

TOKUDA BANK GROUP

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

December 31, 2014

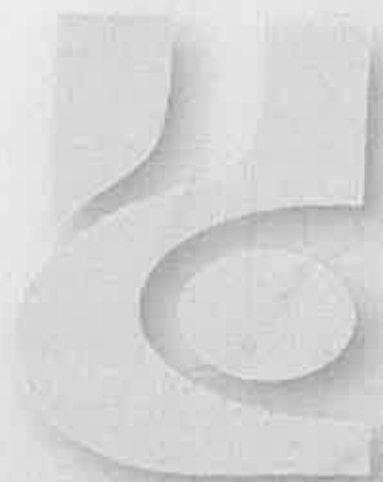
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**ANNUAL CONSOLIDATED REPORT
ON THE ACTIVITIES**

FOR 2014

TOKUDA BANK AD

ANNUAL REPORT ON THE ACTIVITY



2014

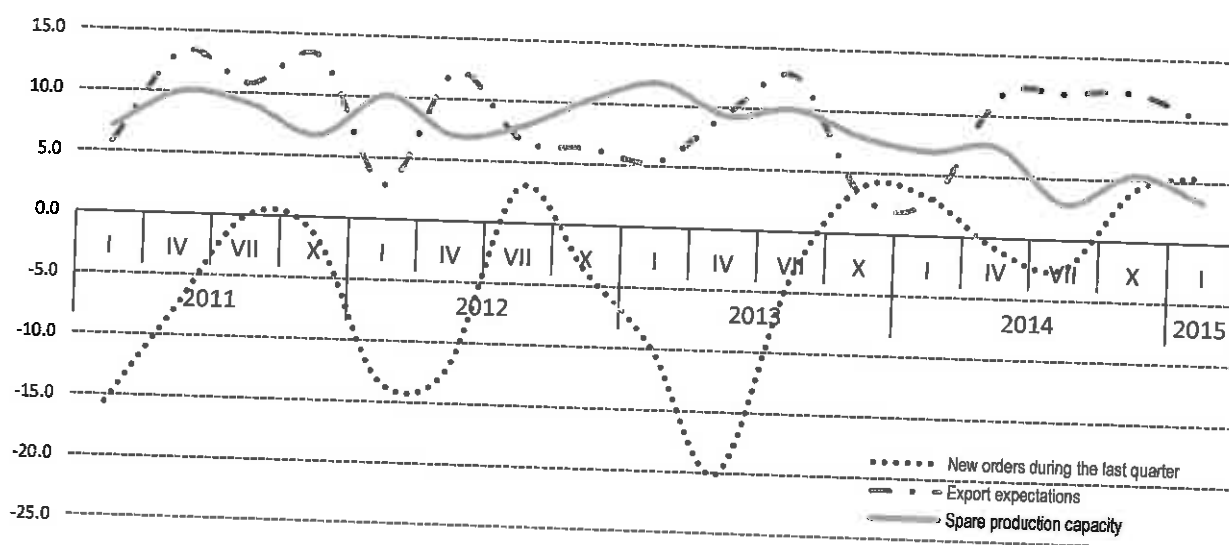
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I. Environment in which Tokuda Bank AD operates in 2014

During the past 2014 the rate of economic growth in the country was relatively low (1.7% on yearly basis), the dynamics of business indicators remained unstable (figure 1) and the environment conditions did not contribute in any manner to the recovery of the economy. In fact, observations indicate that some grounds for positive expectations exist since in most of the past 2014 the index of export expectations kept levels above 10, the index for new orders during the high season at the beginning and end of the year is greater than zero, and the share of idle production capacity from the beginning of 2013 follows a steady trend of gradual decrease. So far, however, the recovery runs slowly under the leading role of domestic demand, which still fails in having a favourable impact on the banking sector as an unstable production cannot be a source of profit for the lenders. Adverse business environment in Bulgaria amid crisis in the banking sector was stated in many eminent reports, including the reports of the European Commission and the World Bank, which had an immediate negative impact on the investment decisions of local and foreign investors. Entrenched conservatism in the attitudes of both financial intermediaries and their clients also put pressure on lending rates, so in 2014 they remained low.

Figure 1 Business environment indicators



The overall assessment of the market of banking products is relatively hampered because of the withdrawal of the banking license of one of the largest banks in the country, as in accordance with the requirements of the European Central Bank (ECB), effective November 2014 Corporate Commercial Bank AD (CCB) is excluded as a reporting unit from 'other monetary and financial institutions' sector and reclassified in the institutional sector 'other financial intermediaries'. Therefore, this resulted in changes in the statistical information on credit institutions and in November 2014 major cash, deposit and credit indicators of the banking system reported considerable decrease (of purely mechanical nature), which significantly distorts the results of the analyses.

Dynamics of indicators for new business is indicative for preserving the conservative trends in the past year. Data for 2014 show that new loans to non-financial companies (BGN 14.2 billion) kept almost the same levels as in prior year 2013 when for a period of twelve months loans amounting to BGN 13.9 billion were granted. Preferences to long-term maturity remained, and the average monthly volume of new loans with maturity over 5 years for 2014 reached 48.4% of the total newly granted loans, which is indicative of the absence of promising projects with quick returns. An increase in the share of BGN loans against the reduced share of new loans in EUR and USD was observed with regard to the currency structure in the segment.

Some movement was observed in loans to individuals and households. The tendency of decline preserved from the end of 2010 to the end of 2013 changed and during most of 2014 ratios for dynamics were positive. A key factor

for the change is the increased demand for consumer loans and partially the recovery in residential mortgage products (during the most time of 2014 the average monthly volume of new loans to households remained at levels above BGN 200 million and housing loans - about BGN 100 million). Probably the reported recovery of consumer loans is a result of the continuing emergency expenses such as health services expense, repayment of debts to the budget or utility companies, etc. Generally, both population and businesses still have low motivation to borrow, although interest rates especially in mortgage loans and corporate segment (excluding those contracted in US dollars) continue to decline.

Regarding liabilities it could be concluded that the trends which have been formed in the beginning of the financial crisis stayed the same, namely: weakening of local resources; increase in the population's savings; replacement of resources granted from foreign parent banks to subsidiary banks in the country with local resources. The last trend refers especially to the second half of 2014, when banks except excess reserves in BNB and receivables from "government" sector have substantially increased their foreign assets and reduced their foreign liabilities. At the end of 2014, the net foreign assets of banks amounted to BGN 4.2 billion. (BGN 1.6 billion at the end of 2013).

Specific of the adverse environment is the continued growth of savings (although moderating) against the decreasing interest rates. The high tendency towards savings despite the continuing limitation of benefit achieved is indicative of the lack of investment alternatives with a satisfactory ratio between the expected profitability rate and risk of the investors. This creates difficulties both for economic agents and for banks, which under the conditions of limited demand for loans are not capable of full realization of free resources.

II. Overview of the activity of Tokuda Bank AD in 2014

According to data of the Bulgarian National Bank /BNB/ during the past year Tokuda Bank /the Bank/ took the same place as in the prior year - 24th place considering total amount of assets which represented 0.52% share of the total assets of the banking system (1.33% of the assets of second group in which Tokuda Bank AD is classified). As of December 31, 2014 the Bank's assets amount to BGN 440,310 thousand, which is an increase by BGN 22,800 thousand, compared to the prior year (BGN 417,510 thousand). The average monthly amount of the assets for 2014 (BGN 424,716 thousand) approximates 2013 levels (BGN 424,344 thousand).

In 2014 the Bank realized a net loss of BGN 8,932 thousand, due to which the potential earnings per share is a negative amount (BGN -1.31). The loss for prior 2013 is of BGN 2,887 thousand.

During the year the loan portfolio slightly increased in spite of the continuing economic stagnancy in the country resulting in lack of proper financing projects and investors with good credit standing. At the year-end the volume of the loan portfolio reached BGN 225,080 thousand before impairment (2013: BGN 222,092 thousand), and its quality dropped by 3.18 percentage points compared to the prior year and as of the end of the year reached 60.15% of loans before impairment.

During 2014 Tokuda Bank AD retained 100% ownership on its subsidiary company "Tokuda Sigurnost" EOOD, which was established in 2013. The Bank defines the financial and operating policy of the subsidiary. The results of the company are included in the consolidation statements for 2014 issued by the Bank. The company's registered capital amounts to BGN 25 thousand and its financial result for 2014 represents loss of BGN 1 thousand.

1. Operating income and expenses

In 2014 the Bank generated operating income at the amount of BGN 11,889 thousand, which represented a decrease of BGN 1,055 thousand (8.15%) compared to prior year. During the past year the Bank continued to follow its policy of administrative cost restriction. In accordance with this policy management exercises regular cost control and undertakes active measures to limit these expenses. However, the ratio between administrative expenses, including depreciation/amortization charges, and net operating income increased by 11.59% compared to 2013 level (88.16%) and reached 99.75%. A key factor for the increase of this ratio is the decrease of gross interest income (by BGN 1,447 thousand) and net income from fees and commissions (BGN 269 thousand), as well as the decline in net trading income (BGN 1,534 thousand). Administrative expenses increased by BGN 468 thousand (4.29%) compared to those reported in 2013 (BGN 10,898 thousand) and at the end of 2014 amounted to BGN 11,366 thousand. The

reported increase is mainly due to the accumulation of unused annual leave resulting in their provisioning at the end of the year. Other items of administrative costs remained close to the levels of 2013, since no major reorganizations in the administrative and regional structure of the Bank have been made during the past year.

Changes in the structure of the Bank's total operating income are moderate (see Table 1). Net interest income decreased by 11.89% compared to the previous year (due to the retention of a relatively high share of classified loans, as well as because of decreased profitability of the securities portfolio) and in 2014 their share was reduced to 58.3% of total net revenue (compared to the share of 60.8% in 2013). Non-interest income shrank by lower rates and therefore their share increased from 39.2% in 2013 to 41.7% in 2014.

Interest income on loans and other receivables decreased by BGN 887 thousand and amounted to BGN 14,003 thousand, but still have the largest share of total interest income (77.60%). Despite reduced income in absolute value, their share increased in the past year by 1.20 percentage points compared to the one recorded in 2013 (76.40%) due to the intensive drop in interest income from securities. A key factor for the reported decrease in gross revenues by BGN 1,447 thousand is the bigger share of loans classified as "loss" (from 23.70% in 2013 to 25.86% in 2014), which is a serious impediment for the realization of constant interest income.

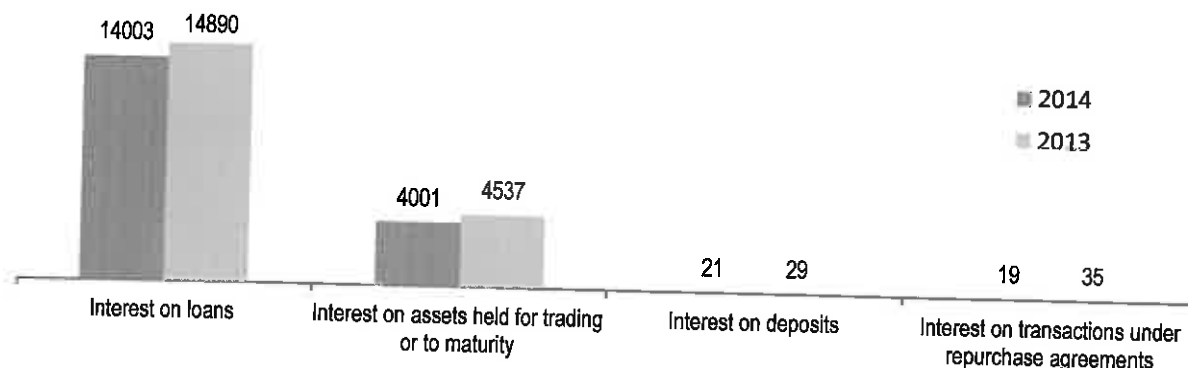
Table 1. Operating income

| | 2014 | 2013 |
|--|---------------|---------------|
| Interest income | 18,044 | 19,491 |
| Interest income expense | -11,113 | -11,625 |
| Net interest income | 6,931 | 7,866 |
| Fee and commission income | 4,021 | 4,288 |
| Fee and commission expenses | -339 | -337 |
| Net fee and commissions income | 3,682 | 3,951 |
| Net income from commercial operations | 262 | 1,796 |
| Other operating income /(expense) | 1,014 | -669 |
| Total operating income | 11,889 | 12,944 |

Interest income generated by the debt instruments portfolio (Figure 2) also decreased substantially (by BGN 536 thousand or 11.81% compared to 2013) due to the sale and the repurchase of part of the securities with high return in the second and third quarters. The share of this income in the total amount of interest income decreased by 1.11 percentage points and reached 22.17%.

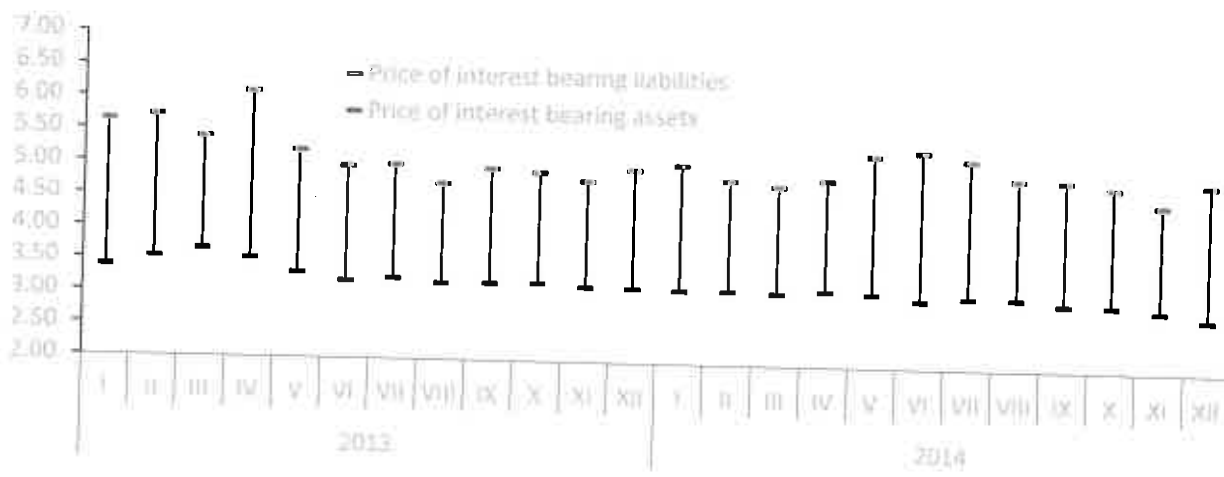
Interest income on deposits amounted to BGN 22 thousand, which is by 21.4% (BGN 6 thousand) less than one reported in 2013, mainly due to the reduction of this group of assets. Compared to the average BGN 52.9 million for 2013, the volume of deposits decreased to BGN 24.9 million in 2014. The effect on revenue is moderate compared to the volume indicators, since the reduction of this group of assets occurs mainly in the second half of the year while in the first half of 2014 the average value reached BGN 40,484 thousand.

Figure 2. Interest income by sources



Despite the decrease in income from interest-bearing assets during the reporting period the interest rate spread maintained its levels (Figure 3). Compared to the weighted average rate of income of 5.20% for 2013 the yield in 2014 decreased to 4.96%, due to the bigger share of classified loans with overdue above 180 days on principal and interest and the decrease in interest rates on newly granted loans in order to comply with market conditions. However, this is compensated by the reduced cost of attracted funds, which decreased from 3.32% in 2013 to 3.07% in 2014 as a result of adjustments to the interest rates and maturity of relatively expensive deposits of Bank's customers. Winning new customers from the corporate sector and the public sector had another favourable effect on the price of attracted funds, leading to an increase in the share of current accounts by 3.6 percentage points. The described changes in both components resulted in retaining of interest spread at 1.89% on accumulated basis for 2014, which is 0.01 percentage points higher than the average levels for 2013 (1.88%).

Figure 3. Interest spread components for 2014



Non-interest income

Net non-interest income maintained the levels reported in the prior year and increased by BGN 120 thousand (2.36%) and at the end of 2014 it reached BGN 4,958 thousand. The largest share in this group still has the net income from fees and commissions (BGN 3,682 thousand) which during the past year decreased by BGN 269 thousand (6.81%) mainly due to the decrease by BGN 362 thousand in commission income from granted guarantees.

In the past year, a slight increase in income from fees on transfers in BGN and in foreign currency was observed. Fees from transfers in foreign currency increased by BGN 19 thousand and amounted to BGN 1,602 thousand, and at the same time increased their share in the total structure of gross income from fees and commissions by 2.93 percentage points due to their relatively slow dynamics compared to other items in this category.

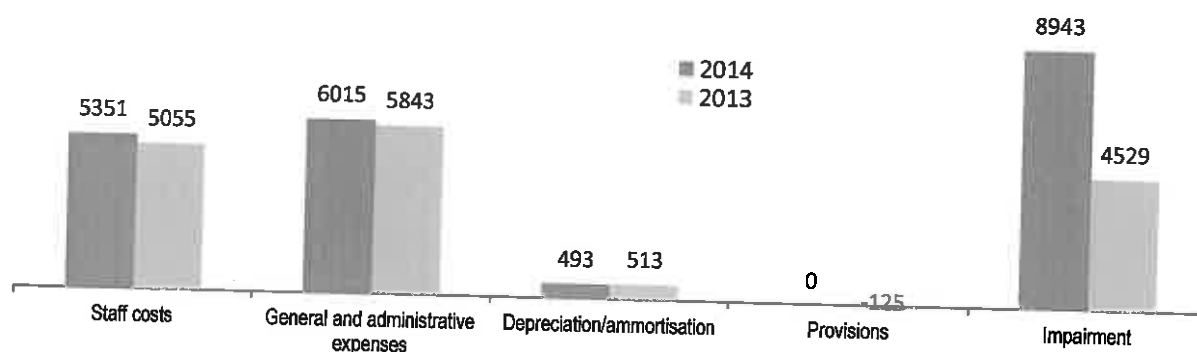
Adverse conditions on the securities market had a negative impact on net income from sales and revaluation of trading portfolio and as a result, they decreased by c 35.29% during the past year. They dropped from BGN 1.4 million for 2013 to BGN 908 thousand for the reporting period. The result from foreign currency transactions and revaluation of foreign currency assets and liabilities dropped down by BGN 55 thousand and reached BGN 338 thousand in 2014.

Non-interest expenses

Non-interest expenses of the Bank for 2014 (Figure 4) amount to BGN 20,802 thousand, which represents an increase of BGN 4,987 thousand or by 31.53% compared to prior year figures. The expenses related to allowances for impairment and uncollectability amounting to BGN 8,943 thousand or 103.07% higher than those for the previous year (BGN 4,404 thousand) are the key factor for the increase of this group of expenses. General administrative expenses increased by BGN 172 thousand (up to BGN 6,015 thousand), depreciation/amortization charges (BGN 493 thousand) remained unchanged compared to 2013 and the employee benefit expenses rose by BGN 296 thousand (up to BGN 5,351 thousand) although there were no significant changes in the administrative structure and the office network and the average number of employees kept relatively constant levels (277

employees at the end of 2014). The strong increase in the share of impairment expenses (by 15.14 percentage points - up to 42.99%) resulted in changes to the structure of this group. For example, the share of staff costs (including salaries and social security and health insurance contributions) in the overall structure of non-interest expenses decreased by 6.24 pp (from 31.96% to 25.72% at the end of last year). The change in the share of general administrative expenses (-8.03 pp) is also comparable. The share of depreciation/amortization charges declined by 0.87 pp - up to 2.37%, and the provision expense reached zero level in the past 2014.

Figure 4. Non-interest expenses



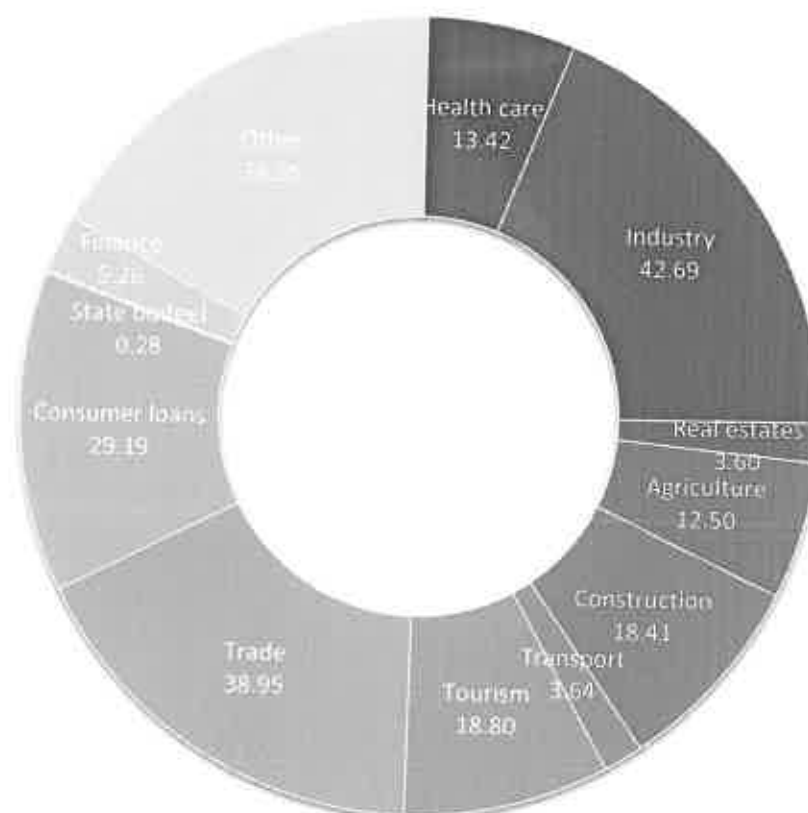
The share of general administrative expenses (including those for hired services, rents, materials, contributions to the Bulgarian Deposit Insurance Fund /BDIF/, telecommunication and information technologies, security, etc.) decreased from 36.95% in 2013 to 28.92% in 2014, although in absolute terms an increase of BGN 172 thousand is reported by which their total amount reached BGN 6,015 thousand. As a result of the low rate of renewal of the technological park, the depreciation/amortization expenses continued to reduce and during the past year reached BGN 493 thousand (2013: BGN 513 thousand) while their share in the total structure decreased to 2.37%.

2. Loan portfolio

At the end of 2014 the gross loan portfolio of the Bank (figure 5) amounts to BGN 225,080 thousand. After providing allowances for impairment losses at the amount of BGN 17,481 thousand, the net value of the portfolio is BGN 207,599 thousand. The weak portfolio growth is due to the unfavourable conditions and the continuing relatively high credit risk of the business environment. In 2014 the net book value of the loan portfolio after impairment decreased its share in the total assets' structure to 47.15% (50.22% for the prior year).

Loans to corporate clients amount to BGN 176,127 thousand, and their share in the gross loan portfolio (78.25%) changed slightly compared to the prior year levels (79.24%), which was a natural result of the transaction for the ceded portfolio of Commercial Bank Victoria AD, where retail lending took a predominant share.

Figure 5. Loan portfolio distribution [in BGN million]



Changes in the consumer loans segment are also moderate. Their share increased from 15.72% of the gross loans in 2013 to 16.57% in 2014. In absolute value the segment reports growth at the amount of BGN 2,381 thousand, which represents an increase by 6.82% compared to the prior year values. In addition, certain changes took place in the structure of retail banking where the main role for the reported growth played the consumer loans. Consumer loans increased by BGN 2,185 thousand up to the amount of BGN 29,186 thousand at the end of 2014 and their share in this segment increased from 82.58% to 82.81%. The share of mortgage loans (BGN 6,060 thousand) in the total volume of retail loans decreased from 17.42% to 17.19% in the past year.

In 2014 the Bank continued to work with companies from the sectors of industry, trade, energy, agriculture, healthcare, etc. The largest relative share took loans to the Industry sector, which unlike last year, now reduced its share (by 3.94 percentage points to 18.97% of the portfolio), followed by the trade sector (whose share increased from 16.95% to 17.30%), construction sector (whose share increased by 0.4 percentage points to 8.18%), and healthcare whose relative share decreased to 5.96%.

There are no significant changes in the currency structure of loan portfolio. The share of loans in USD decreased by 0.50 percentage points against the increase of loans in EUR (by 0.42 percentage points) and in BGN (by 0.08 percentage points). At the end of 2014 the shares are as follows: 48.99% in local currency, 50.08% in EUR and 0.94% 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 the Bank followed its policy for granting loans only to

individuals meeting high standards for reliability, as indicative in this respect is the regular servicing of such loans. However, during the past year a slight increase in classified loans (up to 39.85%) was observed, which is mostly result of the stagnation in lending.

In order to cover the risk of impairment losses on loan receivables as of December 31, 2014 the Bank has allocated allowances at the amount of BGN 17,481 thousand, which lead to the increase of portfolio coverage ratio with accounting provisions from 5.58% to 7.77%. The coverage with allowances for impairment for loans classified in groups other than 'regular' is 19.49%. Almost all impairment (98.56%) is charged on receivables classified as "loss" (table 2).

Table 2. Allocation of loan portfolio to classification groups.

| | 2014 | | | 2013 | | |
|----------------|----------------|----------------------|-----------------|----------------|----------------------|-----------------|
| | Gross amount | Allowances under IAS | Carrying amount | Gross amount | Allowances under IAS | Carrying amount |
| Regular | 135,383 | 0 | 135,383 | 140,659 | 0 | 140,659 |
| Watch | 16,293 | 139 | 16,154 | 25,250 | 9 | 25,241 |
| Non-performing | 15,197 | 113 | 15,084 | 3,555 | 3 | 3,552 |
| Loss | 58,207 | 17,229 | 40,978 | 52,628 | 12,388 | 40,240 |
| Total | 225,080 | 17,481 | 207,599 | 222,092 | 12,400 | 209,692 |

3. Securities

The securities portfolio as at the end of 2014 decreased by BGN 8,010 thousand to BGN 115,204 thousand, and thus its share in the total structure of assets was reduced to 26.16%, which is by 3.35 percentage points less than the prior year. Compared to the prior year such change is relatively moderate (-6.5%). Keeping relatively high share of this asset category can be explained by the general stagnation in lending in the country, still motivating local banks to direct their available resources to government securities market. The main part of this category of assets (BGN 84,689 thousand) is classified as investments held to maturity. During the past year the volume of trading portfolio decreased significantly (by BGN 8,054 thousand) and securities available for sale dropped down by BGN 77 thousand reaching the amount of BGN 88 thousand.

The portfolio of Bulgarian government securities decreased by 5.31% to BGN 77,618 thousand, however their share of the total portfolio increased by 0.85 percentage points up to 67.37% as a result of the sale of a highly profitable issue for limiting the risk. The value of foreign securities remained unchanged (BGN 28,957 thousand) while their share of the total structure of securities portfolio increased with 1.64 percentage points up to 25.14%. Equity instruments indicated negative growth (amounting to BGN 81 thousand) and their value at the end of 2014 reached BGN 241 thousand.

4. Attracted funds

The volume of attracted funds in 2014 (table 3) increased 9.59% and reached BGN 387,390 thousand, where the source of 68.14% of these funds are individuals and households. During the past 2014 their share grew by 7.12 percentage points as a result of the increase of this group of deposits by BGN 48,263 thousand (22.38%). Key role for the reported growth in this segment had demand deposits, which increased by BGN 29,182 thousand (up to BGN 200,513 thousand). According to their share of attracted funds the corporate segment took the second place (22.02%). The share of legal entities shrank by 10.58 pp due to the withdrawal of significant part of the funds (BGN 29,930 thousand) at the end of first quarter. These actions provoked changes in the structure of resources from non-financial institutions and sight deposits reduced their share by 1.14 pp (to 16.93% of total resources) and term deposits of entities decreased by 9.44 pp (up to 5.09%).

The resources from organizations operating with State budget funds increased by BGN 4,488 thousand (29.54%) compared to prior year and at the end of 2014 they reached BGN 19,682 thousand. Thus the segment share of the total structure of attracted funds increased up to 5.08%.

Significant increase indicated also the accounts of non-banking institutions which doubled compared to the prior year and at the end of 2014 reached BGN 18,465 thousand. The reported growth is on the account of term deposits, which increased by 263.8% (up to BGN 17,991 thousand) while at the same time sight deposits decreased five times - to BGN 474 thousand. These changes resulted in increase of the total share of resources from non-banking financial institutions by 2.68 pp (up to 4.77%).

Changes in maturity structure are relatively small. The share of term deposits shrank by 2.91 pp (to 61.49%), which together with the changes in interest rates on products with fixed maturity allows the Bank to achieve optimization of interest expenses.

Table 3. Structure of attracted funds

| | 2014 | 2013 |
|---|----------------|----------------|
| Accounts of individuals | | |
| - Sight deposits and saving deposits | 263,952 | 215,689 |
| - Term deposits | 63,439 | 44,358 |
| | 200,513 | 171,331 |
| Budget accounts | | |
| - Sight deposits | 19,682 | 15,194 |
| - Term deposits | 19,682 | 15,194 |
| | | |
| Corporate accounts | | |
| - Sight deposits | 85,291 | 115,221 |
| - Term deposits | 65,577 | 63,859 |
| | 19,714 | 51,362 |
| | | |
| Accounts of other non-banking financial institutions | | |
| - Sight deposits | 18,465 | 7,380 |
| - Term deposits | 474 | 2,435 |
| | 17,991 | 4,945 |
| TOTAL | 387,390 | 353,484 |

5. Equity and reserves

As of December 31, 2014 the share capital of the Bank amounts to BGN 49,290 thousand, which is less than the prior year by 15.3%. The Bank still is not able to cover the accumulated losses from prior years, which amount to BGN 10,591 thousand.

As of December 31, 2014 and 2013 core capital ratios of the Bank exceed minimal regulatory requirements.

6. Risk management

The risk management system of the Bank operates efficiently its inherent functions for loss prevention and control. Its structure includes the following elements: risk management policy: rules, methodology and procedures for risk assessment and risk management; organization structure for risk management; parameters and limits for performing transactions and operations; procedures for risk reporting, assessment, notification and follow-up control.

In 2014 and 2013 the Bank did not use any derivative hedge instruments. In order to manage currency risk the Bank uses derivative instruments in the form of forward contracts and currency swap transactions.

Further information about risk management related to financial instruments is disclosed in the accompanying financial statements.

7. Office network

In 2014 and 2013 as a result of the unfavourable economic environment and by following its conservative budgeting policy, during the past year the Bank has not undertaken actions for expanding its regional network by opening of new regional administrative units.

The structure of the office network is as follows:

- Head Office
- Offices – 23
- Remote workplaces – 10

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

8. Correspondent banking relationships

Correspondents of the Bank are all Bulgarian banks and a number of leading foreign banks abroad – BNP-Paribas SA, Paris; Commerzbank AG, Frankfurt/Main; Bank of China, Beijing; Landesbank Hessen-Thüringen 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; Bank of New York, New York; CITIBANK N.A., New York, etc.

9. Human resources

In 2014 the average number of employees working at the Bank is 260 people (respectively 282 in 2013).

The human resource is a key factor for realizing the strategic goals of the management. The Bank's management develops a system for managing human resources and administration of 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, professional skills and loyalty. Bank's 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.

10. Information technologies

During the past year continued the process for optimisation of the implemented in 2012 new software platform, which processes the main data flows of the Bank. The implementation of a new platform contributed to the development of the Bank's technological processes and their control, improvement of the quality of customer services and provision of reliable information to answer of their needs.

III. Development trends in 2015

The main priorities of the Bank for its development in 2015 are focused on the following areas:

- Expansion of the Bank's market share;
- Adequate liquidity of the Bank;
- Improving 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 return on assets ratio;
- 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, dividend distribution policy and management

1. Changes in share capital

In 2014 there were no changes in the share capital of the Bank. As of December 31, 2014, the share capital amounts to BGN 68 000 000 (sixty eight million) allocated in 6 800 000 (six million and eight hundred thousand) registered dematerialized voting shares each having face value of BGN 10 (ten Bulgarian leva) and issue value equal to nominal.

According to the Register of Shareholders at the Central Depository, shareholders of the Bank as of December 31, 2014 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 2014 the Bank preserved its two-tier management system. The bodies of the joint-stock company in 2014 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 the Supervisory Board.

Dimitar Vuchev - member of Supervisory Board.

Management Board of the Bank

Vanya Vasileva – Chairperson of the Management Board and Executive Director;

Kiril Pendev – member of the Management Board and Executive Director;

Lyubomir Manolov – member of the Management Board and Executive Director (until January 23, 2014);

Boyan Ikonomov – member of the Management Board and Executive Director (until May 22, 2014);

Dimitar Slavchev – member of the Management Board (since January 23, 2014);

The total remuneration received by the members of the Management and the Supervisory Boards during the reporting period amounts to BGN 328 thousand (three hundred twenty eight thousand) (respectively, BGN 338 thousand in 2013).

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. Dividend distribution policy

The Bank paid no dividends and by decision of the General meeting of the shareholders the net profit for the year was allocated in full to cover losses from prior years.

V. Responsibility of the Management

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

Upon 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
Chairperson of Management Board
and Executive Director

Sofia, April 6, 2015

Kiril Pendev
Member of Management Board and
Executive Director



**INDEPENDENT AUDITOR'S REPORT AND
ANNUAL CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014**

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

INDEPENDENT AUDITOR'S REPORT

**To the Shareholders of
Tokuda Bank AD**

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Tokuda Bank AD (“the Bank”) and its subsidiary (together “the Group”), which comprise the consolidated statement of financial position as of December 31, 2014, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

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

Делойт се отнася към едно или повече дружества - членове на Делойт Туш Томацу Лимитид, частно дружество с ограничена отговорност (private company limited by guarantee), регистрирано в Обединеното кралство, както и към мрежата от дружества - членове, всяко от които е юридически самостоятелно и независимо лице. За детайлна информация относно правната структура на Делойт Туш Томацу Лимитид и дружествата - членове, моля посетете www.deloitte.com/bg/za_nas.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/bg/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Group as of December 31, 2014, 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 consolidated report on the activities of the Group 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 consolidated report on the activities of the Group, prepared by the Group's management. The Annual consolidated report on the activities of the Group is not a part of the financial statements. The historical financial information presented in the Annual consolidated report on the activities of the Group prepared by the management is consistent, in all material aspects with the financial information disclosed in the consolidated financial statements of the Group as of December 31, 2014, prepared in accordance with IFRS, as adopted by the European Union. Management is responsible for the preparation of the Annual consolidated report on the activities of the Group dated April 6, 2015.

Deloitte Audit

Deloitte Audit OOD

Silvia

Sylvia Peneva
Registered Auditor
Statutory Manager



Sofia
April 6, 2015

TOKUDA BANK GROUP
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 DECEMBER 2014

(all amounts expressed in BGN thousand)

| | Note | As at 31 December | |
|--|------|-------------------|----------------|
| | | 2014 | 2013 |
| ASSETS | | | |
| Cash and cash balances with central banks | 4 | 89,985 | 33,527 |
| Loans and receivables from credit institutions | 5 | 11,077 | 35,199 |
| Financial assets held for trading | 6 | 30,427 | 38,481 |
| Financial assets available for sale | 7 | 88 | 165 |
| Loans and receivables from customers | 8 | 207,599 | 209,692 |
| Investments held to maturity | 9 | 84,689 | 84,568 |
| Non-current assets held for sale | 12 | 3,752 | 7,455 |
| Property, plant and equipment | 10 | 3,173 | 3,294 |
| Intangible assets | 10 | 549 | 634 |
| Other assets | 11 | 8,960 | 4,486 |
| Total assets | | 440,299 | 417,501 |
| LIABILITIES | | | |
| Financial liabilities held for trading | 13 | - | 1,370 |
| Deposits from credit institutions | 14 | 149 | 931 |
| Payables under repurchase agreements | 15 | - | 1,456 |
| Deposits from clients other than credit institutions | 16 | 387,388 | 353,483 |
| Borrowings | 17 | - | 38 |
| Tax liabilities | 18 | 83 | 65 |
| Other liabilities | 19 | 3,398 | 1,944 |
| Total liabilities | | 391,018 | 359,287 |
| EQUITY | | | |
| Share capital | | | |
| Reserves | 20 | 68,000 | 68,000 |
| Accumulated loss | 20 | 813 | 813 |
| Loss for the year | | (10,599) | (7,704) |
| Total equity | | (8,933) | (2,895) |
| Total liabilities and equity | | 440,299 | 417,501 |

These consolidated financial statements have been approved by the Management Board of Tokuda Bank AD on 06 April 2015.

Vanya Vassileva
Chairperson of Management Board
and Executive Director

Boian Ikonomov
Member of Management Board
and Executive Director

Svetlin Todorov
Finance Director

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



**TOKUDA BANK GROUP
CONSOLIDATED INCOME STATEMENT
31 DECEMBER 2014**

(all amounts expressed in BGN thousand)

| | Note | Year ended 31 December | |
|--|------|------------------------|-----------------|
| | | 2014 | 2013 |
| Interest income | 21 | 18,044 | 19,491 |
| Interest expense | 21 | (11,113) | (11,625) |
| Net interest income | | 6,931 | 7,866 |
| Fee and commission income | 22 | 4,021 | 4,288 |
| Fee and commission expense | 22 | (339) | (337) |
| Net fee and commission income | | 3,682 | 3,951 |
| Net trading income / loss | 23 | 700 | (2,866) |
| Other operating income | 24 | 574 | 3,992 |
| Operating income | | 11,887 | 12,943 |
| Impairments and provisions for losses | 26 | (8,943) | (4,404) |
| Personnel costs | | (5,376) | (5,068) |
| Operating lease rentals | | (1,040) | (1,050) |
| Other expenses | | (5,442) | (5,300) |
| Operating expenses | 25 | (11,858) | (11,418) |
| Loss before income tax | | (8,914) | (2,879) |
| Tax expense | 27 | (19) | (16) |
| Loss for the year | | (8,933) | (2,895) |
| Other comprehensive income | | - | - |
| Total comprehensive income for the year | | (8,933) | (2,895) |

These consolidated financial statements have been approved by the Management Board of Tokuda Bank AD on 06 April 2015.

Vanya Vassileva
Chairperson of Management Board
and Executive Director

Boian Ikonov
Member of Management Board
and Executive Director

Svetlin Todorov
Finance Director



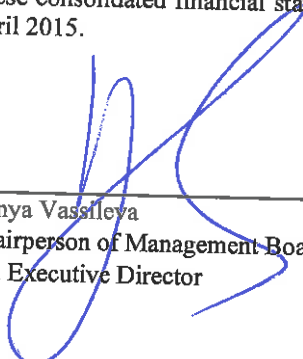
The accompanying notes are an integral part of these consolidated financial statements.

TOKUDA BANK GROUP
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
31 DECEMBER 2014


(all amounts expressed in BGN thousand)

| | Share capital | Reserves | Accumulated loss | Total |
|--|---------------|--------------|------------------|---------------|
| Balance at 1 January 2013 | 68,000 | 1,159 | (8,088) | 61,071 |
| Released revaluation reserve of fixed assets | - | (346) | 346 | - |
| Deferred taxes on released revaluation reserve of fixed assets | - | - | 38 | 38 |
| Loss for the year | - | - | (2,895) | (2,895) |
| Other comprehensive income for the year | - | - | - | - |
| Total comprehensive income for the year | - | - | (2,895) | (2,895) |
| Balance at 31 December 2013 | 68,000 | 813 | (10,599) | 58,214 |
| Loss for the year | - | - | (8,933) | (8,933) |
| Other comprehensive income for the year | - | - | - | - |
| Total comprehensive income for the year | - | - | (8,933) | (8,933) |
| Balance at 31 December 2014 | 68,000 | 813 | (19,532) | 49,281 |

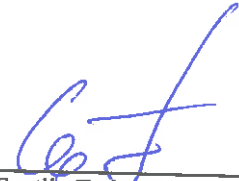
These consolidated financial statements have been approved by the Management Board of Tokuda Bank AD on 06 April 2015.



 Vanya Vassileva
 Chairperson of Management Board
 and Executive Director



 Boian Ikonov
 Member of Management Board
 and Executive Director



 Svetlin Todorov
 Finance Director



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

**TOKUDA BANK GROUP
CONSOLIDATED STATEMENT OF CASH FLOWS
31 DECEMBER 2014**

(all amounts expressed in BGN thousand)

Year ended 31 December

| | Notes | 2014 | 2013 |
|--|-------|----------------|-----------------|
| Cash flows from operating activities | | | |
| Net loss for the year | | (8,933) | (2,895) |
| Income tax expense | | 19 | 16 |
| Depreciation/amortization | | 495 | 514 |
| Net impairments and provisions for losses | | 8,943 | 4,404 |
| Loss on sale of assets | | - | 775 |
| Net interest income | | (6,931) | (7,866) |
| Dividend income | | (31) | (30) |
| Loss on disposal of property, plant and equipment | | 38 | 14 |
| Provisions | | 138 | 9 |
| Interest income received | | 19,922 | 20,138 |
| Interest expense paid | | (11,560) | (13,755) |
| Dividend income received | | 31 | 30 |
| Currency revaluation of investments held to maturity | | (587) | (1,757) |
| Cash flows from operating profit before changes in the operating assets and liabilities | | 1,544 | (403) |
| Decrease/(Increase) in Trading securities | | 7,776 | (5,882) |
| Increase in loans and receivables from customers | | (5,555) | (3,041) |
| (Increase)/ Decrease of non-current assets held for sale | | (1,291) | 1,446 |
| Increase of other assets | | (1,358) | (396) |
| Decrease of tax assets | | - | 53 |
| Decrease of receivables under repurchase agreements | | (1,456) | (5,324) |
| (Decrease)/Increase of financial liabilities available for sale | | (1,370) | 530 |
| (Decrease)/Increase of deposits from credit institutions | | (782) | 550 |
| Increase / (Decrease) of deposits from clients other than credit institutions | | 34,329 | (30,639) |
| Increase of other liabilities | | 1,338 | 333 |
| Net cash flow (used in)/generated by operating activities | | 31,631 | (42,370) |
| Cash flows from investing activities | | | |
| Payments for acquisition of investment held to maturity | | (26,462) | (36,833) |
| Proceeds from investments held to maturity | | 17,922 | 30,175 |
| Proceeds from financial assets available for sale | | 8,066 | - |
| Payments for acquisition of property, plant and equipment | | (285) | (239) |
| Proceeds from sale of property, plant and equipment | | 3 | - |
| Payments for acquisition of intangible assets | | (45) | (137) |
| Net cash flow used in investing activities | | (801) | (7,034) |
| Cash flows from financing activities | | | |
| Repayments of borrowings | | (38) | (362) |
| Net cash flow used in financing activities | | (38) | (362) |
| Net increase/(decrease) of cash and cash equivalents | | 32,336 | (50,169) |
| Cash and cash equivalents at the beginning of the year | | 68,726 | 118,895 |
| Cash and cash equivalents at the end of the year | 29 | 101,062 | 68,726 |

These consolidated financial statements have been approved by the Management Board of Tokuda Bank AD on 06 April 2015.

Vanya Vassileva
Chairperson of Management Board
and Executive Director

Boian Ikonomov
Member of Management Board
and Executive Director

Svetlin Todorov
Finance Director

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

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

**TOKUDA BANK GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014**

1. ORGANIZATION AND OPERATIONS

These consolidated financial statements of Tokuda Bank Group present the financial statement of Tokuda Bank AD (The Bank) and its controlled subsidiary "Tokuda Security" EOOD (Subsidiary) as a reporting entity (the Group).

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

As of December 31, 2014 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.

As of December 31, 2014 the major shareholder of the Group is International Hospital Service Co, Ltd., Japan, holding 99.53%.

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

The activities of the Group in 2014 and 2013 mainly consists 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 Group.

In 2014 the Group operates through its Head Office and 29 offices, points of services and representative offices (2013: 33). As of December 31, 2014 the Group has 263 employees (2013: 282).

2. BASIS FOR PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

2.1 General

These consolidated financial statements have been prepared for general purposes for the year ended December 31, 2014. The consolidated financial statements are presented in thousand Bulgarian Levs (BGN'000).

These consolidated financial statements have been prepared in accordance with the Bulgarian national legislation. The Group's operations are regulated by the Law on Credit Institutions, BNB Ordinances, applicable regulations of the European Union. BNB supervises and monitors the compliance with the Grouping legislation.

Tokuda Bank AD is a parent company in the preparation of these consolidated financial statements and as of December 31, 2014 The Bank owns 100% the subsidiary Tokuda Security EOOD, Sofia, Republic of Bulgaria. The investment in the individual financial statements of the Bank is disclosed at cost.

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 consolidated 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.

TOKUDA BANK GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

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

2.3 Changes in IFRS

Standards and Interpretations effective in the current period

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

- 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);
- 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 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosures of Interests in Other Entities – Transition Guidance, adopted by the EU on April 4, 2013 (effective for annual periods beginning on or after January 1, 2014);
- Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosures of Interests in Other Entities and IAS 27 (revised in 2011) Separate Financial Statements – Investment Entities, adopted by the EU on November 20, 2013 (effective for annual periods beginning on or after January 1, 2014);
- 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);
- Amendments to IAS 36 Impairment of assets - Recoverable Amount Disclosures for Non-Financial Assets, adopted by the EU on December 19, 2013 (effective for annual periods beginning on or after January 1, 2014);
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting, adopted by the EU on December 19, 2013 (effective for annual periods beginning on or after January 1, 2014).

The adoption of these amendments to the existing standards has not led to any changes in the Groups' 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, amendments to the existing standards and interpretations issued by IASB and adopted by the EU were in issue but not yet effective:

- Amendments to various standards Improvements to IFRSs (cycle 2010-2012) resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on December 17, 2014 (amendments are to be applied for annual periods beginning on or after February 1, 2015);
- Amendments to various standards Improvements to IFRSs (cycle 2011-2013) resulting from the annual improvement project of IFRS (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on December 18, 2014 (amendments are to be applied for annual periods beginning on or after January 1, 2015);
- Amendments to IAS 19 Employee Benefits - Defined Benefit Plans: Employee Contributions - adopted by the EU on December 17, 2014 (effective for annual periods beginning on or after February 1, 2015),
- IFRIC 21 Levies, adopted by the EU on June 13, 2014 (effective for annual periods beginning on or after June 17, 2014).

TOKUDA BANK GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

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

2.3 Changes in IFRS (continued)

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 International Accounting Standards Board (IASB) except from the following standards, amendments to the existing standards and interpretations, which were not endorsed for use in EU as at the date of publication of financial statements.

- IFRS 9 Financial Instruments (effective for annual periods beginning on or after January 1, 2018);
- IFRS 14 Regulatory Deferral Accounts (effective for annual periods beginning on or after January 1, 2016);
- IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after January 1, 2017);
- Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective for annual periods beginning on or after January 1, 2016);
- Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures - Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after January 1, 2016);
- Amendments to IFRS 11 Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after January 1, 2016);
- Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortisation (effective for annual periods beginning on or after January 1, 2016);
- Amendments to IAS 1 Presentation of Financial Statements - Disclosure Initiative (effective for annual periods beginning on or after January 1, 2016);
- Amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture - Agriculture: Bearer Plants (effective for annual periods beginning on or after January 1, 2016);
- Amendments to IAS 27 Separate Financial Statements - Equity Method in Separate Financial Statements (effective for annual periods beginning on or after January 1, 2016);
- Amendments to various standards Improvements to IFRSs (cycle 2012-2014) resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and 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, 2016).

The Group anticipates that the adoption of these standards, amendments to the existing standards and interpretations will have no material impact on the financial statements of the Group in the period of initial application, except:

- 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 Group'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 balance sheet date.

2.4 Going concern

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

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

TOKUDA BANK GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

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

2.5. Principles of consolidation

All acquisitions are accounted for using the purchase method of accounting as set out in IFRS 3 from the date on which the Group effectively obtains control of the acquiree. The Group has incorporated into its consolidated statement of comprehensive income the results of operations of the acquiree and has also recognised in the consolidated statement of financial position the assets acquired and the liabilities assumed and contingent liabilities of the acquiree as well as any goodwill arising on the acquisition.

The results of subsidiaries acquired or disposed during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

In preparing the consolidated financial statements, the financial statements of the Bank and its subsidiary are combined on a line-by-line basis by adding together like items of assets, liabilities, equity, income and expenses.

Where necessary, adjustments are made to the financial statements of the subsidiary to bring its accounting policies into line with those used by the Bank.

For consolidation purposes, all intergroup balances and intergroup transactions, income and expenses are eliminated in full.

Non-controlling interest in net assets and profit or loss of subsidiaries are presented separately from those possessed by the Group.

Goodwill incurred in business combinations is reviewed for impairment annually or more often if any events or changes in the circumstances provide indications for impairment. In these consolidated financial statements no goodwill was recognized from business combinations.

Entities in which the Group has significant influence, but not control (associates), are included in the consolidated financial statements at acquisition cost. Significant influence is defined as the right to participate in the financial and operating decisions of the associate, but not to control these decisions. As of December 31, 2014 and 2013 the Group has no associates.

TOKUDA BANK GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

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 consolidated financial statements and the actual results may differ from these estimates.

The accounting assumptions and estimates applied in these consolidated 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 Group 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 31.2 describes the process applied by the Group 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 31.5 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 Group reviews the useful lives of these assets at the end of each reporting period and changes their useful lives, if needed. In 2014 there were no changes in the useful lives of these assets.

The entire 2014 passed in the conditions of the continuing economic crisis which determines that the Group 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 consolidated financial statements. The recoverability of the loans and the adequacy of the recognized impairment losses, as well as the maintaining of the Group'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 Group's management applies the necessary procedures to manage these risks, as disclosed in note 31.

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, 2014 and 2013 the Group 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, 2014 financial assets held for trading consist mainly of Bulgarian government securities . As of December 31, 2013 financial assets held for trading consist 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 Group engages to purchase or sale the asset.

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

TOKUDA BANK GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Financial assets (continued)

Financial assets and liabilities held for trading (continued)

The Group 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 fair value of derivatives held for trading are included in the statement of comprehensive income.

As of December 31, 2014 and 2013 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 Group 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.

Acquisitions and derecognition of financial assets classified as investment held to maturity are recognized on transaction date, i.e. when the Group commits to buy the asset or the asset matures.

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. 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 Group has the right to receive them.

Sales and acquisitions of financial assets available for sale are recognized on transaction date, i.e. when the Group commits to buy or sale the asset.

TOKUDA BANK GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Financial assets (continued)

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 bank, 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 Group no longer has control over the contractual rights and transfers substantially all risks of ownership of the asset. This occurs when the Group realizes the rights, the rights expire, or when the Group 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 Group 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 Group has off-balance sheet financial instruments comprising mainly 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 Group 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.

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 Groupruptcy 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.

TOKUDA BANK GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Group classifies loans in several groups. Outside the regular loans group the Group 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 Group 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 Group, secured by the value of the securities, together with the accrued to the moment interest receivable/payable.

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 Group 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.

TOKUDA BANK GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Property, plant and equipment and intangible assets (continued)

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 Group 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 by 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.

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 deferred for the period of the loans.

TOKUDA BANK GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 revaluated 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 | 31.12.2014 | 31.12.2013 |
|-----------------|-------------------|-------------------|
| US Dollars | 1.60841 | 1.41902 |
| 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 Group 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 labour 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 labour 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 Group.

In accordance with IAS 19 Employee Benefits the Group 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 Group for retirement benefits.

3.10 Taxation

The Group 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.

TOKUDA BANK GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 Taxation (continued)

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 values represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal market at the measurement date under current market condition. Fair value under IFRS 13 is an exit price regardless of whether the price is directly observable or estimated using another valuation technique.

The Group 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.

Note 31.5 presents information about fair value of financial assets and liabilities.

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 Group 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.

TOKUDA BANK GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13 Assets acquired from collaterals

Assets acquired from collaterals which the Group does not intend to use in the course of its business, and which are not investment properties are presented as "Other assets" in accordance with IAS 2 "Inventories" (see also Note 11). These assets are collaterals which the Group acquired from borrowers who became insolvent. The Group's policy is to sell the acquired collaterals when the Group finds profitable enough market for them.

3.14 Non-current assets held for sale

Non-current assets held for sale are property and other non-current assets, which the Group 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 Group's control and there is sufficient evidence that the Group remains committed to its plan to sell the asset and undertakes actions to respond to the circumstances which caused the delay.

The Group 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.

3.15 Comparative information

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

- As a result of a significant change in the Group's operations or after reviewing the consolidated 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.

TOKUDA BANK GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

4. CASH AND CASH BALANCES WITH CENTRAL BANKS

| in BGN thousand | 2014 | 2013 |
|----------------------------|---------------|---------------|
| Cash in hand | 8,188 | 6,665 |
| Cash with the Central bank | 81,797 | 26,862 |
| Total | 89,985 | 33,527 |

Cash with the Central Bank as of December 31, 2014 and 2013 include minimum non-interest bearing reserves at the amount of BGN 39,117 thousand and BGN 11,735 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 157 thousand and BGN 138 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 Group.

5. LOANS AND RECEIVABLES FROM CREDIT INSTITUTIONS

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

| in BGN thousand | 2014 | 2013 |
|---|---------------|---------------|
| Nostro accounts with domestic credit institutions | 204 | 171 |
| Deposits with domestic credit institutions | 49 | 24,986 |
| Nostro accounts with foreign credit institutions | 10,824 | 10,042 |
| Total | 11,077 | 35,199 |

Deposits to credit institutions as of December 31, 2014 and 2013 have maturity within 3 months.

TOKUDA BANK GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

6. FINANCIAL ASSETS HELD FOR TRADING

| | | |
|---|---------------|---------------|
| in BGN thousand | 2014 | 2013 |
| Bulgarian government bonds | 28,240 | 31,375 |
| Foreign government securities | - | 1,964 |
| Corporate bonds of domestic and foreign issuers | 2,034 | 4,985 |
| Shares and participations of domestic enterprises | 153 | 157 |
| Total | 30,427 | 38,481 |

7. FINANCIAL ASSETS AVAILABLE FOR SALE

| | | |
|---|-------------|-------------|
| in BGN thousand | 2014 | 2013 |
| Shares and participations of domestic enterprises | 165 | 165 |
| Allowance for impairment | (77) | - |
| | 88 | 165 |

8. LOANS AND RECEIVABLES FROM CUSTOMERS

(a) Analysis by type of customers

| | | |
|--------------------------------|----------------|----------------|
| in BGN thousand | 2014 | 2013 |
| Private entities | 176,127 | 175,975 |
| Households and individuals | 37,294 | 34,913 |
| State budget | 278 | 522 |
| Financial entities | 5,263 | 4,054 |
| Finance lease | 6,118 | 6,628 |
| | 225,080 | 222,092 |
| Allowance for uncollectibility | (17,481) | (12,400) |
| Total | 207,599 | 209,692 |

(b) Analysis by sectors

Information for allocation of loans and receivables from customers in accordance with the internal classification of the Group is, as follows:

| | | |
|--------------------------------|----------------|----------------|
| in BGN thousand | 2014 | 2013 |
| Consumer loans | 29,186 | 27,001 |
| Manufacturing | 42,688 | 50,876 |
| Construction | 18,412 | 17,284 |
| Trade | 38,945 | 37,635 |
| Agriculture | 12,504 | 12,909 |
| Health sector | 13,421 | 15,887 |
| Tourism | 18,795 | 13,842 |
| Transportation | 3,642 | 3,152 |
| Operations with real estate | 3,596 | 3,601 |
| Finance | 5,263 | 4,054 |
| State budget | 278 | 522 |
| Other sectors | 38,350 | 35,329 |
| | 225,080 | 222,092 |
| Allowance for uncollectibility | (17,481) | (12,400) |
| Total | 207,599 | 209,692 |

TOKUDA BANK GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

8. LOANS AND RECEIVABLES FROM CUSTOMERS (CONTINUED)

In 2014 and 2013 receivables on loans written-off against allowances for impairment and uncollectibility are at the amount of BGN 1,907 thousand and BGN 2,430 thousand (see also note 26).

Movement of impairment losses is as follows:

| in BGN thousand | 2014 | 2013 |
|---|--------------------|--------------------|
| | Loans and | Loans and |
| | receivables | receivables |
| Balance as at January 1 | 12,400 | 9,169 |
| Additional allowances for impairment losses | 12,373 | 6,689 |
| Reversals | (5,385) | (1,028) |
| Written off receivables | (1,907) | (2,430) |
| Balance as at December 31 | 17,481 | 12,400 |

9. INVESTMENTS HELD TO MATURITY

| in BGN thousand | 2014 | 2013 |
|---|---------------|---------------|
| Bulgarian government bonds | 49,378 | 50,592 |
| Foreign government securities | 19,549 | 12,620 |
| Corporate bonds of domestic and foreign issuers | 15,762 | 21,356 |
| Total | 84,689 | 84,568 |

As of December 31, 2014 and 2013 securities with carrying amount of BGN 22,907 thousand and BGN 19,002 thousand respectively, are pledged as collateral with BNB to secure attracted funds from the State budget.

As of December 31, 2014 there are no securities, restricted as collateral under repurchase agreement (2013: BGN 1,375 thousand).

TOKUDA BANK GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

10. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

| in BGN thousand | Land and buildings | Office equipment | Vehicles | Fixture and fittings | Other assets | Intangible assets | Assets under construction | Total |
|--|--------------------|------------------|----------|----------------------|--------------|-------------------|---------------------------|---------|
| Cost | | | | | | | | |
| 01 January 2013 | 2,741 | 2,571 | 973 | 647 | 681 | 826 | 535 | 8,974 |
| Additions | - | 268 | 11 | 20 | - | 137 | - | 436 |
| Disposals | - | (189) | - | (95) | (88) | (555) | (11) | (938) |
| Transfers | 5 | - | - | - | - | 440 | (445) | - |
| 31 December 2013 | 2,746 | 2,650 | 984 | 572 | 593 | 848 | 79 | 8,472 |
| Additions | - | 170 | - | 40 | 75 | 47 | - | 332 |
| Disposals | - | (427) | - | (49) | (213) | (24) | - | (713) |
| Sold | - | (2) | - | (1) | - | - | - | (3) |
| Transfers | - | (2) | - | 2 | - | - | - | - |
| 31 December 2014 | 2,746 | 2,389 | 984 | 564 | 455 | 871 | 79 | 8,088 |
| Accumulated depreciation/amortization | | | | | | | | |
| 01 January 2013 | (447) | (2,194) | (742) | (433) | (408) | (659) | - | (4,883) |
| Charged during the year | (60) | (205) | (42) | (58) | (46) | (103) | - | (514) |
| Written off | - | 183 | - | 34 | 88 | 548 | - | 853 |
| 31 December 2013 | (507) | (2,216) | (784) | (457) | (366) | (214) | - | (4,544) |
| Charged during the year | (60) | (158) | (42) | (49) | (56) | (130) | - | (495) |
| Written off | - | 427 | - | 48 | 176 | 22 | - | 673 |
| 31 December 2014 | (567) | (1,947) | (826) | (458) | (246) | (322) | - | (4,366) |
| Net book value | | | | | | | | |
| 31 December 2013 | 2,239 | 434 | 200 | 115 | 227 | 634 | 79 | 3,928 |
| 31 December 2014 | 2,179 | 442 | 158 | 106 | 209 | 549 | 79 | 3,722 |

TOKUDA BANK GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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11. OTHER ASSETS

| in BGN thousand | 2014 | 2013 |
|---|--------------|--------------|
| Assets acquired from non-performing loans | 8,867 | 2,999 |
| Allowance for impairment of assets acquired by the non-performing loans | (660) | (94) |
| Other assets | 1,680 | 902 |
| Impairment of other assets | (1,409) | - |
| Vat recoverable | 234 | 407 |
| Deferred expenses | 122 | 135 |
| Guarantee deposits | 67 | 65 |
| Advance payments | 59 | 72 |
| Total | 8,960 | 4,486 |

Movement of impairment of assets and other assets acquired by non-performing loans is presented in the tables below:

| Movement of impairment of other assets | 2014 | 2013 |
|---|--------------|----------|
| Balance as of 1 January | - | - |
| Additional allowances for impairment losses | 1,409 | - |
| Reversals | - | - |
| Written off receivables | - | - |
| Balance as of 31 December | 1,409 | - |

| Movement of impairment of other assets | 2014 | 2013 |
|---|------------|-----------|
| Balance as of 1 January | 94 | - |
| Impairment losses related to assets reclassified from held for sale | 98 | 94 |
| Additional allowances for impairment losses | 468 | - |
| Balance as of 31 December | 660 | 94 |

12. NON-CURRENT ASSETS HELD FOR SALE

| in BGN thousand | 2014 | 2013 |
|--|--------------|--------------|
| Balance at the beginning of the year | 7,455 | 13,920 |
| Acquisitions during the year | 1,291 | 5,730 |
| Disposals during the year | - | (9,210) |
| Transferred assets, acquired from ordinary activities (non-performing loans) | (4,993) | (2,905) |
| Allowance for impairment | (1) | (80) |
| Balance at the end of the year | 3,752 | 7,455 |

In 2014 the Group acquired assets at the amount of BGN 1,200 thousand under debt-for-asset swap (2013: BGN 4,890 thousand).

13. FINANCIAL LIABILITIES HELD FOR TRADING

| in BGN thousand | 2014 | 2013 |
|---------------------------------------|----------|--------------|
| Derivatives | - | 1,370 |
| Balance at the end of the year | - | 1,370 |

TOKUDA BANK GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

14. DEPOSITS FROM CREDIT INSTITUTIONS

| in BGN thousand | 2014 | 2013 |
|-----------------------------------|------------|------------|
| Deposits from credit institutions | 149 | 931 |
| | <u>149</u> | <u>931</u> |

Term deposits from credit institutions received as of December 31, 2014 and 2013 have maturity within 3 months.

15. PAYABLES UNDER REPURCHASE AGREEMENTS (REPO-DEALS)

| in BGN thousand | 2014 | 2013 |
|-------------------------------------|----------|--------------|
| Repo-deals with credit institutions | - | 1,456 |
| | <u>-</u> | <u>1,456</u> |

As of December 31, 2014 there are no payables under repurchase agreements.

16. DEPOSITS FROM CLIENTS OTHER THAN CREDIT INSTITUTIONS

| in BGN thousand | 2014 | 2013 |
|--|----------------|----------------|
| Individuals accounts | | |
| - Demand and savings accounts | 63,439 | 44,358 |
| - Term | 200,513 | 171,331 |
| State budget funds | | |
| - Demand accounts | 19,682 | 15,194 |
| Corporate accounts | | |
| - Demand accounts | 65,575 | 63,858 |
| - Term | 19,714 | 51,362 |
| Other non-bank financial institutions accounts | | |
| - Demand accounts | 474 | 2,435 |
| - Term | 17,991 | 4,945 |
| | <u>387,388</u> | <u>353,483</u> |

17. BORROWINGS

As of December 31, 2014 the Group has redeemed its obligations under a contract with the State Fund "Agriculture".

| in BGN thousand | 2014 | 2013 |
|----------------------------|----------|-----------|
| Short-term financing from: | | |
| - State Fund "Agriculture" | - | 38 |
| Total borrowings | <u>-</u> | <u>38</u> |

TOKUDA BANK GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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18. TAX ASSETS AND LIABILITIES

Tax assets

As of December 31, 2014 and 2013 the Group has not recognized deferred tax assets on accumulated tax loss of BGN 11,048 thousand and BGN 2,933 thousand respectively, due to the fact that there is uncertainty regarding future taxable profits against which it can be utilized.

31 December 2014 unrecognized deferred tax assets are as follows:

| Tax loss occurred in | Amount | Unrecognized tax asset | Expiring in |
|-----------------------------|---------------|-------------------------------|--------------------|
| 2012 | 1,208 | 121 | 2017 |
| 2013 | 1,725 | 173 | 2018 |
| 2014 | 8,115 | 811 | 2019 |
| Total | 11,048 | 1,105 | |

Other temporary differences

| | Amount | Unrecognized tax asset |
|----------------------|---------------|-------------------------------|
| Impairment on assets | 664 | 66 |
| | 664 | 66 |

Tax liabilities

As of December 31, 2014 and 2013 tax liabilities consist of deferred tax liabilities, arisen from the following temporary tax differences:

| in BGN thousand | 2014 | 2013 |
|--|--------------|-------------|
| Deferred tax assets: | | |
| Unused paid leave | 14 | 7 |
| Long-term employee benefits | 26 | 26 |
| Total deferred tax assets | 40 | 33 |
| Deferred tax liabilities: | | |
| Differences between accounting and tax amortization and depreciation | (123) | (98) |
| Total deferred tax liabilities | (123) | (98) |
| Deferred tax liabilities, net | (83) | (65) |

Deferred tax assets and liabilities as of December 31, 2014 and 2013 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.

TOKUDA BANK GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

19. OTHER LIABILITIES

| | | |
|--|--------------|--------------|
| in BGN thousand | | |
| Ongoing bank transfers | 2014 | 2013 |
| Unused paid leave | 715 | 1,079 |
| Other creditors | 120 | 64 |
| Impairment for long-term employee benefits | - | 3 |
| Liabilities to Commercial bank Victoria AD | 258 | 257 |
| Other liabilities | 1,847 | - |
| | 458 | 541 |
| | 3,398 | 1,944 |

Ongoing bank transfers represent liabilities on money transfers ordered by customers in the last day of 2014 and 2013 respectively, with value date within two days. The transfers are processed up to the second working day of 2015 and 2014, respectively.

As of December 31, 2014 liabilities to Commercial bank Victoria AD represent amounts due under two contracts for the assignment of loans.

As of December 31, 2014 and 2013 the provisions represent long-term employee benefits.

According to the provisions of the Labor Code, the Group is obliged to compensate employees upon retirement with two gross salaries. If the employee has worked for the Group in the last ten years the compensation amounts to six gross salaries. As of December 31, 2014 and 2013 the Group has accrued long-term employee benefits at the amount of BGN 258 thousand and BGN 257 thousand, respectively. The provision amount has been determined by a licensed actuary.

Underlying assumptions used by the licensed actuary at determining the present value of the liability 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 2.91 % has been applied.

20. EQUITY AND RESERVES

Share capital

As of December 31, 2014 and 2013 the Group's share capital is fully paid in and is distributed in registered, voting shares, as follows:

| | | |
|----------------------|---------------|---------------|
| in BGN thousand | | |
| Number of shares | 2014 | 2013 |
| Share nominal in BGN | 6,800 | 6,800 |
| Share capital | 10 | 10 |
| | 68,000 | 68,000 |

As of December 31, 2014 and 2013 the Group's shareholder structure is as follows:

| | | | | |
|---------------------------------|------------------|------------|------------------|------------|
| | 2014 | % | 2013 | % |
| International Hospital Services | 6,767,950 | 99.53 | 6,767,950 | 99.53 |
| Garant and Co 97 AD | 15,000 | 0.22 | 15,000 | 0.22 |
| A U C Establishment | 13,300 | 0.20 | 13,300 | 0.20 |
| MM Holding AD | 3,750 | 0.05 | 3,750 | 0.05 |
| Total shares | 6,800,000 | 100 | 6,800,000 | 100 |

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20. EQUITY AND RESERVES (CONTINUED)

Reserves

According to the Bulgarian legislation the companies within the Group are required to establish Reserve Fund by distribution of part of their profit until the amount of the reserve becomes 1/10 or higher of the share capital, as determined by the Statute.

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 Statute) of the share capital, the excess can be used for share capital increase.

As of December 31, 2014 and 2013 reserves include Reserve Fund at the amount of BGN 813 thousand and BGN 813 thousand, respectively.

21. INTEREST INCOME/EXPENSE

| in BGN thousand | 2014 | 2013 |
|--|---------------|---------------|
| A. Interest income | | |
| Interest from financial assets held for trading | 1,029 | 1,505 |
| Interest from loans and receivables from credit institutions | 21 | 29 |
| Interest from repo deals | 19 | 35 |
| Interest from loans and receivables from customers | 14,003 | 14,890 |
| Interest from investments held to maturity | 2,972 | 3,032 |
| | <u>18,044</u> | <u>19,491</u> |

| in BGN thousand | 2014 | 2013 |
|---|---------------|---------------|
| B. Interest expenses | | |
| Interest on deposits from credit institutions | 1 | 1 |
| Interest on other deposits | 11,110 | 11,615 |
| Interest on loans received | 2 | 9 |
| | <u>11,113</u> | <u>11,625</u> |

22. FEE AND COMMISSION INCOME/EXPENSE

| in BGN thousand | 2014 | 2013 |
|--|--------------|--------------|
| Fee and commission income | | |
| Fees and commission income under money transfers | 1,552 | 1,530 |
| Other | 728 | 855 |
| Fees receipts under accounts opening and closing | 481 | 416 |
| Fees and commission income under loan transactions | 456 | 326 |
| Fees income under servicing cards | 331 | 282 |
| Commission income under cash balances | 276 | 320 |
| Service guarantees | 197 | 559 |
| | <u>4,021</u> | <u>4,288</u> |

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22. FEE AND COMMISSION INCOME/EXPENSE (CONTINUED)

| | 2014 | 2013 |
|--|--------------|--------------|
| Fee and commission expense | | |
| Fees for service of cards | 205 | 181 |
| Other | 42 | 62 |
| Fees for money transfers | 28 | 30 |
| Insurances fees | 26 | 31 |
| Fees for opening and servicing of accounts | 24 | 22 |
| Fees to register securities | 14 | 11 |
| | <u>339</u> | <u>337</u> |
| Net fee and commission income | <u>3,682</u> | <u>3,951</u> |

23. NET PROFIT/ (LOSSES) ON FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

| in thousand BGN | 2014 | 2013 |
|---|-------------|----------------|
| Loss from sale of securities held for trading | (16) | (55) |
| Gain/(Loss) from revaluation of securities held for trading | (61) | 1,457 |
| Gain/ (Loss) from foreign exchange differences | 777 | (4,268) |
| Total | <u>700</u> | <u>(2,866)</u> |

As disclosed in note 31.3 the Group uses derivative instruments to manage its exposure to currency risk including by currency forward contracts. The gain for 2014 and loss for 2013 from foreign exchange differences relate mainly to transactions and revaluation of these derivative instruments.

24. OTHER OPERATING INCOME / (EXPENSE)

| in thousand BGN | 2014 | 2013 |
|--|-------------|--------------|
| Net gains / (losses) from foreign currency revaluation | (438) | 4,662 |
| Profit from sale of investment securities available for sale | 809 | - |
| Dividends | 31 | 30 |
| Net loss from disposed assets other than held for sale | (4) | (14) |
| Loss from non-current assets held for sale | - | (775) |
| Other operating income | 176 | 89 |
| | <u>574</u> | <u>3,992</u> |

25. OPERATING EXPENSES

| in thousand BGN | 2014 | 2013 |
|------------------------------------|---------------|---------------|
| Personnel costs | 5,376 | 5,068 |
| Depreciation and amortisation | 495 | 514 |
| Operating lease rentals | 1,040 | 1,050 |
| Payments to Deposit Insurance Fund | 1,685 | 1,762 |
| Other expenses | 3,262 | 3,024 |
| | <u>11,858</u> | <u>11,418</u> |

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26. IMPAIRMENT AND PROVISIONS FOR LOSSES

Net expenses of depreciation in 2014 and 2013 are presented in the table below:

| in BGN thousand | 2014 | 2013 |
|--|--------------|--------------|
| Impairment loss on | | |
| Loans and advances to customers | 6,988 | 5,661 |
| Other assets available for resale | 77 | - |
| Non-current assets held for sale | 1 | 80 |
| Other assets | 1,877 | - |
| Investments held to maturity | - | (1,212) |
| Provision on | | |
| Guarantees and Credit Commitments | - | (125) |
| Net Impairments and provisions for losses | 8,943 | 4,404 |

27. INCOME TAX BENEFIT/(EXPENSE)

Current tax expense represents taxes due under the Bulgarian legislation according to the applicable tax rate of 10 % for 2014 and 2013. Deferred tax income/expense arises as a result of a change in the carrying amount of deferred tax assets and liabilities.

Reconciliation between tax expense and the accounting profit is as follows:

| in BGN thousand | 2014 | 2013 |
|--|-------------|-------------|
| Current tax expense | - | - |
| Deferred tax expense | (19) | (16) |
| Total tax expenses | (19) | (16) |
| Reconciliation between loss before tax and tax expense: | | |
| Loss before income tax | (8,914) | (2,879) |
| Income tax at applicable tax rate of 10 % for 2014 (10% for 2013) | 891 | 288 |
| Tax effect of nondeductible expenses | (52) | (123) |
| Effect of unrecognized deferred tax asset on tax losses available for carryforward | (811) | (173) |
| Effect of other temporary differences, for which no deferred tax asset is recognized | (47) | (8) |
| Tax expenses | (19) | (16) |

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28. RELATED PARTIES

As of December 31, 2014 and 2013 the Group has receivables from, payables to and contingent commitments to related parties, as follows:

| Related parties and balances (in BGN thousand) | 2014 | 2013 |
|--|--------|--------|
| Majority shareholder | | |
| Deposits received | 656 | 5,466 |
| Companies under common control | | |
| Other receivables | - | - |
| Deposits received | 41,589 | 29,203 |
| Key management personnel | | |
| Loans granted | 20 | 73 |
| Deposits received | 88 | 39 |

Income from and expenses for related party transactions, generated by the Group in 2014 and 2013 are as follows:

| Related parties and type of transactions (in BGN thousand) | 2014 | 2013 |
|--|------|------|
| Majority shareholder | | |
| Income from foreign exchange differences | - | 2 |
| Interest expense | 47 | 98 |
| Companies under common control | | |
| Income from fees and commissions | 190 | 162 |
| Income from foreign exchange differences | 29 | 31 |
| Income from services | 6 | 17 |
| Interest expense | 536 | 471 |
| Expenses for fees and commissions | 1 | 46 |
| Other expenses | - | 24 |
| Key management personnel | | |
| Interest income | 1 | 6 |
| Interest expense | 1 | - |
| Other expenses | 1 | 33 |

The remuneration to Supervisory Board members in 2014 are at the total amount of BGN 41 thousand (2013: BGN 40 thousand). The remuneration to the Management Board members in 2014 are at total amount of BGN 287 thousand (2013: BGN 298 thousand).

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29. 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:

| in BGN thousand | 2014 | 2013 |
|--|----------------|---------------|
| Cash in hand (note 4) | 8,188 | 6,665 |
| Cash with the Central bank (note 4) | 81,797 | 26,862 |
| Nostro accounts with domestic credit institutions (note 5) | 204 | 171 |
| Nostro accounts with foreign credit institutions (note 5) | 10,824 | 10,042 |
| Loans and deposits to credit institutions with original maturity up to three months (note 5) | 49 | 24,986 |
| Total cash and cash equivalents in the statement of cash flows | 101,062 | 68,726 |

30. COMMITMENTS AND CONTINGENCIES

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

| in BGN thousand | 2014 | 2013 |
|----------------------------|---------------|---------------|
| Guarantees | 7,952 | 7,557 |
| Undrawn credit commitments | 12,382 | 19,955 |
| | 20,334 | 27,512 |

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31. FINANCIAL RISK MANAGEMENT

The risk for the Group related to financial instruments is the possibility that the actual proceeds from financial instruments could differ from the expected proceeds. The specifics of Grouping operations requires the Group 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 Group 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.

The main underlying principles in the Group'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 Group within the adopted business strategy;
- Specialized collective committees – approve the framework and parameters of the Group'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 Group;
- Heads of structural units within the Group - implement the adopted risk management policy within the operations of the respective organizational units.

In 2014 and 2013 the Group has not used derivative instruments to hedge risks. The Group 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 Group is exposed to are credit risk, liquidity risk and market risk, which includes interest, currency and price risk.

TOKUDA BANK GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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31. FINANCIAL RISK MANAGEMENT (CONTINUED)

31.1. Financial assets and liabilities

The tables below sets out the carrying amounts and fair values of the Group's financial assets and financial liabilities:

in BGN thousand

As of 31 December 2014

| | Trading | Loans and receivables | Held to maturity | Other amortised cost | Total carryng amount | Fair value |
|--------------------------------------|---------------|--------------------------|---------------------|----------------------------|----------------------------|----------------|
| Financial assets | | | | | | |
| Cash and balances with Central Bank | - | 89,985 | - | - | 89,985 | 89,985 |
| Loans and advances to banks | - | 11,077 | - | - | 11,077 | 11,077 |
| Loans and advances to customers | - | 207,599 | - | - | 207,599 | 211,101 |
| Financial assets held for trading | 30,427 | - | - | - | 30,427 | 30,427 |
| Investments held to maturity | - | - | 84,689 | - | 84,689 | 86,237 |
| Total assets | 30,427 | 308,661 | 84,689 | - | 423,777 | 428,827 |
| Financial liabilities | | | | | | |
| Deposits from banks | - | - | - | 149 | 149 | 149 |
| Due to customers | - | - | - | 387,388 | 387,388 | 390,364 |
| Payables under repurchase agreements | - | - | - | - | - | - |
| Other financial liabilities | - | - | - | 2,562 | 2,562 | 2,562 |
| Total liabilities | - | - | - | 390,099 | 390,099 | 393,075 |

in BGN thousand

As of 31 December 2013

| | Trading | Loans and receivables | Held to maturity | Other amortised cost | Total carryng amount | Fair value |
|--------------------------------------|---------------|--------------------------|---------------------|----------------------------|----------------------------|----------------|
| Financial assets | | | | | | |
| Cash and balances with Central Bank | - | 33,527 | - | - | 33,527 | 33,527 |
| Loans and advances to banks | - | 35,199 | - | - | 35,199 | 35,199 |
| Loans and advances to customers | - | 209,692 | - | - | 209,692 | 210,610 |
| Financial assets held for trading | 38,481 | - | - | - | 38,481 | 38,481 |
| Investments held to maturity | - | - | 84,568 | - | 84,568 | 86,208 |
| Total assets | 38,481 | 278,418 | 84,568 | - | 401,467 | 404,025 |
| Financial liabilities | | | | | | |
| Deposits from banks | - | - | - | 931 | 931 | 931 |
| Due to customers | - | - | - | 353,483 | 353,483 | 354,281 |
| Payables under repurchase agreements | - | - | - | 1,456 | 1,456 | 1,456 |
| Borrowings | - | - | - | 38 | 38 | 38 |
| Other financial liabilities | - | - | - | 1,079 | 1,079 | 1,079 |
| Total liabilities | - | - | - | 356,987 | 356,987 | 357,785 |

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31. FINANCIAL RISK MANAGEMENT (CONTINUED)

31.2 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 Group manages the credit risk by setting limits on the maximum credit risk exposure to a debtor, to a group of related parties, by relevant business sectors. Adequate collateral and guarantees are required in order to reduce the credit risk, according to the adopted internal credit rules.

Cash and cash balances with the Central bank at the amount of BGN 89,985 thousand and BGN 33,527 thousand, respectively as of December 31, 2014 and 2013 do not bear credit risk to the Group due to their nature and the fact that they are at the Group's disposal.

Loans and receivables from credit institutions at the amount of BGN 11,077 thousand and BGN 35,199 thousand, respectively as of December 31, 2014 and 2013 represent mostly deposits in first-class international and Bulgarian financial institutions with maturity up to 7 days. The Group manages the credit risk associated with advances to Groups as sets limits on exposure to counterparty.

Financial assets held for trading at the amount of BGN 30,427 thousand and BGN 38,481 thousand as of December 31, 2014 and 2013, respectively, bear mainly market risk to the Group, which is described in note 31.4. The maximum exposure to credit risk on these instruments is their carrying amount.

Financial assets available for sale at the amount of BGN 88 and 165 thousand as of December 31, 2014 and 2013 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 49,378 thousand and BGN 50,592 thousand, respectively as of December 31, 2014 and 2013 are guaranteed by the Bulgarian State. The maximum exposure to credit risk on these instruments is their carrying amount.

Debt securities held to maturity and issued by foreign governments as of December 31, 2014 and 2013 at the amount of BGN 19,549 thousand and BGN 12,620 thousand are guaranteed by foreign governments of the European Union. The maximum exposure to credit risk on these instruments is their carrying amount.

Debt securities held to maturity and issued by domestic and foreign commercial companies at the amount of BGN 15,762 thousand and BGN 21,356 thousand, respectively as of December 31, 2014 and 2013 expose the Group to credit risk to the carrying amount of the investment, which is managed by periodically monitoring of the financial position of issuers.

The Group's contingent and non-cancellable arrangements comprise issued guarantees and unutilized funds under loans agreed which amount as disclosed in note 30 represents the maximum credit exposure of the Group.

Loans and advances to customers with carrying amount of BGN 207,599 thousand and BGN 209,692 thousand, respectively as of December 31, 2014 and 2013 expose the Group to credit risk. The exposure of the Group to that risk is determined on the basis of individual assessment of each loan, as the Group applies the criteria for assessment and classification of risk exposures according to the Policy for impairment of financial assets and contingent liabilities.

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31. FINANCIAL RISK MANAGEMENT (CONTINUED)

31.2 Credit risk (continued)

The Group 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. | up to 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. | up to 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. | up to 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.

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

Quality of the loan portfolio

Classification groups as of December 31, 2014:

| 2014 Group | Loan granted | | | Unutilized commitment | Issued letters of guarantee | | |
|----------------|----------------|---------------|---------------|--------------------------|-----------------------------|---------------|-----------|
| | Amount | % Share | Allowance | Amount | Amount | % Share | Allowance |
| Regular | 135,383 | 60.15 | - | 12,375 | 7,737 | 97.30 | - |
| Watch | 16,293 | 7.24 | 139 | 2 | 215 | 2.70 | - |
| Non-performing | 15,197 | 6.75 | 113 | 1 | - | - | - |
| Loss | 58,207 | 25.86 | 17,229 | 4 | - | - | - |
| Total | 225,080 | 100.00 | 17,481 | 12,382 | 7,952 | 100.00 | - |

Classification groups as of December 31, 2013:

| 2013 Group | Loan granted | | | Unutilized commitment | Issued letters of guarantee | | |
|----------------|----------------|---------------|---------------|--------------------------|-----------------------------|---------------|-----------|
| | Amount | % Share | Allowance | Amount | Amount | % Share | Allowance |
| Regular | 140,659 | 63.33 | - | 19,949 | 7,057 | 93.38 | - |
| Watch | 25,250 | 11.37 | 9 | 6 | - | - | - |
| Non-performing | 3,555 | 1.60 | 3 | - | - | - | - |
| Loss | 52,628 | 23.70 | 12,388 | - | 500 | 6.62 | - |
| Total | 222,092 | 100.00 | 12,400 | 19,955 | 7,557 | 100.00 | - |

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31. FINANCIAL RISK MANAGEMENT (CONTINUED)

31.2 Credit risk (continued)

The loans granted by the Group and receivables from customers can be summarized in the following table:

| in BGN thousand | Loans and advances to customers | |
|--------------------------------------|---------------------------------|----------------|
| | 2014 | 2013 |
| Assets at amortised cost | | |
| Individually impaired | | |
| Watch | 315 | 97 |
| Non-performing | 2,570 | 194 |
| Loss | 42,187 | 34,673 |
| Carrying amount before impairment | 45,072 | 34,964 |
| Impairment loss | (17,481) | (12,400) |
| Carrying amount | 27,591 | 22,564 |
| Past due but not impaired | | |
| Regular | 10,799 | 17,750 |
| Watch | 14,785 | 24,235 |
| Non-performing | 6,845 | 3,362 |
| Loss | 10,964 | 17,121 |
| Carrying amount before impairment | 43,393 | 62,468 |
| Carrying amount | 43,393 | 62,468 |
| Neither past due nor impaired | | |
| Regular | 124,582 | 122,908 |
| Watch | 1,194 | 918 |
| Non-performing | 5,782 | - |
| Loss | 5,057 | 834 |
| Carrying amount before impairment | 136,615 | 124,660 |
| Carrying amount | 136,615 | 124,660 |
| Total carrying amount | 207,599 | 209,692 |

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31. FINANCIAL RISK MANAGEMENT (CONTINUED)

31.2 Credit risk (continued)

An analysis of past due and individually impaired loans and advances to customers is given in the table below:

| in BGN thousand | 2014 | | 2013 | |
|-----------------------------------|---------------------------|-----------------------|---------------------------|-----------------------|
| | Past due but not impaired | Individually impaired | Past due but not impaired | Individually impaired |
| Without arrears | - | 14,606 | - | 7,144 |
| Arrears up to 30 days | 15,726 | 617 | 30,431 | 76 |
| Arrears from 31 to 60 days | 5,248 | 8 | 1,925 | 196 |
| Arrears from 61 to 90 days | 4,981 | 324 | 10,598 | 19 |
| Arrears from 91 to 180 days | 6,569 | 3,413 | 2,511 | 343 |
| Arrears over 180 days | 10,869 | 26,104 | 17,003 | 27,186 |
| Carrying amount before impairment | 43,393 | 45,072 | 62,468 | 34,964 |
| Impairment loss | - | (17,481) | - | (12,400) |
| Carrying amount | 43,393 | 27,591 | 62,468 | 22,564 |

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

| in BGN thousand | 2014 | 2013 |
|---|----------------|----------------|
| Secured by cash and government securities | 1,803 | 6,595 |
| Secured by mortgage | 163,310 | 148,731 |
| Pledge of machinery and equipment | 16,871 | 14,081 |
| Pledge of receivables | 15,101 | 18,909 |
| Other collaterals | 24,682 | 31,725 |
| No collateral | 3,313 | 2,051 |
| Impairment loss | (17,481) | (12,400) |
| Total | 207,599 | 209,692 |

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31. FINANCIAL RISK MANAGEMENT (CONTINUED)

31.2 Credit risk (continued)

The table below provides information on the credit quality of other financial assets. To determine the quality of these assets the Group uses Fitch's ratings, where available, or equivalent rating of another rating agency (S & P).

| | 2014 | 2013 |
|---|---------------|---------------|
| Cash and cash balances with central banks: | | |
| rating BBB | 89,985 | 33,527 |
| Total cash and cash balances with central banks | 89,985 | 33,527 |
| Loans and receivables from credit institutions | | |
| rating A+ | 1,700 | 8,934 |
| rating BB+ | 90 | 1,069 |
| rating BBB+ | - | 39 |
| rating BBB | - | 96 |
| rating BBB- | 9,124 | - |
| no rating | 163 | 25,061 |
| Total loans and receivables from credit institutions | 11,077 | 35,199 |
| Financial assets held for trading: | | |
| rating BB+ | - | 1,963 |
| rating BBB | - | 13,312 |
| rating BBB- | 30,274 | 18,063 |
| no rating | 153 | 5,143 |
| Total financial assets held for trading | 30,427 | 38,481 |
| Investments held to maturity | | |
| rating A- | - | 1,909 |
| rating BB | 8,057 | - |
| rating BB+ | 4,537 | 3,628 |
| rating BBB | - | 34,549 |
| rating BBB- | 61,683 | 24,672 |
| rating BBB+ | 4,058 | 5,902 |
| no rating | 6,354 | 13,908 |
| Total investments held to maturity | 84,689 | 84,568 |
| Financial assets available for sale (no rating) | 88 | 165 |

Loans and receivables from credit institutions with no rating are those of local banks, which have no official credit rating.

Financial assets held for trading with no rating are mainly corporate bonds from foreign issuers and shares of domestic issuers for which there are no official credit rating.

Financial assets held to maturity, for which there are no specified credit rating, are mainly corporate bonds of local issuers, secured by property.

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31. FINANCIAL RISK MANAGEMENT (CONTINUED)

31.2 Credit risk (continued)

Concentration of credit risk

A significant percentage of the loan portfolio of the Group is concentrated in a limited number of borrowers. Despite the regulatory restrictions on large exposures, there is a risk that the Group's activities, its financial position 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 Group other than exposures to credit institutions (exposures which represent 10% or more of the Group's capital base) at their carrying amount as of December 31, 2014 and 2013 is presented in the table below:

| | 2014 | | 2013 | |
|---|---------|-----------------------|---------|-----------------------|
| | BGN'000 | % of the capital base | BGN'000 | % of the capital base |
| The largest total exposure to customer group | 9,197 | 18.88% | 8,756 | 27.00% |
| Total amount of the five largest exposures | 36,262 | 74.43% | 38,093 | 117.30% |
| Total amount of all exposures - over 10% of the capital | 52,924 | 108.63% | 100,604 | 309.90% |

Concentration of credit risk by economic sectors is disclosed in note 8.

31.3 Liquidity risk

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

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

The Group'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 Group 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 Group 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 Group'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 Group'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.

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31. FINANCIAL RISK MANAGEMENT (CONTINUED)

31.3 Liquidity risk (continued)

The main body for liquidity management of the Group 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 Group as a whole and by Group offices is carried out centralized by "Liquidity and markets" Department.

The level of liquid funds and the level of liquid funds for maintenance are monitored. On that basis the Group monitors its ratio of available liquid funds to loans and other receivables.

The ratio of the portion of the Group'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 a dynamic variable and depend on the current economic situation. At present, the ratio is 33:67 in favor of loans to non-financial companies and/or individuals.

The Group maintains high amount of liquid assets in the form of cash in hand and cash balances with the Central Group, which guarantee Group's ability to meet its liquidity requirements. As of December 31, 2014 and 2013 cash and cash balances with Central Group represent 20% and 8%, respectively of total assets of the Group.

As an additional instrument to provide high liquidity, the Group uses loans granted and advances to 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, 2014 and 2013 loans and receivables from credit institutions represent 3% and 8%, respectively of total assets of the Group.

Government securities, issued by the Republic of Bulgaria, owned by the Group and not pledged as collateral as of December 31, 2014 and 2013 represent 12.4% and 14.8%, respectively of total assets. By maintaining above 35% (2013: 31%) of its assets in highly liquid assets, the Group ensures the ability to meet its all payment needs on matured financial liabilities.

The allocation of the Group's financial liabilities as of December 31, 2014 according to their residual term is, as follows:

| 31.12.2014 in BGN thousand | 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 | 149 | - | - | - | - | 149 |
| Deposits from customers other than credit institutions | 173,854 | 48,512 | 128,601 | 36,421 | - | 387,388 |
| Total financial liabilities | 174,003 | 48,512 | 128,601 | 36,421 | - | 387,537 |

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31. FINANCIAL RISK MANAGEMENT (CONTINUED)

31.3 Liquidity risk (continued)

The allocation of the Group's financial liabilities as of December 31, 2013 according to their residual term is, as follows:

| 31.12.2013 in BGN thousand | 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 | 931 | - | - | - | - | 931 |
| Liabilities under repurchase agreements (repo deals) | 1,456 | - | - | - | - | 1,456 |
| Deposits from customers other than credit institutions | 138,723 | 77,462 | 117,313 | 19,985 | - | 353,483 |
| Borrowings | 38 | - | - | - | - | 38 |
| Total financial liabilities | 141,148 | 77,462 | 117,313 | 19,985 | - | 355,908 |

The financial liabilities of the Group are mainly formed by attracted funds on deposits – retail and corporate. Large portion of them as of December 31, 2014 –45% (2013: 40%) 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 of the Group.

31.4 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 Group'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 Group. Market exposure is managed by the Group, in accordance with risk limits, adopted by the management.

The Group manages its financial instruments, considering the changing market conditions. Exposure to market risk is managed in accordance with risk limits, set by the Group'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 Group 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 Groups - 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%.

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31. FINANCIAL RISK MANAGEMENT (CONTINUED)

31.4 Market risk (continued)

Market risk management includes:

- Determination of the ratio of Group'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 Group. At present, the ratio is 33:67 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 Group's attracted funds, cash inflows and outflows, liquidity needs, income level and objectives of the Group.
- Risk/return ratio analysis.

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

- VaR analysis, Duration of financial instruments and standardized interest rate shocks analysis to identify and analyse the effect of various risk factors on the value and profitability of the portfolio, in order to determine the optimal risk/return ratio;
- The Group 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 Group 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 Group 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.

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31. FINANCIAL RISK MANAGEMENT (CONTINUED)

31.4 Market risk (continued)

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 Group aims to minimize the risk of decrease in the net interest income as a result of changes in interest rate levels.

The Group 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 Group 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 Group, 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 Group'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.

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

The interest rate risk management of the Group 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 Group 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 Group (BNB). Interest rates for assets and liabilities denominated in EUR are based on the quoted prices of the European central Group.

In cases of assets and liabilities with floating interest rates, the Group 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.

The Group uses the approaches to interest rate risk management, depending on the circumstances by applying the misbalance method, as follows:

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

TOKUDA BANK GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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31. FINANCIAL RISK MANAGEMENT (CONTINUED)

31.4 Market risk (continued)

Interest rate risk (continued)

Performing its activities, The Group aims to achieve a positive misbalance in relation to the maturity of the assets and liabilities and a balanced position regarding the sensitivity of the interest-bearing assets and liabilities.

The interest-bearing assets and liabilities of the Group as of December 31, 2014 are, as follows:

| 31.12.2014 in BGN thousand | Up to 1 month | From 1 to 3 moths | From 3 months to 1 year | From 1 to 5 years | Over 5 years | Total |
|--|------------------|-------------------------|-------------------------------|----------------------|-----------------|----------------|
| <i>Interest-bearing assets</i> | | | | | | |
| Loans and receivables from credit institutions | 11,077 | - | - | - | - | 11,077 |
| Financial assets held for trading | 2,681 | - | 9,828 | 17,695 | 223 | 30,427 |
| Loans and receivables from customers | 196,261 | - | 1,004 | 871 | 9,463 | 207,599 |
| Investments held to maturity | 5,024 | 9,408 | 2,003 | 49,730 | 18,524 | 84,689 |
| Total interest-bearing assets | 215,043 | 9,408 | 12,835 | 68,296 | 28,210 | 333,792 |
| <i>Interest-bearing liabilities</i> | | | | | | |
| Deposits from credit institutions | 149 | - | - | - | - | 149 |
| Liabilities under repurchase agreements (repo deals) | - | - | - | - | - | - |
| Deposits from client other than credit institutions | 173,854 | 48,512 | 128,601 | 36,421 | - | 387,388 |
| Borrowings | - | - | - | - | - | - |
| Total interest-bearing liabilities | 174,003 | 48,512 | 128,601 | 36,421 | - | 387,537 |
| Mismatch between interest-bearing assets and liabilities, net | 41,040 | (39,104) | (115,766) | 31,875 | 28,210 | |

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31. FINANCIAL RISK MANAGEMENT (CONTINUED)

31.4 Market risk (continued)

Interest rate risk (continued)

The interest-bearing assets and liabilities of the Group as of December 31, 2013 are, as follows:

| 31.12.2013 in BGN thousand | Up to 1 month | From 1 to 3 moths | From 3 months to 1 year | From 1 to 5 years | Over 5 years | Total |
|--|------------------|-------------------------|-------------------------------|----------------------|-----------------|----------------|
| <i>Interest-bearing assets</i> | | | | | | |
| Loans and receivables from credit institutions | 35,199 | - | - | - | - | 35,199 |
| Financial assets held for trading | - | - | 6,231 | 28,983 | 3,267 | 38,481 |
| Loans and receivables from customers | 198,612 | 371 | 1,804 | 874 | 8,031 | 209,692 |
| Investments held to maturity | 2,892 | - | 9,841 | 49,289 | 22,546 | 84,568 |
| Total interest-bearing assets | 236,703 | 371 | 17,876 | 79,146 | 33,844 | 367,940 |
| <i>Interest-bearing liabilities</i> | | | | | | |
| Deposits from credit institutions | 931 | - | - | - | - | 931 |
| Liabilities under repurchase agreements (repo deals) | 1,456 | - | - | - | - | 1,456 |
| Deposits from client other than credit institutions | 138,723 | 77,462 | 117,313 | 19,985 | - | 353,483 |
| Borrowings | 38 | - | - | - | - | 38 |
| Total interest-bearing liabilities | 141,148 | 77,462 | 117,313 | 19,985 | - | 355,908 |
| Mismatch between interest-bearing assets and liabilities, net | 95,555 | (77,091) | (99,437) | 59,161 | 33,844 | |

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

| in thousand BGN | Year ended 31.12.2014 | Year ended 31.12.2013 |
|--|--------------------------|--------------------------|
| <i>Interest-bearing assets</i> | | |
| Loans and receivables from credit institutions | 0.08 | 0.10 |
| Financial assets held for trading | 3.27 | 3.90 |
| Loans and receivables from customers | 6.51 | 6.58 |
| Investments held to maturity | 3.69 | 3.54 |
| <i>Interest-bearing liabilities</i> | | |
| Liabilities under repurchase agreements | 0.37 | 0.29 |
| Deposits from credit institutions | 0.12 | 0.14 |
| Deposits from clients other than credit institutions | 3.06 | 3.22 |
| Borrowings | - | 2.00 |

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31. FINANCIAL RISK MANAGEMENT (CONTINUED)

31.4 Market risk (continued)

Currency risk

Currency risk is the possibility to realize losses for the Group due to 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 Group in EUR bear no currency risk for the Group.

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 Group. The main part of the assets and liabilities of the Group are denominated in EUR and BGN. The Group has significant foreign currency transactions in Japanese yen (JPY), since part of the deposit base of the Group is in this currency. The Group does not hold open positions in currencies other than EUR.

The foreign currency structure of financial assets and liabilities by carrying amount as of December 31, 2014 is as follows:

| 31.12.2014 in BGN thousand | BGN | EUR | USD | JPY | Other | Total |
|--|-----------------|----------------|---------------|--------------|------------|----------------|
| Assets | | | | | | |
| Cash and cash balances with Central banks | 46,909 | 41,545 | 1,204 | 177 | 150 | 89,985 |
| Loans and receivables from credit institutions | 159 | 3,756 | 5,400 | 1,700 | 62 | 11,077 |
| Financial assets held for trading | 9,492 | 20,432 | 503 | - | - | 30,427 |
| Financial assets available-for-sale | 86 | 2 | - | - | - | 88 |
| Loans and receivables from customers | 101,197 | 104,558 | 1,844 | - | - | 207,599 |
| Investments held to maturity | 29,838 | 49,827 | 5,024 | - | - | 84,689 |
| Total assets | 187,681 | 220,120 | 13,975 | 1,877 | 212 | 423,865 |
| Liabilities | | | | | | |
| Financial liabilities held for trading | - | - | - | - | - | - |
| Deposits from credit institutions | - | 47 | 102 | - | - | 149 |
| Liabilities under repurchase agreements (repo deals) | - | - | - | - | - | - |
| Deposits from client other than credit institutions | 206,604 | 164,729 | 13,978 | 1,883 | 194 | 387,388 |
| Other financial liabilities | 1,847 | 586 | 129 | - | - | 2,562 |
| Total liabilities | 208,451 | 165,362 | 14,209 | 1,883 | 194 | 390,099 |
| Net exposure | (20,770) | 54,758 | (234) | (6) | 18 | 33,766 |

TOKUDA BANK GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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31. FINANCIAL RISK MANAGEMENT (CONTINUED)

31.4 Market risk (continued)

Currency risk (continued)

The foreign currency structure of financial assets and liabilities by carrying amount as of December 31, 2013 is as follows:

| 31.12.2013 in BGN thousand | BGN | EUR | USD | JPY | Other | Total |
|--|----------------|----------------|---------------|-----------------|------------|----------------|
| Assets | | | | | | |
| Cash and cash balances with Central banks | 18,199 | 14,351 | 657 | 168 | 152 | 33,527 |
| Loans and receivables from credit institutions | 4,112 | 21,569 | 480 | 8,951 | 87 | 35,199 |
| Financial assets held for trading | 13,469 | 21,576 | 3,436 | - | - | 38,481 |
| Financial assets available-for-sale | 164 | 1 | - | - | - | 165 |
| Loans and receivables from customers | 99,518 | 107,746 | 2,428 | - | - | 209,692 |
| Investments held to maturity | 46,679 | 33,306 | 4,583 | - | - | 84,568 |
| Total assets | 182,141 | 198,549 | 11,584 | 9,119 | 239 | 401,632 |
| Liabilities | | | | | | |
| Financial liabilities held for trading | - | 1,370 | - | - | - | 1,370 |
| Deposits from credit institutions | - | 34 | 897 | - | - | 931 |
| Liabilities under repurchase agreements (repo deals) | - | - | 1,456 | - | - | 1,456 |
| Deposits from client other than credit institutions | 172,770 | 145,355 | 9,822 | 25,305 | 231 | 353,483 |
| Borrowings | 38 | - | - | - | - | 38 |
| Other financial liabilities | 350 | 619 | 107 | - | 3 | 1,079 |
| Total liabilities | 173,158 | 147,378 | 12,282 | 25,305 | 234 | 358,357 |
| Net exposure | 8,983 | 51,171 | (698) | (16,186) | 5 | 43,275 |

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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31. FINANCIAL RISK MANAGEMENT (CONTINUED)

31.4 Market risk (continued)

Currency risk (continued)

As of December 31 2013 the Group had significant net liabilities in JPY, due to the fact that part of the deposit base of the Group were denominated in that currency. The exchange rate of the Japanese yen is characterized by high volatility, which the Group 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. Transactions with derivative instruments are matured in 2014 as at year-end position in JPY is balanced.

Price risk

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

Sensitivity to market risk

In accordance with the adopted objectives and principals, the Group applies: VaR (Value-at-risk) analysis, Duration analysis and Standardized interest rate shocks for identify and analyse 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.

As of December 31, 2014 the Group 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 Group 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 by 0.25% would result in an additional loss at the amount of BGN 781 thousand (2013: BGN 898 thousand).

To evaluate the effect of potentially possible extreme fluctuations of interest rates, the Group 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.

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31. FINANCIAL RISK MANAGEMENT (CONTINUED)

31.5. 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 following table summarizes the information for the assets measured at fair value in the statement of financial position as of December 31, 2014:

| 2014 (all amounts are in BGN thousand) | 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 | 30,427 | 153 | 30,274 | - | - |
| Financial assets available for sale | 88 | - | - | - | 88 |
| Total | 30,515 | 153 | 30,274 | - | 88 |

The following table summarizes the information for the assets measured at fair value in the statement of financial position as of December 31, 2013:

| 2013 (all amounts are in BGN thousand) | 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 | 38,481 | 157 | 38,324 | - | - |
| Financial assets available for sale | 165 | - | - | - | 165 |
| Total | 38,646 | 157 | 38,324 | - | 165 |

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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31. FINANCIAL RISK MANAGEMENT (CONTINUED)

31.5. Fair value (continued)

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 Group's current interest rates.

| 2014 in BGN thousand | Level 1 | Level 2 | Level 3 | Total |
|--|----------------|----------------|----------------|----------------|
| <i>Financial assets</i> | | | | |
| Cash and cash balances at central banks | 89,985 | - | - | 89,985 |
| Loans and advances to credit institutions | 11,077 | - | - | 11,077 |
| Loans and advances to customers | - | - | 211,101 | 211,101 |
| Investments held to maturity | - | 79,883 | 6,354 | 86,237 |
| Total | 101,062 | 79,883 | 217,455 | 398,400 |
| <i>Financial liabilities</i> | | | | |
| Deposits from credit institutions | - | - | - | - |
| Payables under repurchase agreements | 149 | - | - | 149 |
| Deposits from clients other than credit institutions | - | 390,364 | - | 390,364 |
| Borrowings | - | - | - | - |
| Total | 149 | 390,364 | - | 390,513 |
| | | | | |
| 2013 in BGN thousand | Level 1 | Level 2 | Level 3 | Total |
| <i>Financial assets</i> | | | | |
| Cash and cash balances at central banks | 33,527 | - | - | 33,527 |
| Loans and advances to credit institutions | 35,199 | - | - | 35,199 |
| Loans and advances to customers | - | - | 210,610 | 210,610 |
| Investments held to maturity | - | 72,300 | 13,908 | 86,208 |
| Total | 68,726 | 72,300 | 224,518 | 365,544 |
| <i>Financial liabilities</i> | | | | |
| Deposits from credit institutions | - | - | - | - |
| Payables under repurchase agreements | 931 | - | - | 931 |
| Deposits from clients other than credit institutions | 1,456 | 354,281 | - | 354,281 |
| Borrowings | - | - | 38 | 38 |
| Total | 2,387 | 354,281 | 38 | 356,706 |

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32. OTHER REGULATORY DISCLOSURES

According to the requirements of Art. 70, paragraph 6 of the Law on Credit Institutions, banks are obliged to disclose certain quantitative and qualitative data related to key financial and other parameters separately for the Republic of Bulgaria to other countries - EU Member States and third countries in which the Group has subsidiaries or has established branches.

As disclosed in note 1, Tokuda Bank operates under a banking license granted by BNB, under which it may accept deposits in local and foreign currency, to extend loans in local and foreign currency, open and maintain nostro accounts in foreign currency, abroad to conduct transactions with securities, foreign currency, and to perform other banking operations and transactions authorized by the Law on Credit Institutions.

The Group has no subsidiaries and branches registered outside the Republic of Bulgaria.

Summary quantitative indicators on an individual basis, related to statutory disclosures required by the Law on Credit Institutions, are as follows:

| | 2014 | 2013 |
|---|---------|---------|
| Operating income | 11,887 | 12,943 |
| Loss before income tax | (8,914) | (2,879) |
| Income tax income/(expense) | (19) | (16) |
| Return on assets (%) | -2.11% | -0.68% |
| Equivalent number of employees full-time at 31 December | 264 | 277 |
| Received state subsidies | - | - |

Return on assets is calculated based on the average monthly values of the assets.

The Group provides services as an investment firm under the provisions of the Public Offering of Securities Act. As investment intermediary the group must meet certain requirements to protect the interests of customers under the Markets in Financial Instruments Directive and Ordinance 38 issued by the Financial Supervision Commission. The Group has established and applies an organization rules and internal control procedures related to the execution and performance of contracts by customers with information requests from clients, record keeping and preservation of clients' assets in accordance with Regulation 38, Art. 28-31.

33. CAPITAL MANAGEMENT

The Group 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 shall not be less than BGN 10 million and there is an additional requirement that at any time the equity (the capital base) of the Group should not fall below the required minimum.

The Group monitors and analyses on monthly basis its capital position and prepares quarterly reports for supervisory purposes, which are presented to the BNB in compliance with legal requirements. Capital management policy aims to provide an adequate coverage of risks arising in the normal course of Grouping activities, as well as risks of unforeseen circumstances. The main priority in the management of capital is compliance with the regulatory requirements for capital adequacy and maintenance of sufficient capital, which covers risks assumed and provides sufficient capital buffer for unforeseen events.

As of December 31, 2014 and 2013 the capital adequacy ratios of the Group exceeded the minimum regulatory ratios.

34. EVENTS AFTER THE REPORTING DATE

There are no events after the reporting date that would require either adjustments or additional disclosures in the consolidated financial statements.

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