companies as general partners, holding of more than 25 percent of the capital of another company, as well as their participation in the management of other companies or associations as procurators, managers or Board members, is as follows:

- Angel Kirilov Gekov is Executive Director and Chairman of the Management Board of Bulgarian Development Bank AD. Mr Gekov participates in the management of "PCA" OOD, UIC 201477526 and holds 25% of the company's capital. Mr Gekov holds 19% of the capital of BULGARPLOD CHERRY OOD, UIC 200204916.
- Alexander Georgiev is a sole owner of KA SERVICE EOOD, UIC 114672190, Brandi BG EOOD, UIC 202605174, SP „Alexander Georgiev – AG", UIC 824083350.
- Samuil Pavlov Shiderov does not have participations in other companies within the meaning of Art.247, paragraph 2, item 4 of the Commercial Law. Mr Shiderov is a member of the Board of Directors of European Association of Guarantee Institutions – AECM – an international non-profit organisation domiciled in Brussels, Belgium.

MFI Jobs EAD also has a one-tier management structure - Board of Directors (BD) consisting of three members.

From the beginning of 2015 until the date of preparation of this report, the following changes have been made in the composition of the Board of Directors of the Company:

On 03 February 2015, by decision of the Management Board of Bulgarian Development Bank AD, the discharge of Mr Lachezar Todorov as a member of the Board of Directors (BD) of Micro Financing Institution JOBS and the appointment of Iliya Kirchev as a member of the BD of the company were approved. On 08 February 2015, at a meeting of BD of MFI JOBS, Mr Bilian Balev was re-elected as Chairman of BD of the company, Mr Iliya Kirchev was elected as Vice Chairman of BD, and Mr Kostadin Munev was re-elected as Executive Director of the company.

The change in the composition of the Board of Directors of MFI JOBS was registered with the Commercial Register at the Registry Agency on 16 February 2015.

As of 31 December 2015 the Board of Directors had the following members: Bilian Balev – Chairman of the Board of Directors, Iliya Kirchev – Vice Chairman of the Board of Directors and Kostadin Munev – member of the Board of Directors and Executive Director.

The Company is represented jointly by any two of the members of the Board of Directors.

No contracts, which fall beyond the ordinary course of business or significantly deviate from market conditions, within the meaning of Art. 240 "b" of the Commercial Law, were concluded between members of the SB, MB or related persons on one side, and the Company on the other side.

The participation within the meaning of Art.247, paragraph 2, item 4 of the Commercial Law, of members of the BD of MFI Jobs EAD in commercial companies as general partners, holding of more than 25 percent of the capital of another company, as well as their participation in the management of other companies or associations as procurators, managers or Board members, is as follows:

- Bilian Lyubomirov Balev is Executive Director and Vice Chairman of Bulgarian Development Bank AD.

Mr Balev is a partner in "Fininvest" OOD and holds 99% of the capital of the company. The company is a foreign legal entity, established and existing under the laws of the United Kingdom of Great Britain and Northern Ireland. Mr Balev is a member of the administrative board of the European Association of Public Banks (EAPB) domiciled in Brussels, Belgium.

- Iliya Vasilev Kirchev is Executive Director and member of the MB in the Bank. Mr. Kirchev is also a member of the management bodies of the following non-profit organisations:
    1. Foundation "Academy 2007", town of Kardzhali, UIC 108688838;
    2. Cultural Center "Dr. Hristo Adjarov"- Plovdiv, UIC 175962774.

- Kostadin Bozhikov Munev does not have participations in other companies within the meaning of Art.247, paragraph 2, item 4 of the Commercial Law.

The remuneration paid to the persons managing the companies of the BDB Group in 2015 amounted to BGN 1,994 thousand.

TRANSACTIONS WITH RELATED PARTIES AND COMPANIES UNDER COMMON CONTROL WITH THE STATE

The owner of BDB is the Bulgarian State, hence the BDB Group companies are related parties to the government authorities of the Republic of Bulgaria and the companies in which it exercises control. The transactions with related parties and companies under common control with the State are disclosed in note № 38 to the consolidated financial statements of BDB for 2015.

DEVELOPMENT STRATEGY AND BUSINESS GOALS. FINANCIAL GOALS AND OBJECTIVES

BDB is a key instrument and channel for conducting government economic policies, including in specific areas, regions, industries and social groups. The Bank actively collaborates with all government state structures in order to ensure maximum impact of the public funds targeted on support of the economic development.

The BDB Group operates in full transparency and applies the best banking and management practices. A core objective of the Group is to identify and analyse the sectors of the economy experiencing difficulties in obtaining financing, and to undertake the necessary measures to facilitate their access to finance.

Facilitating SMEs access to bank financing is not the only priority of the Bank. The Group supports government efforts for acceleration of economic growth in the country by means of providing expertise and performing activities in all area of economic policies, facilitating the absorption of the EU structural funds, enhancing the export potential of the country, etc.

In the light of the foregoing, the main principle underlying the Group's activity is to supplement the market and not to allow displacement of the traditional commercial banks from the market. The objective of the Group's activity is only to compensate any existing market shortages in financing certain segments and thus, to adjust their risk profile and to encourage the commercial banks to develop their exposures to these segments.

The BDB strategic goals are:

- To facilitate the economic growth by increasing its exposure in support of regions and sectors of the economy with suppressed growth;
- To facilitate the economic growth of the regions through financing, priority syndicated by nature, of sizable and infrastructural by nature investments;
- To support the development of competitive production initiatives and sectors of the economy of proven export potential;

- To facilitate, jointly with the other institutions, the access to financing of innovative and newly established companies;
- To facilitate and support the direction of capital flows to the Bulgarian economy.

The commercial policy of the Group foresees to preserve the two approaches adopted so far for the support of SMEs sector - direct lending and indirect programs. Additionally, the Group will strictly adhere to its core principles:

- Supplementing the market and keeping distance from competition with the commercial banks;
- Liberal pricing policy with adequate coverage of risks assumed.

Regarding the direct lending, the Group will further develop product lines, focused on problem areas of SME's activities, which need special support. In this respect, priorities will be pre-export, export and bridge financing. Traditionally, the Group will continue to provide funding to SMEs with extended initial maturity and relaxed collateral requirements.

Considering the specifics of both its product lines and the limited branch network, the Group will realise its priorities using all available legal forms, including through the establishment of the Equity Investment Fund envisaged in Bulgarian Development Bank Act.

Key priority in the commercial efforts will be the development of indirect SME financing programs. These programs will be significantly diversified with regard to the thematic focus and maturity. Product lines with greater flexibility in terms of maturity, interest rates, etc. will be developed, which will make them easily adaptable to the changing market conditions and thus to the requirements of the partner banks. The Group shall provide resources with the adequate risk sharing component. The Group considers that given the current highly liquid environment in the banking sector, underwriting of the incremental risk (the additional risk that restrains bank financing), together with partner banks, would be the key to the success of indirect loans programs.

The Group will collaborate with the management bodies of the EU operational programs in Bulgaria, by identifying existing financial gaps of specific measures and will propose solutions to resolve them, including specific forms of financing. The Group intends to maintain close consultations with authorities in order to become an integrated part of the overall model of managing public resources for the support of the real economy. The Group considers its participation as an essential step in the improvement of the effectiveness of measures in support of the Bulgarian economy.

Key strategic objectives and policies of the Bank within horizon of Strategy 2015-2018 will be as follows:

- ✓ Reallocation of the assets in such a manner that indirect SMEs financing obtains a major contribution. Target ratio of indirect to direct financing should be 60:40;
- ✓ Realization of a sustainable process in the creation and development of targeted product lines under the two main approaches for SME financing;
- ✓ Conservative assessment of risks and maintenance of high level of impairment coverage of problem loans.

The Group intends to significantly diversify its funding sources. Bond instruments are expected to increase as a proportion of the liabilities.

The Group will continue to support Bulgarian State initiatives promoting the economic and social development in the country. Specifically, in 2016 the Bank will continue to support the implementation of the National program for rehabilitation of multifamily buildings.

Through its subsidiaries the BDB Group will continue to expand the range of services for SMEs, whereas NGF will develop the administration of guarantee programs targeted to specific business sectors and also will develop guarantee activities for their own risk. Moreover, the mission of MFI will be to ensure access to microlending resources. The Fund for Capital Investments, foreseen by the law of BDB, is going to be established.

POST BALANCE SHEET EVENTS

In the period between the balance sheet date and the date of preparation of this report no events have occurred, which could have a significant impact on the facts represented in the report.

MANAGEMENT'S REPRESENTATIONS

Management declares that the attached annual financial statements give a true and fair view of the property and financial position of the BDB Group at the end of 2015 and of the calculation of the financial result for the year in accordance with the effective law. Suitable accounting policies have been used and applied consistently. The necessary judgments are made in accordance with the principle of prudence in the preparation of the annual financial accounting statement at the year-end. Management applies consistently the applicable accounting standards and the annual financial statements have been prepared on a going concern basis.

Management of the banking group endeavours to maintain an adequate accounting system that complies with the applicable accounting standards. The annual financial statements disclose the standing of the BDB Group with a reasonable degree of accuracy.

All measures are taken to protect the assets of the BDB Group companies, to prevent fraud and violations of laws in the country and regulations of BNB on the banking activity.

This Management Report was approved on 18 March 2015 by the Management Board of BDB and signed by:

EXECUTIVE DIRECTORS:

ANGEL GEKOV BILIAN BALEV ILIYA KIRCHEV

БЪЛГАРСКА БАНКА ЗА РАЗВИТИЕ АД
БЪЛГАРСКА БАНКА ЗА РАЗВИТИЕ

Building a better
working world

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Independent auditors' report

To the shareholders of

BULGARIAN DEVELOPMENT BANK AD

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Bulgarian Development Bank AD and its subsidiaries, which comprise the consolidated statement of financial position as of 31 December 2015, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and 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 presentation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards, as adopted for use in 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.

Auditors' 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 the auditor's 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, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

Translation in English of the official Auditors' Report issued in Bulgarian.

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 financial position of Bulgarian Development Bank AD and its subsidiaries as of 31 December 2015, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted for use in the European Union.

Other matter

The consolidated financial statements of Bulgarian Development Bank AD and its subsidiaries for the year ended 31 December 2014 were audited by another auditor who expressed an unmodified opinion on those statements on 7 April 2015.

Report on other legal requirements

Pursuant to the requirements of the Bulgarian Accountancy Act, article 38, paragraph 4 (effective for financial year 2015), we read the Annual Management Report accompanying the consolidated financial statements for the year ended 31 December 2015.

In our opinion, the information given in the Annual Management Report is consistent with the accompanying annual consolidated financial statements as of 31 December 2015.

Nikolay Garnev, CPA

Registered Auditor

Managing Partner

Ernst & Young Audit OOD

18 March 2016

Sofia, Bulgaria

Translation in English of the official Auditors' Report issued in Bulgarian.

BULGARIAN DEVELOPMENT BANK GROUP

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2015
All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

	Note	As of 31 December 2015	As of 31 December 2014
Assets			
Cash in hand and balances in current account with the Central Bank	16	343,853	387,221
Receivables from banks	17	267,536	547,024
Financial assets held-for-trading	21	305	1,436
Loans and advances to customers	18	641,119	625,325
Receivables from the State budget	19	29,885	-
Available-for-sale securities	20	262,968	296,995
Net investment in finance lease	23	982	1,470
Assets, held for sale	26	8,720	1,134
Current tax receivables		-	858
Securities, held to maturity	22	1,979	1,980
Other assets	27	916	418
Assets, acquired from collateral foreclosure	27	4,714	8,708
Investment property	25	7,744	-
Property, plant and equipment, intangible assets	24	24,659	20,743
Deferred tax assets	14	1,304	1,183
Total assets		**1,596,684**	**1,894,495**
Liabilities			
Deposits from credit institutions	28	842	75,956
Financial liabilities, held for trading	21	362	888
Current tax liabilities		305	-
Deposits from customers other than credit institutions	29	566,144	535,593
Debenture loans	32	-	78,499
Provisions	33A	6,327	6,993
Other liabilities	33B	1,371	1,627
Borrowings from international institutions	30	178,723	221,065
Other borrowings	31	123,459	291,703
Total liabilities		**877,533**	**1,212,324**
Equity			
Share capital	34	601,774	601,774
Retained earnings		39,832	8,157
Revaluation reserve on available-for-sale securities	35	1,567	7
Reserves	35	75,978	72,233
Total equity		**719,151**	**682,171**
Total liabilities and equity		**1,596,684**	**1,894,495**

The notes on pages 6 to 83 are an integral part of these consolidated financial statements. The consolidated financial statements were approved by the Management Board of Bulgarian Development Bank AD on 18 March 2016.

Angel Gekov	Bilian Balev	Iliya Kirchev	Ivan Lichev
Executive Director	*Executive Director*	*Executive Director*	*Chief accountant*

Financial statemants
on which our auditors' report was
issued dated:

EY 18-03-2016

Ernst & Young Audit OOD

EY Representative and Registered Auditor: ....

BULGARIAN DEVELOPMENT BANK GROUP

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2015
All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

	Note	2015	2014
Interest income	6	62,605	68,220
Interest expense	6	(7,726)	(12,096)
Net interest income		**54,879**	**56,124**
Fee and commission income	7	3,340	2,950
Fee and commission expense	7	(92)	(217)
Net fee and commission income		**3,248**	**2,733**
Net income on foreign exchange deals	8	429	617
Net loss on available-for-sale securities	9	(40)	(17)
Net gain on financial instruments held-for-trading	10	309	494
Other operating income	11A	1,959	1,163
Other operating expenses	11B	(1,014)	(515)
Operating income before impairment		**59,770**	**60,599**
Costs of personnel	13A	(9,782)	(8,457)
General and administrative expenses	13B	(8,901)	(4,319)
Depreciation / amortisation expenses	24	(553)	(526)
Income/(expenses) from/on reversed impairment and provisions	12	2,441	(38,653)
Profit before income tax		**42,975**	**8,644**
Income tax expense	14	(4,299)	(863)
Net profit for the year		**38,676**	**7,781**
Other comprehensive income			
Items not to be reclassified to profit or loss in subsequent periods			
Actuarial (losses)/gains on defined benefit plans, net of taxes		(8)	7
Items to be reclassified to profit or loss in subsequent periods			
Net change in fair value of available-for-sale financial assets, net of tax	15	1,560	53
Total other comprehensive income for the year, net of tax		**1,552**	**60**
Total comprehensive income for the year		**40,228**	**7,841**

The notes on pages 6 to 83 are an integral part of these consolidated financial statements. The consolidated financial statements were approved by the Management Board of Bulgarian Development Bank AD on 18 March 2016.

Angel Gekov	Bilian Balev	Iliya Karanikolov Kirchev	Ivan Lichev
Executive Director	*Executive Director*	*Executive Director*	*Chief accountant*

БЪЛГАРСКА БАНКА ЗА РАЗВИТИЕ АД

Financial statemants on which our auditors' report was issued dated:

EY 18-03-2016

Ernst & Young Audit OOD

EY Representative and Registered Auditor:

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
AS AT 31 DECEMBER 2015
All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

	Share capital	Statutory reserves	Additional reserves	Revaluation reserve on available-for-sale securities	Retained earnings	Total
At 01 January 2014	**601,774**	**54,609**	**9,442**	**(46)**	**15,676**	**681,455**
Comprehensive income for the period						
Profit	-	-	-	-	7,781	7,781
Other comprehensive income	-	-	7	53	-	60
Total comprehensive income	-	-	7	53	7,781	7,841
Transactions with owners, recognised in equity						
Dividends to equity holders	-	-	-	-	(7,125)	(7,125)
Transfer to Reserves based on shareholders' decision	-	5,121	3,054	-	(8,175)	-
Total transactions with owners	-	5,121	3,054	-	(15,300)	(7,125)
At 31 December 2014	**601,774**	**59,730**	**12,503**	**7**	**8,157**	**682,171**
Comprehensive income for the period						
Profit	-	-	-	-	38,676	38,676
Other comprehensive income	-	-	(8)	1,560	-	1,552
Total comprehensive income	-	-	(8)	1,560	38,676	40,228
Transactions with owners, recognised in equity						
Dividends to equity holders	-	-	-	-	(3,248)	(3,248)
Transfer to Reserves based on shareholders' decision	-	1,551	2,202	-	(3,753)	-
Total transactions with owners	-	1,551	2,202	-	(7,001)	(3,248)
At 31 December 2015	**601,774**	**61,281**	**14,697**	**1,567**	**39,832**	**719,151**

The notes on pages 6 to 83 are an integral part of these consolidated financial statements. The consolidated financial statements were approved by the Management Board of Bulgarian Development Bank AD on 18 March 2016.

Angel Gekov
Executive Director

Bilian Balev
Executive Director

БЪЛГАРСКА БАНКА ЗА РАЗВИТИЕ АД
БЪЛГАРСКА БАНКА ЗА РАЗВИТИЕ

Ilya Kirchev
Executive Director

Ivan Lichev
Chief accountant

Financial statemants
on which our auditors' report was
Issued dated:

EY 18-03- 2016

Ernst & Young Audit OOD

EY Representative and Registered Auditor:..........

BULGARIAN DEVELOPMENT BANK GROUP

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2015
All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

	Note	2015	2014
Cash flows from operating activities			
Profit for the year		38,676	7,781
Adjustments for:			
Dividend income	11A	(46)	(48)
(Income)/expenses from/on reversed loan impairment	12	(1,629)	40,317
Income from reversal of provision on guarantees	12	(825)	(2,800)
Impairment loss on available-for-sale securities	9	43	60
Loss on revaluation of investment property	11B	335	-
Impairment loss and sale of other receivables	27	306	1,383
Income from reversed impairment of finance lease	23	(34)	(21)
Gain on revaluation of financial assets held-for-trading	10	(155)	(340)
Net gain on revaluation of foreign currency assets and liabilities	8	(195)	(190)
Depreciation / amortisation expenses	24	553	526
Carrying amount of written-off assets	24	59	4
Income tax expense	14	4,299	863
		41,387	47,535
Changes in:			
Reserve Guarantee Fund with the Central Bank	16	3	20
Receivables from banks		86,514	359,346
Loans and receivables		11,765	(160,652)
Loans to the State budget		(29,885)	-
Available-for-sale securities		37,785	(135,488)
Held-for-trading financial instruments		760	884
Net investment in finance lease		522	855
Assets held for sale		(11,718)	(1,134)
Other assets		103	427
Deposits from credit institutions		(79,939)	(9,612)
Deposits from customers other than credit institutions		28,034	176,643
Other liabilities		16	(592)
Dividends received		46	48
Income taxes (paid)/refunded		(4,114)	124
Cash flows from operating activities		**81,279**	**278,404**
Cash flows from investing activities			
Cash payments on acquisition of tangible/ intangible assets		(4,595)	(4,235)
Cash proceeds from sale of tangible/ intangible assets		67	12
Cash proceeds from matured securities held to maturity		-	4,154
Net cash flows used in investing activities		**(4,528)**	**(69)**
Cash flows from financing activities			
Dividends paid		(3,248)	(7,125)
Cash paid on issued debenture loans		(78,499)	-
Cash paid on other borrowings		(169,064)	(25,659)
Cash received from other borrowings		851	825
Cash received from borrowings from international institutions		7,762	19,558
Cash paid on borrowings from international institutions		(50,935)	(74,506)
Net cash flows used in financing activities		**(293,133)**	**(86,907)**
Net (decrease)/increase in cash and cash equivalents		(216,382)	191,428
Cash and cash equivalents at the beginning of period	37	638,047	446,619
Cash and cash equivalents at end of period	37	**421,665**	**638,047**

The notes on pages 6 to 83 are an integral part of these consolidated financial statements. The consolidated financial statements were approved by the Management Board of Bulgarian Development Bank AD on 18 March 2016.

Angel Gekov *Executive Director*	Bilian Balev *Executive Director*	Iliya Kirchev *Executive Director*	Ivan Lichev *Chief accountant*

БЪЛГАРСКА БАНКА ЗА РАЗВИТИЕ АД

Financial statements on which our auditors' report was issued dated:

EY 18-03-2016

Ernst & Young Audit OOD

EY Representative and Registered Auditor: ....

1. ORGANISATION AND OPERATING POLICIES

Bulgarian Development Bank Group (the "Group") includes the parent-company – Bulgarian Development Bank AD (BDB AD/the "Bank") and its subsidiaries – National Guarantee Fund EAD (NGF/ the "Fund") and Micro Financing Institution JOBS EAD (MFI).

Bulgarian Development Bank AD (BDB AD/ the"Bank") was established on 11 March 1999 as a joint-stock company in Bulgaria under the name "Encouragement Bank" AD.

Bulgarian Development Bank Act was adopted on 23 April 2008 (SG 43/29.04.2008) to regulate the structure and the scope of Bank's activities, including those for its subsidiaries, envisaged for incorporation. By virtue of that law the functions and all rights and obligations were applied to Encouragement Bank AD. Pursuanrt to a requirement of the law, a General Meeting of the Shareholders was held (26 June 2008) at which the name of the Bank was changed to Bulgarian Development Bank and its Articles of Incorporation were amended in line with the new legal requirements thereto.

The registered address of the Bank is at 10, Stefan Karadzha Str., Sofia.

The Bank holds a general banking licence, issued by Bulgarian National Bank (BNB) on 25 February 1999 with latest update of 16 November 2009 (due to the new Credit Institutions Act), and is allowed to conduct all banking transactions permitted by the Bulgarian legislation. The Bank is also a licensed investment intermediary.

From the very beginning, the Bank was established with a special purpose – to support the implementation of the economic policies of the State by financing the business development of small and medium-sized enterprises (SME), including by supporting their investment and export abilities and initiatives. With the adoption of Bulgarian Development Bank Act in 2008 this objective was further elaborated in the objectives, principles and scope of the Bank's activities set by the law.

The Bank's activity includes: pre-export and export financing of SME; financing SME operations and projects either through intermediary banks or directly; refinancing banks that grant loans to SME; financing SME investments abroad.

The main objectives of the Bank are to promote, encourage and develop the general economic, export and technological potential of SMEs by facilitating their access to finance; drawing in and management of medium and long-term local and foreign resources needed for the implementation of economic development in the country; implementation of schemes and instruments to finance public investment projects that are priorities for the country's economy; fundraising and project management of international financial and other institutions; fundraising and grant funding in order to reduce regional misbalances in the country; financing of projects of local companies that create export, innovation, high employment and / or value added; financing of priority sectors of the economy, in line with the government policy for economic development.

The Bank is managed by Management Board with members as of 31 December 2015 as follows:

1. Angel Gekov, Executive Director and Chairman of MB
2. Bilian Balev, Executive Director and member of MB
3. Iliya Kirchev, Executive Director and member of MB

The Bank is represented jointly by two Executive Directors.

As of 31 December 2015 the Bank's employees were 151 (31 December 2014: 146).

Bulgarian Development Bank Act (2008) envisages the establishment of two Bank subsidiaries - the Equity Investment Fund and the National Guarantee Fund.
The Equity Investment Fund is at project level and had not yet been established as of 31 December 2015.

1. ORGANISATION AND OPERATING POLICIES (continued)

The National Guarantee Fund (NGF) was established on 12 August 2008 as a sole owner joint-stock company with 100% ownership of BDB. The registered office of the Fund is at 105 Arsenalski Blvd., Sofia. As of 31 December 2015 the registered share capital consisted of 800,000 registered nominal shares with par value of BGN 100 each (31 December 2014: 800,000 registered nominal shares with par value of BGN 100 each); the paid-in capital amounted to BGN 80,000,000 as of 31 December 2015 (31 December 2014: BGN 80,000,000).

The scope of NGF's principal activities is defined by Bulgarian Development Bank Act. It includes:

a) Issue of guarantees to supplement the collaterals for SME loans;

b) Provide other guarantee products, such as:

- guarantees for participation in tenders
- good performance guarantees;
- guarantees for advance payments
- guarantees for payment of loans to exporters, etc.;

c) Issue of guarantees to supplement collateral on loans of SME carrying out research and development activities and for implementing these products and scientific developments in the industry;

d) Other similar services.

The National Guarantee Fund is managed by a Board of Directors (BD) with a mandate ending 12 August 2016. Members of the board are: Samuil Shiderov, Angel Gekov and Alexander Georgiev.

At 31 December 2015 NGF had 14 employees (31 December 2014: 18).

Micro Financing Institution JOBS EAD (MFI) was incorporated on 23 December 2010 and registered on 14 January 2011 as a sole owner joint stock company, 100% owned by BDB. The registered address of the MFI is at 105 Arsenalski Blvd., Sofia. As of 31 December 2015 the registered share capital comprised of 76,430 registered shares with par value of BGN 100 each, and the paid-in capital as of 31 December 2015 amounted to BGN 7,643,000 (as of 31 December 2014 the registered share capital comprised of 76,430 registered shares with par value of BGN 100 each, and the paid-in capital as of 31 December 2014 amounted to BGN 7,643,000.)

The scope of activities of Micro Financing Institution JOBS EAD includes:

micro-financing including, but not limited to, provision of loans; purchase from third parties and leasing of industrial equipment, automobiles and other vehicles, as well as other assets (financial leasing); sale and purchase of such items; consultancy; trade representation and mediation for local and foreign persons operating in the country, as well as any other activities not prohibited by law.

MFI JOBS EAD is managed by a Board of Directors (BD) with mandate ending 14 January 2019, for a period of 5 years. Members of the board are: Kostadin Munev, Bilian Balev and Iliya Kirchev.
At 31 December 2015 MFI had 13 employees (31 December 2014: 9).

As of 31 December 2015 Bulgarian Development Bank did not have branches.

The consolidated financial statements were approved by the parent company's ("the Bank's) Management board on 18 March 2016.

2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

Applicable standards

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

These consolidated financial statements have been prepared on a consolidated basis. The Bank prepares separate financial statements in accordance with the Accounting Act. These consolidated financial statements shall be read together with the separate financial statements.

Basis of preparation

These financial statements have been prepared on the historical cost basis except for the following items:

- Derivative financial instruments, measured at fair value;
- Instruments held for trading and other instruments, designated at fair value through profit and loss, as long as the fair value can be measured reliably;
- Available-for-sale instruments, designated at fair value through profit and loss, as long as the fair value can be measured reliably;
- Investment property, designated at fair value through profit and loss, as long as the fair value can be measured reliably.

Order of liquidity and maturity structure

In general, the Group presents its consolidated statement of financial position in order of liquidity. An analysis regarding recovery of assets or settlement of liabilities within twelve months after the date of the statement of financial position (current) and more than twelve months after the date of the statement of financial position (non-current) is presented in the notes to the consolidated financial statements.

Comparability of data

The consolidated financial statements provide comparative information with respect to one previous period.
Aiming at achieving better presentation of disclosures, the Group's management judged as necessary and revised the presentation of the previous reporting period with respect to some items of the consolidated statement of comprehensive income. The revision includes a broadened disclosure of operating income and expenses (from transactions with investment and assets available for sale) (for further details, see Note 11).

Presentation currency

These financial statements are presented in thousands of Bulgarian leva (BGN'000), which is the Bank's functional currency.

Basis of consolidation

These consolidated financial statements have been prepared in accordance with IFRS 10 "Consolidated financial statements", as all entities over which Bulgarian Development Bank AD has control through ownership of:

- rights to manage all important activities of the investee;
- exposure or rights to variable return (to obtain benefits or to suffer losses from the activity) from its participation in the entity;
- possibility to exercise control over the investee in order to influence the amount of the return,

have been consolidated through the full consolidation method.

2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Basis of consolidation (continued)

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes in one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control over the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Upon consolidation all receivables and liabilities, income and expenses, arising from transactions between the Bank and its subsidiaries, are eliminated. Unrealised losses are eliminated in the same way as the unrealised profit in case there are no indications of impairment.

The subsidiaries' financial statements have been prepared for the same reporting period as that of the parent company (the Bank) by applying consistent accounting policies.

The consolidated entities and the consolidation method applied as of 31 December 2015 are as follows:

Entity	**Capital ownership**	**Consolidation method**
National Guarantee Fund	100%	Full consolidation
Microfinance Institution "JOBS"	100%	Full consolidation

Accounting estimates

The preparation of the consolidated financial statements in accordance with International Financial Reporting Standards requires management to make judgements, estimates and assumptions that affect the reported amounts of income, expenses, assets and liabilities, and the disclosure of contingent liabilities at the date of the financial statements. These estimates are made on the basis of information available as of the date of the financial statement and therefore, the actual results may differ from these estimates. The items presuming a higher level of subjective assessment or complexity, or where the assumptions and accounting estimates are material for the financial statements, are disclosed in the notes below.

Key estimates and assumptions of high uncertainty

a) Impairment losses on loans and advances

Monthly, the Group reviews its loan portfolio in order to detect the existence and calculates impairment losses. When assessing whether to include the impairment loss in the statement of comprehensive income, the Group's management considers whether there are and what are the visible indicators and data, which indicate that there is a measurable reduction in the expected cash flows from the loan portfolio as a whole, or respectively – a decrease associated with a particular loan/component from this portfolio. Such indicators and data are those that indicate the existence of an adverse change in the payment options by the borrowers from a particular group or by a particular borrower, or the presence of national, economic or other conditions that are associated with a particular risk for a given group/type of loans.

When analysing the risks of impairment losses and uncollectability, the loans are grouped in four risk categories: "standard", "watch", "non-performing" and "loss". The main indicators for determining the risk groups are the debtor's financial condition and project implementation, funded by the loan, problems with servicing, including interest in arrears and maturing principal, sources of repayment and granted collateral, as a type and opportunity for realisation. Additionally, for loans, guaranteed by the EIF, the impairment loss is recognised after deduction of the portion borne by the Fund (Note № 4.1).

2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Key estimates and assumptions of high uncertainty (continued)

a) Impairment losses on loans and advances (continued)

In determining the future cash flows pattern, the Group's management uses estimates, judgments and assumptions based on its historical loss experience for assets with similar credit risk characteristics, as well as an objective evidence for impairment of the portfolio from non-crystallized loss in a particular component thereof. Analogous approach is used also for assessments at individual loan level, with respect to individually significant loans, taking into account the quality of collateral as well. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly so as to minimize the discrepancies between loss estimates and actual loss experienced (Notes № 12, 18).
In 2015, management conducted a retrospective analysis of actual losses experienced on loans in order to update the applicable rates for loan impairment on a portfolio basis. As a result of this analysis, the applied rate of impairment on a portfolio basis was set at 2.04% (2014: 2.04%).

b) Measurement of available-for-sale financial instruments non-quoted on the active stock market

The Group classifies its investments as share participation in other non-public companies/entities (below 20% of their capital) as available-for-sale financial assets that have been acquired for the purpose of establishing and development of business relations of importance for the Group. Management has judged and accepted that they should be measured at acquisition price (cost) because sufficiently reliable sources and methods to determine their fair value are not available at present and due to the specific closed manner of their trading until the time when new circumstances occur that allow the formation of reasonable assumptions and reliable valuation of their fair value.

Analysis and assessment are performed by the Group at each end of reporting period as to whether indications of impairment of its investments exist. The significant and continuous decrease in equity, including below the level of the registered share capital of the company/entity, subject to investment, is regarded as a main indicator. In such cases, impairment is determined with the assistance of a certified appraiser, but the smallest amount that is reported is that of the difference between the acquisition price (cost) and the assessment of participation under the equity method, including with additional adjustments of net assets, if necessary. In the cases of partial sales of similar shares in the reporting period, those from the same issuer, but remaining in the Group's statement of financial position, are revalued at the selling price (Notes № 9, 20).

c) Impairment of available–for-sale financial instruments quoted on stock markets

As of 31 December 2015 the Group conducted a detailed comparative analysis of the movements in the stock market prices of public companies shares held by it on the national stock market.
For investments in companies, whose shares are listed for dealing at the Bulgarian Stock Exchange, management has carried out research and analyses and deems that they may be subsequently carried at fair value determined directly on the basis of completed transactions in the stock market in the last month of the financial year (Level 1). In addition, the applied prices are analysed for trends in the behaviour of stock exchange prices of the respective securities at least for the last three months of the year and respectively, to the date of issuing of the consolidated financial statements. (Notes № 9, 15, 20).
For investments in securities available for sale, held by the Group for more than one year after the date of acquisition, a special analysis was conducted of monitored graphics of movement/volatility of their stock exchange prices and fair values, determined by alternative valuation techniques for a period of 18 months to 31 December, in order to determine whether there are conditions of permanent and material impairment.

2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Key estimates and assumptions of high uncertainty (continued)

d) Provisions for issued bank guarantees

At the end of each reporting period the Group reviews its contingent liabilities for the purpose of establishing whether any events have occurred, that would confirm with a high probability outflow of Group's resources might take place for the settlement of an obligation. If such events occur, the Group provides its liability up to the amount of its future costs related to the outflows of economic benefits/payments. These costs/losses are determined on the basis of the present value of the future net cash flows, representing the difference between the payment obligation and the possible inflows of subsequent recourse to third parties (Notes № 12, 33A, 36).

e) Actuarial calculations

In assessing the present value of the long-term liabilities to employees upon retirement, actuarial methods and calculations are used based on assumptions for mortality rate, staff turnover rate, future salary levels and a discount factor considered by management as reasonable and relevant to the Group (Note № 33B).

f) Valuation of investment property

The fair value of investment property, which management considers reasonable and adequate for the Group, is determined by certified independent appraisers. The valuations are conducted by using various valuation techniques, such as the recoverable amount method, the method of income capitalisation, the method of market analogues, where for each method a weight is set for the purposes of achieving the final fair value of investment property at the end of the reporting period (Note № 25).

g) Assets acquired from collateral foreclosure

Assets acquired from collateral foreclosure include assets held for sale (as a result of acquired loan collateral), but not sold within the envisaged 12-month period and reclassified as Assets acquired from collateral foreclosure. These assets are measured at the lower of cost and net realisable value. The net realisable value, which management considers reasonable and adequate for the Group, is determined by certified independent appraisers.

h) Fair value of financial instruments

Where the fair values of financial assets and liabilities on the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable financial market indicators, where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The assumptions include liquidity factors, volatility for longer derivatives and discount rates, early payments and assumptions for non-performance in connection with securities for which assets have been provided as collateral.

2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year. The following amendments to standards have been adopted by the Company as of 1 January 2015:

- Annual improvements to IFRSs 2011-2013 Cycle which comprise minor clarification changes in:
    - IFRS 3 Business Combinations
    - IFRS 13 Fair Value Measurement
    - IAS 40 Investment Property

- *IFRIC 21 Levies.* IFRIC 21 clarifies that the Group recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is to be applied retrospectively. The amendments are effective for annual periods beginning on or after 17 June 2014.

The adoption of the above amendments to standards has no effect on these consolidated financial statements of the Group.

Standards issued but not yet effective and not early adopted

Standards issued but not yet effective and not early adopted up to the date of issuance of the Group's financial statements are listed below. This listing is of standards and interpretations issued, which the Group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Group intends to adopt those standards when they become effective.

Standards, interpretations and amendments to standards not early adopted – approved by the EC

- *IAS 16 Property, Plant and Equipment and IAS 38 Intangible assets (Amendments): Clarification of Acceptable Methods of Depreciation and Amortisation.* The amendments are effective for annual periods beginning on or after 1 January 2016. They clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, the ratio of revenue generated to total revenue expected to be generated cannot be used to depreciate property, plant and equipment or amortise intangible assets. It is not expected that these amendments would have an impact on the future consolidated financial statements of the Group.

- *IAS 16 Property, Plant and Equipment and IAS 41 Agriculture (Amendments): Bearer Plants.* The amendments are effective for annual periods beginning on or after 1 January 2016. Bearer plants will now be within the scope of IAS 16 and will be subject to all of the requirements therein. This includes the ability to choose between the cost model and revaluation model for subsequent measurement. Agricultural produce growing on bearer plants (e.g., fruit growing on a tree) will remain within the scope of IAS 41. Government grants relating to bearer plants will now be accounted for in accordance with IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, instead of in accordance with IAS 41. It is not expected that these amendments would have an impact on the future consolidated financial statements of the Group.

2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Standards issued but not yet effective and not early adopted (continued)

Standards, interpretations and amendments to standards not early adopted – approved by the EC (continued)

- *IAS 19 Employee benefits (Amended): Employee Contributions.* The amendment is effective for annual periods beginning on or after 1 February 2015. The amendment applies to contributions from employees or third parties to defined benefit plans. The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. It is not expected that these amendments would have an impact on the future consolidated financial statements of the Group.

- *IFRS 11 Joint Arrangements (Amendment): Accounting for Acquisitions of Interests in Joint Operations.* The amendment is effective for annual periods beginning on or after 1 January 2016. It adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business in accordance with IFRS. It is not expected that these amendments would have an impact on the future consolidated financial statements of the Group.

- *IAS 1 Presentation of Financial Statements: Disclosure Initiative (Amendment).* The amendments are effective for annual periods beginning on or after 1 January 2016. The amendments to IAS 1 Presentation of Financial Statements further encourage companies to apply professional judgment in determining what information to disclose and how to structure it in their financial statements. They clarify, rather than significantly change, existing IAS 1 requirements. The amendments relate to materiality, order of the notes, subtotals and disaggregation, accounting policies and presentation of items of other comprehensive income (OCI) arising from equity accounted Investments. The Group will analyse and assess the impact of these amendments on its future consolidated financial statements.

- *IAS 27 Separate Financial Statements (Amendment).* The amendment is effective from 1 January 2016. This amendment will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. It is not expected that this amendment would impact the financial position or performance in the Group's separate financial statements.

- *IAS 7 Statement of Cash Flows (Amendment) – Disclosure Initiative.* The amendment requires detailed reconciliation of opening and closing balances of all items included as cash flows from financing activity in the statement of cash flows. (The reconciliations will be included in the disclosures to the financial statements after the amendments enter into force.) The amendments are effective for annual periods beginning on or after 1 January 2017. It is not expected that these amendments would have an impact on the future consolidated financial statements of the Group.

- *IAS 12 Income Taxes (Amendment) – Recognition of Deferred Tax Asset for Unrealised Losses.* The limited amendment relates to clarification regarding the reporting of deferred tax assets, which occur after a revaluation of debt instruments measured at fair value. The amendments are effective for annual periods beginning on or after 1 January 2017. It is not expected that these amendments would have an impact on the future consolidated financial statements of the Group.

2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Standards issued but not yet effective and not early adopted (continued)

Standards, interpretations and amendments to standards issued by IASB/IFRIC, but not yet approved for use by the EC

Management believes it would be appropriate if it discloses the following new or revised standards, new interpretations and amendments to existing standards, which at the reporting date are already issued by the International Accounting Standards Board (IASB), but are not yet approved for use by the European Commission and therefore, have not been taken into account in the preparation of these financial statements. The date of coming into force of these standards will depend on the decision for their approval for use by the European Commission.

- *IFRS 9 Financial Instruments.* The standard is applied for annual periods beginning on or after 1 January 2018 with early adoption permitted. The final phase of IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. The Group will analyse and assess the impact of the new standard on its future financial position or performance.
- *IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception (Amendments).* The amendments are effective for annual periods beginning on or after 1 January 2016. The amendments clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. Also, the amendments clarify that only a subsidiary that is not an investment entity itself and provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 Investments in Associates and Joint Ventures allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. It is not expected that these amendments would have an impact on the future consolidated financial statements of the Group.

- *IFRS 14 Regulatory Deferral Accounts.* The standard is effective for annual periods beginning on or after 1 January 2016. The aim of this interim standard is to enhance the comparability of financial reporting by entities that are engaged in rate-regulated activities, whereby governments regulate the pricing of particular types of activity. This can include utilities such as gas, electricity and water. The standard requires that the effect of rate regulation must be presented separately from other items and grants exemption to IFRS first-time adopters. As the Group has adopted IFRS in prior periods and is not engaged in government regulated activities, it is not expected that the standard would have an impact on the future consolidated financial statements of the Group.

- *IFRS 15 Revenue from Contracts with Customers.* The standard is effective for annual periods beginning on or after 1 January 2018. IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations and key judgments and estimates. The Group will analyse and assess the impact of the new standard on its financial position or performance.

2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

- *IFRS 16 Leases.* The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 requires lessees to recognise most leases on their balance sheet and to have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. The Group will analyse and assess the impact of the new standard on its financial position or performance.

- *Amendments in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.* The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. A full gain or loss is recognised when a transaction involves a business or a partial gain or loss is recognised when a transaction involves assets that do not constitute a business. The amendments will be effective from annual periods commencing on or after 1 January 2016. It is not expected that these amendments would impact the financial position or performance of the Group.

Annual improvements to IFRSs 2010-2012 Cycle
In the 2010-2012 annual improvements cycle, the IASB issued amendments to seven standards which are effective for annual periods beginning on or after 1 February 2015. Summary of amendments and related standards are provided below:

- IFRS 2 Share-based Payments – amended definitions of 'vesting conditions' and 'market condition' and adding the definitions of 'performance condition' and 'service condition';
- IFRS 3 Business Combinations – clarification on the accounting for contingent consideration arising from business combination;
- IFRS 8 Operating Segments – additional disclosures of management judgement on aggregating operating segments and clarification on reconciliation of total segments' assets to the entity's assets;
- IFRS 13 Fair Value Measurement – clarification on interaction with IFRS 9 as regards short-term receivables and payables;
- IAS 16 Property, Plant and Equipment – amended to state that when an item of property, plant and equipment is revalued, the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount while the accumulated depreciation is calculated as a difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses;
- IAS 24 Related Party Disclosures – clarified that a management entity that provides key management services to a reporting entity is deemed to be a related party; disclosure of the service fee paid or payable is required;
- IAS 38 Intangible Assets – same amendment as IAS 16 above.

The Group will analyse and assess the impact of these amendments on its future consolidated financial statements.

Annual improvements to IFRSs 2012-2014 Cycle
In the 2012-2014 annual improvements cycle, the IASB issued amendments to four standards which are applicable for financial year 2016. Summary of amendments and related standards are provided below:

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – clarification that changing from one of the disposal methods to the other (through sale or through distribution to the owners) should not be considered to be a new plan of disposal, rather it is a continuation of the original plan;
- IFRS 7 Financial Instruments: Disclosures – provides examples of continuing involvement in a financial asset and clarifies required disclosures in the condensed interim financial report;
- IAS 19 Employee Benefits – clarification on long-term liability discount rate determination;
- IAS 34 Interim Financial Reporting – clarification on required interim disclosures: they must either be in the interim financial statements or incorporated by cross-reference to other interim financial information (e.g., in the management report) that is available to users on the same terms as the interim financial statements and at the same time.

The Group will analyse and assess the impact of these amendments on its future consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

Financial instruments

Financial assets

The Group initially recognises loans, receivables and deposits on the date they were incurred. All other financial instruments (including assets and liabilities designated at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

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

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial assets: loans and receivables, financial assets available-for-sale and financial assets held-to-maturity.

Financial assets carried at fair value through profit or loss

A financial asset is carried at fair value through profit or loss if it is a derivative held for trading or if it is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss when the Group manages them and makes decisions for purchases and sales on a fair value basis, in accordance with a documented risk or investment management strategy of the Group. Attributable transaction costs are recognised in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value and any related changes, including dividend income, are recognised in profit or loss. Upon initial acquisition, the Group's management determines whether a financial assets will be held for trading. Usually, management designates derivatives as such instruments.

A derivative is a financial instrument:

- Whose value changes in response to changes in interest rates, security prices, commodity prices, foreign exchange rates, price indices or interest rates, credit ratings or credit indices, or other variables;
- That requires no initial net investment, or one that is smaller than would be required for a contract with similar response to changes in market conditions;
- That is settled at a future date.

When upon entering a specific derivative transaction the Group defines a position to be hedged and all the requirements of IAS 39 have been met, the corresponding derivative is recognised as such hedging. Derivatives that do not meet the criteria for hedge accounting are classified as held for trading.

Initially, derivative financial instruments are measured at cost (including transaction costs) and subsequently, they are measured at fair value. Derivatives are accounted for as assets when their fair value is positive and as liabilities when it is negative.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially measured at fair value plus incremental direct transaction costs. Subsequently, loans and receivables are measured at their amortised cost using the effective interest rate, less any impairment losses. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument, or, where appropriate, a shorter period, to the present carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates the cash flows by considering all contractual terms of the financial instrument, but not considering any future credit losses. The calculation includes all charges and other fees paid to or received by the contractors that are an integral part of the effective interest rate.

The Group assesses, for individual assets or collectively, whether evidence of impairment of loans and receivables exists. All individually significant assets are tested for impairment. Those of them, for which there are no indications of impairment, are subject to collective impairment, which has occurred but is not yet identified. Assets that are not individually significant are included in a group of financial assets with similar credit risk characteristics and are collectively assessed for impairment. (Note 3: Impairment of financial assets).

The amount of the impairment loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. The impairment loss is recognised in profit or loss and reported in an allowance account reducing the amount of loans and receivables. When an event, which has occurred after an impairment has been recognised, reduces the impairment loss, this reduction is reversed through profit or loss.

Loans and receivables include cash and cash equivalents, receivables from banks, loans and advances to customers, receivables from the State budget, and trade and other receivables.

Sales and repo deals

Securities subject to repurchase ("repo") agreements are not derecognised from the consolidated statement of financial position. Securities acquired under reverse repo deals ("reverse repo") are stated as receivables from banks. The difference between the selling price and the repo price is reported as interest over the term of the repo agreement using the effective interest rate method.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified as other category financial assets. Available-for-sale financial assets are initially recognised at fair value, including direct transaction costs. Subsequent to initial recognition, they are measured at fair value and any fair value changes, other than impairment losses (Note 3: Impairment of financial assets), and foreign exchange gains or losses on available-for-sale derivative instruments, are recognised in other comprehensive income and presented in the fair value reserve as part of equity. When an investment is derecognised, the accumulated gains or losses in other comprehensive income are reclassified to profit or loss.

The available-for-sale financial assets include debt and equity securities.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Held-to-maturity financial assets

When the Group has a positive intent and ability to hold debt securities to maturity, then these securities are classified as held-to-maturity financial assets. Held-to-maturity financial assets are initially recognised at fair value plus all direct transaction costs. After the initial recognition, held-to-maturity financial assets are carried at amortised cost using the effective interest method, less any impairment losses.

The held-to-maturity financial assets include debt securities.

Financial liabilities

Financial liabilities, which are not derivative instruments or which have not been designated on acquisition as liabilities to be measured at fair value through profit or loss, are measured at amortised cost. Initially, they are stated at "cost", i.e. the fair value of cash flows received on the origination of the liability, less any transaction costs. Subsequently, any difference between the net cash flows and the residual value is recognised in profit or loss for the period using the effective interest rate method over the term of the liability. The financial liabilities reported by the Group as deposits, borrowings and securities issued are stated at amortised cost.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument, or, where appropriate, a shorter period, to the present carrying amount of the financial asset or liability. When calculating the effective interest rate the Group estimates cash flows considering all contractual terms of the financial instrument, but does not consider future credit losses. The calculation includes all charges and other fees paid to or received by the contractors that are an integral part of the effective interest rate.

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Derecognition of financial instruments

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised when:

- the contractual rights to receive cash flows from the financial asset have expired;
- the contractual rights to receive cash flows from the financial assets have been transferred, or contractual rights to receive cash flows from the financial asset have been retained, but a contractual obligation has been assumed for their payment in full without material delay to a third party under a 'pass through' arrangement, and either:

(a) the Group has transferred substantially all the risks and rewards of the financial asset, or

(b) the Group has neither transferred nor retained substantially all the risks and rewards of the financial asset, but has transferred control of the asset.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Derecognition of financial instruments (continued)

When the Group has transferred its contractual rights to receive cash flows from a financial asset and has neither transferred nor retained substantially all of the risks and rewards of the financial asset nor transferred control of the asset, the transferred financial asset is recognised to the extent of the Group's continuing involvement in the asset. In this case, the Group recognises the related obligation. The transferred asset and the concomitant obligation are evaluated to reflect the rights and obligations which the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

A financial liability is derecognised from the consolidated statement of financial position when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts of the original and new liability is recognised in the consolidated statement of comprehensive income.

Impairment of financial instruments

A financial asset, which is not recognised at fair value through profit and loss, is reviewed at each reporting date to assess whether there is objective evidence of its impairment. A financial asset is impaired when there is objective evidence that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

Objective evidence a financial asset is impaired includes default or delinquency by a borrower, restructuring of a liability to the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, adverse changes in the payment status of a borrower or issuer, economic conditions that lead to failures or the disappearance of an active market for a security.

Financial assets measured at amortised cost

The Group considers evidence for impairment of financial assets measured at amortised cost (loans and advances and held-to-maturity debt securities) at both individual and collective level. All individually significant assets are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for impairment by grouping together assets with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred.

Impairment losses on financial assets measured at amortised cost are calculated as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and advances or held-to-maturity investment securities. When an event occurring after the impairment was recognised causes the amount of impairment losses to decrease, the decrease in impairment loss is reversed through profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Impairment of financial instruments (continued)

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by reclassification to profit or loss of the losses accumulated in the fair value reserve in the equity. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayments and amortisation, less any impairment loss previously recognised in profit or loss, and the present fair value. Any changes in impairment attributable to the application of the effective interest method are reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available-for sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, then the impairment loss is reversed, with the amount of the reversal being recognised in profit or loss. Any subsequent recovery of the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

Fair value of financial assets and liabilities

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. The Group discloses information about the fair value of those assets and liabilities for which there is market information available and the fair value of which significantly differs from their carrying amount.
The fair values of financial assets and liabilities that are quoted in active markets and for which there is market information available are based on announced market prices or closing prices. The use of real market prices and information reduces the need for management assessment and assumptions, as well as the uncertainty related to the determination of fair value. The availability of real market prices and information varies depending on products and markets, and changes according to the specific events and the general financial market conditions. For some of the other financial instruments the Group determines the fair values by using of an evaluation method based on the net present value. The net present value calculation is provided by market yield curves and credit spreads, where necessary, for the respective instrument. The purpose of evaluation techniques is to determine fair value, which would be précised by direct market participants. For investments in subsidiaries and associated companies, as well as for equity investments for which there are no observable market prices, the Group accepts that the fair value is the price of acquisition. The Group has established control environment with respect to the assessment of fair values.

The fair values of financial instruments not traded in active markets (such as derivatives not traded on the market), which are an object of a transaction between the parties, are determined using valuation techniques. These valuation techniques adhere to the use of market data when available and as less as possible to the use of specific assessments of the company.

Fair Value Hierarchy

The Group applies the following hierarchy for measuring and disclosing the fair value of financial instruments using valuation techniques:

- Level 1 – quoted (unadjusted) market prices in active markets for identical instruments;
- Level 2 – inputs other than quoted prices included within Level 1 that are observable either directly or indirectly. 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 in which all significant inputs are directly or indirectly observable from market data;
- Level 3 – unobservable inputs for an asset or a liability. This category includes all instruments, for which the valuation technique does not include observable inputs 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 for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments;

The fair value hierarchy of financial assets and liabilities is disclosed in Note 5.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Finance lease receivables

Lease activity in the Group is associated with leasing out of industrial equipment, vehicles, agricultural machinery etc. on financial lease terms. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incident to ownership.

All other leases, which do not transfer risk and rewards incident to ownership of the asset, are classified as operating lease.

Minimum lease payments

Minimum lease payments are the payments over the lease term that the lessee is or can be required to make. From the Group's perspective, the minimum lease payments also include the residual value of the asset, which is guaranteed by a third party unrelated to the Group, under the condition that this third party is financially capable of discharging the obligation under the guarantee or the sale back agreement. The minimum lease payments comprise also the price of exercising an option of the lessee to purchase the asset, when at the inception of the lease it is virtually certain that this option will be exercised.

Minimum lease payments exclude any contingent rent, cost for services and taxes paid by the Group and subsequently re-invoiced to the lessee.

Commencement of the lease contract and commencement of the lease term

There is a distinction between the commencement of the lease contract and the commencement of the lease term:

- The commencement of the lease contract is the earlier of the two dates: the date of the lease contract or the date of the commitment by the parties to the main terms and conditions of the lease contract.
- The commencement of the lease term is the date from which the lessee may exercise the right to use the leased asset. This is the date at which the Group initially recognises the lease receivable.

Initial measurement and subsequent recognition

Initially, the Group recognises a finance lease receivable, which is equal to its net investment in the lease comprising the present value of the minimum lease payments and any unguaranteed residual value for the Group. The present value is calculated by discounting the minimum lease payments at the interest rate implicit in the lease. Any initial direct costs are added to the finance lease receivable. During the lease term, the Group accrues financial income (interest income on finance lease) over the net investment. The lease payments received are treated as a reduction of net investment (repayment of the principal) and recognition of finance income in such a way that ensures a constant rate of return on the net investment.

Subsequently, the net investment in finance leases is presented net, less any individual and portfolio allowance for uncollectability.

The impairment loss is measured as the difference between the carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. The impairment loss is recognised in profit or loss and reported in an allowance account reducing the amount of finance lease receivables. When an event, which has occurred after an impairment has been recognised, reduces the impairment loss, this reduction is reversed through profit or loss.

Cash and cash equivalents

For the purposes of the cash flow statement cash equivalents comprise cash in hand, cash in current accounts with other banks, deposits and placements with other banks – payable at sight and/or with original maturity of up to 3 months, including repo deals with original maturity of up to 3 months, as well as unrestricted (not blocked) balances with the Central Bank (BNB). The parent company (the Bank) maintains a minimum statutory reserve according to the requirements of BNB and for the purposes of cash flow statement it includes these funds included as a component of Cash and cash equivalents.
They are presented in the consolidated statement of financial position at amortised cost.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents (continued)

For the purposes of preparation of the consolidated cash flow statement, bank overdrafts payable on demand and forming an integral part of the Group's cash management are included as a component of Cash and cash equivalents.

Assets held for sale

Assets are classified as held for sale, if their carrying amount will be recovered through a sale and not through a continuing use in the Group's operations. Assets held for sale are stated initially at cost, with the transaction costs being taken into account in the initial measurement. Usually, these assets have been initially accepted by the Bank as collateral and subsequently acquired as a result of a "debt against property" exchange by borrowers that do not perform their obligations in accordance with the agreed contractual terms.
Assets classified in this group are available for immediate sale in their present condition.
Management is usually engaged actively and performs actions to realise a sale transaction within at least one year after the date of classification of the asset in this group.
Assets classified as held for sale are presented in the consolidated statement of financial position separately and measured at the lower of their carrying amount and their fair value less the estimated direct costs to sell.
The assets within this classification group are not depreciated.

Assets acquired from collateral foreclosure
Assets acquired from collateral foreclosure include assets held for sale (as a result of acquired loan collateral), but not sold within the envisaged 12-month period and reclassified as Assets acquired from collateral foreclosure. These assets are measured at the lower of cost and net realisable value.

Taxes

Current income taxes are determined by the Group in accordance with the Bulgarian legislation. The income tax due is calculated on the basis of the taxable profit for the period determined in accordance with the rules established by the tax authorities on the grounds of which taxes are paid (reversed).

The tax effect relating to transactions and other events reported in the consolidated statement of comprehensive income is recognised also in the consolidated statement of comprehensive income and the tax effect relating to transactions and other events reported directly in equity is also recognised directly in equity.

Deferred income tax liabilities are recognised for all taxable temporary differences, except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that at the time of the transaction affects neither the accounting profit nor taxable profit or (loss).

Deferred income tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised except where the deferred income tax asset arises from the initial recognition of an asset or liability in a transaction that at the time of the transaction affects neither the accounting profit nor taxable profit or (loss).

Deferred taxes are recognised as income or expense, and are included in the net profit for the period, except in cases, when these taxes arise from transactions or events, reported for the same or another period directly in equity. Deferred taxes are charged to or deducted directly from equity, when they relate to items, which have been charged to or deducted from equity in the same or in a different period.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

Items of property, plant and equipment are presented on the consolidated financial statements at historical cost of acquisition, less any accumulated depreciation and impairment losses.

Initial recognition

Upon their initial acquisition, items of property, plant and equipment are valued at acquisition cost, which comprises the purchase price, including customs duties and any directly attributable costs of bringing the asset to working condition. Directly attributable costs include: costs for site preparation, initial delivery and handling costs, installation costs, professional fees for people involved in the project, non-refundable taxes etc.

Subsequent measurement

The approach chosen by the Group for subsequent measurement of property, plant and equipment, is the cost model under IAS 16 - acquisition cost less any accumulated depreciation and any accumulated impairment losses.

Any gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised net in other operating income / expenses in profit or loss.

Depreciation method

The Group applies the straight-line depreciation method for property, plant and equipment. The useful life per group of assets is as follows:

- buildings – 50 years
- bank equipment and computers – 5 years
- motor vehicles – 5 years
- fixtures and fittings – 6.7 years

The useful life by groups was not changed in 2015 compared to 2014.

The useful life of the individual groups of assets is determined by the management considering: their physical wear and tear, features of the equipment, intentions for future use and expected obsolescence. The useful life of equipment is reviewed at each year-end and adjusted prospectively in case that any material deviations from future expectations concerning the terms of use are found.

Subsequent costs

Repair and maintenance expenses are recognised as current in the period in which they were incurred. Subsequent expenses relating to an item of property, plant and equipment that have the nature of replacement of certain components or improvements and restructuring are capitalised to the carrying amount of the relevant asset and its remaining useful life to the date of capitalisation is reassessed accordingly. At the same time, the unamortised portion of replaced components is derecognised from the assets' carrying amount and recognised as current expenses for the period of restructure.

Intangible assets

Intangible assets are presented on the consolidated financial statements at cost less accumulated amortisation and any accumulated impairment losses. They include software and software licences.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

The Group applies the straight-line depreciation method for the intangible assets with a determined useful life of 5 years.

The carrying amount of the intangible assets is subject to review for impairment when events or changes in circumstances indicate that their carrying amount might exceed their recoverable amount. Impairment losses are recognised in the statement of comprehensive income.

Intangible assets are derecognised from the consolidated financial statement when permanently withdrawn from use (upon retirement), when no future economic benefits are expected from their use or on disposal. Any gains or losses on disposal of individual assets from the group of intangible assets are determined by comparing the sales proceeds and the carrying amount of the asset at the date of the sale.

Investment property

The Group's management uses this category upon lease of assets acquired from collateral foreclosure on loans. Investment property is measured initially at cost plus any transaction costs. Subsequent to initial recognition, investment property is recognised at fair value. Any gain or loss due to changes in the fair value of investment property is recognised in the profit or loss in the period in which it has occurred. The fair value of investment property is determined on the basis of a valuation made by an independent appraiser.

Investment property rental income is presented as other operating income, while operating expenses directly or indirectly relating to the generated rental income are presented as other operating expenses. Investment property is derecognised on disposal or upon withdrawal from use (retirement), when no future economic benefits are expected from its disposal. Any gains or losses on derecognition of investment property are recognised in the profit or loss in the period in which they have occurred.

Pensions and other payables to personnel under the social security and labour legislation

According to the Bulgarian legislation, the Group is obliged to pay contributions to social security and health insurance funds. The employment relations of the employees with the Group, in its capacity of an employer, are based on the provisions of the Labour Code.

Short-term employee benefits

Short-term employee benefits of the Group in the form of salaries, bonuses and social payments and benefits are recognised as an expense in the consolidated statement of comprehensive income in the period in which the respective service has been rendered or the requirements for their receipt have been met, and as a current liability at their undiscounted amount. The Group's obligations to make social security and health insurance contributions are recognised as a current expense and liability at their undiscounted amount together and in the period of accrual of the respective benefits they relate to.

At the end of each reporting period the Group assesses and reports the expected costs of accumulating compensated absences as the amount that is expected to be paid as a result of the unused entitlement. The assessment includes the estimated costs of employee's remuneration and the statutory social security and health insurance contributions owed by the employer on these amounts.

Long-term retirement benefits

In accordance with the requirements of the Labour Code, the employer is obliged to pay to its personnel upon retirement an indemnity that depending on the length of service with the entity varies between two and six gross monthly salaries as of the date of employment termination. In their nature these are defined benefit plans.

The calculation of the amount of these liabilities requires the involvement of qualified actuaries in order to determine their present value at the date of the consolidated financial statements, at which they are included in the consolidated statement of financial position, adjusted with the amount of the actuarial gains and losses, and respectively, the change in their value, including the recognised actuarial gains and losses – in other comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Pensions and other payables to personnel under the social security and labour legislation (continued)

Long-term retirement benefits (continued)

Past service costs are recognised immediately in the consolidated statement of comprehensive income in the period in which they were incurred. At the end of each reporting period, the Group assigns certified actuaries who issue a report with calculations regarding the long-term retirement benefit obligations. For the purpose, they apply the Projected Unit Credit Method. The present value of the defined benefit obligation is determined by discounting the future cash flows, which are expected to be paid within the maturity of this obligation, and by applying the interest rates of long-term government bonds denominated in Bulgarian leva.

Actuarial gains and losses arise from changes in the actuarial assumptions and experience adjustments. Actuarial gains and losses from changes in demographic and financial assumptions upon retirement for assured length of service and age are recognised in the consolidated statement of comprehensive income.

Termination benefits

In accordance with the provisions of the Labour Code, the employer is obliged, upon termination of an employment contract prior to retirement, to pay indemnities as follows:

- for non-observed preliminary notice: one gross monthly salary;
- due to closing down the enterprise or part of it, outlays, reduction of the volume of work and work stoppage for more than 15 days, etc.: one gross monthly salary;
- upon termination of the employment contract due to illness: two gross monthly salaries;
- for unused annual paid leave: for the respective years of the time recognised as service period.

The Group recognises employee benefit obligations in the event of employment termination before the normal retirement date when it is demonstrably committed, based on an announced plan, to either terminating the employment of current employees without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits failing due more than 12 months are discounted to and presented in the consolidated statement of financial position at present value.

Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than investment property, inventory and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indications exist, then the asset's recoverable amount is estimated. For intangible assets with indefinite useful life or not yet brought into use, the recoverable amount is estimated annually. An impairment loss is recognised always when the carrying amount of an asset or a cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of value in use and fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using the pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

Impairment losses are recognised in profit or loss. Impairment losses recognised with respect to CGUs are allocated to reduce the carrying amount of the assets in the CGU on a pro rata basis.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised.

Share capital

The share capital is stated at the nominal value of shares issued and paid. Any proceeds from shares issued over their nominal value are reported as share premium.

Expenses directly relating to the issuance of new shares, except of such relating to business combinations are deducted from the capital net of any associated taxes. Dividends on ordinary shares are recognised in the period in which they were approved by the shareholders. Dividends for the period, which have been announced after the date of preparation of the financial statements, are disclosed as events after the date of the financial statements.

Dividends

An obligation for cash payables to the owners is recognised when the distribution has been approved by them and no longer depends on the Group. The corresponding amount is written off directly from equity.

Interest income and interest expenses

Interest income and interest expenses are recognised in the consolidated statement of comprehensive income on an accrual basis for all interest-bearing instruments using the effective yield method based on the actual price of acquisition or the applicable floating interest rate. Interest income and interest expenses include the amortisation of any discount or premium, or any other differences between the original carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Interest income includes interest income on available-for-sale and held-for-trading debt securities, interest on deposits with other banks, interest on loans and advances to customers, and fees and commissions on loans and advances to customers, which are an integral part of the effective yield of the financial instrument.

Interest expense is recognised on an accrual basis and comprises the interest accrued on deposits of customers and banks, as well as on loans received and other borrowings, fees and commissions on loans received, which form an integral part of the effective interest expense.

Fees and commissions

Fees and commissions on bank guarantees are recognised on a systematic basis over the period of existence of the exposure to match the cost of providing the service.

Trust management fees are recognised on an accrual basis over the period of providing the service.

Fee and commission expenses relating to servicing Nostro accounts with other banks or to the provision of another bank service are recognised at the time of provision of the underlying service and attaining the result thereof.

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency transactions

Foreign currency transactions are translated into BGN at the exchange rate of BNB prevailing at the date of the transaction. Receivables and liabilities denominated in foreign currency are revalued on a daily basis. At the end of the year, they are translated in BGN at the closing exchange rates of BNB, which for the main currencies as of the date of the financial statements are the following:

Foreign currency	31 December 2015	31 December 2014
USD	1.79007	1.60841
Euro	1.95583	1.95583

Since 1999 the Bulgarian Lev (BGN) has been fixed to the Euro (EUR), the official currency of the European Union, at ratio of BGN 1.95583/ EUR 1.0

Net gains or losses on changes in exchange rates, which have incurred from revaluation of receivables, liabilities, as well as from foreign currency transactions, are presented on the consolidated statement of comprehensive income in the period in which they have occurred.

Provisions and contingent liabilities

Provisions are recognised when the Group has a present legal or constructive liability as a result of past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the liability. Provisions are measured on the basis of the best management's estimate at the end of reporting period of the expenses necessary to settle the particular obligation. The estimate is discounted if the obligation is long-term.

Contingent liabilities are obligations arising from past events, the existence of which can be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not entirely within the control of the Group, or it is not probable that an outflow of resources will be required to settle the obligation. They are not recognised in the consolidated statement of financial position but are subject to special disclosure.

Segment reporting

The Group does not report operating segments, because its major source of risk and return is the corporate business sector; there isn't a single external customer the revenue from whom to form more than 10% of the total revenue, and the Group operates in the territory of the country. All Group entities are financial entities possessing similar economic characteristics in view of the nature of services, the type and category of customers, the methods of service provision, and the nature of the regulatory environment. If these factors change in the future and the Group starts to report operating segments, they will be determined and presented in accordance with the requirements of IFRS 8 Operating Segments.

4. FINANCIAL RISK MANAGEMENT

In the ordinary course of business, the Group is exposed to a variety of risks that, if occur, could result in formation of losses and deterioration of the Group's financial stability. These risks are identified, measured and monitored through various control mechanisms in order to be managed and to prevent undue risk concentration. The process of risk management is essential for the Group's profitability and existence.

The risk management within Bulgarian Development Bank Group is a complex of methods and procedures used by the Group for identifying, measuring and monitoring its risk exposures. The Group manages the following main categories of risk:

- Credit risk;
- Liquidity risk;
- Market risk;
- Operational risk.

When managing the risks, the Group applies policies and procedures relevant to the nature and complexity of its activity, which are based on best practices in banking industry.

Risk management structure

The main units that are directly responsible for risk management are as follows:

For the parent company (the Bank):

- *Supervisory Board* – performs overall supervision of risk management;
- *Management Board* – responsible for the overall risk management approach and for approving risk management strategies, principles and specific methods, techniques and procedures;
- *Risk Committee* – responsible for exercising control over the implementation of the risk management policies by various types of risk, as well as the adequacy of the Bank's risk profile to the tasks assigned to it.
- *Assets and Liabilities Management Committee (ALMC)* – responsible for the strategic management of assets and liabilities and for market risk management, including liquidity risk management, related to the assets and liabilities.
- *Provisions Committee* – analyses credit transactions from the perspective of credit risk management for the loan portfolio in general, as well as of the level of credit deals and borrowers;
- *Executive Directors and members of the Management Board* – exercise current operating control of the maintenance and monitoring of the limits set for a particular types of risk and the application of the established procedures.
- The Central Bank performs an additional risk management supervision by requiring periodically regulatory reports and exercising subsequent control on the compliance with the statutory maximum levels of exposure to certain risks.
-

For the subsidiary National Guarantee Fund (the Fund)

The main units responsible for the management of risks are:

- *Supervisory Board* - Management Board of BDB AD (the parent company) – performs overall supervision of risk management;
- *Board of Directors* – responsible for the overall approach towards risk and approves risk management strategies, principles and specific methods, risk management techniques and procedures;
- *Provisions Committee* – analyses the guaranteed portfolio in terms of overall credit risk management of the whole portfolio, as well as of each guarantee deal and each beneficiary of the guarantee itself.
- *Risk and Monitoring Department* — performs monitoring of the guaranteed portfolios and the collateral provided. At least annually an inspection over the fulfilment of the economic and social requirements for the SME using a guarantee from National Guarantee Fund EAD is carried out.

4. FINANCIAL RISK MANAGEMENT (continued)

For the subsidiary Microfinance Institution "JOBS" EAD (MFI):

The main units responsible for the risk management are:

- *Board of Directors* – responsible for the adoption of risk management rules and procedures; exercising control over the risk factors of the Company and making decisions within their powers; as well as for conducting analyses of all credit transactions exceeding BGN 100 thousand in view of credit risk management upon their approval;
- *Credit committee* – monitors and analyses on an ongoing basis the loan and lease portfolio of the Company in terms of credit risk, including by individual transactions;
- *Credit Council* – analyses credit and leasing transactions in terms of credit risk management upon their approval and / or renegotiation;
- *Operational Management (Executive director and Member of the BD)* – organises the activities for the implementation of the Rules for Risk Management adopted by the Board of Directors; creates a work organisation that ensures compliance with the limits and risk levels set; exercises control over the compliance of the risk analysis, measurement and evaluation procedures with the internal documents adopted by the Board of Directors;
- *Risk Management Department* – develops and implements a risk management system; prepares and submits to the Board of Directors periodic reports for assessing the operational risks, including the observance of the limits, and reports on an ongoing basis to the Operational Management of the Company; performs initial and ongoing validation of the risk assessment methods; examines the inputs needed for the risk assessment in accordance with applicable principles of reliability and sufficiency.

Measurement and management of major risks

Management of the Group companies has adopted a set of internal rules and procedures for measuring various risks, which are based on statistical models and best international banking practices, as well as on the historical experience of the Group itself.

Risk monitoring and management are primarily based on limits. Those limits reflect on the Group's strategy and its market position, as well as on the level of risk that can be borne. Reports on the specific types of risks are periodically prepared for the purpose of subsequent analysis and possible adjustments of already set limits.

4.1. Credit risk

Credit risk is the risk of potential losses due to a failure of the Group's customers to discharge their contractual obligations in connection with receivables and financial instruments held by the Group.

Credit risk is the main risk for the Group and therefore, its management is fundamental for its activity. Credit risk management is performed in accordance with the law for BDB AD (the parent company) and the effective laws and regulations of the Republic of Bulgaria regulating credit activity, as well as the international regulations and best banking practices, and the requirements of IFRS.

In assessing and managing credit risks (including the counterparty risk) of its exposures, the Group applies internal rating generation models. These rating models are based on an analysis of historical data and the counterparty's and its relating parties' current financial position; their history and behaviour in servicing their liabilities to other contractors; future cash flow analyses; sources of servicing the existing and any potential future liabilities to the Group, and other parameters specific to a particular transaction. Credit portfolio quality monitoring, control and assessment units are established and function within the Group. Credit portfolio current monitoring, reporting and management procedures and mechanisms are implemented, which require periodical, and if necessary, extraordinary, reports on the financial and credit status of each borrower and other liable persons. In managing its credit risk, the Group applies an intra-bank system of limits that is subject to periodic review and updating.

The Provisions Committee of the Group participates in the credit risk management and is responsible for the exposure quality and classification; it holds monthly meetings and functions under the supervision of the Management Board of the parent company.

4. FINANCIAL RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

There is a specialized unit functioning within the Group, which is in charge of the risk assessment both at the customer level and at the exposure level, where the solvency level is assessed and monitored throughout the entire loan term - from application to full repayment. The credit risk is partially reduced also by accepting different types of collateral, where at any point in time the valuation of collateral shall not be older than 12 months.

Following a decision of the Provisions Committee, the Group forms impairment on exposures both at an individual and collective basis depending on the borrower's risk profile.

The exposures within the Group's credit portfolio are divided primarily into four categories depending on the existence of objective evidence of impairment, as well as depending on the default of payments due by the borrower, as follows: „standard" (generally, interest and/or principal past due for up to 30 days); "watch" (generally, interest and/or principal past due for up to 91 days); „non-performing" and „loss" (generally, interest and principal past due for more than 90 days and/or severe financial hardship). Depending on the exposure category, the Provisions Committee sets the percentage of impairment of the individually assessed exposures in groups other than „standard". For the "watch" category the percentage of impairment varies from 10% to 50%; for the „non-performing" category it varies from 50% to 75%, and for the „loss" category it amounts to 100%.

In order to minimise its credit risk, the Group accepts collateral in the form of mortgages of land, industrial property, hotels, commercial and residential buildings. Additional collateral in the form of pledge of plant, machinery, equipment and inventories, securities, cash deposits, company shares, promissory notes, third party's avals and guarantees is accepted as well. It is a common practice of the Group to require collateral from the borrowers that is equal to at least 100% of the agreed loan amount.

Based on a Guarantee letter from year 2003 and the subsequent annexes signed with the European Investment Fund (EIF), the parent company (the "Bank") participates in the EU SME Guarantee Facility under conditions determined by the long-term EU Program on SMEs. EIF is committed to provide a direct guarantee covering 50% of the remaining loss on the principal and interest of each loan, included in the sub-portfolio of the Bank, formed on the basis of the conditions of the agreement, but not exceeding EUR 2,520 thousand (BGN 4,929 thousand). The parent company (the "Bank") has applied reduced requirements in accepting collaterals for the EIF-guaranteed portfolio of loans. As of 31 December 2015 the total exposure on EIF-guaranteed loans amounted to BGN 6,679 thousand (31 December 2014: BGN 8,866 thousand). This amount includes the utilised but not yet repaid portion of the loans, as well as the Group's commitments on unutilised loans.

The payment engagement of EIF to date amounts to BGN 4,929 thousand (31 December 2014: BGN 4,929 thousand), whereas the losses covered by EIF amount to BGN 3,044 thousand (31 December 2014: BGN 3,044 thousand).

Letters of guarantee and letters of credit represent another source of credit risk for the Group. They represent irrevocable commitment of the Group to make payments in case a customer is not able to meet his obligations to a third party. These instruments bear the same credit risk as the loan exposures.

Another contingent/off-balance sheet commitment of the Group is the unutilised portion of authorized loan agreements in the form of loans, letters of guarantee or letters of credit.

The parent company (the "Bank") forms various sub-portfolios based on the type of contractors and credit risk carriers, as follows:

- Direct lending – loan portfolio, credit lines, investment loans and other forms of lending of legal entities, other than financial institutions and loans to individuals (loans to Group's employees);
- Indirect lending or „on-lending" – portfolio of loans to financial (banking and non-banking) institutions, the purpose of which is to provide financing/to facilitate the access to financing for micro, small and medium-sized enterprises in the Republic of Bulgaria.

Beyond the credit portfolio, the Group's activity is exposed to credit risk also with respect to exposures related to other activities of the Group:

- portfolio of financial instruments, other than loans, formed in connection with the Group's free cash management, which comprises mainly government securities issued by the Republic of Bulgaria, classified as „available-for-sale financial assets";
- to banks in connection with money market transactions, placed term deposits and available balances in Nostro accounts;
- in connection with receivables relating to the State budget.

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

4. FINANCIAL RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

The Group applies a system of limits relating to credit risk and concentration risk with respect to the different sub-portfolios, and currently monitors the credit risk of concentration of financial assets on the basis of industry and geographical criteria, and also by individual counterparty. Maximum exposure limits are set and periodically monitored, analysed and updated. The Group does not form exposures to customers and groups of related parties, other than credit institutions, exceeding by more than 10% its equity.

Maximum exposure to credit risk

Exposure to credit risk attributable to financial assets recognised in the consolidated statement of financial position is as follows:

	2015		2014	
Financial asset	maximum	net	maximum	net
Receivables from banks	267,536	267,536	547,024	524,418
Financial assets held for trading	305	305	1,436	1,436
Loans and advances to customers	641,119	618,788	625,325	625,325
Receivables from the State budget	29,885	29,885	-	-
Available-for-sale securities	262,968	262,968	296,995	296,995
Net investment in finance lease	982	982	1,470	1,470
Securities held to maturity	1,979	1,979	1,980	1,980
Other financial assets	278	278	120	120
	1,205,052	**1,182,721**	**1,474,350**	**1,451,744**

Exposure to credit risk attributable to off-balance sheet contingent commitments is as follows:

	2015		2014	
	maximum	net	maximum	net
Guarantees and letters of credit	172,920	170,636	122,086	121,808
Unutilised amount of authorized loans	77,748	77,748	28,442	28,442
Participation in the SIA investment program	1,804	1,804	-	-
	252,472	250,188	150,528	150,250
Maximum exposure to credit risk	**1,457,524**	**1,432,909**	**1,624,878**	**1,601,994**

In determining the net exposure, highly-liquid collateral (government securities and monetary collateral) have been taken into account.

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

4. FINANCIAL RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Credit risk - concentration

The financial assets of the Group (loans, receivables and financial leases), classified by industry sectors, are presented in the table below (at amortised cost):

Sectors	**2015**	%	**2014**	%
Financial services	684,257	40.30	983,637	48.64
Manufacturing	364,355	21.46	309,322	15.29
Government	287,308	16.92	291,963	14.44
Construction	111,199	6.55	112,143	5.55
Real estate transactions	60,969	3.59	59,932	2.96
Transport	56,494	3.33	90,034	4.45
Trade	49,721	2.93	82,392	4.07
Other industries	25,972	1.53	29,736	1.47
Tourist services	22,408	1.32	25,252	1.25
Agriculture	17,682	1.04	18,060	0.89
Collection and disposal of garbage	17,471	1.03	20,016	0.99
	1,697,836	100.00	**2,022,487**	100.00

The largest credit exposure of the Group to a group of related parties /other than bank institutions/ amounts to BGN 50,510 thousand (2014: BGN 50,490 thousand) at amortised cost, which represents 7.45% of Group's capital base (2014: 7.49%).

At 31 December 2015 there was no exposure of a customer or a group of related parties exceeding by more than 10% the Group's equity.

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

4. FINANCIAL RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Quality of loans and receivables

The structure of the financial assets of the Bank by risk classification groups is as follows:

At 31 December 2015	**Standard**	**Watch**	**Non-performing**	**Loss**	**Total**
Cash in hand and balances in current account with the Central Bank	343,853	-	-	-	343,853
Receivables from banks	267,536	-	-	-	267,536
Financial assets held for trading	305	-	-	-	305
Receivables from the State budget	29,885	-	-	-	29,885
Loans for commercial property and construction	298,397	70,104	12,506	50,606	431,613
Trade loans	199,635	15,691	4,665	15,796	235,787
Agricultural loans	-	-	-	2,010	2,010
Consumer loans	1,164	-	-	-	1,164
Residential and mortgage loans to individuals	2,341	-	-	-	2,341
Loans to other financial institutions	-	-	-	65,139	65,139
Other loans and receivables	48,345	49	6	3,288	51,688
Available-for-sale securities	262,968	-	-	-	262,968
Net investment in finance lease	999	9	-	282	1,290
Securities held to maturity	1,979	-	-	-	1,979
Other financial assets	278	-		-	278
Total financial assets	**1,457,685**	**85,853**	**17,177**	**137,121**	**1,697,836**

At 31 December 2014	**Standard**	**Watch**	**Non-performing**	**Loss**	**Total**
Cash in hand and balances in current account with the Central Bank	387,221	-	-	-	387,221
Receivables from banks	524,418	-	-	65,139	589,557
Financial assets held-for-trading	1,436	-	-	-	1,436
Loans for commercial property and construction	415,738	49,652	9,490	64,752	539,632
Trade loans	164,275	8,179	1,290	19,269	193,013
Agricultural loans	-	-	-	2,000	2,000
Consumer loans	1,192	-	-	-	1,192
Residential and mortgage loans to individuals	2,205	-	-	-	2,205
Other loans and receivables	2,292	180	72	2,777	5,321
Available-for-sale securities	296,995	-	-	-	296,995
Net investment in finance lease	1,470	33	28	284	1,815
Securities held to maturity	1,980	-	-	-	1,980
Other financial assets	120	-	-	-	120
Total financial assets	**1,799,342**	**58,044**	**10,880**	**154,221**	**2,022,487**

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

4. FINANCIAL RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

The table below presents the types of collaterals, held by the Group, at fair value determined with the assistance of an internal certified appraiser:

	2015		2014	
Type of collateral	**Fair value**	%	**Fair value**	%
Mortgages	372,511	51.26	521,814	64.65
Mortgages on ships	52,434	7.21	11,581	1.43
Pledge of plant, machinery, equipment, and inventories	179,934	24.76	181,484	22.49
Restricted deposits	800	0.11	928	0.11
Credit risk insurances	31,771	4.37	13,305	1.65
Securities quoted on a stock market	89,327	12.29	78,037	9.67
Total collateral	**726,777**	100.00	**807,149**	100.00

Percentage of exposure that is subject to an arrangement requiring collateral:

		Percentage of exposure that is subject to an arrangement requiring collateral	
Type of credit exposure	**Principal type of collateral**	**2015**	**2014**
Loans and receivables	1. Mortgages	100	100
	2. Mortgages on ships	100	25
	3. Pledge of plant, machinery, equipment, and inventories	77	68
	4.Insurances	100	100
	5.Securities	97	100
	6. Restricted deposits	5	6
Repo deals	1. Securities	100	100
Finance lease	1. Own assets	100	100

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

4. FINANCIAL RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

The table below presents data on the portfolio amount of the Group's financial assets by type of instrument *at amortised costs* and the accumulated impairment losses:

	Loans and receivables from non-financial institutions	Receivables from the State budget	Loans and receivables from financial institutions	Loans and receivables from individuals	Cash in hand and in current account with CB	Available-for-sale securities	Financial assets held for trading	Securities held for maturity	Net investment in finance lease
					At 31 December 2015				
Impaired on individual basis									
-watch	85,843	-	-	-	-	-	-	-	9
-non-performing	17,176	-	-	-	-	-	-	-	-
-loss	136,838	-	-	-	-	-	-	-	282
Gross amount	**239,857**	-	-	-	-	-	-	-	**291**
Impairment	(132,660)	-	-	-	-	-	-	-	(283)
Book value	**107,197**	-	-	-	-	-	-	-	8
Incl. re-negotiated loans	*152,723*	-	-	-	-	-	-	-	-
Impaired on portfolio basis									
-standard	540,165	-	-	-	-	-	-	-	999
Gross amount	**540,165**	-	-	-	-	-	-	-	**999**
Impairment	(15,963)	-	-	-	-	-	-	-	(25)
Book value	**524,202**	-	-	-	-	-	-	-	974
Incl. re-negotiated loans	*261,055*								
Neither past due nor impaired									
-standard	6,493	29,885	267,536	3,505	343,853	262,968	305	1,979	-
Book value	**6,493**	**29,885**	**267,536**	**3,505**	**343,853**	**262,968**	**305**	**1,979**	-
Incl. re-negotiated loans	-	*2,688*	-	*719*	-	-	-	-	-
Book value	**637,892**	**29,885**	**267,536**	**3,505**	**343,853**	**262,968**	**305**	**1,979**	**982**
Incl. re-negotiated loans	*413,778*	*2,688*	-	*719*	-	-	-	-	-

The Group assesses the credit quality of provided contingent commitments by applying a methodology, which estimates whether events indicating with a high probability that outflow of Group's resources might take place have occurred. If any such events occur, the Group provides its liability up to the amount of its future costs (losses) related to outflows of economic benefits (payments). These costs (losses) are determined on the basis of the present value of the future net cash flows, calculated as the difference between the payment obligation and the possible inflows of subsequent resources to third parties. At the date of the statement of financial position the Group identified commitments amounting to BGN 98,413 thousand (2014 : BGN 59,725 thousand),which were provided (Note 33A).

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

4. FINANCIAL RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

	Loans and receivables from non-financial institutions	Receivables from the State budget	Loans and receivables from financial institutions	Loans and receivables from individuals	Cash in hand and in current account with CB	Available-for-sale securities	Financial assets held for trading	Securities held for maturity	Net investment in finance lease
				At 31 December 2014					
Impaired on individual basis									
-watch	58,011	-	-	-	-	-	-	-	33
-non-performing	10,852	-	-	-	-	-	-	-	28
-loss	88,799	-	65,139	-	-	-	-	-	284
Gross amount	**157,662**	-	**65,139**	-	-	-	-	-	**345**
Impairment	(102,413)	-	(42,533)	-	-	-	-	-	(308)
Book value	**55,249**	-	**22,606**	-	-	-	-	-	37
Incl. re-negotiated loans	*135,140*	-	-	-	-	-	-	-	-
Impaired on portfolio basis									
-standard	567,573	-	-	-	-	-	-	-	1,470
Gross amount	**567,573**	-	-	-	-	-	-	-	**1,470**
Impairment	(15,625)	-	-	-	-	-	-	-	(37)
Book value	**551,948**	-	-	-	-	-	-	-	**1,433**
Incl. re-negotiated loans	*357,193*	-	-	-	-	-	-	-	-
Neither past due nor impaired									
-standard	14,851	-	524,418	3,397	387,221	296,995	1,436	1,980	-
Book value	**14,851**	-	**524,418**	**3,397**	**387,221**	**296,995**	**1,436**	**1,980**	-
Incl. re-negotiated loans	*9,602*	-	*53,471*	*837*	-	-	-	-	-
Book value	**622,048**	-	**547,024**	**3,397**	**387,221**	**296,995**	**1,436**	**1,980**	**1,470**
Incl. re-negotiated loans	*501,935*	-	*53,471*	*837*	-	-	-	-	-

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

4. FINANCIAL RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

The Group may re-negotiate the initial conditions under the contacts upon request by counterparties. Usually, these conditions regulate the loan disbursement, loan amounts, interest rates and/or repayment schedules with regard to the amounts of the repayment instalments. This is often observed in the case of changes in projects' original parameters, objectives and scope, including the time schedule for their completion.

The re-negotiated loans and receivables, presented at amortised cost, are as follows:

	2015	2014
Loans for commercial property and construction	235,907	339,497
Trade loans	124,760	116,704
Loans to banks	-	53,471
Residential and mortgage loans to individuals	555	620
Consumer loans	164	217
Loans to other financial institutions	3,739	-
Other loans and receivables	2,767	89
	367,892	**510,598**

A loan is classified as "restructured" when the initial terms of the agreement have been modified by the parent company (the "Bank") by granting relief of certain credit terms to the debtor due to deterioration of its financial position having resulted in its inability to repay the loan within the original contractual maturity.

The restructured loans and receivables, presented at amortised cost, are as follows:

	2015	2014
Loans for commercial property and construction	45,943	42,241
Other loans and receivables	3,350	3,404
	49,293	**45,645**

4.1.1. Country (sovereign) risk

The Group has formed a portfolio of securities classified as available-for-sale financial assets, comprising mostly government securities issued by the Republic of Bulgaria. The following table presents the Group's exposure to sovereign debt as of 31 December 2015 and 31 December 2014:

At 31 December 2015	Within 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Indefinite maturity	Total
Government securities							
Republic of Bulgaria	12,686	32,830	239	134,221	77,294	-	257,270
Total	**12,686**	**32,830**	**239**	**134,221**	**77,294**	**-**	**257,270**

At 31 December 2014	Within 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Indefinite maturity	Total
Government securities							
Republic of Bulgaria	66,849	267	77,749	32,064	22,297	-	199,226
Republic of Croatia	31,242	-	-	-	-	-	31,242
Republic of Romania	-	61,495	-	-	-	-	61,495
Total	**98,091**	**61,762**	**77,749**	**32,064**	**22,297**	**-**	**291,963**

4. FINANCIAL RISK MANAGEMENT (continued)

4.2. Market risk

Market risk is the risk of adverse movements in interest rates, exchange rates, liquidity position, and other factors affecting the price of securities and other financial assets. These movements affect the Group's profitability and financial position.

Interest rate risk

Interest rate risk is the probability for potential change of the net interest income or the net interest margin and the market value of the equity due to changes in market interest rates.

The interest rate risk is considered in view of the overall activity of the Group. Analyses of financial assets and liabilities grouped in time intervals depending on their sensitivity to changes in the interest rates are conducted on regular basis.

The approach for measuring interest rate risk with respect to the overall activity comprises primarily:

- Analysis of the interest rate sensitivity of income – measuring the interest rate sensitivity of the Group's net income;
- Analysis of the interest rate sensitivity of economic capital (Duration GAP Analysis) – measuring the interest rate sensitivity of the Group's economic value;
- Determination, application and reporting of limits for interest rate risk reflecting the volatility of the respective interest rate curve and the Group's risk appetite;
- Stress tests for interest rate risk – presenting the potential movements in the annual interest income after applying a stress scenario involving changes in the interest rate curves by types of currencies.

Cash flow interest rate analysis is conducted by allocating the cash flows from assets and liabilities included in the interest rate imbalance analysis and forming the respective maturity gaps. In case of Group's balance sheet items classified as such and measured at fair value, the fair value risk analysis is limited to placing the relevant item with the applicable maturity structure within the interest rate imbalance analysis.

Besides the interest rate sensitivity analyses, for the interest risk management main sources related to the change in the net interest spread of the Group are also identified. This helps decision making on the interest rates policies of the Group, in particular, the development of specific products and providing sources of financing having relevant characteristics.

Assets and Liabilities Committee (ALCO) currently monitors the interest rate risk to which the Group is exposed and develops measures for its coverage and maintenance within the Group's permitted levels and limits.

The table on the next page summarises the interest exposure and risk of the Group. It includes information on Group's assets and liabilities at their carrying amount in accordance with interest-related clauses, set in the contracts, their maturity structure and sensitivity to movements in interest rates.

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

4. FINANCIAL RISK MANAGEMENT (continued)

4.2. Market risk (continued)

31 December 2015	*With floating interest rate %*	*With fixed interest rate %*	*Interest-free*	*Total*
Financial assets				
Receivables from banks	114,909	145,159	7,468	267,536
Financial assets held for trading	-	-	305	305
Loans and advances to customers	548,737	91,966	416	641,119
Receivables from the State budget	9,848	20,037	-	29,885
Available-for-sale securities	-	260,324	2,644	262,968
Net investment in finance lease	982	-	-	982
Securities held to maturity	1,979	-	-	1,979
Other financial assets	-	-	278	278
	676,455	**517,486**	**11,111**	**1,205,052**
Financial liabilities				
Deposits from credit institutions	842	-	-	842
Financial liabilities held for trading	362	-	-	362
Deposits from customers other than credit institutions	169,040	387,344	9,760	566,144
Borrowings from international institutions	178,723	-	-	178,723
Other borrowings	11,226	16,437	95,796	123,459
	360,193	**403,781**	**105,556**	**869,530**
Total interest exposure	**316,262**	**113,705**	**(94,445)**	**335,522**

31 December 2014	*With floating interest rate %*	*With fixed interest rate %*	*Interest-free*	*Total*
Financial assets				
Receivables from banks	20,919	525,495	610	547,024
Financial assets held for trading	1,436	-	-	1,436
Loans and advances to customers	572,536	52,534	255	625,325
Available-for-sale securities	-	295,018	1,977	296,995
Net investment in finance lease	1,470	-	-	1,470
Securities held to maturity	1,980	-	-	1,980
Other financial assets	-	-	120	120
	598,341	**873,047**	**2,962**	**1,474,350**
Financial liabilities				
Deposits from credit institutions	19,642	56,314	-	75,956
Financial liabilities held for trading	888	-	-	888
Deposits from customers other than credit institutions	494,684	40,909	-	535,593
Debenture loans	-	78,499	-	78,499
Borrowings from international institutions	221,065	-	-	221,065
Other borrowings	11,190	26,433	254,080	291,703
	747,469	**202,155**	**254,080**	**1,203,704**
Total interest exposure	**(149,128)**	**670,892**	**(251,118)**	**270,646**

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

4. FINANCIAL RISK MANAGEMENT (continued)

4.2. Market risk (continued)

Analysis of interest rate sensitivity and risk

The table below includes the financial instruments of the Group, presented at carrying value, classified by the earlier of the date of interest rate change under the contract and the maturity date.

31 December 2015	*Within 1 month*	*1-3 months*	*3-6 months*	*6-12 months*	*1-5 years*	*Over 5 years*	*With fixed interest rate*	*Interest-free*	*Total*
Financial assets									
Receivables from banks	51,852	53,253	22,470	5,010	-	-	127,483	7,468	267,536
Financial assets held for trading	-	-	-	-	-	-	-	305	305
Loans and advances to customers	490,005	59,000	202	363	1,794	-	89,339	416	641,119
Receivables from the State budget	9,848	-	-	-	20,037	-	-	-	29,885
Available-for-sale securities	10,660	32,285	-	-	138,915	78,464	-	2,644	262,968
Net investment in finance lease	982	-	-	-	-	-	-	-	982
Securities held to maturity	-	-	1,979	-	-	-	-	-	1,979
Other financial assets	-	-	-	-	-	-	-	278	278
Total financial assets	**563,347**	**144,538**	**24,651**	**5,373**	**160,746**	**78,464**	**216,822**	**11,111**	**1,205,052**
Financial liabilities									
Deposits from credit institutions	842	-	-	-	-	-	-	-	842
Financial liabilities held for trading	-	362	-	-	-		-	-	362
Deposits from customers other than credit institutions	170,701	225	2,581	18	382,859	-	-	9,760	566,144
Borrowings from international institutions	12,174	106,152	33,609	26,788	-	-	-	-	178,723
Other borrowings	-	11,226	-	9,807	95,796	6,630	-	-	123,459
Total financial liabilities	**183,717**	**117,965**	**36,190**	**36,613**	**478,655**	**6,630**	**-**	**9,760**	**869,530**
Total exposure to interest rate sensitivity	**379,630**	**26,573**	**(11,539)**	**(31,240)**	**(317,909)**	**71,834**	**216,822**	**1,351**	**335,522**

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

4. FINANCIAL RISK MANAGEMENT (continued)

4.2. Market risk (continued)

Analysis of interest rate sensitivity and risk (continued)

31 December 2014	*Within 1 month*	*1-3 months*	*3-6 months*	*6-12 months*	*1-5 years*	*Over 5 years*	*With fixed interest rate*	*Interest-free*	*Total*
Financial assets									
Receivables from banks	262,976	42,868	24,836	16,487	-	-	199,248	609	547,024
Financial assets held for trading	-	1,431	-	-	-	-	-	5	1,436
Loans and advances to customers	572,536	-	-	-	-	-	52,534	255	625,325
Available-for-sale securities	98,091	61,762	79	77,749	35,040	22,297	-	1,977	296,995
Net investment in finance lease	1,470	-	-	-	-	-	-	-	1,470
Securities held to maturity	1,980	-	-	-	-	-	-	-	1,980
Other financial assets	-	-	-	-	-	-	-	120	120
Total financial assets	**937,053**	**106,061**	**24,915**	**94,236**	**35,040**	**22,297**	**251,782**	**2,966**	**1,474,350**
Financial liabilities									
Deposits from credit institutions	75,956	-	-	-	-	-	-	-	75,956
Financial liabilities held for trading	-	888	-	-	-	-	-	-	888
Deposits from customers other than credit institutions	495,468	380	70	39,675	-	-	-	-	535,593
Debenture loans	-	-	39,372	39,127	-	-	-	-	78,499
Borrowings from international institutions	16,325	141,457	63,283	-	-	-	-	-	221,065
Other borrowings	-	30,807	-	254,080	-	6,816	-	-	291,703
Total financial liabilities	**587,749**	**173,532**	**102,725**	**332,882**	**-**	**6,816**	**-**	**-**	**1,203,704**
Total exposure to interest rate sensitivity	**349,304**	**(67,471)**	**(77,810)**	**(238,646)**	**35,040**	**15,481**	**251,782**	**2,966**	**270,646**

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

4. FINANCIAL RISK MANAGEMENT (continued)

4.2. Market risk (continued)

Sensitivity of the floating rate interest assets and liabilities

The table below represents the sensitivity of the Group to possible changes in interest rates based on the structure of floating rate assets and liabilities as of 31 December, under the assumption that the influence of the other variables is ignored. The actual effect of changes in market interest rates could be different, as a significant portion of the loans and receivables from customers bear floating interest rates that are based on a variable portion determined by the Group, which in turn is influenced by numerous factors.

	2015			2014		
Currency	***Increase in percentage points***	***Sensitivity of the financial result***	***Sensitivity of the equity***	***Increase in percentage points***	***Sensitivity of the financial result***	***Sensitivity of the equity***
BGN	0.50%	(1,715)	(2,493)	0.50%	(2,318)	(784)
EUR	0.50%	890	(1,565)	0.50%	993	(528)
USD	0.50%	63	-	0.50%	76	(12)
BGN	-0.50%	1,715	2,493	-0.50%	2,318	784
EUR	-0.50%	(890)	1,565	-0.50%	(993)	528
USD	-0.50%	(63)	-	-0.50%	(76)	12

The average interest rates by financial assets and financial liabilities are presented in the following table:

	31 December 2015	31 December 2014
Financial assets	3.63%	3.14%
Financial liabilities	0.44%	0.86%

Currency risk

The currency risk is the risk that the financial position and cash flows of the Group might be affected adversely by changes in exchange rates due to open currency positions. In managing the foreign currency risk, the Group follows the principle of maintaining minimum open currency positions within the specified limits. Foreign currency positions are not formed with speculative purposes, but arise out of foreign currency transactions in the ordinary course of business of the Group. The policy of the parent company (the "Bank") is that the main portion of the assets and liabilities, and respectively the bank transactions, shall be denominated in EUR or BGN. The Group does not carry out significant transactions and does not hold significant open positions in currencies other than EUR and BGN. As the exchange rate of the Bulgarian lev is pegged to that of the Euro, there is no significant open currency risk for the Group's cash flows and financial performance.

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

4. FINANCIAL RISK MANAGEMENT (continued)

4.2. Market risk (continued)

Currency risk (continued)

The following table summarises the Group 's exposure to currency risk. The table includes the Group's financial instruments and the contingent liabilities and commitments, presented at carrying amount, classified by type of currency.

At 31 December 2015	In USD	In EUR	In other foreign currency	In BGN	Total
Financial assets					
Cash in hand and balances in current account with the Central Bank	5	3,292	-	340,556	343,853
Receivables from banks	23,359	55,873	109	188,195	267,536
Financial assets held for trading	-	305	-	-	305
Loans and advances to customers	13,306	453,071	5,213	169,529	641,119
Receivables from the State budget	-	-	-	29,885	29,885
Available-for-sale securities	-	120,390	-	142,578	262,968
Net investment in finance lease	-	-	-	982	982
Securities held to maturity	-	1,979	-	-	1,979
Other financial assets	-	-	-	278	278
Total financial assets	**36,670**	**634,910**	**5,322**	**872,003**	**1,548,905**
Financial liabilities					
Deposits from credit institutions	-	561	-	281	842
Financial liabilities held for trading	-	362	-	-	362
Deposits from customers other than credit institutions	25,325	68,868	8	471,943	566,144
Borrowings from international institutions	-	173,583	5,140	-	178,723
Other borrowings	-	27,663	-	95,796	123,459
Total financial liabilities	**25,325**	**271,037**	**5,148**	**568,020**	**869,530**
Net balance sheet currency position	**11,345**	**363,873**	**174**	**303,983**	**679,375**
Commitments and contingencies	**9,398**	**27,961**	**-**	**215,113**	**252,472**

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

4. FINANCIAL RISK MANAGEMENT (continued)

4.2. Market risk (continued)

Currency risk (continued)

At 31 December 2014	In USD	In EUR	In other foreign currency	In BGN	Total
Financial assets					
Cash in hand and balances in current account with the Central Bank	8	1,729	-	385,484	387,221
Receivables from banks	1,270	290,977	175	254,602	547,024
Financial assets held for trading	-	1,436	-	-	1,436
Loans and advances to customers	22,714	459,280	6,414	136,917	625,325
Available-for-sale securities	60,183	203,039	-	33,773	296,995
Net investment in finance lease	-	-	-	1,470	1,470
Securities held to maturity	-	1,980	-	-	1,980
Other financial assets	-	-	-	120	120
Total financial assets	**84,175**	**958,441**	**6,589**	**812,366**	**1,861,571**
Financial liabilities					
Deposits from credit institutions	75,931	23	-	2	75,956
Financial liabilities held for trading	-	888	-	-	888
Deposits from customers other than credit institutions	7,609	103,768	-	424,216	535,593
Debenture loans	-	78,499	-	-	78,499
Borrowings from international institutions	-	214,546	6,519	-	221,065
Other borrowings	-	37,623	-	254,080	291,703
Total financial liabilities	**83,540**	**435,347**	**6,519**	**678,298**	**1,203,704**
Net balance sheet currency position	**635**	**523,094**	**70**	**134,068**	**657,867**
Commitments and contingencies	**666**	**43,064**	**-**	**122,529**	**166,259**

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

4. FINANCIAL RISK MANAGEMENT (continued)

4.2. Market risk (continued)

Currency risk (continued)

The following table presents the Group's sensitivity to possible changes in exchange rates based on the structure of the assets and liabilities at 31 December:

2015

Currency	Change in exchange rates			Effect on the pre-tax profit in case of change in exchange rates*		Effect on equity
	Exchange rate	Decrease (BPS)	Increase (BPS)	Decrease	Increase	
EUR	1.9558	-	-	-	-	-
USD	1.7901	-1,051	+2,585	535	(1,316)	-
JPY	0.0149	-30	+19	(2)	1	-
GBP	2.6502	-1,957	+2,510	(2)	2	-
Total effect				**531**	**(1,313)**	**-**

2014

Currency	Change in exchange rates			Effect on the pre-tax profit in case of change in exchange rates*		Effect on equity
	Exchange rate	Decrease (BPS)	Increase (BPS)	Decrease	Increase	
EUR	1.9558			-		-
USD	1.6084	-0,968	+1,292	2	(2)	-
JPY	0.0135	-27	+14	(14)	8	-
GBP	2.5001	-1,876	+1,347	-	-	-
Total effect				**(12)**	**6**	**-**

There is no effect on the Group's equity as the Group does not hold available-for-sale financial instruments denominated in USD.

Price risk of shares quoted on the Stock Exchange

The Group is exposed to price risk with respect to the shares it holds, classified as available-for-sale investments. Management of the parent company (the "Bank") monitors and analyses all changes in the security market, and engages the advisory services of renowned local investment intermediaries. In addition, at this stage, due to the economic and financial crisis, management of the parent company (the "Bank") has decided to greatly reduce the operations on the stock markets and the trade in the acquired shares, and currently monitors the financial and business indicators, reported by the respective issuer, as well as the development of its activities.

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

4. FINANCIAL RISK MANAGEMENT (continued)

4.3. Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its current and potential payment obligations as they fall due without suffering losses.

The Group's business requires a stable cash flow both to replace existing deposits and loans received prior to their maturity, and to satisfy demands of customers for additional loans. Undrawn borrowing facility commitments and the level of all outstanding contingent obligations are taken into consideration in managing the parent company's (the Bank's) liquidity risk.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature are important factors in assessing the Group's liquidity and its exposure to changes in both interest rates and exchange rates. In order to manage this risk, the Group maintains at all times highly liquid assets depending on the currency of its liabilities.

The overall liquidity control and monitoring are performed by ALCO and are based on maturity tables with scenarios for measuring the net cash flows by periods, including nominal, realistic and pessimistic scenario, reflecting to a different degree the negative assumptions relating to loss of confidence by the customers, deterioration of the credit portfolio quality, negative assumptions about the banking market and other assumptions having an impact on the Group's liquid position and certain ratios enacted by Bulgarian National Bank. Additionally, varieties of correlations are monitored to indicate the liquid position by periods. Liquidity risk is also measured through application of three additional scenarios for the cash flows from operating activities and monitoring the liquidity buffers of the parent company (the "Bank") and the additional sources of financing in case of market and idiosyncratic shocks, representing loss of confidence by the market in a particular bank or banking group, which is tantamount to downgrading of the institution with two degrees at least and combined shocks in compliance with the Guidelines on liquidity buffers and survival periods of Bulgarian National Bank.

The table below presents the amounts in percentage of the ratio of liquid assets to liabilities of parent company (the "Bank"):

	2015	2014
At 31 December	65.25%	57.95%
Average for the period	64.56%	45.81%
Highest for the period	70.03%	58.33%
Lowest for the period	59.10%	25.82%

	2015	2014
Cash and cash balances with BNB	343,805	387,170
Balances in current accounts with other banks and international deposits of up to 7 days	39,760	154,793
Government securities	206,649	176,929
Liquid assets	**590,214**	**718,892**
Financial liabilities held for trading	362	888
Financial liabilities measured at amortised cost	902,308	1,237,474
Provisions	1,642	1,941
Employee retirement benefits	198	178
Liabilities	**904,510**	**1,240,481**
Liquidity assets ratio (LAR)	**65.25%**	**57.95%**

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

4. FINANCIAL RISK MANAGEMENT (continued)

4.3. Liquidity risk (continued)

The table below provides an analysis of the financial assets and liabilities of the Group grouped by remaining maturity:

At 31 December 2015	**Within 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Indefinite maturity**	**Total**
Assets							
Cash in hand and balances in current account with the Central Bank	343,853	-	-	-	-	-	343,853
Receivables from banks	51,852	53,631	14,006	80,047	68,000	-	267,536
Financial assets held for trading	-	-	305	-	-	-	305
Loans and advances to customers	40,081	22,578	98,644	311,586	167,910	320	641,119
Receivables from the State budget	-	-	693	19,344	9,848	-	29,885
Available-for-sale securities	10,660	32,285	-	138,915	78,464	2,644	262,968
Net investment in finance lease	52	43	247	550	90	-	982
Assets held for sale	-	-	-	-	-	8,720	8,720
Securities held to maturity	24	-	588	1,367	-	-	1,979
Other assets	-	-	-	-	-	916	916
Assets acquired from collateral foreclosure	-	-	-	-	-	4,714	4,714
Investment property	-	-	-	-	-	7,744	7,744
Property, plant and equipment, intangible assets	-	-	-	-	-	24,659	24,659
Deferred tax assets	-	-	-	-	-	1,304	1,304
Total assets	**446,522**	**108,537**	**114,483**	**551,809**	**324,312**	**51,021**	**1,596,684**
Liabilities							
Deposits from credit institutions	842	-	-	-	-	-	842
Financial liabilities held for trading	-	-	362	-	-	-	362
Current tax liabilities	-	305	-	-	-	-	305
Deposits from customers other than credit institutions	170,701	225	3,335	391,883	-	-	566,144
Provisions	-	-	-	-	-	6,327	6,327
Other liabilities	-	-	-	-	-	1,371	1,371
Borrowings from international institutions	2,884	8,609	41,581	103,293	22,356	-	178,723
Other borrowings	-	28	9,992	107,875	5,564	-	123,459
Total liabilities	**174,427**	**9,167**	**55,270**	**603,051**	**27,920**	**7,698**	**877,533**
Gap in maturity thresholds of assets and liabilities	**272,095**	**99,370**	**59,213**	**(51,242)**	**269,392**	**43,323**	**719,151**

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

4. FINANCIAL RISK MANAGEMENT (continued)

4.3. Liquidity risk (continued)

At 31 December 2014	Within 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Indefinite maturity	Total
Financial assets							
Cash in hand and balances in current account with the Central Bank	387,221	-	-	-	-	-	387,221
Receivables from banks	262,976	26,032	40,010	199,579	18,427	-	547,024
Financial assets held for trading	-	1,436	-	-	-	-	1,436
Loans and advances to customers	12,029	26,743	92,725	369,528	124,245	55	625,325
Available-for-sale securities	98,091	61,762	77,828	35,040	22,297	1,977	296,995
Net investment in finance lease	58	108	378	926	-	-	1,470
Assets held for sale	-	-	-	-	-	1,134	1,134
Current tax receivables	-	-	-	-	-	858	858
Securities held to maturity	24	-	-	1,956	-	-	1,980
Other assets	-	-	-	-	-	418	418
Assets acquired from collateral foreclosure	-	-	-	-	-	8,708	8,708
Investment property	-	-	-	-	-	-	-
Property, plant and equipment, intangible assets	-	-	-	-	-	20,743	20,743
Deferred tax assets	-	-	-	-	-	1,183	1,183
Total financial assets	**760,399**	**116,081**	**210,941**	**607,029**	**164,969**	**35,076**	**1,894,495**
Financial liabilities							
Deposits from credit institutions	75,956	59	9,779	9,779	-	-	95,573
Financial liabilities held for trading	-	-	-	888	-	-	888
Deposits from customers other than credit institutions	495,472	376	39,745	-	-	-	535,593
Debenture loans	-	265	78,234	-	-	-	78,499
Provisions	-	-	-	-	-	6,993	6,993
Other liabilities	-	-	-	-	-	1,627	1,627
Borrowings from international institutions	3,015	8,547	38,825	126,471	44,207	-	221,065
Other borrowings	-	-	254,080	11,190	6,816	-	272,086
Total financial liabilities	**574,443**	**9,247**	**420,663**	**148,328**	**51,023**	**8,620**	**1,212,324**
Gap in maturity thresholds of assets and liabilities	**185,956**	**106,834**	**(209,722)**	**458,701**	**113,946**	**26,456**	**682,171**

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

4. FINANCIAL RISK MANAGEMENT (continued)

4.3. Liquidity risk (continued)

The table below presents the gross undiscounted cash flows related to the Group's liabilities as of 31 December:

At 31 December 2015	Carrying amount	Gross outflow	Less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years
Financial liabilities							
Deposits from credit institutions	842	843	843	-	-	-	-
Financial liabilities held for trading	362	362	-	-	362	-	-
Deposits from customers other than credit institutions	566,144	566,887	170,678	226	3,333	392,650	-
Borrowings from international institutions	178,723	185,089	2,893	8,870	42,267	107,093	23,966
Other borrowings	123,459	125,573	-	60	10,231	108,389	6,893
	869,530	**878,754**	**174,414**	**9,156**	**56,193**	**608,132**	**30,859**

At 31 December 2015	Gross outflow	Less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years
Gross amount of financial assets held-for-trading (currency swap)						
Amount of agreed receivables	11,046	-	11,046	-	-	-
Amount of agreed payables	(10,741)	-	(10,741)	-	-	-
	305	**-**	**305**	**-**	**-**	**-**

Currency swaps were not contracted by the Group in 2014.

At 31 December 2014	Carrying amount	Gross outflow	Less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years
Financial liabilities							
Deposits from credit institutions	75,956	75,958	75,958	-	-	-	-
Financial liabilities held for trading	888	888	-	-	-	888	-
Deposits from customers other than credit institutions	535,593	536,319	495,474	377	40,468	-	-
Debenture loans	78,499	81,158	-	265	80,893	-	-
Borrowings from international institutions	221,065	231,492	3,027	8,957	39,727	131,720	48,061
Other borrowings	291,703	294,368	-	93	264,327	22,763	7,185
	1,203,704	**1,220,183**	**574,459**	**9,692**	**425,415**	**155,371**	**55,246**

In view of the specific profile of the Group as of 31 December 2015 the funds attracted from the top 10 non-banking depositors represent 91.27% of the total amount due to customers (31 December 2014: 94.88%).

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

4. FINANCIAL RISK MANAGEMENT (continued)

4.3. Liquidity risk (continued)

The financial assets available for future financing and the financial assets pledged as collateral for financial liabilities are presented in the table below:

At 31 December 2015

Financial assets	Pledged as collateral	Available for collateral	Other*	Total
Cash in hand and balances in current account with the Central Bank	-	265,400	78,453	343,853
Receivables from banks	7,468	205,217	54,851	267,536
Loans and advances to customers	-	533,922	107,197	641,119
Receivables from the State budget	-	29,885	-	29,885
Available-for-sale securities	7,833	252,651	2,484	262,968
Net investment in finance lease		974	8	982
Securities held to maturity	-	1,979	-	1,979
Financial assets held-for-trading	-	305	-	305
Other financial assets	-	-	278	278
Total financial assets	**15,301**	**1,290,333**	**243,271**	**1,548,905**

At 31 December 2014

Financial assets	Pledged as collateral	Available for collateral	Other*	Total
Cash in hand and balances in current account with the Central Bank	-	287,599	99,622	387,221
Receivables from banks	610	478,276	68,138	547,024
Loans and advances to customers	-	570,170	55,155	625,325
Available-for-sale securities	-	295,092	1,903	296,995
Net investment in finance lease	-	1,413	57	1,470
Securities held to maturity	-	1,980	-	1,980
Financial assets held-for-trading	-	1,436	-	1,436
Other financial assets	-	-	120	120
Total financial assets	**610**	**1,635,966**	**224,995**	**1,861,571**

Review of the size, development and the credit quality of the unencumbered assets is done once a year.

Risk Management ,together with other Group divisions, monthly monitors and reports to ALCO on the ratios between the encumbered assets and the total carrying amount of the Group's assets. In a case of excess above the limits approved by the Management Board, ALCO reports back to the MB for undertaking corrective actions.

*"**Other**" are financial assets that are not encumbered and there are no restrictions to be used as collateral, but the Group wouldn't consider them as available for future financing in the normal course of business.

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

4. FINANCIAL RISK MANAGEMENT (continued)

4.4. Operational risk

The main sources of operational risk within the Group are its personnel, processes, systems and external events. The Group designated the following as the major types of operational risk:

- Risk of loss due to inadequate or poorly working internal processes;
- Risk of loss due to inadequate, illegal and/or incorrect acts and omissions of personnel;
- Risk of loss due to inadequate or poorly working systems;
- Risk of loss due to external events, including legal risk.

Operational risk management is based on the principles of not taking unreasonable risks, strict compliance with the levels of competence and the applicable legislation. The Group applies reliable methods for limiting the impact of operational risks, including by dividing the functions and responsibilities, introducing double-checking control, levels of competence, internal control, etc. Moreover, control procedures for reducing the operational risk are added to all internal rules and procedures of the Group.

In operational risk management all operational events, which occur in the activity of various units and processes of the Group, are strictly monitored and registered, while the events of higher frequency, as well as those of significant importance, serve as bases for the operational risk analyses in different scenarios. The operational risk is measurable and monitorable, and in the process of work an operational event register is kept, which is used as a basis for analysing and improving the work processes, and minimising the conditions that would potentially result in operational events and loss for the Group. For the purposes of measuring its operational risk, the Group has decided to apply the "Basic indicator method".

4.5 Capital management

The main objectives of the Group's capital management is to maintain its level at amounts sufficient for activity developing and achieving the general objectives set at its foundation – to support the economic policy of the country and the development of small and medium-sized businesses.

In its activities the Group should observe the regulatory requirements for capital adequacy (Note No. 33,34), as well as to continue operating as a going concern.

The table below presents the main equity components following the regulatory requirements and ratios achieved on a consolidated basis by the Group (as a banking group):

	2015	**2014**
OWN FUNDS	678,279	673,936
TIER I CAPITAL	678,279	673,936
COMMON EQUITY TIER I CAPITAL	678,279	673,936
Share capital	601,774	601,774
Statutory reserves	61,281	59,730
Additional reserves	14,698	12,873
Accumulated other comprehensive income	1,566	7
Intangible assets	(100)	(317)
Other transitional adjustments to CET1 Capital	(940)	(131)
ADDITIONAL TIER I CAPITAL	-	-
TIER II CAPITAL	-	-

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

4. FINANCIAL RISK MANAGEMENT (continued)

4.5. Capital management (continued)

TOTAL RISK EXPOSURES	1,206,406	1,244,163
Credit risk - Standardised approach	1,090,931	1,120,176
Central governments or central banks	5,464	94,397
Regional governments or local authorities	1,246	-
Public sector entities	20,037	200
Multilateral development banks	939	939
Institutions	221,652	282,822
Corporates	711,732	607,840
Retail	15,586	19,980
Secured by mortgages on immovable property	41,540	70,506
Exposures in default	19,742	10,553
Items associated with particular high risk	2,934	-
Equity exposures	146	212
Other items	49,913	32,727
Foreign exchange and commodity risk	-	-
Operational risk - Basic indicator approach	115,475	123,987
CET 1 Capital Ratio	**56,22%**	**54,17%**
Total Capital Ratio	**56,22%**	**54,17%**
Capital conservation buffer	*30,160*	*31,104*
Systemic risk buffer	*36,192*	*37,325*
Discretionary counter-cyclical buffer	-	-
Regulatory required levels		
CET 1 Capital Ratio	*4.50%*	*4.50%*
Tier 1 Capital ratio	*6.00%*	*6.00%*
Total Capital ratio	*8.00%*	*8.00%*
Capital conservation buffer	*2.50%*	*2.50%*
Systemic risk buffer	*3.00%*	*3.00%*
Discretionary counter-cyclical buffer	*0.00%*	*0.00%*

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

5. FAIR VALUE DISCLOSURE

The table below presents the carrying amount and fair values of financial assets and liabilities, including by their levels in the fair value hierarchy:

At 31 December 2015		Carrying amount						Fair value			
	Note	Held-to-maturity	Loans and receivables	Held-for-trading	Available-for-sale	Other	Total	Level 1	Level 2	Level 3	Total
Assets measured at fair value											
Available-for-sale securities	20	-	-	-	262,968	-	262,968	260,324	2,354	-	262,678
Financial assets held for trading	21	-	-	305	-	-	305	-	305	-	305
Assets acquired from collateral foreclosure	27	-	-	-	-	4,714	4,714	-	-	4,714	4,714
Investment property	25	-	-	-	-	7,744	7,744	-	-	7,744	7,744
		-	**-**	**305**	**262,968**	**12,458**	**275,731**	**260,324**	**2,659**	**12,458**	**275,441**
Financial assets not measured at fair value											
Cash in hand and balances in current account with the Central Bank	16	-	343,853	-	-	-	343,853	-	343,853	-	343,853
Loans to banks	17	-	141,718	-	-	-	141,718	-	150,176	-	150,176
Current accounts and term deposits of banks	17	-	125,818	-	-	-	125,818	-	125,818	-	125,818
Loans and advances to customers	18	-	641,119	-	-	-	641,119	-	647,518	-	647,518
Receivables from the State budget	19	-	29,885	-	-	-	29,885	-	35,818	-	35,818
Securities held to maturity	22	1,979	-	-	-	-	1,979	-	1,925	-	1,925
Other financial receivables	27	-	-	-	-	278	278	-	278	-	278
		1,979	**1,282,393**	**-**	**-**	**278**	**1,284,650**	**-**	**1,305,386**	**-**	**1,305,386**
Liabilities measured at fair value											
Financial liabilities held for trading	21	-	-	362	-	-	362	-	362	-	362
		-	**-**	**362**	**-**	**-**	**362**	**-**	**362**	**-**	**362**
Financial liabilities not measured at fair value											
Deposits from credit institutions - Current accounts and term deposits from banks	28	-	-	-	-	842	842	-	842	-	842
Deposits from customers other than credit institutions	29	-	-	-	-	566,144	566,144	-	558,727	-	558,727
Borrowings from international institutions	30	-	-	-	-	178,723	178,723	-	181,103	-	181,103
Other borrowings	31	-	-	-	-	123,459	123,459	-	123,834	-	123,834
		-	**-**	**-**	**-**	**869,168**	**869,168**	**-**	**864,506**	**-**	**864,506**

The fair value of securities classified as available-for-sale investments with carrying amount of BGN 290 thousand at 31 December 2015 (2014: BGN 1,903 thousand) carried at cost is not disclosed as it cannot be measured reliably.

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

5. FAIR VALUE DISCLOSURE (continued)

At 31 December 2014		Carrying amount						Fair value			
	Note	Held-to-maturity	Loans and receivables	Held-for-trading	Available-for-sale	Other	Total	Level 1	Level 2	Level 3	Total
Assets measured at fair value											
Available-for-sale securities	20	-	-	-	296,995	-	296,995	295,092	-	-	295,092
Assets acquired from collateral foreclosure	27	-	-	-	-	8,708	8,708	-	-	8,708	8,708
Financial assets held for trading	21	-	-	1,436	-	-	1,436	-	1,436	-	1,436
		-	**-**	**1,436**	**296,995**	**8,708**	**307,139**	**295,092**	**1,436**	**8,708**	**305,236**
Financial assets not measured at fair value											
Cash in hand and balances in current account with the Central Bank	16	-	387,221	-	-	-	387,221	-	387,221	-	387,221
Loans to banks	17	-	217,855	-	-	-	217,855	-	226,509	-	226,509
Current accounts and term deposits of banks	17	-	329,169	-	-	-	329,169	-	329,169	-	329,169
Loans and advances to customers	18	-	625,325	-	-	-	625,325	-	625,629	-	625,629
Securities held to maturity	22	1,980	-	-	-	-	1,980	-	1,925	-	1,925
Other financial receivables	27	-	-	-	-	120	120		120		120
		1,980	**1,559,570**	**-**	**-**	**120**	**1,561,670**	**-**	**1,570,573**	**-**	**1,570,573**
Liabilities measured at fair value											
Financial liabilities held for trading	21	-	-	-	-	888	888	-	888	-	888
		-	**-**	**-**	**-**	**888**	**888**	**-**	**888**	**-**	**888**
Financial liabilities not measured at fair value											
Deposits from credit institutions -Current accounts and term deposits from banks	28	-	-	-	-	75,956	75,956	-	75,956	-	75,956
Deposits from customers other than credit institutions	29	-	-	-	-	535,593	535,593	-	535,593	-	535,593
Debenture loans	32	-	-	-	-	78,499	78,499	-	80,709	-	80,709
Borrowings from international institutions	30	-	-	-	-	221,065	221,065	-	217,320	-	217,320
Other borrowings	31	-	-	-	-	291,703	291,703	-	291,654	-	291,654
		-	**-**	**-**	**-**	**1,202,816**	**1,202,816**	**-**	**1,201,232**	**-**	**1,201,232**

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

5. FAIR VALUE DISCLOSURE (continued)

Fair value of assets and liabilities measured at fair value is presented in the following table by types of assets at the reporting date:

Financial instrument	Fair value as of 31 December 2015	Fair value as of 31 December 2014	Fair value hierarchy	Valuation techniques	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Investment property	7,744	-	Level 3	Market analogues method Under the market analogues method an assessment is made by directly comparing the property under review with sold similar properties; the price is determined on the basis of such previous transactions. When applying this approach, it is necessary to use actually similar data of the comparable properties, the properties should be in the same location and the timing of the transaction and the date of preparation of the evaluation should be close enough.	1. Market realisation coefficient (0.8-0.95) 2. Location coefficient (0.81-1.0) 3. Coefficient of specific features (status) (0.8-1.1)	The higher (lower) fair value if: • Higher (lower) market realisation coefficient • Higher (lower) location coefficient • Higher (lower) coefficient of specific features (status)
Assets acquired from collateral foreclosure	4,714	8,708		Income capitalisation method (revenue method) The revenue method, used for assessing the real estate value, consists of an analysis of the value of the real estate based on its ability to generate income through capitalisation of the net income derived from the property over a given period. For the determination of the evaluated property's amount, the permanently generated net annual income is used and its amount is calculated on the basis of the actual or possible permanently achieved rental income, which it turn is calculated on the basis of the average offered rent in the area (observable inputs), by taking into account the condition of the building fund and the residual term of use.	Offer market adequacy adjustment coefficient (from -10% to +5%)	The higher (lower) fair value if: • Higher (lower) offer market adequacy adjustment coefficient

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

5. FAIR VALUE DISCLOSURE (continued)

Fair value of financial assets and financial liabilities not measured at fair value, but for which fair value disclosures are required:

Financial instrument	Fair value as of 31 December 2015	Fair value as of 31 December 2014	Fair value hierarchy	Valuation techniques	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Loans to banks	150,176	226,509	Level 2	Discounted cash flows Future cash flows are discounted using the 12 month Sofibor, adjusted for yield curve of Bulgarian government securities on primary market according to Bloomberg publication	N/A	N/A
Loans and advances to customers	647,518	625,629	Level 2	Discounted cash flows Future cash flows are measured using the officially published by BNB interest rates (unadjusted) of new loans for December 2015.	N/A	N/A
Receivables from the State budget	35,818	-	Level 2	Discounted cash flows Future cash flows are measured using the officially published by BNB yield of Bulgarian government securities (unadjusted) for December 2015	N/A	N/A
Securities held to maturity	1,925	1,925	Level 2	Discounted cash flows Future cash flows are measured using the officially published by BNB interest rates (unadjusted) of new loans to non-financial entities for December 2015	N/A	N/A
Other borrowings	123,834	291,654	Level 2	Discounted cash flows Future cash flows are measured using the officially published by BNB yield of Bulgarian government securities (unadjusted) for December 2015	N/A	N/A
Deposits from customers	558,727	535,593	Level 2			
Borrowings from international institutions	181,103	217,320	Level 2		N/A	N/A

For the balance sheet assets and liabilities not disclosed in the table the Group's management is of the opinion that their fair value approximates their carrying amount.

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

6. NET INTEREST INCOME

	2015	2014
Interest income		
Loans and advances to customers	51,693	47,930
Loans to banks	6,220	14,072
Deposits placed with other banks	1,234	3,156
Available-for-sale securities	2,678	2,592
Interest income and penalty income from finance lease	200	302
Receivables from the State budget	462	-
Securities held to maturity	118	168
	62,605	**68,220**
Interest expense		
Borrowings from international institutions	(3,283)	(4,901)
Debenture loans	(2,655)	(3,941)
Deposits from customers	(1,250)	(2,336)
Deposits from other banks	(44)	(155)
Other borrowings	(492)	(763)
Other liabilities	(2)	-
	(7,726)	**(12,096)**
Net interest income	**54,879**	**56,124**

The yield on the assets, as a ratio of net profit to the balance sheet figure, is 2.42% (2014: 0.41%).

7. NET FEE AND COMMISSION INCOME

	2015	2014
Fee and commission income		
Guarantees and letters of credit	1,795	1,370
Customers' accounts, bank transfers, cash operations of customers, etc.	508	597
Servicing of debenture issues	270	280
Special-purpose funds of the Ministry of Agriculture and Food and the Executive Agency on Fisheries and Aquaculture (Note 31)	678	625
Special-purpose funds of the Ministry of Finance (Note 31)	67	70
Other	22	8
	3,340	**2,950**
Fee and commission expense		
Agency commissions	(57)	(101)
Bank transfers and cash operations with other banks	(7)	(1)
Servicing of accounts in other banks	(28)	(115)
	(92)	**(217)**
Net fee and commission income	**3,248**	**2,733**

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

8. NET GAIN ON FOREIGN EXCHANGE DEALS

	2015	2014
Net gain on dealing in foreign currencies	277	438
Net loss on foreign currency swap revaluation	(43)	(11)
Net gain on foreign currency translation of assets and liabilities	195	190
	429	**617**

9. NET LOSS ON AVAILABLE-FOR-SALE SECURITIES

	2015	2014
Net gain on dealing in available-for-sale securities, incl. realised revaluation reserve	3	43
Impairment of available-for-sale financial assets	(43)	(60)
	(40)	**(17)**

10. NET LOSS ON HELD-FOR-TRADING FINANCIAL INSTRUMENTS

	2015	2014
Interest income from financial instruments held for trading	737	1,105
Interest expense on financial instruments held for trading	(560)	(951)
Net gain on revaluation of held-for-trading financial instruments	132	340
	309	**494**

11A. OTHER OPERATING INCOME

	2015	2014
Dividends received	46	48
Refunded litigation expenses	1,359	917
Income from rent of investment property	270	-
Proceeds from disposal of assets held for sale	62	60
Proceeds from disposal of FTA	67	5
Other income	155	133
	1,959	**1,163**

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

11B. OTHER OPERATING INCOME

	2015	2014
Losses on revaluation of investment property	(335)	-
Expenses on assets held for sale	(315)	(278)
Litigation expenses	(267)	(205)
Withholding tax	(12)	(16)
Direct operating expenses relating to investment property	(27)	-
Expenses on disposal of FTA	(58)	(4)
Other expenses	-	(12)
	(1,014)	**(515)**

12. INCOME/(EXPENSES) FROM/ON REVERSED IMPAIRMENT LOSSES AND PROVISIONS

	2015	2014
Income from reversed impairment losses on individually impaired assets, net	1,967	2,714
(Expenses)/Income on/from reversed impairment of loans relating to common credit risk on portfolio basis, net	(338)	572
Expenses on impairment of receivables from banks, net	-	(43,603)
Income from reversed impairment losses on finance lease	34	21
Income from reversed guarantee provisions, net	825	2,800
Expenses on impairment of assets acquired from collateral foreclosure	(47)	(1,038)
Expenses on impairment of other assets	-	(119)
	2,441	**(38,653)**

The movement in the balance sheet accumulated expenses on impairment and provisions is disclosed in Notes 18, 23 and 33A.

13A. COSTS OF PERSONNEL

	2015	2014
Staff remuneration and social security	(7,788)	(6,926)
Remuneration to members of the Management and Supervisory Boards	(1,994)	(1,531)
	(9,782)	**(8,457)**

	2015	2014
Personnel costs consist of:		
Salaries	(6,692)	(6,033)
Social security	(948)	(833)
Social benefits	(99)	(19)
Amounts accrued on retirement benefits	(49)	(41)
	(7,788)	**(6,926)**

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

13B. GENERAL AND ADMINISTRATIVE EXPENSES

	2015	2014
Contribution to the Fund for Orderly Bank Restructuring	(3,073)	-
Contribution to the Deposit Insurance Fund	(2,004)	(735)
Rents	(1,005)	(1,176)
Communications and IT services	(696)	(650)
Office and office equipment maintenance	(522)	(513)
Legal and consulting services	(427)	(207)
Advertising and entertainment expenses	(452)	(275)
Taxes and government charges	(165)	(237)
Hired services	(283)	(379)
Advisory services by the registered audit firm	(99)	(1)
Business trips	(100)	(95)
Audit services by the registered audit firm	(75)	(51)
	(8,901)	**(4,319)**

14. TAXATION

	2015	2014
Current tax expense	(4,420)	(713)
Deferred tax benefit / (expense) due to temporary differences	121	(150)
Total tax expense	**(4,299)**	**(863)**

	2015	2014
Accounting profit	42,975	8,644
Income tax calculated at the effective tax rate (10% for 2015, 10% for 2014)	(4,298)	(864)
Non-deductible expenses	(7)	(5)
Non-deductible income	6	6
Total tax expense	**(4,299)**	**(863)**
Effective tax rate	**10.00%**	**9.98%**

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

14. TAXATION (continued)

Outstanding balances of deferred taxes relate to the following items of the consolidated statement of financial position and changes in the statement of comprehensive income:

	Assets		Liabilities		Changes in the income statement	
	2015	2014	2015	2014	2015	2014
Property and equipment	11	8	-	(2)	5	4
Assets held for sale	437	432	-	-	5	93
Guarantee portfolio	617	699	-	-	(82)	(254)
Other liabilities	51	34	-	-	17	12
Securities	146	2	-	(11)	155	4
Effect of a recognized asset on tax loss	9	21	-	-	(12)	(9)
Investment property	33	-	-	-	33	-
	1,304	**1,196**	**-**	**(13)**	**121**	**(150)**

The changes in the temporary differences during the year are recognised in the consolidated statement of comprehensive income and in the statement of equity.

The probability that the individual differences might reverse in the future and the Group's ability to generate sufficient taxable profit have also been taken into account on recognising deferred tax assets.

15. NET CHANGE IN THE FAIR VALUE OF AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2015	2014
Change in the fair value of available-for-sale financial assets		
Profits occurred during the year	1,580	59
Income recycling	(20)	(6)
Other comprehensive income for the year	**1,560**	**53**

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

16. CASH IN HAND AND BALANCES IN CURRENT ACCOUNT WITH THE CENTRAL BANK

	2015	2014
Cash in hand	87	89
Current accounts	343,719	387,082
Incl. Minimum statutory reserves	*78,406*	*99,571*
Reserve Security Fund	47	50
Total cash with the Central Bank	**343,766**	**387,132**
Total cash in hand and in accounts with the Central Bank	**343,853**	**387,221**

Deposits with the Central Bank are interest-free.

17. RECEIVABLES FROM BANKS

	2015	2014
Current accounts with local banks	668	708
Current accounts with foreign banks	10,682	2,717
Term deposits with local banks	79,812	182,577
Allowance for impairment and uncollectability of deposits in local banks	-	(21,400)
Term deposits with foreign banks	34,656	164,567
Loans to local banks	135,607	234,298
Allowance for impairment and uncollectability of loans to local banks	-	(21,133)
Loans to foreign banks	6,111	4,690
	267,536	**547,024**

As of 31 December 2014 the parent company (the "Bank") impaired its term deposits with local banks and loans granted to local banks exposures to Corporate Commercial Bank (CCB) AD. The term deposits were fully impaired, while the loans were impaired after deducting the fair value of the pledged securities (government bonds). After the withdrawal of the licence for carrying out of banking business of CCB AD, the Bank's receivables were reclassified to "Loans and advances to customers" (Note 18).

At 31 December 2015 special-purpose loans, denominated and BGN and EUR, with original maturity of up to 10 years and interest rate levels ranging from 1.69% to 5%, were extended to local banks with the aim to develop small and medium-sized enterprises.

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

18. LOANS AND ADVANCES TO CUSTOMERS

	2015	2014
Loans (gross amount)	789,742	743,363
Allowance for impairment and uncollectability of loans	(148,623)	(118,038)
	641,119	**625,325**

	2015	2014
A. Analysis by customer type		
Corporate and sole traders	780,007	739,954
Municipalities	6,230	12
Individuals	3,505	3,397
	789,742	**743,363**

	2015	2014
B. Analysis by industry sector		
Manufacturing	364,291	309,144
Construction	111,102	112,028
Transport	56,221	88,138
Trade	49,608	82,257
Real estate transactions	60,969	59,932
Tourist services	22,384	25,223
Collection and disposal of wastes	17,471	20,016
Agriculture	17,046	17,166
Financial services	65,183	59
Other industry sectors	25,467	29,400
	789,742	**743,363**

"Other industry sectors" include assigned receivables amounting to BGN 320 thousand (2014: BGN 55 thousand), which originated from payments for guarantees due to persistent financial insolvency or bankruptcy of the borrower, for which the beneficiary bank has met the requirements for payment under the guarantee, claimed the guarantee and NGF EAD (the subsidiary) has paid it.

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

18. LOANS AND ADVANCES TO CUSTOMERS (continued)

C. Movement in the allowance for loan impairment and uncollectability

	2015			2014		
	Individually impaired	Collectively impaired	Total	Individually impaired	Collectively impaired	Total
At 1 January	102,413	15,625	118,038	107,856	16,197	124,053
Sectorial reclassification of a customer (*)	42,533	-	42,533	-	-	-
Net change for the year	(1,967)	338	(1,629)	(2,714)	(572)	(3,286)
Written-off against impairment	(10,319)	-	(10,319)	(2,729)	-	(2,729)
At 31 December	**132,660**	**15,963**	**148,623**	**102,413**	**15,625**	**118,038**

(*) At 31 December 2014 the parent company (the "Bank") had an exposure to a local bank amounting to BGN 65,139 thousand gross and accumulated impairment amounting to BGN 42,533 thousand. In 2015 the licence for carrying out of banking business of the local bank was withdrawn and the exposure was reclassified respectively from „Receivables from banks" to „Loans and advances to customers". At 31 December 2015 the exposure amounted to BGN 65,139 thousand gross and the accumulated impairment amounted to BGN 42,808 thousand (Note 17).

19. RECEIVABLES FROM THE STATE BUDGET

	2015	2014
Acquired receivables	20,037	-
Energy Efficiency Program	9,848	-
	29,885	**-**

At 31 December 2015 the receivables classified as Receivables from the State budget – Acquired receivables represent receivables originating from assignment contracts with debtors - secondary budget spending units.

At the beginning of 2015 the Government of the Republic of Bulgaria approved National Multifamily Buildings Energy Efficiency Program (CMD 18/02.02.2015). Funds utilised under the Program as of 31 December 2015 amounted to BGN 9,848 thousand.

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

20. AVAILABLE-FOR-SALE SECURITIES

	2015	2014
Government securities	257,270	291,963
Corporate bonds	3,054	3,055
Non-public companies' shares	2,484	1,903
Participation in the SIA investment program (note 36)	152	-
Public companies' shares	8	74
	262,968	**296,995**

Movement in available-for-sale securities

	2015	2014
At 1 January	296,995	156,529
Additions (purchases)	377,759	369,883
Disposals (sale and/or maturity)	(413,346)	(229,470)
Net decrease due to revaluation of available-for-sale securities to fair value	1,560	53
At 31 December	**262,968**	**296,995**

The non-public companies' shares held by the Group include shares of the European Investment Fund (EIF) amounting to BGN 2,346 thousand. The portion of the nominal value of the acquired shares of EIF, which has not been paid, is due after a decision is taken by the General Meeting of Shareholders of EIF (Note 36).

The remaining portion of the non-public companies' shares amounting to BGN 138 thousand represent shares of the company licensed as a payment system operator under the Bulgarian law – BORICA - Bankservice AD. Only banks can be shareholders of this company and they acquire shares following a specific procedure; the share price is determined using a formula specified in the company's Statute. These shares are presented at cost (acquisition price) due to fact that at the reporting date there is no sufficiently reliable public information to determine an actual fair value of these shares.

The reserve formed on available-for-sale financial assets as of 31 December 2015 amounts to BGN 1,567 thousand – positive value (31 December 2014: BGN 7 thousand - positive value) (Note 35).

In 2015 the allowance for impairment of available-for-sale securities amounting to BGN 43 thousand was transferred to and reported on the consolidated statement of comprehensive income (as part of the current profit or loss for the year). (Note 9) (2014: BGN 60 thousand.)

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

21. HELD-FOR-TRADING FINANCIAL ASSETS/LIABILITIES

	Agreed/Contingent amount	Fair value at 31 December 2015		Agreed/Contingent amount	Fair value at 31 December 2014	
		Assets	Liabilities		Assets	Liabilities
Interest rate swaps	9,779	-	362	66,968	1,436	888
Currency swaps	21,786	305	-	-	-	-
	31,565	**305**	**362**	**66,968**	**1,436**	**888**

Financial assets and liabilities held for trading include out-of-counter derivative financial instruments – interest rate swaps and currency swaps. In 2015 and 2014 the Group did not designate derivatives as hedging instruments in accordance with the requirements of IAS 39.

22. SECURITIES HELD TO MATURITY

	2015	**2014**
Corporate bonds of financial entities	1,979	1,980
	1,979	**1,980**

Corporate bonds of financial entities represent bonds issued by B.L.Leasing denominated in EUR with nominal value EUR 1,000 thousand.

23. NET INVESTMENT IN FINANCE LEASE

The net investment in finance lease is the difference between the gross investment in the finance lease, less any unearned finance income, and the accumulated impairment losses.

	2015	**2014**
Gross investment in finance lease	1,451	2,100
Unearned finance income	(161)	(285)
Net minimum lease payments	**1,290**	**1,815**
Impairment loss	(308)	(345)
Net investment in finance lease	**982**	**1,470**

Allocation of net finance lease investment:

	2015	**2014**
Repayment not later than one year	450	685
Repayment later than one year and no later than five years	840	1,130
Net minimum lease payments	**1,290**	**1,815**
Impairment loss	(308)	(345)
Net investment in finance lease	**982**	**1,470**

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

23. NET INVESTMENT IN FINANCE LEASE (continued)

Movement in the allowance for impairment:

	2015	2014
Balance as of 01 January	(345)	(376)
Charge for the year	(10)	(38)
Reversed for the year	44	59
Written off	3	10
Balance as of 31 December	**(308)**	**(345)**

24. PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS

	Land and buildings	Bank equipment and computers	Fixtures and fittings	Motor vehicles	Licences and software	Total
Book value						
As of 1 January 2014	16,295	1,150	353	63	943	18,804
Additions	3,748	100	27	343	13	4,231
Disposals	-	(3)	(74)	(22)	-	(99)
As of 31 December 2014	20,043	1,247	306	384	956	22,936
Additions	4,112	327	1	88	-	4,528
Disposals	-	(9)	-	(66)	-	(75)
As of 31 December 2015	**24,155**	**1,565**	**307**	**406**	**956**	**27,389**
Accumulated depreciation						
As of 1 January 2014	475	562	245	52	420	1,754
Charge for the year	37	209	37	24	219	526
Disposals	-	(3)	(70)	(14)	-	(87)
As of 31 December 2014	512	768	212	62	639	2,193
Charge for the year	37	206	29	64	217	553
Disposals	-	(11)	-	(5)	-	(16)
As of 31 December 2015	**549**	**963**	**241**	**121**	**856**	**2,730**
Net book value						
As of 31 December 2015	**23,606**	**602**	**66**	**285**	**100**	**24,659**
As of 31 December 2014	**19,531**	**479**	**94**	**322**	**317**	**20,743**

The land and buildings amounting to BGN 4,112 thousand acquired in 2015 (2014: BGN 3,748 thousand) comprise FTA in progress relating to the construction and development of a building owned by the parent company (the "Bank") located at 1 Dyakon Ignatii Street, Sofia.

The fully depreciated property, plant and equipment still in use at 31 December 2015 amount to BGN 588 thousand at cost (2014: BGN 337 thousand) and intangible assets amount to BGN 628 thousand (2014: BGN 154 thousand) respectively.

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

25. INVESTMENT PROPERTY

	2015	2014
Carrying amount at the beginning of period	-	-
Reclassified from held for sale	3,095	-
Reclassified from other assets	4,984	-
Sold	-	-
(Loss) on change in the fair value included in profit and loss for the period	(335)	-
	7,744	**-**

The Group holds investment properties as a result of collateral acquired on problem loans. They are leased to third parties. Rental income generated for 2015 amounts to BGN 270 thousand (Note 11A). The fair value at 31 December 2015 has been determined by an independent certified appraiser.

The Group classifies its investment property in Level 3 of the fair value hierarchy. The fair value has been determined on the basis of the valuation calculated by independent certified appraisers by employing valuation techniques and key inputs for the valuation of the investment property disclosed in Note 5.

26. ASSETS HELD FOR SALE

Properties (land, buildings and fixtures and fittings) at 31 December 2015 amounting to BGN 8,720 thousand (2014: BGN 1,134 thousand – land and buildings) were acquired by the Group in 2015 against payment of liabilities under problem loans of borrowers.

The assets have not been used and it is not planned to be used in the Group's activity. Management actively seeks buyers with the purpose to sell them by the end of 2016.

Movement in assets held for sale in 2015 and 2014:	2015	2014
Carrying amount at the beginning of period	1,134	-
Acquired from collateral foreclosure	11,776	1,155
Sold	(7)	(21)
Reclassified to other assets	(1,088)	-
Reclassified to investment property	(3,095)	-
	8,720	**1,134**

27. OTHER ASSETS

	2015	2014
Assets acquired from collateral foreclosure	4,714	8,708
Other receivables	278	120
VAT refundable	373	110
Prepayments and advances	265	188
	5,630	**9,126**

Assets acquired from collateral foreclosure include assets classified as held for sale (acquired from collateral foreclosure), but not realised within the stipulated 12-month period and reclassified to other assets. These assets are valued at the lower of cost and net realisable value.

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

27. OTHER ASSETS (continued)

Movement in assets acquired from collateral foreclosure in 2015 and 2014:	2015	2014
Carrying amount at the beginning of period	8,708	9,793
Reclassified from held for sale	1,088	-
Reclassified to investment property	(4,984)	-
Sold	(51)	(47)
Impairment	(47)	(1,038)
Carrying amount at the end of period	**4,714**	**8,708**

28. DEPOSITS FROM CREDIT INSTITUTIONS

	2015	2014
Deposits from local banks	413	75,956
Deposits from foreign banks	429	-
	842	**75,956**

Interest payable on deposits from credit institutions at 31 December 2015 amounts to BGN 1 thousand (2014: BGN 1 thousand).

	2015	2014
Term deposits	-	75,931
Demand deposits	842	25
	842	**75,956**

29. DEPOSITS FROM CUSTOMERS OTHER THAN CREDIT INSTITUTIONS

	2015	2014
Individuals	5,174	2,664
Companies and sole traders	560,970	532,929
	566,144	**535,593**

The amounts due to individuals represent deposits of employees of the Group.

Interest payable on deposits from other customers, other than credit institutions, at 31 December 2015 amounts to BGN 11 thousand (2014: BGN 458 thousand).

	2015	2014
Term deposits	387,344	40,908
Demand deposits	178,800	494,685
	566,144	**535,593**

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

30. BORROWINGS FROM INTERNATIONAL INSTITUTIONS

	2015	2014
Long-term frame loan agreement with the Council of Europe Development Bank	47,730	55,323
Long-term loans from European Investment Bank	38,544	44,297
Long-term loans from the Nordic investment bank	28,664	35,552
Long-term loans from the Kreditanstalt für Wiederaufbau	28,817	34,599
Long-term loan from Black Sea Trade and Development Bank	12,035	28,111
Sumitomo Mitsui Banking Corporation Europe	7,795	-
Long-term loan from Dexia Credit Local	5,851	9,753
Long-term loan from DEPFA Investment Bank - Fms Wertmanagement Aor	4,147	6,911
Long-term loans from JBIC Japan Bank for International Cooperation	5,140	6,519
	178,723	**221,065**

Interest payable on borrowings from international institutions at 31 December 2015 amount to BGN 338 thousand (2014: BGN 438 thousand).
Effective interest rates on borrowings from international institutions at 31 December 2015 range from 0.27 % to 3.39% (31 December 2014: from 0.481 % to 3.39%).

Council of Europe Development Bank

On 2 January 2003 between the Council of Europe Development Bank (CEB), the Republic of Bulgaria represented by the Minister of Finance and Encouragement Bank AD (being at present Bulgarian Development Bank AD) were signed two Framework Loan Agreements for EUR 10,000 thousand and EUR 5,000 thousand for financing of micro, small and medium-sized enterprises in Bulgaria. The loan agreement amounting to EUR 10,000 thousand is secured by state guarantee provided by the Republic of Bulgaria.
As of 31 December 2015 the 2003 loans were fully repaid.

On 18 November 2009 a third Loan agreement was signed between Bulgarian Development Bank AD and the Council of Europe Development Bank (CEB) for EUR 15,000 thousand. The purpose of the loan is to finance investment projects of micro-, small and medium-sized enterprises from the real sector with the aim to open new and to preserve already existing jobs. The loan is unsecured. As of 31 December 2015 the loan was fully utilised and the outstanding principal under the facility amounted to EUR 9,375 thousand equivalent to BGN 18,336 thousand (31 December 2014: EUR 11,250 thousand equivalent to BGN 22,003 thousand). The interest rate is floating, based on the 3-month EURIBOR plus margin.

On 30 March 2011 a fourth Loan Agreement was signed between Bulgarian Development Bank AD and the Council of Europe Development Bank for EUR 20,000 thousand. The purpose of the loan is to improve the access to financing of the Bulgarian small and medium-sized enterprises, to open new jobs, and to preserve already existing jobs. The loan is unsecured. As of 31 December 2015 the loan was fully utilised and the outstanding principal under the facility amounted to EUR 15,000 thousand equivalent to BGN 29,337 thousand (31 December 2014: EUR 17,000 thousand equivalent to BGN 33,249 thousand). The interest rate on the first tranche is floating, based on the 3-month EURIBOR plus margin, and on the second tranche it is fixed.

Kreditanstalt für Wiederaufbau

On 27 July 2010 Bulgarian Development Bank AD signed a direct loan agreement for EUR 25,000 thousand with the German Development Bank Kreditanstalt für Wiederaufbau. The financial resource is intended for direct lending to small and medium sized enterprises and/or for providing credit lines to commercial banks for special-purpose financing for the business. The loan is unsecured. At 31 December 2015 the loan was fully utilised, and the outstanding principal under the facility amounted to EUR 14,706 thousand equivalent to BGN 28,762 thousand (at 31 December 2014 the outstanding principal amounted to EUR 17,647 thousand equivalent to BGN 34,515 thousand). The interest rate is floating, based on the 6-month EURIBOR plus margin.

30. BORROWINGS FROM INTERNATIONAL INSTITUTIONS (continued)

European Investment Bank

On 4/6 October 2000 the Bank signed a financial contract (Global Loan Bulgaria – Encouragement Bank) with the European Investment Bank for EUR 10,000 thousand for financing of small and medium sized enterprises. The loan is based on an Agreement between European Investment Bank and Republic of Bulgaria signed on 14 July 1997. The loan is secured by state guarantee issued by the Republic of Bulgaria. At 31 December 2015 the loan was fully repaid.

On 30 December 2009 a second finance contract was signed between Bulgarian Development Bank and EIB for EUR 25,000 thousand for financing of SMEs and priority projects in the fields of infrastructure, energy, environmental protection, industry, health and education. The loan is unsecured and has been fully utilised. As of 31 December 2015 the outstanding principal under the loan amounted to EUR 19,706 thousand equivalent to BGN 38,541 thousand. (31 December 2014: EUR 22,647 thousand equivalent to BGN 44,294 thousand). The interest rate is floating, based on 3-month EURIBOR plus margin.

Nordic Investment Bank

On 16 November 2004 a Loan Agreement was signed with the Nordic Investment Bank for a credit facility amounting to EUR 10,000 thousand for financing of projects of small and medium-sized enterprises, which are of mutual interest for Bulgaria and the Nordic Investment Bank member states. The Loan is secured by a Letter of Intent. At 31 December 2015 the loan was fully utilised, and the outstanding principal under the facility amounted to EUR 1,529 thousand equivalent to BGN 2,991 thousand (31 December 2014: EUR 2,706 thousand equivalent to BGN 5,292 thousand). The interest rate is floating, based on 6-month EURIBOR plus margin.

On 15 December 2010 a second credit line was signed between the Nordic Investment Bank and Bulgarian Development Bank AD for EUR 20,000 thousand. The funds are intended for financing of renewable energy projects or ecological projects; projects involving the Nordic Investment Bank member states, as well as indirect financing through commercial bank-partners. The loan is unsecured. At 31 December 2015 the loan was fully utilised, and the outstanding principal under the facility amounted to EUR 13,195 thousand equivalent to BGN 25,807 thousand (31 December 2014: EUR 15,548 thousand equivalent to BGN 30,409 thousand). The interest rate is floating, based on 6-month EURIBOR plus margin.

Black Sea Trade and Development Bank (BSTDB)

On 9 October 2009 Bulgarian Development Bank AD and Black Sea Trade and Development Bank signed a Loan Agreement for EUR 8,000 thousand. The resources are intended for financing of Bulgarian small and medium-sized enterprises. The loan is unsecured. As of 31 December 2015 the loan was fully repaid.

On 9 September 2011 a second Loan Agreement was signed between Bulgarian Development Bank AD and Black Sea Trade And Development Bank for EUR 31,000 thousand. The loan is intended for financing of investment projects, working capital, export and pre-export financing of SMEs. The loan is unsecured. At 31 December 2015 the loan was fully utilised, and the outstanding principal under the facility amounted to EUR 6,200 thousand equivalent to BGN 12,126 thousand (31 December 2014: EUR 14,467 thousand equivalent to BGN 28,294 thousand). The interest rate is floating, based on 3-month EURIBOR plus margin.

Sumitomo Mitsui Banking Corporation Europe

On 11 November 2014 BDB signed a new agreement with Sumitomo Mitsui Banking Corporation Europe for trade financing, which enables the financing of commercial transactions and letters of credit, including export deals, with a term of up to 12 months. The agreement is for EUR 10,000 thousand. At 31 December 2015 the loan liability amounted to EUR 3,969 thousand equivalent to BGN 7,762 thousand (at 31 December 2014 there were no deals financed under the facility). The interest rate is floating, based on EURIBOR plus margin.

30. BORROWINGS FROM INTERNATIONAL INSTITUTIONS (continued)

Dexia Credit Local

On 23 May 2007 the Bank signed a Loan agreement with DEXIA Kommunalkredit Bank (as of 12 July 2013 - Dexia Credit Local) for EUR 10,000 thousand. The loan is intended for financing of investment projects of small and medium-sized enterprises in Bulgaria. As of 31 December 2015 the loan was fully utilised. The loan is secured by a Letter of Intent, signed by the Minister of Finance. As of 31 December 2015 the outstanding principal under the loan amounted to EUR 3,000 thousand equivalent to BGN 5,867 thousand (31 December 2014: EUR 5,000 thousand equivalent to BGN 9,779 thousand). The interest rate is floating, on the basis of 3-month EURIBOR plus margin.

DEPFA Investment Bank - Fms Wertmanagement Aor

On 18 May 2007 an Agreement was signed with DEPFA Investment Bank (as of 23 September 2011 - Fms Wertmanagement Aor) for EUR 15,000 thousand for general corporate purposes. The loan is unsecured. As of 31 December 2015 the loan was fully utilised. As of 31 December 2015 the outstanding principal under the loan amounted to EUR 2,143 thousand equivalent to BGN 4,191 thousand (31 December 2014: EUR 3,571 thousand equivalent to BGN 6,985 thousand). The interest rate is floating, on the basis of 6-month EURIBOR plus margin.

Japan Bank for International Cooperation (JBIC)

On 17 December 2009 a Loan agreement was signed between Bulgarian Development Bank AD and Japan Bank for International Cooperation for EUR 20,000 thousand. The loan is intended for financing of Japanese projects and can be utilised both in EUR and in JPY. For a loan in EUR the applicable interest rate will be formed as fixed (CIRR plus risk margin) for 60% of the amount and floating (6-month EURIBOR + margin) for the rest 40% of the amount. For a loan in JPY the applicable interest rate is fixed (CIRR plus risk margin). The loan is unsecured. The utilised amount under the loan is JPY 1,122,594 thousand equivalent to BGN 19,812 thousand. As of 31 December 2015 the outstanding principal under the loan amounted to JPY 350,801 thousand equivalent to BGN 5,211 thousand (31 December 2014: JPY 491,127 thousand equivalent to BGN 6,606 thousand).

International Investment Bank

On 25 April 2013 a loan agreement was signed between Bulgarian Development Bank AD and International Investment Bank (IIB) for EUR 20,000 thousand (BGN 39,117 thousand). The funding can be used for both direct lending to beneficiaries or through commercial banks – intermediaries and for financing of export deals between beneficiaries and member-states of IIB. As of 31 December 2015 the agreement was terminated and the resource was directed to co-financing operations between the two banks.

Hungarian EXIM Bank

On 29 May 2013 a credit line agreement was signed between Bulgarian Development Bank AD and Hungarian EXIM Bank for EUR 10,000 thousand (BGN 19,558 thousand). Every commercial transaction under the agreement will be provided for a period of 2 to 5 years. The funds will be used for financing of imports of Hungarian goods in Bulgaria. The interest rate is fixed (CIRR + margin). As of 31 December 2015 the credit line facility was not utilised.

Progress Program of the European Investment Fund

On 24 July 2015 a loan agreement was signed between Bulgarian Development Bank AD and the Progress Program of EIF for EUR 5,000 thousand (BGN 9,779 thousand). The loan is intended to finance micro-leases and micro-loans for micro and small enterprises, as well as for financing of micro-loans through financial institutions. This Program is directed to companies with up to 10 employees and assets amounting up to EUR 2 million (BGN 3,912 thousand). Eligible beneficiaries are also self-employed persons, start-ups, or persons experiencing difficulties in obtaining financing. The loan bears a fixed interest rate. As of 31 December 2015 the loan facility was not utilised.

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

31. OTHER BORROWINGS

	2015	2014
Loan financing from the Ministry of Finance with funds from KfW	11,226	11,190
KfW funds provided by the Ministry of Finance for trust management	6,630	6,816
Loans from local banks	9,807	19,617
Long-term agreement with the Ministry of Agriculture and Food	83,664	238,666
Long-term agreement with the Executive Agency on Fisheries and Aquaculture	12,132	15,414
	123,459	**291,703**

Interest liabilities accrued on other borrowings at 31 December 2015 amount to BGN 28 thousand (2014: BGN 61 thousand)

Loan financing from the Ministry of Finance with funds from KfW

On 18 April 2007 the Bank concluded a loan agreement with the Government of the Republic of Bulgaria, represented by the Minister of Finance. This agreement is based on the Treaty between Bulgaria and Germany for financial collaboration from year 2001 and an agreement between the Republic of Bulgaria and Kreditanstalt für Wiederaufbau (KfW). By virtue of this agreement, the amount of EUR 4,929 thousand (BGN 9,640 thousand) is granted to the Bank designated as Project Provider for the purpose of financing micro, small and medium-sized enterprises. The term of the agreement is 10 years as from the date of fund receipt, while the latter along with the due interest is repaid bullet at the end of the period. As of 31 December 2015 the outstanding principal and the capitalised interest amounted to EUR 5,739 thousand equivalent to BGN 11,225 thousand (as of 31 December 2014: EUR 5,720 thousand equivalent to BGN 11,188 thousand). The loan interest is capitalised quarterly and is based on 3-month EURIBOR plus margin.

KfW funds provided by the Ministry of Finance for trust management

The Bank concluded an agreement with the Ministry of Finance (MF) for management of funds granted by Kreditanstalt fur Wiederaufbau (KfW) pursuant to an agreement between the Governments of Bulgaria and Germany. These funds are provided for the purpose of financing small and medium-sized enterprises. The Ministry of Finance bears the risk for the advanced provided to the banks - intermediaries. The Bank selects the banks and transfers the funds to those approved; gathers information and performs periodic reviews regarding the funds utilisation, and monitors the timely payments of the interest and principal due and their repayment to the special account of the Ministry of Finance. As of 31 December 2015 the balance of the loan with the parent company (the "Bank") amounts to EUR 3,390 thousand equivalent to BGN 6,629 thousand (31 December 2014: EUR 3,485 thousand equivalent to BGN 6,816 thousand).

The Bank receives a management fee and accrued interest on the special account of the Fund on quarterly basis.

Loans from local banks

On 16 September 2011 Bulgarian Development Bank AD signed a mid-term loan agreement with Citibank N.A. – Sofia Branch (from 1 January 2014 Citibank Europe AD, Bulgaria Branch) amounting to EUR 20,000 thousand. The purpose of these funds is to finance directly or indirectly new and existing loan portfolios of small and mid-sized enterprises. The loan is unsecured. At 31 December 2015 the loan was fully utilised. At 31 December 2015 the outstanding principal under the loan amounted to EUR 5,000 thousand equivalent to BGN 9,779 thousand (31 December 2014: EUR 10,000 thousand equivalent to BGN 19,558 thousand). The interest rate on the loan is fixed through a standard interest swap.

31. OTHER BORROWINGS (continued)

Long-term agreement with the Executive Agency on Fisheries and Aquaculture

On 07 December 2010 a financing agreement for provision of funds for the issuance of guarantees under the Operational programme for development of fisheries sector 2007-2013 was signed between the National Guarantee Fund (NGF) and the Executive Agency on Fisheries and Aquaculture (NAFA) of the Ministry of Agriculture and Food of the Republic of Bulgaria. The aim of the program is to provide easier access to financing by the sector, with lower interest rates, lower collateral requirements and lower own financing.
The guarantee program is fulfilled within the Measure 2.7 of the Rural Development (RDP) Programme. Following consultations, the Executive Agency on Fisheries and Aquaculture (NAFA) and NGF EAD have chosen the financial engineering instrument, provided for under Commission Regulation (EC) No.498/2007 (OB, 10.05.2007, L 120) laying down detailed rules for the implementation of Council Regulation (EC) No.1198/2006, to be realised through a fund (accounts) in an account and under the governance of NGF.
In accordance with Commission Regulation (EC) No.498/2007 (Article 35), the financial engineering instrument is established in the form of a separate financial pool within NGF EAD.
In 2010, NAFA provided to NGF the amount of BGN 6,000 thousand under Article 1 of the Financing Agreement. On 28 December 2011 pursuant to Annex 2 an additional contribution of BGN 9,168 thousand was made. On 19 December 2012 Annex 4 of the Financing Agreement for provision of funds for the issuance of guarantees under the Operational programme for development of fisheries sector 2007-2013 was signed between NGF and NAFA. Pursuant to Annex 4, NAFA shall transfer to NGF additional contribution amounting to BGN 15,050 thousand for the realisation of the guarantee scheme. In accordance with Annex 5 signed between NGF EAD and NAFA on 16 January 2014, the Agency has withdrawn the last contribution of BGN 15,050 thousand. By Annex No. 7 dated 06 October 2015 between the parties, the Fund refunded to the Agency the amount of BGN 3,000 thousand from the additionally transferred financial resources.
The guarantee program is free of charge for businesses that benefit from it, while the cost for NGF EAD for its realisation are determined and paid under Article 35 of Commission Regulation (EC) No.498/2007.
As of 31 December 2015 within the OPRDP, NGF EAD has signed agreements with the following banks: Raiffeisenbank (Bulgaria) EAD, First Investment Bank AD, Cibank EAD, UniCredit Bulbank AD, Central Cooperative Bank AD, DSK Bank EAD, TBI Bank EAD, International Asset Bank AD, Bulgarian American Credit Bank AD, and Bulgarian Development Bank AD.
The term for inclusion of new loans and bank guarantees (which are scheduled within the Program) was 31 December 2015.

Long-term agreement with the Ministry of Agriculture and Food

On 20 December 2011, the National Guarantee Fund EAD and the Ministry of Agriculture and Food (MAF) signed a financial agreement to provide funds for the implementation of guarantees on guarantee schemes under the Rural Development Programme 2007 - 2013. The Guarantee Scheme was established on the grounds of Articles 51 – 52 of Commission Regulation (EC) No. 1974/2006 dated 15 December 2006 laying down detailed rules for the implementation of Council Regulation (EC) No. 1698/2005 dated 20 September 2005 regarding the support for rural development under EAFRD to facilitate access to financing of beneficiaries and the realisation of the projects under OPRDP.
MAF provides funding to NGF in BGN amount equivalent to EUR 121,100 thousand (BGN 242,000 thousand), in order to enhance the access to financing, support competitiveness, accelerate the completion of investments, which will be co-finance with funds under the Rural Development Programme (2007-2013) and which are used by the Fund for the issuance of guarantees and counter-guarantees. By Annex No.2 dated 14 October 2015 signed between the parties, the Fund refunded to the Ministry the amount of BGN 154,586 thousand from the financial resources provided.
As of 31 December 2015, within the Guarantee Scheme under OPRDP, NGF EAD has signed agreements with the following banks: Bulgarian American Credit Bank AD, DSK Bank EAD, United Bulgarian Bank AD, Piraeus Bank Bulgaria AD, First Investment Bank AD, Raiffeisenbank (Bulgaria) EAD, Cibank EAD, Central Cooperative Bank AD and Eurobank Bulgaria AD, UniCredit Bulbank AD, TBI Bank EAD, and Allianz Bank Bulgaria AD.

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

32. DEBENTURE LOANS

In May 2010 the Bank issued a second issue of ordinary, corporate, interest-bearing, dematerialised, registered, freely transferable, non-convertible, unsecured bonds ISIN code BG 2100005201 with a total nominal value EUR 20,000 thousand (BGN 39,117 thousand) and par value of EUR 1,000 each. The term of bond loan is 60 months, until 15 May 2015. The agreed interest is paid quarterly by applying interest rate of 5% p.a. The principal is payable on a single instalment on maturity.

In December 2010 the Bank issued a third issue of registered, dematerialised, freely transferable, non-preference, non-convertible, unsecured, interest-bearing bonds with a total nominal value EUR 20,000 thousand (BGN 39,117 thousand) and par value of EUR 1,000 each. The term of bond loan is 60 months, until 30 December 2015. The contracted interest is paid quarterly by applying interest rate of 4.8 % p.a. The principal is payable on a single instalment on maturity.

Both debenture issues were fully repaid in 2015.

33A. PROVISIONS

	2015	2014
Guarantee provisions	6,153	6,993
Litigation provisions	174	-
	6,327	**6,993**

Guarantee provisions consist of the amount the Group estimates as highly probable to be required to be actually paid to third parties under guarantees issued by the Group.

Litigation provisions relate to future payments under lawsuits relating to labour disputes.

The table below presents the movements in the guarantee provisions:

	2015	2014
Balance at 1 January	6,993	9,535
Charged over the year	2,453	1,053
Utilised over the year	(15)	260
Reversed over the year	(3,278)	(3,855)
Balance at 31 December	**6,153**	**6,993**

33B. OTHER LIABILITIES

	2015	2014
Charges on debenture loans and portfolio guarantees	569	670
Payables to personnel and for social security	278	279
Retirement benefit liabilities	198	178
Accruals for expenses	144	189
Tax payables	148	158
Other creditors	34	153
	1,371	**1,627**

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

33B. OTHER LIABILITIES (continued)

Payables to personnel for salaries and social security contributions comprise accruals on compensated absences and social security contributions due thereon.

Employee retirement benefits are due by the Group to employees reaching retirement age and are stated at their present value.

In accordance with the Labour Code each employee is entitled to indemnity on retirement amounting to two gross monthly salaries, and if he / she has worked for more than 10 years for the parent company (the "Bank") – to six gross monthly salaries at the time of retirement. The parent company (the "Bank") estimated the amount of these liabilities by using mathematical models and the services of a certified actuary. On the basis of the calculations made, the amount of BGN 198 thousand was included in the consolidated statement of financial position at 31 December 2015 (31 December 2014: BGN 178 thousand).

	2015	2014
Present value of the liability at 1 January	178	144
Current service cost	34	26
Interest expense	7	7
Amounts paid in the period	(36)	-
Actuarial losses from changes in demographic and financial assumptions and actual experience	15	1
Present value of the liability at 31 December	**198**	**178**

	Amounts on retirement for old age and length of service		Amounts on retirements due to illness		Total	
	2015	**2014**	**2015**	**2014**	**2015**	**2014**
Actuarial gain/(loss) at 1 January	6	(1)	-	-	6	(1)
Actuarial (loss)/ gain recognized in other comprehensive income for the period	(7)	7	-	-	(7)	7
Actuarial (loss)/gain at 31 December	**(1)**	**6**	**-**	**-**	**(1)**	**6**

The following actuarial assumptions are used in calculating the present value of the liabilities as of 31 December 2015:

- mortality rate – in accordance with the table prepared on the basis of statistics issued by the National Statistical Institute for the total mortality rate of the population in Bulgaria for the period 2012 – 2014;
- staff turnover rate – from 0% to 10% depending of five age groups formed;
- rate of early retirement due to illness – from 0.027 % to 0.3212 % depending of five age groups formed;
- effective annual interest rate for discounting – 2.8% (2014 – 3.8%);
- assumptions for the future level of working salaries in the parent company (the "Bank") are based on the Group's development plan for 2016 – 5 % compared to the 2015 level and for 2017 and subsequent years – 5 % compared to the previous year level.

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

33B. OTHER LIABILITIES (continued)

The effect for 2015 of the increase and the effect of the decrease by 1% of the salary growth and the interest rate on the total amount of current service costs and interest, and on the present value of the liability for payment of defined benefits upon retirement, are as follows:

	Increase by 1% of salary growth	*Decrease by 1% of salary growth*
Change in the interest and current service costs ("+"- increase, "–"- decrease)	8	(6)
Change in the present value of the liability as of 31 December 2015 ("+"- increase, "–"- decrease)	29	(24)

	Increase by 1% of interest rate	Decrease by 1% of interest rate
Change in the interest and current service costs ("+"- increase, "–"- decrease)	(4)	5
Change in the present value of the liability as of 31 December 2015 ("+"- increase, "–"- decrease)	(24)	29

	Increase by 1% of staff turnover rate	Decrease by 1% of staff turnover rate
Change in the interest and current service costs ("+"- increase, "–"- decrease)	(7)	9
Change in the present value of the liability as of 31 December 2015 ("+"- increase, "–"- decrease)	(25)	31

The effect for 2014 of the increase and the effect of the decrease by 1% of the salary growth and the interest rate on the total amount of current service costs and interest, and on the present value of the liability for payment of defined benefits upon retirement, are as follows:

	Increase by 1% of salary growth	Decrease by 1% of salary growth
Change in the interest and current service costs ("+"- increase, "–"- decrease)	6	(5)
Change in the present value of the liability as of 31 December 2014 ("+"- increase, "–"- decrease)	20	(17)

	Increase by 1% of interest rate	Decrease by 1% of interest rate
Change in the interest and current service costs ("+"- increase, "–"- decrease)	(3)	4
Change in the present value of the liability as of 31 December 2014 ("+"- increase, "–"- decrease)	(17)	20

	Increase by 1% of staff turnover rate	Decrease by 1% of staff turnover rate
Change in the interest and current service costs ("+"- increase, "–"- decrease)	(5)	5
Change in the present value of the liability as of 31 December 2014 ("+"- increase, "–"- decrease)	(18)	18

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

34. SHARE CAPITAL

	2015	2014
Share capital		
Ordinary shares issued paid in cash	587,964	587,964
Ordinary shares issued – in-kind contribution (land for the building of the bank)	12,200	12,200
Ordinary shares issued - in-kind contribution (the building of the bank)	1,610	1,610
	601,774	**601,774**

The capital of the Bank is composed by 6,017,735 ordinary registered voting shares with par value of BGN 100 each.

Bulgarian Development Bank Act provides that not less than 51% of shares forming the Bank's capital should be owned by the State; the shares of the State amounting to not less than 51% of the registered share capital are non-transferable. Also, a specific limit is established with regard to the remaining shareholders, other than the Bulgarian State through the Ministry of Finance. Shareholders may be: the Council of Europe Development Bank, the European Investment Bank, the European Investment Fund as well as other banks for development in EU member states. The Bank's shares may not be pledged and the rights thereon may not be subject to transfer deals.

At 31 December 2015, 99.99% of the Bank's shares are held by the State through the Ministry of Finance (31 December 2014 – 99.99%).

35. RESERVES

In accordance with the general provisions of the Commercial Act, the parent company (the "Bank") shall allocate to Reserve Fund at least 1/10 of its profit for the year until the reserves reach 10 percent of the share capital as stipulated in the Articles of Association. Pursuant to the Articles of Association of the Bank, the Bank shall set aside to the Reserve Fund at least ½ of its after-tax annual profit until the reserves reach 50 percent of its share capital.

The Reserve Fund may be used by the Group only to cover its current or prior period losses, and not for distribution of dividends, without the authorisation of Bulgarian National Bank.

Moreover, the Credit Institutions Act stipulates that the banks in Bulgaria cannot distribute dividends before accumulating the minimum reserves (mainly the Reserve Fund) required by law or by their Articles of Association, or if the distribution of dividends will result in violation of the regulatory capital adequacy ratios. The requirement under Bulgarian Development Bank Act is similar.

As of 31 December 2015 the Reserve Fund of the Group amounted to BGN 61,281 thousand. (31 December 2014: BGN 59,730 thousand).

As of 31 December 2015 the Additional Reserves of the Group amounted to BGN 14,697 thousand (31 December 2014: BGN 12,503 thousand) and were formed as result of distribution of profits of the Group from previous periods, according to decisions of the General Meeting of Shareholders.

In 2015, after a regular General Meeting of Shareholders of the parent company (the "Bank") and in accordance with the provision of article 92, paragraph 2 of the State Budget Law of the Republic of Bulgaria for 2015, a decision for distribution of dividends amounting to 60% of the profit for the year after deduction of the contribution to the Reserve Fund was taken. The dividend paid amounted to BGN 3,248 thousand (2014: the dividend paid amounted to BGN 7,125 thousand).

In accordance with Bulgarian Development Bank Act, each shareholder of the Bank is allowed to waive the right to a dividend and then the dividend amount is transferred to Additional Reserves.

All unrealised gains and losses on fair value revaluation of the available-for-sale securities at the end of each reporting period are recognised in equity, in a special components thereof formed by the Group and titled Available-for-sale financial assets reserve. These gains and losses are transferred to current profits and losses upon sale/maturity of the respective securities and/or on permanent impairment. The available-for-sale financial assets reserve is presented net of taxes. As of 31 December 2015 the reserve is a positive value amounting to BGN 1,567 thousand (31 December 2014: BGN 7 thousand – positive value).

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

36. COMMITMENTS AND CONTINGENCIES

	2015	2014
Contingent liabilities		
Guarantees and letters of credit	172,920	122,086
incl. with cash collateral	(2,284)	(278)
Letters of credit with borrowed funds, accounted as loan commitment	-	(2,654)
Guarantee provisions	(6,153)	(6,993)
	164,483	**112,161**
Risk free counter guarantees issued	77,119	96,943
Irrevocable commitments		
Unutilised amount of approved loans	77,748	31,096
incl. letters of credit with borrowed funds	-	*2,654*
Unclaimed portion of par value of EIF shares	4,694	4,694
Participation in the SIA investment program	1,804	-
	84,246	**35,790**
	248,729	**147,951**

Pursuant to Bulgarian Development Bank Act, the transfers of activities under the Micro-credits Guarantee Fund Project from the Ministry of Labour and Social Policy (MLSP) to the National Guarantee Fund EAD – subsidiary of the Bank began in the last quarter of 2008. Based on the law and on Council of Ministers Decision No. 309/3 May 2007, re-negotiations were carried out within one year (until May 2009) with each of the partner banks to the Micro-credits Guarantee Fund Project of MLSP for replacing the security of MLSP deposits with bank guarantees of Bulgarian Development Bank AD. The capital of Bulgarian Development Bank AD and respectively, of National Guarantee Fund, was increased with the amount of the government funds released under the project.

As of 31 December 2015 agreements with seven partner banks were concluded by the parent company (the "Bank") and bank guarantees amounting to BGN 3,262 thousand (31 December 2014: seven partner banks and bank guarantees issued amounting to BGN 5,107 thousand) were issued.

On 17 July 2015 Bulgarian Development Bank AD (the parent company) signed a funds management contract with EIF for accession to the SIA investment program (SIA - Social Impact Accelerator) of EIF for investing in social venture funds, with the participation amounting to EUR 1 million over an engagement period of up to 5 years. The goal of the SIA program is to invest in small and medium-sized enterprises having considerable social impact. EIF is the manager of the program. As of 31 December 2015 two equity contributions were made under the initiative amounting to EUR 78 thousand equivalent to BGN 152 thousand (Note 20).

In 2015 the parent company (the "Bank") launched a new program for indirect financing of micro, small and medium-sized businesses subject to a maximum of BGN 150,000 thousand. Under the program BDB will be able to assume part of the risk – up to 30% of the amount of the individual sub-loans - on loans granted by partner banks to businesses. At 31 December 2015 the Bank signed agreements with five partner banks and the so-formed portfolio of guarantees amounted to BGN 1,211 thousand.

In 2015 there were active agreements for portfolio guarantees with 11 banks, under the 2009-2013 guarantee scheme, to which the National Guarantee Fund (subsidiary of BDB AD) is a party. The maximum term of these guarantees is up to 10 years. The total limit of funds provided to the banks for including loans in the portfolio amounts to BGN 146,500 thousand (2014: BGN 146,500 thousand). As of 31 December 2015 the approved amount of guarantees included in the portfolio of the partner banks amounted to BGN 26,613 thousand (in 2014: BGN 43,396 thousand), and the guaranteed debt amounted to BGN 12,750 thousand (2014: BGN 26,258 thousand).

36. COMMITMENTS AND CONTINGENCIES (continued)

In 2014 the National Guarantee Fund launched a new guarantee scheme. There are 13 active signed agreements with banks for portfolio guarantees under this scheme. Unlike the previous one, banks under the new scheme have the opportunity to include loans in the guaranteed by the NGF portfolio themselves, complying with the requirements of the scheme. The term for inclusion of loans into the guaranteed portfolio ends in September 2015 and the NGF guarantee is valid by September 2018. Only new loans to small and medium-sized enterprises with a maximum guarantee by the National Guarantee Fund of up to 50% from the amount of the loan and no more than BGN 500 thousand are included in the guaranteed portfolio. There is a payment cap for each guarantee scheme under the 2014 guarantee scheme. The banks pay a guarantee fee based on the volume achieved, as the borrowers are exempt from fees on the guarantees provided by the NGF. The total limit granted to banks for the inclusion of loans in the portfolios amounts to BGN 192,000 thousand (2014: BGN 192,000 thousand). As of 31 December 2015 the approved limit of the guarantees included in the partner banks' portfolios amounted to BGN 77,855 thousand (2014: BGN 28,733 thousand) and the guaranteed debt amounted to BGN 71,598 thousand (2014: BGN 28,360 thousand).

In 2015 a procedure for selecting partner banks of NGF under a new guarantee scheme was initiated. After performing the selecting procedures and conducting an analysis of the commercial banks, guarantee agreements were signed with 10 commercial banks for the total amount of BGN 326,000 thousand from the beginning of October 2015 to the beginning of January 2016. Similar to the previous scheme, eligible for inclusion are only new loans for investment needs and working capital. According to the scheme, NGF guarantees up to 50% of the loan amount, but not more than BGN 1 million at a related party level. The term for inclusion of loans into the guaranteed portfolio ends on 31 March 2017. A maximum limit of payments per guaranteed portfolio of up to 25 % is approved under the guarantee scheme, where in case of non-compliance with the terms and conditions of the scheme NGF has the right to exclude loans from the guaranteed portfolio. The banks pay a guarantee fee based on the volume achieved, while the borrowers are exempt from fees on the guarantees provided by the NGF. The total limit granted to banks for the inclusion of loans in the portfolios amounts to BGN 326 000 thousand. At 31 December 2015 the approved limit of the guarantees included in the partner banks' portfolios amounted to BGN 11,195 thousand and the guaranteed debt amounted to BGN 10,803 thousand.

As of 31 December 2015, when applying the maximum amount of guarantee coverage of 80%, NGF EAD had issued risk-free guarantees/counter guarantees for loans issued by partner banks for financing of approved projects under the Operational Programme "Fisheries Sector Development" 2007-2013 amounting to BGN 20,780 thousand with total amount of loans/bank guarantees – BGN 30,551 thousand (2014 – guarantees BGN 14,910 thousand with total amount of loans/bank guarantees – BGN 21,755 thousand)

The carrying amount of the guaranteed debt as of 31 December 2015 was BGN 9,443 thousand (2014 – BGN 7,894 thousand).

As of 31 December 2015, when applying the maximum amount of guarantee coverage of 80%, NGF EAD had issued risk-free for the issuer guarantees/counter guarantees for loans issued by partner banks for financing of approved projects under the Operational Programme for Rural Development of Republic Bulgaria 2007-2013 amounting to BGN 185,606 thousand (2014: BGN 138,822 thousand) with total amount of loans – BGN 238,112 thousand (2014: BGN 178,555 thousand). The total guarantee limit under this program amounts to BGN 300,000 thousand (2014: BGN 1,132,500 thousand).

The carrying amount of the guaranteed debt as of 31 December 2015 was BGN 67,675 thousand (2014: BGN 89,049 thousand).

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

36. COMMITMENTS AND CONTINGENCIES (continued)

Nature of instruments and credit risk

These commitments of contingent nature bear an off-balance sheet credit risk because only fees are recognised in the financial statements until the commitments are fulfilled or expire. The amounts reflected in the above table as guarantees represent the maximum accounting loss that would have been recognised at the end of the reporting period if counterparties failed to perform in full their contractual obligations. Many of the contingent liabilities and commitments will expire without being advanced fully or partially. Therefore, the amounts do not represent expected future cash flows. Collateral for issuance of common bank guarantees exceeds 100% and represents primarily restricted deposits at the Bank, mortgages of real estate and insurance policies issued in favour of the Bank. When conditions for enforcement of an issued guarantee occur, the Bank judges the possibilities for recourse to the counterparty and eventual realisation of the provided securities.

The guarantees of the parent company (the "Bank"), issued under the Micro-credits Guarantee Fund Project of MLSP, and the guarantees issued at own risk of NGF (subsidiary of BDB) are not secured. In case of activation of a component of a guarantee issued by the Group, the payment thereon is not assessed as ultimate loss because the partner-bank is obliged to undertake all necessary measures for realising the received collateral of the non-performing loan and to reimburse the respective amount to the Group.

The non-paid portion of the nominal value of EIF shares held by the Bank shall become due for payment after a special decision for this purpose taken by European Investment Fund's General Meeting of Shareholders. By the issue date of this financial statement no such a decision has been taken.

37. CASH AND CASH EQUIVALENTS

	2015	**2014**
Cash in hand (Note 16)	87	89
Current account with the Central Bank (Note 16)	343,719	387,082
Receivables from banks with original maturity up to 3 months	77,859	250,876
	421,665	**638,047**

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

38. TRANSACTIONS WITH RELATED PARTIES AND COMPANIES UNDER JOINT CONTROL WITH THE STATE

Related parties:

Entity/person	*Type of control*
Ministry of Finance	Majority shareholder of the capital of the Bank representing the State
Ministry of Agriculture and Food	Company under common control with the State
Executive Agency on Fisheries and Aquaculture	Company under common control with the State
Military Medical Academy	Company under common control with the State
Road Infrastructure Agency	Company under common control with the State
Bulgarian Export Insurance Agency EAD	Company under common control with the State
Holding Bulgarian State Railways EAD	Company under common control with the State
National Electricity Company EAD	Company under common control with the State
BULGARGAZ EAD	Company under common control with the State
Bulgarian Institute for Standardization	Company under common control with the State
South Stream Bulgaria AD	Company under common control with the State
State-owned Enterprise "Transport Construction and Rehabilitation"	Company under common control with the State
"I C J B" AD	Company under common control with the State
State Fund Agriculture	Company under common control with the State
Bulgarian Energy Holding EAD	Company under common control with the State
Bulgarian Independent Energy Exchange EAD	Company under common control with the State
Kinteks EAD	Company under common control with the State
Energy Investment Company EAD	Company under common control with the State
Urban Mobility Center	Company under common control with the State
Manager Fund of Financial Instruments in Bulgaria	Company under common control with the State
Water Supply and Sewerage EOOD Plovdiv	Company under common control with the State
Mini Maritsa East EAD	Company under common control with the State
TPP Maritsa East 2 EAD	Company under common control with the State

The table above shows the companies with which the Group had transactions during the reporting period.

Related party balances in the statement of financial position :

Assets

Entity/person	***Type of balance***	**2015**	**2014**
Ministry of Finance	Available-for-sale securities	257,269	199,226
Company under common control with the State	Loans and advances to customers	95,451	-

Liabilities

Entity/person	***Type of balance***	**2015**	**2014**
Ministry of Finance	Other borrowings	17,856	18,006
Company under common control with the State	Payables to customers on deposits and other borrowings	547,455	658,655

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

38. TRANSACTIONS WITH RELATED PARTIES AND COMPANIES UNDER JOINT CONTROL WITH THE STATE (continued)

Related party transactions:

Entity/person	***Type of transaction***	**2015**	**2014**
	Fee and commission income	68	70
Ministry of Finance	Interest income	2,389	1,564
	Interest expense	(172)	(199)
Company under common control with the State	Interest income	1,521	-
	Fee and commission income	1,022	716
	Interest expense	(121)	(160)

Commitments and contingencies with related parties:

Entity/person	***Type***	**2015**	**2014**
Company under common control with the State	Unutilised amount of approved loans	18,730	-

Relations with key management personnel:

Balances with key management personnel	**2015**	**2014**
Payables to customers on deposits	372	72
Remuneration payable	16	10
Loans and advances to customers	483	210

Transactions with key management personnel	**2015**	**2014**
Remuneration and social security contributions	1,994	1,531
Interest expense	(2)	(1)
Interest income	18	10

39. EVENTS AFTER THE DATE OF THE FINANCIAL STATEMENTS

No adjusting or non-adjusting events have occurred after the date of the financial statements that require additional disclosures in the consolidated financial statements.