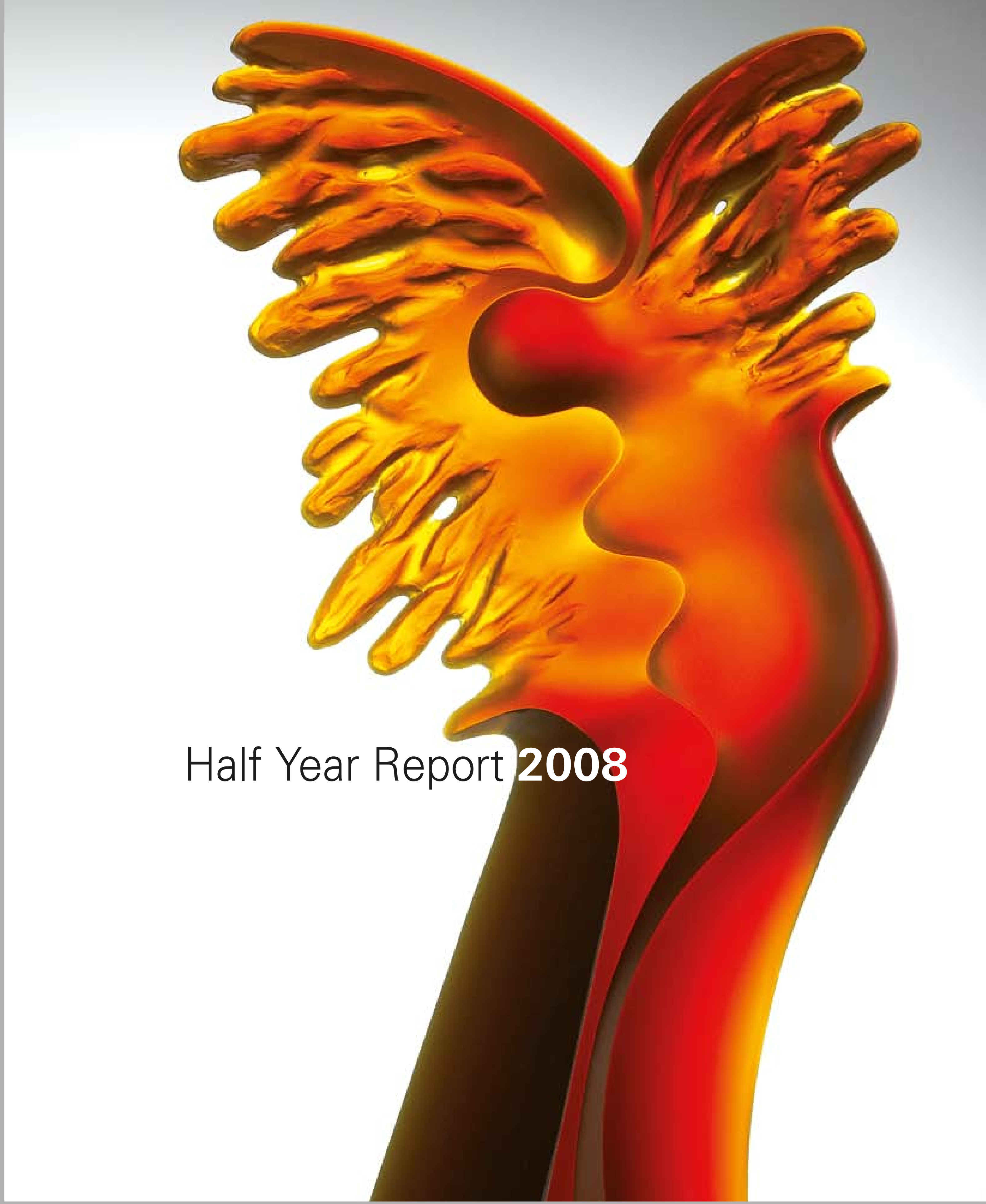
First Investment Bank Half Year Report 2008

FIRST INVESTMENT BANK



Half Year Report 2008

FIRST INVESTMENT BANK




Sculptures by Latchezar Boyadjiev, which have taken part in exhibition, sponsored by First investment bank, March 2008, National Art Gallery.

"I want my work to become a part of modern architecture and a contemporary environment, to reflect the era in which we live."

Latchezar Boyadjiev

Message from the Managing Board

Dear shareholders, clients and colleagues,

During the first half of 2008 First Investment Bank continued to implement its strategic mission to be one of the finest banks in Bulgaria and in the region, recognised as an innovative and customer-oriented bank that delivers outstanding products and services.

In the six months ending June 2008 we succeeded in:

- successfully migrating to a new core banking information system
- increasing the net profit by 24.9% year-on-year
- opening 16 new branches and offices in Bulgaria
- maintaining and stabilising our position among the leading banks in Bulgaria
- expanding the activities of the card business

A major achievement of FIBank and an important project accomplished during the first half of 2008 was the successful migration to the new core banking information system i-Flex FlexCube. The system is fully centralised and integrated, suitable for retail, corporate and investment banking, and features an Internet banking module as well as an enterprise workflow management module. With the new system we aspire to achieve high operational efficiency and fast implementation of new banking products and services, easily customised to clients' needs. The optimisation of business processes, as well as the provision of a higher level of security and real-time risk management are of great importance and they are central to the system.

FIBank's H12008 net profit rose by 24.9% y/o/y. A 33.8% growth in net interest income and a 33.4% rise in fee and commission income were the main contributing forces to the Bank's rising profit. At end-June 2008 FIBank was placed eighth in terms of net profit among the 29 banks operating in Bulgaria.

FIBank's highly pro-active branch network expansion remained a strategic initiative. During H12008 the Bank opened 16 new outlets within the country. The total number of branches and offices reached 135. It currently numbers 147. Commensurate with this growth and with the expansion of its business activities generally, the number of staff rose by 9.6% to 2,509.

FIBank succeeded in maintaining its position within the leading banks in Bulgaria. This was despite strong competition and specific domestic speculations, which reflected the unease in the international financial markets. The Bank retained its sixth place in terms of total assets in the banking system, amounting to BGN 4,072 million. The loan portfolio after allowances reached BGN 2,802 million, placing the Bank seventh largest in this respect. Deposits from other customers amounted to BGN 2,336 million, placing the Bank sixth in Bulgaria.

Capital adequacy (calculated as per Basel II) increased to 13.80% (2007: 12.98%). Shareholders' equity grew by 18.7% compared to end-June 2007, reaching BGN 350 million.

The Bank's liquidity ratio was at an adequate level, standing at 24.12% by end-June 2008. Return-on-assets (after taxation) was 1.21%, while return-on-equity – 14.25%.

Establishing quality in the loan portfolio and a reasonable control of risk undertaken remained the Bank management's priority. Non-performing loans amounted to 1.8% of the total loan portfolio, against 1.7% at end-2007.

The Bank maintained its leading position in the card business, by successfully implementing its expansion programme. In the first six months of 2008 the number of issued bank cards increased by 15% compared to the end of 2007. The amount of credit cards overdrafts rose by 53.5% to BGN 136 million. In addition the expansion of ATM and POS network continued – the number of ATMs totalled 597 (2007: 565) and the number of POS reached 7,126 (2007: 5,808).

FIBank once again received full support from its shareholders – they resolved that no dividends be distributed from the profits for 2007 and 2008, and that the latter be capitalised. This sustained the pace of growth and improved the creditworthiness of the Bank.

Within its one year history as a public company, FIBank managed to win the trust and confidence of investors based on its sound financial condition and the reasonable results which were achieved. FIBank was awarded third prize as "The best public company traded on the BSE-Sofia" in the "Dnevnik" newspaper ratings.

Our clients, business partners and investors have always been an impetus for FIBank's future development, for providing the best quality of services and for being a progressive and flexible credit institution. FIBank continued its policy of being close to people and maintaining an immediate dialogue with its customers. Indeed we became one of the first banks in Bulgaria to create a corporate blog web space – a web site where clients, employees and supporters of FIBank can exchange ideas and share personal impressions of the Bank itself, its products and services, its initiatives and values.

For us, the Managing Board, what was accomplished during the last six months is very important. It shows that the Bank is built on stable foundations. We are proud of our team of specialists, who continue to prove their high level of professionalism and responsibility. To the ever-growing demands of our shareholders, clients and business partners, as well as to the challenges of the external environment, we shall respond with greater effectiveness, transparency and unity.

We would like to take this opportunity to thank all those who have chosen FIBank as their partner and to reassure them of our commitment to continue providing first class products and services.

The Managing Board

Sofia, 4 August 2008

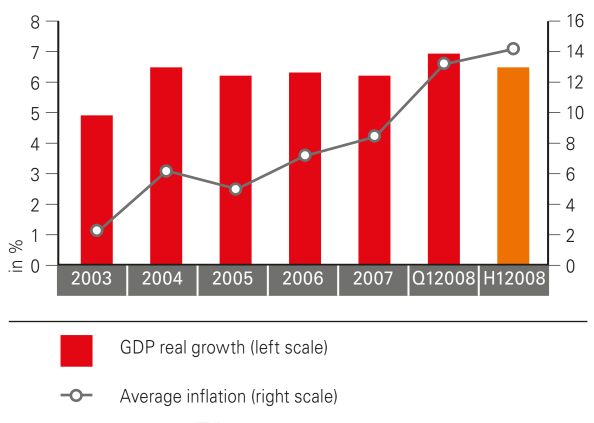
Macroeconomic Overview

During the first six months of 2008 the Bulgarian economy demonstrated its resilience to the external financial market developments and to the global credit crunch which erupted during the second half of 2007. Macroeconomic data for H12008 showed a stable fiscal position, low public debt, a favourable tax and business environment, growing productivity and relatively inexpensive labour.

Bulgaria's long-term credit ratings were confirmed: Standard & Poor's (BBB+, stable outlook), Fitch Ratings (BBB, negative outlook), JCRA (BBB+, stable outlook), Moody's (Baa3, positive outlook).

Inflation in Bulgaria continued to be a major economic concern. During 2008 the upward trend in inflation rates affected all economies in the world, including Bulgaria, due to the ongoing rise in food and oil prices globally. The global inflation rate reached nearly 5% as at June 2008 y/o/y, while inflation in the Eurozone increased to 3.7%. Average inflation in Bulgaria for H12008 reached 14.1%, while harmonised inflation rose to 13.2%. The main factors behind this increase were higher food and energy prices, adjustments in excise duties and strong internal demand. Moreover, buoyant output growth, a further rise in labour costs and the catching-up process of the Bulgarian economy to EU levels had a bearing on inflation and on domestic prices generally.

GDP Growth and Inflation



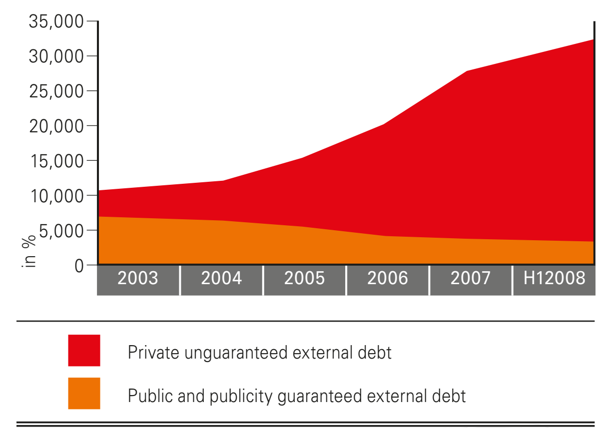
The rate of real GDP growth stood at 7.0% for the first quarter of 2008 (2007: 6.2%, 2006: 6.3%). There was a strong growth in gross value added both in production (7.7%) and in services (8.3%).

Buoyant output growth and the strong pace of real GDP growth characterised the economies of the Balkan region generally in the first six months of 2008. Foreign direct investments remained the main driving force for their developing economies. Consumer prices within the countries of the Balkan region rose, affected both by strong internal demand and the high costs of raw materials (unprocessed food and energy products). Despite disruptions in the international financial markets, strong internal demand and positive expectations for the agricultural sector will continue to support and sustain the economic growth throughout the second half of 2008.

	GDP growth (y/o/y, in%)			Inflation (harmonised, average, in %)			
	Q12008	2007	2006	H12008*	Q12008	2007	2006
Serbia	8.2	7.5	5.7	14.6	13.4	6.4	11.8
Bulgaria	7.0	6.2	6.3	13.2	12.4	7.6	7.4
Macedonia	5.2	5.0	4.0	9.7	9.5	2.3	3.2
Romania	8.2	6.0	7.9	8.3	8.0	4.9	6.6
Croatia	4.3	5.6	4.8	6.0	5.9	2.9	3.2
Greece	3.6	4.0	4.2	4.5	4.3	3.0	3.3
Albania	-	6.0	5.5	4.0	3.9	3.0	2.4

** Data as of end-May and end-June 2008*
Sources: BNB, statistical institutes and the central banks of the respective countries.

Gross External Debt



Despite instability in the global financial markets and the growing concerns of investors, capital inflows (including foreign direct investments) in Bulgaria remained strong. FDI amounted to EUR 2,079 million (6.3% of forecast GDP), against EUR 2,537 million (8.8% of GDP) a year earlier. FDI covered 54.9% of the current account deficit as of end-June 2008. The main share of investments was in real estate and business services (28.9%), followed by financial intermediation (22.5%) and the processing industry (20.6%).

As at end-June 2008 gross foreign debt totalled EUR 31,898 million (97.2% of forecast GDP), representing an increase of 42.4% y/o/y. The rise was mainly due to an increase in private external debt – by EUR 3,929 million during H12008.

On the other hand public external debt was further reduced to EUR 3,885 million (12.2% of gross foreign debt), due to the early repayment of a EUR 250 million debt to the World Bank in March this year.

The current account deficit continued to be a major concern among Bulgaria's macro indicators. The deficit stood at EUR 3,786 million for the first six months of the year, reaching 11.5% of forecast GDP (H12007: EUR 2,886 million, 10% of GDP). Imports exceeded exports by EUR 4,288 million, worsening the trade imbalance.

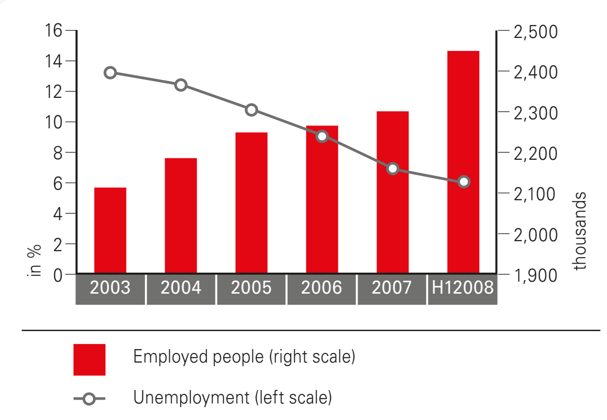
Turbulence in international financial markets resulted in a process of risk reassessment, retaining liquidity and increasing market interest rates. The Bulgarian Basic Interest Rate increased from 4.58% as of end-December 2007 to 4.96% as of end-June 2008.

In the first half of 2008 there were continuing concerns over the efficient use of money from the European Cohesion and Structural funds relating to the National Strategic Reference Framework. There were also concerns about the elimination of obstacles to the inflow of funds from pre-accession EU programmes bearing in mind the freezing of funds for infrastructure, agricultural and farming projects on PHARE, ISPA and SAPARD programmes.

Prudent fiscal policy continued to operate in the established manner, resulting in budget surpluses. As of end-June 2008 the consolidated budget surplus amounted to BGN 3,782 million (5.9% of forecast GDP), accumulating both European (BGN 526 million) and national budget funds (BGN 3,256 million).

By end-June 2008 the established surplus exceeded the planned positive balance for year-2008, thus leaving additional space for the traditionally higher public expenditures at year-end. On 1 January 2008 a new 10% flat income tax rate for individuals became effective. The income tax revenues from individuals amounted to BGN 946 million as of end-June 2008.

Labour Market



The unemployment rate fell further to 6.0% by end-June of 2008 (2007: 6.9%, 2006: 9.1%).

Further into 2008 Bulgaria will continue its work in strengthening national policies with the aim of enhancing competition in product markets, speeding up structural reforms, as well as proceeding with the liberalisation of the regulated sectors. Despite external imbalances and rising global prices, expectations remain positive for the Bulgarian economy.

The Banking Sector

Despite tension in the international financial markets during the first half of 2008, the internal economic environment provided a good basis for growth in the Bulgarian banking sector and in the maintenance of its stability. Bulgarian banks continued to maintain high credit standards, irrespective of strong competition, showing adequate levels of liquidity, capital adequacy and profits. The sustained health of the banking system was additionally assisted by the higher and more prudent requirements established and adopted by BNB regulations and by their professional implementation by banks in Bulgaria.

	H12008	2007	2006
Key Indicators (in BGN million)			
Assets	65,745	59,090	42,195
Net profit	729	1,144	808
Loans to corporates	29,279	24,305	14,218
Loans to individuals	15,459	12,972	8,171
Customer deposits	40,589	38,833	29,620
Growth Indicators (in %, y/o/y)			
Assets growth	39.2	40.0	28.4
Net profit growth	48.5	41.6	38.2
Loans to corporates growth	54.9	70.9	19.1
Loans to individuals growth	51.1	58.8	32.1
Customer deposits growth	26.6	31.1	34.9
Key Ratios (in %)			
Classified loans	3.99	3.60	4.22
Non-performing loans	1.77	1.67	1.57
Capital adequacy	14.55	13.83	14.50
Return on assets (ROA)	2.47*	2.35	2.21
Return on equity (ROE)	24.30*	23.75	24.35
Liquidity	24.01	28.24	33.48

** Data for Q1/2008*
Source: BNB

The profitability of the banking system continued to grow during the first six months of 2008 as a result of the increased volume of loans and the growth of yield on other interest bearing assets. The net profit of the banking system rose by 48.5% y/o/y to reach BGN 729 million.

The assets of the banking system sustained their positive upward trend, totalling BGN 65,745 million, an increase of 11.3% compared to the end of 2007 (BGN 59,090 million).

Loans and advances, which formed the predominant share of bank assets, slowed marginally in growth during the first half of the year. Gross loans increased by 14.4% to BGN 52,492 million (2007: BGN 45,876 million). This development was encouraged by BNB and resulted both from developments in the international financial markets and the Bulgarian regulator's policy decision to increase the level of minimum required reserves from 8% to 12%.

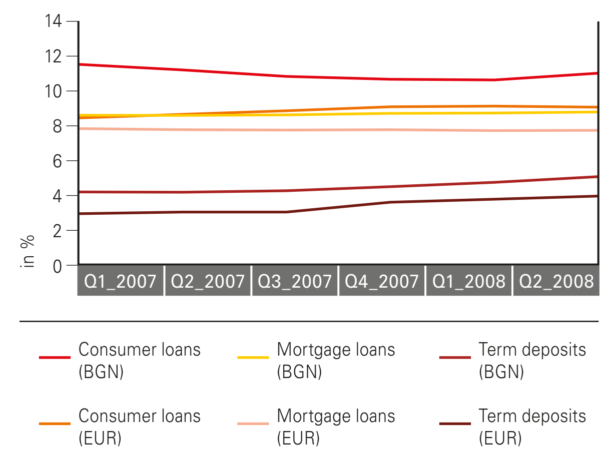
Loans to corporate clients amounted to BGN 29,279 million (45.6% of forecast GDP), a 20.5% increase compared to end-December 2007, while retail loans rose by 19.2% to BGN 15,459 million (24.1% of forecast GDP). Consumer loans retained their dominant share within the portfolio of loans to individuals at 53.7% (BGN 8,307 million) compared to residential mortgage loans at 46.3% (BGN 7,152 million). However the mortgage lending of banks in Bulgaria continued to grow faster than consumer lending (21.4% compared to 17.3% respectively).

The quality of loan portfolios remained at reasonably good levels, as the NPL ratio of the banking system stood at 1.77% by end-June 2008 (2007: 1.67%, 2006: 1.57%).

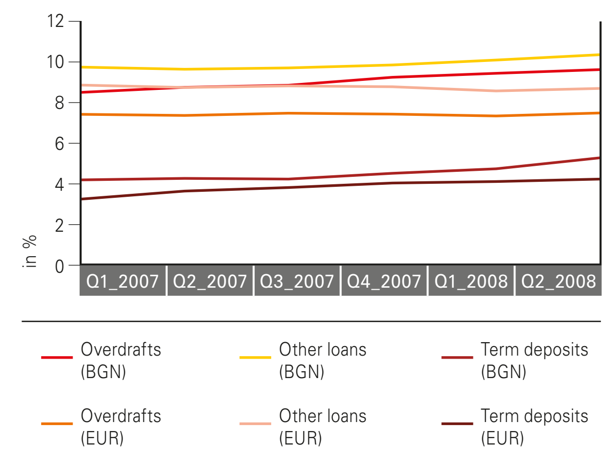
The positive trend of a gradual increase in bank capital continued, leading to sustained good capital adequacy in the system. At end-June 2008 it stood at 14.55% as against 13.83% in year 2007, at which time banks in Bulgaria applied the provisions of Basel II and started to set aside additional provisions for operational risk.

Despite global externalities, banks in Bulgaria retained their access to the international financial markets. During the first six months of 2008 they increased their funds from abroad by EUR 2,120 million. As a consequence of the Euro area interest rates increase, the reassessment of the risk premium and the increase of minimum required reserves, the price of the commercial banks' resource went up slightly. The higher cost of funding naturally reflected in the price of loans.

Weighted Average Interest Rates on Loans and Deposits for Individuals

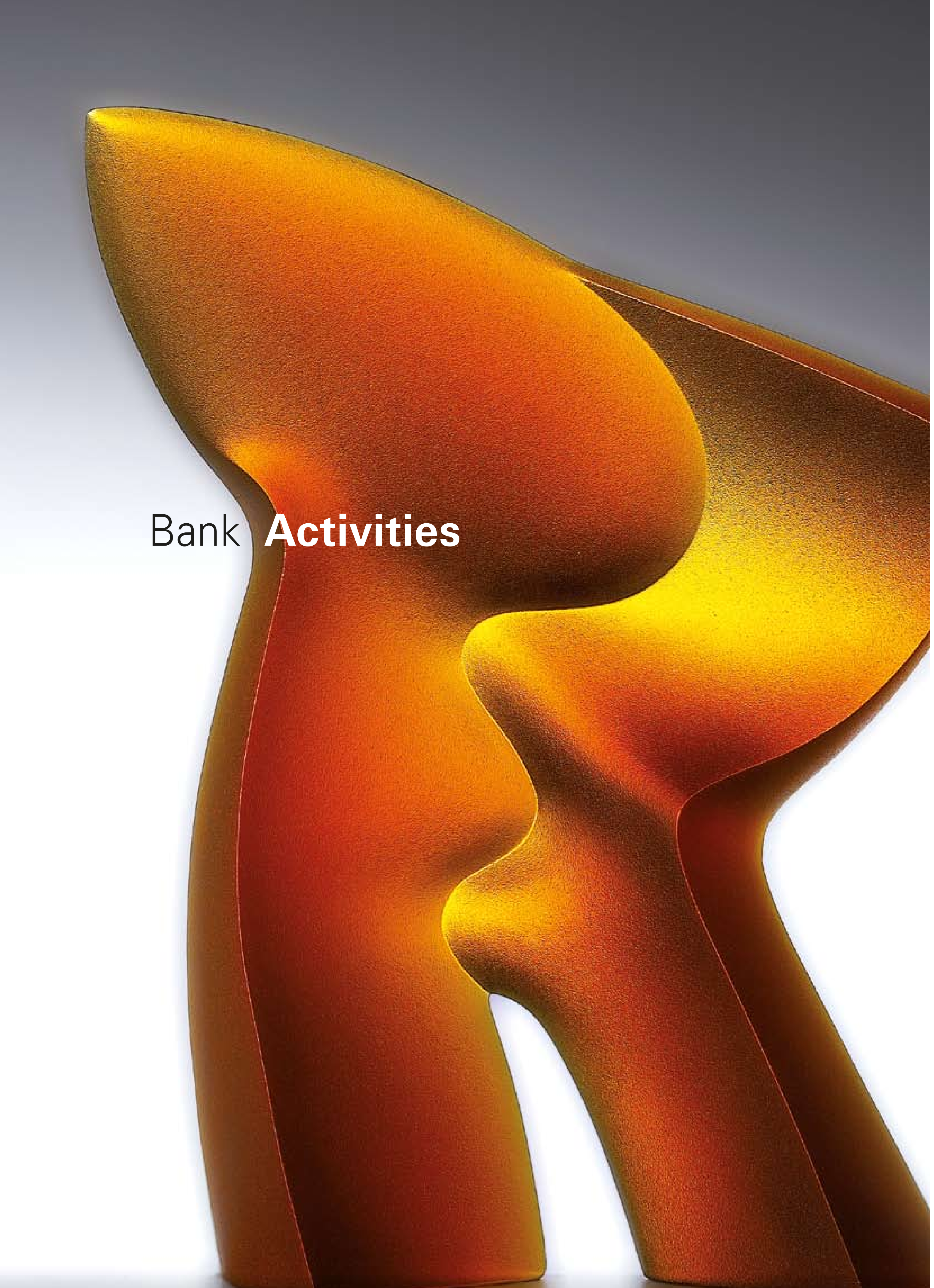


Weighted Average Interest Rates on Loans and Deposits for Companies



The attracted funds from local banks in Bulgaria as of end-June 2008 reached BGN 58,048 million, representing an 11.2% increase compared to the end of 2007. Deposits from individuals and households totalled BGN 20,857 million, a 35.9% share of all attracted funds in the system.

Further on in 2008 the Bulgarian banking system will continue its growth, maintaining high credit standards of banking services. There will be further penetration of financial services historically low in Bulgaria compared to other EU countries.



Bank Activities

During the six months ending June 2008 First Investment Bank registered sound financial results and confirmed its reputation as a stable and pro-client oriented credit institution.

Key Indicators	June'08	Dec'07	June'07
Key ratios (%)			
Capital adequacy	13.80	12.98	15.34
Liquidity	24.12	29.92	26.33
Loan loss allowances / Loan portfolio before allowances	2.76	2.62	2.67
Net interest income / Total income from banking operations	72.40	67.94	68.33
Return on equity (after tax)	14.25	20.54	19.98
Return on assets (after tax)	1.21	1.50	1.26
Cost/Income ratio	66.70	54.98	55.04
Earning per share (EPS)	0.22	0.48	0.19
Resources (number)			
Branches and offices	135	120	116
Staff	2,509	2,289	1,761

Source: FIBank

Since FIBank does not have exposure to high-risk loan-backed securities, the turbulence from the credit crunch in the USA mortgage market did not have any direct resonance or negative influence on the Bank's activities.

Financial Results

In the first half of 2008, FIBank achieved a net profit of BGN 24,025 thousand, a growth of 24.9% compared to the same period in the previous year (BGN 19,239 thousand).

in BGN thousand	June'08	June'07	June'06	Dec'07	Dec'06
Net interest income	78,531	58,674	38,514	132,609	85,302
Net fee and commission income	30,495	22,864	17,311	50,962	38,824
Net trading income	1,883	4,687	3,168	11,827	8,139
Total income from banking operations	108,468	85,875	59,057	195,197	132,192
Administrative expenses	(72,350)	(47,265)	(36,958)	(107,325)	(82,720)
Impairment losses	(7,258)	(14,289)	(6,306)	(26,958)	(12,826)
Net profit (after tax)	24,025	19,239	12,033	51,113	28,817

Source: FIBank

This increase was mainly due to both the 33.8% rise (BGN 19,857 thousand) in net interest income, reaching BGN 78,531 thousand, and the 33.4% growth (BGN 7,631 thousand) in net fee and commission income, which totalled BGN 30,495 thousand. The increase was result of the growing activity of the Bank in relation to its lending business as well as to its associated banking services.

Interest income continued to be the main source of income for the Bank representing a 72.4% share (June 2007: 68.3%) of total income from banking operations. This was followed by fee and commission income at 28.1% (June 2007: 26.6%).

Interest expenses rose by 38.7% (BGN 23,464 thousand), totalling BGN 84,125 thousand, reflecting the increase in market interest levels. Fee and commission expenses grew by 24.6% to BGN 4,246 thousand. General administrative expenses rose to BGN 72,350 thousand (June 2007: BGN 47,265 thousand). This was due to pro-active expansion of the branch network of the Bank (in the first six months 16 new branches and offices were opened) and the appointment of new staff. This led to an increase in the cost/income ratio to 66.70% (2007: 54.98%).

Net trading income decreased by 59.8% (BGN 2,804 thousand) to reach BGN 1,883 thousand as of end-June 2008. This was due to a fall in the prices of securities registered for trade at the Bulgarian Stock Exchange.

Balance Sheet

in BGN thousand	June'08	Dec'07	June'07	Dec'06	June'06
Assets	4,071,767	4,201,377	3,465,541	3,147,766	2,610,141
Loans and advances to customers (less allowances for impairment)	2,802,228	2,778,123	2,217,996	1,709,773	1,419,303
Loans and advances to banks and financial institutions	12,808	189,575	41,942	42,032	35,947
Deposits from other customers	2,336,268	2,475,139	1,869,678	1,692,197	1,279,930
Liabilities evidenced by paper	1,213,729	1,238,113	1,142,122	1,123,218	1,000,584
Total shareholders' equity	349,798	325,979	294,586	168,393	141,827

Source: FIBank

FIBank's total assets as of end-June 2008 amounted to BGN 4,071,767 thousand, which represented a 3.1% decline compared to the end of 2007. The decrease was due to the Bank's restrictive policy towards its lending growth, which followed the BNB prescription of sustaining reasonable growth in the banks' loan portfolios. In addition, FIBank repaid a long-term bond with a principal amount of EUR 200 million.

During H12008 loans and advances to customers rose to BGN 2,802,228 thousand. FIBank's loan portfolio accounted for 68.8% of the Bank's total assets by end-June 2008 (2007: 66.1%).

Type of loan	Amount (in BGN thousand)			% of change	
	June'08	Dec'07	June'07	June'08/Dec'07	Dec'07/June'07
Retail lending	752,232	756,767	606,815	(0.60)	24.71
Mortgage loans	375,145	390,256	326,196	(3.87)	19.64
Consumer loans	377,087	366,511	280,619	2.89	30.61
Microlending	41,777	43,476	33,784	(3.91)	28.69
SMEs	263,715	270,565	225,941	(2.53)	19.75
Corporate lending	1,821,590	1,777,624	1,410,792	2.47	26.00
Total portfolio (before allowances)	**2,879,314**	**2,848,432**	**2,277,332**	**1.08**	**25.08**

Source: FIBank

The quality of the loan portfolio of the Bank remained good. The exposures classified as non-performing as at end-June 2008 amounted to BGN 50,542 thousand (2007: 48,708 thousand), or 1.76% of the gross loan portfolio. The total amount of allowances for impairment increased by 9.6% to BGN 77,086 thousand. This resulted from the Bank's more conservative policy regarding the classification of risk exposures and the methodology of impairment, which strictly adhere to local regulations (Ordinance №9 of BNB).

The Bank's investment portfolio amounted to BGN 405,672 thousand, dominated by available-for-sale investments at BGN 322,903 thousand (79.6% of portfolio), financial assets held to maturity at BGN 71,442 thousand (17.6%) and assets held for trading at BGN 11,327 thousand (2.8%).

Cash and balances with central banks increased by 12.6%, totalling BGN 688,329 thousand by end-June 2008, amounting to BGN 611,262 thousand at end-2007.

During the reporting period FIBank paid on maturity a principal of EUR 200 million and interest of EUR 15 million on a 3-year long-term Eurobond. In addition the Bank repaid a 5-year long-term bond (EUR 6 million of principal) and a 2-year bilateral trade loan facility (EUR 10 million of principal). This resulted in a 2% decrease in the liabilities evidenced by paper, which totalled BGN 1,213,729 thousand (2007: BGN 1,238,113 thousand).

A decrease was registered in the deposits from other customers, amounting to BGN 2,336,268 thousand (2007: BGN 2,475,139 thousand).

Despite disturbing signals from the international financial markets and particular speculations with a short-term effect in the local market, trust and confidence in the stability of the banking system in Bulgaria was sustained.

Deposits from companies and individuals continued to be the main source of funding for FIBank during the reporting period.

in BGN thousand	H12008	2007	2006
Retail deposits	1,395,056	1,454,745	1,013,721
Corporate deposits	941,212	1,020,394	678,476
Total customer deposits	**2,336,268**	**2,475,139**	**1,692,197**

Source: FIBank

During the first half of 2008 FIBank received a new syndicated loan on the amount of EUR 65 million from 12 first-class international banks. Furthermore the Bank signed an agreement with the German bank KfW for a 5-year EUR 10 million credit line for financing small and medium-sized enterprises (SMEs).

The Bank preserved and followed the policy of not paying dividends but of capitalising profits, in order to sustain its high pace of growth and to improve its creditworthiness. FIBank's total equity grew by 18.7% compared to end-June 2007 (7.3% compared to the end of 2007) to reach BGN 349,798 thousand. The solid increase in shareholders' equity in comparison to June 2007, combined with the policy of higher criteria for risk assessment, resulted in an improvement in the capital adequacy of the Bank. The total capital adequacy ratio stood at 13.80% (2007: 12.98%). Tier 1 capital ratio increased to 9.82% (2007: 8.78%).

As of end-June 2008 there were no changes in the shareholder structure of the Bank.

A pro-active position regarding branch network expansion is one of FIBank's main strategic goals during 2008. In the first six months of the year the Bank expanded its network by opening 16 new branches and offices, nine of which are in Sofia and seven in other parts of the country. FIBank opened new outlets in Bansko, Razlog, Botevgrad, Plovdiv, Stara Zagora, Yambol and Mezdra. By end-June the Bank had one head office and 133 branches and offices in Bulgaria, as well as an international branch in Cyprus. FIBank has a subsidiary bank in Albania, which in the reporting period opened three new outlets in Tirana, Korçë and Shkodër. As of end-June 2008 First Investment Bank – Albania comprised of a head office and three branches based in Tirana, as well as seven branches situated in other parts of the country.

There were no changes in the Supervisory Board and in the Managing Board in the first six months of 2008.

Talent, professionalism and combined teamwork are the foundation of FIBank's successful business development.

Retail Banking

In the first six moths ending June 2008 FIBank remained among the leading banks in Bulgaria in retail banking operations – sixth place in terms of mortgage loans and seventh in consumer loans. Lead by its determination to sustain a good quality of retail loan portfolio, in 2008 FIBank applied a more restrictive credit policy in its lending to individuals and households.

By mid 2008 retail loans amounted to BGN 752,232 thousand (2007: BGN 756,767 thousand). Mortgage loans totalled BGN 375,145 thousand (2007: BGN 390,256 thousand), while consumer loans rose to BGN 377,087 thousand (2007: BGN 479,002 thousand), including credit card overdrafts, which rose to BGN 136,253 thousand (2007: 88,746 thousand).

The process of granting loans became faster and more efficient due to the implementation of the new banking information system and FIBank's new centralised loan administration. This reflected positively on the quality of the Bank's loan portfolio, as the non-performing ratio amounted to 2.1%.

FIBank was placed sixth in the banking system in terms of retail deposits by end-June 2008. The Bank's deposits to individuals and households amounted to BGN 1,395,056 thousand.

During the first half of 2008 FIBank launched new flexible and diversified deposit products with promotional interest rates. Furthermore, for all its supporters and loyal clients, the Bank introduced specialised loyalty programmes.

Corporate Banking

FIBank continued to attract new corporate customers during the first half of 2008 by offering fast, reliable and competitive services and products. It also diversified its specialised credit programmes, pursuant to clients' needs and business specifics.

FIBank was placed sixth in the banking system in terms of loans to corporate clients.

The loan portfolio of corporate customers increased from BGN 1,777,624 thousand by end-2007 to BGN 1,821,590 thousand as of end-June 2008, a growth rate of 2.5%. Loans to corporate clients continued to constitute a substantial structure-determining share – 63.3% of the Bank's gross loan portfolio composition. The share of SME loans and microlending of the Bank's gross loan portfolio reached 9.2% (2007: 9.5%) and 1.5% (2007: 1.5%) respectively.

During 2008 FIBank actively continued to develop specialised credit programmes for SMEs. In addition the Bank signed a new 5-year finance facility on the amount of EUR 10 million for financing small and medium-sized enterprises with the German bank KfW. The SME loan portfolio of the Bank as of end-June 2008 totalled BGN 263,715 thousand (2007: BGN 270,565 thousand). The Bank continued to offer specialised programmes for the financing of farmers and agricultural producers.

FIBank's microlending programme was maintained during 2008 in order to satisfy the financing needs of micro-businesses including producers, traders, farmers and entrepreneurs. The Bank continued to monitor the excellence of the loan process technology in compliance with the specifics of this market segment, which includes businesses with less market experience as well as new ventures. The microlending portfolio as of the end of June 2008 amounted to BGN 41,777 thousand (2007: BGN 43,476 thousand).

Card Payments

In the first six months of 2008 FIBank strengthened its leading position in the banking card business, as the total number of cards issued reached 629,564. Credit cards (VISA and MasterCard) issued numbered 100,883, while debit cards (VISA Electron and Maestro) totalled 528,681. Various distribution channels (the Internet, the call centre, front offices and lending departments) continued to receive applications for bank card products. During the period FIBank started to offer the exclusive black co-branded Diners Club Privé credit card targeted at celebrities and wealthy people. The Bank also issued some attractive new credit card products – MasterCard UEFA Euro 2008 and VISA World Olympics 2008.

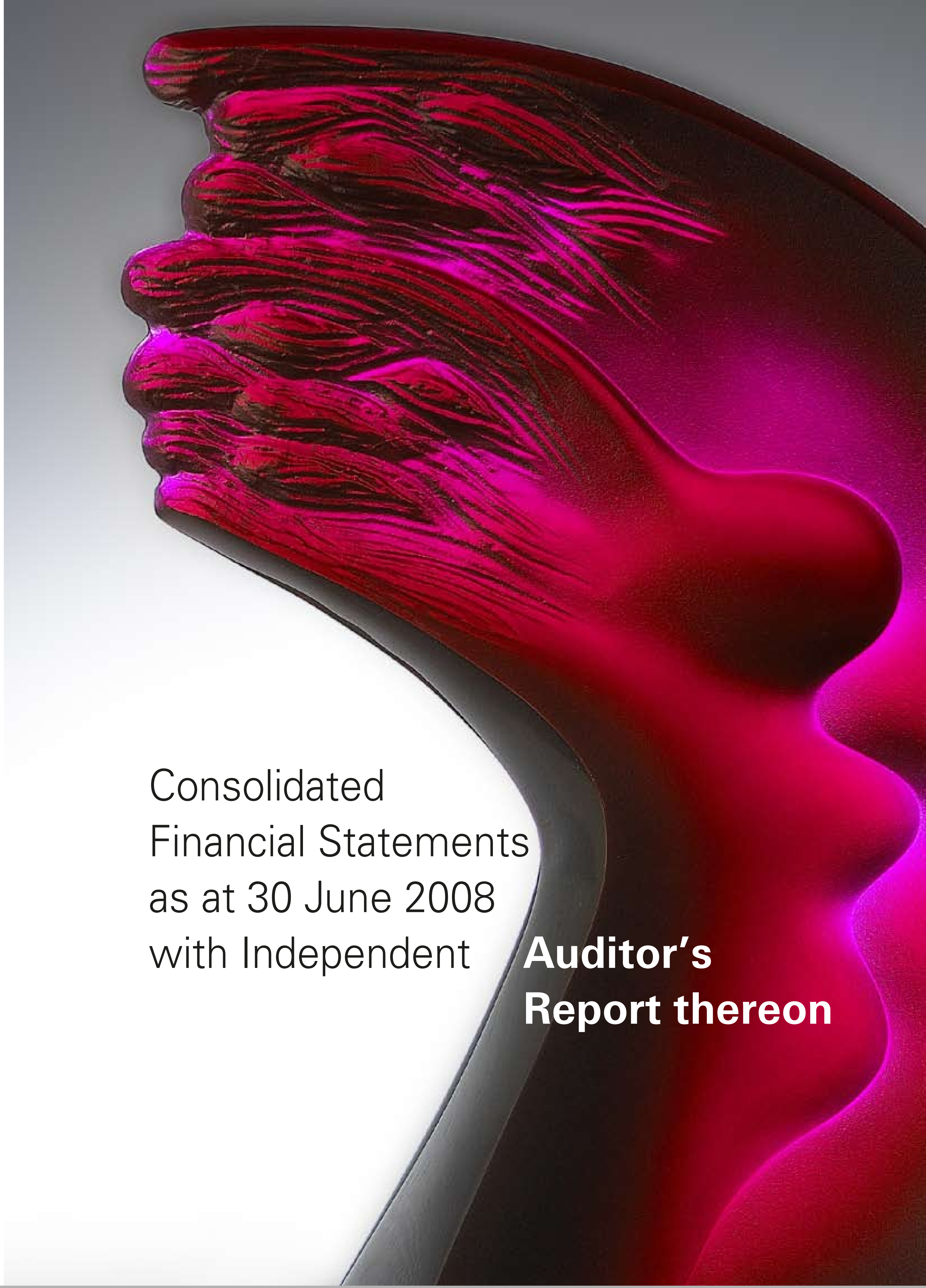
The expansion of ATM and POS network continued. The number of ATMs at the end of June 2008 totalled 597 and the number of POS reached 7,126.

Investing in the card business, and developing new and flexible products and card-related technologies is one of FIBank's main strategic priorities for the future growth of this banking segment.

International Payments

In the first half of 2008 FIBank maintained its traditionally strong position in foreign currency transfers with 6.71% of outgoing and 6.77% of incoming transactions.

By end-June 2008 FIBank provided bank guarantees and letters of credit in foreign currency to third parties on the amount of BGN 373,558 thousand (2007: 450,106 thousand; end-June 2007: BGN 517,419 thousand). The banking services related to international payments constituted a significant share (17%) of the fee and commission income of the Bank – as at end-June 2008 the fee and commission income from letters of credit and bank guarantees amounted to BGN 5,901 thousand (end-June 2007: BGN 4,871 thousand).



Consolidated Financial Statements as at 30 June 2008 with Independent **Auditor's Report thereon**

KPMG

Report of the Independent Auditor to the Shareholders of First Investment Bank AD

Sofia, 1 August 2008

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of First Investment Bank AD ("the Bank"), which comprise the consolidated balance sheet as at 30 June 2008, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the period then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of First Investment Bank AD as at 30 June 2008, and of its consolidated financial performance and its consolidated cash flows for the period then ended in accordance with International Financial Reporting Standards.

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

Gilbert McCaul

Authorised representative
KPMG Bulgaria OOD

37 Fridtjof Nansen Str.
1142 Sofia
Bulgaria

Margarita Goleva

Registered auditor

0202 Маргарита Голева
Регистриран одитор

Consolidated income statement for the six months ended 30 June 2008

In thousands of BGN

	Note	Six months ended 30 June 2008	Six months ended 30 June 2007
Interest income		162,656	119,335
Interest expense		(84,125)	(60,661)
Net interest income	6	**78,531**	**58,674**
Fee and commission income		34,741	26,271
Fee and commission expense		(4,246)	(3,407)
Net fee and commission income	7	**30,495**	**22,864**
Net trading income	8	**1,883**	**4,687**
Other operating expenses	9	**(2,441)**	**(350)**
TOTAL INCOME FROM BANKING OPERATIONS		**108,468**	**85,875**
General administrative expenses	10	(72,350)	(47,265)
Impairment losses	11	(7,258)	(14,289)
Other expenses, net		(2,095)	(2,878)
PROFIT BEFORE TAX		**26,765**	**21,443**
Income tax expense	12	**(2,759)**	**(2,268)**
GROUP PROFIT AFTER TAX		**24,006**	**19,175**
Minority interests		19	64
NET PROFIT		**24,025**	**19,239**
Basic and diluted earnings per share (in BGN)	13	**0.22**	**0.19**

The income statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 20 to 63.

Gilbert McCaul
Authorised representative
KPMG Bulgaria OOD

Специализирано одиторско предприятие София Рег. №045 "КПМГ - България" ООД

Margarita Goleva
Registered auditor

0202 Маргарита Голева Регистриран одитор

Consolidated balance sheet as at 30 June 2008

In thousands of BGN

	Note	30 June 2008	31 December 2007
ASSETS			
Cash and balances with central banks	14	688,329	611,262
Financial assets held for trading	15	11,327	13,529
Available for sale investments	16	322,903	374,203
Financial assets held to maturity	17	71,442	106,084
Loans and advances to banks and financial institutions	18	12,808	189,575
Loans and advances to customers	19	2,802,228	2,778,123
Property and equipment	20	129,115	115,010
Intangible assets	21	6,211	848
Other assets	23	27,404	12,743
TOTAL ASSETS		**4,071,767**	**4,201,377**
LIABILITIES AND CAPITAL			
Due to credit institutions	24	13,035	3,195
Due to other customers	25	2,336,268	2,475,139
Liabilities evidenced by paper	26	1,213,729	1,238,113
Subordinated term debt	27	50,812	51,005
Perpetual debt	28	99,401	98,386
Deferred tax liability	22	1,615	1,417
Other liabilities	29	7,109	8,143
TOTAL LIABILITIES		**3,721,969**	**3,875,398**
Issued share capital	31	110,000	110,000
Share premium	31	97,000	97,000
Statutory reserve	31	39,861	39,861
Revaluation reserve on available for sale investments	31	(501)	(350)
Reserve from translation of foreign operations	31	(551)	(515)
Retained earnings	31	103,883	79,858
SHAREHOLDERS' EQUITY		**349,692**	**325,854**
Minority interests	31	106	125
TOTAL GROUP EQUITY		**349,798**	**325,979**
TOTAL LIABILITIES AND GROUP EQUITY		**4,071,767**	**4,201,377**

The income statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 20 to 63.

Gilbert McCaul
Authorised representative
KPMG Bulgaria OOD

Специализирано одиторско предприятие София Рег. №045 "КПМГ - България" ООД

Margarita Goleva
Registered auditor

0202 Маргарита Голева Регистриран одитор

Consolidated statement of cash flows for the six months ended 30 June 2008

In thousands of BGN

	Six months ended 30 June 2008	Six months ended 30 June 2007
Net cash flow from operating activities		
Net profit	24,025	19,239
Adjustment for non-cash items		
Impairment losses	7,258	14,289
Depreciation and amortisation	7,809	5,381
Income tax expense	2,759	2,268
	41,851	**41,177**
Change in operating assets		
(Increase)/decrease in financial instruments held for trading	2,202	(10,010)
Decrease in available for sale investments	51,149	116,581
(Increase)/decrease in loans and advances to banks	(509)	19,090
(Increase) in loans to customers	(31,363)	(522,512)
(Increase) in other assets	(14,661)	(3,920)
	6,818	**(400,771)**
Change in operating liabilities		
Increase/(decrease) in deposits from banks	9,840	(7,266)
Increase/(decrease) in amounts owed to other depositors	(138,871)	177,481
Net (decrease) in other liabilities	(777)	(1,273)
	(129,808)	**168,942**
Income tax paid	(2,873)	(2,449)
NET CASH FLOW FROM OPERATING ACTIVITIES	**(84,012)**	**(193,101)**
Cash flow from investing activities		
(Purchase) of tangible and intangible fixed assets	(27,277)	(15,873)
(Acquisition)/decrease of investments	34,642	(37,682)
NET CASH FLOW FROM INVESTING ACTIVITIES	7,365	(53,555)
Financing activities		
Increase of shareholders's equity, fully paid-up	–	10,000
Increase of share premium	–	97,000
Capital increase of subsidiary	–	180
Increase/(decrease) in borrowings	(23,562)	22,757
NET CASH FLOW FROM FINANCING ACTIVITIES	**(23,562)**	**129,937**
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	**(100,209)**	**(116,719)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	**800,665**	**730,811**
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD (see note 33)	**700,456**	**614,092**

The income statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 20 to 63.

Gilbert McCaul
Authorised representative
KPMG Bulgaria OOD

СПЕЦИАЛИЗИРАНО ОДИТОРСКО ПРЕДПРИЯТИЕ
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Margarita Goleva
Registered auditor

0202 Маргарита Голева
Регистриран одитор

Consolidated statement of shareholders' equity for the six months ended 30 June 2008

In thousands of BGN

	Share capital	Share premium	Retained earnings	Revaluation reserve on available for sale investments	Reserve from translation of foreign operations	Statutory reserve	Minority interests	Total
Balance as at 1 January 2007	**100,000**	**–**	**28,960**	**(258)**	**–**	**39,861**	**(170)**	**168,393**
Increase of shareholders' equity, fully paid-up	10,000	97,000	–	–	–	–	–	107,000
Revaluation reserve on available for sale investments	–	–	–	(162)	–	–	–	(162)
Capital increase of subsidiary	–	–	–	–	–	–	180	180
Net profit for the six months ended 30 June 2007	–	–	19,239	–	–	–	(64)	19,175
Balance as at 30 June 2007	**110,000**	**97,000**	**48,199**	**(420)**	**–**	**39,861**	**(54)**	**294,586**
Balance as at 1 January 2008	**110,000**	**97,000**	**79,858**	**(350)**	**(515)**	**39,861**	**125**	**325,979**
Revaluation reserve on available for sale investments	–	–	–	(151)	–	–	–	(151)
Reserve from translation of foreign operations	–	–	–	–	(36)	–	–	(36)
Net profit for the six months ended 30 June 2008	–	–	24,025	–	–	–	(19)	24,006
Balance as at 30 June 2008	**110,000**	**97,000**	**103,883**	**(501)**	**(551)**	**39,861**	**106**	**349,798**

The income statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 20 to 63.

The financial statements have been approved by the Managing Board on 31 July 2008 and signed on its behalf by:

Matthew Mateev
Chairman of the Managing Board
Executive Director

Maya Georgieva
Executive Director

Evgeni Lukanov
Executive Director

Radoslav Milenkov
Chief Financial Officer

Gilbert McCau
Authorised representative,
KPMG Bulgaria OOD

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

Margarita Goleva
Registered auditor

0202 Маргарита Голева
Регистриран одитор

1. Basis of preparation

(a) Statute

First Investment Bank AD (the Bank) is incorporated in the Republic of Bulgaria and has its registered office in Sofia, at 37 Dragan Tzankov Blvd.

The Bank has a general banking license issued by the Bulgarian National Bank (BNB) according to which it is allowed to conduct all banking transactions permitted by the Bulgarian legislation.

The Bank has foreign operations in Cyprus and Albania.

As a result of a successful initial public offering (IPO) of new shares on the Bulgarian Stock Exchange – Sofia the Bank is registered as a public company at the Register of the Financial Supervision Commission in accordance with the provisions of the Bulgarian Public Offering of Securities Act on 13 June 2007.

The consolidated financial statements of the Bank as at and for the six months ended 30 June 2008 comprise the Bank and its subsidiaries (see note 36), together referred to as the "Group".

(b) Statement of compliance

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the European Conmmission.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 2 (p).

(c) Basis of preparation

The financial statements are presented in Bulgarian leva (BGN) rounded to the nearest thousand.

The financial statements are prepared on a fair value basis for derivative financial instruments, financial assets and liabilities held for trading, and available-for-sale assets, except those for which a reliable measure of fair value is not available. Other financial assets and liabilities and non-financial assets and liabilities are stated at amortised cost or historical cost convention.

2. Significant accounting policies

(a) Income recognition

Interest income and expense is recognised in the income statement as it accrues, taking into account the effective yield of the asset or an applicable floating rate. Interest income and expense include the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Fee and commission income arises on financial services provided by the Group and is recognised when the corresponding service is provided.

Net trading income includes gains and losses arising from disposals and changes in the fair value of financial assets and liabilities held for trading.

(b) Basis of consolidation of subsidiaries

Subsidiaries are those enterprises controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Special purpose entities are consolidated when the substance of the relationship between the Group and the special purpose entity indicates that the special purpose entity is controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(c) Foreign currency transactions

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Bulgarian leva, which is the Group's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the exchange rates at the balance sheet date of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Translation differences on non-monetary items are included in the fair value reserve in equity.

(iii) Foreign operations

The assets and liabilities of foreign operations are translated to Bulgarian leva at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Bulgarian leva at exchange rates at the dates of the transactions. Foreign currency differences are recognised directly in equity. The functional currency of the foreign operations in Cyprus is determined by the management to be the Euro. The functional currency of the foreign operations in Albania is determined by the management to be the Albanian lek.

(d) Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

(i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges.

(ii) Loans and receivables

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

(iii) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity. Were the Group to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available for sale.

(iv) Available-for-sale

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

(v) Recognition

Purchases and sales of financial assets at fair value through profit or loss, held to maturity and available for sale are recognised on the date of the actual delivery of the assets. Loans are recognised when cash is advanced to the borrowers. Financial assets are initially recognised at fair value plus transaction costs for all financial assets. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or when the Group has transferred substantially all risks and rewards of ownership.

(vi) Measurement

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity should be recognised in profit or loss.

Interest calculated using the effective interest method is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the entity's right to receive payment is established.

(vii) Fair value measurement principles

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

(e) Cash and cash equivalents

Cash and cash equivalents comprise cash balances on hand, cash deposited with central banks and short-term highly liquid investments with maturity of three months or less.

(f) Investments

Investments that the Group holds for the purpose of short-term profit taking are classified as trading instruments. Debt investments that the Group has the intent and ability to hold to maturity are classified as held-to-maturity assets. Other investments are classified as available-for-sale assets.

(g) Securities borrowing and lending business and repurchase transactions

(i) Securities borrowing and lending

Investments lent under securities lending arrangements continue to be recognised in the balance sheet and are measured in accordance with the accounting policy for assets held for trading or available-for-sale as appropriate. Cash collateral received in respect of securities lent is recognised as liabilities to either banks or customers. Investments borrowed under securities borrowing agreements are not recognised. Cash collateral placements in respect of securities borrowed are recognised under loans and advances to either banks or customers. Income and expenses arising from the securities borrowing and lending business are recognised on an accrual basis over the period of the transactions and are included in interest income or expense.

(ii) Repurchase agreements

The Group enters into purchases (sales) of investments under agreements to resell (repurchase) substantially identical investments at a certain date in the future at a fixed price. Investments purchased subject to commitments to resell them at future dates are not recognised. The amounts paid are recognised in loans to either banks or customers. The receivables are shown as collateralised by the underlying security. Investments sold under repurchase agreements continue to be recognised in the balance sheet and are measured in accordance with the accounting policy for either assets held for trading or available-for-sale as appropriate. The proceeds from the sale of the investments are reported as liabilities to either banks or customers.

The difference between the purchase (sale) and resell (repurchase) considerations is recognised on an accrual basis over the period of the transaction and is included in interest income (expenses).

(h) Borrowings

Borrowings are recognised initially at 'cost', being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost and any difference between net proceeds and the redemption value is recognized in the income statement over the period of the borrowings using the effective yield method.

If the Group purchases its own debt, it is removed from the balance sheet and the difference between the carrying amount of a liability and the consideration paid is included in net trading income.

(i) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when the Group has a legally enforceable right to set off the recognised amounts and the transactions are intended to be settled on a net basis.

(j) Impairment

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

(i) Loans and advances

The recoverable amount of loans and advances and purchased loans is calculated as the present value of the expected future cash flows, discounted at the instrument's original effective interest rate. If a loan has a variable interest rate, the discount rate is the current effective interest rate determined under the contract. Short-term balances are not discounted.

Loans and advances are presented net of specific and general allowances for impairment. Specific allowances are made against the carrying amount of loans and advances that are identified as being impaired based on regular reviews of outstanding balances to reduce these loans and advances to their recoverable amounts. General allowances are maintained to reduce the carrying amount of portfolios of similar loans and advances to their estimated recoverable amounts at the balance sheet date. The expected cash flows for portfolios of similar assets are estimated based on previous experience and considering the credit rating of the underlying customers and late payments of interest or penalties. Increases in the allowance account are recognised in the income statement. When a loan is identified to be not recoverable, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off directly.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the write down, the write-down or allowance is reversed through the income statement.

(ii) Financial assets remeasured to fair value directly through equity

The recoverable amount of an equity instrument is its fair value. The recoverable amount of debt instruments and purchased loans remeasured to fair value is calculated as the present value of expected future cash flows discounted at the current market rate of interest.

Where an asset remeasured to fair value directly through equity is impaired, and a write down of the asset was previously recognised directly in equity, the write down is transferred to the income statement and recognised as part of the impairment loss. Where an asset measured to fair value directly through equity is impaired, and an increase in the fair value of the asset was previously recognised in equity, the increase in fair value of the asset recognised in equity is reversed to the extent the asset is impaired. Any additional impairment loss is recognised in the income statement.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through the income statement.

(k) Property, plant and equipment

Items of property, plant and equipment are stated in the balance sheet at their acquisition cost less accumulated depreciation restated for the effects of hyperinflation.

Depreciation is calculated on a straight line basis at prescribed rates designed to decrease the cost or valuation of fixed assets over their expected useful lives. The following are approximations of the annual rates used:

Assets	**%**
• Buildings	3 – 4
• Equipment	10 – 20
• Fixtures and fittings	10 – 20
• Vehicles	10 – 20
• Leasehold improvements	2 – 67

Assets are not depreciated until they are brought into use and transferred from assets in the course of construction into the relevant asset category.

(l) Intangible assets

Intangible assets, which are acquired by the Group, are stated at cost less accumulated amortisation and any impairment losses.

Amortisation is calculated on a straight-line basis over the expected useful life of the asset. The annual rates of amortisation are as follows:

Assets	**%**
• Licences	10 – 20
• Computer software	10 – 20

(m) Provisions

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(n) Acceptances

An acceptance is created when the Group agrees to pay, at a stipulated future date, a draft drawn on it for a specified amount. The Group's acceptances primarily arise from documentary credits stipulating payment for the goods to be made a certain number of days after receipt of required documents. The Group negotiates most acceptances to be settled at a later date following the reimbursement from the customers. Acceptances are accounted for as liabilities evidenced by paper.

(o) Taxation

Tax on the profit for the year comprises current tax and the change in deferred tax. Current tax comprises tax payable calculated on the basis of the expected taxable income for the year, using the tax rates enacted by the balance sheet date, and any adjustment of tax payable for previous years.

Deferred tax is provided using the balance sheet liability method on all temporary differences between the carrying amounts for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is calculated on the basis of the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. The effect on deferred tax of any changes in tax rates is charged to the income statement, except to the extent that it relates to items previously charged or credited directly to equity.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(p) Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(i) Impairment losses on loans and advances

The Group reviews its loan portfolios to assess impairment on a monthly basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may

include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(ii) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant estimates are required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(q) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options.

(r) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the period ended 30 June 2008, and have not been applied in preparing these consolidated financial statements:

- *IFRS 8 Operating Segments*, which becomes mandatory for the Group's 2009 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Bank's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them.

- *Revised IAS 23 Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become mandatory for the Group's 2009 financial statements. It is not expected to have any impact on the financial statements.

- *IFRIC 13 Customer Loyalty Programmes* addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes for their customers. It relates to customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13, which becomes mandatory for the Group's 2009 financial statements, is not expected to have any impact on the financial statements.

- *Revised IAS 1 Presentation of Financial Statements* introduces the term total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income, or in an income statement and a separate statement of comprehensive income. Revised IAS 1, which becomes mandatory for the Group's 2009 consolidated financial statements, is expected to have an impact on the presentation of the consolidated financial statements. The Group plans to provide total comprehensive income for its 2009 consolidated financial statements.

3. Risk management disclosures

A. Trading activities

The Group maintains active trading positions in a limited number of non-derivative financial instruments. Most of the Group's trading activities are customer driven. In anticipation of customer demand, the Group carries an inventory of money market instruments and maintains access to market liquidity by trading with other market makers. These activities constitute the proprietary trading business and enable the Group to provide customers with money market products at competitive prices.

The Group manages its trading activities by type of risk involved and on the basis of the categories of trading instruments held.

(i) Credit risk

Default risk is the risk that counterparts to financial instruments might default on their obligations. Default risk is monitored on an ongoing basis subject to Group's internal risk management procedures and is controlled through minimum thresholds for the credit quality of the counterpart and setting limits on exposure amount. Exposures arising from trading activities are subject to total exposure limits and are authorised by the appropriate person or body as set out in credit risk management procedures.

Settlement risk is the risk of loss due to counterpart failing to deliver value (cash, securities or other assets) under contractually agreed terms. When trades are not cleared through clearing agent settlement risk is limited through simultaneous commencement of the payment and delivery legs.

(ii) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Group assumes market risk when taking positions in debt instruments, equities, derivatives and foreign exchange transactions. These risks are managed by enforcing limits on positions taken and their risk sensitivities as measured by value-at-risk, duration or other measures appropriate for particular position in view of its sensitivity to risk factors. The major risk factors that affect Group's trading activities are changes of interest rates (interest rate risk), changes of exchange rates (foreign exchange risk) and changes of equity prices (equity price risk).

Exposure to market risk is formally managed in accordance with risk limits set by senior management by buying or selling instruments.

All marked-to-market instruments are recognised and measured at fair value, and all changes in market conditions directly affect net trading income (through trading instruments) or equity value (through available for sale instruments). In a developing capital market, the prices with which transactions are realised can be different from quoted prices. While management has used available market information in estimating fair value, it may not be fully reflective of the value that could be realised under the current circumstances.

The quantitative measurement of interest rate risk is performed by applying VaR (Value at Risk) approach. The Value at Risk estimates the maximum loss that could occur over specified horizon, under normal market conditions, due to adverse changes in market rates if the positions remain unchanged for the specified time interval. Value at risk is calculated using one day horizon and 99 per cent confidence level, meaning that there is 1% probability that a portfolio will incur a loss in one day greater than its VaR. Parameters of the VaR model are estimated on the basis of exponentially weighted historical price changes of risk factors.

The Value at Risk is calculated and monitored on a daily basis as part of the Group's ongoing risk management. The following table summarises the range of interest rate VaR for all positions carried at fair value that was experienced in the first six months of 2008:

		Six months ended 30 June 2008			
in thousands of BGN	30 June 2008	average	low	high	31 December 2007
VaR	665	853	621	1,047	796

B. Non-trading activities

Below is a discussion of the various risks the Group is exposed to as a result of its non-trading activities and the approach taken to manage those risks.

(i) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk arises in the general funding of the Group's activities and in the management of positions. It includes both the risk of being unable to fund assets at appropriate maturity and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame to meet the liability obligations.

Funds are raised using a broad range of instruments including deposits, liabilities evidenced by paper, and share capital. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. The Group makes its best efforts to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturity. The Group continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Group strategy.

The following table provides an analysis of the financial assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment.

Maturity table as at 30 June 2008

in thousands of BGN	Up to 1 Month	From 1 to 3 Months	From 3 months to 1 year	Over 1 year	Maturity not defined	Total
Assets						
Cash and balances with Central Banks	688,329	–	–	–	–	**688,329**
Financial assets held for trading	11,327	–	–	–	–	**11,327**
Available for sale investments	–	–	229,645	92,186	1,072	**322,903**
Financial assets held to maturity	8,355	–	23,850	39,237	–	**71,442**
Loans and advances to banks and financial institutions	8,883	3,925	–	–	–	**12,808**
Loans and advances to customers	190,404	183,026	510,262	1,918,536	–	**2,802,228**
Property and equipment	–	–	–	–	129,115	**129,115**
Intangible assets	–	–	–	–	6,211	**6,211**
Other assets	27,404	–	–	–	–	**27,404**
Total assets	**934,702**	**186,951**	**763,757**	**2,049,959**	**136,398**	**4,071,767**
Liabilities						
Due to credit institutions	11,398	1,252	385	–	–	**13,035**
Due to other customers	1,163,905	377,115	684,184	111,064	–	**2,336,268**
Liabilities evidenced by paper	142,117	121,037	863,642	86,933	–	**1,213,729**
Subordinated term debt	–	–	–	50,812	–	**50,812**
Perpetual debt	–	–	–	–	99,401	**99,401**
Deferred tax liability	–	–	–	–	1,615	**1,615**
Other liabilities	7,109	–	–	–	–	**7,109**
Total liabilities	1,324,529	499,404	1,548,211	248,809	101,016	**3,721,969**
Net liquidity gap	(389,827)	(312,453)	(784,454)	1,801,150	35,382	**349,798**

Maturity table as at 31 December 2007

in thousands of BGN	Up to 1 Month	From 1 to 3 Months	From 3 months to 1 year	Over 1 year	Maturity not defined	Total
Assets						
Cash and balances with Central Banks	611,262	–	–	–	–	**611,262**
Financial assets held for trading	13,529	–	–	–	–	**13,529**
Available for sale investments	20,019	38,729	191,131	123,247	1,077	**374,203**
Financial assets held to maturity	–	15,562	10,660	79,862	–	**106,084**
Loans and advances to banks and financial institutions	185,483	3,920	–	–	172	**189,575**
Loans and advances to customers	177,971	211,217	541,472	1,847,463	–	**2,778,123**
Property and equipment	–	–	–	–	115,010	**115,010**
Intangible assets	–	–	–	–	848	**848**
Other assets	12,743	–	–	–	–	**12,743**
Total assets	**1,021,007**	**269,428**	**743,263**	**2,050,572**	**117,107**	**4,201,377**
Liabilities						
Due to credit institutions	3,195	–	–	–	–	**3,195**
Due to other customers	1,612,663	431,992	337,719	92,765	–	**2,475,139**
Liabilities evidenced by paper	418,135	39	722,046	97,893	–	**1,238,113**
Subordinated term debt	–	–	–	51,005	–	**51,005**
Perpetual debt	–	–	–	–	98,386	**98,386**
Deferred tax liability	–	–	–	–	1,417	**1,417**
Other liabilities	7,871	–	–	272	–	**8,143**
Total liabilities	**2,041,864**	**432,031**	**1,059,765**	**241,935**	**99,803**	**3,875,398**
Net liquidity gap	**(1,020,857)**	**(162,603)**	**(316,502)**	**1,808,637**	**17,304**	**325,979**

As at 30 June 2008 the thirty largest non-bank depositors represent 23.73% of total deposits from other customers (2007: 16.61%).

FIRST INVESTMENT BANK

The following table provides a remaining maturities analysis of the financial liabilities of the Group as at 30 June 2008 based on the contractual undiscounted cash flows.

in thousands of BGN	Up to 1 Month	From 1 to 3 Months	From 3 months to 1 year	Over 1 year	Maturity not defined	Total
Due to credit institutions	11,417	1,260	391	–	–	**13,068**
Due to other customers	1,165,008	379,315	696,314	126,454	–	**2,367,091**
Liabilities evidenced by paper	142,487	122,296	884,300	97,933	–	**1,247,016**
Subordinated term debt	–	–	–	59,844	–	**59,844**
Perpetual debt	–	6,601	4,775	79,629	93,880	**184,885**
Total financial liabilities	**1,318,912**	**509,472**	**1,585,780**	**363,860**	**93,880**	**3,871,904**

(ii) Market risk

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature or reprice at different times or in differing amounts. In the case of floating rate assets and liabilities the Group are also exposed to basis risk, which is the difference in repricing characteristics of the various floating rate indices, such as the Bulgarian Base Interest Rate, the LIBOR and EURIBOR, although these indices tend to move in high correlation. In addition, the actual effect will depend on a number of other factors, including the extent to which repayments are made earlier or later than the contracted dates and variations in interest rate sensitivity within repricing periods and among currencies.

In order to quantify the interest rate risk of its non-trading activities, the Group measures the impact of a change in the market rates both on net interest income and on the Group's economic value defined as the difference between fair value of assets and fair value of liabilities. The interest rate risk on the economic value of the Group following a standardised shock of +100bp/-100bp as at 30 June 2008 is BGN -1.2/+1.2 Mio. The interest rate risk on the Group's net interest income one year forward following a standardised shock of +100bp/-100bp as at 30 June 2008 is BGN -1.3/+1.3 Mio.

An analysis of the Group's sensitivity to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant balance sheet position) is as follows:

	100 bp parallel increase	50 bp increase after 1 year
Minimum of the period	(2,256)	(1,884)
Maximum of the period	(1,163)	(1,559)
Average of the period	(1,582)	(1,742)

The following table indicates the effective interest rates at 30 June 2008 and the periods in which financial liabilities and assets reprice.

				Fixed rate instruments			
in thousands of BGN	Total	Weighted average effective interest rate	Floating rate instruments	Less than 1 month	Between 1 month and 3 months	Between 3 months and 1 year	More than 1 year
Assets							
Cash and balances with central banks	235,146	3.53%	37,493	197,653	–	–	–
Financial assets held for trading	4,112	4.25%	–	4,112	–	–	–
Available for sale investments	321,831	4.44%	–	–	–	229,644	92,187
Financial assets held to maturity	71,442	4.34%	–	8,354	–	23,851	39,237
Loans and advances to banks and financial institutions	10,829	4.40%	873	6,032	3,924	–	–
Loans and advances to customers	2,749,905	11.43%	2,536,705	16,714	7,676	62,853	125,957
Non-interest earning assets	678,502	–	–	–	–	–	–
Total assets	**4,071,767**	**–**	**2,575,071**	**232,865**	**11,600**	**316,348**	**257,381**
Liabilities							
Due to credit institutions	12,967	4.05%	1,199	8,490	3,278	–	–
Due to other customers	2,294,807	4.41%	1,823,783	16,548	6,242	396,773	51,461
Liabilities evidenced by paper	1,210,098	6.24%	553,020	139,146	122,448	367,555	27,929
Subordinated term debt	48,948	12.80%	–	–	–	–	48,948
Perpetual debt	93,880	12.56%	–	–	–	–	93,880
Non-interest bearing liabilities	61,269	–	–	–	–	–	–
Total liabilities	**3,721,969**	**–**	**2,378,002**	**164,184**	**131,968**	**764,328**	**222,218**

in thousands of BGN	Total	Weighted average effective interest rate	Floating rate instruments	Fixed rate instruments Less than 1 month	Between 1 month and 3 months	Between 3 months and 1 year	More than 1 year
Assets							
Cash and balances with central banks	66,503	3.21%	33,387	33,116	–	–	–
Financial assets held for trading	2,074	4.38%	68	–	–	–	2,006
Available for sale investments	370,154	3.96%	87,666	19,549	38,729	191,131	33,079
Financial assets held to maturity	104,904	3.06%	35,994	–	8,679	1,377	58,854
Loans and advances to banks and financial institutions	165,613	4.48%	–	161,701	3,912	–	–
Loans and advances to customers	2,757,035	10.71%	2,512,597	41,795	19,981	51,752	130,910
Non-interest earning assets	735,094	–	–	–	–	–	–
Total assets	**4,201,377**	**–**	**2,669,712**	**256,161**	**71,301**	**244,260**	**224,849**
Liabilities							
Due to credit institutions	3,071	2.25%	1,406	1,665	–	–	–
Due to other customers	2,388,689	3.31%	2,328,192	34,984	4,972	17,525	3,016
Liabilities evidenced by paper	1,221,044	6.51%	449,596	391,206	–	350,651	29,591
Subordinated term debt	47,507	13.25%	–	–	–	–	47,507
Perpetual debt	93,880	12.56%	–	–	–	–	93,880
Non-interest bearing liabilities	121,207	–	–	–	–	–	–
Total liabilities	**3,875,398**	**–**	**2,779,194**	**427,855**	**4,972**	**368,176**	**173,994**

The following table indicates the effective interest rates at 31 December 2007 and the periods in which financial liabilities and assets reprice.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group is exposed to currency risk through transactions in foreign currencies and on financial instruments that are denominated in a foreign currency.

As a result of the currency Board in place in Bulgaria, the Bulgarian currency is pegged to the Euro. As the currency in which the Group presents it financial statements is the Bulgarian lev, the Group's financial statements are effected by movements in the exchange rates between the Bulgarian lev and currencies other than the Euro.

The Group's transactional exposures give rise to foreign currency gains and losses that are recognised as net trading income in the income statement. These exposures comprise the monetary assets and monetary liabilities of the Group that are not denominated in the presentation currency of the Group. These exposures were as follows:

In thousands of BGN	30 June 2008	31 December 2007
Monetary assets		
Euro	2,285,851	2,567,522
US dollar	224,126	345,274
Other	49,215	60,394
Gold	6,079	4,761
Monetary liabilities		
Euro	2,375,468	2,624,214
US dollar	228,678	345,841
Other	52,460	60,236
Gold	–	–
Net position		
Euro	(89,617)	(56,692)
US dollar	(4,552)	(567)
Other	(3,245)	158
Gold	6,079	4,761

In respect of monetary assets and liabilities in foreign currencies that are not economically hedged, the Group manages foreign currency risk in line with policy that sets limits on currency positions and dealer limits.

(iii) Credit risk

Credit risk is the risk that a counterparty to a financial instrument will cause a financial loss for the Group by failing to discharge an obligation. The Group is subject to credit risk through its lending activities and in cases where it acts as an intermediary on behalf of customers or other third parties or issues contingent liabilities. The management of the credit risk exposures to borrowers is conducted through regular analysis of the borrowers' credit worthiness and the assignment of a rating grade. Exposure to credit risk is also managed in part by obtaining collateral and guarantees.

The Group's primary exposure to credit risk arises through its loans and advances. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the balance sheet. These exposures are as follows:

30 June 2008 — In thousands of BGN

Class of exposure	Gross amount of loans and advances to customers	Allowance for impairment	Carrying amount of loans and advances to customers
Collectively impaired			
Standard	2,793,404	(23,646)	2,769,758
Individually impaired			
Watch	22,585	(1,358)	21,227
Substandard	12,783	(5,122)	7,661
Nonperforming	50,542	(46,960)	3,582
Total	**2,879,314**	**(77,086)**	**2,802,228**

31 December 2007 — In thousands of BGN

Class of exposure	Gross amount of loans and advances to customers	Allowance for impairment	Carrying amount of loans and advances to customers
Collectively impaired			
Standard	2,776,759	(23,130)	2,753,629
Individually impaired			
Watch	15,363	(835)	14,528
Substandard	7,602	(1,234)	6,368
Nonperforming	48,708	(45,110)	3,598
Total	**2,848,432**	**(70,309)**	**2,778,123**

In addition, the Group is exposed to off-balance sheet credit risk through commitments to extend credit and issue contingent liabilities (see note 32).

Concentrations of credit risk (whether on or off balance sheet) that arise from financial instruments exist for counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

The major concentrations of credit risk arise by location and type of customer in relation to the Group's investments, loans and advances and off-balance sheet commitments.

Total on balance sheet economic sector credit risk concentrations are presented in the table below.

In thousands of BGN	30 June 2008	31 December 2007
Trade	603,692	532,339
Industry	689,491	709,289
Services	250,807	224,226
Finance	1,992	2,030
Transport, logistics	150,297	154,311
Communications	7,936	45,445
Construction	178,517	181,769
Agriculture	93,422	89,340
Tourist services	61,974	115,713
Private individuals	765,791	756,767
Other	75,395	37,203
Less allowance for impairment	(77,086)	(70,309)
	2,802,228	**2,778,123**

The Group has extended loans to enterprises involved in different types of activities but within the same economic sector – industry. As such the exposures share a similar industry risk. There are three such groups of enterprises at 30 June 2008 with total exposures amounting to BGN 39,278 thousand (2007: BGN 37,028 thousand) – ferrous and non-ferrous metallurgy, BGN 77,737 thousand (2007: BGN 68,772 thousand) – mining industry and BGN 110,972 thousand (2007: BGN 118,539 thousand) – power engineering.

The Group has extended loans, confirmed letters of credit and granted guarantees to 15 individual clients or groups (2007: 15) with each individual exposure exceeding 10% of the capital base of the Group and based on the book value of the corresponding credit facility. The total amount of these exposures is BGN 988,006 thousand which represents 220.87% of the Group's capital base (2007: BGN 872,776 thousand which represented 215.71% of capital base) of which BGN 830,825 thousand (2007: BGN 632,521 thousand) represent loans and BGN 157,181 thousand (2007: BGN 240,255 thousand) represent guarantees, letters of credit and other commitments. Exposures secured by cash have been excluded from the calculation of the large exposures.

The loans extended in Cyprus amount to BGN 96,815 thousand (2007: BGN 140,128 thousand) (gross carrying amount before any allowances) and in Albania – BGN 13,570 thousand (2007: BGN 8,545 thousand).

The amounts reflected in the tables represent the maximum accounting loss that would be recognised at the balance sheet date if counterparts failed completely to perform as contracted and any collateral or security proved to be of no value. The amounts, therefore, greatly exceed expected losses, which are included in the allowance for impairment.

The Group's policy is to require suitable collateral to be provided by certain customers prior to the disbursement of approved loans. Guarantees and letters of credit are also subject to strict credit assessments before being provided. The agreements specify monetary limits to the Group's obligations. The extent of collateral held for guarantees and letters of credit is 100 percent.

Collateral for loans, guarantees, and letters of credit is usually in the form of mortgage, cash, pledge of inventory, listed investments, or other property.

The table below shows a breakdown of total credit extended to customers, other than financial institutions, by the Group by type of collateral, excluding credit cards in the amount of BGN 136,253 thousands (2007: BGN 88,746 thousands):

In thousands of BGN	30 June 2008	31 December 2007
Mortgage	1,331,547	1,532,707
Pledge of receivables	546,173	267,251
Pledge of commercial enterprise	241,025	296,050
Securities	115,923	144,558
Guarantee	28,295	19,006
Pledge of goods	61,421	93,672
Pledge of machines	186,470	150,918
Money deposit	66,353	115,390
Stake in capital	9,577	41,661
Gold	–	32
Other collateral	149,439	92,018
Unsecured	6,838	6,423
Total	2,743,061	2,759,686

C. Capital adequacy

The Group's lead regulator, the Bulgarian National Bank (BNB) sets and monitors capital requirements both on consolidated and stand-alone basis. Individual banking operations are directly supervised by their local regulators. BNB issued Ordinance 8 on Capital Adequacy of Credit Institutions effective from 1 January 2007 that is the Bulgarian supervisory implementation of the International Convergence of Capital Measurement and Capital Standards (Revised Framework), known as Basel II and complies with EU Directives 2006/48/EC and 2006/49/EC. In implementing current capital requirements the Group is required to maintain a minimum prescribed ratio of 12% of total capital to total risk-weighted assets. Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

The Group calculates requirements for credit risk for its exposures in banking and trading portfolios based on standardised approach defined by the BNB. Exposures are taken into account using their balance sheet amount. Off-balance-sheet credit related commitments are taken into account by applying different categories of conversion factors, designed to convert these items into balance sheet equivalents. The resulting equivalent amounts are then weighted for risk using different percentages (0%, 20%, 50%, 100%) depending on the class of exposure and its credit rating assessment. Various credit risk mitigation techniques are used, for example collateralised transactions and guarantees. Forwards and options based derivative instruments are weighted for counterparty credit risk.

In addition, the Group is required to hold capital for operational risk. The basic indicator approach is used. Required capital is equal to the average gross annual income over the previous three years multiplied by a fixed percentage (15%). Respective risk weighted assets are calculated by further multiplication by 12.5.

The Group's regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes ordinary share capital, share premium, statutory reserve, other general reserves, retained earnings from past years, translation reserve and minority interests after deductions for goodwill and other intangible assets and unrealised loss from available for sale investments.
- Tier 2 capital, which includes qualifying subordinated liabilities, namely perpetual debt and subordinated term debt.

Following limits are applied to elements of the capital base. Qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying term subordinated loan capital may not exceed 50 percent of tier 1 capital.

The Group has complied with all capital requirements.

Capital adequacy level was as follows:

In thousands of BGN	Balance sheet/notional amount 30 June 2008	Balance sheet/notional amount 31 December 2007	Risk weighted amount 30 June 2008	Risk weighted amount 31 December 2007
Risk weighted assets for credit risk				
Balance sheet assets				
Exposure class				
Central governments and central banks	654,341	764,021	7,570	6,085
Multirateral development banks	–	2,763	–	–
Institutions	315,014	381,313	85,058	94,549
Corporates	1,745,993	1,856,251	1,706,023	1,742,146
Retail	570,887	534,031	555,103	523,553
Claims secured by residential property	485,348	387,841	242,674	193,920
Collective investment undertaking	2,650	3,011	2,650	3,011
Other assets	291,049	270,475	170,758	139,354
TOTAL	**4,065,282**	**4,199,706**	**2,769,836**	**2,702,618**
Off-balance sheet items				
Exposure class				
Central governments and central banks	782	782	–	–
Institutions	20,423	8,163	3,777	3,625
Corporates	647,170	796,840	198,655	208,066
Retail	277,461	280,077	5,039	4,934
Claims secured by residential property	4,139	29,215	1,035	2,970
Other items	–	–	33	56
TOTAL	**949,975**	**1,115,077**	**208,539**	**219,651**
Derivatives				
Exposure class				
Institutions	1,304	2,773	413	707
Corporates	459	–	459	–
TOTAL	**1,763**	**2,773**	**872**	**707**
Total risk-weighted assets for credit risk			2,979,247	2,922,976
Risk-weighted assets for market risk			3,925	3,341
Risk-weighted assets for operational risk			259,025	190,651
Total risk-weighted assets			3,242,197	3,116,968

Capital adequacy ratios	Capital (In thousands of BGN) 30 June 2008	Capital (In thousands of BGN) 31 December 2007	Capital ratios % 30 June 2008	Capital ratios % 31 December 2007
Tier 1 Capital	318,246	273,573	9.82%	8.78%
Total capital base	447,331	404,614	13.80%	12.98%

4. Segment Reporting

Segment information is presented in respect of the Group's geographical segments. The primary format is based on the Group's management and internal reporting structure.

Measurement of segment assets and liabilities and segment revenues and results is based on the accounting policies set out in the accounting policy notes.

Transactions between segments are conducted on an arm's length basis.

The Group operates principally in Bulgaria, but also has operations in Cyprus and Albania.

In presenting information on the basis of geographical segments, income and expenses are allocated based on the location of the Group branch that generates them. Segment assets and liabilities are allocated based on their geographical location.

In thousands of BGN	Bulgarian operations Six months ended 30 June 2008	Bulgarian operations Six months ended 30 June 2007	Foreign operations Six months ended 30 June 2008	Foreign operations Six months ended 30 June 2007	Total Six months ended 30 June 2008	Total Six months ended 30 June 2007
Interest income	144,518	115,261	18,138	4,074	162,656	119,335
Interest expense	(69,767)	(60,140)	(14,358)	(521)	(84,125)	(60,661)
Net interest income	**74,751**	**55,121**	**3,780**	**3,553**	**78,531**	**58,674**
Fee and commission income	34,068	25,967	673	304	34,741	26,271
Fee and commission expense	(4,224)	(3,387)	(22)	(20)	(4,246)	(3,407)
Net fee and commission income	**29,844**	**22,580**	**651**	**284**	**30,495**	**22,864**
Net trading income	**(262)**	**4,648**	**2,145**	**39**	**1,883**	**4,687**
General administrative expenses	**(69,576)**	**(45,213)**	**(2,774)**	**(2,052)**	**(72,350)**	**(47,265)**

	30 June 2008	31 December 2007	30 June 2008	31 December 2007	30 June 2008	31 December 2007
Segment assets	**3,935,657**	**4,030,952**	**136,110**	**170,425**	**4,071,767**	**4,201,377**
Segment liabilities	**3,671,956**	**3,835,372**	**50,013**	**40,026**	**3,721,969**	**3,875,398**

5. Financial assets and liabilities Accounting classification and fair values

The table below sets out the Group's classification of each class of financial assets and liabilities, and their fair values as at 30 June 2008.

in thousands of BGN	Trading	Held-to-maturity	Loans and receivables	Available for sale	Other amortised cost	Other	Total carrying amount	Fair value
ASSETS								
Cash and balances with central banks	–	–	688,329	–	–	–	688,329	688,329
Financial assets held for trading	11,327	–	–	–	–	–	11,327	11,327
Available for sale investments	–	–	–	322,903	–	–	322,903	322,903
Financial assets held to maturity	–	71,442	–	–	–	–	71,442	69,882
Loans and advances to banks and financial institutions	–	–	12,808	–	–	–	12,808	12,808
Loans and advances to customers	–	–	2,802,228	–	–	–	2,802,228	2,802,228
Other financial assets	–	–	–	–	–	274	274	274
	11,327	**71,442**	**3,503,365**	**322,903**	**–**	**274**	**3,909,311**	**3,907,751**
LIABILITIES								
Due to credit institutions	–	–	–	–	13,035	–	13,035	13,035
Due to other customers	–	–	–	–	2,336,268	–	2,336,268	2,336,268
Liabilities evidenced by paper	–	–	–	–	1,213,729	–	1,213,729	1,213,309
Subordinated term debt	–	–	–	–	50,812	–	50,812	50,812
Perpetual debt	–	–	–	–	99,401	–	99,401	98,325
Other financial liabilities		–	–	–	–	603	603	603
	–	**–**	**–**	**–**	**3,713,245**	**603**	**3,713,848**	**3,712,352**

The fair value of cash, cash equivalents, demand and term deposits is approximately equal to the carrying value given, because of their short-term maturity. The fair value of loans and advances to customers is approximately equal to their carrying value due to the fact that main part of the loan portfolio carry floating interest rates which reflect the changes in the market conditions.

The table below sets out the Group's classification of each class of financial assets and liabilities, and their fair values as at 31 December 2007.

in thousands of BGN	Trading	Held-to-maturity	Loans and receivables	Available for sale	Other amortised cost	Other	Total carrying amount	Fair value
ASSETS								
Cash and balances with central banks	–	–	611,262	–	–	–	611,262	611,262
Financial assets held for trading	13,529	–	–	–	–	–	13,529	13,529
Available for sale investments	–	–	–	374,203	–	–	374,203	374,203
Financial assets held to maturity	–	106,084	–	–	–	–	106,084	104,878
Loans and advances to banks and financial institutions	–	–	189,575	–	–	–	189,575	189,575
Loans and advances to customers	–	–	2,778,123	–	–	–	2,778,123	2,778,123
Other financial assets	–	–	–	–	–	823	823	823
	13,529	**106,084**	**3,578,960**	**374,203**	**–**	**823**	**4,073,599**	**4,072,393**
LIABILITIES								
Due to credit institutions	–	–	–	–	3,195	–	3,195	3,195
Due to other customers	–	–	–	–	2,475,139	–	2,475,139	2,475,139
Liabilities evidenced by paper	–	–	–	–	1,238,113	–	1,238,113	1,211,375
Subordinated term debt	–	–	–	–	51,005	–	51,005	51,005
Perpetual debt	–	–	–	–	98,386	–	98,386	99,450
Other financial liabilities		–	–	–	–	1,924	1,924	1,924
	–	**–**	**–**	**–**	**3,865,838**	**1,924**	**3,867,762**	**3,842,088**

6. Net interest income

In thousands of BGN	Six months ended 30 June 2008	Six months ended 30 June 2007
Interest income		
Interest income arises from:		
– Accounts with and placements to banks and financial institutions	3,809	2,550
– Loans to individuals and households	40,081	26,809
– Loans to corporate clients	96,022	66,535
– Loans to SME	13,323	11,017
– Microlending	2,707	1,849
– Debt instruments	6,714	10,575
	162,656	**119,335**
Interest expense		
Interest expense arise from:		
– Deposits from banks	(306)	(204)
– Deposits from other customers	(44,637)	(21,211)
– Liabilities evidenced by paper	(30,268)	(30,405)
– Subordinated term debt	(3,105)	(3,011)
– Perpetual debt	(5,786)	(5,808)
– Lease agreement and other	(23)	(22)
	(84,125)	**(60,661)**
Net interest income	**78,531**	**58,674**

For the six months ended 30 June 2008 and 30 June 2007 the recognised interest income on individually impaired financial assets (loans and advances to customers) amount to BGN 2,233 thousand and BGN 3,755 thousand respectively.

7. Net fee and commission income

In thousands of BGN	Six months ended 30 June 2008	Six months ended 30 June 2007
Fee and commission income		
Letters of credit and guarantees	5,901	4,871
Payments transactions	5,244	3,632
Customer accounts	4,629	3,745
Cards business	9,277	6,197
Other	9,690	7,826
	34,741	**26,271**
Fee and commission expense		
Letters of credit and guarantees	(941)	(335)
Correspondent accounts	(412)	(458)
Cards business	(2,623)	(2,469)
Other	(270)	(145)
	(4,246)	(3,407)
Net fee and commission income	**30,495**	**22,864**

8. Net trading income

In thousands of BGN	Six months ended 30 June 2008	Six months ended 30 June 2007
Net trading income arises from:		
– Debt instruments	(13)	170
– Equities	(2,300)	829
– Foreign exchange	4,196	3,688
Net trading income	**1,883**	**4,687**

9. Other operating expneses

Other operating expenses represent losses from disposal of financial instruments not carried at fair value through profit or loss.

In thousands of BGN	Six months ended 30 June 2008	Six months ended 30 June 2007
Other operating income/(expenses) arises from:		
– Debt instruments	(2,471)	(350)
– Other	30	–
Other operating expenses	**(2,441)**	**(350)**

10. General administrative expenses

In thousands of BGN	Six months ended 30 June 2008	Six months ended 30 June 2007
General and administrative expenses comprise:		
– Personnel cost	24,423	13,861
– Depreciation and amortisation	7,809	5,381
– Advertising	8,659	4,657
– Building rent expense	7,143	5,254
– Telecommunication, software and other computer maintenance	4,832	3,604
– Unclaimable VAT	4,335	3,034
– Administration, consultancy and other costs	15,149	11,474
General administrative expenses	**72,350**	**47,265**

Personnel costs include salaries, social and health security contributions under the provisions of the local legislation. At 30 June 2008 the total number of employees is 2,509 (30 June 2007: 1,761).

11. Impairment losses

In thousands of BGN	Six months ended 30 June 2008	Six months ended 30 June 2007
Write-downs		
Loans and advances to customers	(15,630)	(26,176)
Reversal of write-downs		
Loans and advances to customers	8,372	11,887
Net impairment losses	**(7,258)**	**(14,289)**

12. Income tax expense

In thousands of BGN	Six months ended 30 June 2008	Six months ended 30 June 2007
Current taxes	(2,561)	(2,140)
Deferred taxes (see note 22)	(198)	(128)
Income tax expense	**(2,759)**	**(2,268)**

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

In thousands of BGN	Six months ended 30 June 2008	Six months ended 30 June 2007
Accounting profit before taxation	**26,765**	**21,443**
Corporate tax at applicable tax rate (10% for 2008 and 10% for 2007)	2,677	2,144
Effect of tax rates of foreign subsidiaries and branches	15	150
Tax effect of permanent tax differences	(131)	(154)
Tax effect of reversals of temporary differences	198	128
Income tax expense	**2,759**	**2,268**
Effective tax rate	10.31%	10.58%

13. Earnings per share

	Six months ended 30 June 2008	Six months ended 30 June 2007
Net profit attributable to shareholders *(in thousands of BGN)*	24,025	19,239
Weighted average number of ordinary shares *(in thousands)*	110,000	102,210
Earnings per share *(in BGN)*	**0.22**	**0.19**

The basic earnings per share, calculated in accordance with IAS 33, are based on the profit attributable to ordinary equity holders of the Bank. In the six months ended 30 June 2008 as in the previous year, no conversion or option rights were outstanding. The diluted earnings per share, therefore, correspond to the basic earnings per share.

14. Cash and balances with central banks

In thousands of BGN	30 June 2008	31 December 2007
Cash on hand		
– In Bulgarian leva	44,290	89,814
– In foreign currencies	74,916	38,007
Gold bullion	6,079	4,761
Balances with central banks	331,207	414,068
Current accounts and amounts with local banks	105	67
Current accounts and amounts with foreign banks	231,732	64,545
Total	**688,329**	**611,262**

15. Financial assets held for trading

In thousands of BGN	30 June 2008	31 December 2007
Bonds, notes and other instruments issued by:		
Bulgarian government		
– denominated in Bulgarian leva	4,100	2,046
– denominated in foreign currencies	12	70
Foreign governments	–	–
Other issuers	7,215	11,413
Total	**11,327**	**13,529**

16. Available for sale investments

In thousands of BGN	30 June 2008	31 December 2007
Bonds, notes and other instruments issued by:		
Bulgarian government		
– denominated in Bulgarian leva	28,019	29,765
– denominated in foreign currencies	5,395	6,323
Foreign governments		
– short term	229,644	229,860
– long term	–	20,019
Foreign banks	58,773	87,159
Other issuers	1,072	1,077
Total	**322,903**	**374,203**

17. Financial assets held to maturity

Long-term securities held to maturity represent debt investments that the Group has the intent and ability to hold to maturity.

In thousands of BGN	30 June 2008	31 December 2007
Securities held to maturity issued by:		
Bulgarian government	51,506	60,492
Foreign governments	2,619	1,378
Foreign banks	17,317	44,214
Total	**71,442**	**106,084**

During May 2008 the Bank sold held to maturity investments at the nominal amount of EUR 10,000 thousands. This sale did not represent a change in the Bank's intention and ability to hold the investments to their maturity, because it was attributable to an isolated, non-recurring event that was beyond the Bank's control and was not anticipated by the Bank.

18. Loans and advances to banks and financial institutions

(a) Analysis by type

In thousands of BGN	30 June 2008	31 December 2007
Placements with banks	10,328	165,954
Receivables under repurchase agreements	501	–
Other	1,979	23,621
Total	**12,808**	**189,575**

(b) Geographical analysis

In thousands of BGN	30 June 2008	31 December 2007
Domestic banks and financial institutions	812	24,902
Foreign banks and financial institutions	11,996	164,673
Total	**12,808**	**189,575**

19. Loans and advances to customers

In thousands of BGN	30 June 2008	31 December 2007
Retail customers		
– Consumer loans	240,834	277,765
– Mortgage loans	375,145	390,256
– Credit cards	136,253	88,746
Small and medium enterprises	263,715	270,565
Microlending	41,777	43,476
Corporate customers	1,821,590	1,777,624
Less allowance for impairment	(77,086)	(70,309)
Total	**2,802,228**	**2,778,123**

Movement in impairment allowances

In thousands of BGN	
Balance at 1 January 2008	**70,309**
Additional allowances	**15,630**
Amounts released	**(8,372)**
Write – offs	**(481)**
Balance at 30 June 2008	**77,086**

All impaired loans have been written down to their recoverable amounts.

20. Property and equipment

In thousands of BGN	Land and buildings	Fixtures and fittings	Motor vehicles	Assets under construction	Leasehold improvements	Total
Cost						
At 1 January 2008	12,367	67,686	5,826	49,114	26,623	161,616
Additions	–	394	–	27,245	1	27,640
Disposals	–	(378)	–	(148)	(154)	(680)
Transfers	–	15,420	208	(25,463)	3,901	(5,934)
At 30 June 2008	**12,367**	**83,122**	**6,034**	**50,748**	**30,371**	**182,642**
Depreciation						
At 1 January 2008	3,186	33,877	2,879	–	6,664	46,606
Charge for the period	208	5,084	481	–	1,632	7,405
On disposals	–	(357)	–	–	(127)	(484)
At 30 June 2008	**3,394**	**38,604**	**3,360**	**–**	**8,169**	**53,527**
Net book value						
At 30 June 2008	**8,973**	**44,518**	**2,674**	**50,748**	**22,202**	**129,115**
At 1 January 2008	**9,181**	**33,809**	**2,947**	**49,114**	**19,959**	**115,010**

21. Intangible assets

In thousands of BGN	Software and licences	Goodwill	Total
Cost			
At 1 January 2008	2,607	107	2,714
Additions	110	–	110
Disposals	(12)	–	(12)
Transfers	5,663	–	5,663
At 30 June 2008	8,368	107	8,475
Amortisation			
At 1 January 2008	1,866	–	1,866
Acquired depreciation	–	–	–
Charge for the year	404	–	404
On disposals	(6)	–	(6)
At 30 June 2008	2,264	–	2,264
Net book value			
At 30 June 2008	6,104	107	6,211
At 1 January 2008	741	107	848

22. Deferred Taxation

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 10%.

Deferred income tax balances are attributable to the following items:

	Assets		Liabilities		Net	
In thousands of BGN	30 June 2008	31 December 2007	30 June 2008	31 December 2007	30 June 2008	31 December 2007
Property, equipment and intangibles	–	–	1,723	1,549	1,723	1,549
Other items	(181)	(181)	73	49	(108)	(132)
Net tax (assets)/liabilities	**(181)**	**(181)**	**1,796**	**1,598**	**1,615**	**1,417**

Movements in temporary differences during the year at the amount of BGN 198 thousand are recognised in the income statement.

23. Other assets

In thousands of BGN	30 June 2008	31 December 2007
Deferred expense	14,395	3,858
Other assets	13,009	8,885
Total	**27,404**	**12,743**

24. Due to credit institutions

In thousands of BGN	30 June 2008	31 December 2007
Term deposits	11,409	1,567
Payable on demand	1,626	1,628
Total	**13,035**	**3,195**

25. Due to other customers

In thousands of BGN	30 June 2008	31 December 2007
Retail customers		
– payable on demand	349,215	465,621
– term deposits	1,045,841	989,124
Corporate, state-owned and public institutions		
– payable on demand	409,360	625,022
– term deposits	531,852	395,372
Total	**2,336,268**	**2,475,139**

26. Liabilities evidenced by paper

In thousands of BGN	30 June 2008	31 December 2007
Bonds and notes issued	29,757	459,884
Acceptances under letters of credit	520,660	311,491
Liabilities under repurchase agreements (see note 30)	81,468	–
Syndicated loan	490,936	363,464
Other term liabilities	90,908	103,274
Total	**1,213,729**	**1,238,113**

Other term liabilities comprise mainly financing obtained from financial institutions through extension of loan facilities.

Bonds and notes issued comprise of the following:

In thousands of BGN	30 June 2008	31 December 2007
Long term bonds payable		
EUR 6,000,000, 8.5%, due 2008	–	12,256
EUR 200,000,000, 7.5%, due 2008	–	417,885
Total bonds payable	**–**	**430,141**
Mortgage bonds		
EUR 5,000,000, 7%, due 2008	9,864	9,855
EUR 10,000,000, 7%, due 2009	19,893	19,888
Total mortgage bonds	**29,757**	**29,743**
Total bonds and notes issued	**29,757**	**459,884**

The bonds and notes are payable to third parties in the years listed above. The long term bonds payable have been issued by First Investment Finance B.V., The Netherlands, guaranteed by the Bank and are listed on the Luxemburg stock exchange. The mortgage bonds have been listed on the Bulgarian stock exchange.

27. Subordinated term debt

As at 30 June 2008 the Bank has entered into six separate subordinated Loan Agreements with four different lenders. All these subordinated Loan Agreements are governed by English Law and the funds raised outside the Republic of Bulgaria.

Subordinated liabilities can be analysed as follows:

In thousands of BGN Lender	Principal amount	Maturity	Amortised cost as at 30 June 2008
Growth Management Limited	1,956	10 years	2,782
Growth Management Limited	3,912	10 years	5,657
Hypo-Alpe-Adria Bank	3,912	10 years	5,476
Growth Management Limited	5,867	10 years	9,055
Standard Bank London Ltd.	9,779	10 years	13,758
Hillside Apex Fund Ltd.	9,779	10 years	14,084
Total	**35,205**		**50,812**

Interest is capitalised annually and is payable at maturity. The treatment of these liabilities for capital adequacy purposes as tier 2 capital is in accordance with the requirements of the local legislation. Any prepayment of subordinated debt prior to its final maturity is subject to written approval from the Bulgarian National Bank.

28. Perpetual debt

In thousands of BGN	Principal amount	Amortised cost as at 30 June 2008
Step-up Guaranteed Perpetual Subordinated Bonds EUR 27 mio	52,807	57,698
Step-up Guaranteed Perpetual Subordinated Bonds EUR 21 mio	41,073	41,703
Total	93,880	99,401

The issue of the Step-Up Subordinated Bonds by First Investment Finance B.V., a limited liability company registered under the laws of the Netherlands and 100% owned by the Bank was fully guaranteed by the Bank. The terms and conditions of the Subordinated Bonds fully comply with Ordinance 8 on Capital Adequacy of Credit Institutions issued by BNB. The amounts received for the perpetual subordinated bonds are included in tier 2 capital after respective Permissions by Bulgarian National Bank.

29. Other liabilities

In thousands of BGN	30 June 2008	31 December 2007
Liabilities to personnel	1,563	1,564
Current tax liability	2,504	2,484
Other payables	3,042	4,095
Total	**7,109**	**8,143**

30. Repurchase and resale agreements

The Bank raises funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate. Repurchase agreements are commonly used as a tool for short-term financing of interest-bearing assets, depending on the prevailing interest rates. At 30 June 2008 assets sold under repurchase agreements were as follows:

In thousands of BGN	Fair value of underlying assets	Carrying amount of corresponding liabilities
Bulgarian government securities	14,132	15,622
Other government securities	57,091	57,096
Other securities	9,779	8,750
Total	**81,002**	**81,468**

At 31 December 2007 there were no outstanding repurchase agreements and therefore no comparatives have been provided.

The Bank also purchases financial instrument under agreements to resell them at future dates ("reverse repurchase agreements"). The seller commits to repurchase the same or similar instruments at an agreed future date. Reverse repurchases are entered into as a facility to provide funds of customers. At 30 June 2008 assests purcased subject to agreements to resell them are as follows:

In thousands of BGN	Fair value of assets held as collateral	Carrying amount of corresponding receivables
Bulgarian government securities	511	501
Total	**511**	**501**

At 31 December 2007 there were no outstanding reverse repurchase agreements and therefore no comparatives have been provided.

31. Capital and reserves

(a) Number and face value of registered shares as at 30 June 2008

As at 30 June 2008 the registered share capital of the Bank is BGN 110,000,000 divided into 110,000,000 ordinary dematerialized shares with voting rights of BGN 1 par value each. All the shares have been fully paid-up.

The share capital of the Bank was increased from BGN 100,000,000 to BGN 110,000,000 as a result of the successful IPO of new 10,000,000 dematerialized shares through the Bulgarian Stock Exchange – Sofia and was registered at the Commercial Register of Sofia City Court on 4 June 2007. In order to facilitate the IPO and prior to its launching the par value of the Bank's shares was reduced from BGN 10 to BGN 1 by a decision of the General Meeting of the Shareholders without affecting the aggregate amount of the share capital and the individual shareholdings.

(b) Shareholders

On 13 February 2007 Growth Management Limited, Channel Islands and Hillside Apex Fund Ltd., Cayman Islands transferred their entire 20% shareholding in the Bank to the offshore companies Domenico Ventures Limited, British Virgin Islands – 7%; Rafaela Consultants Limited, British Virgin Islands – 7%; and Legnano Enterprise Limited Cyprus – 6% respectively. As a result Legnano Enterprises Ltd. increased its aggregate shareholding to 7.68%.

Furthermore, as provided under the terms and conditions of the IPO First Financial Brokerage House Ltd. sold 6,500,000 of the existing shares of the Bank that it holds to new investors, thereby effectively reducing its shareholding from 13.89% to 6.72%. Subsequently on 20 December 2007 First Financial Brokerage House Ltd. transferred its remaining 6.72% shareholding to Balkan Holidays Limited, UK.

The table below shows those shareholders of the Bank holding shares as at 30 June 2008 together with the number and percentage of total issued shares.

	Number of shares	% of issued share capital
Mr. Ivailo Dimitrov Mutafchiev	31,830,000	28.94
Mr. Tzeko Todorov Minev	31,830,000	28.94
Balkan Holidays Limited, UK	7,390,000	6.72
Legnano Enterprise Limited Cyprus	8,450,000	7.68
Domenico Ventures Limited, British Virgin Islands	7,000,000	6.36
Rafaela Consultants Limited, British Virgin Islands	7,000,000	6.36
Other shareholders (shareholders holding shares subject to free trade on the Bulgarian Stock Exchange – Sofia)	16,500,000	15.00
Total	**110,000,000**	**100.00**

Currently all newly issued shares plus the part of the existing shares held by First Financial Brokerage House Ltd. sold to new investors under the IPO (a total of 16,500,000 shares) are freely traded on the floor of Bulgarian Stock Exchange – Sofia.

(c) Statutory reserve

Statutory reserves comprise amounts appropriated for purposes defined by the local legislation. Under Bulgarian law, the Bank is required to allocate 1/10 of its annual profit as statutory reserves until their aggregate amount reaches 1/10 of the Banks' share capital.

32. Commitments and contingent liabilities

(a) Memorandum items

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to two years.

The contractual amounts of commitments and contingent liabilities are set out in the following table by category. The amounts reflected in the table represent the maximum accounting loss that would be recognised at the balance sheet date if counterparts failed completely to perform as contracted.

In thousands of BGN	30 June 2008	31 December 2007
Bank guarantees		
– in BGN	156,385	186,268
– in foreign currency	194,269	181,544
Total guarantees	**350,654**	**367,812**
Unused credit lines	402,555	457,669
Promissory notes	17,477	21,034
Letters of credit in foreign currency	179,289	268,562
Total	**949,975**	**1,115,077**

These commitments and contingent liabilities have off balance-sheet credit risk because only organization fees and accruals for probable losses are recognised in the balance sheet until the commitments are fulfilled or expire. Many of the contingent liabilities and commitments will expire without being advanced in whole or in part. Therefore, the amounts do not represent expected future cash flows.

As at the balance sheet date there are no significant commitments and contingencies which require additional dosclosure.

At 30 June 2008 the extent of collateral held for guarantees and letters of credit is 100 percent.

33. Cash and cash equivalents

For the purposes of the cash flows statement, cash and cash equivalents comprises the following balances with less than 90 days original maturity:

In thousands of BGN	30 June 2008	31 December 2007
Cash and balances with central banks	688,329	572,319
Loans and advances to banks with maturity less than 90 days	12,127	41,773
Total	**700,456**	**614,092**

34. Average balances

The average carrying amounts of financial assets and liabilities are set out in the table below. The amounts are calculated by using a simple average of monthly balances for all instruments.

In thousands of BGN	Six months ended 30 June 2008	Six months ended 30 June 2007
FINANCIAL ASSETS		
Cash and balances with central banks	642,943	474,365
Financial assets held for trading	10,489	13,827
Available for sale investments	229,797	410,899
Financial assets held to maturity	88,497	97,241
Loans and advances to banks and financial institutions	44,137	20,874
Loans and advances to customers	2,796,220	1,928,748
FINANCIAL LIABILITIES		
Due to credit institutions	9,024	7,628
Due to other customers	2,454,404	1,703,337
Liabilities evidenced by paper	1,000,525	987,206
Subordinated term debt	52,185	49,914
Perpetual debt	98,589	98,346

35. Related party transactions

Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party on making financial or operational decisions, or the parties are under common control.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and other transactions. These transactions were carried out on commercial terms and at market rates. The volume of these transactions and outstanding balances at the end of respective years are as follows:

Type of related party	Parties that control or manage the Bank		Enterprises under common control	
In thousands of BGN	Six months ended 30 June 2008	2007	Six months ended 30 June 2008	2007
Loans:				
Loans outstanding at beginning of the period	2,474	1,876	8,110	4,351
Loans issued during the period	(120)	598	2,806	3,759
Loans outstanding at end of the period	2,354	2,474	10,916	8,110
Deposits received:				
Deposits at beginning of the period	1,062	547	3,449	2,825
Deposits received during the perid	2,470	515	2,564	624
Deposits at end of the period	3,532	1,062	6,013	3,449
Deposits placed				
Deposits at beginning of the period	–	–	11,735	7,823
Deposits placed during the period	–	–	12	3,912
Deposits at end of the period	–	–	11,747	11,735
Off-balance sheet commitments issued by the Group				
At beginning of the period	387	–	2,108	1,117
Granted	1,049	387	(274)	991
At the end of the period	1,436	387	1,834	2,108

The key management personnel of the Bank received remuneration of BGN 1,371 thousand for the first half of 2008 (first half of 2007: BGN 934 thousand).

36. Subsidiary undertakings

(a) First Investment Finance B.V.

In April 2003 the Bank created a special purpose entity, incorporated in the Netherlands, First Investment Finance B.V., which is wholly owned by the Bank. Its purpose is to accomplish a narrow and well-defined objective of receiving loans from foreign financial institutions and attracting investors by issuing bonds and other financial instruments, guaranteed by the Bank, the proceeds from which are used to finance the operations of the Bank. The authorised share capital of the company amounts to EUR 90 thousand, divided into 900 common shares of EUR 100 each. Issued and paid up are 180 shares. The Bank consolidates its investment in this company.

(b) Diners Club Bulgaria AD

In May 2005 the Bank acquired 80% of the share capital of Diners Club Bulgaria AD. The share capital of the company is BGN 5,000 thousand. As at 30 June 2008 the Bank holds 85.52% of the share capital of Diners Club Bulgaria AD. The company was incorporated in 1996 as a franchise and processing agent of Diners Club International. The Bank consolidates its investment in this company.

(c) First Investment Bank – Albania Sh.a.

In April 2006 the Bank founded First Investment Bank – Albania Sh.a. with a 99.9998% shareholding. The authorised share capital of the new entity is ALL 1,000,000 thousand, which is fully paid-up. On 27 June 2007 First Investment Bank – Albania was granted a full banking licence by the Bank of Albania, and on 1 September 2007 effectively took over the activities of the former FIB-Tirana Branch by assuming all its rights and obligations, assets and liabilities. The Bank consolidates its investment in this company.

37. Post balance sheet events

In July 2008, First Investment Bank – Albania Sh.a. increased its share capital with EUR 1,000,000 by issuing new shares. First Investment Bank A.D. was the only contributor there by further slightly increasing its shareholding in the Bank.

38. Applicable standards

IFRS 1 First-time Adoption of International Financial Reporting Standards

IFRS 2 Share-based Payment

IFRS 3 Business Combinations

IFRS 4 Insurance Contracts

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

IFRS 6 Exploration for and Evaluation of Mineral Resources

IFRS 7 Financial Instruments: Disclosures

IAS 1 Presentation of Financial Statements

IAS 2 Inventories

IAS 7 Cash Flow Statements

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

IAS 10 Events after the Balance Sheet Date

IAS 11 Construction Contracts

IAS 12 Income Taxes

IAS 14 Segment Reporting

IAS 16 Property, Plant and Equipment

IAS 17 Leases

IAS 18 Revenue

IAS 19 Employee Benefits

IAS 20 Accounting for Government Grants and Disclosure of Government Assistance

IAS 21 The Effects of Changes in Foreign Exchange Rates

IAS 23 Borrowing Costs

IAS 24 Related Party Disclosures

IAS 26 Accounting and Reporting by Retirement Benefit Plans

IAS 27 Consolidated and Separate Financial Statements

IAS 28 Investments in Associates

IAS 29 Financial Reporting in Hyperinflationary Economies

IAS 31 Interests in Joint Ventures

IAS 32 Financial Instruments: Presentation

IAS 33 Earnings per Share

IAS 34 Interim Financial Reporting

IAS 36 Impairment of Assets

IAS 37 Provisions, Contingent Liabilities and Contingent Assets

IAS 38 Intangible Assets

IAS 39 Financial Instruments: Recognition and Measurement

IAS 40 Investment Property

IAS 41 Agriculture

IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities

IFRIC 2 Members' Shares in Co-operative Entities and Similar Instruments

IFRIC 4 Determining whether an Arrangement contains a Lease

IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation

IFRIC 6 Liabilities arising from Participating in a Specific market- Waste Electrical and Electronic Equipment

IFRIC 7 Applying the Restatement approach under IAS 29

IFRIC 8 Scope of IFRS 2

IFRIC 9 Reassessment of Embedded Derivatives

IFRIC 10 Interim Financial Reporting and Impairment

IFRIC 11 Group and Treasury Share Transactions

IFRIC 12 Service Concession Arrangements

IRFIC 14 The Limit in a Defined Benefit Assets, Minimum Requirements and theor Interaction

SIC–7 Introduction of the Euro

SIC–10 Government Assistance – No Specific Relation to Operating Activities

SIC–12 Consolidation – Special Purpose Entities

SIC–13 Jointly Controlled Entities – Non-Monetary Contributions by Ventures

SIC–15 Operating Leases — Incentives

SIC–21 Income Taxes – Recovery of Revalued Non-Depreciable Assets

SIC–25 Income Taxes – Changes in the Tax Currently effective version of an Entity or its Shareholders

SIC–27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease

SIC–29 Disclosure – Service Concession Arrangements

SIC–31 Revenue – Barter Transactions Involving Advertising Services

SIC 32 Intangible Assets – Web Site Costs

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