ProCredit Bank

Part of the ProCredit Group

Consolidated Financial Statements 2013

www.procreditbank.bg

PROCREDIT BANK (BULGARIA) EAD
CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2013

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

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

INDEPENDENT AUDITORS' REPORT

To the sole shareholder of
ProCredit Bank (Bulgaria) EAD

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of ProCredit Bank (Bulgaria) EAD ("the Bank"), which comprise the consolidated statement of financial position as at 31 December 2013, the consolidated statements of profit or loss, 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.

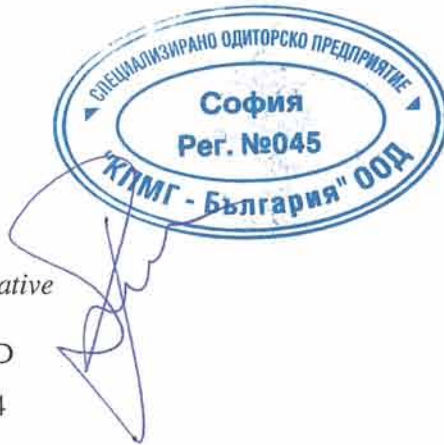
KPMG Bulgaria OOD, a Bulgarian limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Company 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.



Dobrina Kaloyanova
Authorised representative

Krassimir Hadjidinev
Registered auditor

KPMG Bulgaria OOD

Sofia, 31 March 2014

Consolidated Income Statement

(all amounts expressed in thousands of BGN)	Notes	Year ended 31 December	
		2013	**2012**
Interest income	6	103,709	110,855
Interest expenses	6	(31,315)	(35,957)
Net interest income		72,394	74,898
Net impairment loss on financial assets	7	(4,993)	(13,387)
Net interest income after allowances		67,401	61,511
Fee and commission income	8	21,085	22,546
Fee and commission expenses	8	(1,897)	(1,280)
Net fee and commission income		19,188	21,266
Trading result	9	4,268	4,458
Net income from financial assets at fair value through profit and loss	10	(432)	(174)
Other operating income	11	127	739
Operating income		90,552	87,800
Personnel expenses	12	(27,252)	(29,797)
Other administrative expenses	13	(39,279)	(37,040)
Operating expenses		(66,531)	(66,837)
Profit before income tax		24,021	20,963
Income tax expense	14	(2,342)	(2,071)
Profit for the year		21,679	18,892
Profit attributable to:			
Equity holders of the group		21,679	18,892
Non-controlling interest		-	-
Profit for the period		21,679	18,892

These consolidated financial statements on pages 1 to 46 were approved by the Management Board and signed on its behalf by:

Emilia Tzareva
Executive Director and
Member of the Management Board
31 March 2014

Rumyana Todorova
Executive Director and
Member of the Management Board

KPMG Bulgaria OOD

Dobrina Kaloyanova
Authorised Representative

Krassimir Hadjidinev
Registered Auditor

The following notes set out on pages 6 to 46 form an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

(all amounts expressed in thousands of BGN)	Notes	Year ended 31 December	
		2013	**2012**
Profit for the year, recalculated for 2012	2e	21,679	18,892
Other comprehensive income			
Items that will never be reclassified to profit or loss			
Remeasurements of post employment benefits, net of tax		45	20
Items that are or may be reclassified to profit or loss			
Change in revaluation reserve from available-for-sale financial assets		(247)	16
Other comprehensive income for the year, net of tax		(202)	36
Total comprehensive income for the year		21,477	18,928
Total comprehensive income attributable to:			
Equity holders of the group		21,477	18,928
Non-controlling interest		-	-
Total comprehensive income for the year		21,477	18,928

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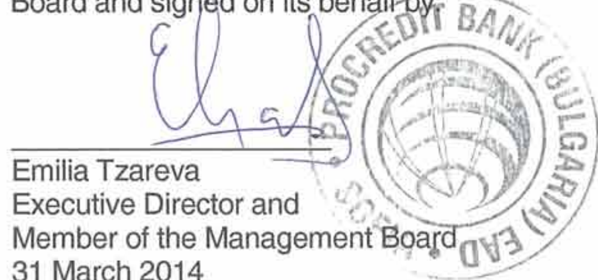

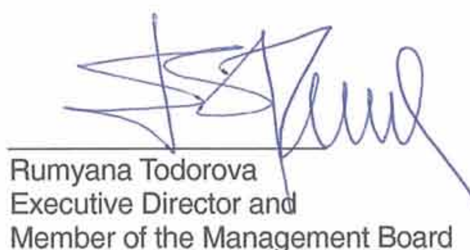

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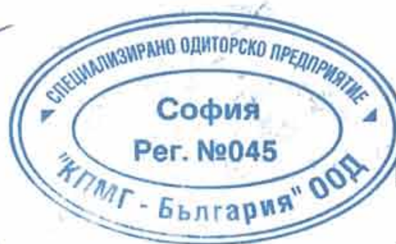

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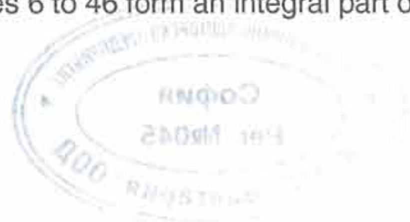

Consolidated Statement of Financial Position

(all amounts expressed in thousands of BGN)	Notes	As of 31 December	
		2013	2012
ASSETS			
Cash and cash equivalents	15	155,490	188,064
Loans and advances to banks	16	89,224	40,426
Financial assets at fair value through profit or loss	17	-	23,414
Available-for-sale financial assets	18	29,230	872
Loans and advances to customers	19	1,019,497	1,013,035
Equipment and intangible assets	20	48,916	50,706
Deferred tax assets	21	457	119
Other assets	22	29,973	29,041
Total assets		1,372,787	1,345,677
LIABILITIES			
Liabilities to banks	23	69,529	41,740
Liabilities to customers	24	896,451	907,214
Liabilities to institutions	25	169,910	160,302
Subordinated debt	26	8,128	8,118
Hybrid capital	27	50,467	64,747
Current tax liabilities		72	1,204
Deferred tax liabilities	21	769	640
Other liabilities	28	6,174	5,057
Total liabilities		1,201,500	1,189,022
SHAREHOLDERS' EQUITY			
Share capital and share premium	29	129,351	116,638
Retained earnings and other reserves	30	41,936	40,017
Total shareholders' equity		171,287	156,655
Total shareholders' equity and liabilities		1,372,787	1,345,677

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31 March 2014

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PROCREDIT BANK (BULGARIA) EAD SOFIA

KPMG Bulgaria OOD

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

The following notes set out on pages 6 to 46 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

(all amounts expressed in thousands of BGN)	Share capital	Share premium	Legal and other reserves	Retained earnings	Revaluation reserve	Total
Balance as of 1 January 2012	**113,142**	**3,496**	**10,485**	**10,604**	**-**	**137,727**
Comprehensive income for the period						
Profit for the year, recalculated	-	-	-	18,892	-	18,892
Revaluation of afs securities	-	-	-	-	16	16
Remeasurement of post employment benefits, net (note 2e)	-	-	20	-	-	20
Total comprehensive income for the period	**-**	**-**	**20**	**18,892**	**16**	**18,928**
Transactions with owners, recorded directly in equity						
Distributed dividends	-	-	-	-	-	-
Transfer from legal reserves	-	-	(23)	23	-	-
Capital increase, voting shares	-	-	-	-	-	-
Total contributions by and distributions to owners	**-**	**-**	**(23)**	**23**	**-**	**-**
Balance as of 31 December 2012	**113,142**	**3,496**	**10,482**	**29,519**	**16**	**156,655**
Comprehensive income for the period						
Profit for the year	-	-	-	21,679	-	21,679
Revaluation of afs securities	-	-	-	-	(247)	(247)
Remeasurement of post employment benefits, net (note 28)	-	-	45	-	-	45
Total comprehensive income for the period	**-**	**-**	**45**	**21,679**	**(247)**	**21,477**
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Distributed dividends	-	-	-	(19,558)	-	(19,558)
Transfer to legal reserves	-	-	5	(5)	-	-
Capital increase, voting shares	12,713	-	-	-	-	12,713
Total contributions by and distributions to owners	**12,713**	**-**	**5**	**(19,563)**	**-**	**-6,845**
Balance as of 31 December 2013	**125,855**	**3,496**	**10,532**	**31,635**	**(231)**	**171,287**

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31 March 2014

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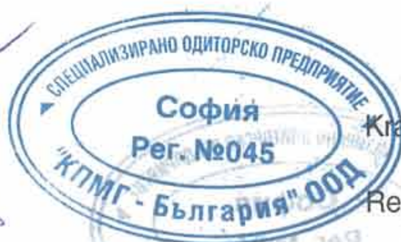

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Authorised Representative

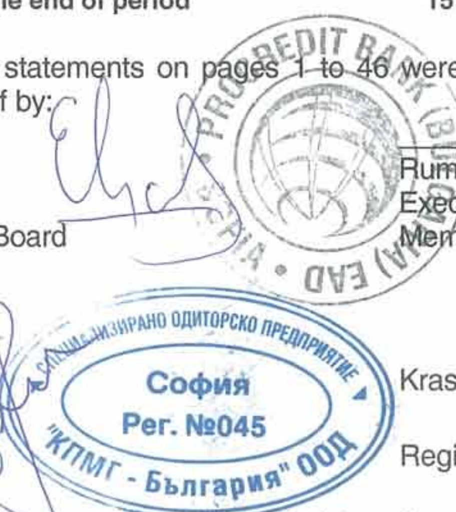
Krassimir Hadjidinev
Registered Auditor

The following notes set out on pages 6 to 46 form an integral part of these financial statements.

Consolidated Cash Flow Statement

(all amounts expressed in thousands of BGN)	Notes	Year ended 31 December	
		2013	2012
Cash flows from operating activities			
Profit for the period, recalculated for 2012		21,679	18,892
Adjustments for:			
Net impairment loss on loans and advances	7, 19	4,993	13,387
Net loss from financial assets at fair value through PL	10	432	174
Depreciation	13	5,558	5,566
Unrealised (gains) from currency revaluation	9	(42)	(1)
Net interest (income)	6	(72,394)	(74,898)
Income tax expense	14	2,342	2,071
Change in operating assets and liabilities			
Change in required reserve with the central bank		159	(3,743)
Change in financial assets at fair value through profit or loss		21,473	1,396
Change in loans and advances to customers		(12,991)	(32,427)
Change in other assets		(1,056)	(2,623)
Change in liabilities to banks		27,591	2,633
Change in liabilities to customers		(10,051)	48,899
Change in other liabilities		1,117	1,008
Interest received		106,000	112,370
Interest paid		(32,156)	(36,060)
Income tax paid		(3,514)	(1,096)
Net cash flows from operating activities		**59,140**	**55,548**
Cash flow from investing activities			
Acquisition of investment securities		(28,659)	(73)
Proceeds from sale of investment securities		73	-
Acquisition of equipment and intangible assets		(3,768)	(3,954)
Net cash flows from investing activities		**(32,354)**	**(4,027)**
Cash flows from financing activities			
Proceeds from other borrowed funds		48,644	47,779
Repayment of other borrowed funds		(52,202)	(50,780)
Proceeds from the issuance of share capital		12,713	-
Dividends paid		(19,558)	-
Net cash flows from financing activities		**(10,403)**	**(3,001)**
Net increase in cash and cash equivalents		**16,383**	**48,520**
Cash and cash equivalents at the beginning of period		**150,784**	**102,264**
Cash and cash equivalents at the end of period	15	**167,167**	**150,784**

These consolidated financial statements on pages 1 to 46 were approved by the Management Board and signed on its behalf by:



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31 March 2014
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The following notes set out on pages 6 to 46 form an integral part of these financial statements.

1 Reporting entity

ProCredit Bank (Bulgaria) EAD ("ProCredit Bank" or "the bank") was established on 6 June 2001 as a result of the foundation meeting held by the shareholders, namely the European Bank for Reconstruction and Development ("EBRD"), the International Finance Corporation ("IFC"), ProCredit Holding AG & Co. KGaA ("ProCredit Holding"), Deutsche Investitions-und Entwicklungsgesellschaft GmbH ("DEG") and Commerzbank AG. The bank was registered as a Bulgarian joint stock company on 28 September 2001 with the Sofia City Court. In 2004 a new shareholder has joined the bank - Internationale Projekt Consult GmbH. In November 2005 ProCredit Holding acquired an additional 38.84% of the capital of ProCredit Bank (Bulgaria) EAD, increasing its share to 59.13 % of the registered capital of the bank. ProCredit Holding acquired the shares from IFC and DEG. The two financial institutions remain shareholders (DEG through Kreditanstalt für Wiederaufbau ("KfW")) and continue to be strongly involved in ProCredit Holding. In December 2007 ProCredit Holding acquired an additional 1.45% of the capital of ProCredit Bank (Bulgaria) EAD, increasing its share to 60.58% of the registered capital of the bank. ProCredit Holding acquired the shares from Internationale Projekt Consult GmbH which remains a shareholder and continues to be strongly involved in ProCredit Holding. In April 2008 ProCredit Holding acquired an additional 19.71% of the capital of ProCredit Bank (Bulgaria) EAD by purchasing the shares of EBRD and thus increasing its share to 80.29% of the registered capital of the bank. Following the bank's capital increase in 2011 at the amount of BGN 3,621 thousand, ProCredit Holding increased its share to 80.90% of the bank's registered capital with the remaining 19.10% held by Commerzbank. In 2012 ProCredit Holding acquired the remaining 19.10% of the capital held by Commerzbank and became the sole owner of the bank's capital.

The bank has two wholly owned subsidiaries – ProLease (Bulgaria) EAD, a financial leasing company and ProCredit Properties EAD (referred to collectively in these statements as "the group"). Together with the bank, ProCredit Properties EAD co-owns the head office building of the group of ProCredit Bank (Bulgaria) EAD. The bank is also part of the international group of financial institutions owned by ProCredit Holding. ProCredit Holding is the ultimate parent and ultimate controlling party of the ProCredit group of banks ("the ProCredit group").

The group is managed through a Supervisory Board consisting of five members and a Management Board consisting of five members as of December 2013 which are elected for a period of three years.

ProCredit Bank is a development oriented full service bank which aims to be a house bank for businesses and private clients. Business clients, serviced by the bank, are companies, agricultural producers and self-employed persons. They are categorised as Very Small, Small and Medium in accordance to their business potential. Private clients are regular income receivers (salary, pension or other), students and business owners. The bank strives to have comprehensive knowledge for its customers and to implement an individual approach and strategy for servicing each client, being based on the client's profile. Strategically, the bank focuses on production companies, agricultural producers, green and energy efficiency financing. Automation and increasing the usage of services delivered by high-technological channels is another focus of ProCredit Bank as efficiency is improved and more possibilities for active communication with the clients are available. The business model of ProCredit Bank proved its resilience and sustainability through the years of the economic downturn with the profitability levels in terms of return on equity being amongst the highest in the Bulgarian banking system in 2012 and 2013.

2 Basis of preparation

a Compliance with International Financial Reporting Standards

The consolidated financial statements of the group are prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"). These financial statements were prepared on a consolidated basis according to the Accountancy Act. The consolidated financial statements were approved by the Management Board on 28 March 2014. The financial statements were prepared on the historical cost basis except for the derivative financial instruments, financial assets and liabilities at fair value through profit or loss and available-for-sale financial assets that are measured at fair value. The preparation of financial statements is in conformity with IFRS, which requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities as well as disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas in which assumptions and estimates are significant to the financial statements are disclosed in note 2d. The financial statements are presented in Bulgarian leva (BGN), which is the group's functional currency.

b Measurement basis

These consolidated financial statements were prepared under the amortised cost convention, unless IFRS require recognition at fair value. Financial instruments measured at fair value for accounting purposes on an ongoing basis include all instruments at fair value through profit or loss and financial instruments classified as available-for-sale. Details on the applied measurement techniques for the balance sheet positions are part of the accounting policies listed below.

c Consolidation

The consolidated financial statements comprise the financial statements of ProCredit Bank (Bulgaria) EAD and its subsidiaries as of 31 December 2013. Subsidiaries are all companies which are controlled by the group, i.e. for which the group can determine the financial and operating policies. All subsidiaries are fully consolidated. New subsidiaries are fully consolidated from the end of the month during which control is transferred to the group. The group has two wholly owned subsidiaries: ProLease (Bulgaria) EAD and ProCredit Properties EAD. Intercompany transactions, balances and unrealised gains and losses on transactions between the bank and its subsidiary companies are eliminated. Where necessary, the accounting policies of the subsidiary have been changed to ensure consistency with the policy adopted by the group. The purchase method of accounting is used to account for the acquisition of subsidiaries by the group. The goodwill represents the excess of the cost of the acquisition over the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in profit or loss.

d Use of assumptions and estimates

The group makes estimates and assumptions that affect the reported amounts of assets and liabilities in conformity with IFRS. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

2 Basis of preparation (continued)

d Use of assumptions and estimates (continued)

Impairment losses on loans and advances

The group reviews its loan portfolios to assess impairment at least once per month. In determining whether an impairment loss should be recorded in the income statement, the group makes judgements as to whether there are any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group of borrowers. The group's management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

e Changes in accounting policies

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

- *Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)*)

These amendments to IFRS 7 did not lead to any effect in the financial statements as at 31 December 2013 because the group does not apply offsetting of financial assets and liabilities.

- IFRS 13 *Fair Value Measurement*

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such disclosures are required or permitted by other IFRSs. In particular, it unifies the definition of fair value as the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date. It also replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7. As a result the group has included additional disclosures in this regard (see note 5).

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

- *Presentation of Items of Other Comprehensive Income* (Amendments to IAS 1)

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

- IAS 19 *Employee Benefits* (2012)

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

Previously, the group recognised its actuarial gains and losses as income or expense for the period. The unrecognised actuarial losses, net of tax as at 31 December 2013 were in the amount of BGN 45 thousand (1 January 2013: BGN 20 thousand).

2 Basis of preparation (continued)

e Changes in 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 group does not plan to adopt these standards early.

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

- Amendments to IAS 32 *Offsetting Financial Assets and Financial Liabilities* shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2014. The group does not expect the amendments to have any impact on the financial statements since the group does not apply offsetting to any of its financial assets and financial liabilities and it has not entered into master netting arrangements.
- 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), IAS 28 *Investments in Associates and Joint Ventures* (2011) which supersedes IAS 28 (2008) shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2014.

The group does not expect the new standards to have material impact on the financial statements as they will not lead to change in accounting policies.

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) have an effective date 1 January 2015 and could change the classification and measurement of financial instruments.

3 Summary of significant accounting policies

a Foreign currency translation

(a) Functional and presentation currency
Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in Bulgarian leva, which is the group's functional and presentation currency. All amounts stated within the financial statements are presented in thousands of Bulgarian leva unless otherwise specified.

(b) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement (trading result).

Monetary items denominated in foreign currency are translated with the closing rate as of the reporting date. In the case of changes in the fair value of monetary assets denominated in foreign currency classified as available-for-sale, a distinction is made between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, while other changes in the carrying amount are recognised in equity.

Non-monetary items measured at historical cost denominated in foreign currency are translated with the exchange rate as of the date of initial recognition.

As of 31 December 2013, monetary assets and liabilities denominated in foreign currency were translated into Bulgarian Leva at the official central bank exchange rate: BGN 1.95583 for EUR 1 and BGN 1.41902 for USD 1 (2012: BGN 1.95583 for EUR 1 and BGN 1.483600 for USD 1). In 1997 a currency board was introduced in Bulgaria by law. The local currency is pegged to the EUR at a rate of BGN 1.95583 for EUR 1.

b Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and to settle the liability simultaneously.

c Interest income and expenses

Interest income and expenses for all interest-bearing financial instruments, except for those classified as at fair value through profit or loss, are recognised within "Interest income" and "Interest expense" in the income statement using the effective interest rate method. Interest income and expense are recognised in the income statement in the period in which they arise.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

3 Summary of significant accounting policies (continued)

c Interest income and expenses (continued)

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. For loans where there is objective evidence that an impairment loss has been incurred, the accrual of interest income is terminated not later than 90 days after the last payment. Payments received with respect to written-off loans are not recognised in "Net interest income".

d Fee and commission income and expenses

Fees and commissions consist mainly of fees for Bulgarian leva and foreign currency transactions, and are generally recognised on an accrual basis. Fee and commission expenses concern fees incurred by the group in dealings with other banks and are recognised on the date of the transaction. Asset management fees related to the servicing of loans, originated by the group and transferred to other companies are recognised over the period to which they relate.

e Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, interest, dividends and foreign exchange differences of trading assets and liabilities.

f Net income from other financial instruments at fair value

Net income from other financial instruments at fair value relates to financial assets and liabilities designated at fair value through profit or loss, and include all realised and unrealised fair value changes, interest, dividends and foreign exchange differences of financial assets and liabilities designated at fair value.

g Financial assets

The group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets. The group holds no held-to-maturity instruments. Management determines the classification of financial assets at initial recognition.

(i) Financial assets at fair value through profit or loss
This category has two sub-categories: financial assets held for trading ("trading assets"), i.e. the derivatives held, and financial assets designated at fair value through profit or loss at inception. The group does not apply hedge accounting.

Financial assets are designated at fair value through profit or loss when they are part of a separate portfolio that is managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy. The monthly reporting on these portfolios and the included assets to key management personnel is also done on a fair value basis. The fair values reported are usually observable market prices; as a guideline, the group prefers to invest in securities for which market prices in active markets can be observed.

3 Summary of significant accounting policies (continued)

g Financial assets (continued)

Financial assets at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Subsequently, they are carried at fair value. Gains and losses arising from changes in their fair value are immediately recognised in the income statement of the period. Together with interest earned on financial instruments designated as at fair value through profit and loss they are shown as "Net income from financial assets at fair value through profit or loss".

Purchases and sales of financial assets at fair value through profit or loss are recognised on the trade date – the date on which the group commits to purchase or sell the asset. Financial assets at fair value through profit or loss are derecognised when the rights to receive cash flows from the financial assets have expired or where the group has transferred substantially all risks and rewards of ownership.

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

At initial recognition, available-for-sale financial assets are recorded at fair value including transaction costs. Subsequently the group assesses if there is objective evidence for impairment of the financial assets. Gains and losses arising from changes in fair value of available-for-sale financial assets are recognised directly in equity in other comprehensive income in the position "Revaluation reserve from available-for-sale financial asset", until the financial asset is derecognised or impaired (for details on impairment, see note 3k). At the time of derecognition, the cumulative gain or loss previously recognised in equity in "Other comprehensive income" is recognised in profit or loss as "Gains and losses from available-for-sale financial assets". Interest calculated using the effective interest rate method and foreign currency gains and losses on monetary assets classified as available-for-sale are recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the entity's right to receive the payment is established.

Purchases and sales of available-for-sale financial assets are recorded on the trade date. The available-for-sale financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the group has transferred substantially all risks and rewards of ownership.

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

Loans and receivables are initially recognised at fair value including transaction costs; subsequently they are measured at amortised cost using the effective interest method. At each balance sheet date and whenever there is evidence of potential impairment, the group assesses the value of its loans and receivables. Their carrying amount may be reduced as a consequence through the use of an allowance account (see note 3k for the accounting policy for impairment of loans, and notes 4b and 19 for details on impairment of loans). If the amount of the impairment loss decreases, the impairment allowance is reduced accordingly, and the amount of the reduction is recognised in the income statement. The maximum reduction of the impairment is equal to the amortised cost of the asset before impairment.

3 Summary of significant accounting policies (continued)

g Financial assets (continued)

Loans are recognised when the principal is advanced to the borrowers. Loans and receivables are derecognised when the rights to receive cash flows from the financial assets have expired or where the group has transferred substantially all risks and rewards of ownership.

Fair value measurement principles

Policy applicable from 1 January 2013

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

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

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

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss depending on the individual facts and circumstances of the transaction but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

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

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid. The group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

Policy applicable before 1 January 2013

'Fair value' is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

3 Summary of significant accounting policies (continued)

g Financial assets (continued)

If a market for a financial instrument is not active, the group establishes fair value using valuation techniques or techniques of discounted cash flows.

The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the group, incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. The input data appropriately present the market expectations and measurements of risk and yield factors of the financial instrument. Detailed description of the methods used for measurement of financial instruments is presented in note 4 to these financial statements.

h Sale and repurchase agreements

Securities sold subject to repurchase agreements ("repos") are reclassified as pledged assets when the transferee has the right by contract or custom to sell or re-pledge the collateral; the counterparty liability is included in liabilities to other banks or liabilities to customers, as appropriate. Securities purchased under agreements to resell ("reverse repos") are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

i Cash and cash equivalents

For the purposes of the balance sheet, cash and cash equivalents comprise cash and balances with the Bulgarian National Bank ("BNB"). Generally, all cash and cash equivalent items are recognised at their nominal value.

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition including: cash, balances with the BNB excluding the minimum required reserve, and amounts due from other banks.

j Loans and receivables

The amounts reported under "Loans and advances to customers" consist mainly of loans and advances issued. In addition to overnight and term deposits, the amounts reported under "Loans and advances to banks" include current account balances.

All loans and receivables to banks as well as loans and receivables to customers fall under the category "Loans and receivables" and are carried at amortised cost, using the effective interest method. Amortised premiums and discounts are accounted for over the respective terms in the income statement under "Net interest income". Impairment of loans is recognised on separate allowance accounts (see note 3k).

For the purposes of the cash flow statement, claims to banks with a remaining maturity of less than three months from the date of acquisition are recognised under "Cash and cash equivalents" (see note 15).

3 Summary of significant accounting policies (continued)

k Allowance for losses on loans and advances

(i) Impairment of loans and advances

The group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. If there is objective evidence that impairment of a loan or a portfolio of loans has occurred which influences the future cash flow of the financial asset(s), the respective losses are immediately recognised. Depending on the size of the exposure, such losses are either calculated on an individual client basis or are collectively assessed for a portfolio of loans. The carrying amount of the exposure is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. The group does not recognise losses from expected future loss events.

a) Individually assessed loans and advances

Exposures are considered individually significant if they exceed EUR 30,000. For such exposures, it is assessed whether objective evidence of impairment exists, i.e. any factors which might influence a customer's ability to fulfil contractual payment obligations towards the group:

- Delinquencies in contractual payments of interest or principal
- Breach of covenants or conditions
- Initiation of bankruptcy proceedings
- Any specific information on the customer's business (e.g. reflected by cash flow difficulties experienced by the client) ;
- Changes in the customer's market environment;
- The general economic situation.

Additionally, the aggregate exposure to the client and the market value of collateral held are taken into account when deciding on the allowance for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of its estimated future cash flows discounted at the financial asset's original effective interest rate (specific impairment). If a credit exposure has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

b) Collectively assessed loans and advances

There are two cases in which exposures are collectively assessed for impairment:

- individually insignificant exposures that show objective evidence of impairment;
- a group of loans that does not show signs of impairment, in order to cover all losses which have already been incurred but not detected on an individual loan basis.

For the purposes of the evaluation of impairment of individually insignificant exposures, they are grouped on the basis of similar credit risk characteristics, i.e. according to the number of days in arrears. Arrears of 30 or more days are considered to be a sign of impairment. This characteristic is relevant for the estimation of future cash flows for the so defined groups of such assets, based on historical loss experiences with loans that showed similar characteristics.

3 Summary of significant accounting policies (continued)

k Allowance for losses on loans and advances (continued)

The collective assessment of impairment for individually insignificant exposures (lump-sum impairment) and for unimpaired exposures (portfolio-based impairment) belonging to a group of financial assets is based on a quantitative analysis of historical default rates for loan portfolios with similar risk characteristics.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the group to reduce any differences between loss estimates and actual loss experience.

If the group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether individually significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment (impairment for collectively assessed exposures).

(ii) Reversal of impairment
If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

(iii) Writing off loans and advances
When an exposure is uncollectible, it is written off against the related allowance for impairment. Such exposures are written off after all the necessary legal procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the allowance for impairment in the income statement.

(iv) Restructured credit exposures
Restructured credit exposures which would otherwise be past due or impaired and which are considered to be individually significant are provisioned on an individual basis. The amount of the loss is measured as the difference between the restructured loan's carrying amount and the present value of its estimated future cash flows discounted at the loan's original effective interest rate (specific impairment). Restructured loans which would otherwise be past due or impaired and which are individually insignificant are collectively assessed for impairment.

(v) Repossessed property
Non-financial assets acquired in exchange for loans as part of an orderly realisation are reported in "Other assets". The asset acquired is recorded at the lower of its fair value less costs to sell and the carrying amount of the loan at the date of exchange. No depreciation is charged for assets held for sale. Any subsequent write-down of the acquired asset to fair value less costs to sell is recognised in the income statement in "Other operating income". Any subsequent increase in the fair value less costs to sell, to the extent this does not exceed the cumulative write-down, is also recognised in "Other operating income", together with any realised gains or losses on disposal.

3 Summary of significant accounting policies (continued)

l Derivative financial instruments

Derivatives are initially recognised at the fair value of the consideration given (when acquiring financial assets) or received (when undertaking financial liabilities). Subsequently, derivatives are remeasured at fair value. If possible, fair values are obtained from quoted markets or from recent market transactions. Otherwise, they are appraised via discounted cash flow models or options pricing models, as appropriate. Derivatives with a positive fair value at the balance sheet date are carried as financial assets and reported under "Financial assets at fair value through profit or loss". Derivatives with a negative fair value are carried as financial liabilities and are reported under "Other liabilities".

m Equipment and intangible assets

All equipment and intangible assets are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Component parts of an asset are recognised separately if they have different useful lives or provide benefits to the enterprise in a different pattern.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives. Methods of depreciation, useful life and carrying values of equipment and intangible assets are reviewed and adjusted if appropriate at each balance sheet date. Land is not depreciated. The useful lives of equipment and intangible assets are as follows:

Equipment	
Buildings	40 years
Furniture	10 years
Leasehold improvements	10 years
Computers	5 years
Motor vehicles	5 years
Other fixed assets	7 years
Intangible assets	
Licences	7 years
Software	5 years

Both assets that are subject to amortisation and land are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount exceeds its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. These are included in the income statement.

3 Summary of significant accounting policies (continued)

n Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost on initial recognition. The group applies the cost model and not the fair value model for accounting after initial recognition. Using the cost model all investment properties are measured in accordance with IAS 16's requirements.

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use and capitalised borrowing costs.

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives. Methods of depreciation, useful life and carrying values of equipment and intangible assets are reviewed and adjusted if appropriate at each balance sheet date. The group applies the same useful life for investment properties as for equipment and intangible assets.

o Leases

(i) Finance leases

A group company is a lessor. Agreements which transfer to the lessee substantially all the risks and rewards incidental to the ownership of assets, but not necessarily a legal title, are classified as finance leases. When assets are held subject to a finance lease, the present value of the minimum lease payments is recognised as a receivable from customers under "Loans and advances to customers". Payments received under leases are divided into an amortisation component which is not recognised in the income statement and an income component. The income component is recognised under "Interest income". Premiums received are recognised over the term of the lease using the effective interest rate method under "Interest income".

(ii) Operating leases

The total payments made under operating leases are charged to the income statement under "Other administrative expenses" on a straight-line basis over the period of the lease. The leasing objects are recognised by the lessor. All operating leases are cancellable with six months' notice.

p Income taxes

Taxation has been provided for in the consolidated financial statements in accordance with Bulgarian legislation currently in force. Current tax is calculated on the basis of the taxable profit for the year, using the tax rates enacted at the reporting date. Taxes other than on income are recorded under "Other administrative expenses".

Deferred income tax is provided using the balance sheet liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used in the determination of deferred income tax.

3 Summary of significant accounting policies (continued)

p Income taxes (continued)

Income tax payable on profits, based on the applicable tax law in Bulgaria is recognised as an expense in the period in which profits arise. The tax effects of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to income taxes levied by the same tax authority on the same taxable entities.

q Liabilities to banks, customers and institutions

Liabilities to banks, customers and institutions are recognised initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method. All financial liabilities are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expires.

r Subordinated debt and hybrid capital

Subordinated debt and hybrid capital consists mainly of liabilities to shareholders which in the event of insolvency or liquidation are not repaid until all non-subordinated creditors have been satisfied. While the subordinated debt has a fixed repayment term, there is no obligation to early repayment of the equity hybrid instruments (hybrid capital). Following initial recognition at acquisition cost, the subordinated debt and hybrid capital are recognised at amortised cost. Premiums and discounts are accounted for over the respective terms in the income statement under “Net interest income”. Subordinated debt and equity hybrid instruments are presented as liabilities in the statement of financial position, but are part of the group’s capital base for capital adequacy purposes (see notes 26 and 27).

s Provisions

Provisions are recognised if:

i. there is a present legal or constructive obligation resulting from past events;
ii. it is more likely than not that an outflow of resources will be required to settle the obligation;
iii. and the amount can be reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow of resources will be required in a settlement is determined by considering the class of obligations as a whole.

Provisions for which the timing of the outflow of resources is known are measured at the present value of the expenditures, if the outflow is not expected to occur before one year’s time. The increase in the present value of the obligation due to the passage of time is recognised as an interest expense.

Contingent liabilities are possible obligations that arise from past events. As their occurrence, or non-occurrence, depends on uncertain future events not wholly within the control of the group, they are not recognised in the financial statements but are disclosed off-balance sheet unless the probability of settlement is remote.

3 Summary of significant accounting policies (continued)

s Provisions (continued)

Employee entitlements to annual leave are recognised when they are accrued to employees. A provision is made for the estimated annual leave as a result of services rendered by employees up to reporting date.

t Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the group's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the income statement the fee income earned on a straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the reporting date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of the Management.

Any increase in the liability relating to guarantees is taken to the income statement under "Other administrative expenses".

u Employee benefits

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

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

The group has an obligation to pay certain amounts to each employee who retires with the group in accordance with Art. 222, § 3 of the Labour Code ("LC"). According to the regulations in the LC, when a labour contract of a Group employee, who has acquired a pension right, is ended, the group is obliged to pay the employee compensation equivalent to two gross monthly salaries. In the event that the employee's length of service in the group is equal to or exceeds 10 years, as of the date of retirement, then the compensation shall amount to six gross monthly salary payments. As of reporting date, the Management of the group estimates the approximate amount of the potential expenditures for every employee based on a calculation performed by a qualified actuary using the projected unit credit method. The group recognises all actuarial gains and losses arising from defined benefit plans in personnel expenses for the period/other comprehensive income.

3 Summary of significant accounting policies (continued)

u Employee benefits (continued)

(iii) Termination benefits

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

4 Risk management

a Strategy in using financial instruments

By nature the group's activities are principally related to the use of financial instruments. The group accepts deposits from customers and seeks to earn above average interest margins by investing these funds in high-quality assets. The group also seeks to raise its interest margins by obtaining above average margins, net of provisions, through lending to commercial borrowers with a range of credit standing. Such exposures involve not just on-balance sheet loans and advances as the group also enters into guarantees and other commitments.

The Management Board places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions.

b Credit risk

The group takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. The group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers or geographical and industry segments. Such risks are monitored on a revolving basis and are subject to at least one review per year. Limits on the level of credit risk according to product and economic sector are approved by the Management Board. The exposure to any one borrower, including banks, is further restricted by sub-limits covering on- and off-balance sheet exposures and daily delivery risk limits in relation to trading items. Actual exposures against limits are monitored daily. Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and changing these lending limits where appropriate. Exposure to credit risk is additionally managed by obtaining collateral and corporate and personal guarantees.

Credit risk management is an integral part of the group's lending process. The group's Management Board has, in consultation with the credit risk departments, assigned specific disbursement limits to credit analysts and branch managers based on their level of experience and expertise. Loan exposures are subject to periodic monitoring to determine if there is objective evidence of impairment. If such evidence exists, the group takes the most appropriate measures for both the customer and the group to ensure settlement.

In its lending activities the group's focus is on the very small, small and medium-sized enterprises. The group requires staff members who are involved in the lending process to master specific skills. The group has developed a special training system which is implemented on a regular basis and allows staff who work in the business units, especially credit analysts, to become an integral part of the overall credit management system.

For the purpose of determining the amount of allowances to be set aside for impairment of loans and advances to customers, exposures are considered individually significant if the outstanding amount exceeds a certain threshold. All exposures with an outstanding amount exceeding EUR 30,000 are individually assessed for impairment. For such exposures, it is assessed whether objective evidence of impairment exists, i.e. any factors which might influence the customer's ability to fulfil contractual payment obligations towards the group. Additionally the amount of the allowance for impairment is calculated as the difference between the asset's carrying amount and the present value of its estimated future cash flows discounted at the financial asset's original effective interest rate (specific impairment), reflecting also the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

4 Risk management (continued)

b Credit risk (continued)

Credit risk from customer credit exposures is defined as the risk of losses due to a potential non-fulfilment of the contractual payment obligations associated with a customer credit exposure. The management of credit default risk from customer credit exposures is based on a thorough implementation of the group's lending principles:

- Intensive analysis of the debt capacity of the group's clients
- Careful documentation of the credit risk assessments, assuring that the analysis performed can be understood by knowledgeable third parties
- Rigorous avoidance of over indebting our clients
- Building a personal and long-term relationship with the client and maintaining regular contact
- Strict monitoring of loan repayment
- Practising tight arrears management
- Exercising strict collateral collection in the event of default
- Investing in well-trained and highly motivated staff
- Implementing carefully designed and well-documented processes
- Rigorous application of the "four-eyes principle".

For the purposes of the evaluation of impairment of individually insignificant exposures, they are grouped on the basis of similar credit risk characteristics, i.e. according to the number of days in arrears. Arrears of 30 or more days are considered to be a sign of impairment. This characteristic is relevant for the estimation of future cash flows for the so defined groups of such assets, based on historical loss experience with loans that showed similar characteristics.

The group monitors the quality of the loan portfolio on an ongoing basis. One measure for loan portfolio quality is the portfolio at risk (PAR). The group defines PAR as all loan exposures outstanding with one or more payment of interest or principal past due by more than 30 days. The group chose this measure because the vast majority of all loans have fixed instalments entailing monthly payments of principal and interest. Exceptions are seasonal agricultural loans and investment loans, which can have grace periods. The group does not deduct any collateral and does not apply any other exposure-reducing measures when determining PAR. The value of PAR for the loan portfolio managed by the group as of 31 December 2013 was 3.6%.

Restructured credit exposures are treated according to their current status. Restructurings of credit exposures are generally necessitated by economic or payment problems encountered by the client. If a credit exposure is restructured, amendments are made to the parameters of the exposure. Otherwise, these credit exposures for which the terms have been renegotiated would be past due or impaired.

4 Risk management (continued)

b Credit risk (continued)

Exposure to credit risk

Credit risk exposures can be aggregated into the following groups:

(1) Collectively assessed impaired exposures (below EUR 30,000) – for which objective evidence exists that the quality of the exposures has deteriorated. Loan loss provisions for these exposures are determined based on the number of days in arrears;

(2) Individually assessed impaired exposures (above EUR 30,000) – for which objective evidence exists that the quality of the exposures has deteriorated. Loan loss provisions for these exposures are determined after performing an individual review of future cash flow expectations from the exposure, discounted at the effective interest rate of the exposure in order to calculate a net present value of the expected future cash flows;

(3) Loans and advances which are not impaired – these exposures also include loans with renegotiated terms, which are loans that have been restructured due to deterioration in the borrower's financial position and where the group has made concessions that it would not otherwise consider. Once the exposure is restructured it could be returned to standard credit exposure (non-restructured) provided that the following conditions are fulfilled:

a. the client paid interest and principal during the last 6 consecutive instalment payments, but not earlier than 6 months
b. no single payment was more than 30 days in arrears, and
c. the credit exposure does not show any signs of impairment.

The allowance for collectively assessed exposures is based on a quantitative analysis of historical default rates for loan portfolios with similar risk characteristics. The obtained rates are applied to the collectively assessed exposures.

Loans and advances to customers	**Business Clients 2013**	**Private Clients 2013**	**Business Clients 2012**	**Private Clients 2012**
Collectively assessed impaired exposures (below EUR 30,000)				
31-90 days in arrears	2,669	421	2,606	667
91-180 days in arrears	1,174	312	1,520	492
over 180 days in arrears	1,583	208	5,246	1,102
Provision for impairment	(4,233)	(778)	(7,717)	(1,811)
Carrying amount	1,193	163	1,655	450
Individually assessed impaired exposure (above EUR 30,000)				
up to 30 days in arrears	54,163	3,435	54,282	1,968
31-90 days in arrears	1,835	291	1,348	286
91-180 days in arrears	1,622	137	3,787	0
over 180 days in arrears	30,811	1,218	30,944	1,346
Provision for impairment	(16,988)	(1,020)	(17,600)	(764)
Carrying amount	71,443	4,061	72,761	2,836
Collectively assessed exposures which are not impaired below EUR 30,000				
Gross amount	148,840	53,925	159,935	55,245
Provision for collectively assessed exposures	(3,077)	(958)	(3,786)	(1,130)
Carrying amount	145,763	52,967	156,149	54,115
Including with renegotiated terms	9,272	2,204	9,604	2,798
Collectively assessed exposures which are not impaired above EUR 30,000				
Gross amount	700,466	53,316	678,429	57,202
Provision for collectively assessed exposures	(9,161)	(714)	(9,716)	(846)
Carrying amount	691,305	52,602	668,713	56,356
Including with renegotiated terms	3,938	871	3,197	779
Total carrying amount of loans and advances to customers	909,704	109,793	899,278	113,757

4 Risk management (continued)

b Credit risk (continued)

Business loans include loans for business purposes (working capital or investments) disbursed to SMEs and entrepreneurs. SMEs are clients defined as Very Small, Small and Medium according to the applied internal classification and national legislation. Business loans include agricultural loans as well as business overdrafts and revolving loans. Loans to Private Clients include consumer and housing loans as well as consumer overdrafts and credit card receivables as well as loans to business owners.

Collateral held

The group applies various instruments available to reduce the risk on individual transactions related to loans and advances to customers, including security in the form of physical assets and guarantees. The most frequently provided forms of collateral are mortgage of real estate property and movables such as vehicles, goods and machines. Collateral generally is not held over other financial assets except over loans and advances to banks when securities are held as part of reverse repurchase and securities borrowing activity. The distribution of the loans and advances to customers by type of collateral is presented in the table below:

	2013	2012
Mortgage	692,414	684,753
Cash collateral	27,297	22,976
Bank guarantee	3,451	8,860
Other types of collateral	296,335	296,446
Total	1,019,497	1,013,035

For impaired loans, the group usually obtains appraisals of collateral as the current value of the collateral is an input to the impairment measurement. As of end 2013 the net carrying amount of individually significant impaired exposures amounts to BGN 75,505 thousand and the value of the identifiable collateral held against those loans and advances amounts to BGN 85,926 thousand.

The group disburses loans to small and medium enterprises under the auspices of JEREMIE program (Joint European Resources for Micro to Medium Enterprises), which is a joint initiative launched by the European Commission and the European Investment Bank ("EIB") Group to improve access to finance for Micro, Small and Medium-sized Enterprises in the EU within the Structural Funds framework for the period 2007 – 2013. The loans are disbursed under more beneficial conditions in comparison to the standard bank's terms and are partially guaranteed by the European Investment Fund ("EIF"). The total portfolio outstanding under JEREMIE program was BGN 87,936 thousand as of end 2013 (2012: 36,403 thousand).

Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees, which represent irrevocable assurance that the group will make the payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans and guarantees. With respect to credit risk on commitments to extend credit, the group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total commitments since commitments to extend credit are contingent upon customers maintaining specific credit standards. The group monitors the term to maturity of credit commitments because longer-term commitments generally carry a greater degree of credit risk than shorter-term commitments.

4 Risk management (continued)

b Credit risk (continued)

Geographical concentration of assets, liabilities and off balance sheet items

The loan customers of the group are residents of Bulgaria. Placements and current accounts are with both local and non-local banks (note 16). The group is exposed to many sectors of the Bulgarian economy. However, credit risk is well distributed across a diverse range of individual and commercial customers.

Exposures to higher-risk eurozone countries

This note summarises the group's exposure to higher-risk eurozone countries. The group regards a eurozone country as 'higher-risk' when the country exhibits higher volatility and economic and political uncertainties than other eurozone members. The specific factors that are taken into account in making this assessment include the ratio of sovereign debt to GDP, seeking international financial assistance, credit ratings, levels of market yields and concentrations of maturities. The group manages this risk carefully during the year and as a result, overall, debt portfolio is good. As of 31 December 2013 and 2012 the group does not have such exposures.

Available-for-sale financial assets

The group holds available-for-sale (AFS) financial assets as of December 2013. The table below displays the credit quality of the maximum credit exposure, on the basis of the ratings issued from Standard&Poor's as well as the distribution by country of counterparty's origination and remaining maturity.

As of 31 December 2013	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	With no maturity	Total
AFS financial assets							
Government bonds							
Bulgaria	350	103	26	27,853	-	-	28,332
Total	350	103	26	27,853	-	-	28,332
AFS financial assets							
Capital instruments							
Bulgaria	-	-	-	-	-	695	695
Belgium	-	-	-	-	-	71	71
Great Britain	-	-	-	-	-	132	132
Total	-	-	-	-	-	898	898
Total assets	350	103	26	27,853	-	898	29,230

As of 31 December 2012	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	With no maturity	Total
AFV financial assets							
Government bonds							
Bulgaria	10,566	17	26	9,517	2,285	-	22,411
Supranational bonds							
European Investment Bank	-	-	1,003	-	-	-	1,003
Total	10,566	17	1,029	9,517	2,285	-	23,414
AFS financial assets							
Capital instruments							
Bulgaria	-	-	-	-	-	768	768
Belgium	-	-	-	-	-	71	71
Great Britain	-	-	-	-	-	33	33
Total	-	-	-	-	-	872	872
Total assets	10,566	17	1,029	9,517	2,285	872	24,286

4 Risk management (continued)

c Market risk

The group takes on exposure to market risks. Market risks arise from open positions in interest rate and currency products, all of which are exposed to general and specific market movements. The group estimates the market risk of positions held and the maximum losses expected based upon a number of assumptions for various changes in market conditions. The Management Board sets limits on the value of risk that may be accepted. The group does not hold portfolios for trading purposes. The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for economic value impact and modified duration gap. More information about interest rate risk management is presented in point "Cash flow and fair value interest rate risk". The amount of the equity instruments held by the group is insignificant for the purposes of market risk management.

d Currency risk

The group takes on exposures to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Management Board sets limits on the level of exposure by currency, which are monitored daily. As a general principle, all currency positions should be closed at end-of-day; long or short positions for speculative purposes are not permitted. The group manages its currency risk through the use of currency deals. The largest total net open currency position as a percentage of the group's equity on a daily basis was 0.3% in 2013. The Management Board therefore considers that the possible adverse effects from currency risk exposure are not substantial for the group. The table below summarizes the group's exposure to foreign currency exchange rate risk at 31 December 2013.

As of 31 December 2013	BGN	EUR	USD	Other	Total
Assets					
Cash and cash equivalents	85,578	67,766	1,268	878	155,490
Loans and advances to banks	-	67,697	18,454	3,073	89,224
Available-for-sale financial assets	7,963	13,238	8,029	-	29,230
Loans and advances to customers	471,290	546,517	1,689	1	1,019,497
Equipment and intangible assets	48,916	-	-	-	48,916
Deferred tax assets	457	-	-	-	457
Other assets	29,394	575	4	-	29,973
Total assets	643,598	695,793	29,444	3,952	1,372,787
Liabilities					
Liabilities to banks	30,429	37,743	1,321	36	69,529
Liabilities to customers	601,912	263,558	27,205	3,776	896,451
Liabilities to institutions	11,071	158,839	-	-	169,910
Subordinated debt	-	8,128	-	-	8,128
Hybrid capital	-	50,467	-	-	50,467
Current tax liabilities	72	-	-	-	72
Deferred tax liabilities	769	-	-	-	769
Other liabilities	3,661	2,055	444	14	6,174
Total liabilities	647,914	520,790	28,970	3,826	1,201,500
Net balance sheet position	(4,316)	175,003	474	126	171,287
Credit commitments (note 31)	131,510	39,411	2,881	-	173,802
Open spot and derivative transactions	(2,934)	2,464	391	78	(1)

4 Risk management (continued)

d Currency risk (continued)

As of 31 December 2012	BGN	EUR	USD	Other	Total
Total assets	650,774	656,153	30,461	8,289	1,345,677
Total liabilities	658,680	490,836	31,101	8,405	1,189,022
Net balance sheet position	(7,906)	165,317	(640)	(116)	156,655
Credit commitments (note 31)	111,726	34,293	2,247	-	148,266
Open spot and derivative transactions	(48,896)	48,262	665	(32)	(1)

e Cash flow and fair value interest rate risk

The group takes on exposures to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Management Board sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily. The Management Board is satisfied that the group's position is such that exposure to movements in interest rates is minimised.

Interest sensitivity of assets, liabilities and off balance sheet items – repricing analysis
The table below summarises the group's exposure to interest rate risks. Included in the table are the group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

As of 31 December 2013	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and cash equivalents	-	-	-	-	-	155,490	155,490
Loans and advances to banks	75,258	-	-	-	-	13,966	89,224
Available-for-sale financial assets	350	103	26	27,853	-	898	29,230
Loans to customers	107,322	254,467	525,981	82,447	23,257	26,023	1,019,497
Equipment and intangible assets	-	-	-	-	-	48,916	48,916
Deferred tax assets	-	-	-	-	-	457	457
Other assets	-	-	-	-	-	29,973	29,973
Total assets	182,930	254,570	526,007	110,300	23,257	275,723	1,372,787
Liabilities							
Liabilities to banks	5,169	783	51,763	6,923	-	4,891	69,529
Liabilities to customers	174,610	69,296	271,752	27,292	582	352,919	896,451
Liabilities to institutions	1,481	133,320	29,004	6,105	-	-	169,910
Subordinated debt	342	-	-	7,786	-	-	8,128
Hybrid capital	-	40,688	-	-	9,779	-	50,467
Current tax liabilities	-	-	-	-	-	72	72
Deferred tax liabilities	-	-	-	-	-	769	769
Other liabilities	-	-	-	-	-	6,174	6,174
Total liabilities	181,602	244,087	352,519	48,106	10,361	364,825	1,201,500
Interest sensitivity gap	1,328	10,483	173,488	62,194	12,896	(89,102)	171,287

4 Risk management (continued)

e Cash flow and fair value interest rate risk (continued)

As of 31 December 2012	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Non-interest bearing	Total
Total assets	191,353	244,034	473,540	94,650	18,422	323,678	1,345,677
Total liabilities	161,874	239,671	320,363	107,767	20,123	339,224	1,189,022
Interest sensitivity gap	29,479	4,363	153,177	(13,117)	(1,701)	(15,546)	156,655

Regarding interest rate risk, the group is mainly exposed to changes the six-month Euribor rate. Based on historical movements and volatilities for the last year in this market variable, the group believes that change of 0.03% from the current level in the six-month Euribor rate is reasonably possible. If this movements were to occur, the impact on the profit and loss after tax for the reporting period would be as follows:

	Change	
Six-month Euribor rate	(0.03%)	0.03%
Impact on the profit and loss after tax	(98)	98

The impact is calculated based on the GAP analysis of assets and liabilities with floating interest rates. Separate analyses were prepared for assets and liabilities linked to the six-month Euribor rate.

f Liquidity risk

The group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan drawdowns, and guarantees. The group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with reasonable certainty. The Management Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand. The group is trying to maintain a balance between maturity terms of attracted funds and flexibility in the usage of funds of various maturity structures. The maintenance and management of liquidity of the group is accomplished with a view to minimise liquidity risk, by current monitoring and regular control over the assets and liabilities. The Assets and Liabilities Management Committee (ALCO), established by the group, is the main body, along with other relevant departments, which is operationally responsible for financial risk management (including liquidity risk management). The ALCO comprises Management Board members and it is convened at least once per month. The minimising of liquidity risk is reflected in the establishment of an optimal and acceptable ratio between the risk level and the desired yield from operations. Liquidity is also monitored and managed by static and dynamic indices. They represent ratios and percentages which are internally or externally set. Key measure used by the group for managing liquidity risk is the ratio of liquid assets to deposits from customers. For this purpose liquid assets are considered as including cash and cash equivalents, investments in government or supranational securities and loans and advances to banks with remaining maturity up to seven days. The average value of the ratio in 2013 was 29.3% and it stood at 30.7% as of end 2013.

The group monitors and manages its liquidity led by the "going concern" principle and the principle of prudence. The "going concern" principle regarding liquidity means that the group does not plan to liquidate itself or to restrict the scope of its activities in the future. The principle of prudence regarding liquidity entails considering cash inflows on the latest possible date and considering cash outflows on the earliest possible date. The group manages its liquidity by providing compliance with the structure of the liabilities with the appropriate structure of the assets in a way that the expected cash outflows at each point in time are covered by cash inflows. The group aims to maintain a positive cumulative net cash flow at all times.

4 Risk management (continued)

f Liquidity risk (continued)

The table below presents the assets and liabilities of the group according to the time remaining to the contractual maturity date at balance sheet date. The securities classified as available-for-sale are presented according to their maturity.. They comprise highly liquid government bonds which are quoted daily and are traded on the capital market.

Maturities of assets and liabilities

As of 31 December 2013	**Up to 1 month**	**1 – 3 months**	**3 – 12 months**	**1 – 5 years**	**Over 5 years**	**Total**
Assets						
Cash and cash equivalents	155,490	-	-	-	-	155,490
Loans and advances to banks	89,224	-	-	-	-	89,224
Available-for-sale financial assets	350	103	26	27,853	898	29,230
Loans and advances to customers	38,773	69,681	323,456	419,488	168,099	1,019,497
Equipment and intangible assets	-	-	-	-	48,916	48,916
Deferred tax assets	-	-	457	-	-	457
Other assets	2,922	-	-	-	27,051	29,973
Total assets	286,759	69,784	323,939	447,341	244,964	1,372,787
Liabilities						
Liabilities to banks	10,024	783	34,197	24,525	-	69,529
Liabilities to customers	519,931	70,804	274,687	30,338	691	896,451
Liabilities to institutions	1,481	7,304	24,752	132,283	4,090	169,910
Subordinated debt	342	-	-	-	7,786	8,128
Hybrid capital	-	1,571	-	-	48,896	50,467
Current tax liabilities	-	-	72	-	-	72
Deferred tax liabilities	-	-	769	-	-	769
Other liabilities	4,688	-	-	-	1,486	6,174
Total liabilities	536,466	80,462	334,477	187,146	62,949	1,201,500
Net liquidity gap	(249,707)	(10,678)	(10,538)	260,195	182,015	171,287
As of 31 December 2012						
Total assets	283,796	61,036	334,676	404,930	261,239	1,345,677
Total liabilities	484,478	101,215	301,846	198,864	102,619	1,189,022
Net liquidity gap	(200,682)	(40,179)	32,830	206,066	158,620	156,655

Liabilities to customers with maturity up to 1 month include all sight deposits amounting to BGN 354,537 thousand. The group's management expects that these funds will not be withdrawn at the same time or within the period in which they are reflected. Additionally, an analysis of depositors' behaviour revealed that 77% of term deposits at maturity date were not withdrawn but automatically renegotiated under the same terms and conditions.

The table below categorises the group's financial liabilities according to the remaining period to the contractual maturity date as of the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows.

4 Risk management (continued)

f Liquidity risk (continued)

Maturity analysis for financial liabilities

As of 31 December 2013	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total	Total carrying amount
Liabilities to banks	10,274	908	35,814	25,652	-	**72,648**	69,529
Liabilities to customers	521,772	72,871	280,765	37,109	6,543	**919,060**	896,451
Other borrowed funds	2,223	12,609	25,414	141,932	125,659	**307,837**	228,505
Total financial liabilities	534,269	86,388	341,993	204,693	132,202	**1,299,545**	1,194,485

As of 31 December 2012	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total	Total carrying amount
Liabilities to banks	3,956	814	1,084	38,807	617	**45,278**	41,740
Liabilities to customers	477,433	92,356	284,446	78,743	599	**933,577**	907,214
Other borrowed funds	1,637	15,798	29,766	119,139	167,988	**334,328**	233,167
Total financial liabilities	483,026	108,968	315,296	236,689	169,204	**1,313,183**	1,182,121

g Operational risk management

The group is exposed to operational risk. Operational risk means the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and includes legal risk. Operational risk may arise from inadequate information systems, technological errors, breaches in internal controls, frauds, unforeseen circumstances or other problems of an operational nature, which could result in unexpected losses. The group has established an Operational Risk Assessment Committee as the body with primary responsibility for managing operational risk. Its primary activities are to monitor the overall operational risk and the risk to which the group is exposed on the basis of regularly received operational risk reports and to prepare plans of action for extreme situations and cases of uninterrupted operations. To further reduce the impact of possible operational risk events and ensure the continuity of business operations, the group has developed disaster recovery plans pertaining to the core banking application database, international payments and Internet banking.

h Capital management

The group's objectives when managing capital are to safeguard the group's ability to continue as a going concern in order to provide returns for the shareholders, protect its customers and maintain an optimal capital structure so as to reduce the cost of capital. The group calculates the total capital adequacy (the "Basel ratio") as a ratio between total own funds for solvency purposes and the total of the risk-weighted assets for credit, market and operational risks. Tier I capital adequacy is the ratio between the Tier I capital and the risk-weighted assets and should be higher than 6%. The total capital adequacy ratio should be higher than 12%.

The group's regulatory capital is divided into two tiers:

- Tier 1 capital, which includes ordinary share capital, share premiums, legal and other reserves formed from the net profit;
- Tier 2 capital, which includes received equity (hybrid) instruments which are subordinated debt with no maturity.

Tier 2 capital cannot exceed the amount of Tier 1 capital.

4 Risk management (continued)

h Capital management (continued)

The group does not have a trading book so its core operations are categorised as banking book. Risk-weighted assets and capital requirements are determined according to the specific requirements of the BNB. The group's policy is to maintain a strong capital base so as to maintain creditor and market confidence and to sustain future development of the business. The group aims to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The group's regulatory capital position as of 31 December 2013 was as follows:

	2013	2012
Regulatory capital		
Tier 1 capital	136,057	123,231
Tier 2 capital	53,590	67,867
Discounts (specific provisions according to BNB's Ordinance 9)	(14,312)	(16,645)
Total regulatory capital	175,335	174,453
Capital requirements		
Capital requirements for credit risk	103,668	104,164
Capital requirements for operational risk	21,584	21,672
Total capital requirements	125,252	125,836
Capital ratios		
Total regulatory capital ratio	16.8%	16.6%
Tier 1 regulatory capital ratio	12.3%	11.0%

5 Fair values of financial assets and liabilities

In general, financial instruments carried at fair value are recognised at quoted prices in active markets (Level 1). In some circumstances, fair value calculations are not based on quoted market prices but on inputs observable for the asset or liability, either directly or indirectly (Level 2). The valuation techniques applied refer to the current fair value of similar instruments and discounted cash flow analysis using observable market parameters, e.g. interest rates for loans and advances to customers (Level 3). The group has no fair value financial assets with Level 3 inputs, with the exception of an insignificant amount of available-for-sale shares which are measured at cost. More detailed information about the different levels for obtaining of fair value is presented below.

(a) Level 1 - inputs that are quoted market prices (unadjusted) in active markets for identical instruments;

(b) 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.

(c) 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.

(i) Cash and cash equivalents
The item "cash and cash equivalents" includes cash at hand and balances at central banks including mandatory reserve disclosed under note 15. The fair value of these assets matches their carrying amount.

(ii) Loans and advances to banks
Loans and advances to banks include inter-bank placements. The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

(iii) Available-for-sale financial assets
The group's portfolio of government securities is carried at fair value using the Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments. For part of the group's portfolios of equity securities there are not available observable market prices. These instruments are carried at cost.

(iv) Loans and advances to customers
Loans and advances are net of provision for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value. Difference in fair values and carrying amounts represents the changes in the current market interest rates. Fair value incorporates expected future losses, while amortized cost and related impairment include only incurred losses at the statement of financial position date.

(v) Deposits and borrowings
The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest-bearing deposits and other borrowings without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

5 Fair values of financial assets and liabilities (continued)

If observable market rates are not available to determine the fair value of financial liabilities measured at amortised cost, ProCredit Group Treasury rates are used as an input for a discounted cash flow model. These are presented as level 3 input factors. ProCredit Group Treasury rates are determined taking into consideration the cost of capital depending on currencies and maturities plus a risk margin that depends on an internal risk rating for each institution within the ProCredit group (incl. ProCredit Bank (Bulgaria) EAD). Internal rates are regularly compared to those applied for third party transactions and are therefore in compliance with an orderly transaction between market participants at the measurement date under current market conditions.

The following table summarises the carrying amounts and fair values the financial assets and liabilities in the group's statement of financial position, distributed in the respective hierarchical levels in accordance to the methods used for determining of the fair value of the instruments.

As of 31 December 2013				Fair value hierarchy		
Financial assets	**Category***	**Carrying value**	**Total fair value**	**Level 1**	**Level 2**	**Level 3**
Financial assets not measured at fair value						
Cash and cash equivalents	AFV	155,490	155,490	-	155,490	-
Loans and advances to banks	LaR	89,224	89,224	-	89,224	-
Loans and advances to customers	LaR	1,019,497	1,043,844	-	1,043,844	-
		1,264,211	**1,288,558**		**1,288,558**	
Financial assets measured at fair value						
Financial assets AFV	AFV	-	-	-	-	-
AFS financial assets	AfS	28,464	28,464	28,464	-	-
		28,464	**28,464**	**28,464**	**-**	**-**

Financial liabilities	Category*	Carrying value	Total fair value	Level 1	Level 2	Level 3
Financial liabilities not measured at fair value						
Liabilities to banks	AC	69,529	69,950	-	-	69,950
Liabilities to customers	AC	896,451	897,174	-	897,174	-
Liabilities to institutions	AC	169,910	170,494	-	-	170,494
Subordinated debt	AC	8,128	10,411	-	-	10,411
Hybrid capital	AC	50,467	54,509	-	-	54,509
Total		**1,194,485**	**1,202,538**	**-**	**897,174**	**305,364**

* categories: AFV - At Fair value; LaR - Loans and Receivables, AfS - Available-for-sale; AC - Amortised cost

No fair value disclosures are provided for equity investment securities of BGN 766 thousand (2012: BGN 839 thousand) that are measured at cost because their fair value cannot be reliably measured. The investments are neither redeemable nor transferable and there is no market for them. The group does not intend to dispose of these investments.

Fair values of repossessed and investment properties (note 22) are established on the basis of internal calculations. The group considers the following valuation techniques:

- Cost technique. It considers the current replacement costs of replicating the property, including the cost of transportation, installation and start-up.
- Discounted cash flows model. It considers the present value of the net cash flows expected to be generated from the facility, taking into account the planned EBITDA growth rate and budgeted capital expenditure growth rate; the expected net cash flows are discounted using a risk-adjusted discount rate.
- Markets analogues methods. It considers direct comparison with the offered prices of similar properties.

6 Net interest income	2013	2012
Interest income		
Loans and advances to customers	102,287	108,329
Available-for-sale financial assets	649	-
Financial assets at fair value	599	1,713
Loans and advances to banks	174	813
Total interest income	103,709	110,855
Interest expense		
Liabilities to customers	19,135	22,286
Liabilities to banks and institutions	7,465	8,566
Hybrid capital	3,894	4,282
Subordinated debt	821	823
Total interest expense	31,315	35,957

Included under the position “Interest income from loans and advances to customers” for 2013 is BGN 2,421 thousand of accrued interest on irregular loans (2012: BGN 3,446 thousand).

7 Net impairment loss on financial assets	2013	2013
Impairment loss on loans and advances to customers	4,993	13,387
Total for impairment loss	4,993	13,387

8 Net fee and commission income	2013	2012
Fee and commission income		
Money transfers	6,806	7,640
Opening and maintenance of accounts	3,998	5,106
Card business	3,839	3,661
Cash operations	1,964	1,785
Servicing fee (note 32)	1,270	2,570
Documentary business	859	711
Others	2,349	1,073
Total fee and commission income	21,085	22,546
Fee and commission expense		
Fees related to cards	855	788
Correspondent accounts	317	375
Others	725	117
Total fee and commission expense	1,897	1,280

Asset management and related fee income comprise fee income for the servicing of loans, originated by the bank and transferred to ProCredit Company EAD under the terms of a securitisation deal. The deal was terminated in July 2013.

9 Trading result	2013	2012
Gains less losses from foreign currency transactions	4,226	4,457
Gains less losses from foreign currency revaluation	42	1
Total trading result	4,268	4,458

10 Net income from financial assets at fair value through profit and loss	2013	2012
Gains less losses from fair value changes	(432)	(174)
Total net income from financial assets at fair value at fair value through profit and loss	(432)	(174)

11 Other operating income	2013	2012
Income from sale of repossessed property	646	416
Dividends from available-for-sale financial assets	73	66
Other operating income	1,163	862
Impairment of repossessed property	(1,337)	(500)
Other operating expenses	(418)	(105)
Total other operating income	127	739

"Dividends from available-for-sale financial assets" includes the dividend received by entities in which the bank has non-controlling interest.

12 Personnel expenses	2013	2012
Wages and salaries	23,450	25,551
Pension costs	1,308	1,462
Other social security costs	2,198	2,468
Other employee costs	296	316
Total staff costs	27,252	29,797

The number of staff was 818 (not including employees on maternity leave and support staff) at the end of 2013 (2012: 1,050 (not including employees on maternity leave and support staff)).

13 Other administrative expenses	2013	2012
Operating lease rentals	7,144	8,062
Administrative expenses	6,714	7,063
Professional services, including audit	6,301	6,117
Depreciation (notes 20, 22)	5,558	5,566
Payments to Deposit Insurance Fund	4,168	3,670
Unallowed VAT credit	3,685	2,800
Advertising and marketing	1,931	1,599
Materials	685	912
Other	3,093	1,251
Total other operating expenses	39,279	37,040

14 Income tax expense

	2013	2012
Current tax	2,445	2,028
Deferred tax	(103)	43
Total income tax expense	2,342	2,071

Further information about deferred income tax is presented in note 21. The tax on the operating profit differs from the theoretical amount that would arise using the basic tax rate as follows:

	2013	2012
Profit before income tax	24,021	20,983
Theoretical tax at a tax rate of 10 % (2012: 10 %)	2,402	2,098
Tax effect from non-taxable income	(12)	(9)
Tax effect of expenses not deductible for tax purposes	44	53
Effect related to tax losses from previous years	(92)	(71)
Total income tax expense	2,342	2,071
Deferred tax	103	(43)
Current income tax payable	2,445	2,028

The effective tax rate for 2013 is: 9.7% (2012: 9.9%).

The tax authorities may at any time inspect the books and records within five years subsequent to the reported tax year, and may impose additional tax assessments and penalties. The group's management is not aware of any circumstances, which may give rise to a potential liability in this respect.

15 Cash and cash equivalents

	2013	2012
Cash in hand	40,653	37,297
Balances with the central bank (incl. mandatory reserve)	114,837	150,767
Total cash and cash equivalents	155,490	188,064

At 31 December 2013 the mandatory reserve with the central bank represented 10% of amounts mobilised from residents and 5% from amounts mobilised from non-residents, except for the deposits of local banks and amounts received as equity hybrid instruments and subordinated debt. The Bulgarian National Bank did not change the methodology for calculating the mandatory reserves in 2013. Included within the table below are amounts considered as cash and cash equivalents for the purposes of the Cash Flow Statement:

	2013	2012
Cash in hand	40,653	37,297
Balances with the central bank (net of mandatory reserve)	37,290	73,061
Due from other banks	89,224	40,426
Cash and cash equivalents for the Cash Flow Statement	167,167	150,784

16 Loans and advances to banks

	2013	2012
Placements with local banks	17,985	17,010
Placements with non-local banks	-	68
Current accounts with non-local banks	71,239	23,348
Total loans and advances to banks	89,224	40,426

17 Financial assets at fair value through profit or loss

In 2013 ProCredit Bank sold its portfolio of financial assets designated at fair value. The funds were invested in available-for-sale financial assets.

18 Available-for-sale financial assets

	2013	2012
Bulgarian Government bonds	28,332	-
Equity securities	898	872
Total available-for-sale financial assets	29,230	872

Included within Government bonds is related accrued interest receivable of BGN thousand (2013: BGN 479 thousand). The equity securities comprise shares in local and foreign financial intermediary institutions.

19 Loans and advances to customers

	2013	2012
Total gross loans and advances	1,056,426	1,056,405
Less provision for impairment	(36,929)	(43,370)
Total net loans and advances	1,019,497	1,013,035

Included within loans and advances to customers is related accrued interest receivable of BGN 9,169 thousand (2012: BGN 10,705 thousand).

19 Loans and advances to customers (continued)

Movement in provisions was as follows:

Balance at 1 January 2012	49,089
Increase in provisions for loan impairment	17,908
Loans written off	(23,627)
Balance at 31 December 2012	43,370
Increase in provisions for loan impairment	9,739
Loans written off	(16,180)
Balance at 31 December 2013	36,929

Allowance for loan impairment was formed as follows:	**2013**	**2012**
Increase in provisions for loan impairment	9,739	17,908
Less recoveries on loans previously written off	(4,746)	(4,521)
Recognised in the income statement	4,993	13,387

Economic sector risk concentrations within the customer loan portfolio were as follows:

	2013	**%**	**2012**	**%**
Trade	288,176	27%	311,183	30%
Agriculture	269,763	25%	243,333	23%
Industry and other production	146,716	14%	142,082	14%
Services	91,659	9%	96,835	9%
Construction	58,554	6%	57,366	5%
Accomodation and restaurants	55,158	5%	56,630	5%
Transport	54,665	5%	52,810	5%
Households	91,735	9%	96,166	9%
Total gross loans and advances	1,056,426	100%	1,056,405	100%

Loans to households include housing improvement loans in the amount of BGN 77,587 thousand (2012: BGN 78,819 thousand).

Included under “Loans and advances to customers” is the following:

	2013	**2012**
Gross investment in finance leases, receivable		
- Not later than 1 year	12,095	9,880
- Later than 1 year and not later than 5 years	16,257	13,732
- Later than 5 years	907	2,229
Total finance lease receivables	29,259	25,841
Unearned future finance income on finance leases	(3,193)	(3,670)
Investment in finance leases	26,066	22,171

The analysis of the ten largest loan exposures to customers compared to the gross loan portfolio is as follows:

	2013	**2012**
The ten largest loan exposures to customers	33,325	33,656
Percentage of gross loans	3%	3%

20 Equipment and intangible assets

	Land and buildings	Furniture and fixtures	IT and other equipment	Leasehold improve-ments	Intangible assets	Total
Cost						
Balance at 1 Jan 2012	32,766	1,829	30,356	9,068	6,860	80,879
Acquisitions	32	268	2,530	887	1,286	5,003
Disposals	-	(186)	(1,077)	(925)	(330)	(2,518)
Balance at 31 Dec 2012	32,798	1,911	31,809	9,030	7,816	83,364
Depreciation						
Balance at 1 Jan 2012	1,332	941	19,726	3,627	2,956	28,582
Depreciation for the period	805	130	2,889	752	976	5,552
Accumulated depreciation of disposal	(7)	(91)	(982)	(396)	-	(1,476)
Balance at 31 Dec 2012	2,130	980	21,633	3,983	3,932	32,658
Carrying amounts						
Balance at 1 Jan 2012	31,434	888	10,630	5,441	3,904	52,297
Balance at 31 Dec 2012	30,668	931	10,176	5,047	3,884	50,706
Cost						
Balance at 1 Jan 2013	32,798	1,911	31,809	9,030	7,816	83,364
Acquisitions	912	623	2,109	874	1,098	5,616
Disposals	(58)	(461)	(1,884)	(2,258)	(153)	(4,814)
Balance at 31 Dec 2013	33,652	2,073	32,034	7,646	8,761	84,166
Depreciation						
Balance at 1 Jan 2013	2,130	980	21,633	3,983	3,932	32,658
Depreciation for the period	808	167	2881	638	1,043	5,537
Accumulated depreciation of disposal	-	(342)	(1,536)	(1,067)	-	(2,945)
Balance at 31 Dec 2013	2,938	805	22,978	3,554	4,975	35,250
Carrying amounts						
Balance at 1 Jan 2013	30,668	931	10,176	5,047	3,884	50,706
Balance at 31 Dec 2013	30,714	1268	9,056	4,092	3,786	48,916

21 Deferred tax assets and liabilities

The deferred tax charge in the income statement and related deferred tax assets include the following temporary differences:

	2013	2012
Deferred tax assets		
Repossessed properties	172	56
Unused staff holiday time from previous years	57	60
Other temporary differences	228	3
Total deferred tax assets	457	119
Deferred tax liabilities		
Property, plant and equipment	688	594
Available-for-sale financial assets	46	46
Other temporary differences	35	-
Total deferred tax liabilities	769	640

22 Other assets

	2013	2012
Repossessed properties	25,239	16,909
Accounts receivable	2,734	5,835
Prepayments and deferred expenses	1,488	2,510
Investment properties	323	948
Tax receivables	189	630
Claims related to transfer of loans	-	2,209
Total other assets	29,973	29,041

Repossessed properties as shown in the above table are carried at the lower of the previous carrying amount of the written-off loan and the fair value less cost to sell. Reconciliation of the carrying amount of repossessed property is presented in the following table:

	2013	2012
Balance as of 1 January	16,909	10,934
Reclassification to investment property	-	(948)
Acquisitions	14,215	8,968
Disposals (sales)	(4,548)	(1,545)
Change in fair value	(1,337)	(500)
Balance as of 31 December	25,239	16,909

The group rents buildings as investment properties. The depreciation expense for investment property was BGN 22 thousand in 2013 (2012: BGN 14 thousand). The group realised BGN 17 thousand rental income from investment property in 2013 (2012: BGN 17 thousand). The fair value of the investment property held by the group as of end 2013 is BGN 323 thousand. Reconciliation of the carrying amount of investment property is presented in the following table:

	2013	2012
Balance as of 1 January	948	-
Reclassification from investment property	-	948
Impairment	(108)	-
Disposals (sales)	(517)	-
Balance as of 31 December	323	948

23 Liabilities to banks

	2013	2012
Current accounts	4,891	3,202
Loans	64,638	38,538
Total liabilities to banks	69,529	41,740

Liabilities to banks include accrued interest of BGN 447 thousand as of 31 December 2013 (2012: BGN 274 thousand).

24 Liabilities to customers

	2013	2012
Private Individuals		
-Sight deposits	104,606	99,038
-Term deposits	335,351	341,162
-Saving deposits	97,034	82,257
Total Private Individuals	536,991	522,457
Business Clients		
-Sight deposits	258,403	222,541
-Term deposits	89,791	149,421
-Saving deposits	2,849	2,401
Total Business Clients	351,043	374,363
Payments in transit	8,417	10,394
Total liabilities to customers	896,451	907,214

Included within due to customers is related accrued interest payable of BGN 9,977 thousand as of 31 December 2013 (2012: BGN 11,007 thousand).

25 Liabilities to institutions

Institution	Final year of maturity	2013	2012
Kreditanstalt für Wiederaufbau (KfW)	2018	54,583	65,560
European Investment Bank (EIB)	2019	39,195	38,905
European Investment Fund (EIF)	2025	29,368	-
European Fund for Southeast Europe (EFSE)	2016	18,386	25,735
European Bank for Reconstruction and Development (EBRD)	2019	17,307	19,454
State Fund Agriculture	2018	11,071	10,648
Total liabilities to institutions		169,910	160,302

The loan agreement with the European Investment Fund is under the JEREMIE program aimed towards co-financing of small and medium enterprises. The total agreed loan amount is EUR 50,000 thousand (BGN equivalent: 97,792 thousand).

The group has not had any defaults of principal, interest or other breaches with respect to its liabilities to institutions during the years ended 31 December 2013 and 2012.

26 Subordinated debt

The group has subordinated debt from the SNS Institutional Microfinance Fund. The principal amount (BGN 7,823 thousand) of the subordinated debt is included in Tier 2 equity for capital adequacy purposes. The terms and conditions of the subordinated debt are as follows:

Institution	Type of the liability	Year of maturity	2013	2012
SNS Institutional Microfinance Fund	Loan with fixed maturity with annual interest payment	2017	8,128	8,118
Total subordinated debt			8,128	8,118

The group has not had any defaults of principal, interest or other breaches with respect to its subordinated debt during the years ended 31 December 2013 and 2012.

27 Hybrid capital

The group has hybrid capital solely from ProCredit Holding. The principal amount (BGN 48,896 thousand) of the hybrid capital is included in Tier 2 equity for capital adequacy purposes. In 2013 a hybrid capital in the amount BGN 12,713 thousand was re-paid. The amount was reinvested by ProCredit Holding into subscribed capital (Tier 1equity).

Institution	Type of the liability	2013	2012
ProCredit Holding	Undated equity (hybrid) instruments with annual interest payment	50,467	64,747
Total hybrid capital		50,467	64,747

The group has not had any defaults of principal, interest or other breaches with respect to its hybrid capital during the years ended 31 December 2013 and 2012.

28 Other liabilities

	2013	2012
Other due payments	2,045	1,524
Deferred income	1,486	264
Creditors	1,344	2,470
Non-income taxes payable	921	366
Provisions for untaken vacation	250	267
Company pension provision	128	166
Total other liabilities	6,174	5,057

Obligations for defined benefit retirement compensations

The estimated amount of the obligation as at each reporting date and the expenses for retirement compensations recognized are based on an actuarial report (see below information on actuarial assumptions).

The defined benefit plan (obligation for compensation upon retirement) is an unfunded plan.

28 Other liabilities (continued)

Movement in the present value of the defined benefit obligations

	2013	2012
Defined benefit obligations at 1 January	166	159
Benefits paid by the plan	(11)	-
Current service costs	18	21
Interest cost	5	8
Actuarial (gains) losses from changes in financial and demographic assumptions	(50)	(22)
Defined benefit obligations at 31 December	128	166

Actuarial assumptions

The following are the principal actuarial assumptions at the reporting date (expressed as weighted averages).

	2013	2012
Discount rate at 31 December	3%	5%
Future salary increases	5%	5%
Interest rate increase/decrease	5%	5%

29 Share capital and share premium

	2013		2012	
Shareholder	Share capital and share premium	%	Share capital and share premium	%
ProCredit Holding	129,351	100%	116,638	100%
Total share capital and share premium	129,351	100%	116,638	100%

As of end 2013 the registered capital of the bank was divided into 125,855 thousand shares (2012: 113,142 thousand shares) with a nominal value of BGN 1 each. All shares confer equal voting power and are fully paid. The bank issued 12,713 thousand new shares in 2013 with a nominal value of BGN 1 each in order to further strengthen its Tier 1 equity position. The sole owner of the bank's capital is ProCredit Holding.

30 Retained earnings and reserves

	2013	2012
Legal reserves	3,953	3,948
Other reserves	6,579	6,534
Revaluation reserves	(231)	16
Retained earnings	9,956	10,627
Net profit for the year, recalculated for 2012	21,679	18,892
Total retained earnings and reserves	41,936	40,017

Nature and purpose of the reserves

Legal and other reserves – these have been distributed from the net profit of the bank in compliance with the Commercial Law, article 246. The position "Other reserves" also comprises the amount accumulated as a result by remeasurement of post-employment benefits. The funds in these reserves could be only used for covering of current loss and loss from previous years or payments towards employees under defined benefit plan obligation.

30 Retained earnings and reserves (continued)

Revaluation reserves – comprise accumulated revaluation by fair value of available-for-sale financial assets.

Retained earnings – comprise the accumulated profit of the group from previous years. The group paid dividends BGN 19,558 thousand in 2013 from its retained earnings

31 Contingent liabilities and commitments

Off-balance sheet commitments

The following table indicates the contractual amounts of the group's off-balance sheet financial instruments that commit it to extend credit to customers:

	2013	2012
Commitments to extend credit	143,690	117,955
Letters of credit and letters of guarantee	30,112	30,311
Total contingencies and commitments	173,802	148,266

Operating lease commitments

The group leases a number of branch premises under operating leases. The leases typically run for a period of up to ten years. The leases are cancellable with prior notification up to six months. As a lessee under operating leases, the group has committed to make the following minimum rental payments:

	2013	2012
Up to 1 year	1,184	2,410

Assets pledged	Asset		Related liability	
	2013	2012	2013	2012
Loans and advances to customers	25,744	23,607	30,183	26,771

Pledged assets represent loans and advances to customers pledged according to the terms of loan agreements signed between ProCredit Bank and Bulgarian Development Bank EAD under programs for financing of agricultural producers and small and medium enterprises in Bulgaria.

32 Related party transactions

ProCredit Holding is the sole shareholder of ProCredit Bank and holds 100% of the bank's share capital. ProCredit Holding is the ultimate parent and ultimate controlling party of the group. ProCredit Bank has stand-by line agreement with ProCredit Holding, directed towards liquidity management, which is not utilised as of end 2013. The group has received equity hybrid instruments (note 27) from ProCredit Holding. The group has received loans from ProCredit Bank (Germany) under credit line agreements (note 23). ProCredit Bank (Germany) is fully owned subsidiary of ProCredit Holding.

The remaining balance of the loans, which the bank sold under securitisation agreement with ProCredit Company EAD, was BGN 90,012 thousand as of end 2012. The bank derecognised these loans from its statement of financial position. ProCredit Company EAD is wholly owned subsidiary of ProCredit Company B.V. which is controlled by ProCredit Holding. The bank does not consolidate ProCredit Company EAD as the control over it is ultimately exercised by ProCredit Holding. The securitisation deal was terminated in July 2013 with the remaining portfolio at the date of termination being acquired by the bank at fair value (BGN 66,828 thousand). The bank received fee for servicing of the securitised portfolio before the termination of the deal in the amount of BGN 1,270 thousand (note 8). BGN 100 thousand of the interest and similar income presented in note 6 consist of interest income resulted from interest swap deal between the bank and ProCredit Company EAD.

32 Related party transactions (continued)

The related party transactions were carried out on commercial terms and at market rates. The volumes of related party transactions outstanding at year end, and associated expenses and income for the year are as follows:

Transactions with shareholders	**2013**	**2012**
Loans and advances at the beginning of the period	-	14,498
Net change during the period	-	(14,498)
Loans and advances at the end of the period	-	-
Interest income earned	-	7
Other income earned	56	-
Liabilities at the beginning of the period	64,746	73,438
Net change during the period	(14,279)	(8,692)
Liabilities at the end of the period	50,467	64,746
Interest expense incurred	4,390	5,106
Other expenses incurred	2,420	2,338

Transactions with other ProCredit group entities	**2013**	**2012**
Loans and advances at the beginning of the period	14,403	982
Net change during the period	43,854	13,420
Loans and advances at the end of the period	58,257	14,403
Interest income earned	127	88
Liabilities at the beginning of the period	14,963	3,272
Net change during the period	23,964	11,691
Liabilities at the end of the period	38,927	14,963
Interest expense incurred	596	90
Other expenses incurred	881	795

In 2013, the total compensation of key management personnel was BGN 616 thousand (2012: BGN 526 thousand).

33 Group entities

As of 31 December 2013 the bank had a participating interest in its wholly owned leasing company ProLease (Bulgaria) EAD. At year-end the total share capital of the Company was BGN 2,500 thousand. The registered capital of the Company is divided into 2,500 shares with a nominal value of BGN 1,000 each. All shares confer equal voting power and are fully paid. The bank also owns the total share capital of ProCredit Properties EAD, which is the co-owner of the head office building of the group. The registered capital of ProCredit Properties EAD is divided into 10 shares with a nominal value of BGN 5,000 each. All shares confer equal voting power and are fully paid.

34 Capital commitments

There were no capital commitments undertaken by the group as of 31 December 2013.

35 Subsequent events

There were no events after the reporting date that required additional disclosures or adjustments to the group's financial statements.

ProCredit Bank

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