INVESTBANK JSC

ANNUAL DISCLOSURE
2013

IN RELATION TO THE REQUIREMENTS OF ORDINANCE No. 8 ON THE CAPITAL ADEQUACY OF CREDIT INSTITUTIONS (Article 335-339 of Ordinance No. 8 of the Bulgarian National Bank /BNB/)

Investbank JSC (the Bank) is registered in the Republic of Bulgaria, having its registered address in the City of Sofia, 85 Bulgaria Blvd.

The Bank has a full license issued № 364/01.12.1994, confirmed under B № 18-A/2004 on the performance of banking activity in the country and abroad, updated by BNB Order № RD22-0844/07.05.2007 pursuant to Article 2, paragraph 1, and 2 and Article 13, paragraph 1 of the Credit Institutions Act and BNB Order № RD22-2261/16.11.2009 on the grounds of paragraph 35 of the Transitional and Final Provisions Law amending and supplementing the Credit Institutions Act (State Gazette, issue 24/2009).

Investbank JSC is a member of the Bulgarian Stock Exchange, Central Depository, Association of Banks in Bulgaria, SWIFT and is a full-rights member of MasterCard and VISA Europe.

Investbank JSC is part of a mixed activity holding within the meaning of § 1 item 13 of the Supplementary Provisions of the Credit Institutions Act.

The Bank is a subsidiary of the Festa Holding holding structure, which company is the major shareholder with 49.50% of the share capital of the Bank as 31.12.2013. The holding includes companies engaged in activities under the Credit Institutions Act (CIA) (the Bank), under the Commerce Act – hotel management, purchase of agricultural production, processing and production of the same, under the Obligations and Contracts Act (OCA) – voluntary health insurance.

Structure of share capital

	Volume in thousands BGN	Share in%
Festa Holding	64 973	49.50%
Adil al Shanfari	41 667	31.74%
Petia Slavova	19 110	14.56%
Black Sea Gold	3 824	2.91%
Other – companies and individuals	1 692	1.29%

As of 31.12.2013, Investbank JSC has a share capital of BGN131 266 thousand, increased during the year to BGN 11 904 thousand.

Investbank JSC does not have qualified participating interest in other companies within the meaning of CIA § 1, paragraph 1, item 6 of the Supplementary Provisions.

Investbank JSC is a joint stock company with a two-tier management system - a Supervisory Board and a Management Board. The Supervisory Board (SB) elects the members of the Management Board (MB), approves the executive directors and determines their remuneration.

Presentation currency and date of report

All amounts in this disclosure are in BGN thousands. The data presented are updated as of 31.12.2013.

Scope and methods of consolidation

This disclosure has been prepared on an unconsolidated basis.

Policies and procedures for risk management

This material:

- has been developed in accordance with the provisions of art. 11 art. 335-339 of Regulation 8 regarding the capital adequacy of credit institutions;
- is in accordance with the BNB instructions on the evaluation of risks under Pillar 2 and includes data on the calculated risks under Pillar 1;
- Includes detailed information about the risks associated with the operation of the Bank, the policies and approaches used in their management, internal control procedures to reduce the inherent risks, classification and assessment of exposure type; calculation of capital for individual risks, determination of the sufficiency of capital; estimates for the development of risks significant for the activity and their securitization with domestic capital;
- seeks to build and implement a reliable system of risk management, adequate capital planning and maintaining an equivalent volume of internal capital to the risk profile at any time in the development of the institution, all major possible and negative hypotheses on individual types of activities being taken into account, predicted or analyzed.

1. **Main risks identified in banking:**

Strategic risk	**Business risk**	**Reputational risk**
The current or potential risk level concerning proceeds and capital ensuing from a change of the business environment and from adverse management solutions, improper implementation of adopted decisions or lack of flexibility to changes in the business environment.	**Credit risk**: • concentration risk; • counterparty risk in placements with banks; • residual risk; • settlement risk. **Market risk**: • currency risk; • price risk. **Interest rate risk in bank portfolio** **Liquidity risk** **Operational risk**: • IT risk; • legal risk and risk of non-compliance.	The current or potential risk for proceeds and capital ensuing from an adverse perception of the image of the bank on the part of clients, counterparties, shareholders, investors and regulatory bodies.

According to the types of activities that impact risk factors, the Bank's policy in the field of risk management covers the following main types of risk:

Business risk, including credit risk, market risk, interest rate risk, liquidity risk, operational risk, strategic risk, reputation risk and other.

Credit risk - the current or prospective risk to earnings and capital arising from the debtor's inability to meet the requirements of any contract concluded with the bank or inability to act in accordance with contractual terms.

Concentration risk: as part of the credit risk, concentration risk includes large exposures to related parties and large exposures to groups of counterparties with similar characteristics whose probability of non-fulfilment is driven by common factors such as: industry, economy, geographical location, type of financial instruments.

Residual risk: a subcategory of credit risk - the risk that arises where recognized risk measurement and reduction techniques used by the bank prove less effective than expected.

Settlement risk: risk of non-receipt of cash or purchased assets by a counterparty in a transaction, where the bank has delivered the relevant asset or has provided the funds contracted for. As a loan category, it is a border between credit and liquidity risk.

Market risk - the current or potential risk to the bank to suffer a loss or reduction of capital under the impact of adverse changes in interest rates, exchange rates, the prices of bonds, stocks or commodities in the trading portfolio. This type of risk can occur upon operations related to the market maintenance, trading or position in bonds, stocks, currency, commodity or derivatives. This risk includes the risk of change in exchange rates, defined as the current or prospective risk to earnings and capital arising from adverse changes in exchange rates.

Interest rate risk - the current or prospective risk to earnings and capital arising from adverse changes in interest rates. This type of risk is considered as part of the assessment of market risk for the trading portfolio as a kind of self-assessed risk of the bank portfolio.

Liquidity risk - the current or prospective risk to earnings and capital arising from a bank's inability to meet its obligations as they mature.

Operational risk - the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, as well as the risk to earnings and capital arising from violations or non-compliance with laws, regulations, rules or ethical standards. This risk includes IT risk, legal risk and risk of non-compliance.

IT risk: a subcategory of operational risk - the current or prospective risk to earnings and capital arising from inadequate information technologies and processes, in the sense of integrity and consistency of information flows, and their management and control or arising from inadequate IT strategy and policy or inadequate use of these technologies in the institution.

Legal risk and risk of non-compliance: a subcategory of operational risk - the current or prospective risk to earnings and capital arising from violations or non-compliance with laws, rules, regulations, instructions, agreements, prescribed practices or ethical standards.

According to measurement ways, expected and unexpected risks can be distinguished and evaluated.

- Expected (specific) risks are related to individual exposures and are subject to measurement, as they are covered by inclusion in the cost of the respective instruments through provisioning as inherent operating expense;

- Unexpected risks are probabilistic, referring to a large group or all exposures of the bank and are associated with the natural variation of market-based instruments (prices, rates, interest rates, etc.). To cover these risks, the bank forms capital requirements for every type of risk.

2. 2. Structure and organization of functions under risk management.

The main units directly responsible for risk management in the Bank are as follows:

Supervisory Board - performs general supervision of risk management;

The Governing Council of Investbank JSC confirms:

— rules for risk management and controls their implementation in accordance with the requirements of banking regulations, specificity in the activity and the requirements for good corporate governance;

- risk-taking policy - conservative, moderately conservative, moderately risky or risky which includes:
- the level of risk that the Bank is ready to assume;
- guidelines for development of the system of risk management;
- the system of limits used with particularly engaged control structures;
- specific values of the limits;

Policy risk taking is reflected in defining the objectives and is a basis of preparation of the annual financial plans.

- risk control by considering the reports from the risk management unit and makes decisions in accordance with its powers.

The representatives of the Bank

- organize work on the proper implementation of adopted policy of risk management and compliance with the established limits for activities that they are directly responsible for;
- monitor the performance of individual structural units regarding analysis and risk assessment;
- report to the Managing Board of the Bank in the event of critical risk situations;

The Credit Council

- applies the credit policy approved by the Managing Board;
- facilitates the activity of the Managing Board in relation to the control and monitoring of credit risk.

The Credit Committee

- carries out a periodic review of the risk exposures;
- carries out periodic inspection and analysis of the proposals made by the structural units in the Bank, concerning assessment, classification and identification of the specific provisions of the risk exposures of the Bank in accordance with the requirements of Ordinance № 9 of the BNB;

Committee for management of assets and liabilities

- chooses the method of liquidity management;
- carries out the operational management of liquidity;
- establishes procedures to monitor and control liquidity risk under 'going concern' scenario and 'liquidity crisis' scenario;
- prepares analyses and proposals regarding interest rate policy;
- determines the size of the liquidity buffer, its characteristics, the requirements for assets included in the liquidity buffer;
- develops a system of limits to limit liquidity risk and monitors their compliance;
- identifies additional sources of funding;

- analyzes the risk profile of existing and new banking products and their performance, discusses proposals for new banking products.

Commission for considering disputed payments by bank cards

Assists the activity of the Management Board in relation to:

- complaints submitted in relation to disputing the payments made by credit cards]
- improving the organization of the Bank in connection with the issuance and service of bank cards]

The operational units in the Head Office and the financial center/offices of the Bank carrying out transactions - bearers of risk, are responsible for:

- operational control and management of risks specific to certain activities in accordance with established rules and limits;
- compliance with the rules and procedures under transactions made by them - carriers of the risk;
- organization of work, to ensure compliance with approved risk limits.

Committee for evaluation of risk events:

- takes decisions on the final registration of the occurrence of operating events, assesses possible loss incurred, analyzes the data entered in the accounting records;

Committee on examination of signals:

- examines, analyzes and makes decisions on signals received by the Bank from clients;

Committee for the security of information systems:

- performs the planning and coordination function with respect to activities related to the security of information systems in the Bank, approves procedures for implementing information security rules and proposes them for approval to the Management Board of the Bank;

Continuity of business processes planning team:

- responsible for preparing a plan for business processes continuity in the Bank; responsible for the selection of methods for testing the continuity plan; responsible for the overall organization and conduct of the tests; carries out analyses on the possibilities of insurance with the purpose of regaining losses upon risks that can not be fully controlled.

Management of Risk Directorate:

- assists the Management Board with specific developments in determining the Bank's policy regarding risks and implements interaction and coordination between the different units regarding their management;
- makes proposals to the Management Board for the introduction of new or modification of existing limits, either alone or together with other structural units of the Bank;
- assisted by other units, develops procedures for measuring, monitoring, management and control of risk characteristics of separate activities;
- measures and analyzes risk on a current basis, monitors compliance with certain limits and reports to the Representatives of the Bank, and the Management Board of critical risk situations that have arisen;
- adapts purchased risk measurement models and verifies their effective functioning in a particular situation;
- collects, evaluates and organizes entry into the database of internal and external information used in selected models and procedures.

The management, control and monitoring of different types of risk are defined by specific rules to be adopted by the Management Board of the Bank. The rules specify the procedures for the process of risk management and include: Identification (establishment) of risk; Measurement of risk; Risk monitoring and control; Reporting of risk.

Documents included in the risk measurement and assessment system:

Internal rules:

- Credit policy and frame work processes on credit transactions with corporate clients and individuals;
- Rules on the organization of work processes on credit transactions with corporate clients and individuals;
- Lending and problem loans;
- Management of market risk;
- Liquidity management;
- Operational risk management;
- Revaluation of securities;
- For repo transactions / leverage on positions in securities;
- Identification and monitoring of liquidity buffers.

Monitoring systems for:

- Credit risk;
- Market risk;
- Operational risk;

Other:

- Methods for assessing indirect connectivity (to limit concentration risk);
- Methods for setting limits on counterparty banks;
- Scale of competence;
- Policy for investments in securities;
- Instructions for administration of credit transactions;
- Methods for determining the internal base interest rate;
- Methods for assessing the credit risk on loans to individuals (scoring system of internal rating);
- Methods for assessing the credit risk on loans to legal entities (system of internal rating);
- Policy for risk exposures evaluation.

According to the established internal rules and procedures for the organization of different types of activities, the responsibilities, the powers, the control and protective mechanisms, the limits defined therein, the risk-taking policy is defined as tending to moderately conservative. Restrictive thresholds are regularly reviewed, a decision authorizing the credit transaction is made depending on the risk assessment and the types of products under very limited conditions for maximum amount and security.

The majority of the assumption of credit risk it based on centralized approach. With regard to transactions on the interbank market and securities, the procedures are stipulated in detail and include a maximum volume, limit on posts, a system for reporting and approval policy of ALCO and the Management Board. In its business activity, the Bank has adopted that it will take the so-called "controlled risk" in the ordinary course activity that can be controlled by setting critical levels, limits on types of operations through systems and procedures for measurement and control.

The Bank would not assume risks that it can not identify by quantity and quality (such that are not included in its risk matrix), as at the present stage there are no strictly defined products and segments to be limited in 2014. The guidelines are established in the strategy, in the monitoring system of credit risk and in the credit policy. As envisaged in the internal rules, the Management Board determines the level of risk or the so-called risk tolerance that the Bank would take in the course of ordinary activities. The governing body of the Bank has determined

their risk tolerance as the maximum tolerable diversion from the capital adequacy ratio - 50 bps. For 2014, the implementation of moderately conservative risk-taking policy will continue, as in previous years.
A detailed written report is drawn up on a monthly basis on market (interest rate, currency, price) and credit risk, including on the implementation of the limits and the concentration risk envisaged in the activity. In terms of operational risk, standardized reporting is on a quarterly basis, except where information within three days is provided for. A monitoring of the liquidity position, adherence to the limits with regard to loans, securities and others is carried out on a daily basis by the relevant directorates involved.
The fundamental principles on the grounds of which the limits and the powers put into practice have been developed and based are as follows:
- minimizing risk and maximizing limitation of negative manifestations;
- application at any time of a moderately conservative approach in performing basic activities.
Thresholds have been defined by quantitative and qualitative nature, such as:
- maximum amount of credit that can be granted at the level of the Retail Banking Directorate, depending on the quality of the portfolio and the parameters of the respective product.
- maximum amount of an open position that can be occupied by a Director of Capital Markets and Liquidity Directorate and term of appointment (scale of competences).
The organizational structure of the Bank provides functional independence between the risk taking units.
The role and powers of the Internal Audit Specialized Service (IASS) are regulated by Internal rules for organization and operation of the Internal Audit Specialized Service in Investbank JSC that comply with the Credit Institutions Act and Ordinance № 10 of the BNB on Internal Control in Banks.
The Internal Audit Specialized Service performs an independent evaluation activity of banking transactions and operations and control systems. It also assists the management bodies in making decisions and monitors their implementation. Prerequisites for performing the first function are provided as a Chief Controller attends the meetings of the Management Board of the Bank, also all internal rules and procedures are submitted for co-ordination with IASS prior to their final offer for approval. IASS performs the second function - monitoring the implementation of management decisions – in the course of its inspections - routine and extraordinary ones, either full or thematic.
In performing its functions, it verifies and evaluates: the system of accountability and information; the usefulness of the analyzes prepared; the electronic information systems and the accuracy of the data; the legality of operations, the compliance with internal rules and procedures and the implementation of management decisions; the internal control procedures when performing transactions; the results and the effectiveness of the activity; the systems of risk management; the methods for risk assessment and capital adequacy; the reliability and timeliness of supervisory reports; protection of the bank's assets from mismanagement and abuse; the implementation of contracts and the fulfilment of undertaken commitments; the selection and the training of personnel, as well as the compliance of the job descriptions and the competencies.
The internal organizational structure of IASS provides and envisages as follows:
- sufficiency of staff – it is adequate to the development of the Bank to provide coverage of the activity with relevant audit events within the time limits and when necessary;
- specialization by activities - internal audit inspectors are personally specialized in the audit of specific key activities, and monitor changes in legislation and internal rules that regulate them;

- control mechanisms that are internal to the unit - all inspectors in the specialized service are directly subordinate to the Chief Controller responsible for the overall activity, who monitors and evaluates the work of the internal auditors. Any findings report is signed by the Chief Controller.
Guaranteed unlimited access has been ensure to the Internal Audit Specialized Service to:
- the offices and the assets of the bank;
- the decisions of the management bodies and other officials;
- the accountability and the information systems concerning enquiries without the right and ability to enter and edit data.
All administrators and employees of the bank assist internal auditors in carrying out their activities. In carrying out audit activities, thorough checks are carried out on the financial centre /the offices, as all areas of banking in Investbank JSC are subject to it - Corporate Banking, Retail Banking, Credit Cards, Deposits Attracting Activities, Customer Service - opening and maintaining accounts of natural and legal persons, Internal Accounting and Operating Costs, Cash Operations, Compliance with MAMLA, some aspects of banking security and others.
Apart from the above-specified ones, other objects are those of a general key importance to the entire bank, that take place in Directorates at the Central Office - Lending, Credit Administration, Liquidity, Information Technologies, Back Office, Foreign Currency Payments and Correspondent Relations, etc. They are focused on risks to any activity, that could affect the reliable and secure operation of the Bank. In the sampling of specific credit transactions, it is obligatory to cover a sufficient percentage of the allowed amount and number of loans which will help to ensure sufficient reliability of the sample. Exposures from different ranges of allowed control are randomly selected to cover smaller exposures. Exposures of employees and administrators of the bank and risk exposures classified with or with indications of deterioration, are subject to mandatory control. It is also focused on control with regard to security - regularity in the constitution, sufficiency, liquidity, monitoring, their correct accounting.
The recommendations are aimed at developing protective mechanisms to be applied, perfected or altered with a view to preventive measures against omissions and violations, especially their prevention in the future. Particular attention is paid to the preservation of the principle of four eyes - the effective implementation of the second control when conducting banking operations.
In 2010, at the request of IASS in all financial centres/offices, detailed orders were issued with obligations incumbent with regard to the second control of every bank operation and process with allotment of commitments by name and by position, including deputies in the case of absences of the designated persons. During subsequent inspections, the relevance of orders and the execution of the organization and obligations they create are audited.
Any activity subject to thematic inspection and any financial centre/office shall be audited by the Internal Audit Specialized Service in a period not exceeding two years. A mechanism has been created to inform the Bank's management on the performance of IASS, all reports of findings being also presented to the heads of the inspected sites. After presenting the measures taken to correct the deficiencies found, the reports of findings shall be submitted to the attention of the Management Board of the Bank. The report of findings of each inspection in which omissions and violations of regulatory and/or internal bank rules and procedures are identified of the respective basic banking activities that were subject to control, IASS also submits to the relevant Directorates per specific activities, Economic Policy and Branch Network Management Directorate and Risk Management Directorate.
Since September 2008, specialized software is used for risk assessment in order to implement advanced and alternative approaches for assessing market risk and operational risk. For 2014, no applying for implementation of sophisticated models is envisaged.

Structure and elements of the capital base

The Bank conducts regular internal analysis of the size, type and distribution of capital needed to cover all risks accompanying its activity. The complex analysis includes a set of rules and procedures for monitoring, evaluating and managing credit risk, including concentration risk, liquidity, interest rate, price, foreign exchange, counterparty, operational risk. Various limits have been adopted and their implementation is being monitored in order to limit the risks to which the Bank is exposed, focusing on the main ones defining the profile of the institution.

Capital adequacy in the context of solvency and steady growth is a key element in the work of Investbank JSC. To ensure adequate levels of capital, capital ratios and implementation of a winning strategy of development, a Program of procedures and measures upon ordinary development and upon early warning of unforeseen deterioration in the capital position has been developed and approved in the Bank. Procedures for managing capital position of the Bank, exceptional, unforeseen circumstances - opportunities for early identification and mitigation of their effect, timing and responsible people in the case of deterioration have also been envisaged in the Programme. Next, plans for capital – sources, volume and dividend policy have been envisaged in the strategy of the Bank, that is the basis for achieving the objectives has been determined. Thirdly, every year in the development of the annual budget, the growth rates, the segment and product orientation with regard to active operations are necessarily refracted through the prism of "the plans for capital", i.e. the permissible structuring of assets in terms of risk weight and projected levels of capital is evaluated. In the development of the strategy, together with the identified key financial targets, the level of capital adequacy ratio is also set, which the Bank will seek to maintain over the years. The main goals are, by conducting regular and adequate internal review to realize timely and objective capital planning, to ensure adequate development of the risk operations and the main think - to achieve effective correlation capital / risk profile, so as to maintain a stable and profitable line of development.

The forecast calculations made and the introduction of new regulatory requirements indicate that the Bank is able to take the projected growth of assets envisaged in the budget framework with the security provided for the year with capital resources, as the expected total capital adequacy
will amount to 23.15%.

As of 31.12.2013, the total capital resources of the Bank is determined to BGN 251.349 million without discounts, and after them, BGN 129.045 million /the total amount of discounts is BGN 122.304 million / and is formed by:

- share (available)	BGN 131.266 million
- reserves	BGN 57.334 million
- hybrid instruments without redemption incentives	BGN 39.210 million
- subordinated debt	BGN 23.539 million
- discounts	**- BGN 122.304 million**
including	
- Specific provisions for credit risk -	*- BGN 106.486 million*
- Valuation differences in IQ available for sale -	*- BGN 15.552 million*
- Intangible assets -	*- BGN 0.266 million*

In the recent years, the share capital prevails in the capital resources, that is the one from the first line. The capital adequacy as of 31.12.2013 based on regulatory capital is 15.50 percent, or 3.50 points above the statutory requirement.

The risk profile of the bank as of 31.12.2013 is consistent with the moderately conservative policy in risk taking adopted by the management. As of the reporting date, credit risk has the largest relative share in the risk matrix.

There follows a figure:

Risk profile of Investbank JSC according to the relative share of capital requirements

Total capital requirements for operational risk
7%

Total capital requirements
for credit risk, counterparty credit risk,
dilution risk
and settlement risk
upon free supplies ...

Total capital
Requirements for
position,
currency and commodity
risk
0%

The capital requirements at 31 December 2013 by exposure classes are as follows:

TOTAL CAPITAL REQUIREMENTS FOR CREDIT RISK, COUNTERPARTY CREDIT RISK, DILUTION RISK AND SETTLEMENT RISK UPON FREE DELIVERIES	**61 683**
Standardised approach (SA)	**61 683**
Classes of exposures under the standardized approach except for securitization positions	**61 683**
Central governments and central banks	**991**
Regional and local authorities	**311**
Institutions	**1 261**
Enterprises	**33 649**
Retail exposures	**632**
Exposures secured by real estate	**5 259**
Overdue positions	**6 164**
Other positions	**13 416**
SETTLEMENT RISK	**0**
TOTAL CAPITAL REQUIREMENTS FOR POSITION, CURRENCY AND COMMODITY RISK	**172**
TOTAL CAPITAL REQUIREMENTS FOR OPERATIONAL RISK	**4 681**
Other specific capital requirements - 4%=12%-8%	**33 268**
Surplus (+) / deficit (-) of equity	**29 242**
Total Capital Adequacy (%)	**15,52%**
Capital adequacy ratio of line I (%)	**15,52%**

In determining capital requirements, standardized approach has been used.
The main activities preformed by the Bank are credit and securities transactions. This as well as the assessment and calculation of risk coverage under Pillar 1 and Pillar 2, show that the credit risk is the main risk for the institution, including concentration risk.
Notwithstanding the application of serious evaluation and control mechanisms, precise selection of segments and credit schemes, economic conditions in the country has a negative

impact and continue to have a significant impact on the creditworthiness of clients. Objectively, the securities portfolio carries interest rate and price risk, but the Bank defines it as acceptable and the basic prerequisite for this is that 87.37% of the securities are state-guaranteed (Bulgarian and European – from a stable state), i.e. the risk of the issuer is minimized and the change in their price will be covered to a significant extent by the guaranteed interest income, and negative for Bank has repeatedly exceeded. In respect of other securities in the portfolio, we believe that the price fluctuation in the negative aspect is completely stored and reflected in the financial statements. The main manifestation of concentration risk is in the credit portfolio of the Bank. Exposure to concentration risk is significantly higher in the previous two years, somewhat controlled and well predictable based in obtained diversification of portfolios, selection of limits and their strict observance. As far as the interest rate risk in the general banking portfolio is concerned, the assessment made in the relevant section shows moderate and controlled exposure, which is determined by the interrelated interest rate policy applied so far in active and passive operations carried, changes made completely consistent with the objectives of profitability, capital respectively and generally stable, consistent and quality policy implemented to clients of the institution. With respect to currency risk, the Bank believes that it is immaterial due to maintenance at any time of an open bank currency position below 2% of the capital base. Regarding liquidity risk, although so far the Bank has implemented a highly effective policy on the management of the liquidity position and no difficulties of this nature have been registered, the market conditions could set a pattern for narrowing of the liquid parameters for all market participants. Given the above, we believe that in 2014 the impact of the economic environment will be crucial in terms of the types of risk faced by financial institutions and a serious disturbance of the market may lead to the manifestation of such risks that determinant to the profile of the institution at a given time. Undoubtedly, not a small period of time is ahead, during which the pace of economic recovery should compensate for previous economic negatives.

The policy of Investbank JSC in the evaluation and classification of credit exposures is consistent with the requirements of IFRS and the BNB and is based on a comprehensive analysis of the financial condition of borrower, the sources of repayment of the obligation and the regularity of debt service. If the Bank has more than one exposure to a single person or group of related persons who are carriers of a common risk, these exposures are classified in the group that requires the highest percentage of provisions to cover. The authority to determine the amount of provisions for impairment losses is the Credit Committee. In connection with the new regulatory framework requiring the integration of specific provisions for credit risk in the period 2014 - 2017, the Bank has developed a plan for their reduction and complete clearance within the required timeframe.

The Bank’s capital plan is developed in accordance with the objectives set for the development and the achievement of certain quantitative and qualitative indicators. Upon its elaboration, the results of the periodic stress tests and expectations for changes in the economic environment have also been reported. The new regulatory requirements regarding additional capital buffers have also been envisaged and included in the calculations, which come into force in 2014 with the CRD IV legislation package. On this basis, the Bank's expectations are that at the end of 2014, the capital adequacy will exceed 23%.

The stages defined in the applied internal system for assessing the sufficiency and adequacy of capital are presented in Annex 2.

Emphasis is placed on:

- quality initial assessment of business initiatives and, accordingly, the proper definition and identification of operational risks;

- implementation of effective control procedures in compliance with the regulatory framework and internal limits seeking to maintain the risk in the acceptable limits adopted by the Bank;
- timely assessment of all significant risks with calculation of their impact on the capital adequacy;
- development of predictive options (quarterly horizon), taking into account expected changes in the active operations and their impact on the capital position;
- stress testing for the evaluation of adverse, but probable events on the various business lines.

Exposure to counterparty credit risk

Counterparty credit risk arises upon derivative instruments transaction, repo-transactions, lending / borrowing of securities or commodities transactions, long settlement transactions and represents a risk that the counterparty on a specific transaction fails to fulfil their obligations before the final settlement of cash flows under the transaction. Each bank-counterparty receives a risk rating category according to its official rating or its awarded internal one.

The credit policy sets out the guiding principles for organization, management and monitoring of credit risks. The objective is to provide an adequate return after provisions in the credit portfolio, in compliance with the relevant standards in credit activity, maintaining credit risks within sustainable limits and reducing to the lowest possible level of defaults on a portfolio and on an individual basis. To achieve this objective, the credit quality should always take precedence over the expansion of lending activity.

In order to identify risk exposures in which an increase of risk is seen, criteria are evaluated and classified determining the level of credit risk, including:

- Availability of defaults - value and duration of the delay;
- Assessment of the financial condition of the debtor;
- Qualitative analysis of the client, which takes into account all the circumstances (internal and external) that could hinder repayment of the obligations;
- Sources of payment of the obligations of the client;
- Type and liquidity of the collateral provided;
- Early warning indicators;
- Targeted spending of the loan funds.

Investbank JSC has developed a system of limits to local and foreign institutions with a view to limitation of the risk taken.

Exposure to credit risk and dilution risk

Credit risk is the risk that the Bank may incur upon losses from non-fulfilment of contractual obligations by the counterparty. Credit risk can be determined by the inability or unwillingness of client to pay their obligation to the Bank; by the type of collateral – in the case of change in its value, decline in supply and demand; concentration risk arising from the risk indicators formed, etc. the activities related to identifying, monitoring, credit risk management and mitigation of its negative manifestations are regulated by the adopted internal regulations. The transactions - carriers of credit risk, the powers of the divisions and the staff involved in lending, the powers of authorization, the procedures and activities for preliminary, current and follow-up control, the type and amount of collateral received, the necessary insurance are discussed in detail therein. As noted previously, the stability of credit institutions in 2014 will largely depend on their effectiveness in combating deteriorated risk exposures. It is envisaged that lending activity develops according to the established good practices, namely the selection of borrowers with good solvency or cash flow, proven expedience of funded events at precise application of methods and techniques for managing credit risk, respectively its mitigation. It will be focused on enterprises operating in the service sector that generate constant cash flows;

to enterprises; to farmers using European funding, small and medium enterprises. As regards the small segment, moderate pace of growth has been envisaged, special attention being paid to improving the quality of the portfolio, identifying target groups, minimizing the credit risk.
Lending activity and risk mitigation is ensured by a comprehensive system of rules and procedures covering the credit process of client assessment, reporting, settlement, preliminary and follow-up control and monitoring.
The credit risk exposures of the Bank are classified into four groups:

- ***Regular*** - exposures that are serviced and for which the data on the financial situation of the debtor do not give reason for doubt that they will repay their obligations in full.
- ***Under surveillance*** - exposures where there are minor breaches in their service or there is a possibility of deterioration in the financial condition of the debtor, which may call into question the full repayment of the obligation.
- ***Nonperforming*** - risk exposures where there are significant violations with respect to their service or there is information that the financial situation of the debtor is not stable, their current and anticipated proceeds are insufficient to repay entirely their obligations to the bank and to other creditors, as well as where weaknesses are found with the distinct possibility that the bank will sustain loss.
- ***Loss*** - risk exposures where there are significant violations with respect to their service or as a result of a significant deterioration in the financial condition of the debtor, their obligations are considered uncollectible, although there is a partial recovery value that can be realized in the future.

INDICATOR	**30.12.2013**
CREDIT PORTFOLIO	**708 477**
Classified loans under regulation 9	**311 359**
- under surveillance	73 893
- non-performing	20 845
- loss	187 224
Loans with default exceeding 90 days	**158 080**
Total provisions	**113 641**
- under International Accounting Standards (IAS)	7 014
- specific	106 486
Off-balance obligation (unused credit limit)	**65 657**
CAPITAL BASE	**129 046**
Default exceeding 90 days/ credit portfolio	**22.31%**
Total provisions / Credit portfolio	**16.04%**
Overdue volumes/ Credit portfolio	**9.15%**
Number of impaired loans (with separate provisions)	**139**

All risk exposures classified in categories "under surveillance", "non-performing" or "loss" are measured in terms of their collection. Thus, the difference between the recoverable amount under the loan and the agreed amount for its repayment is calculated, each of which is reduced. Based on this, the relevant provisions are identified.
The credit risk by geographic areas is associated with the likelihood of the occurrence of an economic, financial and other risk in carrying out of turnover in the activities of companies in the same geographical area to which the Bank is exposed.

Region	Amortized cost	Carrying provision	Weighted-average credit risk
Blagoevgrad	7 316	311	226
Burgas	95 608	469	17 273
Veliko Tarnovo	4 370	57	304
Varna	68 100	46	34 662
Vidin	10 865	252	224
Gabrovo	1 691	230	130
Dobrich	1 529	80	150
Kazanlak	144	0	0
Lovech	5 993	156	173
Montana	1 399	107	0
Pazardzhik	9 012	28	0
Pleven	23 704	154	4
Plovdiv	10 377	17	5 100
Razgrad	2 282	17	0
Ruse	11 051	267	950
Sliven	20 780	333	5
Smolyan	15 680	13	464
Stara Zagora	3 840	184	166
Haskovo	6 697	32	961
Sofia	403 376	4 068	44 838
Shumen	4 663	192	857
Total amount	708 477	7 014	106 486

The risk of the concentration of general company portfolio has been studied in the following directions:

Concentration risk by branches

Branch	Share in %
Commerce	28.30%
Construction	11.45%
Manufacturing industry	20.07%
Real estate operations	13.81%
Financial intermediation	10.37%
Hotel-keeping	5.75%
State government	2.89%
Supply of electricity, heat, gas and water	3.05%
Farming	1.86%
Transport	1.84%
Other activities	0.61%
TOTAL	100.00%

The concentration risk is not significantly covered. This is also grounded by the individual review of exposures in sub-portfolios, the established average size in different samples, the degree of recognition of clients, the branch perspective or the credited event tied to assessment of change in demand, the reported defaults. To limit the risk of simultaneous deterioration of credit to businesses located within the same branch and risk diversification, industry limits are introduced. The Farming, Construction, Real estate operations and Hotel-keeping sectors were identified as carriers of higher risk, industry limits have been determined in relation thereto that are being observed. The necessary amount of balance and specific provisions for credit risk has been allocated for deteriorated exposures. For other exposure, regular repayment and without identified potential problems prevails and the Bank does not expect significant negatives till the end of the year. The projected growth of balance sheet provisions at the expense of integration of specific provisions for credit risk for 2014 and restructuring risk exposures amounted to BGN 1900 thousand, which will be at the expense of current income.

Risk of maturity distribution

As of 31.12.2013, 36% of the corporate portfolio has a final maturity over 3 years and 24% over 1 year, with values at the end of 2012 of 49% and 22%. In the maturity positioning, the exposures are distributed according to the final maturity date, without taking into account the agreed monthly payments of principal, in the reporting of which 'the deferred assessment' of the risk of insolvency would be somewhat softened. In times of crisis, the so reported distribution facilitates the minimization of the risk of simultaneous non-payment of multiple credit exposures with significant due monthly instalments.

Risk of size distribution - risk of the single substantial size

The exposures are distributed as per remaining debt. The distribution as per selected range is as follows:

Up to BGN 200 thousand – BGN 17 million (3%) and 304 pieces
Up to BGN 500 thousand – BGN27 million (5%) and 80 pieces
Up to BGN 1 million – BGN 42 million (7%) and 61 pieces
Up to BGN 3 million – BGN 142 million (25%) and 81 pieces
Up to BGN 6 million – BGN 95 million (17%) and 26 pieces
Up to BGN 10 million – BGN 87 million (16%) and 12 pieces
Above BGN 10 million - BGN 148 million (27%) and 10 pieces

Municipal enterprises, companies – clients of the Bank for a long time, predominantly correct in partner relationships, working in sectors largely unaffected by the crisis, which helps to minimize risk, fall in the most risky groups (with the most significant single size). Some exposures from the Construction, Commerce and Manufacturing industry sector note problems in the service.

Information on recognized External Credit Assessment Agencies (ECAA) and (Export Insurance Agencies (EIA) upon application of the standardized approach for credit risk

Investbank JSC uses the assessments of Standard & Poor's, Moody's and Fitch Ratings rating agencies. If there are credit scores awarded by two recognized ECAAs and they require different risk weights, the bank applies the more conservative of them.

When applying the provisions of art. 63, para. 7 and art. 66 in the IRB approach - information on exposures, distributed by categories and risk weights

At this stage, the Bank does not use the IRB approach for credit risk weighting and does not apply the provisions of art. 63 (7) and art. 66 of Ordinance № 8.

Capital requirements for position risk and settlement risk for the instruments in the commercial portfolio, as well as for the currency and commodity risk for the overall activity

The Bank calculates the capital requirements for market risk of the instruments in the commercial portfolio in accordance with article 7, paragraph 2 of Ordinance 8, by applying the standardized approach. According to article 264, paragraph 2, item 1 the approach used involves calculation of capital requirements for position, currency and commodity risk. The position risk is the risk of change in the prices of debt and equity instruments in the commercial portfolio and includes two components - a specific position and general position risk. The specific position risk is the risk of change in the prices of the instruments created by the issuer, and the total position risk is the risk of change in interest rates. As of 31.12.2013, the Bank's commercial portfolio includes only the Bulgarian securities guaranteed by the state and amounts to BGN 5850 thousand. Along with the standardized approach for market risk assessment in the commercial portfolio, the Bank also applies:

- duration approach – through the modified duration it estimates the percentage change in the value of the portfolio as a result of a (small) change in interest rates, respectively, calculated capital coverage;
- the Value at Risk method - VaR (using specialized software).

The market risk assessment of the portfolio is determined by a digit indicating the loss in value that a certain degree of probability will not be exceeded in a given time horizon. It is calculated on the basis of the variability of different risk parameters, the correlation between them is taken into account and on this base the change in the portfolio is established compared to its current market value. The model used to determine the value at risk is the Monte Carlo simulation, under a standard scenario, a time horizon of one day, a confidence level of 99% and a standard deviation of 2.33.

As outlined in the beginning of the internal capital adequacy analysis (risk profile and materiality of the types of risk, risk appetite and policy) and the restrictive thresholds and mechanisms for risk mitigation, the procedures and the powers in making decisions on transactions introduced in the activity, the overall policy of the Bank concerning risk taking is defined as tending to be moderately conservative. The policy applied in relation to market risks, mainly prominent in the commercial portfolio maintained by the Bank - securities held for maximizing profitability in the short term - is partly similar.

The quality management of market risk is ensured by the internal rules designed and implemented with clearly defined guidelines, responsibilities and control procedures

To limit market risks in the commercial portfolio formation, the basic requirements for its formation are laid down in the relevant rules in relation to the issuer, term, type of interest, as government-guaranteed instruments and those with fixed income have priority. In terms of riskier securities – the corporate ones, a possibility has been envisaged for them to be included in this portfolio (up to 10%), but so far the Bank has not used this type of securities for speculative purposes.

Regarding the interest rate risk of the fixed income securities, the Bank applies a diversified approach depending on the state of the interest market for the relevant currency, the shape of the yield of bonds curve for the respective currency, the expectations concerning movement of key interest rates for the respective currency. Depending on the shape of the yield curve, the Bank either increases or decreases the relative share of securities with lower or higher modified duration to realize profits or avoid losses, which is also the main point in defining the portfolio held for trading. The Bank uses 3 duration areas in determining the limits of restricting interest risk: from 0 to 1, from 1 to 3.6, above 3.6 years. As regards price variability and risk reduction, a moderate risk approach is applied as investments are separated into 2 major groups: those with price variability up to 10% and with price variability above 10%. This is also the main risk that the Bank takes in the course of commercial transactions – price risk arising from the risk of the issuer on one hand and on the other – from a change in the interest rate on securities with high modified duration. Although this risk is principally a main one, the Bank believes that it is not significantly manifested. The structure maintained so far and the scope of both, the total and only the commercial portfolio in terms of issuer, maturity / duration, rating and currency give grounds for this. So, at 31.12.2013, 87.37% of the total amount are state-guaranteed securities (Republic of Bulgaria and countries with first-class rating of the euro zone) with zero risk as defined by Ordinance 8 denominated in BGN and euro, 0.23% have 20% risk, 4.93% (mainly Republic of Bulgaria) - 50%, 7.37% with 100% risk and 0.09% with 150% risk. The commercial portfolio accounts for 1.16% of the total, entirely formed from debt instruments of the Republic of Bulgaria – i.e. the issuer risk is zero under the meaning of the standardized approach.

To limit market risk in the commercial portfolio the following two internal limits are introduced in terms of:

- specific risk - the difference between long and short positions from the same issue of securities classified in the commercial portfolio should not exceed 4% of the capital base of the bank for the previous month, excluding the risk-free securities;
- general risk - the difference between the equivalent of long and short positions of the bank of debt instruments classified in commercial portfolios and traded on a market, excluding the risk-free securities pursuant to the Credit Institutions Act shall not exceed 8% of the capital base for the previous month

With respect to currency risk, the Bank believes that it is immaterial because of the maintained balanced open currency positions. As a rule, the Bank does not hold any open currency positions to finance investment in one currency by selling another currency. Currency position reporting below 2% of the equity base (EB) under the meaning of Regulation 8 and significantly lower dealer's position is typical almost for the entire 2013. For the currency risk management, limits on open positions are defined (by banks and officials for transactions) and an acceptable level of imbalance between active and passive operations, the maximum permitted loss "stop loss" on speculative open position, size of a single opened speculative position and time of its closure.

Interest rate risk in the banking portfolio

The main document regulating the assessment, monitoring and managing interest rate risk are the internal rules of the Bank for managing market risks, defining the method used, the cases in which interest rate risk can be manifested, the reporting system and form. For current measurement of interest rate risk, the Bank uses the GAP-analysis method (disparity/imbalance analysis). The sensitivity of the expected revenues and expenses in relation to the interest rate development, distributing instruments sensitive to interest in selected maturity areas are identified though it. By the issued monthly reports and analyses of the interest rate spreads obtained, variability in prices and structure of assets and liabilities, the applied change scenarios (quarterly - parallel and nonparallel change in interest rates), the establishing of a sufficient basis for conducting an effective interest rate policy and ignoring the potential for "loss of income" is aimed at. The approach has been enhanced with the developed and implemented methodology for assessment of interest rate risk of the instruments classified in the banking portfolio. It is developed in accordance with the instructions of the BNB and the Basel document for management of interest rate risk and is practically used in assessments of exposure to interest rate risk. The methodology covers all earning assets and cost-bearing liabilities, including derivative instruments (if any) sensitive to interest. Distributed in 15 scales (all maturity zones defined in the Basel document and two introduced internally - within 7 days and up to 9 months). The fundamental principle of distribution is according to the type of interest. Floating interest rate instruments are allocated according to the most recent change in the interest rate index used as a base. The ones with fixed interest are allocated based on the remaining maturity, taking into account the maturing principal per periods for loans. The imbalance is reported at selected time bands, per the three major currencies - BGN, Euros and dollars, and summarized. In each period, the average price is determined. The interest rate spread is calculated. For assessment of interest rate risk in the banking portfolio, instruments sensitive to interest are identified - loans to individuals with a fixed rate are designated as insensitive to market changes because of the impossibility of amending the contracted interest rate. As regards liabilities, means of payment of companies and individuals are generally specified as insensitive, the presumption here being that due to low levels of these accounts, clients maintain balances for reasons other than income, i.e. the increase in interest rates on the market is not the leading factor, and convenience, product range, speed and quality of services are determinant. The hypothesis is admitted to account the impact of demand deposits in terms of unusual market development, such as the present one. In such a situation, if the increased or rising interest rates on time deposits are retained for a period of 6 months, then it can be assumed with high probability that stable money on demand will change their interest rates for periods of one year and above, even though not having a speed analogous to the deposits' one. Next, the Bank has excluded funds attracted by issued bond debt and subordinated debt due to present contractual relationship without the possible provision of a change in the case of change in market levels.

Total volume and yield of interest-earning assets in thousand BGN

Assets	**31.12.2013**		**31.12.2012**	
in thousand BGN	Volume	Interest rate	Volume	Interest rate
Deposits in banks	80 709	0,05%	98 733	0,04%
Securities	485 995	1,83%	292 517	2,62%
Loans	708 478	9,13%	737 336	8,96%
Total	**1 275 181**	**5,77%**	**1 128 586**	**6,54%**

Total volume and cost of interest-sensitive liabilities in thousand BGN

Liabilities	**31.12.2013**		**31.12.2012**	
in thousand BGN	Volume	Interest rate	Volume	Interest rate
Other borrowed funds	67 518	6,24%	49 641	5,39%
Term deposits	906 107	5,71%	780 829	5,78%
Demand deposits	507 982	1,29%	357 556	0,77%
Total	**1 481 606**	**4,22%**	**1 188 026**	**4,25%**

The main instrument the Bank uses to manage interest rate risk is the application of comparable interest rate policy in assets and liabilities (in terms of fixed and floating interest rates) so as to provide a correlated movement of income and expense as usual scenario. Next, if necessary, it is resorted to a reduction of long-term loans, so as to mitigate the imbalance and interest rate discrepancy. In addition, in respect of corporate loans the following policy generally applies: floating interest rates are predominantly used, as minimum interest thresholds are set that minimize the risk of varying degree of change of the floating interest rates per separate assets and liabilities. In those with fixed interest rates – what is contracted significantly exceeds the cost of funds for the Bank.

Exposure to operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk. Operational events are those that may result in negative result or additional costs and deviation from the expected results due to errors and malfunctions of systems, people, processes. Loss from an operational event is the financial impact associated with the manifestation of operational events and subject to account in the financial statements of the Bank, including benefits foregone. Loss of operational event could take the form of: impairment of assets - direct derecognition or reduction of the carrying amount of financial assets as a result of theft, fraud, non-compliance with the regulations; external costs - related to participation in litigation, drafting of expert's opinions to clarify the operational events; regulatory measures taken against the Bank – sanctions imposed, fines; compensations paid to employees, clients or third parties; loss of recourse / regress as a result of unsuccessful transactions; suffered loss or damage to tangible assets, etc.

The Bank has set and monitors the main key indicators generating operational risk:

- human errors - the risk of abuse due to reduced, non-existent or incomplete control procedures, as well as unintentional mistakes as a result of ignorance of the products, insufficient staff training, complexity of applied procedures, and lack of experience, negligence, wilful misconduct, lack of staff ;
- information systems - use of incorrect models, incorrect data processing, the use of erroneous data, use of systems inappropriate for new products or entering of new data sources, levels of access to systems, data storage, breakdown in information and / or communication systems;
- organization of the activity - inappropriate structure and segregation of duties, lack of appropriate procedures, violations in established process, and failure to comply with the policies pursued;
- external factors - abuse, fraud by external persons, wilful acts, natural disasters and others with external manifestation.

Investbank JSC calculates the capital requirements for operational risk under the Basic Indicator method (main method) by multiplying the average annual gross income by a factor of 0.15. The average annual gross income is formed by the sum of the positive values of the net interest and the net non-interest income, averaged over the last three calendar years based on audited figures. The annual gross income for each year is calculated before deduction of the provisions for impairment and operating costs. In calculating the annual gross income, the income generated from the sale of securities in the banking portfolio, the irregular and extraordinary income and the indemnifications received by concluded insurance are not included.

For internal purposes the Bank applies an additional method - the standardized approach to calculate the capital requirement for operational risk under Ordinance 8. The method used is based on the application of different risk weights to the income of eight main groups of activities (business areas). The capital requirement for operational risk under the standardized approach is defined as the arithmetic average of the sum of the capital requirements for specific types of activities in the past three years, as for this purpose, the gross annual income for each separate activity is calculated. The principles and the criteria for the distribution of the gross annual income, as well as its constituent elements and deductions are in accordance with Ordinance 8 of the BNB. The Bank applies the additional method once at the end of each reporting year using the audited annual data.

BGN thousand

Approach	2010	2011	2012	Capital requirement
Total of banking activities under the Basic Indicator Approach	38 636	32 684	22 297	4 681

Equity instruments in the banking portfolio

The deposits of the Bank in equity instruments are generally divided into:

- shares listed on the stock exchange;
- equity participations in companies in order to implement and ensure the normal operation of the institution

Equity instruments in the banking portfolio are classified as instruments available for sale. Initially recognized at acquisition cost, which includes transaction costs. After their initial recognition, they are measured at fair value, except those for which there are no market quotes on an active market and whose value can not be measured reliably.

If the market for a financial instrument is not active, it establishes the fair value using a valuation technique. Valuation techniques include using recent direct transactions between informed, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, analysis of discounted cash flow models with option pricing. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on specific estimates, includes all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing of financial instruments. The data concerning valuation techniques reasonably represent market expectations and measures of the risk factors and the profitability inherent to the financial instrument. The Group checks the valuation techniques and tests their validity using prices from observable current market transactions with the same instrument or based on other available observable market data.

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

Fair values reflect the credit risk of the instrument and include adjustments for accounting the credit risk of the Bank and of the counterparty, if necessary. Fair value estimates obtained from models are adjusted according to all other factors such as liquidity risk or model uncertainties, to the extent in which according to a third party participating in the market they would take them into account in pricing a transaction.

The Bank estimates the fair value of financial instruments using the following hierarchy of methods that reflects the significance of the inputs used to determine fair value:

- Level 1: quoted prices (unadjusted) in active markets for similar assets or liabilities;
- Level 2: valuation techniques of financial instruments that are based on market inputs, either directly (i.e. as quoted prices) or indirectly (i.e. derived from prices). This category includes quotations of instruments on inactive markets or instruments valued using valuation techniques;
- Level 3: Valuation techniques where the inputs for the financial asset and liabilities are not based on available market data. In addition, this level includes equity investments in subsidiaries and associates and other financial institutions rated at acquisition cost, for which there is no reliable market value.

As of 31.12.2013, the equity instruments owned by the Bank:

Bonds	20 016
Shares	16 616

Securitization
The Bank does not apply securitization for the accounting period.

Policy and practice for remuneration for staff categories
Remuneration policy is approved by the Management Board of the Bank, and afterwards it is sent for approval by the Supervisory Board. The policy sets out the principles to be applied in determining the remuneration of the members of the Supervisory Board, the Management Board members and employees of the Bank - Head Office, Financial Centre and offices. The Bank has no formed rules for the distribution and the payment of bonuses or for the formation of such from corporate profit. The Management Board may take a decision on the establishing of the rules under the preceding sentence, pursuant to the Bank's Statute, only after prior authorization by the Supervisory Board. The remuneration committee helps to control the implementation of the Policy on Remuneration Formation. Remuneration of the members of the Supervisory Board and the members of the Management Board of the Bank must be determined by the general meeting of shareholders. The following principles are set and applied in determining the remuneration of employees who have an employment relationship with the Bank:
1. Establishing clear rules for formation and payment of labour remunerations by adopting Internal Rules for Remuneration, aiming at:
1.1. Proper implementation of the Labour Code and by-laws in regulating remuneration in the Bank.
1.2. Determining the structure and organization of the salary.
1.3. Providing pay levels corresponding to the contribution, quality and potential of human resources;
1.4. Creation of incentives and prerequisites for increasing the efficiency of labour by establishing clear and objective rules for determining individual salary of employees.
1.5. Preventing any form of discrimination and unequal treatment of employees in identifying and negotiating their individual salaries.
1.6. Creating conditions for staff motivation for quality performance of work functions and tasks and inclusion in the objectives and the long-term strategy of the Bank.
1.7. Avoiding the creation of incentives for excessive risk taking.
2. The Internal salary rules regulate basic rules in the formation of labour remuneration, including:
2.1. Order for determining the individual basic salary according to the duration of work and on the basis of assessment and grading of positions subject to adherence to the minimum values of the basic salary / minimum insurance income for classes of professions pursuant to the national classification of economic activities envisaged in the State Social Security Budget for the respective calendar year / for the positions in the Bank.
2.2. Procedure for amending the individual basic salary.
2.3. Specific and clear definition of the types of additional remuneration payable under the Labour Code and the Ordinance on the structure and organization of the salary.
3. Providing clear regulations on the terms, procedure and manner of evaluation of performance (appraisal) of employees, by using non-financial criteria in the assessment such as compliance of the duties performed with the internal rules and procedures, and compliance with the standards for vision and behaviour in the workplace followed by corporate culture and accepted ethical standards.

4. Ensuring internal transparency of procedures for setting and formation of remuneration with a view to the creation of conditions for staff motivation, quality execution of work functions and tasks and inclusion in the objectives and long-term strategy of the Bank.
5. The Manual creates conditions to ensure internal transparency by:
5.1. Providing information to employees about the process of developing and reviewing of the Internal Rules for Remuneration.
6. Upon termination of employment benefits are paid to employees in the cases, in the manner and in the amounts determined under the Labour Code.
7. Upon change of employer no additional benefits are paid.

The persons engaged in control functions have appropriate authority and are independent on the structural units over which they exercise control, by receiving their additional remuneration according to the degree of achievement of objectives related to these functions, regardless of the results of the controlled structural units.
As of 31.12.2013, 732 employees work in the Bank. The remuneration of the Executive Directors and the Management Board as of 31.12.2013 amounts to BGN 403 thousand (2012: BGN 446 thousand) and the ones of the Supervisory Board amount to BGN 574 thousand (2012: BGN 1,596 thousand).