BULGARIAN DEVELOPMENT BANK GROUP

CONSOLIDATED ANNUAL MANAGEMENT REPORT
INDEPENDENT AUDITOR'S REPORT AND
CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

31 December 2013

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INDEPENDENT AUDITORS' REPORT

To the shareholders of
Bulgarian Development Bank AD

Report on the Consolidated Financial Statements

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the 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 2013, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

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 2013. 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 2 April 2014.

Dobrina Kaloyanova
Authorised representative

KPMG Bulgaria OOD

Sofia, 7 April 2014

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 2013

In thousand of BGN	*Note*	**As at 31.12.2013**	**As at 31.12.2012**
Assets			
Cash and balances with the Central Bank	16	234,053	51,606
Loans and advances to banks	17	911,206	1,000,478
Loans and advances to customers	18	458,369	462,383
Receivables from the State Budget	19	-	12,666
Available-for-sale securities	20	156,529	125,401
Financial assets held-for-trading	21	2,622	3,191
Financial assets held-to-maturity	22	6,134	5,035
Net investment in finance lease	23	2,304	2,240
Property, plant and equipment, intangible assets	24	17,050	15,115
Deferred tax assets	14	1,333	2,314
Current tax assets		1,724	1,511
Other assets	26	9,947	6,862
Assets classified as held for sale	25	-	4,810
Total assets		1,801,271	1,693,612
Liabilities			
Deposits from banks	27	108,417	113,564
Deposits from customers	28	357,210	173,279
Borrowings from international institutions	29	275,861	341,099
Other borrowings	30	287,142	290,027
Debt securities issued	31	78,499	78,489
Financial liabilities held-for-trading	32	1,530	3,082
Current tax liabilities		-	22
Other liabilities	33	11,157	23,117
Total liabilities		1,119,816	1,022,679
Equity			
Share capital	34	601,774	601,774
Retained earnings		15,676	7,755
Revaluation reserves	35	(46)	(526)
Actuarial reserves		(1)	-
Reserves	35	64,052	61,930
Total equity		681,455	670,933
Total liabilities and equity		1,801,271	1,693,612

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

Dimo Spassov	Bilian Balev	Ivan Hristov	Ivan Lichev
Chief Executive Officer	*Executive Director*	*Executive Director*	*Chief accountant*

In accordance with an independent auditors' report:

Dobrina Kaloyanova
Authorised representative
KPMG Bulgaria OOD

Margarita Goleva
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BULGARIAN DEVELOPMENT BANK GROUP

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2013

In thousand of BGN	*Note*	**2013**	**2012**
Interest income	6	72,023	84,242
Interest expense	6	(14,531)	(21,604)
Net interest income		57,492	62,638
Fee and commission income	7	2,798	2,775
Fee and commission expense	7	(142)	(111)
Net fee and commission income		2,656	2,664
Net gains from foreign exchange deals	8	259	718
Net losses from available-for-sale securities	9	(361)	(303)
Net losses from financial instruments held-for-trading	10	(49)	(6)
Other operating losses	11	(713)	(838)
Operating income		59,284	64,873
General and administrative expenses	13	(13,185)	(12,017)
Depreciation and amortisation	24	(426)	(340)
Net impairment loss on financial assets and provision expense	12	(28,516)	(43,160)
Profit before income tax		17,157	9,356
Income tax expense	14	(1,720)	(861)
Profit for the year		15,437	8,495
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit obligation		(1)	-
Items that may be reclassified subsequently to profit or loss:			
Net change in fair value of available-for-sale securities		483	(123)
Related tax	15	(3)	-
Other comprehensive income for the year		479	(123)
Total comprehensive income for the year		15,916	8,372

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

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Chief Executive Officer

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Ivan Hristov
Executive Director

Ivan Lichev
Chief accountant

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
AS AT 31 DECEMBER 2013

In thousand of BGN	Share capital	Statutory reserves	Additional reserves	Available-for-sale financial assets Revaluation reserve	Retained earnings	Total
Balance at 01 January 2012	601,774	52,800	6,190	(403)	6,676	667,037
Total comprehensive income for the year						
Profit for the year	-	-	-	-	8,495	8,495
Other comprehensive income	-	-	-	(123)	-	(123)
Total comprehensive income for the year	-	-	-	(123)	8,495	8,372
Transactions with owners, recognised directly in equity						
Dividends to equity holders	-	-	-	-	(4,476)	(4,476)
Transfer to Reserves based on a decision of the owners	-	1,051	1,889	-	(2,940)	-
Total transactions with owners	-	1,051	1,889	-	(7,416)	(4,476)
Balance at 31 December 2012	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	-	-	(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

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

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BULGARIAN DEVELOPMENT BANK GROUP

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2013

In thousand of BGN	*Note*	2013	2012
Cash flows from operating activities			
Profit for the year		15,437	8,495
Adjustments for:			
Dividends	11	(29)	(15)
Net impairment loss on loans and advances	12	34,675	39,179
Net impairment loss/(gain) and provision expense/(income) on bank portfolio guarantees	12	(7,696)	3,844
Impairment loss on available-for-sale securities	9	52	6
Impairment loss and net loss on sale of other assets		1,781	347
Net impairment loss on finance lease		106	84
Net (gain)/loss on revaluation of financial instruments classified as held-for-trading		(451)	1,122
Net foreign exchange (gain)/loss		503	(536)
Depreciation and amortisation	24	426	340
Loss from written-off tangible assets	24	1	30
Tax expense	14	1,720	861
		46,525	53,757
Changes in:			
Reserve Guarantee Fund with the Central Bank	16	-	(21)
Loans and advances to banks		170,628	(319,803)
Loans and advances to customers		(33,307)	(47,213)
Receivables from the State Budget		12,666	322,729
Available-for-sale securities		(31,674)	(108,970)
Financial instruments classified as held-for-trading		(532)	(1,317)
Net investment if finance lease		(170)	(1,332)
Assets classified as held for sale		4,809	(1,558)
Other assets		(4,278)	(3,997)
Deposits from banks		(5,653)	(6,248)
Deposits from customers		185,693	54,837
Other liabilities		(4,746)	56
Dividends received		29	15
Income taxes paid		(975)	(2,050)
Cash flows from operating activities		339,015	(61,115)
Cash flows from investing activities			
Acquisition of property and equipment, and intangible assets		(2,374)	(884)
Proceeds from the sale of property and equipment, and intangible assets		12	44
Proceeds from maturity of financial assets held-to-maturity		5,035	-
Acquisition of financial assets held-to-maturity		(6,134)	-
Net cash used in investing activities		(3,461)	(840)
Cash flows from financing activities			
Dividends paid		(5,394)	(4,476)
Repayments on other borrowings		(4,030)	(271,974)
Proceeds from other borrowings		1,151	16,635
Proceeds from borrowings from international institutions		3,948	61,053
Repayments on borrowings from international institutions		(66,526)	(48,101)
Net cash used in financing activities		(70,851)	(246,863)
Net (decrease)/increase in cash and cash equivalents		264,703	(308,818)
Cash and cash equivalents at 1 January	37	181,916	490,734
Cash and cash equivalents at 31 December	37	446,619	181,916

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

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Chief Executive Officer	*Executive Director*	*Executive Director*	*Chief accountant*

In accordance with an independent auditors' report:

Dobrina Kaloyanova
Authorised representative
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СПЕЦИАЛИЗИРАНО ОДИТОРСКО ПРЕДПРИЯТИЕ
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1. REPORTING ENTITY AND OPERATING POLICIES

Bulgarian Development Bank Group (The Group) includes a parent company – Bulgarian Development Bank AD (BDB/The Bank) and its subsidiaries – National Guarantee Fund EAD (NGF/The Fund) and Microfinancing Institution JOBS EAD (MFI).

Bulgarian Development Bank AD (BDB/the Bank) was initially 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, 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)

In mid-September 2012, the parent company (the Bank) signed a Memorandum for lending on preferential terms and providing consultations with the Association of Meat Processors in Bulgaria (AMB). The Memorandum is part of the broad initiative of Bulgarian Development Bank called "Partners" supporting the Bulgarian business. Under the same initiative, in November 2012, the Bank signed cooperation agreements – Memorandum for privileged partnership - with Bulgarian Industrial Capital Association (BICA), Bulgarian Association of Diary Processors, Food Industry Union, National vine and wine chamber, Federation of Bread Producers and Confectioner in Bulgaria and Bulgarian Soft Drinks Association.

In 2013 the parent company (the Bank) continues to support small and medium sized entities in the country both through direct lending and through joint programs with commercial banks.

In the beginning of 2013, BDB signed a Memorandum for cooperation with the Union of Bulgarian Miller and the Printing Industry Union of Bulgaria. By doing this, the broad program "Partners" has reached 32 organisations, whose members can take advantage of financing on preferential terms and free consultations.

Within the program "Partners", Bulgarian Development Bank offers free financial advice and credit analysis for loans to local business organizations from small and medium sized businesses. The program has a resource of more than BGN 150 million providing big opportunities to the Bulgarian companies.

The participants in the program have the opportunity to present their ideas for business development and the approved projects will receive financing on preferential terms. An important requirement for the applicants is the ability to prove that they can fulfill the project and that enough income will be generated to service the loan.

In order to support the Bulgarian business, the program "Partners" offers more favourable lending parameters than the market. This includes: longer repayment terms, longer grace period, lower interest rates, structuring the loan in accordance with the client's needs.

In 2013 Bulgarian Development Bank (BDB) was granted a EUR 20 million loan from the International Investment Bank (IIB) for the financing of small and medium-sized enterprises in Bulgaria. Bulgarian Development Bank (BDB) also received a EUR 10 mln. credit line from Hungarian EXIM Bank. The funds under the Agreement will be used for financing of Hungarian projects and import of Hungarian goods in Bulgaria.

In 2013 FITCH Ratings affirmed the credit ratings of Bulgarian Development Bank. The Long-term Issuer Default Rating (IDR) of the bank remains "BBB-" and the Short-term IDR is F3 both with Stable Outlook.

In the first quarter of 2013 Bulgarian Development Bank prepared new on-lending program amounting to BGN 100 mln. aimed at small and medium sized enterprises. Within this amount, Bulgarian Development Bank will buy out targeted issues of 5 years mortgage bonds, issued by bank-participants under the Law on Mortgage-backed Bonds. Bank-participants in this program after conclusion of such bond issue will have the commitment to lend the amounts to SMEs within 1 year of the issue itself.

The parent company (the Bank) became one of the founding members of the European Long Term Investors association (ELTI) with headquarters in Brussels. The main goal of the association is to promote long-term investment in close alignment with the objectives and initiatives developed by the European Union to foster sustainable and smart growth and job creation. The European Long Term Investors association (ELTI) will be a key player in the European debate on long-term investment and also intends to play the role of spokesperson for its members in dealings with EU institutions and bodies, particularly as regards the implementation in the next Multiannual Financial Framework (2014-2020) of the new financial instruments designed to channel capital into investment in infrastructure, SMEs, innovation and energy projects.

1. REPORTING ENTITY AND OPERATING POLICIES (CONTINUED)

In 2013, the commercial banking activity continued as well, 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 31.12.2013 the parent company (the Bank) has 125 employees (31.12.2012: 124).

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 2013.

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 1 Angel Kanchev str., Sofia. As at 31.12.2013 the registered share capital is 800 000 registered nominal shares with par value of BGN 100 each (31.12.2012: 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 31.12.2013. (31.12.2012: 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. The members of the BD are: Samuil Shiderov, Dimo Spassov and Mihail Sotirov.
At 31.12.2013 NGF has 16 employees (31.12.2012: 14).

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: 1 Angel Kanchev str., Sofia. 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. (As at 31.12.2012 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 31.12.2012 is BGN 7,643,000.)
MFI' scope of activities includes:

a) micro-financing /with a maximum equivalent per product per customer – EUR 25,000 /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;

JOBS MFI is managed by a Board of Directors (BD) with mandate of 3 years. Members of the board are: Martin Ganchev, Bilyan Balev and Kostadin Munev.
At 31.12.2013 MFI has 16 employees (31.12.2012: 11).
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.

As at 31.12.2013 Bulgarian Development Bank Group does not have branches.

The consolidated financial statements have been adopted by the Bank's Managing board on 04 April 2014.

2. BASIS OF PREPARATION

Statement of compliance

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

These financial statements have been prepared on a consolidated basis. The Bank prepares individual financial statements as per the Accounting law. These consolidated annual financial statements shall be read together with individual consolidated financial statements.

Basis of preparation

These consolidated 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 pension liabilities.

Functional and presentation currency

These consolidated 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 IAS 27 "Separate and consolidated financial statements", as all entities, controlled through ownership of more than 50% of the voting rights by Bulgarian Development Bank AD, are consolidated through the full consolidation method, and all entities, significantly influenced through ownership of more than 20% of the voting rights by the Bank, are consolidated through the equity 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 2013 are as follows:

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

Changes in accounting policies

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

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

(i) Offsetting Financial Assets and Financial Liabilities
As a result of the amendments to IFRS 7, the Group has expanded disclosures about offsetting financial assets and financial liabilities.

(ii) Fair Value Measurement
IFRS 13 provides a single IFRS framework for measuring fair value and requires disclosures about fair value measurement.
The standard unifies the definition of fair value 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 standard replaces and enhances disclosure requirements for fair value in other standards, including IFRS 7. As a result the Group has included new disclosures in the financial statements. In accordance with the transitional provisions of IFRS 13, the Bank has applied the new definition of fair value prospectively and these new disclosure requirements are not included in the comparative information. However, the change had no significant impact on the measurement of the group's assets and liabilities.

(iii) Presentation of items in Other Comprehensive Income (OCI)
As a result of the amendments to IAS 1, the Group has modified the presentation of items of OCI in its statement of profit or loss and OCI, to present items that would be reclassified to profit or loss in the future separately from those that would never be.

(iv) Post-employment defined benefit plans
As a result of IAS 19 Employee Benefits, the Group has changed its accounting policy with respect to the actuarial gains and losses on the post-employment defined benefit plans which are now recognized in other comprehensive income.

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 designated at fair value through profit or loss, loans and advances, assets available-for-sale.

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 classified as held for trading include short-term government debt securities that are actively managed by the Group in order 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments, continued

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.

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 securities and investments in other entity shares.

Net investment in finance lease

Leasing activity of 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 are classified as operating leases.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments, continued

Net investment in finance lease (continued)

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

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 recognised 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 Bank 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 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 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

At each reporting date the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. 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, 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 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 Group's non-financial assets, other than investment property, inventory and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indications exist, then the asset's recoverable amount is estimated. For intangible assets with indefinite 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 recognized.

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 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 is the difference between the gross investment in the lease and the net investment of the lease. 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 2013	31 December 2012
US dollars	1.41902	1.48360
Euro	1.95583	1.95583

Since 1999 the Bulgarian Lev is pegged to the Euro, the official currency of the European Union, at ratio of EUR 1: BGN 1.95583.

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 Bank is obliged to pay contributions to social security health insurance funds. The employment relations of the employees with the Bank, 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 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 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)

Long-term retirement benefits (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)

Taxation (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 Group 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 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 Group 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 2013, although they are not yet mandatory until a later period. These changes to IFRS have not been applied in preparing these financial statements. The Bank does not plan to adopt these standards early.

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

- Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2014. The Bank does not expect the Amendments to have any impact on the financial statements since the Bank does not apply offsetting to any of its financial assets and financial liabilities and it has not entered into master netting arrangements.

- IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosures of Interests in Other Entities, IAS 27 Separate Financial Statements (2011) which supersedes IAS 27 (2008) and IAS 28 Investments in Associates and Joint Ventures (2011) which supersedes IAS 28(2008) shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2014.

  The Group does not expect IAS 27 (2011) to have material impact on the financial statements, since it does not results in a change in the entity's accounting policy.

- Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment Entities, shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2014. The Bank does not expect the changes have material impact on the financial statements, since the Bank does not cover the definition of investment entity.

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 Instruments (issued November 2009 and Additions to IFRS 9 issued October 2010)* has an effective date 1 January 2015 and could change the classification and measurement of financial instruments.

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 – analyses 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 an additional supervision of the risk management by requiring periodically regulatory reports and subsequent control on the compliance of the statutory set maximum levels of exposure to certain risks.

For the subsidiary National Guarantee Fund (the Fund):

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):

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 BDB 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 Group.

The credit risk is the main risk for the Bank and its management is fundamental in the Group'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 Group 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 Group also monitors the credit portfolio by preparing recurring reports (twice per annum) on the business activities of each borrower. Each report is 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 Group.

The management of specific credit risk is performed by the Provisions Committee of the parent company (the Bank) and is supervised by both 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 9,844 ths. as at 31.12.2013. (31.12.2012: BGN 10,855 ths.). 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 ths. (31.12.2012: BGN 4,929 ths.), whereas the losses covered by EIF amount to BGN 3,091 ths. (31.12.2012: BGN 2,681 ths.).

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. Usually, they are secured with cash deposits, and so they are less risky than direct financing.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

The unutilised portion of authorized loan agreements in form of loans, letters of guarantee or letters of credit represents commitments of the parent company (the Bank). In relation to the credit risk the Group (through out 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.

The special financial guarantees, representing irrevocable commitment that the parent-company (the Bank) or its subsidiary (the Fund) will pay in case a partner-bank, having financed SME under the scheme of the Micro-credits Guarantee Fund Project, is experiencing serious problems with certain debtor-borrowers under the scheme, classifies their loans as "loss" and disposes with a writ of execution against the bad debtors, have similar risky characteristics as loans. The parent-company (the bank) manages the guarantee portfolios of the Group at consolidated level by applying all the rules and procedures, regarding the management of the credit risk of the loan portfolios (loans and advances to banks and to customers).

Additionally to these procedures, the subsidiary (the Fund) has also developed specific principles, rules and limits for current monitoring and control upon guarantee portfolios:

a) the total guarantee exposure to the capital of the fund ratio and possible leverage of up to 3 times the amount of the capital; b) shared and joint current control of the loss between the Fund and the partner–bank and creditor of loans guaranteed by the Fund; c) the loans in the portfolios of partner-banks and creditors, guaranteed by the Fund, have to be secured with assets or engagements of the borrower or by third persons mandatory; d) set of limits for each portfolio guaranteed to the respective partner-bank and creditor; e) diversification of the whole guaranteed portfolio by industry sectors, by regions, by maturities and others; f) the guarantees of the Fund cannot be transferred unless explicitly authorized by it. The fulfillment of the limits and diversification designated are quarterly examined by the Board of Directors of the Fund. In case of breaches respective actions are undertaken, as defined in the contracts with the partner-banks.

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 thousand of BGN	**2013**	**2012**
Financial assets		
Cash and balances with the Central Bank	234,053	51,606
Loans and advances to banks	911,206	1,000,478
Loans and advances to customers	458,369	462,383
Receivables from the State Budget	-	12,666
Available-for-sale securities	156,529	125,401
Financial assets held-to-maturity	6,134	5,035
Financial assets held-for-trading	2,622	3,191
Net investment in finance lease	2,304	2,240
	1,771,217	1,663,000

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

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

In thousand of BGN	2013	2012
Bank guarantees and letters of credit	101,838	127,603
Unutilised amount of authorized loans	41,029	43,381
	142,867	170,984
Maximum exposure to credit risk	1,914,084	1,833,984

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 Bank has risk exposure of concentration of loans to small- and medium sized enterprises and of long-term investment loans (Notes № 18 and 19).

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

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

Sectors *In thousand of BGN*	2013	%	2012	%
Financial services	911,556	60.92	1,000,848	63.57
Manufacturing	224,812	15.02	182,494	11.59
Transport	84,994	5.68	88,444	5.62
Trade	73,007	4.88	70,262	4.46
Construction	67,162	4.49	68,318	4.34
Tourist services	28,855	1.93	31,274	1.99
Collection and disposal of garbage	28,738	1.92	36,047	2.29
Operations with real estate	21,492	1.44	16,165	1.03
Agriculture	15,367	1.03	20,017	1.27
Receivables from the State Budget	-	0.00	12,666	0.80
Other industry sectors	40,325	2.69	47,806	3.04
	1,496,308	100.00	1,574,341	100.00

Quality of the loans and receivables

The parent company (The Bank) has implemented internal regulations for risk assessment of each 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 (2012: 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 a Managing Director. All decisions of the Provisions Committee are controlled and approved by the Management Board of the Bank (the parent company).

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

In thousand of BGN	Standard	Watch	Non-performing	Loss	Total
As at 31.12.2013					
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
	1,350,776	29,834	38,012	77,686	1,496,308

In thousand of BGN	Standard	Watch	Non-performing	Loss	Total
As at 31.12.2012					
Loans and advances to banks	1,000,478	-	-	-	1,000,478
Receivables from the State Budget	12,666	-	-	-	12,666
Loans for commercial property and construction	368,630	16,505	8,769	46,537	440,441
Trade loans	59,325	8,890	2,346	37,327	107,888
Agricultural loans	-	-	-	2,000	2,000
Consumer loans	682	-	-	-	682
Residential mortgage loans to individuals	2,042	-	-	-	2,042
Finance lease	2,234	51	1	242	2,528
Other loans and receivables	3,528	648	459	981	5,616
	1,449,585	26,094	11,575	87,087	1,574,341

All loans granted to non-financial institutions and individuals are secured. 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 at updated fair value, determined with the assistance of an internal certified appraiser:

In thousand of BGN	**2013**	**2012**
Type of collateral	**Fair value**	**Fair value**
Mortgages	490,878	390,824
Pledge on a ships	29,774	79,249
Pledges on machinery, equipment, installations and inventories	108,191	103,049
Securities quoted on a stock market	65,442	-
Blocked deposits	830	3,276
Total collaterals	695,115	576,398

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

In thousand of BGN

Type of credit exposure	Principal type of collateral	**Percentage of exposure that is subject to an arrangement that requires collateralisation** 2013	2012
Loans and advances	1. Mortgages	100	100
	2. Pledge on a ship	55	100
	3. Pledges on machinery, equipment, installations and inventories	59	61
	4. Blocked deposits	5	11
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 thousand of BGN	Loans and advances to non-financial institutions		Receivables from the State Budget		Loans and advances to financial institutions		Loans and advances to individuals		Net investment in finance lease	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Impaired on individual basis										
-------standard	62,058	-	-	-	-	-	-	-	-	-
-------watch	29,788	26,043	-	-	-	-	-	-	46	51
-------non-performing	38,001	11,574	-	-	-	-	-	-	11	1
-------loss	76,625	83,736	-	-	-	-	-	-	308	242
Gross value	206,472	121,353	-	-	-	-	-	-	365	294
Accumulated impairment loss	(114,062)	(84,969)	-	-	-	-	-	-	(317)	(246)
Book value	92,410	36,384	-	-	-	-	-	-	48	48
Incl. re-negotiated loans	*85,293*	*22,895*	-	-	-	-	-	-	-	-
Impaired on portfolio basis										
------- standard	364,525	414,037	-	-	-	-	-	-	2,315	2,234
Gross value	364,525	414,037	-	-	-	-	-	-	2,315	2,234
Accumulated impairment loss	(9,991)	(11,317)	-	-	-	-	-	-	(59)	(42)
Book value	354,534	402,720	-	-	-	-	-	-	2,256	2,192
Incl. re-negotiated loans	*277,938*	*219,631*	-	-	-	-	-	-	-	-
Past due but not impaired										
------- up to 30 days	-	260	-	-	-	-	-	-	-	-
------- from 90 to 360 days	-	489	-	-	-	-	-	-	-	-
------- over 360 days	753	2,359	-	-	-	-	-	-	-	-
Book value	753	3,108	-	-	-	-	-	-	-	-
Incl. re-negotiated loans	*524*	*1,227*	-	-	-	-	-	-	-	-
Neither past due nor impaired										
------- standard	7,893	17,447	-	12,666	911,206	1,000,478	2,779	2,724	-	-
Book value	7,893	17,447	-	12,666	911,206	1,000,478	2,779	2,724	-	-
Incl. re-negotiated loans	*1,281*	-	-	-	*79,548*	*49,243*	*1,024*	*1,413*	-	-
Book value	455,590	459,659	-	12,666	911,206	1,000,478	2,779	2,724	2,304	2,240
Incl. re-negotiated loans	*365,036*	*243,753*	-	-	*79,548*	*49,243*	*1,024*	*1,413*	-	-

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.1. Credit risk (continued)

The Bank 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 thousand of BGN	**2013**	**2012**
Loans for commercial property and construction	328,330	237,112
Trade loans	58,832	74,257
Loans and advances to banks	79,548	49,243
Residential mortgage loans to individuals	659	937
Consumer loans	365	476
Other loans and receivables	455	690
	468,189	362,715

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

In thousand of BGN	**2013**	**2012**
Loans for commercial property and construction	25,109	14,209
Other loans and receivables	5,211	386
	30,320	14,595

The Group's exposure to national debt as at 31.12.2013 and 31.12.2012 is presented in the table below.

As at 31 December 2013 *In thousand of BGN*	**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

As at 31 December 2012 *In thousand of BGN*	**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	60,048	-	-	-	-	-	60,048
Held-to-maturity securities							
Government bonds							
Bulgaria	5,035	-	-	-	-	-	5,035
Total assets	65,083	-	-	-	-	-	65,083

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's 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 Group is exposed and develops measures for its coverage and maintenance within the bank'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.

31 December 2013 *In thousand of BGN*	*With floating interest rate*	*With fixed interest rate*	*Interest free*	*Total*
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	2,622
Held-to-maturity securities	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)

31 December2012 *In thousand of BGN*	*With floating interest rate*	*With fixed interest rate*	*Interest free*	*Total*
Financial assets				
Cash and balances with the Central Bank	-	-	51,606	51,606
Loans and advances to banks	29,948	970,530	-	1,000,478
Loans and advances to customers	381,967	79,164	1,252	462,383
Receivables from the State Budget	-	12,666	-	12,666
Net investment in finance lease	2,240	-	-	2,240
Available-for-sale securities	-	123,394	2,007	125,401
Financial assets held-for-trading	2,771	-	420	3,191
Held-to-maturity securities	-	5,035	-	5,035
	416,926	1,190,789	55,285	1,663,000
Financial liabilities				
Deposits from banks	39,272	74,292	-	113,564
Deposits from customers	34,994	138,264	21	173,279
Borrowings from international institutions	341,099	-	-	341,099
Other borrowings	11,071	10,325	268,631	290,027
Debt securities issued	-	78,489	-	78,489
Financial liabilities held-for-trading	-	2,618	464	3,082
	426,436	303,988	269,116	999,540
Total interest exposure	(9,510)	886,801	(213,831)	663,460

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.

31 December 2013	*Up to 1 month*	*1-3 months*	*3-6 months*	*6-12 months*	*1-5 years*	*Over5 years*	*Non-interest bearing*	*Total*
In thousand of BGN								
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
Held-to-maturity securities	1,980	-	-	4,154	-	-	-	6,134
Total financial assets	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)

Analysis of interest rate sensitivity (continued)

31 December 2012	*Up to 1 month*	*1-3 months*	*3-6 months*	*6-12 months*	*1-5 years*	*Over5 years*	*Non-interest bearing*	*Total*
In thousand of BGN								
Financial assets								
Cash and balances with the Central Bank	-	-	-	-	-	-	51,606	51,606
Loans and advances to banks	220,615	122,173	132,238	78,414	141,386	305,652	-	1,000,478
Loans and advances to customers	381,967	79,164	-	-	-	-	1,252	462,383
Receivables from the State Budget	-	12,666	-	-	-	-	-	12,666
Net investment in finance lease	2,240	-	-	-	-	-	-	2,240
Available-for-sale securities	60,048	24,925	124	30,537	7,760	-	2,007	125,401
Financial assets held-for-trading	-	2,771	-	-	-	-	420	3,191
Held-to-maturity securities	5,035	-	-	-	-	-	-	5,035
Total financial assets	669,905	241,699	132,362	108,951	149,146	305,652	55,285	1,663,000
Financial liabilities								
Deposits from banks	65,854	47,710	-	-	-	-	-	113,564
Deposits from customers	35,767	77,086	44	60,361	-	-	21	173,279
Borrowings from international institutions	45,682	219,002	72,485	3,930	-	-	-	341,099
Other borrowings	-	11,071	-	-	3,134	7,191	268,631	290,027
Debt securities issued	-	-	-	-	78,489	-	-	78,489
Financial liabilities held-for-trading	-	2,618	-	-	-	-	464	3,082
Total financial liabilities	147,303	357,487	72,529	64,291	81,623	7,191	269,116	999,540
Total exposure to interest rate sensitivity	522,602	(115,788)	59,833	44,660	67,523	298,461	(213,831)	663,460

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 Bank's variable portion, which is influenced by numerous factors.

	2013		2012	
Currency	***Increase in percentage points***	***Sensitivity of the financial result***	***Increase in percentage points***	***Sensitivity of the financial result***
BGN	0.50%	(2,052)	0.50%	(999)
EUR	0.50%	491	0.50%	25
BGN	-0.50%	2,052	-0.50%	999
EUR	-0.50%	(491)	-0.50%	(25)

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. Policy of the parent company (the Bank) is that the main part of the assets and liabilities, and respectively the bank operations, are denominated in EUR or BGN. The Bank 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 Bank'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)

As at 31 December 2013 *In thousand of BGN*	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
Held-to-maturity securities	-	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

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2. Market risk (continued)

Currency risk (continued)

As at 31 December 2012 *In thousand of BGN*	**In USD**	**In EUR**	**In other foreign currency**	**In BGN**	**Total**
Financial assets					
Cash and balances with the Central Bank	13	1,717	-	49,876	51,606
Loans and advances to banks	48,791	270,506	80	681,101	1,000,478
Loans and advances to customers	23,821	352,163	12,849	73,550	462,383
Receivables from the State Budget	-	-	-	12,666	12,666
Net investment in finance lease	-	-	-	2,240	2,240
Available-for-sale securities	-	125,160	-	241	125,401
Financial assets held-for-trading	-	2,771	-	420	3,191
Held-to-maturity securities	-	5,035	-	-	5,035
Total financial assets	72,625	757,352	12,929	820,094	1,663,000
Financial liabilities					
Deposits from banks	17,689	58,867	-	37,008	113,564
Deposits from customers	76,350	75,074	-	21,855	173,279
Borrowings from international institutions	-	327,902	13,197	-	341,099
Other borrowings	-	18,262	-	271,765	290,027
Debt securities issued	-	78,489	-	-	78,489
Financial liabilities held-for-trading	-	3,082	-	-	3,082
Total financial liabilities	94,039	561,676	13,197	330,628	999,540
Net balance sheet currency position	(21,414)	195,676	(268)	489,466	663,460
Contingent liabilities and commitments	45	36,620	-	134,319	170,984

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 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 Group 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 parent company (the Bank) 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 Group and the additional sources of financing in case of market and idiosyncratic shocks.

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

	2013	**2012**
	%	**%**
As at 31 December	40.67%	30.19%
Average for the period	22.75%	19.22%
Highest for the period	40.67%	35.67%
Lowest for the period	12.16%	10.98%

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:

As at 31 December 2013 *In thousand of BGN*	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
Held-to-maturity securities	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)

As at 31 December 2012 *In thousand of BGN*	**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	51,606	-	-	-	-	-	51,606
Loans and advances to banks	220,615	121,254	211,571	141,386	305,652	-	1,000,478
Loans and advances to customers	7,055	22,070	96,551	237,227	98,884	596	462,383
Receivables from the State Budget	-	12,666	-	-	-	-	12,666
Net investment in finance lease	32	69	466	1,673	-	-	2,240
Available-for-sale securities	60,048	25,033	30,553	7,760	-	2,007	125,401
Financial assets held-for-trading	-	2,771	420	-	-	-	3,191
Held-to-maturity securities	5,035	-	-	-	-	-	5,035
Total financial assets	344,391	183,863	339,561	388,046	404,536	2,603	1,663,000
Financial liabilities							
Deposits from banks	54,723	19,725	9,779	29,337	-	-	113,564
Deposits from customers	35,767	76,167	61,345	-	-	-	173,279
Borrowings from international institutions	3,057	6,686	56,948	193,087	81,321	-	341,099
Other borrowings	174	170	974	282,585	6,124	-	290,027
Debt securities issued	-	256	-	78,233	-	-	78,489
Financial liabilities held-for-trading	-	3,082	-	-	-	-	3,082
Total financial liabilities	93,721	106,086	129,046	583,242	87,445	-	999,540
Difference in maturity thresholds of assets and liabilities	250,670	77,777	210,515	(195,196)	317,091	2,603	663,460

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 Bank 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:

As at 31 December 2013 *In thousand 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**
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

As at 31 December 2012 *In thousand 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**
Financial liabilities							
Deposits from banks	113,564	117,430	54,948	21,429	10,070	30,983	-
Deposits from customers	173,279	175,118	35,768	76,336	957	62,057	-
Borrowings from international institutions	341,099	360,721	2,986	6,954	58,053	202,808	89,920
Other borrowings	290,027	292,684	174	206	1,090	283,438	7,776
Debt securities issued	78,489	88,921	-	255	-	88,666	-
Financial liabilities held-for-trading	3,082	4,888	-	-	811	4,077	-
	999,540	1,039,762	93,876	105,180	70,981	672,029	97,696

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, as well as continue operating as a going concern (Notes № 34, 35).

The table below shows the main equity components following the regulatory requirements and ratios achieved by the Group:

In thousand of BGN	**2013**	**2012**
Tier 1 capital		
Ordinary shares	601,774	601,774
Statutory reserves	54,609	50,030
Additional reserves	9,682	11,160
Total Tier 1 capital	666,065	662,964
Tier 2 capital	-	-
Total equity	666,065	662,964
Investments	(522)	(415)
Incl. Intangible assets	(522)	(415)
Other deductions		
Specific provisions for credit risk using standardized approach	-	11,667
Revaluation differences, included in Tier 1 capital	53	526
Tier 1 capital base	*665,490*	*650,356*
Tier 2 capital base	*665,490*	*650,356*
Credit risk		
Risk-weighted assets	1,125,478	1,104,835
Incl. Risk-weighted assets for credit risk	1,028,716	1,021,633
Incl. Off-balance sheet equivalents of risk-weighted assets for credit risk	93,944	79,602
Incl. Derivatives	2,818	3,600
Risk component	1,125,478	1,104,835

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.4 Capital management (continued)

Total capital requirements for operating risk	9,899	8,704
Reconciliation of the risk component for operating risk (operating risk * 12.5)	123,738	108,800
Total risk component	*1,249,216*	*1,213,635*
Tier 1 capital adequacy	*53.27%*	*53.59%*
Total capital adequacy	*53.27%*	*53.59%*
Regulatory required levels		
Tier 1 capital adequacy	*10.00%*	*10.00%*
Total capital adequacy	*12.00%*	*12.00%*

5. USE OF ACCOUNTING ESTIMATES AND JUDGEMENTS

Accounting estimates

The presentation of the consolidated 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 Bank 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 Bank'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 (Note № 12, 18).
In 2012, the management has made a retrospective analysis of actual losses experienced on loans for a ten year period (2001 to 2011 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 increased from 1.83% to 2.75%. As at 31.12.2013 the management of the Bank has not changed the rate of impairment on a portfolio basis and it is 2.75% as well.

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 (Note № 9, 20).

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 31.12.2013 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 for the date of issuing of the financial statements. (Notes № 9, 15, 20). 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 Group 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, 33, 36).

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 № 33).

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 there is significant increase in requirements for fair value of the reference financial instrument, 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 financial 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 following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

As at 31.12.2013

		Carrying amount						Fair value			
In thousand 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	20	-	-	-	156,529	-	156,529	156,529	-	-	156,529
Financial assets held-for-trading	21	-	-	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	-	-	-	-
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	-	-	-	-
Loans and advances to customers	18	-	458,369	-	-	-	458,369	-	421,964	37,574	459,538
Financial assets held-to-maturity	22	6,134	-	-	-	-	6,134	-	6,012	-	6,012
		6,134	1,603,628	-	-	-	1,609,762	-	427,976	430,720	858,696
Financial liabilities, measured at fair value											
Financial liabilities held-for-trading	32	-	-	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	27	-	-	-	-	29,436	29,436	-	30,006	-	30,006
Deposits from banks – Current accounts and term deposits	27	-	-	-	-	78,981	78,981	-	-	-	-
Deposits from customers	28	-	-	-	-	357,210	357,210	-	-	-	-
Borrowings from international institutions	29	-	-	-	-	275,861	275,861	-	271,526	-	271,526
Other borrowings	30	-	-	-	-	287,142	287,142	-	282,066	-	282,066
Debt securities issued	31	-	-	-	-	78,499	78,499	-	82,155	-	82,155
		-	-	-	-	1,107,129	1,107,129	-	665,753	-	665,753

For assets classified as held for sale with carrying amount of BGN 5,630 ths.as at 31.12.2013 (2012: BGN 5,630 ths.) measured at cost fair values are not disclosed, because the fair value cannot be reliably measured.

5. USE OF ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

As at 31.12.2012		Carrying amount						Fair value			
In thousand 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	20	-	-	-	125,401	-	125,401	125,401	-	-	125,401
Financial assets held-for-trading	21	-	-	3,191	-	-	3,191	-	3 ,191	-	3,191
		-	-	3,191	125,401	-	128,592	125,401	3,191	-	128,592
Financial assets, not measured at fair value											
Cash and balances with the Central Bank	16	-	51,606	-	-	-	51,606	-	-	-	-
Loans and advances to banks	17	-	491,432	-	-	-	491,432	-	-	-	-
Bank current accounts and term deposits	17	-	509,046	-	-	-	509,046	-	-	-	-
Loans and advances to customers	18	-	462,383	-	-	-	462,383	-	-	-	-
Financial assets held-to-maturity	22	-	5,035	-	-	-	5,035	-	-	-	-
Receivables from the State Budget	19	-	12,666	-	-	-	12,666	-	-	-	-
		-	1,532,168	-	-	-	1,532,168	-	-	-	-
Financial liabilities, measured at fair value											
Financial liabilities held-for-trading	32	-		3,082			3,082	-	3,082	-	3,082
		-		3,082			3,082	-	3,082	-	3,082
Financial liabilities, not measured at fair value											
Deposits from banks –long term loan	27	-	-	-	-	39,246	39,246	-	-	-	-
Deposits from banks – Current accounts and term deposits	27	-	-	-	-	74,318	74,318	-	-	-	-
Deposits from customers	28	-	-	-	-	173,279	173,279	-	-	-	-
Borrowings from international institutions	29	-	-	-	-	341,099	341,099	-	-	-	-
Other borrowings	30	-	-	-	-	290,027	290,027	-	-	-	-
Debt securities issued	31	-	-	-	-	78,489	78,489	-	-	-	-
		-	-	-	-	996,458	996,458	-	-	-	-

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 31.12.2013	Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Available-for-sale government bonds	147,861	Level 1	Quoted prices in an active market	N/A	N/A
Available-for-sale corporate bonds	2,921	Level 1	Quoted prices in an active market	N/A	N/A
Available-for-sale equity shares	118	Level 1	Quoted prices in an active market	N/A	N/A
Interest rate swaps	Asset: 1,694 Liability: 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	Asset: 928 Liability: 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 31.12.2013	Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Loans and advances to banks	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	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 2013.	N/A	N/A
	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 less cost to aquire and sell the collateral, independently of whether the collateral will be acquired or not.	* Market value of collateral. * Costs to aquire and sell the collateral. * Financial position 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 positionof 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 31.12.2013	Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Financial assets held-to-maturity	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 2013, because no market prices are available.	N/A	N/A
Deposits from banks –long term loan	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 2013.	N/A	N/A
Borrowings from international institutions	271,526	Level 2		N/A	N/A
Other borrowings	282,066	Level 2		N/A	N/A
Debt securities issued	82,155	Level 2		N/A	N/A

6. NET INTEREST INCOME

In thousand of BGN	2013	2012
Interest income		
Loans and advances to customers	42,749	45,042
Loans and advances to banks	19,767	22,546
Deposits in banks	7,348	8,117
Available-for-sale securities	1,485	2,164
Finance lease	358	451
Receivables from the State Budget	241	5,652
Financial assets held-to-maturity	75	270
	72,023	84,242
Interest expense		
Borrowings from international institutions	5,947	8,921
Debt securities issued	3,957	3,909
Deposits from customers	3,544	4,255
Deposits from banks	854	1,555
Other borrowings	229	2,964
	14,531	21,604
Net interest income	57,492	62,638

7. NET FEE AND COMMISSION INCOME

In thousand of BGN	2013	2012
Fee and commission income		
Guarantees and letters of credit	1,406	1,871
Customers' accounts, bank transfers, cash operations of customers	1,052	562
Servicing of debenture loans	268	269
Trust management of borrowings	72	73
	2,798	2,775
Fee and commission expense		
Agency commissions	116	65
Bank transfers and cash operations with other banks	7	26
Current accounts due from other banks	19	20
	142	111
Net fee and commission income	2,656	2,664

8. NET GAINS FROM FOREIGN EXCHANGE DEALS

In thousand of BGN	2013	2012
Net gain from dealing in foreign currencies	262	256
Net gain/(loss) from foreign currency swaps deals and revaluation	502	(76)
Net gain/(loss) from foreign currency translation of assets and liabilities	(505)	538
	259	718

9. NET LOSSES FROM AVAILABLE-FOR-SALE SECURITIES

In thousand of BGN	2013	2012
Net losses on transactions with available-for-sale securities, incl. realised revaluation reserve	(309)	(297)
Impairment loss on available-for-sale securities	(52)	(6)
	(361)	(303)

10. NET LOSSES FROM FINANCIAL INSTRUMENTS HELD-FOR-TRADING

In thousand of BGN	2013	2012
Net interest income from financial instruments held-for-trading	(6)	572
Net losses from revaluation of financial instruments held-for-trading	(43)	(578)
	(49)	(6)

11. OTHER OPERATING GAINS/(LOSSES)

In thousand of BGN	2013	2012
Rentals, net	(60)	(37)
Legal fees and expenses, net	(427)	(542)
Dividends received	29	15
Net (losses) from assets classified as held for sale	(350)	(294)
Withholding tax	(58)	(56)
Grants received	-	1
Other income, net	153	75
	(713)	(838)

12. NET IMPAIRMENT LOSS ON FINANCIAL ASSETS AND PROVISION EXPENSE

In thousand of BGN	2013	2012
Individual allowance for impairment loss, net	36,001	35,244
Collective allowances for impairment loss on portfolio basis, net	(1,326)	3,935
Letters of guarantee provision expense/(income), net	(7,696)	3,844
Impairment loss on assets classified as held for sale	1,537	137
	28,516	43,160

13. GENERAL AND ADMINISTRATIVE EXPENSES

In thousand of BGN	**2013**	**2012**
Personnel costs and social security contributions	5,877	5,491
Remuneration of Managing Board and Supervisory Board members	2,804	1,762
Rentals	1,116	1,168
Advertising and entertainment expenses	821	596
Communications and IT services	590	565
Office and office equipment maintenance	514	549
Contribution to the Deposit Insurance Fund	492	1,017
Hired services	393	246
Audit, legal and consulting services	319	341
Government taxes and charges	153	174
Business trips	106	108
	13,185	12,017

Personnel costs and social security contributions include:		
Salaries	5,006	4,668
Social security contributions	690	642
Social benefits	169	146
Accruals for indemnities upon retirement	12	35
	5,877	5,491

14. INCOME TAX EXPENSE

In thousand of BGN	**2013**	**2012**
Current tax expense	739	1,025
Deferred tax expense/(income) as a result of temporary differences	981	(164)
Total income tax expense	1,720	861

14. INCOME TAX EXPENSE (CONTINUED)

In thousand of BGN	**2013**	**2012**
Profit before income tax	17,396	12,437
Income tax, calculated on standard tax rate (10% for 2013, 10% for 2012)	1,739	1,244
Tax effect from permanent differences	(19)	(383)
Total income tax expense	1,720	861
Effective tax rate	9.89%	6.92%

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

	Assets		Liabilities		Net (Assets)/Liabilities	
In thousand of BGN	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Property and equipment	(4)	(4)	2	2	(2)	(2)
Other assets	(339)	(196)	-	-	(339)	(196)
Guarantees portfolio	(953)	(2,076)	-	-	(953)	(2,076)
Other liabilities	(22)	(27)	-	-	(22)	(27)
Available-for-sale securities	-	-	13	62	13	62
Effect of a recognized asset on tax loss	(30)	(75)	-	-	(30)	(75)
Deferred tax (assets)/liabilities	(1,348)	(2,378)	15	64	(1,333)	(2,314)
Offsetting tax	15	64	(15)	(64)		
Net deferred tax (assets)/liabilities	(1,333)	(2,314)	-	-	(1,333)	(2,314)

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

In thousand of BGN	**2013**	**Changes in statement of comprehensive income**	**2012**
Property and equipment	(2)	-	(2)
Other assets	(339)	(143)	(196)
Guarantees portfolio	(953)	1,123	(2,076)
Other liabilities	(22)	5	(27)
Available-for-sale securities	13	(49)	62
Effect of a recognized asset on tax loss	(30)	45	(75)
	(1,333)	981	(2,314)

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

In thousand of BGN	**2013**	**2012**
Change in fair value of available-for-sale securities		
Gain/(Loss) for the year	483	(123)
Related tax	(3)	-
Other comprehensive income for the year, net of tax	480	(123)

16. CASH AND BALANCES WITH THE CENTRAL BANKS

In thousand of BGN	**2013**	**2012**
Cash on hand	139	119
Balances with the Central Bank:		
Current accounts	233,844	51,417
Security fund	70	70
	233,914	51,487
Total cash and balances with the Central Bank	234,053	51,606

Deposits with the Central Bank are not interest-bearing.

17. LOANS AND ADVANCES TO BANKS

In thousand of BGN	2013	2012
Current accounts with local banks	727	606
Current accounts with foreign banks	3,291	2,003
Term deposits with local banks	290,886	392,500
Term deposits with foreign banks	230,961	113,937
Loans granted to local banks	385,341	491,432
	911,206	1,000,478

As at 31.12.2013 there are loans granted to local banks with nominal value of EUR 14,750 ths. and BGN equivalent 28,848 thousand. (31.12.2012: EUR 14,750 ths. and BGN equivalent – 28,848 ths.), 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 31.12.2013 is BGN 24,018 ths. (2012: BGN 27,460 ths.)

As at 31.12.2013 there are loans granted to banks in BGN with nominal value of 447,000 thousand. (31.12.2012: 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 amunt of these loans as at 31.12.2013 is BGN 274,445 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 31.12.2013 the utilized credit lines under this program amount to BGN 83,500 ths. (As at 31.12.2012 – BGN 53,500 ths.) Loans are charged with fixed interest rate equal to 4.00%, payable every 6 months. The carrying amount of these loans as at 31.12.2013 is BGN 79,819 thousand.

As at 31.12.2013 the parent company (BDB) has receivable amounting BGN 7,058 ths. which represents sold receivables to a local bank through cession contract.

As at 31.12.2013 the Group has term deposits receivables denominated in BGN, EUR and USD from thirteen local banks and four foreign banks, representing 57.27 % of the carrying value of the loans and advances to banks (incl. REPO deals). (31.12.2012: sixteen local banks and four foreign banks - 50.62%). The term deposits are with original maturity up to 15 months (31.12.2012 : up to one year).

As at 31.12.2013 the Group has two repo deals receivable denominated in EUR with amortised amount of BGN 15,944 ths., with maturity up to 02.05.2014 and contracted interest rate from 0.32% to 0.68 % (31.12.2012: BGN 28,364 ths.).

18. LOANS AND ADVANCES TO CUSTOMERS

In thousand of BGN	**2013**	**2012**
Loans and advances to customers	582,422	558,669
Less allowance for loan impairment loss	(124,053)	(96,286)
	458,369	462,383

In thousand of BGN	**2013**	**2012**
A. Analysis by customer type		
Corporate and sole traders	571,994	537,683
Municipalities	7,649	18,262
Individuals	2,779	2,724
	582,422	558,669

In thousand of BGN	**2013**	**2012**
B. Analysis by industry sector		
Manufacturing	224,632	182,363
Transport	84,320	87,967
Trade	72,752	70,003
Construction	67,031	68,188
Collection and disposal of wastes	28,738	36,047
Tourist services	28,826	31,245
Real estate operations	21,492	16,165
Agriculture	14,032	18,562
Financial services	350	370
Other industry sectors	40,249	47,759
	582,422	558,669

The Group, on behalf of the parenet company (The Bank), provides funds mainly for activities of small and medium-sized enterprises as well as investment projects with 5 to 10 years return on investment.

The amount of BGN 935 ths. is included in loans and advances to customers (2012 r – BGN 526 ths.), which represents writs resulting from payments under guranatees due to sustainable financial insolvency or bankruptcy of the borrowers, for which borrowers the partner-bank has met the requirements for payments, had claimed the guarantee and NGF EAD (the subsidiary) has paid.

18. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

In thousand of BGN	**2013** Individually impaired	Collectively impaired	Total	**2012** Individually impaired	Collectively impaired	Total
As at January 01	84,969	11,317	96,286	59,622	7,382	67,004
Net increase/(decrease) for the year	36,001	(1,326)	34,675	35,244	3,935	39,179
Written-off against impairment	(6,908)	-	(6,908)	(9,897)	-	(9,897)
As at December 31	114,062	9,991	124,053	84,969	11,317	96,286

19 RECEIVABLES FROM THE STATE BUDGET

In thousand of BGN	**2013**	**2012**
Loans and advances	-	12,666
	-	12,666

As at 31.12.2012 the loans and advances classified as receivables from the State Budget represent purchased receivables through cession with debtor Road Infrastructure Agency.

In March 2013, all receivables has been paid.

20. AVAILABLE-FOR-SALE SECURITIES

In thousand of BGN	**2013**	**2012**
Government bonds	147,861	60,048
Corporate bonds	6,647	63,346
Non-public companies' shares	1,903	1,903
Public companies' shares	118	104
	156,529	125,401

20. AVAILABLE-FOR-SALE SECURITIES (CONTINUED)

Movement in available-for-sale securities

In thousand of BGN	**2013**	**2012**
As at January 01	125,401	16,560
Additions (purchases)	251,222	134,820
Disposals (sale and/or redemption)	(220,577)	(25,856)
Net increase/(decrease) from revaluation of available-for-sale securities to fair value	483	(123)
As at December 31	156,529	125,401

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 № 36).

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 Bank 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 31.12.2013 is at the amount of BGN 46 thousand – negative value (31.12.2012: BGN 526 thousand - negative value) (Note № 35).

In 2013 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 52 thousand. (Note № 9) (2012: BGN 6 thousand)

21. FINANCIAL ASSETS HELD-FOR-TRADING

In thousand of BGN	**2013**	**2012**
Interest rate swaps	1,694	2,771
Currency swaps	928	420
	2,622	3,191

As at 31.12.2013, 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 31.12.2013. 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).

22. FINANCIAL ASSETS HELD-TO-MATURITY

In thousand of BGN	2013	2012
Corporate bonds of financial/credit institutions	4,154	-
Corporate bonds of non-financial institutions	1,980	-
Government bonds of Bulgaria	-	5,035
	6,134	5,035

In June 2009 the Group has purchased 24,000 government securities - bonds issued by The Republic of Bulgaria, denominated in Euro. The bonds have a nominal value of EUR 100, maturity – 15.01.2013, and have a fixed coupon - 7,5%.
Corporate bonds of financial/credit institutions represent issued debt securities by Citigroup INC, denominated in BGN with nominal value of BGN 4,000 thousand.
Corporate bonds of non-financial institutions represent issued debt securities by B.L. Leasing, denominated in EUR with nominal value of EUR 1,000 thousand.
Both corporate bond types are with fixed payments, which the Bank has the intention to hold until maturity. As at 31.12.2013 all financial assets held-to-maturity are reviewd for impairment and no such has been identified.
The financial assets held-to-maturity are presented at amortised cost.

23. 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 thousand of BGN	2013	2012
Gross investment in finace lease	3,275	3,220
Unearned finance income	(595)	(692)
Net minimal lease payments	2,680	2,528
Impairment loss	(376)	(288)
Net investment in finance lease	2,304	2,240

Allocation of net finance lease investment:

In thousand of BGN	2013	2012
Not later than one year	64	30
Later than one year and not later than five years	2,616	2,498
Net minimal lease payments	2,680	2,528
Impairment loss	(376)	(288)
Net investment in finance lease	2,304	2,240

23. NET INVESTMENT IN FINANCE LEASE (CONTINUED)

Movement of the allowance for impairment loss:

In thousand of BGN	**2013**	**2012**
Balance as at 01 January	288	207
Charge for the year	141	114
Reintegrated for the year	(35)	(30)
Written off	(18)	(3)
Balance as at 31 December	376	288

24. PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS

In thousand of BGN	**Land and buildings**	**Bank equipment and computers**	**Fixtures and fittings**	**Motor vehicles**	**Licences and software**	**Total**
Book value						
As at 1 January 2012	14,174	947	313	437	489	16,360
Additions	190	340	2	15	293	840
Disposals	-	(163)	(6)	(288)	(93)	(550)
As at 31 December 2012	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
Accumulated depreciation						
As at 1 January 2012	399	476	184	382	274	1,715
Charge for the year	38	153	33	25	91	340
Written off	-	(157)	(5)	(265)	(93)	(520)
As at 31 December 2012	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
Carrying amount						
As at 31 December 2013	15,820	586	108	12	524	17,050
As at 31 December 2012	13,927	652	97	22	417	15,115

25. ASSETS CLASSIFIED AS HELD FOR SALE

As at 31.12.2013 there are no assets classified as held for sale. The available assets classified as held for sale as at 31.12.2012 with book value of BGN 4,810 ths., include property (land and buildings) at the amount of BGN 4,802 thousand and machinery and equipment at the amount of BGN 8 thousand, acquired by the Group in 2012 against a settlement of the liabilities under problematic loans of its borrowers. From them BGN 8 thousand have been written off as at 31.12.2013, while the other BGN 4,802 thousand have been reclassified to other asstes (Note 26).

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 2014.

26. OTHER ASSETS

Other assets as at 31 December include:

In thousand of BGN	**2013**	**2012**
Prepayments and advances	131	105
Other receivables	23	159
VAT refundable	-	177
Other assets	9,793	6,421
	9,947	6,862

Other assets includes assets classified as held for sale, but not realized within the stipulated 12-month period and were reclassified in other assets.

Movement in other assets in 2013 and 2012:

In thousand of BGN	**2013**	**2012**
Carrying amount at beginning of the period	6,421	3,899
Reclassified from assets classified as held for sale	4,802	3,242
Sold	-	(683)
Impairment loss charge	(1,430)	(37)
	9,793	6,421

27. DEPOSITS FROM BANKS

In thousand of BGN	**2013**	**2012**
Deposits from local banks	108,417	93,968
Deposits from foreign banks	-	19,596
	108,417	113,564

The average interest rates on term deposits in BGN are up to 0.1% (in 2012 from 0.01% to 0.2%), and for term deposits in USD are from 0.12% to 0.15% (in 2012 from 0.04% to 0.72%).

On 16.09.2011 Bulgarian Development Bank AD (the parent company) signed a long-term loan contract with Citibank amounting EUR 20,000 thousand. The funds from this loan are intended for direct and indirect funding of SME. As at 31.12.2013 the loan is utilized in full.
As at 31.12.2013 the outstanding principal is EUR 15,000 thousand with BGN equivalent of 29,337 thousand (31.12.2012: EUR 20,000 thousand with BGN equivalent of 39,117 thousand). The interest rate is fixed using a standard interest rate swap.

28. DEPOSITS FROM CUSTOMERS

In thousand of BGN	**2013**	**2012**
Individuals	2,823	997
Companies and sole traders	354,387	172,282
	357,210	173,279

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

29. BORROWINGS FROM INTERNATIONAL INSTITUTIONS

In thousand of BGN	**2013**	**2012**
Long-term framework loan agreement with the Council of Europe Development Bank	54,071	76,337
Long-term loans from the European Investment Bank	49,312	50,543
Long-term loans from Black See Trade and Development Bank	48,114	68,101
Long-term loans from the Nordic investment bank	42,436	47,828
Long-term loans from Kreditanstalt für Wiederaufbau	40,376	46,157
Long-term loan from Dexia Credit Local	13,657	17,556
Long-term loan from DEPFA Investment Bank - Fms Wertmanagement Aor	9,676	13,560
Long-term loans from JBIC Japan Bank for International Cooperation	8,417	13,197
Long-term loan from European Investment Fund	7,838	3,890
Long-term loan from China Development Bank	1,964	3,930
	275,861	341,099

Interest rates on borrowed funds from international institutions at 31.12.2013 ranged from 0.527 % to 3.839% (31.12.2012: from 0.433 % to 3.925%).

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) 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 31.12.2013 the 2003 Loans are fully utilized.

As at 31.12.2013 the outstanding principal under the facility amounts to EUR 6,500 thousand equivalent to BGN 12,713 thousand (31.12.2012: EUR 15,000 thousand equivalent to BGN 29,337 thousand). The interest rate is floating, based on 3-month EURIBOR plus margin.

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 31.12.2013 the loan is fully utilized.

As at 31.12.2013 the outstanding principal under the facility amounts to EUR 13,125 thousand equivalent to BGN 25,670 thousand (31.12.2012: EUR 15,000 thousand equivalent to BGN 29,337 thousand). The interest rate is floating, based on 3-month EURIBOR plus margin.

29. BORROWINGS FROM INTERNATIONAL INSTITUTIONS (CONTINUED)

Council of Europe Development Bank (continued)

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 31.12.2013 the utilized amount under the loan agreement is EUR 10,000 thousand equivalent to BGN 19,558 thousand, whereas the outstanding principal as at 31.12.2013 is EUR 8,000 thousand equivalent to BGN 15,647 thousand (2012: EUR 9,000 thousand equivalent to BGN 17,602 thousand). The interest rate under the loan is floating, based on 3-month EURIBOR plus margin.

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 31.12.2013 the outstanding principal under the facility amounts to EUR 211 thousand equivalent to BGN 412 thousand. (31.12.2012: EUR 842 thousand equivalent to BGN 1,647 thousand). The interest rate under the loan is based on the EIB Reference Interest Rate and is determined quarterly.

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 31.12.2013 the outstanding principal under the loan amounts to EUR 25,000 thousand equivalent to BGN 48,896 thousand. (31.12.2012: 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 31.12.2013 is fully utilized.
As at 31.12.2013 the outstanding principal under the loan amounts to EUR 20,588 thousand equivalent to BGN 40,267 thousand. (As at 31.12.2012 the outstanding principal under the loan amounts to EUR 23,529 thousand equivalent to BGN 46,020 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 31.12.2013 the loan is fully utilized.

As at 31.12.2013 the outstanding principal under the loan amounts to EUR 3,882 thousand equivalent to BGN 7,593 thousand. (31.12.2012: EUR 5,059 thousand equivalent to BGN 9,894 thousand). The interest rate is floating, on the basis of 6-month EURIBOR plus margin.

29. BORROWINGS FROM INTERNATIONAL INSTITUTIONS (CONTINUED)

Nordic Investment Bank (continued)

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 through bank-partners. The loan is unsecured. As at 31.12.2013 the loan is fully utilized.

As at 31.12.2013 the outstanding principal under the loan amounts to EUR 17,901 thousand equivalent to BGN 35,011 thousand (31.12.2012: EUR 19,484 thousand equivalent to BGN 38,108 thousand). The interest rate is floating, on the basis of 6-month EURIBOR plus margin.

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 31.12.2013 the loan is fully utilized.
As at 31.12.2013 the outstanding principal under the loan amounts to EUR 2,000 thousand equivalent to BGN 3,912 thousand. (as at 31.12.2012 the outstanding principal under the loan amounts to EUR 4,000 thousand equivalent to BGN 7,823 thousand). The interest rate is floating, on the basis of 6-month EURIBOR plus margin.

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 31.12.2013 the loan is fully utilized.

As at 31.12.2013 the outstanding principal under the loan amounts to EUR 22,733 thousand equivalent to BGN 44,463 thousand. (as at 31.12.2012 the outstanding principal under the loan amounts to EUR 31,000 thousand equivalent to BGN 60,631 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 - 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 31.12.2013 the loan is fully utilized. The loan is secured with a Letter of intent, signed by the Minister of Finance.

As at 31.12.2013 the outstanding principal under the loan amounts to EUR 7,000 thousand equivalent to BGN 13,691 thousand. (31.12.2012: EUR 9,000 thousand equivalent to BGN 17,602 thousand). The interest rate is floating, on the basis of 3-month EURIBOR plus margin.

DEPFA Investment Bank - Fms Wertmanagement Aor

On 18 May 2007 an Agreement 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 31.12.2013 the Loan is fully utilized.
As at 31.12.2013 the outstanding principal under the loan amounts to EUR 5,000 thousand equivalent to BGN 9,779 thousand. (31.12.2012: EUR 7,000 thousand equivalent to BGN 13,691 thousand). The interest rate is floating, on the basis of 6-month EURIBOR plus margin.

29. 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. The loan 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 31.12.2013 the outstanding principal under the loan amounts to JPY 631,453 thousand equivalent to BGN 8,516 thousand. (As at 31.12.2012 - JPY 771,779 thousand equivalent to BGN 13,299 thousand).

China Development Bank (CDB)

On the 15 October 2009, Bulgarian Development Bank and China Development Bank signed a credit agreement in the amount of 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 of 31.12.2013 the credit line is fully utilized.
As at 31.12.2013 the outstanding principal under the loan amounts to EUR 1,000 thousand equivalent to BGN 1,956 thousand. (as at 31.12.2012 the outstanding principal under the loan amounts to EUR 2,000 thousand equivalent to BGN 3,912 thousand). The interest rate is floating on the basis of 6-month EURIBOR plus margin.

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 31.12.2013 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 31.12.2013 the credit line facility is not utilized.

European Investment Fund

On 30 September 2011 MFI EAD and the European Investment Fund signed a long-term credit agreement in the amount of EUR 11,735 ths.

As at 31.12.2013 the utilized and the outstanding principal under the loan amounts to EUR 4,000 ths. equivalent to BGN 7,823 thousand. (as at 31.12.2012 EUR 3,912 thousand). The interest rate is floating on the basis of 6-month EURIBOR plus margin.

30. OTHER BORROWINGS

In thousand of BGN	**2013**	**2012**
Loan financing from the Ministry of Finance with funds from KfW	11,130	11,071
KfW funds provided by the Ministry of Finance for trust management	7,003	7,191
Long-term refunding agreement with the State Fund Agriculture	-	3,134
Long-term agreement with the Ministry of Agriculture and Food	238,500	238,164
Special-purpose deposit by the National Agency for Fisheries and Aquaculture	30,509	30,467
	287,142	290,027

Loan financing from the Ministry of Finance with funds from KfW

On 18 April 2007 the Bank (the parent company) 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 31.12.2013 the outstanding principal and the capitalized interest amount to EUR 5,689 thousand equivalent to BGN 11,127 thousand. (as at 31.12.2012: EUR 5,659 thousand equivalent to BGN 11,069 thousand).

KfW funds provided by the Ministry of Finance for trust management

The Bank (the parent company) 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 31.12.2013 the balance of the loan with the Bank amounts to EUR 3,581 thousand equivalent to BGN 7,003 thousand. (31.12.2012: EUR 3,676 thousand equivalent to BGN 7,190 thousand).

The Bank receives a management fee of 1% per annum. The balance bears quarterly interest of 2% per annum.

30 OTHER BORROWINGS (CONTINUED)

Long-term refinancing agreement with the State Fund Agriculture

Under a Contract, signed in 2002, with the State Fund Agriculture for re-financing special-purpose loans provided to farmers, the Fund has refinanced the Bank (the parent company) with its own funds for granting such loans in relation to investment projects and disclosed investment programs. The interest due by the Bank on the Borrowings is 2% p.a. Since 18.05.2011 the Bank provided loans to farmers at 7% annual pursuant in accordance with Annex 1 (before 18.05.2011 loans granted by the Bank to the farmers are at 9% annual interest rate).

As at 31.12.2013 the obligation to the State Fund Agriculture for re-financing special-purpose loans provided to farmers is settled. (31.12.2012 : BGN 3,129 thousand).

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 Operational 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 Operational 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.

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 provides 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.

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.

30. OTHER BORROWINGS (CONTINUED)

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

As at 31.12.2013, within the Rural Development Programme Guarantee scheme, NGF has signed agreements with ten local banks.

The deadline for inclusion of new loans and bank guarantees 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 50 – 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 ths., 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 issue of guarantees and counter-guarantees.

As at 31.12.2013 within the Rural Development Programme Guarantee scheme, NGF has signed agreements with eleven local banks.

31. DEBT SECURITIES ISSUED

In May 2010 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.

32. FINANCIAL LIABILITIES HELD-FOR-TRADING

In thousand of BGN	2013	2012
Interest rate swaps	1,530	2,618
Currency swaps	-	464
	1,530	3,082

33. OTHER LIABILITIES

In thousand of BGN	2013	2012
Provisions on bank and portfolio guarantees	9,535	20,760
Charges on debenture loans and portfolio guarantees	841	1,588
Accruals for expenses	306	491
Payables to personnel and for social security	241	269
Tax payables	21	9
Other liabilities, incl. prepaid commissions	213	-
	11,157	23,117

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 Bank's liability due on retirement benefit obligations as at 31.12.2013.

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 144 thousand included in the balance at 31 December 2013 (31.12. 2012: BGN 167 thousand).

In thousand of BGN	2013	2012
Present value of the liability at 1 January	167	149
Current service cost	3	21
Interest expense	8	8
Amounts paid in the period	(37)	(9)
Actuarial (gains)/losses from changes in demographic and financial assumptions	3	(2)
Present value of the liability at 31 December	144	167

In 2013 actuarial losses form changes in demographic and financial assumptions related to retirements due to illness amounting BGN 2 thousand are recognised in the profit and loss for the year. In 2013 actuarial losses from changes in demographic and financial assumptions related to retirement for old age and service amounting BGN 1 thousand are recognized in other comprehensive income for the year.

33. OTHER LIABILITIES (CONTINUED)

	Amounts on retirement for old age and service		Amounts on retirements due to illness		Total	
In thousand of BGN	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Actuarial gain/(loss) as at January 01	-	-	-	-	-	-
Actuarial gain/(loss), recognized in other comprehensive income for the year	(1)	-	-	-	(1)	-
Actuarial gain/(loss) as at December 31	(1)	-	-	-	(1)	-

The following actuarial assumptions are used in calculating the present value of the liabilities as at 31 December 2013:

- 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 2010 – 2012;
- staff turnover rate – from 0% to 10% depending on the five age groups formed;
- effective annual interest rate for discounting – 4.0% (2012 – 4.5%);
- 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 2014 – 5 % compared to level in 2013 and for 2015 and subsequent years – 5 % compared to the previous year level.

34. SHARE CAPITAL

In thousand of BGN	**2013**	**2012**
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 parent company (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.

35. 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 parent company (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 31.12.2013 the General Reserves of the Group amount to BGN 54,609 thousand. (31.12.2012: BGN 53,851 thousand).

As at 31.12.2013 Additional reserves of the Group amount to BGN 9,442 thousand. (31.12.2012: BGN 8,079 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 2013 after a General Shereholders's Meeting took place in July 2013 and in accordance with article 23 from Decree 1/ 09.01.2013 of the Council of Ministers of the Republic of Bulgaria for the State Budget, a decision for distribution of dividends has been taken, amounting 80% of the profit for the year after deduction of the distribution to reserves. The dividend paid was BGN 5,394 thousand. (2012: The dividend paid was BGN 4,476 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 31.12.2013 the AFS revaluation reserve equals to BGN 46 thousand negative value. (31.12.2012: BGN 526 thousand – negative value).

36. CONTINGENT LIABILITIES AND COMMITMENTS

In thousand of BGN	**2013**	**2012**
Contingent liabilities		
Bank guarantees and letters of credit	115,470	166,980
Incl. with cash collateral	(753)	(5,214)
letters of credit with borrowed funds, accounted as undrawn authorized loans	(3,344)	(13,403)
Recognised in the statement of financial position (provided)	(9,535)	(20,760)
	101,838	127,603
Risk-free counter guarantees	53,299	2,576

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

	2013	**2012**
In thousand of BGN		
As at 1 January	20,760	19,619
Charge for the year	3,022	8,913
Utilized during the year	(3,530)	(2,703)
Reversed for the year	(10,717)	(5,069)
As at 31 December	9,535	20,760
Irrevocable commitments		
Undrawn authorized loans	41,029	43,381
Incl. letters of credit with borrowed funds	*3,344*	*13,403*
Uncalled nominal portion of held EIF shares	4,694	4,694
	45,723	48,075
	147,561	175,678

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 31.12.2013 agreements with eight partner-banks were concluded and the issued bank guarantees by the parent company (the Bank) amount to BGN 9,424 thousand. (31.12.2012: eight partner-banks and the issued bank guarantees amount to BGN 16,697 thousand.).

In 2013 the National Guarantee Fund (a subsidiary) has operating agreements for portfolio guarantees with 11 banks. The total limit of funds provided to the banks for inclusion of loans in the portfolio amounted to 146,500 thousand. As at 31.12.2013 the approved amount of the loans included in the portfolio of the partner-banks amounted BGN 77,792 thousand. (2012: BGN 112,674 ths.), and the amount of the guaranteed debt is BGN 58,729 thousand.(2012: BGN 87,995 ths.).

36. CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

As at 31.12.2013 when applying the maximum amount of guarantee cover from 80 %, NGF EAD has issued risk-free gurantees/counter guarantees toward the partner-banks for the financing of already approved projects under the Operational Programme Fisheries sector Development 2007 – 2013, amounting BGN 10,918 thousand with the total amount of loans/bank guarantees of BGN 16,264 thousand. (2012: guranatees amounting BGN 4,180 thousand with the total amount of loans/bank guarantees of BGN 8,361 thousand). As at 31.12.2013 the guaranteed debt at book value amounts to BGN 6,243 thousand (2012:– BGN 2,576 thousand).

As at 31.12.2013 when applying the maximum amount of guarantee cover from 80 %, NGF EAD has issued risk-free gurantees/counter guarantees toward the partner-banks for the financing of already approved projects under the Rural Development Programme 2007-2013, amounting BGN 73,962 thousand the total amount of loans – BGN 92,097 thousand. Under the Programme the total gurantee limit amounts to BGN 1,132,500 thousand. As at 31.12.2013 the guaranteed debt at book value amounts to 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 Bank, mortgages of real estate and insurance policies issued in favor of the the parent company (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 fund's General Meeting of Shareholders. By the issue date of this financial statement no such a decision has been taken.

37. CASH AND CASH EQUIVALENTS

As at 31 December the cash and cash equivalents include:

In thousand of BGN	**2013**	**2012**
Cash on hand *(Note 16)*	139	119
Current account with the Central Bank *(Note 16)*	233,844	51,417
Amounts due from other banks with original maturity up to 3 months	212,636	130,380
	446,619	181,916

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

Related parties:

Entity	*Type of control*
Ministry of Finance	Majority shareholder of the capital of the BDB AD representing 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
State-owned Enterprise “Communicative Construction and Rehabilitation”	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
Road Infrastructure Agency	Company under joint control with the State
Ministry of Agriculture and Food	Company under joint control with the State
State Fund Agriculture	Company under joint control with the State
National Agency for Fisheries and Aquaculture	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
Bulgarian State Railways EAD	Company under joint control with the State

38. 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 thousand of BGN)):

Assets

Entity	*Type of balance*	2013	2012
Ministry of Finance	Available-for-sale securities	72,596	60,048
Road Infrastructure Agency	Receivables from the State Budget	-	12,666
Ministry of Finance	Held-to-maturity securities	-	5,035

Liabilities

Entity	*Type of balance*	2013	2012
Ministry of Finance	Other borrowings	18,133	18,262
Ministry of Agriculture and Food	Other borrowings	238,500	238,164
National Agency for Fisheries and Aquaculture	Other borrowings	30,509	30,467
South Stream Bulgaria AD	Deposits from customers	230,389	5,852
Bulgarian Energy Holding EAD	Deposits from customers	51,093	-
State Fund Agriculture	Other borrowings	-	3,134
"I C J B" AD	Deposits from customers	2,153	1,445
Bulgarian Institute for Standardization	Deposits from customers	44	27
BULGARGAZ EAD	Deposits from customers	604	7
Bulgarian Independent Energy Exchange EAD	Deposits from customers	50	-
National Electricity Company EAD	Deposits from customers	1	1
State-owned Enterprise "Transport Construction and Rehabilitation"	Deposits from customers	-	1

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

Entity	*Type of transaction*	2013	2012
	Fee and commission income	72	73
Ministry of Finance	Interest income	371	2,459
	Interest expense	(201)	(2,834)
Holding Bulgarian State Railways EAD	Fee and commission income	70	70
Road Infrastructure Agency	Interest income	462	156
Ministry of Agriculture and Food	Interest income	-	5,497
State Fund Agriculture	Interest expense	(28)	(94)
South Stream Bulgaria AD	Interest expense	(6)	(5)
	Fee and commission income	6	4
"I C J B" AD	Interest expense	(2)	(1)
	Fee and commission income	4	1
Bulgarian Energy Holding EAD	Interest expense	(26)	-
	Fee and commission income	2	-
BULGARGAZ EAD	Fee and commission income	1	1
National Electricity Company EAD	Fee and commission income	1	-

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

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

Balances with key management personnel	**2013**	**2012**
Deposits from customers	107	166
Remunerations payable	19	42
Loans and advances to customers	315	185

Transactions with key management personnel	**2013**	**2012**
Remunerations and social security contributions	2,804	1,762
Interest expense	(2)	(2)
Interest income	5	6

39. 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
2013
CONSOLIDATED

Information on the Bank 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.

The mission of Bulgarian Development Bank is to be a contemporary banking institution, which utilizes its unique position on the Bulgarian banking market for implementation of the state's economic policy. Main focus for the Bank are local SME's, project finance for export orientated companies, as well as investment banking for public projects of national importance.

As of 31.12.2013 the paid-in share capital amounts to BGN 601,774 thousand (31.12.2012: BGN 601,774 thousand), consisting of 6,017,735 ordinary registered shares with nominal value of BGN 100 each. The Bank has complied with the requirements of BNB for minimum share capital for banking activity, as well as 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 16.09.2013 in the Commercial Register at the Registry Agency were entered additions and amendments in the Statute of BDB, including actualization of the scope of activity of the Bank. According to the Statute of the Bank, it shall perform 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 extension 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, except 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 checks and letters of credit, as much as such activity is not covered by p. 2;
4. acting as depository or custodian institution;
5. financial leasing;
6. guarantee transactions;
7. trading for its own account or for customers' accounts with:
    - Money market instruments – checks, 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 advisory and services concerning company 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 a Regulation of the Bulgarian National Bank

The Bank may not perform as a core activity other activities, except the above and the activities provided 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 ancillary 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 completion of its objectives, BDB AD forms a financial group together with two of its solely owned subsidiaries – National Guarantee Fund EAD and Micro Financing 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 Register 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 and Micro Financing Institution JOBS EAD is: 10 Stefan Karadhza Str., Sredets District, Sofia 1000. The seat of National Guarantee Fund EAD is: 1 Angel Kanchev Str., Sredets District, Sofia 1000.

As of December 31, 2013 the headcount of the Group is 157.

Characteristics of the environment - Macroeconomic environment and banking system

In 2013 the dynamics of the Bulgarian economy was influenced by the political processes in the country and still the persisting consequences of the economic crisis, leading to uncertainty regarding the future development and increased precautions of the economic agents about their decisions about consumption and investments.

In 2013 the physical volume of GDP increased by 0.9%. The real growth of the indicator is gradually increasing. This is evidence that the recovery process, although slowly, is continuing. In comparison with 2012 when the growth of GDP was a result of the positive contribution of the domestic demand, in 2013 the main engine growth is the net export, while the domestic demand has a negative contribution. Export of goods and services recorded high growth of 8,9% in comparison with 2012 when the record was a decrease of -0,4%. Import is also recording a growth (5,7% in 2013 and 3,3% in 2012), mostly due to the increased demand of the export oriented enterprises. The external demand is driven by the signs for revival of the economies of the main external partners importers of goods and services of Bulgarian producers.

Economic agents continued to postpone consumption and to restrict their investment plans. The final consumption decreased with 1,4% in real terms, mainly because of the dynamics of the individual consumption and the household consumption. The volume of the gross fixed capital formation recorded decline of 0,1%.

Uncertainty in the expectations contributed to the deflation recorded in 2013, for the realized surplus on the current account in the balance of payments and for the low volume of the Foreign Direct Investments. Deflation was also driven by the dynamics of the main indicators in the country labor market, as well as the low demand for loans both by companies and by households.

In 2013 the CPI (national index) is 1,6% and has a negative sign (December – December). Main factors for this result were the dynamics of the international prices, the lower consumption especially in the area of the services, as well as the measures taken by the government in the area of the administered prices and more properly the prices of electricity and heat.

The current account of the balance of payments has a surplus of EUR 831,3 mln (2,1% of GDP) according to the preliminary data of BNB. Preliminary data for FDI's in the country are EUR 1 229,4 mln.

Despite of the growth in the economy in 2013, the trend in the employment is still decreasing, although insignificantly, and the unemployment increased to 13,0% in the fourth quarter of 2013.

In 2013 the assets of the banking system increased with 4.0% and as of 31.12.2013 reached the amount of BGN 85,7 billion. The attracted funds showed similar dynamics and reached BGN 74,4 billion. The amount of the gross loans (excluding loans to financial institutions) increased with 1,1% and as of 31.12.2013 their amount is BGN 58,5 billion. Loans to companies and to households retained their volume as at the end of 2012 (annual growth of 0,4 and respectively 0,5%), while the amount of the mortgage loans to households decreased with 0,6% as at the end of 2013 in comparison with the end of the previous year.

The banking system retained its capacity to sustain unfavorable changes in the environment. The share of the nonperforming loans over 90 days recorded minor changes during the year and as of 31.12.2013 reached 16,9% out of the total credit portfolio (2012 – 16,6%). The commercial banks continued to reduce their impairment costs, which in 2013 are lower with BGN 141 mln (11.7%) than in 2012. The volume and the quality of the capital position of the banking system retained its stability, enabling the banking business to proceed its normal activities. Total capital adequacy of the banking system as at the end of 2013 is 16.85% (2012 – 16.66%). For the first time since 2009 up to now the commercial banks increased, although slightly, their net profit in comparison with the previous year to BGN 584,9 mln in 2013 (after taxes).

Review of activities

In 2013 continued the process of modernization and upgrade of BDB Group. Simultaneously, the companies of the Group continued to expand their business.

In 2013 after structural reorganization in BDB, the process of updating of the internal procedures was finalized. The procedures introduced for the organization of the key business of the bank – lending activity, are successively applied. As at the end of the year a new program for microfinancing of start-up companies and existing SME's under advantageous price conditions, was started. A new program for export financing in partnership with BAEZ is under development, in order to increase competitiveness of the Bulgarian exporters.

The first guarantee scheme of NGF was launched in 2009 and 11 commercial banks were able to contract loans up to February 2013. In 2013, procedure for selection of partner banks to NGF for new guarantee scheme was launched. Unlike the previous scheme, on the new program, banks will have the option to contract loans guaranteed by NGF portfolio, subject to meeting set requirements.

NGF implemented a public procurement procedure for selection of partner banks for guarantees within the initiative of the Program for Rural Development and guarantee program for beneficiaries under the Operational Program for Fisheries Development. A system for thorough analysis of the risks born by guarantees was updated and adequate coverage of risks related to guarantees made at the initial stage of operation of the company was achieved. New core IT system was implemented.

In 2013, MFI Jobs has provided financing to the target groups in the form of loans for investments and working capital and finance leases. In the IV-quarter Management Board of Bulgarian Development Bank decided to start the process of transformation of MFI Jobs through acquisition in the parent company - BDB.

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 2013 impairment coverage of exposures to non-financial institutions was raised from 17.2% to 21.3%.

As at 31.12.2013 the consolidated financial result of Bulgarian Development Bank Group after taxes is a profit amounting to BGN 15,437 thousand (2012: BGN 8,495 thousand). The financial result in 2013 was influenced significantly by the lower impairment of the loan portfolio. Net costs for impairment of loans are at a total amount of BGN 34,675 thousand (2012: BGN 39,179 thousand). Provisions for guarantee commitments for the amount of BGN 7,696 thousand were released (in 2012 provisions for the amount of BGN 3,844 thousand were allocated).

The realized operating income of the Group in 2013 reached BGN 59,284 thousand (2012: BGN 64,873 thousand). The decline in the operating income is due to a lower net interest income for 2013 in the amount of BGN 57,492 thousand (2012: BGN 62,638 thousand). The decrease is due to a decline in the lending interest rates.

The general and administrative expenses in 2013 amount to BGN 13,185 thousand (2012: BGN 12,017 thousand). Significant contribution for the increase has the extraordinary expenses related to the changes in the Management Board during the year. BDB Group is maintaining the lowest cost to income ratio before impairment for the Bulgarian banking system in 2013 - 22.2%.

As of 31.12.2013 the consolidated assets of Bulgarian Development Bank Group reached BGN 1,801 mln., which is a 6% increase (BGN 108 mln.) in comparison with the end of 2012.

In 2013, BDB Group continued to actively develop its activities supporting the Bulgarian business in a difficult economic environment. The loan portfolio increased by 4.3% to BGN 582,422 thousand (2012: BGN 558,669 thousand). BDB Group continued to maintain a diversified sector structure of its loan portfolio. Significantly decreased the relative shares of waste collection (minus 1,5 pp) and agriculture (minus 0.9 pp). Increased the shares of industry (+ 5.9 pp) and real estate operations (+ 0,8 pp).

The volume of indirect lending through commercial banks (on-lending) as of 31.12.2013 amounted to BGN 385,341 thousands (BGN 491,432 thousands at the end of 2012).

The securities portfolio of BDB Group increased up to BGN 162,663 thousand (2012: BGN 130,436 thousand) and is predominantly comprised of government bonds. Investments in securities are not among the priority activities of BDB Group. The increase in the portfolio at the end of 2013 was due to the temporary availability of excess liquid funds.

As of 31.12.2013 the amount of utilized funds from international financial institutions is BGN 275,861 thousand (2012: BGN 341,099 thousand). The cooperation with key international partners continued. There were no utilization of funds during the year because of availability of enough funds for the operations of the bank. Two new credit lines were contracted with the International Investment Bank and Hungarian Exim Bank.

Except its traditional sources of funding, in 2013 BDB Group initiated negotiations for additional financial facilities with five more new and existing partners (European Investment Bank, Turkish Exim Bank, HSBC, Chinese Exim Bank and HypoNoe) for extension to BDB of export financing and financing of projects of common interest. A state guarantee for the amount of EUR 150 mln was negotiated for the new credit line from the European Investment Bank.

Risk management

In the usual course of business, the Group is 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 Bank is exposed, are credit risk, market risk and operating risk.

Credit risk

Credit risk is the main risk to which the bank 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 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 level 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, 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 in off-balance sheet commitments (guarantee) by NGF has two levels - an individual transaction (guarantee) 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 – i.e. Advisory Committee composed of representatives of Ministry of Agriculture and Forestry and BDB, which approves assumption of guarantee commitments over BGN 500,000. Portfolio level credit risk is managed by capping the payment, limiting the commitment of NGF to pay up to a certain proportion of the value of 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 is to make a preliminary assessment of the creditworthiness of customers and to require additional collateral for the lease and loan contracts and transfers of receivables - insurance of the leased assets, registration of leases in SPR, guarantors, promissory notes and pledges of receivables and 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 case of market and 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 restrictions related to certain ratios. As at 31.12.2013 the Bank has complied with all regulatory requirements of the BNB and the Bulgarian legislation on individual and consolidated basis.

The Group in its activities should comply with the regulatory requirements for capital adequacy while executing the main objectives of its establishment – support for the economic policies of the country and the development of small and medium enterprises. The capital adequacy ratio on consolidated basis as of 31.12.2013 is 53.27% (31.12.2012 – 53.59%), which manifold exceeds the minimum required capital adequacy ratio of 12%.

Credit rating and international activities

On 30th September 2013 the rating agency "Fitch Ratings" performed its regular annual review and affirmed all ratings of BDB. The long-term rating of the bank is "BBB-", the short-term rating of the bank is affirmed at "F3". The rating's perspective is stable. The investment community considers these ratings as an investment grade and is at the highest level in the Bulgarian banking system - evidence of the sound financial position of BDB amid the ongoing processes in Europe.

BDB continues to successfully develop fruitful partnerships with major European and International financial institutions by participating in international specialized associations. These relations enable the Bank to benefit from the best banking practices, know-how, information for financial products and to participate in their development and implementation.

BDB has a prompt access to qualitative information about the newest changes in the legislative base on an European level and its implementation in the area of the Development Banks and has an opportunity to participate directly in these changes. Membership in international specialized associations allows the bank to take part 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. In November 2013 on a general assembly of the association in Brussels, Mr. Dimo Spassov – CEO of BDB, was elected as a member of the Administrative Board of this prestigious European banking organization. In 2013 BDB continued to take part in the workshops and seminars, organized by EAPB, related to the development of the collaboration with the EC, the financial legislation and the implementation of financial instruments during the new program period. BDB also participates in the international project FIN-EN for implementation and use of financial engineering instruments for the enterprises and practice in different countries. The membership in EAPB facilitates the exchange of experiences and best practices between BDB and the European public banks.

Since 2007 the Bank is also a member of the Network of European Financial Institutions (NEFI), in which 17 institutions from different European countries participate. The objectives of NEFI are to improve the exchange of information and ideas in order to facilitate the access to the SME financing. In 2013 the members of NEFI actively worked upon the preparation of common opinions about various topics, related to the new financial instruments and programs, the changes in the state aid legislation, as well as seminars on various topics.

In 2013 BDB continued its activities in the Club of Institutions of the European Union Specializing in Long-Term Credit. In order to expand its activities and to ensure sustainable representation, an EU level restructuring of the Club began. In July 2013 the Club was transformed and named European Association of Long-Term Investors (EALI). BDB is a co-founder of this new organization. The first General Assembly of the Association was held and organizational issues were discussed. The main focus was the future development of the institution and the guidelines of its activities.

BDB is a shareholder in the European Investment Fund (EIF), holding 0.10% 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, as well as the forthcoming increase of the capital of the Fund.

National Guarantee Fund EAD is a member of the European Mutual Guarantee Association (AESM), involving 39 companies from 20 countries of the EU, Russia and Turkey. The main objective of the association is to support small and medium enterprises with good business projects, but with insufficient collateral or own funds. In 2013 NGF participated in the drafting of opinions for the European Commission, also in a forum for the application of the guarantee models in Europe, where best practices and potential implementation difficulties were discussed.

In 2013, MFI Jobs EAD contracted a guarantee line of EUR 1.33 million, which is provided by the EIF by the European Microfinance "Progress" mechanism. The stipulated guarantee facilitates access to finance for Bulgarian micro enterprises. This guarantee line is the second agreement between the MFI Jobs and EIF and is the result of good relations between the two parties. Through the funds in the first line MFIs Jobs has disbursed over 204 loans and leases to micro enterprises.

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 2013 the Supervisory Board had the following composition: Dorothea Ivanova Pandova (Chairman of SB), Diana Toneva Dragneva-Ivanova (Member of SB) and Rumen Andonov Porozhanov (Member of SB). The extraordinary general meeting of the shareholders held on 25.03.2013 took a decision to release as a member of the SB Mrs Dorothea Ivanova Pandova and elected a new member – Mr Stefan Alexandrov Belchev. On 29.03.2013 the Supervisory Board elected as a Chairman of the SB Mr. Stefan Alexandrov Belchev and for Deputy Chairman – Mrs Diana Dragneva-Ivanova. As of 31.12.2013 the Supervisory Board of BDB had the following members: Stefan Alexandrov Belchev – Chairman of SB, Diana Toneva Dragneva-Ivanova – Deputy Chairman of SB, Rumen Andonov Porozhanov – member of SB.

As at the beginning of 2013 the Management Board of the bank had the following members: Assen Vassilev Yagodin – Chairman of MB and Chief Executive Officer, Vladimir Vladimirov Gyulev - Deputy Chairman and Executive Director, Iliya Zapryanov Karanikolov - Member of the Management Board and Executive Director, Andrey Ivanov Genev – Member of the Management Board and Hristo Vangelov Karamfilov - Member of the Management Board. The Bank was represented jointly by any two of the three Executive Directors.

In order to optimize the activities of the bank, on an extraordinary General Meeting of the Shareholders of the bank held on 25.03.2013, the number of the members of the MB was reduced from five to three. Regarding the aforementioned amendment, the SB took a decision on 29.03.2013 to make the following changes to the MB: SB released Vladimir Vladimirov Gyulev and Andrey Ivanov Genev as members of the MB. After this amendment the MB had the following members: Assen Vassilev Yagodin – Chairman of MB and Chief Executive Officer, Hristo Vangelov Karamfilov - Deputy Chairman of MB and Iliya Zapryanov Karanikolov - Member of the Management Board and Executive Director. The Bank was represented jointly by any two of the three Executive Directors.

On 28.08.2013 the SB took a decision to release Mr Hristo Karamfilov and Mr Iliya Karanikolov as members of the Management Board. On the same date the SB took a decision to appoint as members of the Management Board Mr Dimo Evgeniev Spassov and Mr Bilian Lyubomirov Balev. After the decision of the SB and after a decision taken on the meeting of the Management Board on 11.09.2013, the members of the MB of BDB were: Dimo Evgeniev Spassov - Chairman of MB and Chief Executive Officer, Bilian Lyubomirov Balev - Deputy Chairman and Executive Director and Assen Vassilev Yagodin - Member of the Management Board. The Bank was represented jointly by two Executive Directors.

On 11.10.2013 the SB took a decision to release Mr Assen Yagodin. As a new member of the MB was appointed Mr Ivan Hristov. After this decision the members of the MB of BDB were: Dimo Evgeniev Spassov - Chairman of MB and Chief Executive Officer, Bilian Lyubomirov Balev - Deputy Chairman and Executive Director and Ivan Kirilov Hristov – Member of the Management Board.

On 10.12.2013 the MB took a decision to appoint Mr Ivan Kirilov Hristov in his capacity of a member of the MB, as an Executive Director of the bank.

As of 31.12.2013 the members of the Management Board of BDB were: Dimo Evgeniev Spassov - Chairman of MB and Chief Executive Officer, Bilian Lyubomirov Balev - Deputy Chairman and Executive Director and Ivan Kirilov Hristov – Member of the Management Board and Executive Director. The Bank was represented jointly by any two of the three Executive Directors.

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

The participation of members of the SB and MB in commercial companies as general partners, holding more than 25 percent of the capital of another company, 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:
  - ➢ Stefan Alexandrov Belchev participates in the Management of Hospital UMBALSM "Pirogov" EAD as a member of the Management Board.
  - ➢ Diana Toneva Dragneva-Ivanova does not participate in the management of other companies.
  - ➢ Rumen Andonov Porozhanov does not participate in the management of other companies.

The members of the SB of BDB do not participate in the capital of other companies.

- The members of MB of BDB have the following participations in the capital and in the management of other companies:
  - ➢ Dimo Evgeniev Spassov participates in the management of National Guarantee Fund EAD, UIC 200321435 as Chairman of the Board of Directors. Mr Spassov

is a member of the Administrative Board of the European Association of Public Banks (EAPB).

Mr Spassov is a sole shareholder and manager of "Alternativa Finance" EOOD, UIC 200833738.

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

Mr Balev is a partner in "Fininvest" OOD and 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.

- Ivan Kirilov Hristov does not participate in the management and in the capital of other companies.

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) as during 2013 it consists of three members. At the beginning of the year the Board of Directors is composed by Andrey Ivanov Genev - Chairman of the Board, Dimitar Ivanov Mitev – Deputy Chairman and member of the Board and Samuil Pavlov Shiderov - member of the Board and CEO. On April 17, 2013 after a decision of the sole shareholder (BDB) the Board of Directors was changed as follows: Andrey Ivanov Genev and Dimitar Ivanov Mitev were released as members of the Board of NGF. The Board consisted of with the following members: Iliya Zapryanov Karanikolov - Chairman of the Board, Rosen Emanuilov Nenov - member of the Board and Samuil Pavlov Shiderov – Deputy Chairman of the Board and CEO. On July 25, 2013 after a decision of the sole shareholder (BDB) the Board of Directors was changed as follows: Rosen Emanuilov Nenov was released as member of the Board of NGF. The Board consisted of with the following members: Iliya Zapryanov Karanikolov - Chairman of the Board, Mihail Petrov Sotirov - member of the Board and Samuil Pavlov Shiderov - Deputy Chairman of the Board and CEO. At September 27, 2013 after a decision of the sole shareholder (BDB) the Board of Directors was changed as follows: Dimo Evgeniev Spasov - Chairman of the Board, Mihail Petrov Sotirov - member of the Board and Samuil Pavlov Shiderov - Deputy Chairman 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 have no special rights to acquire such shares.

No contracts within the meaning of Art. 240 "b" of the Commercial Law are concluded between the members of the BoD of NGF EAD or related persons on one side and the company on the other side, falling beyond their usual activities or significantly deviating from markets conditions.

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 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:

- Members of the BoD have the following participations in the management of other companies:
  - Dimo Evgeniev Spasov is a member of the Management Board of BDB, UIC 121856059;

    Mr Spasov is sole owner of the capital and manager of Alternativa Finans EOOD, UIC 200833738.

- o 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.

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

From the beginning of 2013 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 25.04.2013 an amendment is inscribed in the Commercial Register that in the place of Iliya Zapryanov Karanikolov - Chairman of the Board of Directors, was inscribed Kostadin Bozhikov Munev - member of the Board of Directors. Hristo Vangelov Karamfilov was inscribed as a Chairman of the Board of Directors, Martin Emilov Ganchev was inscribed as a Deputy Chairman of the Board of Directors. On the same date the procuracy of Kostadin Bozhikov Munev in the Commercial Register was removed.

On 04.10.2013 an amendment is inscribed in the Commercial Register that in the place of Hristo Vangelov Karamfilov - Chairman of the Board of Directors, was inscribed Bilian Lubomirov Balev - Chairman of the Board of Directors.

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

There are no concluded contracts with respect to article 240 "b" of the Commercial Law between the members of the BoD, the procurator or related to them parties on one side and the company on the other side, which divert from their regular activity or significantly divert from the market conditions.

The participation, with respect to article 247, paragraph 2, item 4 of the Commercial Law, of the members of the BoD in commercial entities as unlimited liability partners, ownership of more than 25% of the capital of another entity, as well as their participation in companies or associations as Procurators, managers or members in boards is as follows:

- The members of the BoD of the Company have the following participations in the management of other entities:
  - o 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 and Northern Ireland.
  - o Martin Emilov Ganchev and Kostadin Bozhikov Munev do not have participations in other entities or cooperations with respect to article 247, paragraph 2, item 4 of the Commercial Law.

The remuneration paid to the persons, managing the companies of the BDB Group (the Bank and its subsidiaries) in 2013 amounted to BGN 2,804 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 № 38 to the consolidated financial statements of BDB for 2013 transactions with related parties and companies under common state control are presented.

Development strategy and business objectives. Financial goals and objectives

Within the next strategic horizon, the focus will be the transformation of BDB into a fully fledged development bank and the increase of its capacity in support of the Bulgarian economy.

Amendments in the existing Law on BDB are foreseen to happen in order to improve, stimulate and develop the common economic, export and technological potential of the SMEs by facilitating their access to financing. The existing Micro Financing Institution Jobs, whose main activity - lending (to micro enterprises) coincides with that of BDB is in the process of merger with the Bank. A Venture Capital Fund will be established and the export and trade financing in the bank will be developed.

A network of 10 to 12 representative offices in the country will be developed, covering the main centers of economic activity. The bank will be active on issues related to the management of the funds provided by JEREMIE, JESICA and other EU financial instruments. BDB will continue to support the beneficiaries of EU programs (SMEs, farmers and export-oriented companies) for realization of their investment projects in the future.

Accelerated growth in the granted loans is envisaged. The growth will be realized in both indirect and direct lending as gradually the share of the loans granted by other banks will become larger. Through its subsidiaries BDB Group will continue to expand the range of services for SMEs, whereas NGF will develop the administration of warranty programs targeted for specific business sectors and guarantee activities for their own risk.

The business development in 2014 will focus on the development of lending activity. The Bank will continue to observe the principle of prudent lending and to pursue its conservative approach to risk-taking and assets impairment. Export and trade finance will be a new activity for BDB ("exim" function). It is foreseen that the exim function will be developed within BDB as a separate business line. The development of the exim activity of BDB will improve the competitiveness of the Bulgarian exporters and will support export-oriented economic development.

Events after the date of the balance

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 in the report.

Declaration of the management

The Management of the Bank declares that the attached annual financial statements fairly reflect the assets and financial status of the Group at the end of 2013 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 April 2nd 2014 by the Management Board of BDB and signed by:

EXECUTIVE DIRECTORS:

Dimo Spassov

Bilian Balev

Ivan Hristov