BULGARIAN DEVELOPMENT BANK GROUP

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

31 December 2014

KPMG Bulgaria OOD
45/A, Bulgaria Boulevard
Sofia 1404
Bulgaria

Telephone +359 (2) 9697 300
Telefax +359 (2) 9805 340
E-mail bg-office@kpmg.com
Internet www.kpmg.bg

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Report on Other Legal and Regulatory Requirements

Annual report of the activities of the Bank prepared in accordance with the requirements of article 33 of the Accountancy Act

As required under the Accountancy Act, we report that the historical financial information disclosed in the consolidated annual report of the activities of the Bank, prepared by Management as required under article 33 of the Accountancy Act, is consistent, in all material aspects, with the consolidated financial information disclosed in the audited consolidated financial statements of the Bank as of and for the year ended 31 December 2014. Management is responsible for the preparation of the consolidated annual report of the activities of the Bank which was approved by the Management Board of the Bank on 4 April 2015.

Dobrina Kaloyanova
Authorised representative

KPMG Bulgaria OOD

Sofia, 7 April 2015

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

Margarita Goleva
Registered auditor

BULGARIAN DEVELOPMENT BANK GROUP

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2014

In thousands of BGN	*Note*	As at 31.12.2014	As at 31.12.2013
Assets			
Cash and balances with the Central Bank	16	387,221	234,053
Loans and advances to banks	17	547,024	911,206
Loans and advances to customers	18	625,325	458,369
Available-for-sale securities	19	296,995	156,529
Financial assets held-for-trading	20	1,436	2,622
Financial assets held-to-maturity	21	1,980	6,134
Net investment in finance lease	22	1,470	2,304
Property, plant and equipment, intangible assets	23	20,743	17,050
Deferred tax assets	14	1,183	1,333
Current tax assets		858	1,724
Other assets	25	9,126	9,947
Assets classified as held-for-sale	24	1,134	-
Total assets		1,894,495	1,801,271
Liabilities			
Deposits from banks	26	95,573	108,417
Deposits from customers	27	535,593	357,210
Borrowings from international institutions	28	221,065	275,861
Other borrowings	29	272,086	287,142
Debt securities issued	30	78,499	78,499
Financial liabilities held-for-trading	31	888	1,530
Other liabilities	32	8,620	11,157
Total liabilities		1,212,324	1,119,816
Equity			
Share capital	33	601,774	601,774
Retained earnings		8,157	15,676
Revaluation reserves	34	7	(46)
Reserves	34	72,233	64,051
Total equity		682,171	681,455
Total liabilities and equity		1,894,495	1,801,271

The notes on pages 6 to 78 are an integral part of these financial statements.

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

In accordance with an independent auditors' report:

Dobrina Kaloyanova	Margarita Goleva
Authorised representative	*Registered auditor*
KPMG Bulgaria OOD	

Специализирано одиторско предприятие
София
Рег. №045
"КПМГ - България" ООД

BULGARIAN DEVELOPMENT BANK GROUP

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2014

In thousands of BGN	*Note*	2014	2013
Interest income	6	68,211	72,023
Interest expense	6	(12,096)	(14,531)
Net interest income		56,115	57,492
Fee and commission income	7	2,948	2,798
Fee and commission expense	7	(217)	(142)
Net fee and commission income		2,731	2,656
Net gains from foreign exchange deals	8	617	259
Net gains/(losses) from available-for-sale securities	9	(17)	(361)
Net gains/(losses) from financial instruments held-for-trading	10	494	(49)
Other operating gains/(losses)	11	665	(713)
Operating income		60,605	59,284
General and administrative expenses	13	(12,782)	(13,185)
Depreciation and amortisation	23	(526)	(426)
Net impairment loss on financial assets and provision expense	12	(38,653)	(28,516)
Profit before income tax		8,644	17,157
Income tax expense	14	(863)	(1,720)
Profit for the year		7,781	15,437
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit obligation	32	7	(1)
Items that may be reclassified subsequently to profit or loss:			
Net change in fair value of available-for-sale securities, net of tax	15	53	480
Other comprehensive income for the year		60	479
Total comprehensive income for the year		7,841	15,916

The notes on pages 6 to 78 are an integral part of these financial statements.

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

In accordance with an independent auditors' report:

Dobrina Kaloyanova
Authorised representative
KPMG Bulgaria OOD

Margarita Goleva
Registered auditor

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
AS AT 31 DECEMBER 2014

In thousands of BGN	Share capital	Statutory reserves	Additional reserves	Available-for-sale financial assets Revaluation reserve	Retained earnings	Total
Balance at 1 January 2013	601,774	53,851	8,079	(526)	7,755	670,933
Total comprehensive income for the year						
Profit for the year	-	-	-	-	15,437	15,437
Other comprehensive income, net of tax	-	-	(1)	480	-	479
Total comprehensive income for the year	-	-	(1)	480	15,437	15,916
Transactions with owners, recognised directly in equity						
Dividends to equity holders	-	-	-	-	(5,394)	(5,394)
Transfer to Reserves based on a decision of the owners	-	758	1,364	-	(2,122)	-
Total transactions with owners	-	758	1,364	-	(7,516)	(5,394)
Balance at 31 December 2013	601,774	54,609	9,442	(46)	15,676	681,455
Total comprehensive income for the year						
Profit for the year	-	-	-	-	7,781	7,781
Other comprehensive income, net of tax	-	-	7	53	-	60
Total comprehensive income for the year	-	-	7	53	7,781	7,841
Transactions with owners, recognised directly in equity						
Dividends to equity holders	-	-	-	-	(7,125)	(7,125)
Transfer to Reserves based on a decision of the owners	-	5,121	3,054	-	(8,175)	-
Total transactions with owners	-	5,121	3,054	-	(15,300)	(7,125)
Balance at 31 December 2014	601,774	59,730	12,503	7	8,157	682,171

The notes on pages 6 to 78 are an integral part of these financial statements.

Angel Gekov
Executive Director

Bilian Balev
Executive Director

Iliya Kirchev
Executive Director

Ivan Lichev
Chief accountant

In accordance with an independent auditors' report:

Dobrina Kaloyanova
Authorised representative
KPMG Bulgaria OOD

Margarita Goleva
Registered auditor

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

БЪЛГАРСКА БАНКА ЗА РАЗВИТИЕ

BULGARIAN DEVELOPMENT BANK GROUP
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2014

In thousands of BGN	Note	2014	2013
Cash flows from operating activities			
Profit for the year		7,781	15,437
Adjustments for:			
Dividends	11	(48)	(29)
Net impairment loss on loans and advances	12	40,317	34,675
Income from reversal of provision on guarantees	12	(2,800)	(7,696)
Impairment loss on available-for-sale securities	9	60	52
Impairment loss and net loss on sale of other assets		1,383	1,781
(Gains)/losses from (reversal)/impairment of financial lease	22	(21)	106
Gains from revaluation of financial assets held-for- trading	10	(340)	(451)
Net foreign exchange (gain)/loss	8	(190)	503
Depreciation and amortisation	23	526	426
Loss from written-off tangible assets	23	4	1
Tax expense	14	863	1,720
		47,535	46,525
Changes in:			
Reserve Guarantee Fund with the Central Bank	16	20	-
Loans and advances to banks		359,346	170,628
Loans and advances to customers		(160,652)	(33,307)
Receivables from the State Budget		-	12,666
Available-for-sale securities		(135,488)	(31,674)
Financial assets classified as held for sale		884	(532)
Net investment in finance lease		855	(170)
Assets classified as held for sale		(1,134)	4,809
Other assets		427	(4,278)
Deposits from financial institutions		(19,431)	(5,653)
Deposits from customers		176,643	185,693
Other liabilities		(552)	(4,746)
Dividends received		48	29
Income taxes reimbursed/(paid)		124	(975)
Net cash from operating activities		268,625	339,015
Cash flows from investing activities			
Acquisition of property and equipment, and intangible assets		(4,235)	(2,374)
Proceeds from the sale of property and equipment, and intangible assets		12	12
Proceeds from financial assets held-to-maturity		4,154	5,035
Payments to acquire financial assets held-to-maturity		-	(6,134)
Net cash from investing activities		(69)	(3,461)
Cash flows from financing activities			
Dividends paid		(7,125)	(5,394)
Repayments of other borrowings		(15,880)	(4,030)
Proceeds from other borrowings		825	1,151
Proceeds from long-term borrowings		19,558	3,948
Repayments of long-term borrowings		(74,506)	(66,526)
Net cash flows from financing activities		(77,128)	(70,851)
Net increase in cash and cash equivalents		191,428	264,703
Cash and cash equivalents at 1 January	36	446,619	181,916
Cash and cash equivalents at 31 December	36	638,047	446,619

The notes on pages 6 to 78 are an integral part of these financial statements.

Angel Gekov
Executive Director

Bilian Balev
Executive Director

Iliya Kirchev
Executive Director

Ivan Lichev
Chief accountant

БЪЛГАРСКА БАНКА ЗА РАЗВИТИЕ АД

In accordance with an independent auditors' report:

Dobrina Kaloyanova
Authorised representative
KPMG Bulgaria OOD

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

Margarita Goleva
Registered auditor

1. REPORTING ENTITY 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 Microfinancing 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.

The Bulgarian Development Bank Act was adopted on 23 April 2008 (SG 43/29.04.2008) and the structure and the scope of Bank's activities including those for its envisaged subsidiaries were provided for therein. By virtue of that law all rights and obligations were applied to Encouragement Bank AD. Following 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 10, Stefan Karadzha Str., Sofia.The parent company (the "Bank") holds a general banking licence, issued by the Central Bank of Bulgaria (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. Nevertheless, its Articles of Incorporation prohibit the following types of operations: accepting deposits from individuals (except for deposits from the employees), transactions with precious metals, issuance and management of bank cards, and provision of safe-deposit boxes. The Bank is also a licensed financial intermediary and a broker.

The parent company (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) by maintaining their investment and export abilities and initiatives. With the adoption of the Bulgarian Development Bank Act in 2008 this objective was further incorporated in the principles and scope of the Bank's activities as set by law.

These include:

a) pre-export and export financing of SME;

b) SME financing by investing in equity from its subsidiary the Capital Investment Fund (still not incorporated);

c) financing SME operations and projects either through local intermediary banks or directly;

d) guarantees issuance to SME to serve to local and foreign banks either directly or through its subsidiary the National Guarantee Fund (already established - 2008);

e) refinancing banks that grant loans to SME;

f) financing SME investments abroad;

g) EU financial resources management and support of activities under state, municipal and international projects directed towards the development of the economy of the country, including with regard to the utilisation of funds/subsidies for such projects;

h) other activities relevant to this scope and state objectives.

The main objectives of the Bank are to promote 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 disbalances 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.

1. REPORTING ENTITY AND OPERATING POLICIES (CONTINUED)

During 2014 the parent company (the "Bank") developed and implemented several new products and initiatives for the stimulation of small and medium business in Bulgaria.

One of the initiatives is related to granting loans at low interest rates for start-up companies without credit history as a part of the product package for stimulation of business development through easier access to financing.

The other initiative is aimed at a program for supporting export-oriented companies. This export financing program is developed together with Bulgarian Export Insurance Agency and is aimed at increasing the competitiveness of the Bulgarian exporters.

The parent company, BDB AD started an on-lending program for indirect financing of farmers who can receive funding in the form of loans. The interest rate is 2.25% lower than the previous farmers program. The farmers can take advantage of loans up to BGN 500 thousand.Management fees and commissions are waived.

During 2014, the parent company (Bulgarian Development Bank AD) continued the commercial banking activity, including provision of loans to private companies (with priority on long-term and investment loans), special-purpose financing of banks (on-lending), transactions with treasury bonds, deposit and REPO transactions on interbank market, attraction of long-term credit lines and loans from international financial institutions, issuance of bank guarantees – directly to customers (companies) and in favor of lending banks (under the transferred to BDB project of the MLSP "Microcredit guarantee fund"), as well as other financial services in Bulgaria.

As at 31.12.2014 the parent company's (the Bank's) employees are 146 (31.12.2013: 125).

The Bulgarian Development Bank Act (2008) envisages the establishment of two Bank subsidiaries - the Capital Investment Fund and the National Guarantee Fund.
The Capital Investment Fund is at project level and has not been established as at 31 December 2014.

The National Guarantee Fund (the 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 10 Stefan Karadja Str, Sofia. As at 31.12.2014 the registered share capital is 800 000 registered nominal shares with par value of BGN 100 each (31.12.2013: 800 000 registered nominal shares with par value of BGN 100 each), the paid-in capital of which amounts to BGN 80,000,000 as at 31.12.2014. (31.12.2013: BGN 80,000,000).

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

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

b) provide other guarantee products to serve as security for participation in tenders, for good performance;

c) guarantees for advance payments and for payment of loans to exporters;

d) other similar services.

The guarantees shall cover up to 50% of the respective liability to which they refer.

The National Guarantee Fund is managed by a Board of Directors (BD) with a mandate ending 12.08.2016. In 2014, members of the board were: Dimo Spasov, Samuil Shiderov and Mihail Sotirov. Since 16.02.2015 the Fund is managed by Angel Gekov-Chairman, Samuil Shiderov and Mihail Sotirov.

At 31.12.2014 NGF has 18 employees (31.12.2013: 16).A micro-financing institution JOBS EAD (MFI) was registered on 14.01.2011 as sole proprietorship joint stock company, 100% owned by BDB. The registered address of the MFI is: 10 Stefan Kradja Str, Sofia. As at 31.12.2014 the registered shareholder's equity comprises of 76 430 nominal shares with par value of BGN 100 each, and the paid-in capital as at 31.12.2014 is BGN 7,643,000. (As at 31.12.2013 the registered shareholder's equity comprises of 76 430 nominal shares with par value of BGN 100 each, and the paid-in capital as at 31.12.2013 is BGN 7,643,000.)

MFI' scope of activities includes:

a) micro-financing including, but not limited to:

- provision of microloans;
- 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;

1. REPORTING ENTITY AND OPERATING POLICIES (CONTINUED)

JOBS MFI is managed by a Board of Directors (BD) with mandate until 14.01.2019 for a period of 5 years. Members of the board as of 31.12.2014 were: Kostadin Munev, Bilyan Balev and Lachezar Todorov. On 03.02.2015, by a decision of the Management Board of Bulgarian Development Bank AD, Lachezar Todorov was released from the position of a member of the Board of Directors of JOBS MFI and Iliya Kirchev was appointed as a member of the Board of Directors.

At 31.12.2014 MFI has 9 employees (31.12.2013: 16).

On 31 October 2013 the Bank's Management board decided to take the necessary steps to merge its subsidiary MFI JOBS into the Bank's operations. On 05.03.2015 BDB's Management Board revoked this decision.

As at 31.12.2014 Bulgarian Development Bank does not have branches.

The consolidated financial statements have been adopted by the parent company's ("the Bank's) Management board on 04 April 2015.

2. BASIS OF PREPARATION

Statement of compliance

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 individual financial statements as per the Accounting law. These consolidated financial statements shall be read together with the individual 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;
- Trade instruments and other instruments, designated at fair value through profit and loss, as long as the fair value can be appropriately measured;
- Available-for-sale instruments, designated at fair value through profit and loss, as long as the fair value can be appropriately measured;
- Present value of defined pension liabilities.

Functional and presentation currency

These financial statements are presented in Bulgarian leva (BGN) rounded to the nearest thousand, which is the Bank's functional currency.

Use of estimates and judgments

The preparation of these financial statements requires management to make judgments, estimates and assumptions that affect the application the Bank's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates and judgments.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

Basis of consolidation

These consolidated financial statements are prepared in accordance with IFRS 10 "Consolidated financial statements", as all entities over which the Bulgarian Development Bank AD has control trough ownership of: rights to manage all important activities in the entity, in which an investment was made; exposure, or rights to variable return (gains or losses from the business) from the participation in the entity; possibility to exercise the control over the entity in which it has invested, in order to influence the size of the return- have been consolidated through the full consolidation method.

Upon consolidation all receivables and liabilities, income and expenses, arising from operations between the Bank and its subsidiaries, are eliminated. Unrealized losses are eliminated in the same way as the unrealized profit in case there are no indications for impairment.

2. BASIS OF PREPARATION (CONTINUED)

Basis of consolidation (continued)

The consolidated entities and the consolidation method applied as of 31 December 2014 are as follows:

Entity	Capital Ownership	Consolidation method
National Guarantee Fund	100%	Full consolidation
Microfance Institution "JOBS"	100%	Full consolidation

Changes in accounting policies

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

- Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)
- IFRIC 21 Levies
- Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities
- IFRS 10 Consolidated Financial Statement; IFRS 11 Joint Arrangements, IFRS 12 Disclosures of interests in Other entities, IAS 27 Separate financial statements (2011) and IAS 28 Investments in Associates and Joint ventures (2011)

(i) Amendments in IAS 36
As a result of the amendments to IAS 36, the Group has expanded its disclosures of recoverable amounts .

(ii) IFRIC 21 Levies
The change did not have a material impact on the Group s financial statements.

(iii) Amendments in IAS 32
The changes did not have an impact on the Group's financial statements as the Group does not offset its financial assets and financial liabilities and does not participate in global agreements for offsetting.

(iv) A new set of consolidation standards
The Group has adopted IFRS 10 Consolidated Financial Statement; IFRS 11 Joint Arrangements, IFRS 12 Disclosures of interests in Other entities, IAS 27 Separate financial statements (2011) and IAS 28 Investments in Associates and Joint ventures (2011) with a date of initial application of 1 January 2014.

The adoption of these new/amended standards did not have a material impact on the Group's financial statements as it did not lead to changes in the accounting policies.

3. SIGNIFICANT ACCOUNTING POLICIES

Financial instruments

The Group initially recognises loans, receivables and deposits on the date that they have initially originated. 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 that 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 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 realize the asset and settle the liability simultaneously.

The Group has the following non-derivative financial assets: financial assets reported at fair value in profit and loss, loans and advances, net investment in financial lease, financial assets available-for-sale and financial assets held-to-maturity.

Financial assets classified at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value trough profit or loss when the Group manages them, evaluates their performance and makes decisions for purchases and sales on a fair value basis, in accordance with a documented risk 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 income from dividends are recognised in profit or loss.

Financial assets held for trading include short term government securities, which are actively managed from the Group with a goal to cover short term liquidity needs.

A derivative is a financial instrument:

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

When entering a specific derivative transaction the Group defines a position to be hedged and have met all the requirements of accounting standards, 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, the 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.

Loans and advances

Loans and advances are financial assets with fixed or determinable payments, that are not quoted in an active market. Loans and advances are initially measured at fair value plus incremental direct transaction costs. Subsequently, loans and advances are measured at their amortised cost using the effective interest rate, less any allowance for impairment. (Note 3: Impairment of financial assets).

Loans and advances include cash and cash equivalents, trade and other receivables.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Held-to-maturity financial assets

When the Group has the positive intent and ability to hold debt securities to maturity, then those securities are classified as financial assets held-to-maturity. Held-to-maturity financial assets are initially recognized at fair value plus incremental direct transaction costs. After the initial recognition, held-to-maturity investments are carried at amortised cost using the effective interest method, less any impairment losses. (Note 3: Impairment of financial assets).

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

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. Securities are initially recognised at fair value of the consideration given including acquisition costs associated with the investment. After 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, are recognised in other comprehensive income and presented in the fair value reserve in equity. When an investment classified as available-for sale 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.

Finance lease receivables

Lease activity in the Group is associated with leasing 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 minimal 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 discharging the obligation under the guarantee or the sale back agreement. The minimum lease payments comprise also the payment required to exercise an option to purchase the asset at the inception of the lease, that the option will be exercised is reasonably certain.

Minimum lease payments exclude any contingent rent, cost for services and taxes to be paid and reimbursed to the lessor.

Commencement of the lease contract and commencement of the lease term

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

The commencement of the lease contract is the earlier of the two- the date of the lease contract or the date of the commitment by the parties to the main provisions of the lease.

The commencement of the lease term is the date from which the lessee may exercise his right to use the leased asset. This is the date at which the Group initially recognizes the lease receivable.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Finance lease receivables (continued)Initial recognition and subsequent measurement

Initially the Group recognizes a finance lease receivable which is equal to the net investment in the lease that includes the present value of the minimum lease payments and any unguaranteed residual value for the Group.

The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease. Any initial direct costs of the lessee are added to the amount recognized as an asset. During the lease term, the Group accrues financial income (interest income from finance lease) over the net investment of the lease.The received lease payments are treated as a reduction of net investment (repayment of principal) and the recognition of finance income is 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 allowance for impairment. The determination of amount of the impairment loss over the finance leases is shown below (Note 3: Impairment of financial assets).

Non-derivative financial liabilities

The Group initially recognises debt securities and subordinated liabilities at the time of their origination. All other financial liabilities (including such recognised 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 financial liabilities are written off when its contractual obligations are discharged, cancelled or expire.

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

The Group classifies the non-derivative financial liabilities as "other financial liabilities". They are initially recognised at fair value with all of the directly attributable transaction costs included and are subsequently measured at amortised cost using the effective interest method.

Other financial liabilities include borrowings, bank overdrafts and trade and other liabilities.
Bank overdrafts that are repayable on demand and form an integral part of the cash management of the Group are included as a component of cash and cash equivalents for the purposes of the statement of cash flows.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial instruments

A financial asset which is not recognized at fair value trough 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 any 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 that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by 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 investment securities) at both a specific asset and collective level. All individually significant assets are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Those assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

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

Impairment losses on assets measured at amortised cost are calculated as the difference between the 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.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by reclassification of the losses accumulated in the fair value reserve in equity to profit or loss. 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, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions 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 recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Initial recognition

Upon their initial acquisition, property, plant and equipment are valued at acquisition cost, which comprises the purchase price, including customs charges and any directly attributable costs of bringing the asset to working condition. The 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 within other income in profit or loss.

Depreciation

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

Subsequent costs

Repair and maintenance costs are recognised as current expenses at the moment they are incurred. Subsequent costs incurred in relation to property, plant and equipment having the nature of replacement of certain significant parts or improvements and restructuring, are capitalized in the carrying amount of the respective asset whereas its residual useful life is reviewed at the date of capitalization. At the same time, the non-depreciated part of the replaced components is derecognised from the carrying amount of the assets and is recognised in the current expenses for the period of the restructuring.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets

Intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses. They include software programs and license for their use.

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 the circumstances indicate that the carrying amount might exceed their recoverable amount. Impairment losses are included in the statement of comprehensive income.

Intangible assets are written-off from the statement of financial position when they are permanently disposed of and no future economic benefits are expected from their use or when they are sold. The gains or losses arising from the sale of separate assets from the group of the intangible assets are determined by comparing the proceeds from sale and the carrying amount of the asset at the date of sale.

Impairment of non-financial assets

The carrying amounts of the Bank'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 life or not yet brought into use assets, the recoverable amount is estimated annually. An impairment loss is recognised if the carrying amount of an asset or cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its 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.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of 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 amortisation or depreciation, if no impairment loss had been recognised.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interest income and expense

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

Interest income includes coupons earned 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 accrual basis and includes the interest accrued on the deposits of customers and banks, as well as on loans received and other borrowed funds, fees and commissions under loans received, which represent an integral part of the effective interest expense.

The unearned finance income (interest) is the difference between the gross and the net investment in the lease, as the gross investment in the lease is the aggregate of the minimum lease payments receivable by the lessor under a finance lease and any unguaranteed residual value according to the lessor. Interest income from leasing operations (financial income) are allocated for the duration of the lease and are recognized on the basis of constant periodic rate of return on net investment of the lessor.

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 accrual basis throughout the period of providing the service.

Fee and commission expenses related 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 from it.

Transactions in foreign currency

Foreign currency transactions are transformed into BGN by applying the daily exchange rate as quoted by the Bulgarian National Bank (BNB) as of the day of the transaction. The receivables and liabilities in foreign currency are revalued on a daily basis. At the end of the year they are revalued in BGN according to closing official rate of BNB, which for the main currencies as of the dates of the financial position are the following:

Foreign currency	31 December 2014	31 December 2013
US dollars	1.60841	1.41902
Euro	1.95583	1.95583

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

The net gains or losses from changes in the exchange rates incurred from revaluation of receivables, liabilities and from transactions with foreign currencies are included in the statement of comprehensive income, for the period in which they have occurred.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions and contingent liabilities

Provisions are recognised when the Group has a current constructive or legal obligation as a result of a past event and it is probable that an outflow of resources will be required to repay/settle this obligation. The provisions are measured based on the best estimate, made by the management at the end of reporting period, concerning the expenses that will be incurred for the settlement of 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 statement of financial position but are subject to special disclosure.

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 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 income of the employees of the Group in the form of remunerations, bonuses and social payments and benefits (payable for a term of 12 months after the end of the period in which the personnel was employed or has met the requirements) are recognised as an expense in the statement of comprehensive income in the period when the service thereon has been rendered or the requirements for their receipt have been met and as a current liability at their undiscounted amount. The Group's payables for social security and health insurance are recognised as a current expense (trough profit and loss) and liability at their undiscounted amount together with the respective benefits they relate to and within the period of their accrual.

At the end of each reporting period the Group assesses and reports the amount of expected costs on the accumulating paid leaves, which amount is expected to be paid as a result of the unused entitlement. The assessment includes the estimated expenses on the employee's remunerations and the statutory social security and health insurance contributions due by the employer thereon.

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, which depending on the length of service with an entity varies between two and six gross monthly salaries as at the termination date of the employment. In their nature these are defined benefit plans.

The calculation of the amount of these liabilities requires the participation of qualified actuaries in order to determine their present value at the date of the financial statements, at which they are included in the 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.

Past service costs are recognised immediately in the statement of comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

At the date of issue of each set of annual financial statements, the Group assigns certified actuaries who provide their report with calculations regarding the long-term retirement benefit obligations. For this purpose, they apply the Projected Unit Credit Method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows, which are expected to be paid within the maturity of this obligation, and using 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 the indemnities on retirement are recognized in the statement of comprehensive income.

Termination benefits

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

- for non-observed preliminary notice: one gross monthly salary;
- due to closing down of the enterprise or part of it, staff cuts, 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 income obligations in the event of employment termination before the normal retirement date when it is demonstrably committed, based on announced plan, to terminating the employment contract with the respective individuals without possibility of withdrawal or in case of formal issuance of documents for voluntary redundancy. Termination benefits due more than 12 months are discounted and presented in the statement of financial position at their present value.

Taxation

Current income taxes are determined in accordance with the requirements of the Bulgarian tax legislation. Current tax comprises tax payable calculated on the basis of the expected taxable income for the year, using the tax rates enacted by the date of preparation of the statement of financial position.

The tax effect, related to transactions and other events, reported in the statement of comprehensive income are recognised as well in the statement of comprehensive income and the tax effect related to transactions and other events, reported directly in the equity, is also recognised directly in the equity.

Deferred tax liabilities are reported for all temporary differences, subject to taxation, except in the events when they arise from the initial recognition of assets and liabilities for a transaction, which at the time of being concluded is not reflected in the accounting or the tax income (tax loss).

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred tax assets are recognised for all temporary differences, subject to deduction, to the extent that it is probable that there might be an available taxable profit, against which the relevant deductions under the deferred tax receivables can be made. This is not applicable for the cases when they arise from the initial recognition of assets and liabilities for a transaction, which at the time of being concluded is not reflected in the accounting or the tax income (tax loss).

The deferred taxes are recognised as income or expenses 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 the equity. Deferred taxes are charged or deducted directly from the equity, when these taxes refer to positions, which are charged or deducted during the same or a different period directly in the equity.

Cash and cash equivalents

For the purposes of the cash flow statement cash equivalents comprise cash on hand, cash at current accounts with other banks, demand deposits and placements with other banks – payable at sight and/or with original maturity up to 3 months, including repo deals with original maturity up to 3 months, as well as unrestricted (not blocked) balances with the Central Bank (BNB).
They are presented in the statement of financial position at amortised cost.

Assets classified as 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 operations of the Group. Usually, these assets have been initially accepted by the Bank as collaterals and subsequently acquired thereby as a result of a "debt against property" exchange by borrowers that do not perform their obligations as per the agreed terms of loans.
Assets classified in this group are available for immediate sale in their present condition.
The management is engaged actively and performs events to realize a sale within at least one year after the date on which the asset has been classified in this group.
Assets classified as held for sale are presented in the statement of financial position separately and are measured at the lower of their carrying amount (initial, acquisition price) and their fair value less the direct expected costs to sell.
The assets within this classification group are not depreciated.

Segment reporting

The Group does not report operating segments, because its major source of risks and returns is the corporate business sector, there isn't a single external customer the revenues from which to form more than 10% percent of the total revenue, and the Group operates throughout the country. If in the future these factors change and the Bank reports operating segments they will be determined and reported in accordance with the requirements of IFRS 8 Operating segments.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New standards and interpretations not yet adopted

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

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

- Annual improvements to IFRSs *2010-2012 and 2011-2013 Cycles.* The improvements introduce eleven amendments to nine standards and consequential amendments to other standards and interpretations. None of these amendments are expected to have a significant impact on the financial statements of the Group
- Amendments to IAS 19 – *Defined benefit plans: Employee contributions.* The Group does not expect the Amendments to have any impact on the financial statements since it does not have any defined benefit plans that involve contributions from employees or third parties.

IASB/IFRIC documents not yet endorsed by EC:

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

- IFRS 9 *Financial instrument (issued 24 July 2014).*
- IFRS 14 *Regulatory Deferral Accounts (issued 30 January 2014);*
- IFRS *15 Revenue from contracts with customers (issued 28 May 2014);*
- Amendments to IFRS 10, IFRS 12 and IAS 28: *Investment Entities: Applying the Consolidation Exception (issued on 18 December 2014);*
- Amendments to *IAS 1 Disclosure initiative (issued 18 December 2014);*
- Annual improvements to *IFRSs 2012-2014 Cycle (issued 25 September 2014);*
- Amendments to IFRS 10 and IAS 28*: Sale or contribution of assets between an investor and its associated or jointly controlled investee (issued 11 September 2014);*
- Amendments to IAS 27 – *Equity method in separate financial statements (issued 12 August 2014);*
- Amendments to IAS 16 and IAS 41 - *Bearer plants (issued 30 June 2014);*
- Amendments to IAS 16 and IAS 38 – *Clarification for acceptable methods of depreciation and amortization (issued 12 May 2014);*
- Amendments to IFRS 11 – *Accounting for acquisitions of interests in joint operations (issued 6 May 2014).*

4. FINANCIAL RISK MANAGEMENT

In the ordinary course of business, the Group is exposed to a variety of risks. 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 financial position, profitability and existence. The main risks, to which the Group is exposed, are credit risk, market risk and liquidity risk, as well as operating risk.

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;

Assets and Liabilities Committee – responsible for the strategic management of the assets and liabilities and for the market risk management, including liquidity risk management, related to the assets and liabilities.

Provisions Committee and Credit Council – analyse credit transactions from the perspective of credit risk management in general for the loan portfolio, as well as at 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 set limits for the particular types of risk and the application of the developed procedures.

The Central Bank carries on an additional supervision of the risk management by requiring periodically regulatory reports and subsequent control on the compliance with the statutory set 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 – 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, techniques and procedures for risk management;

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.

Guarantee Administration and Monitoring Department — performs monitoring of the guaranteed portfolios and the collateral provided. At least annually an inspection over the fulfillment of the economic and social requirements for the SME using a guarantee from the Fund is carried out.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

The main units responsible for the management of risks are:

Board of Directors – adopts rules and procedures for risk management. Control the risk factors of the Company and take decisions within their powers;

Credit committee – monitors and analyzes the loan and lease portfolio of the Company in terms of credit risk, including individual transactions;

Credit Council – analyzes credit and leasing transactions in terms of credit risk management in their resolution and / or renegotiation;

Operational Management (Executive director and Member of the BoD) – organize the activities for the implementation of the Rules for Risk Management adopted by the Board of Directors. Creates an organization of work, which ensures compliance with the set limits and levels of risk. Controls the compliance of the procedures for analysis, measurement and evaluation of the risk with the adopted by the Board of Directors internal documents.

Risk management Department – develops and implements a system for risk management. 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. Performs initial and on-going validation of the methods for risk assessment. Examines incoming data needed for the risk assessment in accordance with applicable methods of reliability and sufficiency.

Measurement and management of major risks

The management of the companies comprising the Group has adopted a set of internal rules and procedures for the measurement of the different risks which are based on statistical models and good international banking practice, as well as on the historical experience of the Group itself.

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

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk

Credit risk is the risk that the customers/counterparties will fail to discharge their contractual obligations in full and on time to the Bank.

The credit risk is the main risk for the Bank and its management is fundamental in the Bank's activity. Credit risk management is performed in accordance with the law for BDB AD and with the operative laws and regulations of Republic of Bulgaria related to credit activity as long as with the international regulations and bank best practices.

At portfolio level, the Bank has established units for current monitoring and control of the quality of the credit portfolio – Working group for overdue credits, Working group for current control of the credit portfolio, Provisions Committee.

The Bank also monitors the credit portfolio by preparing recurring reports (twice per annum) on the business activities of each borrower. Each report is then analysed and then passed to the Working group for current control or/and to the Provisions Committee in case there is any additional information that might bring risk to the Bank.

The management of specific credit risk is performed by the Provisions Committee of the Bank and is supervised by the Management Board. The credit risk management function ensures that appropriate policies are established and its compliance with the related credit monitoring procedures and controls for current supervision of the credits. Exposure to credit portfolio risk is managed through regular analysis of the ability of the borrowers to meet interest and capital repayment obligations and by establishing lending limits as appropriate. Exposure to credit risk is also reduced in part by obtaining different types of collateral.

Based on a Guarantee letter from year 2003 and the subsequent annexes signed with the European Investment Fund (EIF), 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. The Bank has applied reduced requirements in accepting collaterals for the EIF-guaranteed portfolio of loans.

The volume of the loans with EIF guarantee amounts to BGN 8,866 thousand as at 31.12.2014. (31.12.2013: BGN 9,844 thousand). This amount includes the drawn but not paid portion of loans and the engagements undertaken by the Bank under unutilised loans. The payment engagements of EIF at this date amount to BGN 4,929 thousand. (31.12.2013: BGN 4,929 thousand), whereas the losses covered by EIF amount to BGN 3,044 thousand(31.12.2013: BGN 3,091 thousand).

Letters of guarantee and letters of credit represent another source of the credit risk. The main purpose of the instruments in form of letters of guarantee and letters of credit is to ensure funds for the customer in case of need. Letters of guarantee and letters of credit, representing irrevocable commitment of the Bank to make a payment in case the customer is not able to meet his/her obligations to a third party. These instruments bear the same credit risk as the loans. Documentary and trade letters of credit, representing written commitment of the Bank on behalf of a customer, authorize a third person to draw funds up to a certain amount under certain conditions. Often, they are secured with cash deposits, and so they are less risky than direct financing.

The unutilised portion of authorized loan agreements in form of loans, letters of guarantee or letters of credit represents commitments of the Bank. In relation to the credit risk the Bank is potentially exposed to loss to the amount of the total unutilised commitments. However, the likely amount of loss is less than the total unutilised funds since most commitments to extend credits are contingent upon customers maintaining specific credit standards. The Bank monitors on current basis the utilization periods of the loans because longer-term commitments generally have a greater degree of credit risk than the short-term commitments.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

Maximum exposure of the credit risk

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

In thousands of BGN	**2014**	**2013**
Financial assets		
Cash and balances with the Central Bank	387,221	234,053
Loans and advances to banks	547,024	911,206
Loans and advances to customers	625,325	458,369
Receivables from the State Budget	-	-
Available-for-sale securities	296,995	156,529
Financial assets held-to-maturity	1,980	6,134
Financial assets held-for-trading	1,436	2,622
Net investment in finance lease	1,470	2,304
	1,861,451	1,771,217

The exposure to credit risk attributable to off-balance sheet contingent commitments not recognised in the statement of financial position is as follows:

In thousands of BGN	**2014**	**2013**
Bank guarantees and letters of credit	112,161	101,838
Unutilised amount of authorized loans	31,096	41,029
	143,257	142,867
Maximum exposure to credit risk	2,004,708	1,914,084

Credit risk - concentration

The Management of the parent company (the "Bank") currently monitors the credit risk of concentration of financial assets both by industry sector and by individual counterparty. Limits for maximum exposures are established and periodically analyzed and measured. Due to its major objectives, the Group has risk exposure of concentration of loans to small- and medium sized enterprises and of long-term investment loans.(Note 18)

Each variance from the set limits for concentration is approved by the Management Board of the Bank.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

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

In thousands of BGN	2014	%	2013	%
Sectors				
Financial services	589,616	44.17	911,556	60.92
Manufacturing	309,248	23.17	224,812	15.02
Transport	88,598	6.64	84,994	5.68
Construction	112,143	8.40	67,162	4.49
Trade	82,392	6.17	73,007	4.88
Operations with real estate	59,932	4.49	21,492	1.44
Tourist services	25,252	1.89	28,855	1.93
Collection and disposal of garbage	20,016	1.50	28,738	1.92
Agriculture	18,060	1.35	15,367	1.03
Other industry sectors	29,478	2.21	40,325	2.69
	1,334,735	100	1,496,308	100

The largest credit exposure of the Group to a group of related parties /excluding bank institutions/ amounts to BGN 50,490 thousand (2013: BGN 50,913 thousand), which represents 7.49% of Group's capital base (2013: 7.65%).

Quality of the loans and receivables

The parent company (the "Bank") has implemented internal regulations for risk assessment of every counterparty. The risk assessment is made according to a methodology based on current financial information, forecasts, investments projects execution and targeted use of funds, manner of exposure servicing and information on the state of accepted collaterals. Loans and receivables are classified in four risk groups (2013: four risk group) depending on the result of the assessment. The adopted classification groups are as follows: "standard", "watch", "non-performing" and "loss".

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

The classification of risk exposures is within the competence of the Provisions Committee and is made on monthly basis. In addition, current financial information is required from customers quarterly. The investment projects execution and, respectively, loan withdrawal and utilization are currently monitored. The market valuations of the accepted collaterals are not older than 12 months. At the end of each financial year, plan for revaluation of the market values of the collaterals is made, which then is approved by an Executive Director, head of Risk. All decisions of the Provisions Committee are controlled and approved by the Management Board of the parent company (the "Bank")

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

In thousands of BGN					
As at 31 December 2014	**Standard**	**Watch**	**Non-performing**	**Loss**	**Total**
Loans and advances to banks	524,418	-	-	65,139	589,557
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 mortgage loans to individuals	2,205	-	-	-	2,205
Finance lease	1,470	33	28	284	1,815
Other loans and receivables	2,292	180	72	2,777	5,321
Total financial assets	1,111,590	58,044	10,880	154221	1,334,735

In thousands of BGN					
As at 31 December 2013	**Standard**	**Watch**	**Non-performing**	**Loss**	**Total**
Loans and advances to banks	911,206	-	-	-	911,206
Loans for commercial property and construction	372,286	16,904	27,809	46,055	463,054
Trade loans	51,534	12,475	9,701	26,751	100,461
Agricultural loans	-	-	-	2,000	2,000
Consumer loans	1,025	-	-	-	1,025
Residential mortgage loans to individuals	1,755	-	-	-	1,755
Finance lease	2,315	46	11	308	2,680
Other loans and receivables	10,655	409	491	2,572	14,127
Total financial assets	1,350,776	29,834	38,012	77,686	1,496,308

The accepted collaterals are mainly mortgages of land and industrial property, hotels, trade and residential buildings. Additional collaterals are also accepted in the form of pledge on machinery, equipment and inventories, securities,cash deposits, corporate shares, promissory notes, avals and guarantees from third parties. The common practice of the Group is to require from loan applicants a collateral at least 100% of the contracted loan amount.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

The table below presents the types of collaterals held by the Group as at 31 December 2014 and 31 December 2013 at updated fair value, determined with the assistance of an internal certified appraiser:

In thousands of BGN	**2014**	**2013**
Type of collateral	**Fair value**	**Fair value**
Mortgages	521,814	490,878
Pledge on a ships	11,581	29,774
Pledges on machinery, equipment, installations and inventories	181,484	108,191
Securities quoted on a stock market	32,422	65,442
Credit risk insurance	13,305	-
Blocked deposits	928	830
Total collaterals	761,534	695,115

Percentage of exposure that is subject to an arrangement that requires collateralisation:

In thousands of BGN

Type of credit exposure	Principal type of collateral	**Percentage of exposure that is subject to an arrangement that requires collateralisation** 2014	2013
Loans and advances	1. Mortgages	100	100
	2. Pledge on a ship	25	55
	3. Pledges on machinery, equipment, installations and inventories	68	59
	4. Blocked deposits	6	5
	5. Credit risk insurance	100	-
Reverse sale and repurchase agreements	1. Securities	100	100
Finance Lease	1. Own asset	100	100

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:

In thousands of BGN	Loans and advances to non-financial institutions		Loans and advances to financial institutions		Loans and advances to individuals		Net investment in finance lease	
	2014	2013	2014	2013	2014	2013	2014	2013
Impaired on individual basis								
-------standard	-	62,058						
-------watch	58,011	29,788	-	-	-	-	33	46
-------non-performing	10,852	38,001	-	-	-	-	28	11
-------loss	88,799	76,625	-	-	-	-	284	308
Gross value	157,662	206,472	-	-	-	-	345	365
Accumulated impairment loss	(102,507)	(114,062)	-	-	(42,533)	-	(308)	(317)
Book value	55,155	92,410	-	-	-	-	-37	48
Incl. re-negotiated loans	*135,140*	*85,293*	-	-	-	-	-	-
Impaired on portfolio basis								
------- standard	567,573	364,525	-	-	-	-	-1,470	2,315
Gross value	567,573	364,525	-	-	-	-	1,470	2,315
Accumulated impairment loss	(15,531)	(9,991)	-	-	-	-	(37)	(59)
Book value	552,042	354,534	-	-	-	-	1,433	2,256
Incl. re-negotiated loans	*357,193*	*277,938*	-	-	-	-	-	-
Past due but not impaired								
------- over 360 days	-	753	-	-	-	-	-	-
Book value	-	753	-	-	-	-	-	-
Incl. re-negotiated loans	-	524	-	-	-	-	-	-
Neither past due nor impaired								
------- standard	14,731	7,893	-	911,206	-	2,779	-	-
Book value	14,731	7,893	-	911,206	-	2,779	-	-
Incl. re-negotiated loans	*9,602*	*1,281*	-	*79,548*	-	*1,024*	-	-
Book value	621,928	455,590	-	911,206	-	2,779	1,470	2,304
Incl. re-negotiated loans	*501,935*	*365,036*	-	*79,548*	-	*1,024*	-	-

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

The Group may re-negotiate the initial conditions under the signed contacts in case of a request by the contacting parties. Usually these conditions are the terms for disbursement of the loans, loan amounts, interest rates and/or repayment schedules with regard to the amounts of the repaid installments. This is often observed in the case of changes of the 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:

In thousands of BGN	2014	2013
Loans for commercial property and construction	339,497	328,330
Trade loans	116,704	58,832
Loans and advances to banks	53,471	79,548
Residential mortgage loans to individuals	620	659
Consumer loans	217	365
Other loans and receivables	89	455
	510,598	468,189

The credit is classified as "restructured", when the initial terms of the agreement are modified by the Bank by granting relieve of credit terms to the debtor due to deterioration of his financial position, which leads to unabilitiy of full repayment of the loan within original contractual maturity.

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

In thousands of BGN	2014	2013
Loans for commercial property and construction	42,241	25,109
Other loans and receivables	3,404	5,211
	45,645	30,320

The Group's exposure to national debt as at 31.12.2014 and 31.12.2013 is presented in the table below.

In thousands of BGN ***As at 31 December 2014***	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Unstated maturity	Total
Available-for-sale securities							
Government bonds							
Bulgaria	66,849	267	77,749	32,064	22,297	-	199,226
Croatia	31,242	-	-	-	-	-	31,242
Romania	-	61,495	-	-	-	-	61,495
Total assets	98,091	61,762	77,749	32,064	22,297	-	291,963

In thousands of BGN ***As at 31 December 2013***	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Unstated maturity	Total
Available-for-sale securities							
Government bonds							
Bulgaria	968	-	39,320	32,308	-	-	72,596
Romania	-	-	75,265	-			75,265
Total assets	968	-	114,585	32,308	-	-	147,861

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2. Market risk

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

Interest risk

Interest 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 the changes in the total market interest levels.

The interest risk is related to the overall activity of the Group. Tables with the financial assets and liabilities grouped in time intervals depending on their sensitivity to changes in the interest rates, are prepared on regular basis. Where period inconsistencies exist, changes in the interest curve are made to measure the potential risk for the interest income of the Group. Besides the interest rate sensitivity analyses made, 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 with the respective characteristics.

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

The table below summarizes the interest exposure and risk of the Group. It includes information on Group's assets and liabilities at their book value in accordance with interest-related clauses, set in the contracts, their maturity structure and sensitivity to the behavior of the interest rates.

In thousands of BGN

As at 31 December 2014	*With floating interest rate*	*With fixed interest rate*	*Interest-free*	*Total*
Financial assets				
Cash and balances with the Central Bank	-	-	387,221	387,221
Loans and advances to banks	20,919	525,495	610	547,024
Loans and advances to customers	572,536	52,534	255	625,325
Net investment in finance lease	1,470	-	-	1,470
Available-for-sale securities	-	295,018	1,977	296,995
Financial assets held-for-trading	1,436	-	-	1,436
Financial assets held-to-maturity	1,980	-	-	1,980
	598,341	873,047	390,063	1,861,451
Financial liabilities				
Deposits from banks	19,642	75,931	-	95,573
Deposits from customers	494,684	40,909	-	535,593
Borrowings from international institutions	221,065	-	-	221,065
Other borrowings	11,190	6,816	254,080	272,086
Debt securities issued	-	78,499	-	78,499
Financial liabilities held-for-trading	888	-	-	888
	747,469	202,155	254,080	1,203,704
Total interest exposure	(149,128)	670,892	135,983	657,747

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2. Market risk (continued)

In thousands of BGN	***With floating interest rate***	***With fixed interest rate***	***Interest-free***	***Total***
As at 31 December 2013				
Financial assets				
Cash and balances with the Central Bank	-	-	234,053	234,053
Loans and advances to banks	27,851	883,355	-	911,206
Loans and advances to customers	400,856	56,336	1,177	458,369
Net investment in finance lease	2,304	-	-	2,304
Available-for-sale securities	-	154,508	2,021	156,529
Financial assets held-for-trading	1,693	-	929	2
Financial assets held-to-maturity	1,980	4,154	-	6,134
	434,684	1,098,353	238,180	1,771,217
Financial liabilities				
Deposits from banks	29,462	78,955	-	108,417
Deposits from customers	316,207	40,971	32	357,210
Borrowings from international institutions	275,861	-	-	275,861
Other borrowings	11,130	7,003	269,009	287,142
Debt securities issued	-	78,499	-	78,499
Financial liabilities held-for-trading	1,530	-	-	1,530
	634,190	205,428	269,041	1,108,659
Total interest exposure	(199,506)	892,925	(30,861)	662,558

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2. Market risk (continued)

Analysis of interest rate sensitivity

The table below includes the financial instruments of the Group at book value, categorized by the earlier of interest rate change in the contract or maturity dates.

In thousands of BGN	*Up to1 month*	*1-3 months*	*3-6 months*	*6-12 months*	*1-5 years*	*Over 5 years*	*Non-interest bearing*	*Total*
As at 31 December 2014								
Financial assets								
Cash and balances with the Central Bank	-	-	-	-	-	-	387,221	387,221
Loans and advances to banks	262,366	26,032	24,862	15,148	199,579	18,427	610	547,024
Loans and advances to customers	572,536	52,534	-	-	-	-	255	625,325
Net investment in finance lease	1,470	-	-	-	-	-	-	1,470
Available–for-sale securities	98,091	61,762	79	77,749	35,040	22,297	1,977	296,995
Financial assets held-for-trading	-	1,431	-	-	-	-	5	1,436
Financial assets held-to-maturity	1,980	-	-	-	-	-	-	1,980
	936,443	141,759	29,941	92,897	234,619	40,742	390,068	1,861,451
Financial liabilities								
Deposits from banks	75,956	19,617	-	-	-	-	-	95,573
Deposits from customers	495,468	380	70	39,675	-	-	-	535,593
Borrowings from international institutions	16,325	141,457	63,283	-	-	-	-	221,065
Other borrowings	-	11,190	-	254,080	-	6,816	-	272,065
Debt securities issued	-	-	39,372	39,127	-	-	-	78,499
Financial liabilities held-for-trading	-	888	-	-	-	-	-	888
	587,749	173,532	102,725	332,882	-	6,816	-	1,203,704
Total exposure to interest rate sensitivity	348,694	(31,773)	(77,784)	(239,985)	234,619	33,908	390,068	657,747

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2. Market risk (continued)

Analysis of interest rate sensitivity (continued)

In thousands of BGN	*Up to1 month*	*1-3 months*	*3-6 months*	*6-12 months*	*1-5 years*	*Over 5 years*	*Non-interest bearing*	*Total*
As at 31 December 2013								
Financial assets								
Cash and balances with the Central Bank	-	-	-	-	-	-	234,053	234,053
Loans and advances to banks	291,944	129,557	106,483	67,194	316,028	-	-	911,206
Loans and advances to customers	400,856	56,336	-	-	-	-	1,177	458,369
Net investment in finance lease	2,304	-	-	-	-	-	-	2,304
Available–for-sale securities	968	3,726	75,355	19,934	54,525	-	2,021	156,529
Financial assets held-for-trading	-	2,617	-	-	-	-	5	2,622
Financial assets held-to-maturity	1,980	-	-	4,154	-	-	-	6,134
	698,052	192,236	181,838	91,282	370,553	-	237,256	1,771,217
Financial liabilities								
Deposits from banks	78,981	29,436	-	-	-	-	-	108,417
Deposits from customers	316,991	350	4	181	39,652	-	32	357,210
Borrowings from international institutions	24,879	192,179	56,838	1,965	-	-	-	275,861
Other borrowings	-	11,130	-	-	-	7,003	269,009	287,142
Debt securities issued	-	-	-	-	78,499	-	-	78,499
Financial liabilities held-for-trading	-	1,530	-	-	-	-	-	1,530
Total financial liabilities	420,851	234,625	56,842	2,146	118,151	7,003	269,041	1,108,659
Total exposure to interest rate sensitivity	277,201	(42,389)	124,996	89,136	252,402	(7,003)	(31,785)	662,558

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2. Market risk (continued)

Sensitivity of the interest assets and liabilities with floating interest rate

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

In thousand of BGN	2014		2013	
Currency	***Increase in percentage points***	***Sensitivity of the financial result***	***Increase in percentage points***	***Sensitivity of the financial result***
BGN	0.50%	(2,347)	0.50%	(2,052)
EUR	0.50%	993	0.50%	491
BGN	-0.50%	2,347	-0.50%	2,052
EUR	-0.50%	(993)	-0.50%	(491)

Currency risk

The currency risk is a risk with a negative impact of fluctuations in the prevailing currency exchange rates on the financial position and cash flows of the Group as a result of open currency positions. In the currency risk management the Group follows the principle of maintaining a minimal open currency positions according to set limits. The currency positions are not formed with speculative purposes but after transactions in foreign currencies related to the normal operating activities. The policy of the parent company (the"Bank") is that the main part of the assets and liabilities, and respectively the bank operation, are 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 Bulgarian lev is pegged to the euro, there is no significant open currency risk for the Group.

The following table summarizes the Group 's exposure to currency risk. The table includes the financial instruments and the contingent liabilities and commitments of the bank at book value, categorized by type of currency.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2. Market risk (continued)

Currency risk (continued)

In thousands of BGN

As at 31 December 2014	In USD	In EUR	In other foreign currency	In BGN	Total
Financial assets					
Cash and balances with the Central Bank	8	1,729	-	385,484	387,221
Loans and advances to banks	1,270	290,977	175	254,602	547,024
Loans and advances to customers	22,714	459,280	6,414	136,917	625,325
Net investment in finance lease	-	-	-	1,470	1,470
Available–for-sale securities	60,183	203,039	-	33,773	296,995
Financial assets held-for-trading	-	1,436	-	-	1,436
Financial assets held-to-maturity	-	1,980		-	1.980
Total financial assets	84,175	958,441	6,589	812,246	1,861,451
Financial liabilities					
Deposits from banks	75,931	19,640	-	2	95,573
Deposits from customers	7,609	103,768	-	424,216	535,593
Borrowings from international institutions	-	214,546	6,519	-	221,065
Other borrowings	-	18,006	-	254,080	272,086
Debt securities issued	-	78,499	-	-	78,499
Financial liabilities held-for-trading	-	888	-	-	888
Total financial liabilities	83,540	435,347	6,519	678,298	1,203,704
Net balance sheet currency position	635	523,094	70	133,948	657,747
Contingent liabilities and commitments	666	43,064	-	122,529	166,259

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2. Market risk (continued)

Currency risk (continued)

In thousands of BGN

As at 31 December 2013	In USD	In EUR	In other foreign currency	In BGN	Total
Financial assets					
Cash and balances with the Central Bank	7	10,957	-	223,089	234,053
Loans and advances to banks	15,954	351,834	42	543,376	911,206
Loans and advances to customers	21,408	361,293	8,214	67,454	458,369
Net investment in finance lease	-	-	-	2,304	2,304
Available–for-sale securities	26,842	83,676	-	46,011	156,529
Financial assets held-for-trading	-	2,617		5	2,622
Financial assets held-to-maturity	-	1,980	-	4,154	6,134
Total financial assets	64,211	812,357	8,256	886,393	1,771,217
Financial liabilities					
Deposits from banks	21,575	29,459	-	57,383	108,417
Deposits from customers	1,033	74,186	1	281,990	357,210
Borrowings from international institutions	-	267,444	8,417	-	275,861
Other borrowings	-	18,133	-	269,009	287,142
Debt securities issued	-	78,499	-	-	78,499
Financial liabilities held-for-trading	-	1,530	-	-	1,530
Total financial liabilities	22,608	469,251	8,418	608,382	1,108,659
Net balance sheet currency position	41,603	343,106	(162)	278,011	662,558
Contingent liabilities and commitments	355	49,551	-	92,961	142,867

Price risk of shares quoted on the Stock Exchange

The Group is exposed to price risk in respect to the shares it holds, classified as investments available-for-sale. The management of the parent company (the "Bank") monitors and analyzes all changes in the securities market, as well as uses the advisory services of authoritative investment intermediaries in the country. In addition, at this stage, due to the economic and financial crisis, the management of the parent company (the "Bank") has decided to greatly reduce the operations on the stock markets, the hold of the purchased shares in the longer horizon for ongoing monitoring of the reported from the respective issuer financial and business indicators, as well as the development of its activities under the circumstances of a crisis.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.3. Liquidity risk

Liquidity risk is the risk that the bank is unable to meet its current and potential payment obligations as and when they fall due without unacceptable losses.

The business of the Group requires a stable flow of funds both to replace existing deposits and received loans as they mature and to satisfy demands of customers for additional borrowing. Undrawn borrowing facility commitments and the level of all outstanding contingent obligations are taken into consideration in managing the liquidity risk in the Group.

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 liquidity of the Group and its exposure to changes in interest rates and exchange rates. 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 the Assets and Liabilities (Liquidity) Committee and is based on maturity tables with scenarios for measuring the net cash flows by periods and normatively enacted by Bulgarian National Bank ratios. Additionally varieties of correlations are monitored to indicate the liquid position by periods. Liquidity risk is also measured through application of additional tree scenarios for the cash flows from the operations and monitoring of the liquidity buffers of the parent company (the "Bank") and the additional sources of financing in case of market and idiosincraty shocks.

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

	2014	2013
As at December 31-st	57.95 %	40.67 %
Average for the period	45.81 %	22.75 %
Highest for the period	58.33 %	40.67 %
Lowest for the period	25.82 %	12.16 %

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:

In thousands of BGN ***As at 31 December 2014***	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not defined	Total
Financial assets							
Cash and balances with the Central Bank	387,221	-	-	-	-	-	387,221
Loans and advances to banks	262,976	26,032	40,010	199,579	18,427	-	547,024
Loans and advances to customers	12,029	26,743	92,725	369,528	124,245	55	625,325
Net investment in finance lease	58	108	378	926	-		1,470
Available-for-sale securities	98,091	61,762	77,828	35,040	22,297	1,977	296,995
Financial assets held-for-trading	-	1,436	-	-	-	-	1,436
Financial assets held-to-maturity	24	-	-	1,956	-	-	1,980
Total financial assets	760,399	116,081	210,941	607,029	164,969	2,032	1,861,451
Financial liabilities							
Deposits from banks	75,956	59	9,779	9,779	-	-	95,573
Deposits from customers	495,472	376	39,745	-	-	-	535,593
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
Debt securities issued	-	265	78,234	-	-	-	78,499
Financial liabilities held-for-trading	-	-	-	888	-	-	888
Total financial liabilities	574,443	9,247	420,663	148,328	51,023	-	1,203,704
Difference in maturity thresholds of assets and liabilities	185,956	106,834	(209,722)	458,701	113,946	2,032	657,747

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.3. Liquidity risk (continued)

In thousands of BGN ***As at 31 December 2013***	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not defined	Total
Financial assets							
Cash and balances with the Central Bank	234,053	-	-	-	-	-	234,053
Loans and advances to banks	291,944	129,557	173,677	316,028	-	-	911,206
Loans and advances to customers	12,886	14,833	78,525	244,194	106,996	935	458,369
Net investment in finance lease	51	103	491	1,659	-	-	2,304
Available-for-sale securities	968	3,726	95,289	54,525	-	2,021	156,529
Financial assets held-for-trading	-	2,622	-	-	-	-	2,622
Financial assets held-to-maturity	24	-	4,154	1,956	-	-	6,134
Total financial assets	539,926	150,841	352,136	618,362	106,996	2,956	1,771,217
Financial liabilities							
Deposits from banks	78,981	-	9,878	19,558	-	-	108,417
Deposits from customers	316,991	350	217	39,652	-	-	357,210
Borrowings from international institutions	3,029	8,499	54,624	151,717	57,992	-	275,861
Other borrowings	-	-	-	280,139	7,003	-	287,142
Debt securities issued	-	266	-	78,233	-	-	78,499
Financial liabilities held-for-trading	-	-	-	1,530	-	-	1,530
Total financial liabilities	399,001	9,115	64,719	570,829	64,995	-	1,108,659
Difference in maturity thresholds of assets and liabilities	140,925	141,726	287,417	47,533	42,001	2,956	662,558

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.3. Liquidity risk (continued)

The liquidity requirements to support calls under guarantees and letters of credit are considerably lower than the amount of the commitment because the Group does not generally expect the third party to draw funds under these agreements.

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

In thousands of BGN	Carrying amount	Gross nominal outflow	Less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years
As at 31 December 2014							
Financial liabilities							
Deposits from banks	95,573	96,063	75,958	59	9,932	10,114	-
Deposits from customers	535,593	536,319	495,474	377	40,468	-	-
Borrowings from international institutions	221,065	231,492	3,027	8,957	39,727	131,720	48,061
Other borrowings	272,086	274,263	-	34	254,395	12,649	7,185
Debt securities issued	78,499	81,158	-	265	80,893	-	-
Financial liabilities held-for-trading	888	888	-	-	-	888	-
	1,203,704	1,220,183	574,459	9,692	425,415	155,371	55,246

In thousands of BGN	Carrying amount	Gross nominal outflow	Less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years
As at 31 December 2013							
Financial liabilities							
Deposits from banks	108,417	109,402	78,982	-	9,944	20,476	-
Deposits from customers	357,210	359,125	316,993	352	224	41,556	-
Borrowings from international institutions	275,861	289,900	2,986	8,701	55,682	158,730	63,801
Other borrowings	287,142	289,562	-	35	317	281,731	7,479
Debt securities issued	78,499	84,779	-	266	-	84,513	-
Financial liabilities held-for-trading	1,530	1,517	-	-	-	1,517	-
	1,108,659	1,134,285	398,961	9,354	66,167	588,793	71,280

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:

In thousands of BGN
As at 31 December 2014

Financial assets	**Encumbered**	**Unencumbered**		**Total**
	Pledged as collateral	**Available for collateral**	**Other***[1]	
Cash and balances with the Central Bank	-	287,599	99,622	387,221
Loans and advances to 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
Financial assets held-to-maturity	-	1,980	-	1,980
Financial assets held-for-trading	-	1,436	-	1,436
Total financial assets	**610**	**1,635,966**	**224,875**	**1,861,451**

In thousands of BGN
As at 31 December 2013

Financial assets	**Encumbered**	**Unencumbered**		**Total**
	Pledged as collateral	**Available for collateral**	**Other***	
Cash and balances with the Central Bank	-	151,945	82,108	234,053
Loans and advances to banks	-	895,262	15,944	911,206
Loans and advances to customers	-	421,058	37,311	458,369
Net investment in finance lease	-	2,256	48	2,304
Available-for-sale securities	18,994	135,632	1,903	156,529
Financial assets held-to-maturity	-	6,134	-	6,134
Financial assets held-for-trading	-	2,622	-	2,622
Total financial assets	**18,994**	**1,614,909**	**137,314**	**1,771,217**

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

Risk management together with other divisions in the Bank monthly monitors and reports to ALCO about the ratios between encumbered assets and the total book value of the assets. In a case of excess above limits approved by the Management Board ALCO reports back to the MB for undertaken for corrective actions. .

As a result of the specific profile of the Group as at 31.12.2014 the resources attracted from the top 10 non-banking depositors represent 94.88% of the total amount due to customers (31.12.2013: 94.76%).

[1] ***"Other"** are financial assets which 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.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.4. Capital management

The main objectives of the Group's capital management is to maintain its level at amounts sufficient for activities developing and achieving the general objectives set at its foundation – support of 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 № 33,34), as well as continue operating as a going concern.

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

In thousands of BGN	**2014 Basel III**	**2013 Basel II**
Tier 1 capital		
Ordinary shares	601,774	601,774
Statutory reserves	59,730	54,609
Additional reserves	12,873	9,682
Total Tier 1 capital	674,377	666,065
Tier 2 capital	-	-
Total equity	674,377	666,065
Investments	(317)	(522)
Incl. Intangible assets	(317)	(522)
Other deductions		
Specific provisions for credit risk using standardized approach	-	-
Revaluation differences, included in Tier 1 capital	124	53
Tier 1 capital base	*673,936*	*665,490*
Tier 2 capital base	*673,936*	*665,490*
Credit risk		
Risk-weighted assets	1,120,176	1,125,478
Incl. Risk-weighted assets for credit risk	1,019,356	1,028,716
Incl. Off-balance sheet equivalents of risk-weighted assets for credit risk	99,147	93,944
Incl. Derivatives	1,673	2,818
Risk component	1,120,176	1,125,478

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.4. Capital management (continued)

Total capital requirements for operating risk	9,919	9,899
Reconciliation of the risk component for operating risk (operating risk * 12.5)	123,987	123,738
Total risk component	*1,244,163*	*1,249,216*
Tier 1 capital adequacy	*54.17%*	*53.27%*
Total capital adequacy	*54.17%*	*53.27%*
Capital conservation buffer	*31,104*	*N/A*
Macroprudential and system risk buffer	*37,325*	*N/A*
Discretionary counter-cyclical buffer	-	*N/A*
Regulatory required levels		
Tier 1 base capital adequacy	*4.50%*	*N/A*
Tier 1 capital adequacy	*6.00%*	*10.00%*
Total capital adequacy	*8.00%*	*12.00%*
Capital conservation buffer	*2.50%*	*N/A*
Macroprudential and system risk buffer	*3.00%*	*N/A*
Discretionary counter-cyclical buffer	*0.00%*	*N/A*

5. USE OF ACCOUNTING ESTIMATES AND JUDGEMENTS

Accounting estimates

The presentation of the financial statements in accordance with the International Financial Reporting Standards requires the management to make the best estimates, accruals and reasonable assumptions, which affect the reported amounts of assets and liabilities, revenues and expenses and disclosure of contingent claims and liabilities as of the reporting date. These estimates, accruals and assumptions are based on the information available as of the date of the financial statements and this may lead to differences in the future actual results. The items, that require a higher degree of discretion or complexity or where the assumptions and accounting estimates are essential for the financial statements, are disclosed below.

Key estimates and assumptions with high uncertainty

a) Impairment losses on loans and advances

At the date of each financial statement the Group reviews its loan portfolio in order to detect the availability and calculates the losses from such impairment. When determining whether to include the impairment loss in the statements for the 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 of 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.

5. USE OF ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

Key estimates and assumptions with high uncertainty, continued

a) Impairment losses on loans and advances, continued

When analyzing the risks of impairment losses and uncollectability, the loans are grouped into four risk classification groups: "standard", "watch", "non-performing" and "loss". The main indicators for determining the risk groups are financial condition of the debtor 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 realization. Additionally, for loans, guaranteed by the EIF, the impairment loss is recognised after deduction of the part, borne by the Fund (Note № 4.1).
In determining the future cash flows pattern, the management of the Group 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 taking into account the quality of collaterals 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 2014, management has made a retrospective analysis of actual losses experienced on loans for a ten year period (2003 to 2013 incl.) 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 has been decreased from 2.75% to 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 bank. The management has judged and accepted that they should be measured at 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.
Analysis and assessment is performed at each end of reporting period as to whether indicators for impairment of the Group's investments are present. The significant and continuous decrease in the equity, including below the level of the registered share capital of the company/entity, subject to the investment, is regarded as a main indicator. In such cases impairment is determined with the assistance of a certified appraiser but at least at the level of the difference between the acquisition cost (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 price of the sale (Notes № 9, 19).

5. USE OF ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

Key estimates and assumptions with high uncertainty, continued

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

As at 31.12.2014 the Group has made a detailed comparative analysis of the changes in the stock market prices of public companies shares held by the bank on the national fund market.

For investments in companies, whose shares are listed for the Bulgarian Stock Exchange of dealing the management has carried out investigation and analysis and is in position to assess further on fair value, determined directly on realized transactions in the stock market in the last month of the financial year (Level 1). In addition, the applied prices are analyzed for trends in the behavior in 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 financial statements. (Notes № 9, 15, 19). The management has used compulsory and alternative valuation methods for further confirmation of the applicable assessment as fair value for both reporting years.

For all investment securities available for sale, held by the Bank more than one year after the date of acquisition, has performed a special analysis of monitored graphics of the stock exchange prices and fair values, defined by alternative methods of valuation for a period of 18 months to 31 December, in order to define if there are conditions of permanent and material impairment.

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 occured, that would confirm with a high probability outflow of 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 (losses) related to the outflows from 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 from subsequent resources to third parties (Notes № 12, 32,35).

e) Actuarial calculations

For 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 level of salaries and discount factor considered by the management as reasonable and relevant to the Group (Note № 32).

5. USE OF ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

Fair value of financial assets and liabilities

Fair value is defined as 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 publishes information for the fair value of those financial assets and liabilities for which there is available market information and whose fair value is materially different from the one reported in the statement of financial position.

The fair values of financial assets and liabilities dealing on active markets and for which there is available market information are based on declared market prices or prices closing. The use of real market prices and information reduce the need for information of management assessment and assumptions, as well as the uncertainty related to determination of the fair values. 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 assessment method based on 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 and 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 under assessment of fair values.

The fair value of financial instruments not traded in active markets that are the subject of a transaction between the parties are determined using valuation techniques (such instruments as derivatives not traded on the market). 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. If a significant increase in the requirements of fair value for the financial instrument is observed, it is included in level 2.

Fair Value Hierarchy

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

- Level 1 – inputs that are quoted market prices (unadjusted) in active markets for identical instruments;
- Level 2 – inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data;
- Level 3 – inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments;

5. USE OF ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

The table below analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised

As at 31.12.2014		Carrying amount						Fair value			
In thousands of BGN	*Note*	Held-to-maturity	Loans and advances	Held-for-trading	Available-for-sale	Other	Total	Level 1	Level 2	Level 3	Total
Financial assets, measured at fair value											
Available-for-sale securities	19	-	-	-	296,995	-	296,995	295,092	-		295,092
Financial assets held-for-trading	20	-	-	1,436	-	-	1,436	-	1,436	-	1,436
		-	-	1,436	296,995	-	298,431	295,092	1,436	-	296,528
Financial assets, not measured at fair value											
Cash and balances with the Central Bank	16	-	387,221	-	-	-	387,221	-	387,221	-	387,221
Loans and advances to banks	17	-	217,855	-	-	-	217,855	-	-	226,509	226,509
Bank current accounts and term deposits	17	-	329,169	-	-	-	329,169	-	329,169		329,169
Loans and advances to customers	18	-	625,325	-	-	-	625,325	-	569,080	56,549	625,629
Financial assets held-to-maturity	21	1,980	-	-	-	-	1,980	-	1,925	-	1,925
		1,980	1,559	-	-	-	1,561,550	-	1287,395	283,058	1,570,453
Financial liabilities, measured at fair value											
Financial liabilities held-for-trading	31	-	-	-	-	888	888	-	888		888
		-	-	-	-	888	888	-	888		888
Financial liabilities, not measured at fair value											
Deposits from banks – long term loan	26	-	-	-	-	19,617	19,617	-	19,891	-	19,891
Deposits from banks – Current accounts and term deposits	26	-	-	-	-	75,956	75,956		75,956		75,956
Deposits from customers	27	-	-	-	-	535,593	535,593	-	535,593		535,593
Borrowings from international institutions	28	-	-	-	-	221,065	221,065	-	217,320	-	217,320
Other borrowings	29	-	-	-	-	272,086	272,086	-	271,763	-	271,763
Debt securities issued	30	-	-	-	-	78,499	78,499	-	80,709	-	80,709
		-	-	-	-	1,202,816	1,202,816	-	1,201,232	-	1,201,232

Assets classified as held for sale with carrying amount of BGN 1,903 ths. as at 31.12.2014 (2013: BGN 5,630 ths.) accounted at cost are not disclosed at fair value, because the fair value cannot be reliably measured.

5. USE OF ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

As at 31.12.2013

		Carrying amount						Fair value			
In thousands of BGN	*Note*	Held-to-maturity	Loans and advances	Held-for-trading	Available-for-sale	Other	Total	Level 1	Level 2	Level 3	Total
Financial assets, measured at fair value											
Available-for-sale securities	19	-	-	-	156,529	-	156,529	156,529	-	-	156,529
Financial assets held-for-trading	20	-	-	2,622	-	-	2,622	-	2,622	-	2,622
		-	-	2,622	156,529	-	159,151	156,529	2,622	-	159,151
Financial assets, not measured at fair value											
Cash and balances with the Central Bank	16	-	234,053	-	-	-	234,053	-	234,053	-	234,053
Loans and advances to banks	17	-	385,341	-	-	-	385,341	-	-	393,146	393,146
Bank current accounts and term deposits	17	-	525,865	-	-	-	525,865	-	525,865	-	525,865
Loans and advances to customers	18	-	458,369	-	-	-	458,369	-	421,964	37,574	459,538
Financial assets held-to-maturity	21	6,134	-	-	-	-	6,134	-	6,012	-	6,012
		6,134	1,603,628	-		-	1,609,762	-	1,187,894	430,720	1,618,614
Financial liabilities held-for-trading	31	-	-	1,530	-	-	1,530	-	1,530	-	1,530
		-	-	1,530	-	-	1,530	-	1,530	-	1,530
Financial liabilities, not measured at fair value											
Deposits from banks – long term loan	26	-	-	-	-	29,436	29,436	-	30,006	-	30,006
Deposits from banks – Current accounts and term deposits	26	-	-	-	-	78,981	78,981	-	78,981	-	78,981
Deposits from customers	27	-	-	-	-	357,210	357,210	-	357,210	-	357,210
Borrowings from international institutions	28	-	-	-	-	275,861	275,861	-	271,526	-	271,526
Other borrowings	29	-	-	-	-	287,142	287,142	-	282,006	-	282,006
Debt securities issued	30	-	-	-	-	78,499	78,499	-	82,155	-	82,155
		-	-	-	-	1,107,129	1,107,129	-	1,101,944	-	1,101,944

5. USE OF ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

Fair value of financial assets and financial liabilities measured at fair value.

Financial instrument	Fair value as at 31.12.2014	Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Available-for-sale government bonds	291,963 (2013: 147,861)	Level 1	Quoted prices in an active market	N/A	N/A
Available-for-sale corporate bonds	3,055 (2013: 2,921)	Level 1	Quoted prices in an active market	N/A	N/A
Available-for-sale equity shares	74 (2013: 118)	Level 1	Quoted prices in an active market	N/A	N/A
Interest rate swaps	Assets: 1,436 Liabilities: 888 (2013: Assets:1,694) (2013: Liabilities: 1,530)	Level 2	Discounted cash flow Each deal cash flows are discounted using discount factor based on foreign exchange rate yield curve derived from the respective foreign exchange rate money, futures and swap markets.	N/A	N/A
Currency swaps	Assets:0 Liabilities: 0 (2013: Assets: 928) (2013: Liabilities: 0)	Level 2	Net present value. Each deal cash flows are discounted using discount factor based on the respective foreign exchange rate yield curve. The resulting net values are translated to BGN using the spot BNB rate for the respective currency. The resulting value in BGN is the fair value as at the reporting date.	N/A	N/A

5. USE OF ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

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

Financial instrument	Fair value as at 31.12.2014	Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Loans and advances to banks	226,509 (2013: 393,146)	Level 3	Discounted cash flow	Future cash flows are discounted using the 12 month Sofibor, adjusted for time interval depending on the maturity of the loans, with mark-up ranging from 0.25% to 1.50%.	The higher (lower) the mark-up, the lower (higher) the fair value.
Loans and advances to customers	569,080 (2013: 421,964)	Level 2	Discounted cash flow Future cash flows are discounted using the officially published by Bulgarian National Bank interest rates (unadjusted) of new loans for December 2014.	N/A	N/A
	56,549 (2013: 37,574)	Level 3	Discounted cash flow The calculation of the present value of estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from the acquisition of the collateral lest cost to aquire and sell the collateral.	* Market value of collateral. * Costs to aquire and sell the collateral. * Financial condition of the borrower.	The lower (higher) the fair value: * The lower (higher) the market value of collateral. * The higher (lower) the costs to aquire and sell the collateral. * The worse (better) the financial condition of the borrower.

5. USE OF ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

Fair value of financial assets and financial liabilities not measured at fair value, but fair value disclosures are required (continued).

Financial instrument	Fair value as at	Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Financial assets held-to-maturity	1,925 (2013: 6,012)	Level 2	Discounted cash flow Future cash flows are discounted using the officially published by Bulgarian National Bank interest rates (unadjusted) of new loans for December 2014, because no market prices are available.	N/A	N/A
Deposits from banks –long term loan	19,891 (2013: 30,006)	Level 2	Discounted cash flow Future cash flows are discounted using the officially published by Bulgarian National Bank yield of government bonds (unadjusted) for December 2014.	N/A	N/A
Borrowings from international institutions	217,320 (2013: 271,526)	Level 2		N/A	N/A
Other borrowings	271,763 (2013: 282,066)	Level 2		N/A	N/A
Debt securities issued	80,709 (2013: 82,155)	Level 2		N/A	N/A

6. NET INTEREST INCOME

In thousands of BGN	2014	2013
Interest income		
Loans and advances to customers	47,908	42,749
Loans and advances to banks	14,072	19,767
Deposits in banks	3,211	7,348
Available-for-sale securities	2,592	1,485
Interest and penalty income from finance lease	260	358
Receivables from the State Budget	-	241
Financial assets held-to-maturity	168	75
	68,211	72,023
Interest expense		
Borrowings from international institutions	4,901	5,947
Debt securities issued	3,941	3,957
Deposits from customers	2,336	3,544
Deposits from banks	719	854
Other borrowings	199	229
	12,096	14,531
Net interest income	56,115	57,492

7. NET FEE AND COMMISSION INCOME

In thousands of BGN	2014	2013
Fee and commission income		
Guarantees and letters of credit	1,370	1,406
Customers' accounts, bank transfers, cash operations of customers	1,228	1,052
Servicing of debenture loans	280	268
Trust management of borrowings	70	72
	2,948	2,798
Fee and commission expense		
Agency commissions	101	116
Current accounts due from other banks	1	7
Bank transfers and cash operations with other banks	115	19
	217	142
Net fee and commission income	2,731	2,656

8. NET GAINS FROM FOREIGN EXCHANGE DEALS

In thousands of BGN	2014	2013
Net gain from dealing in foreign currencies	438	262
Net gain/(loss) from foreign currency swap deals and revaluation	(11)	502
Net gain/(loss) from foreign currency translation of assets and liabilities	190	(505)
	617	259

9. NET LOSSES FROM AVAILABLE-FOR-SALE SECURITIES

In thousands of BGN	2014	2013
Net gains/(losses) on transactions with available-for-sale securities, incl. realised revaluation reserve	43	(309)
Impairment loss on available-for-sale securities	(60)	(52)
	(17)	(361)

10. NET GAINS/(LOSSES) FROM FINANCIAL INSTRUMENTS HELD-FOR-TRADING

In thousands of BGN	2014	2013
Net interest income from financial instruments held-for-trading	154	(6)
Net gains/(losses) from revaluation of financial instruments held-for-trading	340	(43)
	494	(49)

11. OTHER OPERATING GAINS/(LOSSES)

In thousands of BGN	2014	2013
Rentals, net	(8)	(60)
Legal fees and expenses, net	712	(427)
Dividends received	48	29
Net (losses) from assets classified as held for sale	(226)	(350)
Withholding tax	(16)	(58)
Other income, net	155	153
	665	(713)

12. NET IMPAIRMENT LOSS ON FINANCIAL ASSETS AND PROVISION EXPENSE

In thousands of BGN	2014	2013
Individual allowance (reversal) for impairment loss, net	(2,620)	36,001
Collective allowances for impairment loss on portfolio basis, net	(666)	(1,326)
Specific impairment on receivables from banks, net	43,603	-
Reversal of provision on guarantees, net	(2,800)	(7,696)
Impairment loss on assets classified as held for sale	1, 136	1,537
	38,653	28,516

13. GENERAL AND ADMINISTRATIVE EXPENSES

In thousands of BGN	2014	2013
Personnel costs and social security contributions	6,917	5,877
Remuneration of Managing Board and Supervisory Board members	1,528	2,804
Rentals	1,176	1,116
Contribution to the Deposit Insurance Fund	735	492
Communications and IT services	650	590
Office and office equipment maintenance	513	514
Hired services	398	393
Advertising and entertainment expenses	275	821
Audit, legal and consulting services	258	319
Government taxes and charges	237	153
Business trips	95	106
	12,782	13,185

In thousands of BGN	2014	2013
Personnel costs and social security contributions include:		
Salaries	6,025	5,006
Social security contributions	832	690
Social benefits	19	169
Accruals for indemnities upon retirement	41	12
	6,917	5,877

14. INCOME TAX EXPENSE

In thousands of BGN	2014	2013
Current tax expense	713	739
Deferred tax income on temporary differences	150	981
Total income tax expense	863	1,720

14. INCOME TAX EXPENSE (CONTINUED)

In thousands of BGN	2014	2013
Profit before income tax	9,020	17,396
Income tax, calculated on standard tax rate (10% for 2014, 10% for 2013)	901	1,739
Tax effect from permanent difference	(38)	(19)
Total income tax expense	863	1,720
Effective tax rate	9.57%	9,89%

Outstanding amounts of deferred income taxes on income related to the following items from the statement of financial position:

In thousands of BGN	Assets		Liabilities		Net (Assets)/Liabilities	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
Property and equipment	(8)	(4)	2	2	(6)	(2)
Other assets	(432)	(339)	-	-	(432)	(339)
Guarantees portfolio	(699)	(953)	-	-	(699)	(953)
Other liabilities	(34)	(22)	-	-	(34)	(22)
Available-for-sale securities	(2)	-	11	13	9	13
Effect of a recognized asset on tax loss	(21)	(30)	-	-	(21)	(30)
Tax (assets)/liabilities	(1,196)	(1,348)	13	15	(1,183)	(1,333)
Netting of tax	13	15	(13)	(15)	-	-
Net deferred tax assets/liabilities	(1,183)	(1,333)	-	-	(1,183)	(1,333)

The changes in the temporary differences during the year are recognised in the statement of comprehensive income

In thousands of BGN	**2014**	**Changes in statement of comprehensive income**	**2013**
Property and equipment	(6)	(4)	(2)
Assets classified as held for sale	(432)	(93)	(339)
Guarantees portfolio	(699)	254	(953)
Other liabilities	(34)	(12)	(22)
Securities	9	(4)	13
Effect of a recognized asset on tax loss	(21)	9	(30)
	(1,183)	150	(1,333)

On recognising deferred tax assets, the probability of a reversal of the individual differences and the abilities of the Group to generate sufficient taxable profit in the future, have been taken into account.

15. NET CHANGE IN FAIR VALUE OF AVAILABLE-FOR-SALE SECURITIES

Other components of the statement of comprehensive income are:

In thousands of BGN	**2014**	**2013**
Change in fair value of available-for-sale securities		
Gain for the year	59	483
Related tax	(6)	(3)
Other comprehensive income for the year, net of tax	53	480

16. CASH AND BALANCES WITH THE CENTRAL BANKS

In thousands of BGN	**2014**	**2013**
Cash on hand	89	139
Balances with the Central Bank:		
Current accounts	387,082	233,844
Security fund	50	70
	387,132	233,914
Total cash and balances with the Central Bank	387,221	234,053

Deposits with the Central Bank are not interest-bearing.

17. LOANS AND ADVANCES TO BANKS

In thousands of BGN	2014	2013
Current accounts and deposits		
Current accounts with local banks	708	727
Current accounts with foreign banks	2,717	3,291
Term deposits with local banks	182,577	290,886
Allowance for impairment on deposits in local banks	(21,400)	-
Term deposits with foreign banks	164,567	230,961
Loans granted to local banks	234,298	385,341
Allowance for impairment on loans to local banks	(21,133)	-
Loans granted to foreign banks	4,690	-
	547,024	911,206

As at 31.12.2014 ca there are loans granted to local banks with nominal value of EUR 14,750 thousand and BGN equivalent 28,848 thousand. (31.12.2013: EUR 14,750 thousand. and BGN equivalent – 28,848 thousand.), with original maturity of nine years and repayment in bullet at the end of the loans period. These are special-purpose loans and are granted to banks for direct crediting of customers with the objective of SME development under funding from the Ministry of Finance with KfW funds. Loans are charged with interest equal to BIR plus 3.25% margin, payable every 3 or 6 months. Loans are secured up to 50% of their nominal amount through a pledge of government securities.

The carrying amount of those loans as at 31.12.2014 is BGN 18,606 thousand. (2013: BGN 24,018 thousand).

As at 31.12.2014 the Bank has impaired its term deposits with local banks and loans granted to local banks exposures to Corporate Commercial Bank AD. The exposures in term deposits are fully impaired, on the other hand the loans are impaired after the deduction of the fair value of the pledged securities (Government Bonds).

As at 31.12.2014 there are loans granted to banks in BGN with nominal value of 447,000 thousand. (31.12.2013: BGN 447,000 thousand.). The loans are with a special purpose under the first program and are granted to banks with the objective of direct lending of clients for the purpose of SME development, with original maturity from 5 to 10 years and repayment in bullet at the end of loan period or according to repayment schedule with 5 years grace period. Under the second program the loans are with special purpose and are granted to banks with the objective of direct lending to agricultural producers with original maturity of 5 years and repayment in bullet to maturity or according to repayment schedule with 3 or 4 years grace period. Loans are charged with fixed interest rate equal to 5.00%, payable every 6 months. Loans are secured up to 100% of their nominal amount through a pledge of government securities or through a pledge on receivables. The carrying amount of these loans as at 31.12.2014 is BGN 125,090 thousand.

In early 2012, Bulgarian Development Bank has negotiated with commercial banks credit lines amounting BGN 100 million, which will provide lending to Bulgarian small and medium enterprises (SMEs). It is provided that the funds under the credit lines will be utilized by the partner-banks in two tranches, each amounting BGN 50 million. Partner-banks will be lending the funds to small and medium enterprises (SMEs) at preferential terms – annual interest rate up to 7%, up to BGN 2 million and up to 5 years repayment. As at 31.12.2014 the utilized credit lines under this program amount to BGN 90,000 thousand. (As at 31.12.2013 – BGN 83,500 thousand.) Loans are charged with fixed interest rate equal to 4.00%, payable every 6 months. The carrying amount of these loans as at 31.12.2014 is BGN 48,379 thousand.

As at 31.12.2013 the parent company (BDB AD) had a receivable amounting BGN 7,058 thousand from the sale of receivables to a local bank through a cession contract, which as at 31.12.2014 has been fully repaid.

In the beginning of 2014 the parent company (BDB AD) started a new on-lending program for special purpose financing through the commercial banks in the support of Bulgarian farmers. The partnering banks will use the resources for granting investment and working capital loans with preferential terms – annual interest rate up to 5.75%. As at 31.12.2014 the agreed loans amount BGN 44,150 thousand and the utilized loans amount 24,900 thousand (2013: BGN 0 thousand).

17. LOANS AND ADVANCES TO BANKS (CONTINUED)

The loans carry 3.50% fixed interest rate, paid twice a year. Their carrying value as at 31.12.2014 is BGN 21,089 thousand.

As at 31.12.2014 the Group has term deposits receivables denominated in BGN, EUR and USD from six local banks and from four foreign banks, representing 59.55 % of the carrying value of the loans and advances to banks (incl. REPO deals) (31.12.2013: sixteen local banks and four foreign banks, representing 57.27 % of the carrying value of the loans and advances to banks). The term deposits are with original maturity up to one year (31.12.2013: up to 15 months).

As at 31.12.2014 the parent company (BDB AD) has two repo deals receivable with one local bank and one foreign bank denominated in BGN and EUR with amortised amount of BGN 45,532 thousand, with maturity up to 30.04.2015 and contracted interest rate from 0.04% to 0.4% (31.12.2013: BGN 15,944 thousand).

18. LOANS AND ADVANCES TO CUSTOMERS

In thousands of BGN	**2014**	**2013**
Loans and advances to customers	743,363	582,422
Less allowance for loan impairment loss	(118,038)	(124,053)
	625,325	458,369

In thousands of BGN	**2014**	**2013**
A. Analysis by customer type		
Corporate and sole traders	739,954	571,994
Municipalities	12	7,649
Individuals	3,397	2,779
	743,363	582,422

In thousands of BGN	**2014**	**2013**
B. Analysis by industry sector		
Manufacturing	309,144	224,632
Construction	112,028	67,031
Transport	88,138	84,320
Trade	82,257	72,752
Real estate operations	59,932	21,492
Tourist services	25,223	28,826
Collection and disposal of wastes	20,016	28,738
Agriculture	17,166	14,032
Financial services	59	350
Other industry sectors	29,400	40,249
	743,363	582,422

18. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

The Bank provides funds mainly for the activities of small and medium-sized enterprises as well as investment projects with 5 to 10 years return on investment.

These include BGN 55 thousand assigned court receivables (2013-BGN 935 thousand), which originated as a result of payments for guarantees due to persistant financial insolvency or bankruptcy of the borrower, for which the beneficiary bank has executed the requirements for payment of a guarantee, claimed the guarantee and NGF EAD (the subsidiary) has paid.

C. Movement in the allowances for loan impairment loss and uncollectability

In thousands of BGN	2014			2013		
	Individually impaired	Collectively impaired	Total	Individually impaired	Collectively impaired	Total
As at January 01	107,856	16,197	124,053	84,969	11,317	96,286
Net increase/(decrease) for the year	(2,620)	(666)	(3,286)	36,001	(1,326)	34,675
Written-off against impairment	(2,729)	-	(2,729)	(6,908)	-	(6,908)
As at December 31	102,507	15,531	118,038	114,062	9,991	124,053

19. AVAILABLE-FOR-SALE SECURITIES

In thousands of BGN	2014	2013
Government bonds	291,963	147,861
Corporate bonds	3,055	6,647
Non-public companies' shares	1,903	1,903
Public companies' shares	74	118
	296,995	156,529

19. AVAILABLE-FOR-SALE SECURITIES (CONTINUED)

Movement in available-for-sale securities

In thousand of BGN	**2014**	**2013**
As at January 01	156,529	125,401
Additions (purchases)	369,883	251,222
Disposals (sale and/or redemption)	(229,470)	(220,577)
Net increase from revaluation of available-for-sale securities to fair value	53	483
As at December 31	296,995	156,529

The non-public companies' shares held by the Group represent shares of the capital of the European Investment Fund (EIF). The portion of the nominal value of the acquired shares of EIF, which has not been paid, is due after a decision to be taken on the General meeting of the EIF shareholders (Note № 35).

The rest of the non-public companies' shares represent shares in the company licensed as payment system operator under the Bulgarian law – BORICA - Bankservice AD. Only banks can be shareholders in this company and they acquire its shares following a specific procedure whereas the value per share is determined using a formula stated in the company's statute. The shares are presented at cost (acquisition price) due to their specific closed way of trading (except where sufficiently reliable information is available on a particular company so that the actual fair value could be determined).

The shares in public companies in BGN have been acquired mainly for the purpose of investments in companies in which the Group is interested. They are presented at average stock exchange prices at the end of the financial year.

The reserve formed of the available-for-sale financial assets as at 31.12.2014 is at the amount of BGN 7 thousand – positive value (31.12.2013: BGN 46 thousand - negative value) (Note № 34).

In 2014 impairment allowance of available-for-sale securities is transferred and reported on the statement of comprehensive income (as part of the current profit or loss for the year) amounting to BGN 60 thousand. (Note № 9) (2013: BGN 52 thousand.)

20. FINANCIAL ASSETS HELD-FOR-TRADING

In thousands of BGN	**2014**	**2013**
Interest rate swaps	1,436	1,694
Currency swaps	-	928
	1,436	2,622

As at 31.12.2014, the financial assets held for trading include derivative financial instruments – interest rate swaps and currency swaps. They represent marketable instruments with positive fair value as at 31.12.2014. These instruments are traded for its own account, including the netting of transactions in foreign currency, interest rate and credit risk, and to cover transactions with customers of the parent company (the "Bank").

21. FINANCIAL ASSETS HELD-TO-MATURITY

In thousands of BGN	2014	2013
Corporate bonds of financial/credit institutions	1,980	1,980
Corporate bonds of non-financial institutions	-	4,154
	1,980	6,134

Corporate bonds of financial/ credit institutions represent bonds issued by B.L.Leasing denominated in EUR with nominal value EUR 1,000 thousand.
In 2014, corporate bonds of financial/ credit institutions representing bonds issued by Citigroup (Citigroup INC) matured. Their nominal value denominated in BGN was BGN 4,000 thousand.
Both corporate bond types are with fixed payments, and the Bank intends to hold them to maturity. As at 31.12.2014 all financial assets held to maturity have been reviewed for impairment and no such was identified.

22. NET INVESTMENT IN FINANCE LEASE

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

In thousands of BGN	2014	2013
Gross investment in finace lease	2,081	3,275
Unearned finance income	(266)	(595)
Net minimal lease payments	1,815	2,680
Impairment loss	(345)	(376)
Net investment in finance lease	1,470	2,304

Allocation of net finance lease investment:

In thousands of BGN	2014	2013
Repayment not later than one year	336	64
Repayment later than one year and no later than five years	1,479	2,616
Net minimal lease payments	1,815	2,680
Impairment loss	(345)	(376)
Net investment in finance lease	1,470	2,304

22. NET INVESTMENT IN FINANCE LEASE (CONTINUED)

Movement of the allowance for impairment loss:

In thousands of BGN	2014	2013
Balance as at 01 January	376	288
Charge for the year	38	141
Reintegrated for the year	(59)	(35)
Written off	(10	(18)
Balance as at 31 December	345	376

23. PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS

In thousands of BGN	Land and buildings	Bank equipment and computers	Fixtures and fittings	Motor vehicles	Licenses and software	Total
Book value						
As at 1 January 2013	14,364	1,124	309	164	689	16,650
Additions	1,931	129	47	-	255	2,362
Disposals	-	(105)	(3)	(100)	-	(208)
As at 31 December 2013	16,295	1,148	353	64	944	18,804
Additions	3,748	100	27	343	13	4,231
Disposals	-	(3)	(74)	(22)	-	(99)
As at 31 December 2014	20,043	1,245	306	385	957	22,936
Accumulated depreciation						
As at 1 January 2013	437	472	212	142	272	1,535
Charge for the year	38	194	36	10	148	426
Written off	-	(104)	(3)	(100)	-	(207)
As at 31 December 2013	475	562	245	52	420	1,754
Charge for the year	37	209	37	24	219	526
Written off	-	(3)	(70)	(14)	-	(87)
As at 31 December 2014	512	768	212	62	639	2,193
Carrying amount						
As at 31 December 2014	19,531	477	94	323	318	20,743
As at 31 December 2013	15,820	586	108	12	524	17,050

24. ASSETS CLASSIFIED AS HELD FOR SALE

The available assets classified as held for sale as at 31.12.2014 with book value of BGN 1,134 thousand, are acquired by the Bank in 2014 against a settlement of the liabilities under problematic loans of its borrowers. As at 31.12.2013 there were no assets classified as held for sale.

The assets are not used and are not intended to be used in the activities of the Group. The management actively searches buyers for them with the aim to sell them by the end of 2015.

25. OTHER ASSETS

In thousands of BGN	2014	2013
Prepayments and advances	188	131
Other receivables	120	23
VAT refundable	110	-
Other assets	8,708	9,793
	9,126	9,947

Other assets include assets classified as held for sale, but not realized within the stipulated 12-month period and were reclassified to other assets. These assets are valued at the lower of cost and net realizable value. The amount of other receivables includes BGN 119 thousand which have been fully impaired as at 31.12.2014.

Movement in other assets in 2014 and 2013:

In thousands of BGN	2014	2013
Carrying amount at beginning of the period	9,793	6,421
Reclassified from assets classified as held for sale	-	4,802
Sold	(47)	-
Impiarment loss charge	(1,038)	(1,430)
	8,708	9,793

26. DEPOSITS FROM BANKS

In thousands of BGN	2014	2013
Deposits from local banks	95,573	108,417
	95,573	108,417

The average interest rates on term deposits are between 0.16% and 0.20% (2013: between 0.12% and 0.15%).

On 16.09.2011 Bulgarian Development Bank AD signed a long-term loan contract with Citibank NA- Sofia Branch (as of 1st January 2014- Citibank Europe Plc) amounting EUR 20,000 thousand. The funds from this loan are intended for direct and indirect funding of SME. As at 31.12.2014 the loan is utilized in full.
As at 31.12.2014 the outstanding principal is EUR 10,000 thousand with BGN equivalent of 19,558 thousand (31.12.2013: EUR 15,000 thousand with BGN equivalent of 29,337 thousand). The interest rate is fixed using a standard interest rate swap.

27. DEPOSITS FROM CUSTOMERS

In thousands of BGN	2014	2013
Individuals	2,664	2,823
Companies and sole traders	532,929	354,387
	535,593	357,210

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

28. BORROWINGS FROM INTERNATIONAL INSTITUTIONS

In thousand of BGN	2014	2013
Long-term framework loan agreement with the Council of Europe Development Bank	55,323	54,071
Long-term loans from European Investment Bank	44,297	49,312
Long-term loans from the Nordic investment bank	35,552	42,436
Long-term loans from the Kreditanstalt für Wiederaufbau	34,599	40,376
Long-term loan from Black Sea Trade and Development Bank	28,111	48,114
Long-term loan from Dexia Credit Local	9,753	13,657
Long-term loan from DEPFA Investment Bank - Fms Wertmanagement Aor	6,911	9,676
Long-term loans from JBIC Japan Bank for International Cooperation	6,519	8,417
Long-term loan from European Investment Fund	-	7,838
Long-term loan from China Development Bank	-	1,964
	221,065	275,861

Interest rates on borrowed funds from international institutions at 31.12.2014 ranged from 0.481 % to 3.39% (31.12.2013: from 0. 527 % to 3.839%).

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) are signed two Framework Loan Agreements for EUR 10,000 thousand and EUR 5,000 thousand for the financing of micro-, small and medium-sized enterprises in Bulgaria. The loan agreement at the amount of EUR 10,000 thousand is secured with state guarantee from the Republic of Bulgaria. As at 31.12.2014 the 2003 Loans are fully repaid (2013: EUR 6,500 thousand with BGN equivalent 12,713 thousand).
On 18 November 2009 a third Loan agreement is signed between Bulgarian Development Bank AD and the Council of Europe Development Bank (CEB) in the amount of EUR 15,000 thousand. The loan is unsecured. As at 31.12.2014 the loan is fully utilized.As at 31.12.2014 the outstanding principal under the facility amounts to EUR 11,250 thousand equivalent to BGN 22,003 thousand (31.12.2013: EUR 13,125 thousand equivalent to BGN 25,670 thousand). The interest rate is floating, based on 3-month EURIBOR plus margin.

On 30 March 2011 a fourth Loan Agreement is signed between the Bulgarian Development Bank AD and the Council of Europe Development Bank for the amount of EUR 20,000 thousand. The loan is unsecured. As at 31.12.2014 the loan is fully utilized.
As at 31.12.2014 the outstanding principal is EUR 17,000 thousand equivalent to BGN 33,249 thousand (2013: EUR 8,000 thousand equivalent to BGN 15,647 thousand). The interest rate under the first tranche of the loan is floating, based on 3-month EURIBOR plus margin and under the second the interest rate is fixed.

28. BORROWINGS FROM INTERNATIONAL INSTITUTIONS (CONTINUED)

European Investment Bank

On 4/6 October 2000 BDB signed a financial contract (Global Loan Bulgaria – Encouragement Bank) with the European Investment Bank in the amount of EUR 10,000 thousand for the financing of small and medium sized enterprises. The loan is based on signed Agreement between European Investment Bank and Republic of Bulgaria on 14.07.1997. The loan is secured with state guarantee from the Republic of Bulgaria and is fully utilized.
As at 31.12.2014 the loan is fully repaid (2013: EUR 211 thousand with BGN equivalent of BGN 412 thousand).

On 30 December 2009 a second finance contract is signed between EIB and BDB in the amount of 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 utilized.
As at 31.12.2014 the outstanding principal under the loan amounts to EUR 22,647 thousand equivalent to BGN 44,294 thousand. (31.12.2013: EUR 25,000 thousand equivalent to BGN 48,896 thousand). The interest rate is floating, based on 3-month EURIBOR plus margin.

Kreditanstalt für Wiederaufbau

On the 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 and as at 31.12.2014 is fully utilized.

As at 31.12.2014 the outstanding principal under the loan amounts to EUR 17,647 thousand equivalent to BGN 34,515 thousand. (As at 31.12.2013 the outstanding principal under the loan amounts to EUR 20,588 thousand equivalent to BGN 40,267 thousand). The interest rate is floating, on the basis of 6-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 the 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 with a Letter of intent. As at 31.12.2014 the loan is fully utilized.

As at 31.12.2014 the outstanding principal under the loan amounts to EUR 2,706 thousand equivalent to BGN 5,292 thousand. (31.12.2013: EUR 3,882 thousand equivalent to BGN 7,593 thousand). The interest rate is floating, on the basis of 6-month EURIBOR plus margin.

On 15.12.2010 a second credit line has been signed between the Nordic Investment Bank and Bulgarian Development Bank AD in the amount of EUR 20,000 thousand. The funds are intended for the financing of investment projects with participation of the Nordic Investment Bank member states and ecological projects, as the financing may be provided directly from BDB of through bank-partners. The loan is unsecured. As at 31.12.2014 the loan is fully utilized.

As at 31.12.2014 the outstanding principal under the loan amounts to EUR 15,548 thousand equivalent to BGN 30,409 thousand. (31.12.2013: EUR 17,901 thousand equivalent to BGN 35,011 thousand). The interest rate is floating, on the basis of 6-month EURIBOR plus margin.

28. BORROWINGS FROM INTERNATIONAL INSTITUTIONS (CONTINUED)

Black Sea Trade and Development Bank (BSTDB)

On 9 October 2009 Bulgarian Development Bank and Black Sea Trade and Development Bank signed a Loan Agreement in the amount of EUR 8,000 thousand. The resources are intended for the financing of Bulgarian small and medium-sized enterprises. The loan is unsecured.
As at 31.12.2014 the loan is fully repaid (2013: the outstanding principle was EUR 2,000 thousand equivalent to BGN 3,912 thousand).

On the 9 September 2011 a second Loan Agreement is signed between Bulgarian Development Bank and Black Sea Trade And Development Bank in the amount of EUR 31,000 thousand. The loan is intended for the financing of investment projects, working capital, export and pre-export financing of SMEs. The loan is unsecured. As at 31.12.2014 the loan is fully utilized.

As at 31.12.2014 the outstanding principal under the loan amounts to EUR 14,467 thousand equivalent to BGN 28,294 thousand. (as at 31.12.2013 the outstanding principal under the loan amounts to EUR 22,733 thousand equivalent to BGN 44,463 thousand). The interest rate is floating, on the basis of 3-month EURIBOR plus margin.

Dexia Credit Local

On 23 May 2007 the Bank has signed a Loan agreement with DEXIA Kommunalkredit Bank (as of 12.07.2013 r - Dexia Credit Local) for EUR 10,000 thousand. The loan is intended for the financing of investment projects of small and medium sized enterprises in Bulgaria. As at 31.12.2014 the loan is fully utilized. The loan is secured with a Letter of intent, signed by the Minister of Finance.

As at 31.12.2014 the outstanding principal under the loan amounts to EUR 5,000 thousand equivalent to BGN 9,779 thousand. (31.12.2013: EUR 7,000 thousand equivalent to BGN 13,691 thousand). The interest rate is floating, on the basis of 3-month EURIBOR plus margin.

DEPFA Investment Bank - Fms Wertmanagement Aor

n 18 May 2007 an Agreement is signed with DEPFA Investment Bank (as of 23.09.2011 - Fms Wertmanagement Aor) for EUR 15,000 thousand for general corporate purposes. The Loan is unsecured. As at 31.12.2014 the Loan is fully utilized.

As at 31.12.2014 the outstanding principal under the loan amounts to EUR 3,571 thousand equivalent to BGN 6,985 thousand. (31.12.2013: EUR 5,000 thousand equivalent to BGN 9,779 thousand). The interest rate is floating, on the basis of 6-month EURIBOR plus margin.

28. BORROWINGS FROM INTERNATIONAL INSTITUTIONS (CONTINUED)

Japan Bank for International Cooperation (JBIC)

On 17 December 2009 a Loan agreement is signed between Bulgarian Development Bank AD and Japan Bank for International Cooperation for the amount of EUR 20,000 thousand. The loan is intended for the financing of Japanese projects and can be utilized 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 utilized amount under the Loan is JPY 1,122,594 thousand equivalent to BGN 19,812 thousand.

As at 31.12.2014 the outstanding principal under the loan amounts to JPY 491,127 thousand equivalent to BGN 6,606 thousand. (As at 31.12.2013 - JPY 631,453 thousand equivalent to BGN 8,516 thousand).

China Development Bank (CDB)

On the 15 October 2009, Bulgarian Development Bank and China Development Bank signed a credit agreement in the amount EUR 5,000 thousand. The funds under the loan are intended for direct lending to small and medium sized enterprises. The loan is unsecured.
As at 31.12.2014 the loan is fully repaid (as at 31.12.2013 the outstanding principle was EUR 1,000 thousand equivalent to BGN 1,956 thousand).

International Investment Bank

On 25 April 2013 a loan agreement is signed between Bulgarian Development Bank and International Investment Bank (IIB) for the amount of EUR 20,000 thousand. The funding is provided for a period of 7 years and can be used for direct lending to beneficiaries, for financing of programs supporting Bulgarian business, implemented by commercial banks, as well as for financing export deals between beneficiaries and member-states of IIB.
As at 31.12.2014 the loan facility is not utilized.

Hungarian EXIM Bank

On 29 May 2013 a credit line agreement is signed between Bulgarian Development Bank and Hungarian EXIM Bank for the amount of EUR 10,000 thousand. The funds will be provided for a period of 2 to 5 years. The funds under the Agreement will be used for financing of Hungarian projects and import of Hungarian goods in Bulgaria. The interest rate is fixed (CIRR + margin).
As at 31.12.2014 the credit line facility is not utilized.

Sumimoto Mitsui- Bank Corporation Europe

On 11.11.2014 BDB signed an agreement with Sumimoto Mitsui- Bank Corporation Europe for trade finance which provides an opportunity for financing commercial deals and letters of credit, including export deals up to 12 months. The agreement is for EUR 10,000 thousand.

As at 31.12.2014 there are no financed deals. The interest rate is floating, based on EURIBOR plus margin.

29. OTHER BORROWINGS

In thousands of BGN	2014	2013
Loan financing from the Ministry of Finance with funds from KfW	11,190	11,130
KfW funds provided by the Ministry of Finance for trust management	6,816	7,003
Long-term agreement with Ministry of agriculture and food	238,666	238,500
Special purpose deposit by the National Agency for Fisheries and Aquaculture	15,414	30,509
	272,086	287,142

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 KfW. By virtue of this agreement, the amount of EUR 4,929 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. The loan interest is capitalized quarterly and is based on 3-month EURIBOR plus margin.

As at 31.12.2014 the outstanding principal and the capitalized interest amount to EUR 5,720 thousand equivalent to BGN 11,188 thousand. (as at 31.12.2013: EUR 5,689 thousand equivalent to BGN 11,127 thousand).

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 retains the risk for the advanced provided to the partner – banks.

The main responsibilities of the Bank in respect of the funds management include the following: selection of the banks – intermediaries, and transferring the funds to those approved; gathering of information and performance of periodic reviews regarding the funds utilization, monitoring of the timely payments of the interest and principal due and their repayment to the special account of the Ministry of Finance.

As at 31.12.2014 the balance of the loan with the Bank amounts to EUR 3,485 thousand equivalent to BGN 6,816 thousand. (31.12.2013: EUR 3,581 thousand equivalent to BGN 7,003 thousand).

The Bank receives a management fee. The balance bears quarterly interest.

Special-purpose deposit by the National Agency for Fisheries and Aquaculture

On 07.12.2010 a financing agreement for provision of funds for the issuance of guarantees under Opreational programme fisheris sector development 2007-2013 has been signed between the National Gurantee Fund (NGF) and the National Agency for Fisheries and Aquacultures (NAFA) of the Ministry of Agriculture and Food of 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 Programme Rural Development (RDP). Following consultations, the National Agency for Fisheries and Aquacultures (NAFA) and the National Gurantee Fund (NGF) have chosen the financial engineering instrument to be realized throughout a fund accounted and managed by NGF, provided for under Commission Regulation (EC) No.498/2007 (OB, 10.05.2007, L 120) laying down detailed rules for the application of Council Regulation (EC) No.1198/2006.

29. OTHER BORROWINGS (CONTINUED)

Special-purpose deposit by the National Agency for Fisheries and Aquaculture (continued)

In accordance with article 35 of Commission Regulation (EC) No.498/2007, the financial engineering instrument is established in the form of a separate block of finance within the functions of NGF EAD.
In 2010 NAFA provided to NGF the amount of BGN 6,000 ths. under Article No.1 from the Financing Agreement. On 28.12.2011 under Annex 2 an additional contribution of BGN 9,168 ths. have been made. On 19.12.2012 Annex 4 of the Financing Agreement for provision of funds for the issuance of guarantees under Opreational program fisheris sector development 2007-2013 has been signed between NGF and NAFA. Under Annex 4, NAFA shall transfer to NGF additional contribution amounting BGN 15,050 ths. for the realization of the guarantee scheme. In accordance with Annex 5 signed between NGF EAD and NAFA on 16.01.2014, the Agency has withdrawn the last contribution of BGN 15,050 thousand.

In 2014, with the purpose of better profitability the funds from the programme were invested in a current account with a preferential interest rate at the Bulgarian Development Bank AD (the Parent company).
The guarantee program is free for businesses that benefit from it, while the cost for NGF for its realization are determined and paid under Article No.35 of Commission Regulation (EC) No.498/2007.
As at 31.12.2014 within the Operational Programme Rural Development (RDP), 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 and Bulgarian American Credit Bank AD.
The term for inclusion of new loans and bank guarantees (which are scheduled within the Program) is 31.12.2015.

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 under Articles 51 – 52 of Commission Regulation (EC) No. 1974/2006 dated 15.12.2006 laying down detailed rules for the implementation of Council Regulation (EC) No. 1698/2005 dated 20.09.2005 regarding the support for rural development under European Agricultural Fund for Rural Development (EAFRD) to facilitate access to financing of beneficierires and the realization of the projects under the Rural Development Programme.
MAF provides funding to NGF in BGN amount equivalent to EUR 121,100 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 will be used by the Fund for the issuance of guarantees and counter-guarantees.
In 2014, with the purpose of better profitability the funds from the programme were invested in a current account with a preferential interest rate at the Bulgarian Development Bank AD (the Parent company).
As at 31.12.2014 within the Rural Development Programme Guarantee scheme, NGF has signed agreements with the following banks: Bulgarian American Credit Bank AD, DSK Bank AD, United Bulgarian Bank AD, Piraeus Bank Bulgaria AD, First Investment Bank AD, Raiffeisenbank (Bulgaria) EAD, Cibank EAD, Central Cooperative Bank AD, Eurobank Bulgaria AD, UniCredit Bulbank AD, TBI Bank EAD.

30. DEBT SECURITIES ISSUED

In May 2010 the parent company (the Bank) has issued second ordinary, corporate, interest bearing, non-cash, registers, freely transferable, non-convertible, unsecured bonds ISIN code BG 2100005201 with a total nominal value EUR 20,000 thousand and par value of bond - 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 installment on maturity.

In December 2010 the Bank issued third registered, non-cash, freely transferable, ordinary, non-convertible, unsecured, interest bearing bonds with a total nominal value EUR 20,000 thousand and par value of bond – 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 installment on maturity.

Debt securities issued are presented in the statement of financial position at amortised cost.

31. FINANCIAL LIABILITIES HELD-FOR-TRADING

In thousands of BGN	2014	2013
Interest rate swaps	888	1,530
	888	1,530

32. OTHER LIABILITIES

In thousands of BGN	2014	2013
Provisions on bank guarantees	6,993	9,535
Charges on debenture loans	670	841
Payables to personnel and for social security	457	241
Accruals for expenses	189	306
Tax payables	158	21
Other liabilities including prepaid comissions	153	213
	8,620	11,157

Provisions on bank guarantees represent the amount expected to be actually paid to third parties by the Group under issued thereby guarantees under the Micro-credits Guarantee Fund Project of the Ministry of Labor and Social Policy and so forth.

Payables to personnel include: accruals on compensated leaves and social security contributions thereon as well as the present value of the Group's liability due on retirement benefit obligations as at 31.12.2014.

In accordance with the Labor Code each employee is entitled to indemnity on retirement at the amount of two gross monthly salaries, and if he or she has worked for more than 10 years for the Bank – six gross monthly salaries at the time of retirement. The Bank has 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 178 thousand included in the balance at 31 December 2014. (31.12. 2013: BGN 144 thousand).

32. OTHER LIABILITIES (CONTINUED)

In thousands of BGN	2014	2013
Present value of the liability at 1 January	144	167
Current service cost	26	3
Interest expense	7	8
Amounts paid in the period	-	(37)
Actuarial (gains)/losses from changes in demographic and financial assumptions	1	3
Present value of the liability at 31 December	178	144

In 2014 actuarial losses form changes in demographic and financial assumptions related to retirements due to illness amounting BGN 8 thousand are recognised in the profit and loss for the year. In 2014 actuarial losses form changes in demographic and financial assumptions related to retirement for old age and service amounting BGN 7 thousand are recognized in other comprehensive income for the year.

	Amounts on retirement for old age and service		Amounts on retirements due to illness		Total	
In thousands of BGN	2014	2013	2014	2013	2014	2013
Actuarial gain/(loss) as at January 01	(1)	-	-	-	(1)	-
Actuarial gain/(loss), recognized in other comprehensive income for the year	7	(1)	-	-	7	(1)
Actuarial gain/(loss) as at December 31	6	(1)	-	-	6	(1)

The following actuarial assumptions are used in calculating the present value of the liabilities as at 31 December 2014:

- mortality rate – in accordance with the table, on basis of statistics issued by the National Statistical Institute for the total mortality rate of the population in Bulgaria for the period 2011 – 2013;
- staff turnover rate – from 0% to 10% depending of the five age groups formed;
- effective annual interest rate for discounting – 3.8% (2013 – 4.0%);
- The assumptions for the future level of working salaries in the Bank is based on the plan for development of the company and verified by the Bank with confirmation letter: for 2015 – 5 % compared to level in 2014 and for 2016 and subsequent years – 5 % compared to the previous year level.

33. SHARE CAPITAL

In thousand of BGN	2014	2013
Share capital		
Ordinary shares issued for cash fully paid	587,964	587,964
Issued ordinary shares – in-kind contribution (land for the building of the bank)	12,200	12,200
Issued ordinary shares – in-kind contribution (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.

The new Bulgarian Development Bank Act provides that not less than 51% of the shares - should be owned by the State whereas 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. They 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.

34. RESERVES

In accordance with the general provisions of the Commercial Act and the Bulgaria Development Law from 2008, the Bank shall allocate to General Reserves at least 1/10 of its profit for the year until the reserves reach 10% of the share capital.

The Bank can use the money from the Reserve Fund to cover its current or prior period losses, but cannot use it for distribution of dividends without permission by Bulgarian National Bank.

In addition, under the Credit Institutions Act, the banks may not distribute dividends before reaching the minimum reserves (mainly General Reserves) required by law or by the Articles of Association, or in case the distribution of dividends results in violating the regulatory capital adequacy ratios. The requirement under the Bulgarian Development Bank Act is analogous.

As at 31.12.2014 the General Reserves of the Group amount to BGN 59,730 thousand. (31.12.2013: BGN 54,609 thousand).

As at 31.12.2014 Additional reserves of the Group amount to BGN 12,503 thousand (31.12.2013: BGN 9,442 thousand) and are formed as result of distribution of profits of the Group from previous periods, according to decisions of the General Meeting of shareholders.

In 2014 after a General Shereholders's Meeting took place in July 2014 and in accordance with article 92, paragraph 2 of The State Budget Law of Republic of Bulgaria for 2014, a decision for distribution of dividends has been taken, amounting 70% of the profit for the year after deduction of the distribution to reserves. The dividend paid was BGN 7,125 thousand. (2013: The dividend paid was BGN 5,394 thousand).

In accordance with the Bulgarian Development Bank Act, each shareholder of the Bank may refuse the dividend due thereto and then the dividend amount is transferred to additional reserves.

All unrealized gains and losses from fair value revaluation of the available-for-sale securities are recognised in equity in the Available-for-sale Revaluation Reserve. When securities classified as available-for-sale are sold, therefore derecognised or are impaired, the fair value adjustments accumulated in equity are recognised in the statement of comprehensive income (in profit ot loss). The revaluation reserve is presented net of deferred taxes. As at 31.12.2014 the AFS revaluation reserve equals to BGN 7 thousand positive value. (31.12.2013: BGN 46 thousand – negative value).

35. CONTINGENT LIABILITIES AND COMMITMENTS

In thousands of BGN	2014	2013
Contingent liabilities		
Bank guarantees and letters of credit	122,086	115,470
incl. with cash collateral	(278)	(753)
letters of credit with borrowed funds, accounted as undrawn authorized loans	(2,654)	(3,344)
Provisions for guarantees	(6,993)	(9,535)
	112,161	101,838
Risk-free counter guarantees	96,943	53,299

The table below presents the movement in the provisions for bank guarantees:

In thousands of BGN	2014	2013
As at 1 January	9,535	20,760
Charge for the year	1,053	3,022
Utilized during the year	260	(3,530)
Reversed for the year	(3,855)	(10,717)
As at 31 December	6,993	9,535

	2014	2013
Irrevocable commitments		
Undrawn authorized loans	31,096	41,029
Incl. letters of credit with borrowed funds	*2,654*	*3,344*
Uncalled nominal portion of held EIF shares	4,694	4,694
	35,790	45,723
	147,951	147,561

By virtue of the Bulgarian Development Bank Act, the transfers of the activities under the Micro-credits Guarantee Fund Project from the Ministry of Labor and Social Policy (MLSP) to the National Guarantee Fund EAD – subsidiary of the Bank were started in the last quarter of 2008. Based on this 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 under the Micro-credits Guarantee Fund Project of MLSP for replacing the security of MLSP deposits with bank guarantees of the Bulgarian Development Bank AD. The capital of the Bulgarian Development Bank AD and respectively, of the National Guarantee Fund, was increased with the amount of the released government funds under the project.

As at 31.12.2014 agreements with seven partner-banks were concluded and the issued bank guarantees amount to BGN 5,107 thousand. (31.12.2013: eight partner-banks and the issued bank guarantees amount to BGN 9,424 thousand.).

In 2014 there were active agreements for portfolio guarantees with 11 banks, under the 2009-2013 guarantee scheme, in which the National Guarantee Fund (subsidiary of BDB AD) is a party. The total limit of funds provided to the banks for including loans in the portfolio amounts to BGN 146,500 thousand. As at 31.12.2014 the approved amount of the guarantees included in the portfolio of the partner-banks amounts to BGN 43,396 thousand (in 2013: BGN 77,792 thousand), the amount of the guaranteed debt is BGN 26,258 thousand (in 2013: BGN 58,729 thousand).

35. CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

In 2014 the National Guarantee Fund started 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 Fund portfolio themselves, complying with the requirements of the scheme. Only new loans to small and medium-sized enterprises with a maximum guarantee by the National Guarantee Fund of 50% from the amount of the loan or no more than BGN 500 thousand are included in the guaranteed portfolio. There is a payment cap for each guarantee scheme. The banks pay a guarantee fee based on the volume achieved, as the borrowers are exempt from fees on the guarantees by the National Guarantee Fund. The total limit granted to banks for the inclusion of loans in the portfolios is BGN 192,000 thousand. As at 31.12.2014 the approved limit of the guarantees included in the partner-banks' portfolios was BGN 28,733 thousand and the size of the guaranteed debt was BGN 28,360 thousand.

As at 31.12.2014 when applying the maximum amount of guarantee coverage of 80%, the National Guarantee Fund EAD has issued risk-free guarantees/counter guarantees for loans issued by partner-banks for financing of approved projects under the Operational Programme for Fisheries Development 2007-2013 amounting to BGN 14,910 thousand with total amount of credits/bank guarantees – BGN 21,755 thousand (2013 – guarantees BGN 10,918 thousand with total amount of loans/bank guarantees – BGN 16,264 thousand)

The carrying amount of the guaranteed debt as at 31.12.2014 is BGN 7,894 thousand (2013 – BGN 6,243 thousand).

As at 31.12.2014 when applying the maximum amount of guarantee coverage of 80%, the National Guarantee Fund EAD has 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 138,822 thousand (2013:BGN 73,962 thousand) with total amount of credits/bank guarantees – BGN 178,555 thousand (2013: BGN 92,097 thousand). The total guarantee limit under this program is BGN 1,132,500 thousand.

The carrying amount of the guaranteed debt as at 31.12.2014 is BGN 89,049 thousand (2013 – BGN 47,056 thousand).

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 for guarantees represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed to perform in full their obligations as contracted. 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. The collateral coverage ratio for common bank guarantees is over 100% and represents deposits blocked at the parent-company (the "Bank") , mortgages of real estate and insurance policies issued in favor of the Bank. When conditions for enforcement of an issued guarantee occur, the Bank judges the possibilities for recourse to the counterparty and eventual realization of the provided securities.

The guarantees of the Bank issued under the Micro-credits Guarantee Fund Project are not secured. In case of activation of a guarantee of the Bank component, the payment is not assessed as ultimate loss because the partner-bank is obliged to undertake all necessary measures for realizing the received collaterals of the non-performing loan and to reimburse the respective amount to the Bank.

The non-paid portion of the nominal value of European Investment Fund 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.

36. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at 31 December include: *In thousands of BGN*	**2014**	**2013**
Cash on hand (Note 16)	89	139
Current account with the Central Bank (Note 16)	387,082	233,844
Amounts due from other banks with original maturity up to 3 months	250,876	212, 636
	638,047	446,619

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

Entity	*Type of control*
Ministry of Finance	Majority shareholder of the capital of the BDB AD representing the State
National Guarantee Fund EAD	Subsidiary
Microfinancing Institution JOBS EAD	Subsidiary
National Agency for Fisheries and Aquaculture	Company under joint control with the State
Ministry of Agriculture and Food	Company under joint control with the State
Holding Bulgarian State Railways EAD	Company under joint control with the State
National Electricity Company EAD	Company under joint control with the State
BULGARGAZ EAD	Company under joint control with the State
Bulgarian Institute for Standardization	Company under joint control with the State
South Stream Bulgaria AD	Company under joint control with the State
State-owned Enterprise "Transport Construction and Rehabilitation"	Company under joint control with the State
"I C J B" AD	Company under joint control with the State
State Fund Agriculture	Company under joint control with the State
Bulgarian Energy Holding EAD	Company under joint control with the State
Bulgarian Independent Energy Exchange EAD	Company under joint control with the State
Kinteks EAD	Company under joint control with the State
Energy Investment Company EAD	Company under joint control with the State

37. TRANSACTIONS WITH RELATED PARTIES AND COMPANIES UNDER JOINT CONTROL WITH THE STATE (CONTINUED)

Balances with related parties and companies under joint control with the State (in thousands of BGN):

Assets

Entity	*Type of balance*	2014	2013
Ministry of Finance	Available-for-sale securities	199,226	72,596

Liabilities

Entity	*Type of balance*	2014	2013
Ministry of Finance	Other borrowings	18,006	18,133
Ministry of Agriculture and Food	Other borrowings	238,666	238,500
National Agency for Fisheries and Aquaculture	Other borrowings	15,414	30,509
South Stream Bulgaria AD	Deposits from customers	390,314	230,389
Bulgarian Energy Holding EAD	Deposits from customers	9,331	51,093
Kinteks EAD	Deposits from customers	4,015	-
"I C J B" AD	Deposits from customers	488	2,153
Bulgarian Institute for Standardization	Deposits from customers	61	44
Energy Investment Company EAD	Deposits from customers	9	-
BULGARGAZ EAD	Deposits from customers	2	604
Bulgarian Independent Energy Exchange EAD	Deposits from customers	3	50
National Electricity Company EAD	Deposits from customers	1	1
Holding Bulgarian State Railways EAD	Deposits from customers	1	-

Transactions with related parties and companies under joint control with the State (in thousand of BGN):

Entity	*Type of transaction*	2014	2013
Ministry of Finance	Fee and commission income	70	72
	Interest income	1,564	371
	Interest expense	(199)	(201)
Holding Bulgarian State Railways EAD	Fee and commission income	70	70
Road Infrastructure Agency	Interest income	-	462
Kinteks EAD	Fee and commission income	5	-
State Fund Agriculture	Interest expense	-	(28)
South Stream Bulgaria AD	Interest Expense	(146)	(6)
	Fee and commission income	7	6
"I C J B" AD	Interest Expense	(1)	(2)
	Fee and commission income	3	4
Bulgarian Energy Holding EAD	Interest expense	(13)	(26)
	Fee and commission income	4	2
BULGARGAZ EAD	Fee and commission income	1	1
National Electricity Company EAD	Fee and commission income	-	1

37. TRANSACTIONS WITH RELATED PARTIES AND COMPANIES UNDER JOINT CONTROL WITH THE STATE (CONTINUED)

Relations with key management personnel (in thousands of BGN):

Balances with key management personnel	**2014**	**2013**
Deposits from customers	72	107
Remunerations payable	10	19
Loans and advances to customers	210	315

Transactions with key management personnel	**2014**	**2013**
Remunerations and social security contributions	1,528	2,804
Interest expense	(1)	(2)
Interest income	10	5

38. SUBSEQUENT EVENTS

No adjusting and/or non-adjusting events have occurred after the reporting period that require additional disclosures in the financial statements.

BULGARIAN
DEVELOPMENT BANK

ACTIVITY REPORT
2014
CONSOLIDATED

Information on the Banking Group

Bulgarian Development Bank AD (BDB AD) was established on 11.03.1999 as a joint stock company under the Bulgarian Law with the name Encouragement Bank AD.

On 23.04.2008 the Law on the Bulgarian Development Bank was adopted. It regulates the bank's structure and scope of activities, including those of the subsidiaries provided for establishment.

BDB is a key instrument and channel for conducting state economic policies in specific areas, regions, industries and social groups. The Bank actively collaborates with all other state structures in order to ensure maximum impact of the public funds targeted on support of the economic development. Priority focus isset on pre- export, export and bridge financing. Traditionally, the Bank will continue to provide investment financing for SMEs with extended initial term and relaxed collateral requirements.

As of 31.12.2014 the paid-in share capital amounts to BGN 601,774 thousand (31.12.2013: BGN 601,774 thousand), consisting of 6,017,735 ordinary registered shares with voting rights and 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 the capital requirements of the Law on BDB. 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 04.07.2014 in the Commercial Register at the Registry Agency were entered additions and amendments in the Statute of BDB. According to the Articles of Association of the Bank, it performs the activities stipulated in Art. 2 paragraph 1 and 2 of the Law on Credit Institutions in compliance with the license issued by the Bulgarian National Bank. The Bank may conduct the following activities:

1. Public attraction of deposits or other repayable funds and extention of loans or other financing for its own account and at its own risk;
2. Payment services within the definition of the Law on Payment Services and Payment Systems, with an exception of issuance of bank payment cards and electronic money, as well as execution of payment transactions with bank payment cards and electronic money instruments;
3. Issuance and administration of other means of payment such as traveler's cheques and letters of credit, as much as such activity is not covered by p. 2 above;
4. Acting as depository or custodian institution;
5. Financial leasing;
6. Guarantee transactions;
7. Trading for its own account or for customers' account with:
    - Money market instruments – cheques , bills of exchange, deposit certificates and others not covered under p. 8;
    - Foreign currency and precious metals;
    - Financial futures, options, exchange rate and interest rate instruments and other derivative instruments not covered under p. 8;
8. Trading for its own account or for customers' accounts with transferable securities, participation in issuance of securities, as well as other services and activities under article 5, paragraph 2 and 3 of the Law on Markets of Financial Instruments;
9. Money brokerage;
10. Advising companies on their capital structure, strategy and related matters as well as consulting and advisory services concerning business transformations and mergers and acquisitions transactions;
11. Acquisition of receivables and other forms of financing resulting from sale of goods or services /factoring, forfeiting, etc/;
12. Equity acquisition and management;
13. Collection and distribution of information and references on customers' creditworthiness;
14. Other similar activities defined with regulations of the Bulgarian National Bank

The Bank may not perform as a core activity other activities, except those listed above and the activities prescribed by the Law on the Bulgarian Development Bank, except when this may prove necessary for the performance of its activity or in the process of collection of receivables and extended credits. The Bank may establish or acquire legal entities for performance of ancilliary services. The Bank may participate in companies, consortiums and other forms of association in conformity with the relevant requirements of the effective legislation.

For the implementation of its goals the Bank forms a financial group together with its two subsidiaries – National Guarantee Fund EAD and Microfinance Institution JOBS EAD.

National Guarantee Fund EAD (NGF) is a company established on August 12, 2008 on the grounds of the Law on the Bulgarian Development Bank and registered in the Commercial Registry on 22.08.2008. According to the Law on Credit Institutions, 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. In accordance with its Statute, the activity of the Fund includes:

1. Issuance of 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) is registered in the Commercial Register on January 14, 2011. The main activity is micro financing, inclusive, but not limited to – granting micro-loans, acquisition by third parties and leasing 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 of local and foreign individuals and companies, operating in the country, as well as other activities, not prohibited by Law.

The seat of Bulgarian Development Bank AD, Micro Financing Institution JOBS EAD and National Guarantee Fund EAD is: 10 Stefan Karadhza Str., Sredets District, Sofia 1000. As of December 31, 2014 the headcount of the Group is 173.

Overview of the macroeconomic environment and the banking system

Although the country went through a period of political instability and crisis of confidence in the banking system in 2014, the Bulgarian economy maintained the growth rate of the previous years, and even accelerated it. In 2014 the economy registered 1,7% increase in GDP volume, which was the second largest for the period after 2008. Thus, in 2014 the economy reached the pre-crisis level of Gross Value Added from 2008. For the first time since the beginning of the economic crisis, all economic sectors recorded an increase in the volume of Gross Value Added. The main engine of growth was the domestic demand, with private consumption growth of 1,8% and gross capital formation growth of 0,9%. The economy recorded a simultaneous slowdown in the real growth of both the Bulgarian export of goods and services (2,2%) and the imports (3,8%). The dynamics of foreign trade was strongly influenced by the price changes of basic commodities, such as metals, oil and agricultural commodities.

For a second consecutive year the Bulgarian economy registered deflation, with harmonized index of consumer prices of minus 2% (Dec.- Dec.). Considering this index, only Greece had a higher deflation rate in the whole EU- 28 area. A major factor which contributed to the decrease in the general price level, was the dynamics of international prices of major commodity groups, especially fuel prices, unprocessed food products and non-food goods (mainly clothing, footwear, and some durable goods).

In 2014 the current account remained close to balanced, attaining a minimal surplus of EUR 18,8 mln. Unlike 2013, when high deficits were recorded on the financial account of the balance of payments, in 2014 the financial account resulted in surplus of EUR 1,954.7 mln. In 201 commercial banks preferred to reduce their foreign liabilities, given the high liquidity in the system and the low credit demand. During the summer months, when the Bulgarian National Bank imposed regime of special supervision in Corporate Commercial Bank (CCB) and Victoria Commercial Bank, the trend temporally reversed, as the commercial banks tended to return part of their funds, invested so far in foreign assets in order to increase the liquidity in the country. Once the situation in the banking sector calmed down, the commercial banks renewed the tendency of increasing their foreign assets.

The level of FDI's in Bulgaria remains low. According to BNB`s preliminary data in 2014 they amount to EUR 1,181.6 mln or 2,8% of GDP. For the first half of 2014, the balance of payments is positive in the amount of EUR 1,909.5 mln.

Conditions on the labor market improved in 2014. The trend of reduction in employment discontinued, and the unemployment rate decreased from 13,0% in 2013 to 11,5% in 2014.

Key event which influenced the development of the banking system in 2014, was the fact that the Bulgarian National Bank imposed regime of special supervision on two banks, Corporate Commercial Bank (the fourth largest by value of assets as at the closure date) and Victoria commercial bank. This led to loss of confidence in the banking system among depositors, which in turn created liquidity problems for other commercial banks as well. BNB and the government had to react quickly in order to tackle the crisis. The government issued emergency 5 month government bonds, which were used to provide liquidity to needy banks. BNB held a series of consultations with experts from the banking sector and the political parties on the actions needed to alleviate the situation. As a result of those measures, the confidence among depositors was restored in the beginning of July.

At the end of 2014, banking system assets amounted to BGN 85,1 billion. On annual basis they decrease by BGN 612 mln or 0,7% due to the dissolution of Corporate Commercial Bank`s activity. Attracted funds showed similar dynamics. At the end of 2014 they are worth BGN 73,5 billion and decrease by BGN 354 mln compared to the previous year. The volume of gross loans (excluding financial institutions) is BGN 55,6 billion and decrease by BGN 2,9 billion compared to the end of 2013. The most significant is the decrease in the volume of loans to companies, due to the removal of Corporate Commercial Bank's credit portfolio from the banking system statistics. As of the end of 2014, loans to companies amount to BGN 34,3 billion, a decrease of BGN 4 billion from 2013. If the CCB portfolio is subtracted from the total loan value at the end of 2013, the amount of loans to companies would increase by BGN 3,5 billion on annual basis.

As of December 2014, the equity of the banking system amounts to BGN 10,8 billion, a decrease of BGN 326 mln for the last twelve months. Excluding CCB's equity value from the statistics for 2013 of BNB, the equity of the banking system has an increase of BGN 280 mln.

Loans to households also decreased over the year. At the end of 2014, they amount to BGN 18,3 billion and decrease by BGN 214 mln compared to the end of 2013. In 2014 consumer loans decreased by BGN 130 mln and mortgage loans by BGN 85 mln.

At the end of 2014 the share of nonperforming loans over 90 days is 16,9%, unchanged from its 2013 level. Impairment charges are higher than in 2013 (BGN 1,2 billion) and increased mainly in the second half of the year, due to the higher impairments associated with CCB. The after-tax profit of the banking system amounted to BGN 745 mln which is higher than level from the four previous years. Main factor for the increase is the increase in the net interest spread and the related increase in the net interest income.

Review of activities

In 2014 the process of modernization and upgrade of BDB Group continued. Simultaneously, the companies of the Group proceeded with the expansion of their business.

The procedures introduced for the organization of the key business of BDB – lending activity, are persistently applied. A new program for microfinancing of start-up companies and existing micro and SMEs was started. BDB started targeted export financing programs, including joint initiatives with BAEZ in line with its function of promoting the competitiveness of the Bulgarian exporters.

In 2014 the National Guarantee Fund launched an entirely new portfolio based guarantee scheme on its own risk. Interest in the scheme was expressed by 13 commercial banks, which exceeded the limit for expected guarantee volume of BGN 50 million. The scheme is entirely focused on SMEs (maximum guarantee amount-BGN 500 thousand). For the last two quarters of 2014, the guarantees issued under the scheme reached BGN 28 360 thousand, covering loans in the amount of BGN 69 289 thousand.

In 2014, NGF continued issuance of guarantees for beneficiaries under the Rural Development Operational Program 2007-2013 and Operational Program Fisheries 2007- 2013. In the 2014, the guarantees issued by the Fund exceeded for the first time BGN 100 mln, reaching BGN 103 mln.

On 31.10.2013 the Management Board of BDB took the decision to launch a procedure for the merger of Microfinance Institution JOBS within the structure of BDB. In view of this decision, in 2014 MFI JOBS provided direct financing in the form of financial leasing, investment loans and working capital loans in the amount of only BGN 269 thousand. Principal activity of MFI JOBS in 2014 was administration of the products "Development Loan" and "Start up Loan", granted on behalf of BDB. Under these products were reviewed a total of 96 loan applications, of which 61 were approved.

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 2014 impairment coverage of exposures to non-financial institutions is 16.6% as a consequence of decrease in impairment of performing loans on portfolio basis.

As at 31.12.2014 the consolidated financial result of Bulgarian Development Bank Group after taxes is a profit amounting to BGN 7,781 thousand (2013: BGN 15,437 thousand). The financial result in 2014 was significantly influenced by the higher impairment of the loan portfolio. Net costs for impairment of loans amounted to BGN 38,653 thousand (2013: BGN 28,516 thousand). Provisions for guarantee commitments for the amount of BGN 2,800 thousand were released (2013: BGN 7,696 thousand).

The realized operating income of the Group in 2014 reached BGN 60,605 thousand (2013: BGN 59,284 thousand) or a modest growth of 2% was achieved.

The general and administrative expenses in 2014 amount to BGN 12,782 thousand (2013: BGN 13,185 thousand) or decrease of 3%. Significant contribution for the development of costs in 2014 have: expenses related to the remuneration of the members of MB and SB – a decrease of BGN 1 276 thousand; expenses related to the remuneration of staff – an increase of BGN 1 040 thousand; expenses related to advertising and representative events – a decrease of BGN 547 thousand. BDB Group continues to maintain the lowest cost to income ratio before impairment for the Bulgarian banking system - 21.1% for 2014.

As of 31.12.2014 the consolidated assets of BDB Group reached BGN 1,894 mln, which is a 5% increase (BGN 93 mln) in comparison with the end of 2013.

In 2014, BDB Group continued to actively develop its activities supporting the Bulgarian business in a difficult economic environment. The loan portfolio increased by 27.6% to BGN 743,363 thousand (2013: BGN 582,422 thousand). BDB Group continued to maintain a diversified sector structure of its loan portfolio. Significantly decreased the relative shares of transport (minus 2,6 pp) and other sectors (minus 3.0 pp), while the shares of real estate operations (+ 4.4 pp) and construction (+ 3,6 pp) increased.

The volume of indirect lending through commercial banks (on-lending) as of 31.12.2014 amounted to BGN 234,298 thousands (BGN 385,341 thousands at the end of 2013). The decline is due mainly to prepayments on on-lending programs from previous years. During 2014, BDB launched a new program supporting agricultural producers, which amounted to BGN 21,089 thousand as of 31.12.2014.

The securities portfolio of BDB Group increased up to BGN 298,975 thousand (2013: BGN 162,663 thousand) predominantly consisting of government bonds. Investments in securities are not among the priority activities of BDB Group. The increase in the portfolio at the end of 2014 was due to the temporary availability of excess liquid funds.

As of 31.12.2014 the amount of utilized funds from international financial institutions is BGN 221,065 thousand (2013: BGN 268,023 thousand). The cooperation with key international partners continues. In 2014 BDB Group utilized the second and last tranche of EUR 10 mln from the Council of Europe Development Bank under contract since March 2011 for a total amount of EUR 20 mln. The loan is aimed at financing investment projects of micro companies and SMEs, which maintain or create jobs.

In 2014 BDB negotiated with European Investment Bank, Council of Europe Development Bank, Chinese Exim Bank, Black Sea Trade and Development Bank, HSBC, Hypo Noe Gruppe, Citibank Europe, International Investment Bank on providing financing for programs of BDB and projects in common interest. In order to support the financing of Bulgarian exports, in 2014 BDB signed a trade finance agreement with Sumitomo Mitsui Banking Corporation Europe. The new agreement has an extended scope of eligible operations, which in addition to the letters of credits, can now finance trade transactions (including export financing) for up to 12 months. The agreement has a limit of EUR 10 mln.

Risk management

In the usual course of business, the companies of BDB Group are exposed to a variety of financial risks. 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 main risks, to which the Group is exposed, are credit risk, market risk and operating risk.

Credit risk

Credit risk is the main risk to which the Group is exposed, hence its management is essential for the business. Credit risk management is carried out in accordance with the Law on BDB and the laws and regulations of the Republic of Bulgaria regulating lending activity, as well as in accordance with the established international standards and good banking practices.

BDB has a system for credit risk management within the activities of the Risk department. Credit risk is controlled both on transactional and portfolio levels through a system of internal controls. Bodies that make decisions and control the quality of loans in the process of bank lending are Supervisory Board, Management Board and the Credit Committee. Bodies which control the quality of the loan portfolio are Working Group on overdue loans, Working Group on problem loans, and Working Group for current control in the loan portfolio, Committee on provisions.

The Bank complies with the limits for the concentration of corporate credit portfolio by economic sectors and other credit restrictions and limits on concentration. Monitoring and control of the set limits is carried out by the "Credit risk" department of the Risk division on a monthly basis. Besides that, limits are taken into account when reviewing any proposal for a new loan. In case of exceeding the limits for credit concentration due to newly emerged connectivity, the bank seeks to reduce the excess of the limits in the shortest possible time. Concentration limits are reviewed and updated periodically.

Management of credit risk arising from off-balance sheet commitments (guarantee) underwritten by NGF has two levels - an individual transaction (guarantee) level and a portfolio level. Credit risk at the individual level is governed by internal rules and procedures 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 confirmation of guarantee from representing bodies of NGF. Guarantee scheme in Program for Rural Development has a second level of approval –. Advisory Committee composed of representatives of Ministry of Agriculture and Forestry and BDB, which approves underwriting of guarantee commitments over BGN 500 thousand. 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 portfolio of securities issued by a program at a bank. Subsequent management of the commitment of NGF credit risk is through monitoring procedures under which the Fund 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, loan contracts and transferred receivables - insurance of the leased assets, registration of leases in the Special Pledges Registry, guarantors, promissory notes and pledges of receivables, mortgage of immovable property and / or movables when granting loans.

Market risks

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

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

Risks in operations on money and capital markets are managed 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 securities portfolio formed by BDB Group is below the specified regulatory threshold requiring an allocation of capital for price risk and price risk is negligible compared to the size of business. As there is no trading portfolio in accordance to the regulatory provisions, there is no capital allocated for market risk.

Liquidity of BDB Group is managed by closely monitored ratios indicating 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 or idiosyncratic shocks.

Operational risk

Operational risk management is implemented through close observation and recording of all operational events. Events, characterized by greater frequency, are the basis of scenario analysis on operational risk. With the relatively small headcount in the Group, the operational risk is easily measurable and controllable. In the course of business a register of operational events is created, serving as a basis for analysis and improvement of work processes and minimizing factors that potentially could lead to operational events and loss for the Group.

Banking regulators under the Bulgarian legislation

In accordance with the requirements of laws and regulations governing the banking activity in the country, Bulgarian Development Bank should comply with limits related to certain ratios. As at 31.12.2014 the Bank has complied with all regulatory requirements of the BNB and the Bulgarian legislation on both individual and consolidated basis.

The Group in its activities should comply 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 enterprises. The capital adequacy ratio on consolidated basis as of 31.12.2014 is 54.17% under Basel III (31.12.2013 – 53.27% under Basel III). The coverage of assets with capital buffers substantially exceeds the required minimum regulatory level.

Credit rating and international activities

In July 2014 the international rating agency "Fitch Ratings" performed its regular annual review and affirmed 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.

BDB continues successfully to develop fruitful partnership with major European and international financial institutions by participating in international specialized 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 and its implementation in the area of the development banks and has an opportunity to participate directly in the process of discussion on 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 is 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. In 2014 BDB participated in meetings of the Administrative Board and the General Assembly of the association. BDB continued to participate in the workshops (participation in a meeting of the Committee on State Aid) and seminars, organized by EAPB, and related to the development of the collaboration with EC, financial legislation and implementation of financial instruments during the new program period. BDB participates in the discussion of positions on various topics such as long-term financing, state aid, initiatives and regulations regarding the development banks and other topics. BDB also participates in the international project FIN-EN for implementation and use of financial engineering instruments in the EU countries

BDB is also a full member at the Network of European Financial Institutions (NEFI), an organization in which 16 institutions from different European countries participate since 2007. The objectives of NEFI are to improve the exchange of information and ideas in order to facilitate the access to the SME financing. In 2014, representatives of BDB participated in all meetings of NEFIs Permanent Work Group, including the Summit Meeting held in Madrid in November. During 2014 the members of NEFI worked actively on the development of joint positions on important topics for the whole organization, including the changes in the Staid Aid rules and regulations (De minimis and General Block Exemption), new financial instruments and programs and seminars on various topics.

In 2014 BDB continued its participation in the European Association of Long-Term Investors (ELTI). BDB is a co-founder of this organization. In November BDB participated in the General Assembly of the Association in Prague where organizational issues, the ELTI strategy for 2015 and guidelines of its activities were discussed. Working groups on various topics, such as accounting standards and energy efficiency were formed within the Association.

BDB is a shareholder in 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.

In 2014 National Guarantee Fund EAD continued its membership in the European Mutual Guarantee Association (AESM), in which participate 48 companies from 24 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. In 2014 Mrs Catherine Shturm, Secretary General of AESM, made a work visit in Bulgaria, in order to acquaint herself with the activity of the National Guarantee Fund and to share her experience from visits to other institutions, members of AESM. In 2014, NGF started collaboration with the Czech- Moravian Guarantee and Development Bank, and exchanged experience on topics of mutual interest such as the impact of CRD IV on the guarantees of both institutions, implementation of State Aid rules on guarantees, the implementation of financial instrument under the new program period and others.

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 by alleviating the 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.

Management of the Group

Bulgarian Development Bank AD (parent-company) has a two-tier management structure consisting of Supervisory Board and Management Board.

As at the beginning of 2014 the Supervisory Board had the following composition: Stefan Alexandrov Belchev (Chairman of SB), Diana Toneva Dragneva-Ivanova (Deputy Chairman of SB and Member of SB) and Rumen Andonov Porozhanov (Member of SB). The General Assembly of the Shareholders held on 04.07.2014 took a decision to release as members of the SB Mr. Stefan Alexandrov Belchev, Mrs. Diana Toneva Dragneva-Ivanova and Mr. Rumen Andonov Porozhanov and elected new members of the SB – Mrs Denitsa Antonova Kirova, Mr. Emil Luybenov Karanikolov and Professor Nokolay Nenov Nenovski. By decision of the SB from 18.07.2014 Mrs. Denitsa Antonova Kirova was elected as Chairwoman of the SB, and Prof. Nikolay Nenov Nenovski as Deputy Chairman of the SB.

The General Assembly of the Shareholders held on 30.09.2014 took a decision to release as members of the SB Mrs Denitsa Antonova Kirova, Mr. Emil Luybenov Karanikolov and Professor Nokolay Nenov Nenovski and elected new members of the SB – Mr. Atanas Slavchev Katzartchev, Mr. Kiril Milanov Ananiev and Mr. Dimitar Kirilov Dimitrov. By decision of the SB from 08.10.2014 Mr. Atanas Slavchev Katzartchev was elected as Chairman of the SB and Mr. Kiril Milanov Ananiev as Deputy Chairman of the SB.

As of 31.12.2014 the Supervisory Board of BDB had the following members: Atanas Slavchev Katzartchev – Chairman of the SB, Kiril Milanov Ananiev –Deputy Chairman of the SB of SB, Dimitar Kirilov Dimitrov – member of the SB.

As at the beginning of 2014 the Management Board of the bank had the following members: Dimo Evgeniev Spassov – Chairman of MB and Chief Executive Officer, Bilian Lyubomirov Balev - Deputy Chairman and Executive Director, Ivan Kirilov Hristov - Member of the Management Board. The Bank was represented jointly by any two of the three Executive Directors.

On 11.12.2014 the SB of BDB took a decision to release Mr. Dimo Spassov and Mr. Ivan Hristov as members of the Management Board. On the same date the SB took a decision to appoint as members of the Management Board Mr Angel Kirilov Gekov and Mr. Iliya Vasilev Kirchev. After the decision of the SB and after the decision taken on the meeting of the Management Board on 11.12.2014, the members of the MB of BDB are as follow: Angel Kirilov Gekov- Chairman of the MB and Executive Director, Bilian Lyubomirov Balev - Deputy Chairman and Executive Director and Iliya Vasilev Kirchev - Member of the Management Board and Executive Director. The Bank is represented jointly by two 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 does not participate in the capital of other companies. He 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.

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

Mr Balev is a partner in "Fininvest"OOD and owns 99% of the capital of the company. The company is a foreign legal entity, established and existing under the laws of the United Kingdom.

- 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 organizations:

1. Foundation "Academy 2007";
2. Cultural Center "Dr. Hristo Adjarov"- Plovdiv.

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 (BoD), which during 2014 consisted of three members. In 2014 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 CEO.

NGF 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 BoD 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 BoD 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:

- Dimo Evgeniev Spasov is a member of the Management Board of BDB, UIC 121856059. Mr Spasov is a sole owner of the capital and manager of Alternativa Finans EOOD, UIC 200833738.
- Samuil Pavlov Shiderov and Mihail Petrov Sotirov do not have participations in other companies within the meaning of Art.247, paragraph 2, item 4 of the Commercial Law.

The following amendment occurred after the end of 2014: on 03.02.2015 the Management Board of BDB took the decision to release Mr. Dimo Spassov as a member of the Board of Directors of NGF, and appointed Mr. Angel Gekov as member of the BoD of the Fund. On 09.02.2015, the Board of Directors, appointed Mr. Angel Gekov as a Chairman of the Board, and Mr. Samuil Shiderov as a Deputy Chairman and Executive Director.

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

From the beginning of 2014 and up to the date of drafting this report, the following changes have been made in the composition of the Board of Directors of the Company:

On 14.04.2014 an amendment is inscribed in the Commercial Register. Member of the Board of Directors Martin Emilov Ganchev was substituted with Lachezar Lachezarov Todorov – a new member of the Board of Directors. Kostadin Bozhikov Munev was inscribed as a Deputy Chairman of the Board of Directors.

As of 31.12.2014 the Board of Directors had the following members: Bilian Balev – Chairman of the Board of Directors, Kostadin Munev – Deputy Chairman of the Board of Directors and CEO and Lachezar Todorov – member of the Board of Directors.

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

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 within the meaning of Art.247, paragraph 2, item 4 of the Commercial Law, of members of the BoD 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 Lubomirov Balev is an Executive Director and Deputy Chairman of the Management Board of Bulgarian Development Bank AD. Mr Balev has a participation in company Fininvest OOD and owns 99%of the company's capital. The company is a foreign legal entity, established according to the legislation of the United Kingdom.
- Kostadin Bozhikov Munev and Lachezar Lazarov Todorov do not have participations in other entities or cooperations with respect to article 247, paragraph 2, item 4 of the Commercial Law.

The following amendment occurred after the end of 2014: on 16.02.2015 in the Commercial Register is inscribed replacement of Luchezar Luchezarov Todor - member of BoD, with Mr. Iliya Vasilev Kirchev, who is also appointed as a Deputy Chairman of the Board of Directors.

The remuneration paid to the persons, managing the companies of the BDB Group (the Bank and its subsidiaries) in 2014 amounted to BGN 1,528 thousand.

Transactions with related parties and companies under common state control

Owner of BDB is the Bulgarian state, hence the Bank is a related party to the state authorities of the Republic of Bulgaria and the companies in which it exercises control. In note № 37 to the consolidated financial statements of BDB for 2014 are represented transactions with related parties and companies under common state control.

Development strategy and business goals. Financial objectives

BDB operates in full transparency and applies the best banking and management practices. A core objective of the Bank is to identify and analyze the financial gaps in the economy and to undertake the necessary measures to facilitate SMEs access to finance.

Facilitating SMEs access to bank financing is not the only priority of the Bank. BDB supports government efforts for acceleration of economic growth in the country by means of provision of technical assistance, execution of economic policies, enhancement of the export potential of the country and absorption of the EU structural funds, etc.

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

- "Additionality" to the market and non-competition with the commercial banks;
- Liberal pricing policy with adequate coverage of assumed risks

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

Considering the specific of both its product lines and the limited branch network, the Bank will realize its priorities using all available legal forms, including through the establishment of the equity investment fund envisaged in Bulgarian Development Bank Law.

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 rate, 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 Bank shall provide resources with the adequate risk sharing component. The Bank considers that given a 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 key to the success of indirect loans programs.

BDB will collaborate with the management authorities 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. BDB 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 Bank 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;

Within horizon of Strategy 2015-2018 "Loans and advances to banks" deriving from programs for indirect financing of SMEs will represent a major component of the assets, with a share of 57%. BDBs exposure to the real sector as a result of direct financing programs will constitute 39% of the assets.

The Bank intends to significantly diversify its funding sources. Bond instruments are expected to increase as a proportion of the liabilities. Essentially, the Bank will carry out a debt issuance program balanced between domestic and foreign bond markets.

BDB will continue to support state initiatives promoting the economic and social development in the country. Specifically, in 2015 the Bank will support the implementation of the national program for rehabilitation of multifamily buildings.

Through its subsidiaries 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 as well as will develop. guarantee activities for their own risk. The Equity Investment Fund, foreseen by the law of BDB, will be established.

On 05.03.2015 the Management Board of BDB reassessed, the decision to merge MFI JOBS with the Banks. As a result, MFI JOBS will continue to operate as an independent specialized subsidiary, focused on the extension of microfinance.

Post balance sheet date events

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

Declaration of the management

The Management of the Group declares that the attached annual financial statements fairly reflect the assets and financial status of the Group at the end of 2014 and the calculation of the financial result for the year in accordance with the applicable law. Appropriate accounting policies are used and applied consistently. The necessary judgments are made in accordance with the prudential principle in preparation of the annual financial accounting statement at the end of the year. The Management consistently uses the applicable accounting standards and the annual financial statements are prepared on a going concern basis.

The management of the Group endeavors to maintain an adequate accounting system that complies with the applicable accounting standards. The annual financial statements disclose the standing of the bank with a reasonable degree of accuracy.

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

This Activity report was adopted on 31.03.2015 by the Management Board of BDB and signed by:

EXECUTIVE DIRECTORS:

Angel Gekov

Bilian Balev

Iliya Kirchev

БЪЛГАРСКА БАНКА ЗА РАЗВИТИЕ АД