TOKUDA BANK AD

ANNUAL REPORT ON THE ACTIVITIES,
INDEPENDENT AUDITOR'S
REPORT AND ANNUAL
FINANCIAL STATEMENTS

December 31, 2012

Unofficial translation of the original in Bulgarian

ANNUAL REPORT
ON THE ACTIVITIES FOR 2012

TOKUDA BANK AD

ANNUAL REPORT ON THE ACTIVITY

2012

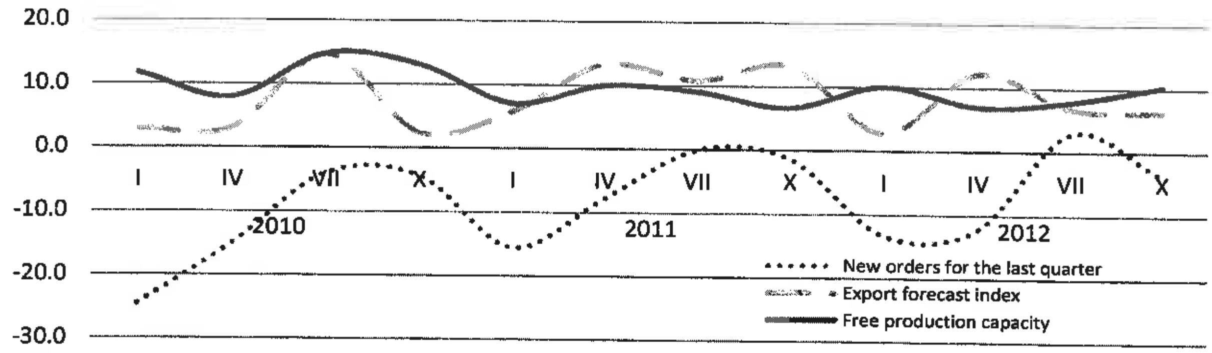
CONTENTS:

I. Environment in which Tokuda Bank AD operates in 2012

During the past 2012 the economic growth approximates zero level, the business indicators during the second half of the year aggravated (figure 1) and the environment conditions did not contribute in any manner to the recovery of the economy. This, on the other hand, had an adverse impact on the banking system as an unsteady functioning business cannot gain profits for its creditors. Worsening conditions for the business in Bulgaria were also stated in many competent reports including the World Bank Report, which affected negatively the investment decisions of local and foreign investors.

Along with the adverse environment the high credit standards further influence the banking credit rates in the private sector due to which in 2012 they continued to decrease.

Figure 1 business environment indicators



During the past financial year credit institutions throughout the country reported an increase by BGN 446 mln. in bad debts and restructured loans[1] (4.84% compared to the volume stated at the end of 2011) while their share in the general structure remain unchanged (22.42% as of December 31, 2012).

In 2012 deposits kept relatively high levels that (considering the limited lending) resulted in further increase of the liquidity of the banking system in Bulgaria. Free resources were directed for purchasing of low-income securities which decreased the profit margin. The financial system continued to accumulate resources that couldn't be placed as loans due to the weak investment interest.

Considering deteriorated employment indicators of the labour market, the risk of inability of individuals to serve their loans remained high. Impact on the risk with regards to entities had the growing intercorporate indebtedness, initiation of procedures for insolvency of small and medium-sized enterprises, and lack of adequate business environment as well.

II. Review on the activity of Tokuda Bank AD in 2012

In accordance with data of the Bulgarian National Bank /BNB/ during the past year Tokuda Bank /the Bank/ took the 25th place considering total amount of assets which represented 0.56% share of the total assets of the banking system (1.23% of the assets of second group in which Tokuda Bank AD is classified). As of December 31, 2012 the Bank's assets amount to BGN 457,457 mln., which is an increase by

[1] Includes the total amount of credit exposures reported in the statement of financial position classified as non-performance exposures (overdue above 90 days according to Article 10 of BNB Ordinance 9 on the evaluation and classification of risk exposures of the banks and the allocation of specific provisions for credit risk), classified as loss, as well as restructured exposures according to Article 13 of the same Ordinance (regardless in which classification group they are included) to the total amount of loans excluding overdrafts.

BGN 43,989 mln. compared to the prior year (BGN 413,468 mln.). The average monthly amount of the assets for 2012 (BGN 430,275 mln.) approximates 2011 levels (BGN 433,259 mln.).

In 2012 the Bank realized a net loss of BGN 2,336 mln. due to which the potential earnings per share is a negative amount (BGN -0,34). The profit for prior 2011 is of BGN 22 thousand.

During the year the loan portfolio changed insignificantly as it was strongly affected by the continuing economic stagnancy in the country determining the lack of suitable financing projects and investors with good credit standing. At the year-end the volume of the loan portfolio reached BGN 219,408 mln. before impairment (2011: BGN 219,770 mln.), and its quality actually remained the same compared to the prior year (60.74%).

1. Operating income and expenses

In 2012 the Bank generated operating income at the amount of BGN 14,372 mln., which represented an increase of BGN 1,957 mln. (15.8%) compared to prior year. During the past year the effect of various measures for cost restriction of the Bank taken immediately after the first half of 2011 was clearly noticed. As a result of these measures and due to the regular and strict control exercised by the Bank's management, the ratio between administrative expenses plus depreciation/amortization charges and operating income dropped down from 96% for 2011 to 82% for 2012. Factors for the reported improvement comprised both the increase of operating income by almost BGN 2 mln. and the expense cut off by BGN 170 mln. due to optimization of the administrative structure. Optimization measures were initiated already during the third quarter of 2011, but their positive effect was realized only in 2012 as some of the Bank's divisions with negative financial result generated significant expenses that could not be compensated until the end of 2011 because of additional payments occurred in the reorganization process of the divisions.

Changes in the structure of the Bank's total operating income are insignificant (see table 1). Net interest income represents 65.2% of the total net income and no interest-bearing income – 34.8%. For 2011 these figures are respectively 64.3% and 35.7%.

Interest income on granted loans and other receivables amount to BGN 17,518 mln. and still have the largest relative share compared to the total interest income (78,33%), although during the past year this share decreased by 3.62 percentage points. Main factor of the reported decrease by BGN 1,799 mln. compared to 2011, is the growth of loans classified in the "loss" group or loans with overdue payments of principle and interest above 180 (from 14.37% in 2011 up to 21.35% in 2012), which is a serious impendent for realization of constant interest income for the Bank.

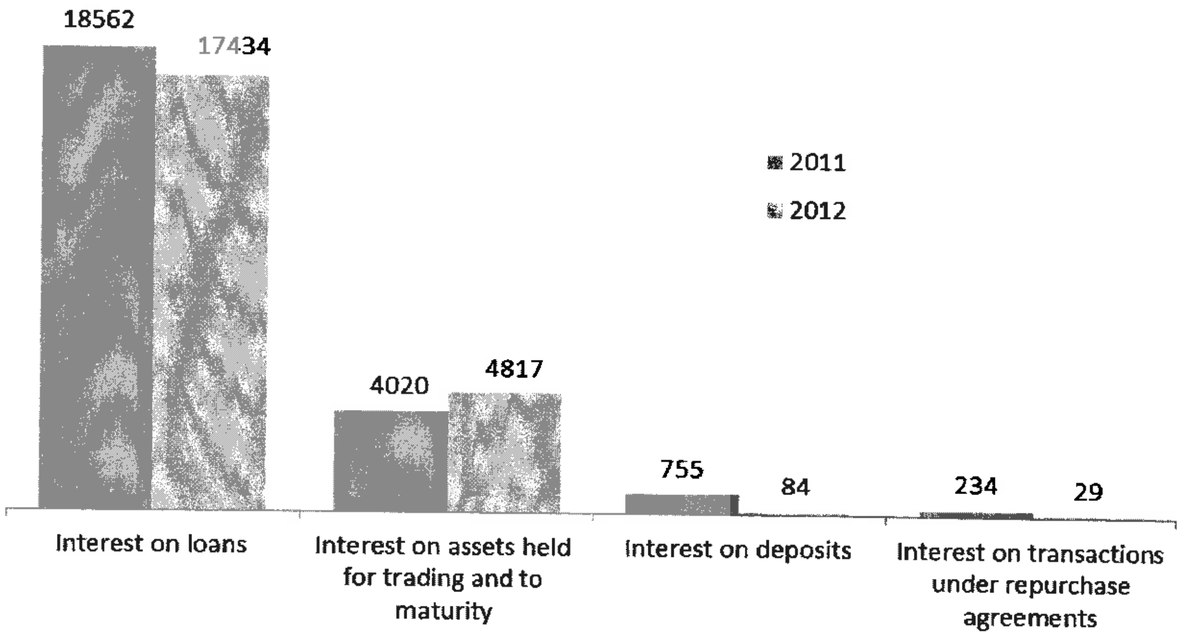
Table 1. Operating income

	2012	2011
Interest income	*22 364*	*23 571*
Interest income expense	*12 994*	*15 586*
Net interest income	**9 370**	**7 985**
Fee and commission income	*3 956*	*4 354*
Fee and commission expenses	*552*	*796*
Net fee and commissions income	**3 404**	**3 558**
Net income from commercial operations	**1 477**	**964**
Other operating income	**121**	**-92**
Total operating income	**14 372**	**12 415**

Interest income from the management of debt instruments portfolio (figure 2) indicate growth of 19.9% compared to 2011. The share of this income in the total interest income reached 21.54%. Compared to the prio-year figures the share was 17.05%. The increase of interest income mostly relates to the higher average monthly levels of securities portfolio kept during the year.

Interest income on placed deposits dropped down compared to prior year mainly due to the decrease of yield margin on inter-bank market.

Figure 2. Interest income by sources



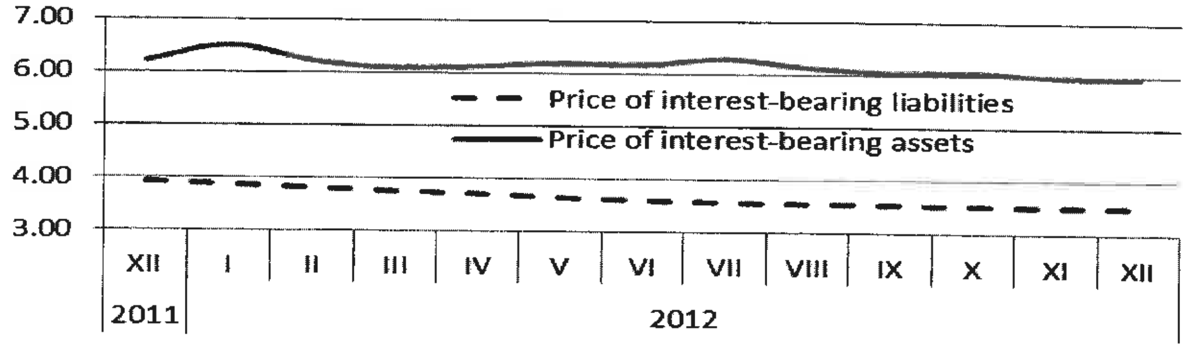
Interest expenses for 2012 represented material share of the Bank's operating activity as deposit base is formed mainly by individuals and households and as of December 31, 2012 they reached the amount of BGN 12,994 mln., indicating a decrease by 16.6% compared to 2011 (when their volume was BGN 15,586 mln.), as a result of the effective policy for liabilities and interest expenses management followed by the Bank's management.

Traditionally, term deposits of individuals and households represent the largest share of BGN 10,328 mln. (79.5%) of the total interest expenses. The share of this component of attracted funds actually remained unchanged (in 2011 it is 80.76%), which was also one of the main goals of liabilities management. The share of interest expenses on attracted funds from banks and non-financial institutions marked a decrease (from 2.9% in 2011 to 0.3% in 2012) which is on the account of the share of interest expenses on attracted funds from enterprises and the State Budget.

During the reporting period interest spread (figure 3) marked certain increase although the decrease in levels of income from interest-bearing assets resulted from the grown share of classified loans in "loss" group caused by overdue principals and interest above 180 days, as well as the decrease of interest on newly granted loans following the market trends and competitive environment. Interest spread increased by 0.16% (from 2.28% at the end of 2011 to 2.44% at the end of 2012), as the price of the interest-bearing assets dropped down by 0.25% (from 6.21% on accumulation basis at the end of 2011 to 5.96% at the year-end of 2012), and the price of interest-bearing liabilities decreased by 0.41% (respectively from 3.92% to 3.51%) because of the decrease in deposit interest and maturity of relatively expensive deposits of

Bank's customers. Favourable effect on the price of attracted funds had also deposits renegotiated before maturity date within the 'freedom of negotiation" campaign.

Figure 3.Interest spread components for 2012



Non-interest income

Non-interest income reported fast growth (12.91%) and in 2012 they increased by BGN 572 thousand compared to prior year and reached the amount of BGN 5 mln. The largest share in this group still had the net income from fees and commissions (BGN 3,404 mln.). During the past year this indicator marked a decrease of BGN 154 thousand (4.33%) mainly due to reduction of fees on loans by ¼ on yearly basis.

During the last year a decrease by 5% of income from fees on transfers in BGN and foreign currency was observed and amounted down to BGN 1,731 mln., which increased by 1.8% its share in the total structure of gross income from fees and commissions up to 43.8%.

Net income from sales and revaluation of securities in trading portfolio increased twice during the year. From BGN 466 thousand in 2011 they went up to BGN 1 mln. during the reporting period.

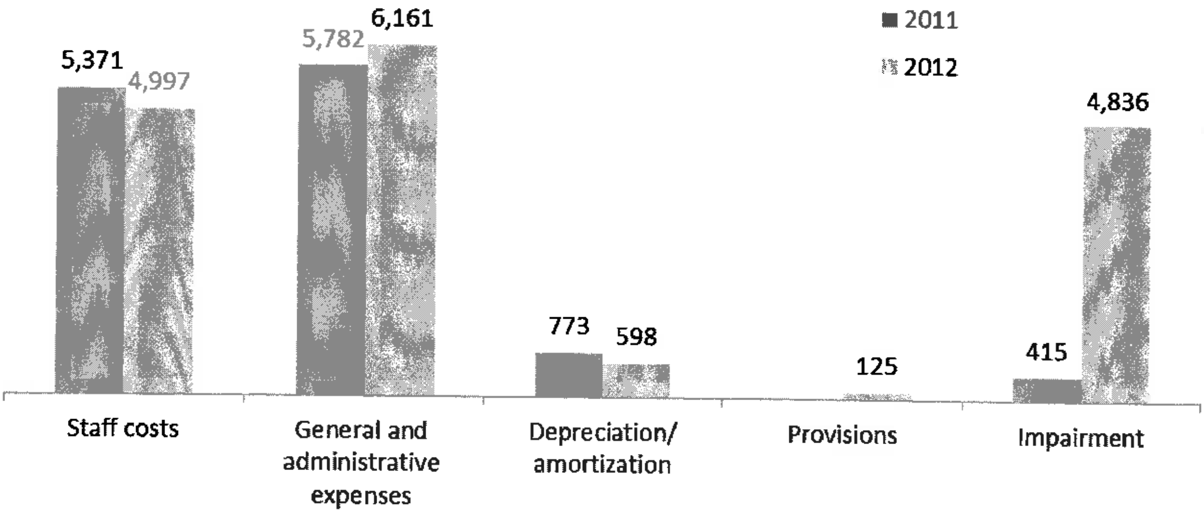
Results from currency transactions and revaluation of currency assets and liabilities in 2012 remained at the same levels as in prior year amounting to BGN 477 thousand.

Other non-interest income from operations (including dividends) amounts to BGN 121 thousand.

Non-interest expenses

The Bank's non-interest expenses for 2012 are at the amount of BGN 16,717 mln., which is an increase by BGN 4,376 thousand or 35.46% compared to prior year. The main reason for the increase of this group of costs is the rise of impairment expenses amounting to BGN 4,836 mln. or by BGN 4,421 mln. more than in 2011. Such harsh growth resulted in decrease of relative shares of the other groups of expenses. For example, the share of personnel costs (including salaries, social securities and health insurance expenses) compared to non-interest expenses dropped down from 44% to 30% at the end of 2012. The absolute values of the decrease in this indicator are BGN 374 thousand or 6.96% on yearly basis resulting in decline of staff costs from BGN 6.96 mln. in 2011 to BGN 4,997 mln. at the end of 2012. This economy is a natural outcome of the office network optimization initiated by the management already in the second half of 2011 owing to which the average number of Bank employees was reduced from 323 to 274 employees (at the end of 2011), but the actual effect was reported only in 2012 due to the compensations paid to the staff reduced immediately after division restructuring measures taken in the Bank.

Figure 4. Non-interest expenses



The share of general administrative expenses (including those for services, rents, materials, contributions to the Bulgarian Deposit Insurance Fund /BDIF/, telecommunication and information technologies, security, etc.) decreased from 47% to 37% and the absolute values showed growth of BGN 379 thousand or 6,55% on yearly basis resulting in total amount of BGN 6,161 mln. The growth of this group of expenses is mainly because of the increase of contribution payments to BDIF by BGN 302,8 thousand that reached the amount of BGN 1,808 mln. due to keeping a relatively large amount of attracted funds in 2011. As a result of the slow renewal of the technology park and the optimization of Bank's divisions, depreciation/amortization expenses were reduced by BGN 175 thousand and amounted to BGN 598 thousand for 2012 while their share in the total structure decreased from 6,3% to 3,6%.

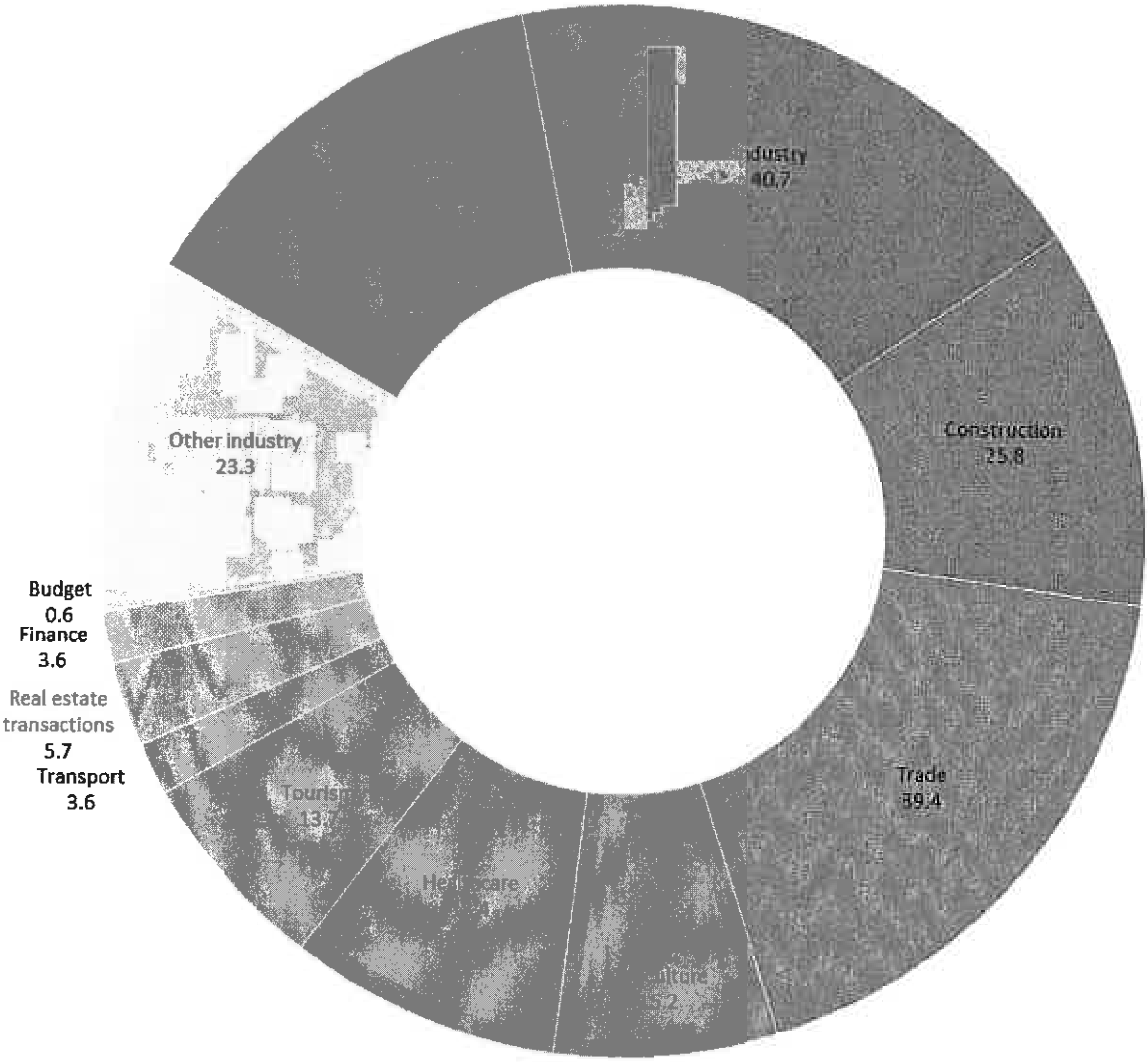
Although the loan portfolio quality indicator remained unchanged (60.57%) during the past year, the migration of loans to "loss" group and expiration of terms for realization of reasonable collaterals on exposures classified in this group in the prior year led to tactile pressure for increasing impairment losses. Their net value increased repeatedly compared to 2011 (BGN 415 thousand) and reached the amount of BGN 4,836 mln., which is below 2010 levels. Generally, processes of deterioration of loan portfolio quality got under control already in 2011, evidence of which is the regular service of loans granted at the end of 2010, but it would take time to reduce the provision expenses as to the inert nature of the process.

2. Loan portfolio

At the end of 2012 the gross loan portfolio of the Bank (figure 5) amounted to BGN 219,408 mln. After allocation of allowances for impairment loss at the amount of BGN 9,169 mln., the net value of the portfolio was BGN 210,239 mln. The lack of portfolio growth is due to unfavourable conditions and the still existing relatively high credit risk of the business environment. In 2012 the carrying amount of the loan portfolio after impairment decreased its share in the total assets' structure to 45.95% (51.69% for the prior year).

Corporate loans amount to BGN 179,817 mln., and their share in the gross loan portfolio (81.95%) changed slightly compared to prior year levels (81.4%), which was expected considering the absence of portfolio growth.

Figure 5. Loan portfolio distribution [BGN'000 000]



Changes in the consumer loans segment are also relatively immaterial. Their share ids decreased from 17.4% of the gross loans in 2011 to 16.15% in 2012. In absolute value the segment bears negative growth at the amount of BGN 2,8 mln., which represents a decrease by 7.3% compared to the prior year values. The structure of retail banking remains unchanged – consumer loans decrease by BGN 1.7 mln. to the amount of BGN 29,562 th. at the end of 2012 where their share in this segment decreased from 81.8% to 83.4%. The share of mortgage loans (BGN 5,885 th.) remains below 1/5 of the total retail banking.

In 2012 the Bank continued to work with companies from the sectors of industry, trade, energy, agriculture, healthcare, etc. The largest relative share is held by loans to the Industry sector, which during the year increased its share by 4.5 percentage points to 18.57% of the portfolio, followed by the trade sector whose share increased from 10.98% to 17.94%, construction whose share decreased by 1.17 percentage points and healthcare whose relative share practically remained the same (8.4%). Significant change was reported in the segment of transport, whose share has shrunk twice to 1.63% of the portfolio.

There are no significant changes in the currency structure of loan portfolio. The share of loans in EUR and BGN increased by 0.9% and 0.2%, respectively, while the loans in USD decreased by 1.13 percentage points. At the end of 2012 the shares are as follows: 46.24% in local currency, 52.15% in EUR and 1.61% in USD.

Despite some positive signs of economic recovery, the crisis continued to shape the attitudes of the private sector and households. The deterioration of their economic status and the difficulties they are facing in repayment of their obligations affects negatively the rate of lending and thus preventing the compensation of poor portfolio quality through increasing its volume. During the past year loans were granted only to individuals meeting high standards for reliability, as indicative in this respect is the regular servicing of such loans. However, this year, the indicator of portfolio quality also marked a decrease and this is quite understandable due to the inert nature of the process of changing the portfolio quality.

For covering the risk from impairment loss on loans the Bank has allocated allowances amounting to BGN 9,169 mln. and the debt-to-equity ratio of the portfolio by general provisions increased from 2.76% to 4.18%. Loans classified outside the "regular" groups are provided with allowances for impairment of 10.6%. The main portion of impairment (91.1%) is accrued for receivables, classified in the "loss" group (table 2).

Table 2. Allocation of loan portfolio to classification groups.

	2012				2011			
	Gross	Provisions under IAS	Specific provisions	General provisions	Gross	Provisions under IAS	Specific provisions	General provisions
Regular	132 898	0	428	428	133 490	-	520	520
Watch	27 204	85	53	137	38 168	62	766	828
Non-performing	12 453	730	743	1 474	16 516	129	546	675
Loss	46 853	8 354	25 653	34 007	31 596	5 869	7 163	13 032
Total	219 408	9 169	26 877	36 046	219 770	6 060	8 995	15 055

In 2012 specific provisions increased to BGN 26,877 mln.

3. Securities

The security portfolio at the end of 2012 decreased by BGN 8.68 mln. to BGN 109,45 mln. and thus its share in the total structure of assets slightly decreased to 23,92% of the total assets, which is 4.54 percentage points less than the prior year. Compared to the prior year such change is relatively minor (7.34%). The uphold of relatively high share of this asset category can be explained by the general stagnation in lending, motivating local banks to direct their available resources to government securities market. The majority of this category of assets (70.21% or BGN 76,86 mln.) represents investments held to maturity. Securities available for sale during the past year remain unchanged (BGN 165 thousand) and the volume of trading portfolio decreased by BGN 3.44 mln. and reached the amount of BGN 32,443 mln.

The share of Bulgarian securities remained without significant change – it increased by 1.4 percentage points to 83.52% of the portfolio despite the fact that on yearly basis its amount decreases by 5.76% to BGN 91,409 mln. The corporate bonds (from local and foreign issuers) during the past year decreased by BGN 3,1 mln. to BGN 17,775 mln. and their share (16. 2%) in the general structure of the securities portfolio remained close to the prior year level. Crucial role for the reported negative growth had the accrued impairment at the amount of BGN 1,2 mln.

4. Attracted funds

The volume of attracted funds in 2012 (table 3) increased by 6.6% and reached BGN 386,171 mln. 55% of borrowed funds came from Bulgarian citizens and households. Non-residents ranked second in share of borrowed funds (with 18.3%). The resource from local entities and organizations operating with State budget funds increased significantly and by the end of 2012 occupied 26.9% of the total structure (16.4% in 2011), which is an expected result of the policy implemented by the management in this direction. The Bank continued maintaining overliquidity and therefore the interest in attracting deposits from banks remained weak, so their volume at the end of the year was only BGN 7,161 mln.

During the reporting year several adjustments of interest rates on deposit products were made for optimization of interest expenses, and as a result the structure of borrowed funds changed in favour of current accounts. Their share during the year increased from 19.3% to 28.5% from the total amount. Borrowed funds from Agriculture Fund and SAPARD decreased by BGN 652 thousand to BGN 400 thousand.

Changes in the currency structure of attracted funds are in favour of local currency; during the reporting period its share increased from 28.4% to 43% while the share of foreign currency deposits has decreased by 14.6 percentage points to 57% of the total structure.

Table 3. Structure of attracted funds

	2012			2011		
	BGN	Original Currency	Total	BGN	Original Currency	Total
RESIDENTS	**164 998**	**150 357**	**315 355**	**102 008**	**184 605**	**286 613**
Households and individuals	74 675	136 671	211 346	55 793	171 584	227 377
State budget	9 807	322	10 129	3 517	-	3 517
Services	23 633	3 296	26 929	20 611	5 102	25 713
Industry	5 765	3615	9 380	4 568	333	4 901
Trade	31 006	2 143	33 149	5 523	2 395	7 918
Transport	432	525	957	380	265	645
Construction	11 125	1 260	12 385	3 888	2 079	5 967
Financial institutions	2 254	1080	3 334	2 033	443	2 476
Agriculture	6 301	1 445	7 746	5 695	2 404	8 099
NON-RESIDENTS	**1197**	**69 619**	**70 816**	**821**	**74 758**	**75 579**
Total	**166 195**	**219 976**	**386 171**	**102 829**	**259 363**	**362 192**

5. Capital and reserves

As of 31 December 2012 the Bank's capital is at the amount of BGN 61,071 mln., which is 19.86% higher than the previous year. The Bank still cannot cover the accumulated losses from prior years (BGN 5,752 mln.). The reserves amounts to BGN 1,159 mln. (including revaluation of fixed assets of BGN 347 thousand). The share capital (capital base), according to the requirements of BNB Ordinance 8 on capital adequacy, is of BGN 34,027 mln.

For the purposes of BNB Ordinance 8 , the Bank applies standard approach for credit risk for the calculation of the capital requirements for credit and market risk and the approach of the base indicator of the operating risk.

In 2012 the Bank allocated specific provisions for credit risk, representing excess of the carrying amount of loans over their exposures (calculated in accordance with the requirements of BNB Ordinance 9 on the evaluation and classification of risk exposures of the banks and the allocation of specific provisions for credit risk), calculated in accordance with the applicable accounting standards and recorded in these financial statements. For the purposes of assessment of specific loan provisions classified in "loss" group for a period more than 365 days, the value of collateral is considered null. As of December 31, 2012 the Bank allocated specific provisions for credit risk at the amount of BGN 26,877 mln.

In 2012 the capital adequacy ratios of Tokuda Bank AD are above the required levels. The Bank's capital position provides adequate cover of its risk exposures. As at December 31, 2012 the capital adequacy ratio and capital adequacy of tier one capital are 14.38% (14.98% at the end of 2011), which covers the legal requirements.

6. *Office network*

In 2012 exploring the options to expand its business by providing services to public entities, the Bank decided to spread out its regional presence by opening new remote work places in Kaspichan, Trud and Chepelare administrative units.

The structure of the office network is as follows:

- Head Office
- Offices – 20
- Remote workplaces – 15

The regional divisions of the Bank provide its customers with professional and quality services, timely assistance for solving different issues and possibilities to benefit of new products and services.

7. *Correspondent relations*

Correspondents of the Bank are all Bulgarian banks and a number of leading foreign banks – BNP-Paribas SA, Paris; Commerzbank AG, Franufurt/Main; Dresdner Bank AG, Frankfurt/ Main; Bank of China, Beijing; Landesbank Hessen-Thueringen Girozentrale, F/M; Bank of Tokyo-Mitsubishi UFJ, LTD, Tokyo; Sumitomo Mitsui Banking Corporation, Tokyo; Banque Generale du Luxembourg S.A., Luxemburg; Banca Popolare di Milano S.C.A.R.L., Milano; Uniastrum Bank, Moscow; International Bank for Economic Cooperation, Moscow; Unistream Commercial Bank, Moscow; Banco Cooperativo Espanol S.A., Madrid; Credit Suisse, Zurich; Hyposwiss Privatbank AG, Zurich; Wachovia Bank, NA, London; Bank of New York, New York; CITIBANK N.A., New York, etc.

8. *Human resources*

In 2012 the employees working in the Bank are 270 persons, and the average listed personnel on actual working time is 260 employees.

The human resource is a key factor for realizing the strategic goals of the management. The Bank's management develops a system for managing of human resources and administration of the personnel - planning, selection, recruitment, movement and discharge.

A crucial factor in achieving the mission and strategy of the Bank is the quality of personnel - qualifications, skills and loyalty of employees. Banks employees also attend various forms of training and qualification related to their main functions, since the improvement is one of the main tools, which has proven its reliability.

For the purposes of effective human resources management the internal information system (internal site) is continuously updated, where access is granted to internal company documents and news concerning the Bank.

9. ***Information technologies***

During the previous year the migration process to a newer and more reliable software platform, managing the main data flows of the Bank was successfully completed. The implementation of a new platform led to development of the Bank's technological processes and their control, improvement of the quality of customer services and ensuring of reliable information of their needs.

III. Development trends in 2013

The main priorities of the Bank for its development in 2013 are in the following areas:

- Expansion of the Bank's market share;
- Adequate liquidity of the Bank;
- Improving the quality of loan portfolio;
- Promoting sales of new products and services;
- Optimization of the asset structure and following the policy of acceptable credit risk and its coverage with the necessary capital.
- Improvement of the ratio of return on assets;
- Ensuring stable operating income to guarantee the achievement of a higher return on share capital.
- Limitation of expenses by their optimization.

IV. Information about changes in share capital, dividends policy and management

1. ***Changes in share capital***

In 2012 by virtue of a decision of the Regular Annual General Meeting, held on June 12, 2012, the share capital was increased from 53 000 000 (fifty three mln.) to 68 000 000 (sixty eight mln.) Bulgarian Leva by issuance of 1 500 000 (one mln. and five hundred thousand) new registered dematerialized voting shares each having nominal value of BGN 10 (ten Bulgarian leva) and issue value equal to the nominal, while giving the right for subscription and acquisition only to Bank's shareholders. Due to non-subscription of shares by the rest of the shareholders, besides the majority shareholder, proportionately to their share participation in the Bank's share capital, the entire package of 1 500 000 (one mln. and five hundred thousand) shares was acquired by International Hospital Service Co., Ltd., Japan.

Based on the Register of Shareholders at the Central Depository, shareholders of the Bank as of December 31, 2012 are as follows:

- International Hospital Service Co., Ltd., Japan (holding 99.53% of the share capital);
- Garant Co. 97 AD, Bulgaria (0.22%);
- AUC Establishment, Lichtenstein (0.2%);
- MM Holding AD, Bulgaria (0.05%).

2. Management

In 2012 the Bank preserved its two-tier management system. The bodies of the joint-stock company in 2012 have the following members:

Supervisory Board of the Bank

Arthur Stern – Chairperson of Supervisory Board.

International Hospital Service Co., Ltd., Japan, represented by Eiji Yoshida – Deputy Chairperson of Supervisory Board.

Katsuyuki Noso – member of Supervisory Board.

Management Board of the Bank

Vanya Vasileva – Chairperson of Management Board and Executive Director.

Kiril Pendev – member of Management Board and Executive Director.

Lyubomir Manolov – member of Management Board and Executive Director.

Yonka Kinova – member of Management Board until May 3, 2012;

Nikolay Dimitrov – member of Management Board until May 3, 2012.

The total amount of remunerations, received during the reporting period by the members of the Management and the Supervisory Boards amounts to BGN 395 thousand (three hundred ninety five thousand Bulgarian Leva)

The members of the Management and the Supervisory Boards do not have rights to acquire shares and bonds of the company. Also neither they, nor related to them persons have signed with the Bank contracts, which are beyond the regular activity or significantly deviate from the market conditions.

3. Dividends and policies

The Bank has paid no dividends since the annual net profit, by virtue of decision General Meeting of the shareholders, has been allocated in full to cover losses from prior periods.

V. Responsibility of the Management

The annual financial statements have been prepared in compliance with the requirements of the Legislation and the International Financial Reporting Standards (IFRS), as adopted by the European Union. They give a true and fair view of the financial position of the Bank.

As to the preparation of the annual financial statements, the management confirms that:

- They have been prepared in compliance with the International Financial Reporting Standards;
- The annual financial statements have been prepared under going concern assumption and are fairly presented;
- The adopted accounting policies are adequate and have been consistently applied;
- The required estimates and assumptions have been made on the basis of the prudence concept;
- The management has undertaken all necessary measures to protect the assets of the Bank and to prevent fraud.

By virtue of decision of the Management Board of Tokuda Bank AD:

Vanya Vassileva	**Kiril Pendev**
Chairperson of Management Board and	Member of Management Board and
Executive Director	Executive Director

INDEPENDENT AUDITOR'S REPORT AND ANNUAL FINANCIAL STATEMENTS DECEMBER 31, 2012

Deloitte.

Deloitte Audit OOD
UIC 121145199
103, Al. Stambolijski Blvd.
1303 Sofia
Bulgaria

Tel: +359 (2) 80 23 300
Fax: +359 (2) 80 23 350
www.deloitte.bg

Делойт Одит ООД
ЕИК 121145199
бул. „Ал. Стамболийски" 103
София 1303
България

Тел: +359 (2) 80 23 300
Факс: +359 (2) 80 23 350

This document is a translation of the original text in Bulgarian, in case of divergence the Bulgarian text shall prevail.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Tokuda Bank AD

Report on the financial statements

We have audited the accompanying financial statements of Tokuda Bank AD ("the Bank"), which comprise the statement of financial position as of December 31, 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Bank as of December 31, 2012, and its financial performance and its cash flows for the year then ended in accordance with IFRS, as adopted by the European Union.

Other reports on legal and regulatory requirements - Annual report on the activities of the Bank according to article 33 of the Accountancy Act

Pursuant to the requirements of the Bulgarian Accountancy Act, article 38, paragraph 4 we have read the accompanying Annual report on the activities of the Bank, prepared by the management. The Annual report on the activities of the Bank is not a part of the financial statements. The historical financial information presented in the Annual report on the activities of the Bank prepared by the management is consistent, in all material aspects with the financial information disclosed in the financial statements of the Bank as of December 31, 2012, prepared in accordance with IFRS, as adopted by the European Union. Management is responsible for the preparation of the Annual report on the activities of the Bank dated April 3, 2013.

Deloitte Audit

Deloitte Audit OOD

Специализирано одиторско предприятие
София
Рег. №033
"Делойт Одит" ООД

Sylvia Peneva
Statutory Manager
Registered Auditor

Sofia
April 3, 2013

TOKUDA BANK AD

STATEMENT OF FINANCIAL POSITION
as of December 31, 2012
All amounts are in thousand BGN, unless otherwise stated

	Note	As of 31.12.2012	As of 31.12.2011
ASSETS			
Cash and cash balances with central banks	4	50,388	35,746
Loans and receivables from credit institutions	5	68,507	18,759
Financial assets held for trading	6	32,443	41,324
Financial assets available for sale	7	165	165
Receivables under repurchase agreements (repo-deals)	8	-	2,190
Loans and receivables from customers	9	210,239	213,710
Investments held to maturity	10	76,842	82,074
Property, plant and equipment	11	3,924	4,141
Intangible assets	11	167	218
Tax assets	21.1	53	115
Other assets	12	809	1,014
Non-current assets held for sale	13	13,920	14,012
TOTAL ASSETS		**457,457**	**413,468**
LIABILITIES			
Financial liabilities held for trading	14	840	-
Deposits from credit institutions	15	381	901
Payables under repurchase agreements	16	6,780	-
Deposits from clients other than credit institutions	17	386,171	362,192
Borrowings	18	400	1,052
Provisions	19	248	237
Allowances on credit facilities and guarantees	20	125	-
Tax liabilities	21.2	87	96
Other liabilities	22	1,354	583
TOTAL LIABILITIES		**396,386**	**365,061**
EQUITY			
Share capital	23	68,000	53,000
Reserves	23	1,159	1,159
Accumulated loss		(5,752)	(5,774)
Profit/(loss) for the year		(2,336)	22
TOTAL EQUITY		**61,071**	**48,407**
TOTAL LIABILITIES AND EQUITY		**457,457**	**413,468**

These financial statements have been approved by the Management Board of Tokuda Bank AD on April 3, 2013.

Vanya Vassileva Executive Director	Kiril Pendev Executive Director	Desislava Beluhova Chief Accountant

The accompanying notes are an integral part of these financial statements.

The original financial statements have been signed by Sylvia Peneva, Statutory Manager and Registered Auditor at Deloitte Audit OOD on April 3, 2013.

TOKUDA BANK AD

STATEMENT OF COMPREHENSIVE INCOME
for the year ended December 31, 2012
All amounts are in thousand BGN, unless otherwise stated

	Note	Year ended 31.12.2012	Year ended 31.12.2011
Interest income	24	22,364	23,571
Interest expenses	24	(12,994)	(15,586)
Net interest income		**9,370**	**7,985**
Dividend income		25	22
Fee and commission income	25	3,956	4,354
Fee and commission expenses	25	(552)	(796)
Fee and commission income, net		**3,404**	**3,558**
/Net gains (losses) on financial assets and liabilities held for trading	26	(2,767)	5,021
Net gains/ (losses) on foreign currency revaluation	27	4,244	(4,057)
Other operating income /(expense)	28	96	(114)
Other operating income /(expenses)	13	(515)	-
Administrative expenses	29	(11,158)	(11,153)
Depreciation/amortization	11	(598)	(773)
Allowances on credit facilities and guarantees	20	(125)	-
Impairment of investments held to maturity	10	(1,212)	-
Net expenses for impairment and uncollectability	30	(3,109)	(415)
PROFIT/(LOSS) BEFORE TAXATION		**(2,345)**	**74**
Income tax benefit/(expense)	31	9	(52)
PROFIT/(LOSS) FOR THE YEAR		**(2,336)**	**22**
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**(2,336)**	**22**

These financial statements have been approved by the Management Board of Tokuda Bank AD on April 3, 2013.

Vanya Vassileva Executive Director	Kiril Pendev Executive Director	Desislava Beluhova Chief Accountant

The accompanying notes are an integral part of these financial statements.

The original financial statements have been signed by Sylvia Peneva, Statutory Manager and Registered Auditor at Deloitte Audit OOD on April 3, 2013.

TOKUDA BANK AD

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
AS OF DECEMBER 31, 2012
All amounts are in thousand BGN, unless otherwise stated

	Share capital	Reserves	Accumulated loss	Total
BALANCE AS OF JANUARY 1, 2011	**45,000**	**1,159**	**(5,774)**	**40,385**
Increase of share capital	8,000	-	-	8,000
Profit for the year	-	-	22	22
Other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	-	-	22	22
BALANCE AS OF DECEMBER 31, 2011	**53,000**	**1,159**	**(5,752)**	**48,407**
Increase of share capital	15,000	-	-	15,000
Loss for the year	-	-	(2,336)	(2,336)
Other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	-	-	(2,336)	(2,336)
BALANCE AS OF DECEMBER 31, 2012	**68,000**	**1,159**	**(8,088)**	**61,071**

These financial statements have been approved by the Management Board of Tokuda Bank AD on April 3, 2013.

Vanya Vassileva
Executive Director

Kiril Pendev
Executive Director

Desislava Beluhova
Chief Accountant

The accompanying notes are an integral part of these financial statements.

The original financial statements have been signed by Sylvia Peneva, Statutory Manager and Registered Auditor at Deloitte Audit OOD on April 3, 2013.

TOKUDA BANK AD

STATEMENT OF CASH FLOWS
For the year ended December 31, 2012
All amounts are in thousand BGN, unless otherwise stated

	Note	Year ended 31.12.2012	Year ended 31.12.2011
OPERATING ACTIVITIES			
Net profit/(loss) for the year		(2,336)	22
Adjustments for reconciliation of net profit with net cash flows from operating activities::			
Tax expense		(9)	52
Depreciation/amortization		598	773
Net expenses for impairment and uncollectability		3,109	415
Impairment of non-financial assets		515	-
Allowances on guarantees		125	-
Impairment of financial assets/investment held to maturity		1,212	-
Interest income		(22,364)	(23,571)
Interest expense		12,994	15,586
Dividend income		(25)	(22)
Loss on disposal of property, plant and equipment		14	187
Provisions		11	(3)
Interest income received		21,960	22,974
Interest expense paid		(14,408)	(16,386)
Dividend income received		25	22
Taxes paid		(15)	(19)
Cash flows from operating profit before changes in the operating assets and liabilities		**1,406**	**30**
Increase in loans and receivables from credit institutions with maturity over 3 months		-	8,008
(Increase)/decrease of financial assets and liabilities held for trading		8,849	(12,743)
Decrease of financial assets available for sale		-	72
(Increase)/decrease of receivables under repurchase agreements		2,190	(2,190)
(Increase)/ decrease in loans and receivables from customers		2,283	(15,846)
(Increase)/ decrease of non-current assets held for sale		92	(1,183)
Decrease of other assets		205	900
Decrease of receivables under repurchase agreements		6,780	
Increase of financial liabilities available for sale		840	-
(Decrease) of deposits from credit institutions		(520)	(5,465)
Increase of deposits from clients other than credit institutions		24,498	16,072
Increase /(decrease) of other liabilities		771	(385)
Net cash flow (used in)/generated by operating activities		**47,394**	**(12,730)**

STATEMENT OF CASH FLOWS (CONTINUED)
For the year ended December 31, 2012
All amounts are in thousand BGN, unless otherwise stated

	Note	Year ended 31.12.2012	Year ended 31.12.2011
INVESTING ACTIVITIES			
Payments for acquisition of investment held to maturity		(2,582)	(37,443)
Proceeds from investments held to maturity		5,700	10,500
Payments for acquisition of property, plant and equipment		(212)	(1,046)
Proceeds from sale of property, plant and equipment		36	241
Payments for acquisition of intangible assets		(149)	(55)
Proceeds from sale of investments in subsidiaries and associates		-	1,037
Net cash flow used in investing activities		**2,793**	**(26,766)**
FINANCING ACTIVITIES			
Repayments of borrowings		(652)	(17,577)
Increase of share capital		15,000	8,000
Net cash flow from/(used in) financing activities		**14,348**	**(9,577)**
Effect of exchange rate changes on the balance of cash held in foreign currencies		(145)	110
Net increase/(decrease) of cash and cash equivalents		**64,390**	**(48,963)**
Cash and cash equivalents at the beginning of the year		**54,505**	**103,468**
Cash and cash equivalents at the end of the year	33	**118,895**	**54,505**

These financial statements have been approved by the Management Board of Tokuda Bank AD on April 3, 2013.

Vanya Vassileva Executive Director	Kiril Pendev Executive Director	Desislava Beluhova Chief Accountant

The accompanying notes are an integral part of these financial statements.

The original financial statements have been signed by Sylvia Peneva, Statutory Manager and Registered Auditor at Deloitte Audit OOD on April 3, 2013.

1. ORGANIZATION AND OPERATIONS

Tokuda Bank AD (the Bank) is a joint stock company registered in the Republic of Bulgaria on December 27, 1994. The Bank's registered address is 3, Graf Ignatiev Street, Sofia.

As of December 31, 2012 the issued share capital amounts to BGN 68,000,000 (sixty eight million levs), comprising 6,800,000 (six million and eight hundred thousands) registered voting shares with face value of BGN 10 (ten) per share. In 2012 the Bank increased its share capital by BGN 15,000,000 (fifteen million) by issuing 1,500,000 (one million and five hundred thousand) registered dematerialized voting shares with face value of BGN 10 (ten) per share.

As of December 31, 2012 the major shareholder of the Bank is International Hospital Service Co, Ltd., Japan, holding 99.53%.

The Bank holds a banking license issued by the Bulgarian National Bank (BNB) to perform all banking activities allowed by the Bulgarian legislation.

The 2011 and 2010 activity of the Bank mainly consist of rendering of banking services related to granting loans to private companies, attracting deposits from customers, servicing of client payments both locally and internationally, performing transactions with government securities and securities under repurchase agreements, as well as other financial services in Bulgaria.

The Bank has a two-tier management system, consisting of Management Board and Supervisory Board. Three of the members of the Management Board are Executive Directors of the Bank.

In 2012 the Bank operates through its Head Office and 35 offices, points of services and representative offices (2011: 33). As of December 31, 2012 the Bank has 270 employees (2011: 274).

2. BASIS FOR PREPARATION OF THE FINANCIAL STATEMENTS

2.1 General

These financial statements have been prepared for general purposes for the year ended December 31, 2012. The financial statements are presented in thousand Bulgarian Levs (BGN'000).

These financial statements have been prepared in accordance with the Bulgarian national legislation. The Bank's operations are regulated by the Law on Credit Institutions and BNB Ordinances. BNB supervises and monitors the compliance with the banking legislation.

2.2 Accounting convention

These financial statements have been prepared on the historical cost convention, except for the securities held for trading, investments available for sale and derivatives, which are presented at fair value (see note 3.2). Loans, receivables and financial assets held to maturity are presented at amortized cost.

These financial statements are prepared in all material respects in accordance with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB) and the interpretations, issued by the International Financial Reporting Interpretations Committee (IFRIC), as adopted by the European Union (EU) and applicable in the Republic of Bulgaria.

2. BASIS FOR PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

2.3 Changes in IFRS

Standards and Interpretations effective in the current period

The following amendments to the existing standards issued by the International Accounting Standards Board and adopted by the EU are effective for the current period:

- Amendments to IFRS 7 "Financial Instruments: Disclosures" - Transfers of Financial Assets, adopted by the EU on November 22, 2011 (effective for annual periods beginning on or after July 1, 2011).

The adoption of these amendments to the existing standards has not led to any changes in the Bank's accounting policies.

Standards and Interpretations issued by IASB and adopted by the EU but not yet effective

At the date of authorisation of these financial statements the following standards, revisions and interpretations adopted by the EU were in issue but not yet effective:

- IFRS 10 "Consolidated Financial Statements", adopted by the EU on December 11, 2012 (effective for annual periods beginning on or after January 1, 2014);
- IFRS 11 "Joint Arrangements", adopted by the EU on December 11, 2012 (effective for annual periods beginning on or after January 1, 2014);
- IFRS 12 "Disclosures of Interests in Other Entities", adopted by the EU on December 11, 2012 (effective for annual periods beginning on or after January 1, 2014);
- IFRS 13 "Fair Value Measurement", adopted by the EU on December 11, 2012 (effective for annual periods beginning on or after January 1, 2013);
- IAS 27 (revised in 2011) "Separate Financial Statements", adopted by the EU on December 11, 2012 (effective for annual periods beginning on or after January 1, 2014);
- IAS 28 (revised in 2011) "Investments in Associates and Joint Ventures", adopted by the EU on December 11, 2012 (effective for annual periods beginning on or after January 1, 2014);
- Amendments to IFRS 1 "First-time Adoption of IFRS" - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters, adopted by the EU on December 11, 2012 (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IFRS 7 "Financial Instruments: Disclosures" - Offsetting Financial Assets and Financial Liabilities, adopted by the EU on December 13, 2012 (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IAS 1 "Presentation of financial statements" -Presentation of Items of Other Comprehensive Income, adopted by the EU on June 5, 2012 (effective for annual periods beginning on or after July 1, 2012);
- Amendments to IAS 12 "Income Taxes" - Deferred Tax: Recovery of Underlying Assets, adopted by the EU on December 11, 2012 (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IAS 19 "Employee Benefits" - Improvements to the Accounting for Post-employment Benefits, adopted by the EU on June 5, 2012 (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IAS 32 "Financial instruments: presentation" - Offsetting Financial Assets and Financial Liabilities, adopted by the EU on December 13, 2012 (effective for annual periods beginning on or after January 1, 2014);
- IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine", adopted by the EU on December 11, 2012 (effective for annual periods beginning on or after January 1, 2013).

2. BASIS FOR PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

2.3 Changes in IFRS (continued)

The Bank has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Bank anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the financial statements of the Bank in the period of initial application.

Standards and Interpretations issued by IASB but not yet adopted by the EU

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the IASB, except for the following standards, amendments to the existing standards and interpretations, which were not endorsed for use as at the date of publication of financial statements:

- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after January 1, 2015);
- Amendments to IFRS 1 "First-time Adoption of IFRS" - Government Loans (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IFRS 9 "Financial Instruments" and IFRS 7 "Financial Instruments: Disclosures" – Mandatory Effective Date and Transition Disclosures;
- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosures of Interests in Other Entities" - Transition Guidance (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosures of Interests in Other Entities" and IAS 27 "Separate Financial Statements" - Investment Entities (effective for annual periods beginning on or after January 1, 2014);
- Amendments to various standards "Improvements to IFRSs (2012)" resulting from the annual improvement project of IFRS published on May 17, 2012 (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after January 1, 2013).

The Bank anticipates that the adoption of these standards, amendments to the existing standards and interpretations will have no material impact on the financial statements in the period of initial application, except for the one noted below which might have material effect on the financial statements:

- IFRS 9 Financial Instruments uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the many different impairment methods in IAS 39.

At the same time, hedge accounting regarding the portfolio of financial assets and liabilities, whose principles have not been adopted by the EU, is still unregulated.

According to the Bank's estimates, application of hedge accounting for the portfolio of financial assets or liabilities pursuant to IAS 39: Financial Instruments: Recognition and Measurement, would not significantly impact the financial statements, if applied as at the reporting date.

2. BASIS FOR PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

2.4 Going concern

The Bank's financial statements have been prepared under the going concern assumption. As a result of the operations executed by the Bank in prior reporting periods, losses have been accumulated that may cast doubt about the Bank's ability to continue as a going concern. Despite the accumulated losses, the Management has analyzed the ability of the Bank to continue its operations and has undertaken actions to strengthen its positions through optimization of the banking products and services, improvements of the assets structure and expenses and increase of share capital, which will create conditions for generating future income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Accounting estimates and accounting assumptions

The presentation of financial statements requires management to apply certain accounting estimates and reasonable assumptions that affect the reported carrying amount of assets and liabilities as of the date of the financial statements, as well as the amount of revenues and expenses during the reporting period and to disclose contingent assets and liabilities. These estimates and assumption are based on the information available at the date of the preparation of the financial statements and the actual results may differ from these estimates.

The accounting assumptions and estimates applied in these financial statements are as follows:

- Allowance for impairment of loans and receivables from customers – to determine the amount of allowance for impairment of loans and receivables from customers the Bank measures the recoverable amount of the assets. This process requires assumptions related to expected future cash flows, collateral values, and anticipated time of collateral realization. Note 35.1 describes the process applied by the Bank to manage the credit risk and to determine the allowance of loans and receivables.
- Measurement of fair value of financial assets and financial liabilities carried at fair value – note 3.11 discloses detailed information for the main methods and assumptions for measurement and disclose of fair value;
- Useful lives of property, plant and equipment and intangible assets – the Bank reviews the useful lives of these assets at the end of each reporting period and changes their useful lives, if needed. In 2012 there were no changes in the useful lives of these assets.

The entire 2012 passed in the conditions of the continuing economic crisis which determines that the Bank continues its operations in uncertain market environment. As a result, the amount of impairment losses on loans and advances, financial assets available for sale, other financial instruments, as well as the values of other accounting estimates in subsequent reporting periods may differ substantially from those measured and reported in these financial statements. The recoverability of the loans and the adequacy of the recognized impairment losses, as well as the maintaining of the Bank's liquidity ratios depend on the financial position of the borrowers and their ability to settle their obligations at contracted maturity in subsequent reporting periods. The Bank's management applies the necessary procedures to manage these risks, as disclosed in note 35.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Financial assets

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are securities, which upon initial recognition are designated as measured at fair value through profit or loss. This group includes financial assets with quoted prices in an active market. Securities measured at fair value through profit or loss are subsequently revalued at fair value.

Differences between the carrying amounts of securities sold and their selling price is recorded in the statement of comprehensive income as net gain or loss on dealings with financial assets at fair value through profit or loss. Any changes in the securities' fair value are reported in statement of comprehensive income as profit or loss. Interest earned, whilst holding the securities, is reported as gain on dealings in financial assets at fair value through profit or loss.

As of December 31, 2012 and 2011 the Bank has no such assets.

Financial assets and liabilities held for trading

These are financial assets and liabilities, as well as all derivatives (excluding those, presented as hedging instruments), which were either acquired for the purpose of generating profit from short-term fluctuations in price or dealer's margin, or for the purpose of generating short-term profit from sales. These financial instruments are initially recognized and subsequently measured at fair value. Subsequent revaluations are based on market quotations. All realized gains on transactions with such financial instruments, as well as gains or losses on subsequent revaluations are included in the statement of comprehensive income. As of December 31, 2012 and 2011 and financial assets held for trading consist mainly of Bulgarian government securities and derivatives.

Purchase and sale of financial assets held for trading are recognized at transaction date, i.e. the date on which the Bank engages to purchase or sale the asset.

The Bank uses derivative financial instruments both to meet the financial needs of its customers, acting as an agent, and in its proprietary transactions. These instruments include open market foreign currency transactions, open market security purchase and sale transactions, open market forward exchange rate agreements and currency swaps. Subsequent to initial recognition and measurement, financial instruments are remeasured at each reporting date and reported at their fair value. Changes in derivatives held for trading are included in the statement of comprehensive income.

As of December 31, 2012 and 2011 there are no transactions with derivative financial instruments that qualify for hedge accounting under the specific rules of IAS 39.

Investments held to maturity

Investments held to maturity are investments with fixed or determinable payments and fixed maturity, which the Bank has the positive intention and ability to hold until maturity. These securities are initially recognized at cost, including any transaction costs. Investments held to maturity are subsequently measured at amortized cost using the effective interest rate method.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Financial assets (continued)

Financial assets available for sale

Financial assets available for sale are those non-derivative financial assets that are not classified as loans and receivables, investments held to maturity or financial assets, measured at fair value through profit or loss.

These assets are valued at fair value, based on quoted market prices in an active market. Debt bonds that have no liquid market are measured at amortized cost. Equity securities for which there is no market price information are presented at acquisition cost and are reviewed for impairment, which is recognized in statement of comprehensive income.

Dividends from equity investments are recognized as income at the time when the Bank has the right to receive them.

Loans and receivables

The accounting policy with regards to loans and receivables is described in note 3.3.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents include cash in hand, placements with central banks, loans and receivables from credit institutions – on sight or with original maturity up to 3 months.

Derecognition and netting of financial assets

A financial asset is derecognized on the value date when the Bank no longer has control over the contractual rights and transfers substantially all risks of ownership of the asset. This occurs when the Bank realizes the rights, the rights expire, or when the Bank surrenders those rights. A financial liability is derecognized when it is paid off.

Financial assets and financial liabilities are netted and the net carrying amount is reported in the statement of financial position when the Bank is legally entitled to offset the recognized amounts and the transactions are to be settled on a net basis.

Off-balance financial instruments

In its operations the Bank has off-balance sheet financial instruments comprising financial guarantees and letters of credit. Such financial instruments are reported in the statement of financial position upon utilization of the funds.

Impairment of financial assets

As of the end of each reporting period, the Bank reviews whether there are any indications for impairment of individual financial asset or a group of financial assets. A financial asset or a group of financial assets are impaired only when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the asset, the estimated future cash flows have been affected.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Financial assets (continued)

The objective evidence for impairment includes:

- Significant financial difficulties suffered by the issuer /borrower;
- Non-performance of an agreement, including default payment or delay payment of principal or interest;
- Debt restructuring due to economic or legal reasons resulting from financial difficulties of the issuer/debtor;
- Probability of bankruptcy or other financial reorganization of the issuer/debtor;
- Lack of an active financial market due to finance difficulties of the issuer/debtor.

The disappearance of an active market for certain securities, i.e. the securities are no longer traded, is not in itself evidence for impairment. The decrease of the credit rating of a certain issuer, as well as the decrease in fair value of a financial asset below its acquisition cost is not in themselves evidence for impairment without the existence of other indicators.

3.3 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments, which are not quoted in an active market and are not classified in the other groups. These financial assets are carried at amortized cost, by using the effective interest rate method, less allowance for impairment and uncollectability.

The allowance for impairment and uncollectability is measured considering the specific risk of the asset. The risk relates to those loans and receivables that have been specifically identified as watch, non-performing or loss exposures. In determining the level of the impairment required, management considers a number of factors including domestic economic conditions, the composition of the loan portfolio and prior irregular and non-performing debt experience, quality and liquidity of collateral.

The allowance for impairment and uncollectability is determined as the difference between the carrying amount of a financial asset and its estimated recoverable amount.

The Bank classifies loans in several groups. Outside the regular loans group the Bank uses risk percentages, which are applied to the contractual cash flows to determine the expected cash flows, which are then discounted using the effective interest rate. Cash flows related to short-term loans are not discounted.

Any difference between the carrying amount and recoverable amount of the financial asset (loss on impairment and uncollectability) is reported in the statement of comprehensive income for the period when it occurs. A reversal of any loss on impairment and uncollectability is reported as income for the respective period. Recoveries of amounts previously written off are treated as income when received.

3.4 Receivables and payables under repurchase agreements (repo deals)

The Bank enters into agreements for temporary sale of securities with repurchase clause on future date at fixed price.

Receivables and liabilities under repurchase agreements are recognized at cost, which represents the funds placed/obtained by the Bank, secured by the value of the securities, together with the accrued to the moment interest receivable/payable.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Receivables and payables under repurchase agreements (continued)

Securities sold with repurchase clause are not derecognized from the statement of financial position and are reported as financial assets held for trading. The difference between the sale price and repurchase price is considered as interest and is accrued proportionally for the term of the agreement.

3.5 Property, plant and equipment and intangible assets

Property (land and buildings) is reported in the statement of financial position at acquisition cost less accumulated depreciation/amortization and impairment loss, if any. Upon first-time adoption of IFRS the Bank has determined the fair value of property held as of that date and treated this fair value as deemed cost of the property as of the date of transition to IFRS. Deemed cost is considered acquisition cost of these properties as of this date.

Equipment and fixtures and fittings are reported at acquisition cost less accumulated depreciation and impairment loss, if any. Acquisition cost includes purchase price and all direct costs for acquisition.

Intangible assets are reported at acquisition cost less accumulated amortization and impairment loss, if any.

Leasehold improvements for rented offices are amortized in accordance with the rent agreement term.

Property, plant, equipment and intangible assets are periodically reviewed for impairment when indicators for impairment exist. When the carrying amount of the asset is higher than its expected recoverable amount, the asset is impaired and the Banks recognizes impairment loss. When the fixed assets are sold the difference between the carrying amount and the sale price is reported as profit or loss in the current period.

Depreciation of property and equipment is accrued according to the straight-line method and during the expected useful life of the respective assets at the following annual rates:

Buildings, investment properties	2%
Machinery and equipment	20%
Computers	20%
Vehicles – automobiles	15%
Fixtures and fittings	15%
Software	15%
Leasehold improvements	According to the term of the agreement but not higher than 33.3%

3.6 Interest income and expense

Interest income and expense is recognized on a time proportion basis, using the effective interest rate method as amortization of any difference between the amount at initial recognition of the respective asset or liability and the amount at maturity.

The effective interest rate method is a method for determining the amortized cost of a financial instrument and for allocation of its income/expense for a certain period of time. The effective interest rate is the interest which exactly discounts the expected future cash inflows or outflows (including all fees received and other margins or rebates) for the expected life of the financial instrument or, when appropriate for a shorter period, to its carrying amount.

Interest income from possession of financial assets, reported at fair value, is reported as interest income from financial assets at fair value.

All amounts are in thousand BGN, unless otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Fees and commissions

Fees and commissions consist mainly of fees for payment transactions in Bulgarian Levs and foreign currency, fees for servicing deposit accounts, fees for opening of letters of credit and issuing of bank guarantees. The fees and commissions for granting and handling of short and long-term loans, which represent an integral part of the effective income, are recognized as a correction of the interest income. The fees and commissions received under long-term loans are discounted by the effective interest rate method for the period to maturity using the contracted interest rate.

3.8 Foreign currency transactions

Transactions, denominated in foreign currencies, have been translated into BGN at the rates of BNB on the date of transaction. Receivables and payables in foreign currencies are revalued on a daily basis. Receivables and payables denominated in foreign currencies are translated into BGN at reporting date using closing exchange rates of BNB on that date.

Currency	December 31, 2012	December 31, 2011
US Dollars	1.48360	1.51158
Euro	1.95583	1.95583

Effective from 1999 the exchange rate of the Bulgarian Lev is fixed to the Euro, official currency of the European Union, at a rate of EUR 1 = BGN 1.95583.

Net gains or losses resulting from change in exchange rates, arisen from revaluation of receivables, liabilities and from settlement of foreign currency transactions are recognized in the statement of comprehensive income in the period they occurred.

3.9 Employee benefits

Employee benefits are all forms of consideration given by the Bank in exchange for service rendered by the employees.

Employee benefits include:

- Basic remuneration for service;
- Remuneration above the basic one according to the applied plans for service payment;
- Additional remuneration for prolonged service, overtime and internal replacement;
- Other specific additional remuneration according to individual labor contract;
- Social security contributions and other benefits, including for paid sick leave, maternity leave and others;
- Annual paid leave and other compensated leaves.

According to the requirements of the Labor Code upon termination of labor contract entities in the country are obliged to pay compensation at the amount of 2 to 6 salaries depending on the employee's length of service in the Bank.

In accordance with IAS 19 Employee Benefits the Bank recognizes liabilities for retirement benefits, which are calculated by licensed actuary using the Projected Unit Credit Method (see note 19). The amount reported in the statement of financial position represents the present value of the long-term liabilities of the Bank for retirement benefits.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 Taxation

The Bank accrues taxes currently due in accordance with the Bulgarian legislation. Income tax is computed on the basis of taxable profit for the period, calculated in compliance with the requirements of the tax legislation, related to tax payment/refunding.

Tax effect, related to transactions or other events, which are reported in the statement of comprehensive income, is also reported in the statement of comprehensive income, and the tax effect related to transactions or other events, which are reported directly to equity, is also reported directly to equity.

A deferred tax liability is recognized for all taxable temporary differences unless it arises from the initial recognition of an asset or liability in a transaction, which at the time of the transaction affects neither accounting profit nor taxable profit (tax loss).

Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. This does not apply to cases where the deferred tax asset arises from the initial recognition of an asset or liability in a transaction, which at the time of the transaction affects neither accounting profit nor taxable profit (tax loss).

Deferred taxes are recognized as income or expense and are included in the net profit for the period except to the extent that the tax arises from a transaction or event which is recognized in the same or different period, directly in equity. Deferred taxes are charged or credited directly to equity when the tax relates to items that are credited or charged in the same or a different period, directly to equity.

3.11 Fair value of financial assets and liabilities

Fair value is defined as the amount for which an asset can be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The Bank discloses the fair value of those assets and liabilities, for which published market information is readily available and whose fair value is materially different from their reported carrying amounts.

Currently, there is not enough market experience, stability and liquidity for purchases and sales of loans and advances to customers, other assets, and also all liabilities of the Bank, for which published market information is not readily available. Accordingly, their fair values cannot be reliably determined. According to the management, the reported recoverable amounts of such assets and the amounts required for settlement of such liabilities at the reporting date, are the most valid and useful amounts under these circumstances.

Fair value hierarchy

The Bank uses the following hierarchy to measure and disclose the fair value of financial instruments through valuation technique:

- Level 1: quoted (unadjusted) prices of active markets for identical assets or liabilities;
- Level 2: other techniques based on inputs, which has significant effect on the reported fair value and are observable either directly or indirectly;
- Level 3: techniques which have significant effect on the reported fair value and use inputs that are not based on observable market data.

All amounts are in thousand BGN, unless otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.11 Fair value of financial assets and liabilities (continued)

The following table summarizes the information for the assets measured at fair value in the statement of financial position as of December 31, 2012:

2012	Carrying amount	Level 1 – quoted market price	Level 2 – technique for evaluation – observable market data	Level 3 - technique for evaluation – not observable market data	Fair value not available
Assets measured at fair value					
Financial assets held for trading	32,443	32,443	-		-
Financial assets available for sale	165	-	-	-	165
TOTAL	32,608	32,443	-	-	165

The following table summarizes the information for the assets measured at fair value in the statement of financial position as of December 31, 2011:

2011	Carrying amount	Level 1 – quoted market price	Level 2 – technique for evaluation – observable market data	Level 3 - technique for evaluation – not observable market data	Fair value not available
Assets measured at fair value					
Financial assets held for trading	41,324	35,887	5,437	-	-
Financial assets available for sale	165	-	-	-	165
TOTAL	41,489	35,887	5,437	-	165

Disclosure of fair value

IFRS 7 Financial instruments: Disclosure requires information for the measurement of fair value of financial assets and liabilities that are not reported at fair value in the statement of financial position.

The table below presents information about the carrying amount and fair value of financial assets and liabilities which are not stated at fair value in the statement of financial position:

	Carrying amount		Fair value	
	2012	2011	2012	2011
Financial assets				
Cash at central banks	50,388	35,746	50,388	35,746
Loans and advances to credit institutions	68,507	18,759	68,507	18,759
Loans and advances to customers	210,239	213,710	211,812	215,867
Receivables under repurchase agreements	-	2,190	-	2,190
Investments held to maturity	76,842	82,074	77,802	83,440
Deposits of credit institutions	381	901	381	901
Liabilities under repurchase agreements	6,780	-	6,780	-
Deposits of customers	386,171	362,192	394,120	383,444
Loans received	400	1,052	400	1,052

The fair value of loans to customers with floating interest rate approximates their carrying amount. The fair value of loans with fixed interest rate is based on the Bank's current interest rates.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.12 Provisions and contingent liabilities

The amount of provisions for guarantees, credit agreements, pending legal proceedings and other off-balance sheet commitments is recognized as an expense and a liability when the Bank has present legal or constructive obligations, which have arisen as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle that obligation and a reasonable estimate of the amount of the resulting liability can be made. Any loss resulting from recognition of provision for liabilities is recognized in the statement of comprehensive income for the period.

3.13 Non-current assets held for sale

Non-current assets held for sale are property and other non-current assets, which the Banks intends to realize through a sale transaction, rather than through continuing use. Assets are classified in this category if they meet the following criteria:

- The asset is available for immediate sale
- The sale is highly probable, including:
  - Management is committed to plan to sell the asset;
  - Active program to locate a buyer and complete the plan is initiated;
  - The asset is actively marketed for sale at a price close to its current market value;
  - Sale is expected to take place within one year after the asset's classification as held for sale.

Certain circumstances may extend the period to complete the sale beyond one year, if the delay is caused by events and circumstances beyond the Bank's control and there is sufficient evidence that the Bank remains committed to its plan to sell the asset and undertakes actions to respond to the circumstances which caused the delay.

The Bank classifies as non-current asset held for sale assets acquired as collateral under non-performing loans. Initially, the assets are recognized at acquisition cost including direct transaction costs. After their initial recognition assets are recognized at the lower of their carrying amount or fair value, less costs to sell. These assets are not depreciated.

3.14 Comparative information

The presentation and classification of items in the financial statements is retained in different reporting periods to ensure comparability of information. The comparative information is changed if any of the following factors apply:

- As a result of a significant change in the Bank's operations or after reviewing the financial statements management has determined that other presentation or classification will be more appropriate;
- Certain IFRS requires change in presentation;
- Correction of error from prior reporting period;
- Change in accounting policy.

If any of these factors apply, the comparative information for each reporting period is changed to achieve comparability of information.

All amounts are in thousand BGN, unless otherwise stated

4. CASH AND CASH BALANCES WITH CENTRAL BANKS

	As of 31.12.2012	As of 31.12.2011
Cash on hand	6,949	8,263
Cash with Central bank	43,439	27,483
TOTAL	50,388	35,746

Cash with Central bank as of December 31, 2012 and 2011 include minimum non-interest bearing reserves at the amount of BGN 30,232 thousand and BGN 27,645 thousand respectively, reserve guarantee fund for securing the payments through the system for gross settlement in real time - RINGS in accordance with the requirements of the Central bank amounting to BGN 158 thousand and BGN 142 thousand respectively. There are no limitations imposed by the Central bank for using the minimum reserves. The amount of the reserves depends on the deposits attracted by the Bank.

5. LOANS AND RECEIVABLES FROM CREDIT INSTITUTIONS

	As of 31.12.2012	As of 31.12.2011
Current accounts with credit institutions	23,101	1,021
Amounts and deposits with credit institutions	45,406	17,738
TOTAL	68,507	18,759

Loans and receivables from credit institutions by types of currency and counterparty are as follows:

	As of 31.12.2012	As of 31.12.2011
In BGN		
Nostro accounts with local credit institutions	216	23
Deposits with local credit institutions	26,000	-
	26,216	23
In foreign currency		
Deposits with foreign credit institutions	-	4,249
Deposits with local credit institutions	19,406	13,489
Nostro accounts with foreign credit institutions	22,819	571
Nostro accounts with local credit institutions	66	427
	42,291	18,736
TOTAL	68,507	18,759

The average contracted interest rates on funds with credit institutions are as follows:

	As of 31.12.2012	As of 31.12.2011
BGN	0.1%	0.2%
Euro	0.2%	0.8%
US Dollars	0.2%	0.2%
GBP	0.2%	0.5%

Deposits to banks as of December 31, 2012 and 2011 have maturity within 3 months.

All amounts are in thousand BGN, unless otherwise stated

6. FINANCIAL ASSETS HELD FOR TRADING

	As of 31.12.2012	As of 31.12.2011
Bulgarian government bonds	28,764	30,310
Corporate bonds of domestic and foreign issuers	3,558	5,454
Shares and participations in domestic enterprises	121	123
Derivative instruments	-	5,437
TOTAL	32,443	41,324

As of December 31, 2012 securities with carrying amount of BGN 10,732 thousand are pledged as collateral with BNB to secure attracted funds from the State budget.

7. FINANCIAL ASSETS AVAILABLE FOR SALE

	As of 31.12.2012	As of 31.12.2011
Shares and participations in local enterprises	165	165
TOTAL	165	165

8. RECEIVABLES UNDER REPURCHASE AGREEMENTS (REPO-DEALS)

	As of 31.12.2012	As of 31.12.2011
Repo-deals with private non-financial entities	-	1,518
Repo-deals with individuals	-	672
TOTAL	-	2,190

9. LOANS AND RECEIVABLES FROM CUSTOMERS

(a) Analysis by type of customers

	As of 31.12.2012	As of 31.12.2011
Private entities	179,817	178,870
Households and individuals	35,447	38,244
State budget	583	731
Financial entities	3,561	1,925
	219,408	219,770
Allowance for impairment	(9,169)	(6,060)
TOTAL	210,239	213,710

All amounts are in thousand BGN, unless otherwise stated

9. LOANS AND RECEIVABLES FROM CUSTOMERS (CONTINUED)

(b) Analysis by sectors

Information for the distribution of loans and receivables from customers as per the internal classification of the Bank is as follows:

	As of 31.12.2012	As of 31.12.2011
Consumer loans	29,562	31,283
Manufacturing	40,745	30,827
Construction	25,752	28,362
Trade	39,363	24,130
Agriculture	15,206	20,527
Health sector	18,365	16,368
Tourism	13,683	15,024
Transportation	3,585	9,061
Operations with real estate	5,673	8,109
Finance	3,561	1,925
State budget	583	731
Other sectors	23,330	33,423
	219,408	219,770
Allowance for impairment	(9,169)	(6,060)
TOTAL	210,239	213,710

In 2012 and 2011 loans and receivables from customers to the amount of BGN 0 thousand and BGN 87 thousand respectively were written-off against allowance for impairment (see also note 30).

Loans granted bear mainly floating interest. The weighted average effective interest rates on loans are as follows:

	As of 31.12.2012	As of 31.12.2011
Loans and receivables in BGN	8.8%	9.0%
Loans and receivables in EUR	8.2%	8.7%
Loans and receivables in USD	10.0%	10.0%

10. INVESTMENTS HELD TO MATURITY

	As of 31.12.2012	As of 31.12.2011
Bulgarian government bonds		
In BGN	34,064	37,131
In foreign currency	28,581	29,556
Corporate bonds of local and foreign issuers		
In BGN	13,631	13,609
In foreign currency	1,778	1,778
Allowance for impairment	(1,212)	-
ОБЩО	76,842	82,074

As of December 31, 2012 and 2011 securities with carrying amount of BGN 8,250 thousand and BGN 7,930 thousand respectively, are pledged as collateral with BNB to secure attracted funds from the State budget.

As of December 31, 2012 securities with carrying amount of BGN 5,815 thousand have been restricted as collateral as per sale and repurchase agreement.

As of December 31, 2012 and 2011 the Bank has no exposures to the sovereign debt of foreign governments.

All amounts are in thousand BGN, unless otherwise stated

11. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	Land and buildings	Office equipment	Vehicles	Fixture and fittings	Other assets	Intangible assets	Total
Cost							
January 1, 2011	2,741	2,441	775	1,730	1,554	752	9,993
Additions	-	303	202	77	464	55	1,101
Disposals	-	(16)	(49)	(1)	(943)	-	(1,009)
December 31, 2011	2,741	2,728	928	1,806	1,075	807	10,085
Additions	-	27	71	72	172	19	361
Disposals	-	(184)	(26)	(1,231)	(31)	-	(1,472)
December 31, 2012	2,741	2,571	973	647	1,216	826	8,974
Accumulated depreciation/amortization							
January 1, 2011	(327)	(1,741)	(721)	(1,501)	(738)	(522)	(5,550)
Charged during the year	(60)	(351)	(55)	(74)	(166)	(67)	(773)
Written off		15	49	1	532		597
December 31, 2011	(387)	(2,077)	(727)	(1,574)	(372)	(589)	(5,726)
Charged during the year	(60)	(298)	(41)	(76)	(53)	(70)	(598)
Written off	-	181	26	1,217	17	-	1,441
December 31, 2012	(447)	(2,194)	(742)	(433)	(408)	(659)	(4,883)
Net book value							
As of December 31, 2011	2,354	651	201	232	703	218	4,359
As of December 31, 2012	2,294	377	231	214	808	167	4,091

12. OTHER ASSETS

	As of 31.12.2012	As of 31.12.2011
Deferred expenses	142	279
Guarantee deposits	60	59
Advance payments	43	103
Other receivables	564	573
TOTAL	809	1,014

13. NON-CURRENT ASSETS HELD FOR SALE

	As of 31.12.2012	As of 31.12.2011
Balance at the beginning of the year	14,012	12,829
Acquisitions during the year	616	1,564
Disposals during the year	(193)	(381)
Allowance for impairment	(515)	-
Balance at the end of the year	13,920	14,012

14. FINANCIAL LIABILITIES HELD FOR TRADING

	As of 31.12.2012	As of 31.12.2011
Derivatives	840	-
Balance at the end of the year	840	-

All amounts are in thousand BGN, unless otherwise stated

15. DEPOSITS FROM CREDIT INSTITUTIONS

	As of 31.12.2012	As of 31.12.2011
In foreign currency	381	901
TOTAL	381	901

Term deposits from credit institutions received as of December 31, 2012 and 2011 have maturity within 3 months. The contracted interest rates on deposits from credit institutions are as follows:

	As of 31.12.2012	As of 31.12.2011
Deposits in USD	0.2%	0.4%

16. PAYABLES UNDER REPURCHASE AGREEMENTS (REPO-DEALS)

	As of 31.12.2012	As of 31.12.2011
Repo-deals with credit institutions	6,780	-
ОБЩО	6,780	-

As of December 31, 2012 the residual maturity of all payables under repurchase agreements is within 1 month. The borrowings under repurchase agreements are secured with government securities with a nominal value of BGN 6,000 thousand.

17. DEPOSITS FROM CLIENTS OTHER THAN CREDIT INSTITUTIONS

	December 31, 2012			December 31, 2011		
	In BGN	In foreign currency	Total	In BGN	In foreign currency	Total
RESIDENTS	164,998	150,357	315,355	102,008	184,605	286,613
Households and individuals	74,675	136,671	211,346	55,793	171,584	227,377
State budget	9,807	322	10,129	3,517	-	3,517
Service	23,633	3,296	26,929	20,611	5,102	25,713
Manufacture	5,765	3,615	9,380	4,568	333	4,901
Trade	31,006	2,143	33,149	5,523	2,395	7,918
Transport	432	525	957	380	265	645
Construction	11,125	1,260	12,385	3,888	2,079	5,967
Financial institutions	2,254	1,080	3,334	2,033	443	2,476
Agriculture	6,301	1,445	7,746	5,695	2,404	8,099
NON-RESIDENTS	1,197	69,619	70,816	821	74,758	75,579
	166,195	219,976	386,171	102,829	259,363	362,192

All amounts are in thousand BGN, unless otherwise stated

17. DEPOSITS FROM CLIENTS OTHER THAN CREDIT INSTITUTIONS (CONTINUED)

The average contracted interest rates on deposits as of December 31, 2012 and 2011 are as follows:

2012	BGN	USD	EUR
Demand deposits	2.11	0.72	1.13
Term deposits	5.36	2.56	5.13

2011	BGN	USD	EUR
Demand deposits	1.54	0.82	1.31
Term deposits	5.72	3.50	5.97

18. BORROWINGS

As of December 31, 2012 and 2011 the Bank has received long-term and short-term financing under contracts, in order to use these funds for lending to customers of the Bank, as follows:

	As of 31.12.2012	As of 31.12.2011
Long-term financing from::		
- State Fund "Agriculture"	39	517
	39	517
Short-term financing from:		
- State Fund "Agriculture"	361	535
	361	535
TOTAL BORROWINGS	400	1,052

Borrowings from State Fund „Agriculture"

On April 19, 2002 the Bank has entered into a long-term contract with the State Fund "Agriculture" for refinancing by the Fund of granted loans to agricultural producers. The interest rate on the refinanced funds is 2% on an annual basis. The Bank provides loans under investment projects of agricultural producers at 9% annual interest rate. Funds are repaid to the Fund on the basis of agreed loan repayment schedules with the borrowers. As of December 31, 2012 and 2011, the balance under this contract is at the amount of BGN 400 thousand and BGN 952 thousand.

On April 29, 2003 the Bank has signed a contract for refinancing by the State Fund "Agriculture" of loans for implementation of approved projects under SAPARD program. Interest payable by the Bank on the borrowings from the Fund is 2% on an annual basis. The Bank grants loans to agricultural producers under the SAPARD program at 9% annual interest rate. The funds are repaid to the Fund on the basis of agreed loan repayment schedules with the borrowers. As of December 31, 2012 and 2011, the balance under this contract is at the amount of BGN 0 thousand and BGN 100 thousand.

All amounts are in thousand BGN, unless otherwise stated

19. PROVISIONS

As of December 31, 2012 and 2011 the provisions represent long-term employee benefits.

According to the provisions of the Labor Code, the Bank is obliged to compensate employees upon retirement with two gross salaries. If the employee has worked for the Bank in the last ten years the compensation amounts to six gross salaries. As of December 31, 2012 and 2011 the Bank accrued BGN 248 thousand and BGN 237 thousand, respectively, for long-term employee benefits. The amount of the provision has been determined by a licensed actuary.

Main assumptions used by the licensed actuary upon determining the present value of the payables are as follows:

- Demographic assumptions;
- Mortality table and disability probability;
- Turnover rate – 0.19;
- Financial assumptions, salary growth;
- Discount rate – due to the long-term nature of the payable, annual discount rate of 5.66 % has been applied.

20. ALLOWANCES ON CREDIT FACILITIES AND GUARANTEES

	As of 31.12.2012	As of 31.12.2011
Allowances on credit facilities and guarantees	125	-
TOTAL	125	-

20. TAX ASSETS AND LIABILITIES

21.1 Tax assets

	As of 31.12.2012	As of 31.12.2011
Receivables on tax audit acts	-	63
Overpaid income tax advances	53	52
Total	53	115

21.2 Tax liabilities

As of December 31, 2012 and 2011 tax liabilities consist of deferred tax liabilities, arisen from the following temporary tax differences:

	As of 31.12.2012	As of 31.12.2011
Deferred tax assets:		
Unused paid leave	12	12
Long-term employee benefits	25	24
TOTAL DEFERRED TAX ASSETS	37	36
Deferred tax liabilities:		
Property revaluation upon transition to IFRS	(38)	(38)
Differences between accounting and tax amortization and depreciation	(86)	(94)
TOTAL DEFERRED TAX LIABILITIES	(124)	(132)
DEFERRED TAX LIABILITIES, NET	(87)	(96)

All amounts are in thousand BGN, unless otherwise stated

21. TAX ASSETS AND LIABILITIES (CONTINUED)

21.2 Tax liabilities (continued)

Deferred tax assets and liabilities as of December 31, 2012 and 2011 are calculated using tax rate of 10 % according to the Corporate Income Tax Act and applicable for the periods when the temporary differences are expected to be realized.

Deferred taxes related to property revaluation upon transition to IFRS at the amount of BGN 38 thousand are recorded in equity.

22. OTHER LIABILITIES

	As of 31.12.2012	As of 31.12.2011
Ongoing bank transfers	519	162
Unused paid leave and other liabilities to personnel	94	131
Deferred income	23	21
Other creditors	360	-
Other liabilities	358	269
TOTAL	1,354	583

Ongoing bank transfers represent liabilities on money transfers ordered by customers in the last day of 2012 and 2011 respectively, with value date within two days. The transfers are processed on the first working day of 2013 and 2012, respectively.

23. EQUITY AND RESERVES

Share capital

As of December 31, 2012 and 2011 the Bank's share capital is fully paid in and is distributed in registered, voting shares as follows:

	As of 31.12.2012	As of 31.12.2011
Number of shares	6,800	5,300
Share nominal in BGN	10	10
SHARE CAPITAL	68,000	53,000

As of December 31, 2012 and 2011 the Bank's shareholder structure is as follows:

	As of 31.12.2012	%	As of 31.12.2011	%
International Hospital Services	6,767,950	99.53	5,248,560	99.03
ET „Armada-Radoslava Dimitrova"	-	-	19,390	0.37
„Garant and Co 97" AD	15,000	0.22	15,000	0.28
A U C Establishment	13,300	0.20	13,300	0.25
MM Holding AD	3,750	0.05	3,750	0.07
TOTAL SHARES	6,800,000	100	5,300,000	100

All amounts are in thousand BGN, unless otherwise stated

23. EQUITY AND RESERVES (CONTINUED)

Reserves

According to the Bulgarian legislation the Bank is obliged to establish Reserve Fund by distribution of part of its profit until the amount of the reserve becomes 1/10 or higher (as determined by the Bank's statute) of the share capital of the Bank.

The Reserve Fund is used only for covering losses for the current or previous years. When the amount of the reserves is higher than 1/10 (or the higher proportion determined by the Bank's statute) of the share capital, the excess can be used for increase of the share capital.

As of December 31, 2012 and 2011 reserves include Reserve Fund at the amount of BGN 813 thousand and reserves from revaluation of property to deemed cost upon adoption of IFRS at the amount of BGN 384 thousand presented net of deferred tax at the amount of BGN 38 thousand.

24. INTEREST INCOME/EXPENSE

	Year ended 31.12.2012	Year ended 31.12.2011
A. Interest income		
Operations in BGN		
Interest from financial assets held for trading	393	248
Interest from repo deals	22	234
Interest from loans and receivables	7,089	8,890
Interest from investments held to maturity	2,361	2,185
	9,865	11,557
Operations in foreign currency		
Interest from financial assets held for trading	856	648
Interest from repo deals	7	-
Interest from loans and receivables	10,429	10,428
Interest from investments held to maturity	1,207	938
	12,499	12,014
TOTAL	22,364	23,571

	Year ended 31.12.2012	Year ended 31.12.2011
B. Interest expenses		
Operations in BGN		
Interest on deposits from credit institutions	6	24
Interest on other deposits	4,548	3,883
Interest on loans received	13	393
	4,567	4,300
Operations in foreign currency		
Interest on deposits from credit institutions	1	-
Interest on other deposits	8,426	11,257
Interest on loans received	-	29
	8,427	11,286
TOTAL	12,994	15,586

All amounts are in thousand BGN, unless otherwise stated

25. FEE AND COMMISSION INCOME/EXPENSE

	Year ended 31.12.2012	Year ended 31.12.2011
Fee and commission income		
In BGN	2,842	3,052
In foreign currency	1,114	1,302
	3,956	4,354
Fee and commission expenses		
In BGN	250	247
In foreign currency	302	549
	552	796
FEE AND COMMISSION INCOME, NET	3,404	3,558

26. NET GAINS ON FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

	Year ended 31.12.2012	Year ended 31.12.2011
Loss from sale of securities held for trading	(3)	(24)
Gain from revaluation of securities held for trading	1,004	490
Gain/(loss) from foreign currency exchange rate differences	(3,768)	4,555
	(2,767)	5,021

As disclosed in note 35.3 the Bank uses derivative instruments to manage its exposure to currency risk including by currency forward contracts. Gain from foreign currency exchange rate differences for 2012 and 2011 consists mainly of gain/loss from transactions and revaluation of these derivative instruments.

27. NET LOSSES FROM FOREIGN CURRENCY REVALUATION

Net gains from foreign currency revaluation at the amount of BGN 4,244 thousand in 2012 result from daily revaluation of the currency exposure of the Bank. In 2011 there are no such gains. As disclosed in note 35.3 the Bank has material net exposure to Japanese Yen.

28. OTHER OPERATING INCOME /(EXPENSES)

	Year ended 31.12.2012	Year ended 31.12.2011
Net profit from financial assets and liabilities not at fair value	20	36
Loss from non-current assets held for sale	(48)	(56)
Loss from non-current assets other than held for sale	(15)	-
Other operating income / (expense)	139	(94)
TOTAL	96	(114)

29. ADMINISTRATIVE EXPENSES

	Year ended 31.12.2012	Year ended 31.12.2011
Personnel costs	4,997	5,371
Materials, rents, consulting and other hired services	3,413	3,503
Taxes, fees, business trips, trainings, etc.	2,748	2,279
TOTAL	11,158	11,153

All amounts are in thousand BGN, unless otherwise stated

30. NET EXPENSES FOR IMPAIRMENT AND UNCOLLECTABILITY

In 2012 and 2011 the Bank reports net expenses for impairment and uncollectability on loans granted and receivables from customers at the amount of BGN 3,109 thousand and BGN 415 thousand, respectively.

The movement in the allowance for impairment is as follows:

	Loans and receivables from customers
BALANCE AS OF JANUARY 1, 2011	5,732
Impairment charged for the period	3,525
Reintegrated impairment for the period	(3,110)
Written-off during the period	(87)
BALANCE AS OF DECEMBER 31, 2011	6,060
Impairment charged for the period	5,871
Reintegrated impairment for the period	(2,762)
Written-off during the period	-
BALANCE AS OF DECEMBER 31, 2012	9,169

31. TAX EXPENSES

Current tax expense represents taxes due under the Bulgarian legislation according to the applicable tax rate of 10 % for 2012 and 2011. Deferred tax income/expense arises as a result of a change in the carrying amount of deferred tax assets and liabilities.

The reconciliation between tax expense and the accounting profit is as follows:

	Year ended 31.12.2012	Year ended 31.12.2011
Current tax expense	-	(40)
Deferred tax income / (expense)	9	(12)
TOTAL TAX BENEFIT / (EXPENSES)	9	(52)
The reconciliation between profit before tax and tax expense:		
Profit / (loss) before income tax	(2,345)	74
Income tax at applicable tax rate of 10 %	-	(7)
Tax effect on non-taxable expenses	-	(45)
Tax effect on the reversal of temporary differences	9	
TOTAL TAX BENEFIT / (EXPENSES)	9	(52)
EFFECTIVE TAX RATE	-	70%

All amounts are in thousand BGN, unless otherwise stated

32. RELATED PARTIES

As of December 31, 2012 and 2011 the Bank has receivables from, payables to and contingent commitments to related parties as follows:

Related parties and balances	As of 31.12.2012	As of 31.12.2011
Majority shareholder		
Deposits received	9,802	-
Companies under common control		
Loans granted	-	-
Other receivables	-	781
Deposits received	10,741	4,663
Key management personnel		
Loans granted	355	244
Deposits received	56	5,899

As of December 31, 2012 deposits from the majority shareholder at the amount of BGN 9,802 thousand are blocked as collateral for loans and receivables from customers.

Income and expenses realized by the Bank in 2012 and 2011 from transactions with related parties are as follows:

Related parties and type of transactions	Year ended 31.12.2012	Year ended 31.12.2011
Majority shareholder		
Income from foreign currency exchange differences	1	-
Interest expense	26	-
Companies under common control		
Interest income	-	47
Income from fees and commissions	186	46
Income from foreign currency exchange differences	25	-
Income from services	6	-
Interest expense	393	189
Expenses for fees and commissions	30	18
Loss from sale of investments	-	45
Other expenses	16	-
Key management personnel		
Interest income	10	17
Income from fees and commissions		149
Income from foreign currency exchange differences	1	-
Income from services	-	10
Interest expense	2	132
Expenses for fees and commissions	-	32
Other expenses	2	27

The remuneration to the members of Supervisory Board in 2012 amounts to BGN 48 thousand (2011: BGN 58 thousand). The remuneration to the members of Management Board in 2012 amounts to BGN 347 thousand (2011: BGN 442 thousand).

All amounts are in thousand BGN, unless otherwise stated

33. CASH AND CASH EQUIVALENTS IN THE STATEMENT OF CASH FLOWS

Cash and cash equivalents for the purposes of the statement of cash flows consist of the following balances:

	As of 31.12.2012	As of 31.12.2011
Cash on hand	6,949	8,263
Cash with the Central bank	43,439	27,483
Nostro accounts with local credit institutions	282	450
Nostro accounts with foreign credit institutions	22,819	571
Loans and deposits to credit institutions with original maturity up to three months	45,406	17,738
TOTAL CASH AND CASH EQUIVALENTS IN THE STATEMENT OF CASH FLOWS	118,895	54,505

34. COMMITMENTS AND CONTINGENCIES

Bank's commitments and contingencies consist of issued guarantees, unutilized loan commitments.

As of December 31, 2012 and 2011 the Bank has issued bank guarantees in favor of third parties at the amount of BGN 11,126 thousand and BGN 10,000 thousand, respectively, out of which BGN 9,712 thousand and BGN 9,142 thousand, respectively, are performance guarantees secured with restricted cash at the Bank or with other customers' assets. As of December 31, 2012 the Bank has set aside provisions for an issued guarantee at the amount of BGN 125 thousand.

As of December 31, 2012 and 2011 unutilized loan and overdraft commitments amount to BGN 20,113 thousand and BGN 19,802 thousand, respectively.

As of December 31, 2012 there are several legal proceedings filed against the Bank and a potential claim at the amount of BGN 1,122 thousand. Management believes that no provision should be recorded as based on the existing information it is not likely that any material loss will arise for the Bank.

35. FINANCIAL RISK MANAGEMENT

The risk for the Bank related to financial instruments is the possibility that the actual proceeds from financial instruments could differ from the expected proceeds. The specifics of banking operations requires the Bank to apply adequate systems for timely identification and management of different types of risk, with special focus on risk management procedures, mechanisms for maintaining risks within reasonable limits, optimal liquidity, portfolio diversification. The main risk management objective is presentation and analysis of the types of risk exposures of the Bank in a comprehensive and conclusive manner.

The risk management system has preventive functions with regard to loss prevention and control of the amount of incurred losses and includes:

- risk management policy;
- rules, methods and procedures for risk assessment and risk management;
- risk management organizational structure;
- parameters and limits for transactions and operations;
- procedures for reporting, assessment, notification and subsequent control of risks.

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

The main underlying principles in the Bank's risk management policy are:

- segregation of responsibilities between those taking the risk and those managing it;
- the principle of "prudence", which assumes the reporting of the simultaneous occurrence of the worst case for each of the risk-weighted assets;
- the principle of risk management at source.

The risk management organizational structure is centralized and structured in terms of competency levels as follows:

- Management board - determines the acceptable risk levels of the Bank within the adopted business strategy;
- Specialized collective committees – approve the framework and parameters of the Bank's operations with respect to risk management;
- Executive directors – control the process of approval and implementation of adequate policies and procedures within risk management strategy, adopted by the Bank;
- Heads of structural units within the Bank - implement the adopted risk management policy within the operations of the respective organizational units.

In 2012 and 2011 the Bank has not used derivative instruments to hedge risks. The Bank uses derivative instruments in the form of forward currency contracts and currency swap transactions to manage its currency risk.

The main types of financial risks the Bank is exposed to are credit risk, liquidity risk and market risk, which includes interest, currency and price risk.

35.1 Credit risk

Credit risk is the risk of loss due to the probability that counterparty will be unable to settle its obligations when they are due. The Bank manages the credit risk by setting limits on the maximum credit risk exposure to a debtor, to a group of related parties, by geographic area and relevant business sectors. Adequate collateral and guarantees are required in order to reduce the credit risk, according to the adopted internal credit rules.

The maximum exposure to credit risk of the Bank is the carrying amount of the financial assets.

Cash and cash balances with the Central bank at the amount of BGN 50,388 thousand and BGN 35,746 thousand, respectively as of December 31, 2012 and 2011 do not bear credit risk to the Bank due to their nature and the fact that they are at the Bank's disposal.

Loans and receivables from credit institutions at the amount of BGN 68,507 thousand and BGN 18,759 thousand, respectively as of December 31, 2012 and 2011 represent mostly deposits in first-class international and Bulgarian financial institutions with maturity up to 7 days. The Bank manages the credit risk associated with advances to banks as sets limits on exposure to counterparty.

All amounts are in thousand BGN, unless otherwise stated

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

35.1 Credit risk (continued)

Financial assets held for trading at the amount of BGN 32,443 thousand and BGN 41,324 thousand as of December 31, 2012 and 2011, respectively, bear mainly market risk to the Bank, which is described in note 35.3.

Financial assets available for sale at the amount of BGN 165 thousand and BGN 237 thousand, respectively as of December 31, 2012 and 2011 represent shares in financial and non-financial enterprises, which bear exposure to credit risk up to the carrying amount of the investment.

Debt securities held to maturity and issued by the Republic of Bulgaria at the amount of BGN 62,645 thousand and BGN 66,687 thousand, respectively as of December 31, 2012 and 2011 do not bear credit risk to the Bank as they are guaranteed by the Bulgarian State.

Debt securities held to maturity and issued by domestic and foreign commercial companies at the amount of BGN 12,419 thousand and BGN 15,387 thousand, respectively as of December 31, 2012 and 2011 expose the Bank to credit risk to the amount of the investment, which is managed by periodically monitoring of the financial position of issuers.

The Bank's contingent and non-cancellable arrangements comprise issued guarantees and unutilized funds under loans agreed with amount disclosed in note 34 which represents the maximum credit exposure of the Bank.

Loans and advances to customers with carrying amount of BGN 210,239 thousand and BGN 213,710 thousand, respectively as of December 31, 2012 and 2011 expose the Bank to credit risk. The exposure of the Bank to this risk is determined based on individual assessment of each loan, as the Bank applies the criteria for assessment and classification of risk exposures required by the banking legislation in the Republic of Bulgaria.

The Bank classifies loans and advances to customers in one of the following categories:

Group	Category	Main criteria	% risk
I	Regular	Exposures, served on regular basis or with accidental arrears up to 30 days and no other impairment indications.	-
II	Watch	Exposures with insignificant breaches in their servicing (arrears from 31 to 90 days) or other indications of deterioration of ability to fully settle the obligation	10%
III	Non-performing	Exposures with significant breaches in the service (arrears from 91 to 180 days) or significant deterioration of ability to settle the obligation	50%
IV	Loss	Exposures, which are expected to become uncollectible, including arrears over 180 days, permanent shortage of cash by the debtor, debtor's bankruptcy or liquidation, litigation and others.	100%

The allowance for impairment and uncollectability of loans and receivables is determined on the basis of the risk classification of the exposure, according to the criteria described above and the estimated cash flows from realization of collaterals on exposures.

All amounts are in thousand BGN, unless otherwise stated

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

35.1 Credit risk (continued)

To minimize the credit risk in the lending process the Bank applies detailed procedures with respect to the analysis of the economic ground of each project, types of accepted collaterals, control over disbursed funds and the related administration. The Bank has adopted and monitors the compliance with the limits for credit exposure by regions and sectors. The objective of these limits is to minimize the loan portfolio concentration in specific regions or sectors, which would lead to increased credit risk.

Quality of the loan portfolio

Classification groups as of December 31, 2012:

	Granted loans			Unutilized commitment	Issued letters of guarantee		
Group	Amount	*Share in %*	Allowance	Amount	*Share in %*	Allowance	Amount
Regular	132,898	60.57	-	19,838	10,293	92.51	-
Watch	27,204	12.40	84	275	-		-
Non-performing	12,453	5.68	730	-	-		-
Loss	46,853	21.35	8,355	-	833	7.49	125
Total	219,408	100.00	9,169	20,113	11,126	100.00	125

Classification groups as of December 31, 2011:

	Granted loans			Unutilized commitment	Issued letters of guarantee		
Group	Amount	*Share in %*	Allowance	Amount	Amount	*Share in %*	Allowance
Regular	133,490	60.74	-	19,767	10,000	100.00	-
Watch	38,168	17.37	62	2	-	-	-
Non-performing	16,516	7.52	129	33	-	-	-
Loss	31,596	14.37	5,869	-	-	-	-
Total	219,770	100.00	6,060	19,802	10,000	100.00	-

The loans granted by the Bank can be summarized in the following table:

Groups	As of 31.12.2012		As of 31.12.2011	
	Loans, granted to companies	Loans, granted to individuals	Loans, granted to companies	Loans, granted to individuals
Neither past due nor impaired	104,521	17,135	105,998	18,839
Past due but not impaired	9,234	2,008	6,531	2,122
Impaired on individual basis	70,206	16,304	68,997	17,283
Total	183,961	35,447	181,526	38,244
Allowance for impairment	6,913	2,256	4,171	1,889
Net loans	177,048	33,191	177,355	36,355

The category of neither past due nor impaired loans includes exposures that at the end of the reporting period have no arrears to the agreed repayment schedules and no other impairment indication.

All amounts are in thousand BGN, unless otherwise stated

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

35.1 Credit risk (continued)

Quality of the credit portfolio (continued)

Loans and advances to customers that are neither past due nor impaired are presented in the following table:

	As of 31.12.2012	As of 31.12.2011
Consumer loans	14,002	14,993
Mortgage loans	3,133	3,846
Corporate clients	104,521	105,998
Total	121,656	124,837

The category of past due but not impaired include exposures that are overdue by up to 30 days and no other impairment indication. The Bank considers that these overdue amounts are accidental and do not represent an indication of impairment.

The carrying amount of loans, which are overdue, but not impaired, is as follows:

	As of 31.12.2012	As of 31.12.2011
Consumer loans	1,408	1,729
Mortgage loans	600	393
Corporate clients	9,234	6,531
Total	11,242	8,653

Information on the carrying amount of loans and receivables from customers classified as other than regular is as follows:

2012	Carrying amount before impairment	Carrying amount before impairment	Carrying amount before impairment	Total highly liquid collateral
	Group II	Group III	Group IV	
Consumer loans	4,222	2,002	7,927	7,926
Mortgage loans	560	526	1,067	1,632
Corporate clients	22,422	9,925	37,859	35,186
Total	27,204	12,453	46,853	44,744

2011	Carrying amount before impairment	Carrying amount before impairment	Carrying amount before impairment	Total highly liquid collateral
	Group II	Group III	Group IV	
Consumer loans	4,717	2,693	7,153	12,808
Mortgage loans	488	586	1,646	2,786
Corporate clients	32,963	13,237	22,797	43,921
Total	38,168	16,516	31,596	59,515

All amounts are in thousand BGN, unless otherwise stated

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

35.1 Credit risk (continued)

The following table presents the Bank's portfolio by type of collateral:

	As of 31.12.2012	As of 31.12.2011
Secured by cash and government securities	11,513	4,529
Secured by mortgage	133,915	113,621
Other collaterals	65,636	101,020
No collateral	8,344	600
Allowances for impairment	(9,169)	(6,060)
Total	210,239	213,710

Business sector, classification group and overdue amounts as of December 31, 2012:

Sector	Amount / Group	Number of transactions	Debt	Including overdue on: Principal	interest	Court receivables	Allowances	Unutilized commitments
Retail	Regular	1,072	19,143	8	12	-	-	1,055
	Watch	87	4,782	34	63	-	20	275
	non-performing	41	2,528	96	73	-	15	-
	Loss	159	8,994	772	159	3,439	2,221	-
Total		1,359	35,447	910	307	3,439	2,256	1,330
Corporate	Regular	783	113,755	53	57	-	-	18,783
	Watch	46	21,839	134	135	-	6	-
	non-performing	11	9,925	509	325	-	715	-
	Loss	76	37,859	7,804	1,117	12,512	6,134	-
Total		916	183,378	8,500	1,634	12,512	6,855	18,783
State budget	Regular	-	-	-	-	-	-	-
	Watch	1	583	31	8	-	58	-
	non-performing	-	-	-	-	-	-	-
	Loss	-	-	-	-	-	-	-
Total		1	583	31	8	-	58	-
	Total portfolio	2,276	219,408	9,441	1,949	15,951	9,169	20,113

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

35.1 Credit risk (continued)

Quality of the credit portfolio (continued)

Business sector, classification group and overdue amounts as of December 31, 2011:

Sector	Amount / Group	Number of transactions	Debt	Including overdue on: Principal	interest	Court receivables	Allowances	Unutilized commitments
Retail	Regular	1,113	20,961	9	14	-	-	817
	Watch	99	5,205	26	49	-	16	1
	non-performing	59	3,279	60	59	-	66	-
	Loss	144	8,799	403	131	4,270	1,807	-
Total		1,415	38,244	498	253	4,270	1,889	818
Corporate	Regular	522	111,798	48	35	-	-	18,950
	Watch	57	32,963	231	250	-	46	1
	non-performing	20	13,237	58	135	-	63	33
	Loss	71	22,797	4,442	992	6,938	4,062	-
Total		670	180,795	4,779	1,412	6,938	4,171	18,984
State budget	Regular	1	731	-	-	-	-	-
	Watch	-	-	-	-	-	-	-
	non-performing	-	-	-	-	-	-	-
	Loss	-	-	-	-	-	-	-
Total		1	731	-	-	-	-	-
	Total portfolio	2,086	219,770	5,277	1,665	11,208	6,060	19,802

A significant percentage of the loan portfolio of the Bank is concentrated in a limited number of borrowers. Despite the regulatory restrictions on large exposures, there is a risk that the activities of the Bank, its financial condition and the result of its operations are negatively affected if some of the largest borrowers do not settle their obligations. Information on large exposures of the Bank other than exposures to credit institutions (exposures which represent 10% or more of the Bank's capital base) at carrying amount as of December 31, 2012 and 2011 is presented in the table below:

	As of December 31, 2012		As of December 31, 2011	
	BGN'000	*% of the capital base*	*BGN'000*	*% of the capital base*
The largest total exposure to customer group	8,460	24.9%	9,600	24.5%
Total amount of the five largest exposures	37,438	110.0%	41,017	104.7%
Total amount of all exposures - over 10% of the capital	101,660	298.8%	88,255	225.3%

Credit risk concentration by economic sectors is disclosed in note 9.

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

35.2 Liquidity risk

Liquidity risk arises from the gap between the maturity of the assets and liabilities and the lack of sufficient funds of the Bank to meet its obligations on its current financial liabilities, as well as to provide funding for the increase in financial assets and the potential claims on off-balance sheet commitments.

Liquidity risk is the risk of inability of the Bank to meet its current and potential liabilities, associated with payments when they fall due, without incurring unacceptable losses.

The Bank's operations require stable cash flows to replace the existing deposits when they expired (at maturity) and to satisfy customer demand for additional loans. In liquidity management, the Bank also considers commitments related to the not-utilized portion of loans granted and the level of all contingent liabilities.

To ensure the liquidity policy, the Bank takes the following measures:

- develops rules and procedures for liquidity management;
- defines adequate liquid assets;
- develops an information system for monitoring the liquidity, based on the maturity table, regulated by Ordinance № 11 of the BNB;
- forms liquidity measurement indicators;
- appoints a liquidity regulation body and defines its responsibilities and tasks;
- establishes a system for management and control of liquidity risk;
- develops scenarios for the Bank's action in normal circumstances - "going concern" and in a period of "liquidity crisis";
- regulates the mandatory information for the current management needs, as well as for the reporting to the BNB.

The main parameters of the Bank's liquidity policy are determined by the Management Board, and the overall organization of its implementation is assigned to the Assets and Liabilities Management Committee.

The main body for liquidity management of the Bank is the Assets and Liabilities Management Committee. It is directly responsible for the liquidity status and its ongoing management, based on the decisions of the Management Board, as well as for the ongoing management of assets and liabilities. The Committee meets at least once a month, and if necessary (at the risk of a liquidity crisis) it meets daily, in order to overcome any liquidity difficulties.

The control and regulation of the liquidity for the Bank as a whole and by bank offices is carried out centralized by "Liquidity and markets" Department.

The Bank prepares daily reports on liquidity status. Attracted funds are reviewed as "hot money", "unstable money" and "stable money". The average value of minimum deposit balance and dynamic components are monitored. Key parameters such as coverage ratios and coefficients of maintenance are determined. The level of liquid funds and the level of liquid funds for maintenance are monitored. On that basis the Bank monitors its ratio of available liquid funds to loans and other receivables.

The ratio of the portion of the Bank's assets that will be invested in liquid assets /securities and money market placements/ and the portion that will be provided as loans to non-financial companies and/or individuals is determined by the Assets and Liabilities Management Committee and is approved by the Management Board of the Bank. At present, the ratio is 46:54 in favor of loans to non-financial companies and/or individuals.

All amounts are in thousand BGN, unless otherwise stated

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

35.2 Liquidity risk (continued)

Quantitative measure of the liquidity risk is the liquid assets coefficient, which represents the ratio between the liquid assets (cash in hand and at accounts with the Central bank, Bulgarian government securities not pledged as collateral, placements with financial institutions with maturity up to 7 days) to the attracted funds of the Bank. As of December 31, 2012 and 2011 the liquid assets ratio is 47.17 % and 39.81 %, respectively. The Bank maintains high amount of liquid assets in the form of cash in hand and cash balances with the Central bank, which guarantees that the Bank can meets its liquidity requirements. As of December 31, 2012 and 2011 cash and cash balances with Central Bank represent 11.0% and 8.6%, respectively of total assets of the Bank.

As an additional instrument to provide high liquidity, the Bank uses loans and receivables from credit institutions. These comprise mostly of deposits in first-class international and Bulgarian credit institutions with maturity up to 7 days. As of December 31, 2012 and 2011 loans and receivables from credit institutions represent 15% and 4.5%, respectively of total assets of the Bank.

Government securities, issued by the Republic of Bulgaria, owned by the Bank and not pledged as collateral as of December 31, 2012 and 2011 represent 15% and 21%, respectively of total assets. By maintaining above 40% (2011: 34%) of its assets in highly liquid assets, the Bank is able to meet all payment needs on matured financial liabilities.

The allocation of the Bank's financial liabilities as of December 31, 2012 according to their residual term is, as follows:

	Up to 1 month	From 1 to 3 moths	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
FINANCIAL LIABILITIES						
Deposits from credit institutions	381	-	-	-	-	381
Liabilities under repurchase agreements (repo deals)	6,780	-	-	-	-	6,780
Deposits from customers other than credit institutions	148,499	105,090	113,661	18,921	-	386,171
Borrowings	38	114	209	39	-	400
TOTAL FINANCIAL LIABILITIES	155,698	105,204	113,870	18,960	-	393,732

The allocation of the Bank's financial liabilities as of December 31, 2011 according to their residual term is, as follows:

	Up to 1 month	From 1 to 3 moths	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
FINANCIAL LIABILITIES						
Deposits from credit institutions	901	-	-	-	-	901
Deposits from customers other than credit institutions	129,450	104,873	100,755	27,114	-	362,192
Borrowings	178	113	226	535	-	1,052
TOTAL FINANCIAL LIABILITIES	130,529	104,986	100,981	27,649	-	364,145

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

35.2 Liquidity risk (continued)

The financial liabilities of the Bank are mainly formed by attracted funds on deposits – retail and corporate. Large portion of them as of December 31, 2012 – 38% (2011: 36%) are with residual term within one month. Traditionally, in the Republic of Bulgaria the customers prefer to sign a deposit agreement with one month term and to renegotiate it regularly for longer period. As a result, one month deposits are practically a long-term and relatively permanent resource for the Bank.

35.3 Market risk

Market risk is the risk that changes in the market prices of financial assets, interest or currency rates may have an adverse effect on the Bank's financial results. Market risk arises on opened exposures in interest, currency and equity instruments, as all of them are sensitive to general and specific market movements and affect the profitability of the Bank. Market exposure is managed by the Bank, in accordance with risk limits, adopted by the management.

The Bank manages its financial instruments, considering the changing market conditions. Exposure to market risk is managed in accordance with risk limits, set by the Bank's management by transactions with financial instruments or by opening a compensating position to hedge the risk.

To minimize the sources of market risk, the Bank has adopted limits for investments in financial instruments as follows:

- ✓ Foreign government securities - may be purchased only if they have a credit rating not lower than BBB/positive perspective on Standard & Poor's or an equivalent assessment of creditworthiness. Maximum level of exposure - 10%;
- ✓ Corporate bonds, issued by banks - at issuer's credit rating not lower than BBB/positive perspective on Standard & Poor's or an equivalent assessment of creditworthiness and total exposure - 20%;
- ✓ Corporate shares - the total exposure cannot exceed 1% of the total portfolio of securities;
- ✓ Corporate bonds - can only be purchased if they have a credit rating not lower than BBB/ positive perspective on Standard & Poor's or an equivalent assessment of creditworthiness. Otherwise, a precise analysis of quantitative and qualitative factors is performed to support the decision for their acquisition. Maximum level of exposure - 20%.

Market risk management includes:

- ✓ Determination of the ratio of Bank's assets invested in liquid assets /securities and money market placements/ to the amount that will be provided as loans to non-financial companies and/or individuals. The ratio is determined by the Assets and Liabilities Management Committee and is approved by the Management Board of the Bank. At present, the ratio is 46:54 in favor of loans to non-financial companies and/or individuals.
- ✓ Determination of securities and money market placements ratio. This ratio is dynamic variable and as the ratio of investment/trading portfolio, it is determined, according to the maturity structure of the Bank's attracted funds, cash inflows and outflows, liquidity needs, income level and objectives of the Bank.
- ✓ Risk/return ratio analysis.

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

35.3 Market risk (continued)

In accordance with adopted principles and objectives, the Bank applies approaches to market risk management as follows:

- ✓ VaR analysis, Duration of financial instruments and standardized interest rate shocks analysis to identify and analyze the effect of various risk factors on the value and profitability of the portfolio, in order to determine the optimal risk/return ratio;
- ✓ The Bank analyses the risk/return ratio, and at given level of risk the instrument with higher return is selected; at given level of return, the instrument with lower risk is selected.

The Assets and Liabilities Management Committee develops alternative action plans in circumstances of increased market risk, due to sudden changes in market conditions within the limits, provided for different types of operations. The Committee monitors and suggests actions to divert from the usual limits in order to overcome such situations.

To assess the interest rate sensitivity of the commercial portfolio, the Bank uses the modified duration of the portfolio, calculated on a daily basis.

To assess the potential impact of possible extreme fluctuations in interest rates on the value of trading portfolio, the Bank analyses the effect of certain standardized interest rate shocks. The price change in parallel shift of the yield curve by 200 basis points should not exceed 5% of the capital base, calculated in the last quarter.

Interest rate risk

Interest rate risk is the probability of possible changes in the net interest income or net interest margin, due to fluctuations in the general market interest rate levels. The interest rate risk management of the Bank aims to minimize the risk of decrease in the net interest income as a result of changes in interest rate levels.

The Bank uses the GAP analysis method (gap analysis, misbalance method) to measure and assess the interest rate risk, allocating the interest-bearing assets and liabilities in time ranges, depending on the moments of their revaluation (for instruments with floating interest rate) and maturity (for instruments with fixed interest rate). Using this method the management of the Bank identifies the sensitivity of the expected income and expenses to changes in interest rates. The Gap analysis method aims to determine the exposure of the Bank, as a total amount and by separate types of financial assets and liabilities, in relation to expected interest rate fluctuations and their effect on the net interest income. It assists the management of assets and liabilities and is also an instrument for securing sufficient and stable net interest profitability. The management assesses the exposure of the Bank's portfolio to interest rate risk and its sensitivity to this type of risk as moderate in view of the volumes and structure of the operations.

When managing the interest rate risk the Bank applies policy and procedures according to the nature and complexity of its operations. By managing the interest rate risk the Bank aims at stable spread between the interest income and interest expense to provide adequate profitability and maximum value at acceptable level of risk.

All amounts are in thousand BGN, unless otherwise stated

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

35.3 Market risk (continued)

Interest rate risk (continued)

The interest rate risk management of the Bank is based on the assessment of the amount and sensitivity of the exposure to fluctuations in the market interest rates and the probability for occurrence of such fluctuations. The Bank has established a system for measurement of interest rate risk, which covers all sources of interest rate risk and assesses the effect of the fluctuations in interest rates.

Interest rates for assets and liabilities denominated in BGN are usually determined on the basis of the movement of the basic interest rate determined by the Central Bank (BNB). Interest rates for assets and liabilities denominated in EUR are based on the quoted prices of the European central bank.

In cases of assets and liabilities with floating interest rates, the Bank is exposed to risk of fluctuations in the reference rates, which are used to estimate the interest rates, and which are determined based on floating interest rate indices, such as the basic interest rate or six-month LIBOR.

Applying the misbalance method the Bank uses the following approaches to the interest rate risk management, depending on the circumstances:

1. Balance – providing parity between the sensitivity of the interest-bearing assets and liabilities.
2. Restructuring of the portfolios of assets and liabilities when cyclical fluctuations in interest rates occur.
3. Determining the amount of the interest rates, and their type (fixed or floating) on the assets and liabilities of the Bank depending on the trends for development on the domestic and international financial markets.

The Bank aims to achieve a positive misbalance in relation to the maturity of the assets and liabilities and a balanced position in relation to the sensitivity of the interest-bearing assets and liabilities.

The interest-bearing assets and liabilities of the Bank as of December 31, 2012 are as follows:

	Up to 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	Over 5 years	Total
INTEREST-BEARING ASSETS						
Loans and receivables from credit institutions	68,507	-	-	-	-	68,507
Financial assets held for trading	-	-	1,500	27,223	3,599	32,322
Loans and receivables from customers	206,976	-	1,489	612	1,162	210,239
Investments held to maturity	20,972	-	-	35,591	20,279	76,842
TOTAL INTEREST-BEARING ASSETS	296,455	-	2,989	63,426	25,040	387,910
INTEREST-BEARING LIABILITIES						
Deposits from credit institutions	381	-	-	-	-	381
Liabilities under repurchase agreements (repo deals)	6,780	-	-	-	-	6,780
Deposits from client other than credit institutions	148,499	105,090	113,661	18,921	-	386,171
Borrowings	38	114	209	39	-	400
TOTAL INTEREST-BEARING LIABILITIES	155,698	105,204	113,870	18,960	-	393,732
MISBALANCE BETWEEN INTEREST-BEARING ASSETS AND LIABILITIES, NET	140,757	(105,204)	(110,881)	44,466	25,040	(5,822)

All amounts are in thousand BGN, unless otherwise stated

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

35.3 Market risk (continued)

Interest rate risk (continued)

The interest-bearing assets and liabilities of the Bank as of December 31, 2011 are as follows:

	Up to 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	Over 5 years	Total
INTEREST-BEARING ASSETS						
Loans and receivables from credit institutions	18,759	-	-	-	-	18,759
Financial assets held for trading	-	1,967	6,888	20,751	6,158	35,764
Receivables under repurchase agreements	1,518	-	672	-	-	2,190
Loans and receivables from customers	195,658	787	9,560	3,800	3,905	213,710
Investments held to maturity	3,765	-	2,062	47,118	29,129	82,074
TOTAL INTEREST-BEARING ASSETS	219,700	2,754	19,182	71,669	39,192	352,497
INTEREST-BEARING LIABILITIES						
Deposits from credit institutions	901	-	-	-	-	901
Deposits from client other than credit institutions	129,450	104,873	100,755	27,114	-	362,192
Borrowings	178	113	226	535	-	1,052
TOTAL INTEREST-BEARING LIABILITIES	130,529	104,986	100,981	27,649	-	364,145
MISBALANCE BETWEEN INTEREST-BEARING ASSETS AND LIABILITIES, NET	89,171	(102,232)	(81,799)	44,020	39,192	(11,648)

The average effective interest rates on the interest-bearing financial instruments of the Bank are as follows:

	Year ended 31.12.2012	Year ended 31.12.2011
Interest-bearing assets		
Loans and receivables from credit institutions	0.17	0.71
Financial assets held for trading	3.47	4.29
Receivables under repurchase agreements	-	7.63
Loans and receivables from customers	8.22	9.05
Investments held to maturity	4.72	4.71
Interest-bearing liabilities		
Liabilities under repurchase agreements	-0.01	-
Deposits from credit institutions	-	0.20
Deposits from clients other than credit institutions	3.43	4.04
Borrowings	2.00	2.39

All amounts are in thousand BGN, unless otherwise stated

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

33.3 Market risk (continued)

Currency risk

Currency risk is the possibility of realizing losses for the Bank as a result of changes in foreign currency exchange rates.

In the Republic of Bulgaria the exchange rate of the BGN is fixed to the EUR by the Currency Board Act. The open positions of the Bank in EUR bear no currency risk for the Bank.

The currency risk is the risk of negative effect of the fluctuations of prevailing exchange rates on the financial position and the cash flows of the Bank. The main part of the assets and liabilities of the Bank are denominated in EUR and BGN. The Bank has significant foreign currency transactions in Japanese yen (JPY), since part of the deposit base of the Bank is in this currency. The Bank does not hold open positions in currencies other than EUR.

The foreign currency structure of the carrying amount of financial assets and liabilities as of December 31, 2012 is as follows:

	BGN	EUR	USD	JPY	Other	Total
ASSETS						
Cash and cash balances at central banks	29,476	19,827	710	219	156	50,388
Loans and receivables from credit institutions	26,216	16,592	4,279	20,913	507	68,507
Financial assets held for trading	11,861	19,952	630	-	-	32,443
Financial assets available-for-sale	164	1	-	-	-	165
Loans and receivables from customers	94,752	112,673	2,814	-	-	210,239
Investments held to maturity	46,483	25,413	4,946	-	-	76,842
TOTAL ASSETS	208,952	194,458	13,379	21,132	663	438,584
LIABILITIES						
Deposits from credit institutions	-	227	154	-	-	381
Liabilities under repurchase agreements	6,780	-	-	-	-	6,780
Deposits from client other than credit institutions	166,196	157,384	13,777	48,152	662	386,171
TOTAL LIABILITIES	172,976	157,611	13,931	48,152	662	393,332
NET EXPOSURE	35,976	36,847	(552)	(27,020)	1	45,252

All amounts are in thousand BGN, unless otherwise stated

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

35.3 Market risk (continued)

Foreign currency risk (continued)

The foreign currency structure of the carrying amount of financial assets and liabilities as of December 31, 2011 is as follows:

	BGN	EUR	USD	JPY	Other	Total
ASSETS						
Cash and cash balances at central banks	12,232	22,211	766	212	325	35,746
Loans and receivables from credit institutions	22	10,825	5,964	1,303	645	18,759
Financial assets held for trading	11,473	29,114	737	-	-	41,324
Financial assets available-for-sale	164	1	-	-	-	165
Receivables under repurchase agreements	2,190	-	-	-	-	2,190
Loans and receivables from customers	96,969	110,730	4,371	1,640	-	213,710
Investments held to maturity	50,740	26,142	5,192	-	-	82,074
TOTAL ASSETS	173,790	199,023	17,030	3,155	970	393,968
LIABILITIES						
Deposits from credit institutions	-	733	168	-	-	901
Deposits from client other than credit institutions	102,687	185,597	19,883	53,065	960	362,192
TOTAL LIABILITIES	102,687	186,330	20,051	53,065	960	363,093
NET EXPOSURE	71,103	12,693	(3,021)	(49,910)	10	30,875

As of December 31, 2012 and 2011 the Bank has significant net liabilities in JPY, due to the fact that part of the deposit base of the Bank is denominated in that currency. The exchange rate of the Japanese yen is characterized by high volatility, which the Bank manages using derivative instruments, including currency forward contracts and swap transactions. The derivative instruments are reported as financial assets held for trading and are reported at their fair value.

Price risk

Price risk is related to the fluctuations in market prices of financial assets and liabilities, which can cause losses for the Bank. The main risk for the Bank is the decrease of market prices of the financial instruments held for trading owned by the Bank, which can lead to decrease of the profit for the period. As described in note 6, the main part of the investments of the Bank is in Bulgarian government securities, which do not bear significant price risk.

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

35.3 Market risk (continued)

Sensitivity to market risk

In accordance with the adopted objectives and principals, the Bank applies: VaR (Value-at-risk) analysis, Duration analysis and Standardized interest rate shocks for identify and analyze the effect of different risk factors on the value and the profitability of the portfolio, and thus manages to find the optimal ratio risk to income. The risk exposure of the trading portfolio of the Bank is assessed on daily basis by calculating VaR whose value is compared to the limit determined by the Asset Liability Management Committee of the Bank. The daily VaR of the trading portfolio is calculated using Monte Carlo Simulation, confidence level of 99% and standard deviation of 2.33%. In 2012 and 2011 the limit of the value of VaR is 0.20%. To evaluate the interest rate sensitivity of the commercial portfolio, the Bank uses the modified duration of the portfolio.

As of December 31, 2012 the Bank performed analysis of its interest rate sensitivity on the basis of the assumption of increase by 200 basis points of the interest rate, applied to the interest rate misbalance. In addition, the Bank has performed sensitivity analysis to decrease of the interest rate margin in view of the recent negative trend with respect to this indicator. The analysis shows that further decrease of the interest rate margin of 0.25% would lead to loss of BGN 1,284 thousand.

To evaluate the effect of the potential impact of possible extreme fluctuations of the interest rates, the Bank analyses the effect of several Standardized interest rate shocks. The price fluctuation in the parallel shift of the yield curve by 200 basis points should not exceed 5% of the capital base calculated in the last quarter.

In accordance with the BNB regulations the market risk sensitivity indicators determined by the Bank are included when determining the required capital of the Bank as of December 31, 2012.

36. CAPITAL MANAGEMENT

The Bank is subject to regulations in relation to meeting the requirements for capital adequacy in accordance with the Bulgarian legislation. In Bulgaria the authorized share capital of a bank may not be less than BGN 10 million and there is an additional requirement that at any time the equity (the capital base) of the bank should not fall below this set minimum.

Ordinance № 8 of the BNB regarding the capital adequacy requires that the Bank maintains a ratio of capital adequacy of at least 12% and ratio of tier I capital adequacy of at least 6%. The capital requirements of the Bank depend on many factors, including the growth of the credit portfolio and income, regulatory capital requirements and potential acquisitions of assets. Every change that limits the ability of the Bank to manage actively its assets and capital resources, for example, deterioration of the quality of the loan portfolio, decrease in profit as a result of written-off loans, increase of risk-weighted assets, delay in realization of assets, may lead to a necessity for additional capital requirements.

The Bank monitors and analyzes on monthly basis its capital position and prepares quarterly reports for supervisory purposes, which are presented to the BNB in compliance with the legal requirements. The policy for capital management aims to provide an adequate coverage of risks arising in the normal course of banking activities, as well as risks resulting from unforeseen circumstances.

All amounts are in thousand BGN, unless otherwise stated

36. CAPITAL MANAGEMENT (CONTINUED)

The table below presents information regarding the capital adequacy as of December 31, 2012 and 2011. The Bank uses the standardized approach for calculation of capital requirements for credit risk and the approach of the basic indicator for measurement of operational risk.

Capital base	As of 31.12.2012	As of 31.12.2011
Tier I capital		
Share capital	68,000	53,000
Reserves	(4,940)	(4,962)
Loss	(2,336)	-
Less: Intangible assets	167	218
Less: Specific provisions for credit risk	26,877	8,995
Total Tier I capital	***33,680***	***38,825***
Tier II capital	**347**	***347***
Total capital base	**34,027**	**39,172**
Capital requirements		
Capital requirements for credit risk	16,247	17,942
Capital requirements for exposure risk, foreign currency and commodity risk	705	1,029
Capital requirements for operational risk	1,984	1,952
Additional capital requirement - 4%	9,468	10,461
Total capital requirements – Standard approach	**28,404**	**31,384**
Ratios		
Total capital adequacy (%)	**14.38**	**14.98**
Tier I capital adequacy (%)	**14.38**	**14.98**

One of the requirements of the BNB is that the specific provisions for credit risk should be deducted from the amount of the capital base. The specific provisions for credit risk represent the excess of the carrying amount of the loans, determined in accordance with the applicable accounting standards and reflected in these financial statements, over the risk value of the exposure, calculated in accordance with the requirements of Ordinance № 9 of the BNB. For the purposes of determining the specific provisions, for loans classified as loss for a period greater than 365 days, the amount of the collateral is assumed to be nil. As of December 31, 2012 the Bank has set specific provisions for credit risk at the amount of BGN 26,877 thousand.