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

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

INDEPENDENT AUDITORS' REPORT

To the shareholders of
First Investment Bank AD

We have audited the accompanying consolidated financial statements of First Investment Bank AD ("the Bank"), which comprise the consolidated statement of financial position as at 30 June 2012, the consolidated statements of comprehensive income, changes in equity and cash flows for the six months period then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

KPMG

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Bank as at 30 June 2012, and of its consolidated financial performance and its consolidated cash flows for the six months period then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

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

Tzvetelinka Koleva
Authorized representative

Krassimir Hadjidinev
Registered auditor

KPMG Bulgaria OOD

Sofia, 24 August 2012

FIRST INVESTMENT BANK AD

CONSOLIDATED FINANCIAL STATEMENTS
AS AT 30 JUNE 2012
WITH INDEPENDENT AUDITOR'S REPORT THEREON

Fibank
First Investment Bank

Consolidated statement of comprehensive income for the six months ended 30 June 2012

In thousands of BGN

	Note	Six months ended 30 June 2012	Six months ended 30 June 2011
Interest income		227,994	215,404
Interest expense		(153,286)	(130,943)
Net interest income	6	**74,708**	**84,461**
Fee and commission income		38,542	35,155
Fee and commission expense		(4,652)	(4,020)
Net fee and commission income	7	**33,890**	**31,135**
Net trading income	8	3,754	7,803
Other operating income/(expenses)	9	958	(3,279)
TOTAL INCOME FROM BANKING OPERATIONS		**113,310**	**120,120**
General administrative expenses	10	(78,324)	(76,216)
Impairment losses	11	(11,650)	(14,830)
Other expenses, net		(6,322)	(6,820)
PROFIT BEFORE TAX		**17,014**	**22,254**
Income tax expense	12	(1,773)	(2,178)
GROUP PROFIT AFTER TAX		**15,241**	**20,076**
Other comprehensive income			
Exchange differences on translating foreign operations		90	(287)
Available for sale financial assets		696	(39)
Other comprehensive income for the period		**786**	**(326)**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**16,027**	**19,750**
Profit attributable to:			
Owners of the Bank		15,257	20,054
Non-controlling interests		(16)	22
Total comprehensive income attributable to:			
Owners of the Bank		16,043	19,728
Non-controlling interests		(16)	22
Basic and diluted earnings per share *(in BGN)*	13	**0.14**	**0.18**

The statement of comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 52.

Dimitar Kostov
Executive Director
Chairman of the Managing Board

Svetoslav Moldovansky
Executive Director

Ianko Karakolev
Chief Financial Officer

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Authorized representative
KPMG Bulgaria OOD

Krassimir Hadjidinev
Registered auditor

Fibank
First Investment Bank

Consolidated statement of financial position as at 30 June 2012

In thousands of BGN

	Note	30 June 2012	31 December 2011
ASSETS			
Cash and balances with central banks	14	928,921	926,394
Financial assets held for trading	15	8,507	8,659
Available for sale investments	16	846,372	663,925
Financial assets held to maturity	17	96,849	65,886
Loans and advances to banks and financial institutions	18	33,398	100,427
Loans and advances to customers	19	4,454,278	4,182,236
Property and equipment	20	121,088	119,242
Intangible assets	21	18,518	19,074
Derivative assets held for risk management		761	-
Current tax assets		2,938	1,265
Other assets	23	147,632	87,344
TOTAL ASSETS		**6,659,262**	**6,174,452**
LIABILITIES AND CAPITAL			
Due to credit institutions	24	8,780	1,782
Due to other customers	25	5,846,298	5,388,310
Liabilities evidenced by paper	26	76,829	112,306
Subordinated term debt	27	51,362	50,596
Perpetual debt	28	100,393	99,376
Hybrid debt	29	79,196	42,800
Deferred tax liability	22	3,440	3,636
Derivative liabilities held for risk management		-	358
Current tax liabilities		946	49
Other liabilities	30	5,989	5,237
TOTAL LIABILITIES		**6,173,233**	**5,704,450**
Issued share capital	32	110,000	110,000
Share premium	32	97,000	97,000
Statutory reserve	32	39,861	39,861
Revaluation reserve on available for sale investments		1,510	814
Reserve from translation of foreign operations		(2,610)	(2,700)
Retained earnings		238,056	222,751
SHAREHOLDERS' EQUITY		**483,817**	**467,726**
Non-controlling interests		2,212	2,276
TOTAL GROUP EQUITY		**486,029**	**470,002**
TOTAL LIABILITIES AND GROUP EQUITY		**6,659,262**	**6,174,452**

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 52.

Dimitar Kostov
Executive Director
Chairman of the Managing Board

Svetoslav Moldovansky
Executive Director

Ianko Karakolev
Chief Financial Officer

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Registered auditor

Fibank
First Investment Bank

Consolidated statement of cash flows for the six months ended 30 June 2012

In thousands of BGN

	Six months ended 30 June 2012	Six months ended 30 June 2011
Net cash flow from operating activities		
Profit for the period	15,241	20,076
Adjustment for non-cash items		
Impairment losses	11,650	14,830
Depreciation and amortisation	10,464	11,098
Income tax expense	1,773	2,178
(Profit) from sale and derecognition of tangible and intangible fixed assets, net	(10)	(27)
(Profit) from sale of other assets, net	(132)	(27)
	38,986	**48,128**
Change in operating assets		
(Increase)/decrease in financial instruments held for trading	152	(1,710)
(Increase)/decrease in available for sale investments	(181,751)	192,739
(Increase) /decrease in loans and advances to banks and financial institutions	10,960	(50,934)
(Increase) in loans to customers	(283,692)	(530,870)
Net (Increase) in other assets	(63,731)	(20,151)
	(518,062)	**(410,926)**
Change in operating liabilities		
Increase in deposits from banks	6,998	27,143
Increase in amounts owed to other depositors	457,988	430,839
Net increase in other liabilities	1,184	1,975
	466,170	**459,957**
Income tax paid	(1,772)	(161)
NET CASH FLOW FROM OPERATING ACTIVITIES	**(14,678)**	**96,998**
Cash flow from investing activities		
(Purchase) of tangible and intangible fixed assets	(11,751)	(6,093)
Sale of tangible and intangible fixed assets	7	3
Sale of other assets	1,141	5,090
(Increase)/decrease of investments	(30,963)	4,561
NET CASH FLOW FROM INVESTING ACTIVITIES	**(41,566)**	**3,561**
Financing activities		
Increase in borrowings	2,702	62,108
NET CASH FLOW FROM FINANCING ACTIVITIES	**2,702**	**62,108**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**(53,542)**	**162,667**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	**988,073**	**560,281**
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD (see note 34)	**934,531**	**722,948**

The cash flow statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 52.

Dimitar Kostov
Executive Director
Chairman of the Managing Board

Svetoslav Moldovansky
Executive Director

Ianko Karakolev
Chief Financial Officer

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Krassimir Hadjidinev
Registered auditor

Consolidated statement of changes in equity for the six months ended 30 June 2012

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	Non-controlling interests	Total
Balance as at 1 January 2011	**110,000**	**97,000**	**186,799**	**(28)**	**(2,734)**	**39,861**	**2,277**	**433,175**
Total comprehensive income								
Profit for the six months ended 30 June 2011	-	-	20,054	-	-	-	22	20,076
Other comprehensive income								
Revaluation reserve on available for sale investments	-	-	-	(39)	-	-	-	(39)
Reserve from translation of foreign operations	-	-	-	-	(287)	-	-	(287)
Transaction with owners recognised directly in equity								
Acquisition of non-controlling interest's shareholding	-	-	89	-	-	-	(99)	(10)
Balance as at 30 June 2011	**110,000**	**97,000**	**206,942**	**(67)**	**(3,021)**	**39,861**	**2,200**	**452,915**
Balance as at 1 January 2012	**110,000**	**97,000**	**222,751**	**814**	**(2,700)**	**39,861**	**2,276**	**470,002**
Total comprehensive income								
Profit for the six months ended 30 June 2012	-	-	15,257	-	-	-	(16)	15,241
Other comprehensive income								
Revaluation reserve on available for sale investments	-	-	-	696	-	-	-	696
Reserve from translation of foreign operations	-	-	-	-	90	-	-	90
Transaction with owners recognised directly in equity								
Acquisition of non-controlling interest's shareholding	-	-	48	-	-	-	(48)	-
Balance as at 30 June 2012	**110,000**	**97,000**	**238,056**	**1,510**	**(2,610)**	**39,861**	**2,212**	**486,029**

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 52.

The financial statements have been approved by the Managing Board on 24 August 2012 and signed on its behalf by:

Dimitar Kostov
Executive Director
Chairman of the Managing Board

Svetoslav Moldovansky
Executive Director

Ianko Karakolev
Chief Financial Officer

Tzvetelinka Koleva
Authorized representative
KPMG Bulgaria OOD

СПЕЦИАЛИЗИРАНО ОДИТОРСКО ПРЕДПРИЯТИЕ
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"КПМГ - България" ООД

Krassimir Hadjidinev
Registered auditor

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.

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 2012 comprise the Bank and its subsidiaries (see note 37), together referred to as the "Group".

The Group has foreign operatios in Cyprus and Albania.

(b) Statement of compliance

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

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

(i) Interest income

Interest income and expense is recognised in profit or loss as it accrues, taking into account the effective yield of the asset (liability) 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.

(ii) Fee and commission

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

2. Significant accounting policies, continued

(a) Income recognition, continued

(iii) Net trading income

Net gains (losses) on financial assets and liabilities held for trading include those gains and losses arising from disposals and changes in the fair value of financial assets and liabilities held for trading as well as trading income in dealing with foreign currencies and exchange differences from daily revaluation of the net open foreign currency position of the Group.

(iv) Dividend income

Dividend income is recognised when the right to receive dividends is established. Usually this is the ex-dividend date for equity securities.

(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.

As long as the Bank controls the subsidiary, subsequent acquisitions/sales of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders and therefore no goodwill is recognised as a result of such transactions.

(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

Transactions in foreign currencies are translated into the respective functional currencies of the operations at the spot exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date. Foreign currency differences arising on translation are difference between amortised cost in functional currency in the beginning of period, adjusted with effective interest and received payments during the period, and amortised cost in foreign currency at the spot exchange rate at the reporting date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined.

(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 in other comprehensive income. 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.

2. Significant accounting policies, continued

(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 because its performance is internally evaluated and reported on a fair value basis. 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 or reclassify other than an insignificant amount of held-to-maturity assets, the entire category shall be reclassified as available for sale.

(iv) Available-for-sale

Available-for-sale investments are those non-derivative financial assets 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, in the case of a financial asset not at fair value through profit or loss, transaction costs.

(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 recognised in profit or loss. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income, until the financial asset is derecognised or impaired

2. Significant accounting policies, continued

(d) Financial assets, continued

(vi) Measurement, continued

at which time the cumulative gain or loss previously recognised in other comprehensive income is reclassified in profit or loss.

Interest calculated using the effective interest method is recognised in profit or loss. Dividends on equity instruments are recognised in profit or loss when the Group's right to receive payment is established.

(vii) Fair value measurement

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

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

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

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

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the Group has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Group believes a third-party market participant would take them into account in pricing a transaction.

2. Significant accounting policies, continued

(d) Financial assets, continued

(vii) Fair value measurement, continued

The Group determines the fair value of the financial instruments applying the next methods hierarchy that reflects the significance of the factors used for fair value measurement:

- Level 1 – fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – valuation techniques using inputs that are observable for the fair value of the financial instruments either directly (i.e., as prices) or indirectly (i.e., derived from prices). This level includes quotations in not active market or instruments measured by using a valuation technique;
- Level 3 – fair value measurements using inputs for the financial asset or liability that are not based on observable market data. In addition, this level includes equity investments in other institutions, related to the membership of the Group in certain organizations, whose fair value cannot be reliably measured and are measured at cost.

The next table analyses the financial instruments measured at fair value by valuation models.

in thousands of BGN

30 June 2012	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets held for trading	8,507	-	-	8,507
Available for sale investments	812,675	27,210	6,487	846,372
Derivatives held for risk management	728	33	-	761
Total	**821,910**	**27,243**	**6,487**	**855,640**

in thousands of BGN

31 December 2011	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets held for trading	8,659	-	-	8,659
Available for sale investments	630,453	26,934	6,538	663,925
Derivatives held for risk management	-	(358)	-	(358)
Total	**639,112**	**26,576**	**6,538**	**672,226**

(viii) Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the statement of financial position. Transfers of assets

2. Significant accounting policies, continued

(d) Financial assets, continued

(viii) Derecognition, continued

with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

In transactions in which the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if it does not retain control over the asset. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers in which control over the asset is retained, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

(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 statement of financial position 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 statement of financial position 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 recognised in profit or loss over the period of the borrowings using the effective yield method.

2. Significant accounting policies, continued

(h) Borrowings, continued

If the Group purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of a liability and the consideration paid is included in other operating income.

(i) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position 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 the end of each reporting period 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 profit or loss.

(i) Loans and advances

The amount of the loss is determined as the difference between the assets's carrying amount and the present value of estimated 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. Calculation of the present value of estimated future cash flows includes interest and principal repayments as well as the cash flows that could arise from high-liquid collateral.

Loans and advances are presented net of specific and general allowances for impairment. The carrying amount of the assets is reduced through use of an allowance account. Specific allowances are allocated against the carrying amount of loans and advances for which objective evidence of impairment exists as a result of past events that occurred after the initial recognition of the asset. Objective evidence of impairment include significant financial difficulty of the issuer or obligor; a breach of contract, such as a default or delinquency in interest or principal payments; the borrower will probably enter bankruptcy; observable data indicating that there is a measurable decrease in the estimated cash flows from a group of financial assets. General allowances are maintained to reduce the carrying amount of portfolios of loans and advances with similar credit risk characteristics that are collectively assessed for impairment. The expected cash flows for portfolios of similar assets are estimated on the basis of historical loss experience for assets with characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. Increases in the allowance account are recognised in profit or loss. 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.

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 allowance reversal is recognised in profit or loss.

2. Significant accounting policies, continued

(j) Impairment, continued

(ii) Available for sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is removed from equity and recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

If, in a subsequent period, the fair value of a financial instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. Any subsequent increase in the fair value of impaired equity security, available for sale, is recognized directly in the comprehensive income.

(k) Property, plant and equipment

Items of property, plant and equipment are stated in the statement of financial position at their acquisition cost less accumulated depreciation and any accumulated impairment losses.

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

Assets	**%**
▪ Buildings	3 - 4
▪ Equipment	10 - 33
▪ Fixtures and fittings	10 - 15
▪ Vehicles	10 - 20
▪ Leasehold improvements	2 - 50

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, trademarks	10 - 20
▪ Computer software	8 - 50

(m) Provisions

A provision is recognised in the statement of financial position when the Group has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of 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.

2. Significant accounting policies, continued

(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 end of each reporting period, 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 amount of an asset or liability for financial reporting purposes and the amount 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 profit or loss, except to the extent that it relates to items previously recognised either in other comprehensive income or directly in 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 profit or loss, 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.

2. Significant accounting policies, continued

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

(ii) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant estimates are required in determining the overall 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) Employee benefits

Defined contribution plans

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

Defined benefit plans

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

The Bank has obligation to pay certain amounts to each employee who retires with the Bank in accordance with Art. 222, paragraph 3 of the Bulgarian Labor Code. According to these regulations, when a labor contract of an employee of the Bank, who has acquired a pension right, is ended, the Bank is obliged to pay him or her compensations amounted to two gross monthly salaries. In case the employee has service in the Bank during the last 10 years as at retirement date, then the compensation amounts to six gross monthly salaries. As at the end of the reporting period, the management of the Group estimates the approximate amount of the potential expenditures for every employee using the projected unit credit method.

Termination benefits

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

2. Significant accounting policies, continued

(r) Employee benefits, continued

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employees, and the obligation can be estimated reliably. The Group recognises as a liability the undiscounted amount of the estimated costs related to annual leave expected to be paid in exchange for the employee's service for the period completed.

(s) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for reporting periods ending on 30 June 2012, and have not been early applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Company.

Standards, Interpretations and amendments to published Standards that are not yet effective and have not been early adopted – endorsed by the European Commission

- Amendments to IAS 1 Presentation of Items of Other Comprehensive Income – to be applied at latest, as from the commencement date of the first financial year starting on or after 1 July 2012.

- Revised IAS 19 Employee Benefits – to be applied at latest, as from the commencement date of the first financial year starting on or after 1 January 2013.

IASB/IFRIC documents not yet endorsed by the European Commission:

Management believes that it is appropriate to disclose that the following new or revised standards, new interpretations and amendments to current standards, which are already issued by the International Accounting Standards Board (IASB), are not yet endorsed for adoption by the European commission, and therefore are not taken into account in preparing these consolidated financial statements. The actual effective dates for them will depend on the endorsement decision by the European commission.

- IFRS 9 *Financial Instruments* (issued November 2009) and Additions to IFRS 9 (issued October 2010) has an effective date 1 January 2015 and could change the classification and measurement of financial instruments.
- In May 2011 the IASB issued IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint arrangements*, IFRS 12 *Disclosures of Interests in Other Entities* and IFRS 13 *Fair Value Measurement*, which all have an effective date of 1 January 2013. The IASB also issued IAS 27 *Separate Financial Statements* (2011) which supersedes IAS 27 (2008) and IAS 28 *Investments in Associates and Joint Ventures* (2011) which supersedes IAS 28 (2008). All of these standards have an effective date of 1 January 2013.
- Amendments to IAS 12 *Deferred Tax: Recovery of Underlying Assets* (issued December 2010) has an effective date 1 January 2012.
- Amendments to IFRS 1 *Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* (issued December 2010) has an effective date 1 July 2012.

2. Significant accounting policies, continued

(s) New standards and interpretations not yet adopted, continued

- In December 2011 the IASB issued amendments to IFRS 7 *Disclosures – Offsetting Financial Assets and Financial Liabilities* with an effective date of 1 January 2013.
- In December 2011 the IASB issued amendments to IAS 32 *Offsetting Financial Assets and Financial Liabilities* with an effective date of 1 January 2014.
- Amendments to IFRS 1 *Government Loans* (Issued March 2012) with an effective date of 1 January 2013.
- Improvements to IFRSs (2009–2011) (issued May 2012) with an effective date of 1 January 2013.
- Amendments to IFRS 10, IFRS 11 and IFRS 12 *Transition Guidance* (issued June 2012) with an effective date of 1 January 2013.
- IFRIC Interpretation 20: *Stripping Costs in the Production Phase of a Surface Mine* with an effective date of 1 January 2013.

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.

3. Risk management disclosures, continued

A. Trading activities, continued

(ii) Market risk, continued

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% 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 2012:

	30 June	**Six months ended 30 June 2012**			**31 December**
in thousands of BGN	**2012**	**average**	**low**	**high**	**2011**
VaR	463	360	224	511	243

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, subordinated debt instruments 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.

3. Risk management disclosures, continued

B. Non-trading activities, continued

(i) Liquidity risk, continued

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 2012

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	928,921	-	-	-	-	**928,921**
Financial assets held for trading	8,507	-	-	-	-	**8,507**
Available for sale investments	819,500	-	20,385	-	6,487	**846,372**
Financial assets held to maturity	-	19,516	49,073	28,260	-	**96,849**
Loans and advances to banks and financial institutions	21,192	-	3,996	8,210	-	**33,398**
Loans and advances to customers	385,207	333,086	1,011,413	2,724,572	-	**4,454,278**
Other financial assets	761	-	-	-	-	**761**
Total financial assets	**2,164,088**	**352,602**	**1,084,867**	**2,761,042**	**6,487**	**6,369,086**
Liabilities						
Due to credit institutions	8,780	-	-	-	-	**8,780**
Due to other customers	1,463,608	1,120,997	2,575,350	686,343	-	**5,846,298**
Liabilities evidenced by paper	32,173	3,255	7,380	34,021	-	**76,829**
Subordinated term debt	-	-	-	51,362	-	**51,362**
Perpetual debt	-	-	-	-	100,393	**100,393**
Hybrid debt	-	-	-	-	79,196	**79,196**
Total financial liabilities	**1,504,561**	**1,124,252**	**2,582,730**	**771,726**	**179,589**	**6,162,858**
Net liquidity gap	**659,527**	**(771,650)**	**(1,497,863)**	**1,989,316**	**(173,102)**	**206,228**

3. Risk management disclosures, continued

B. Non-trading activities, continued

(i) Liquidity risk, continued

Maturity table as at 31 December 2011

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	926,394	-	-	-	-	**926,394**
Financial assets held for trading	8,659	-	-	-	-	**8,659**
Available for sale investments	647,548	3,975	5,864	-	6,538	**663,925**
Financial assets held to maturity	-	-	1,796	64,090	-	**65,886**
Loans and advances to banks and financial institutions	74,362	-	17,404	8,661	-	**100,427**
Loans and advances to customers	293,894	297,741	1,011,165	2,579,436	-	**4,182,236**
Total financial assets	**1,950,857**	**301,716**	**1,036,229**	**2,652,187**	**6,538**	**5,947,527**
Liabilities						
Due to credit institutions	1,782	-	-	-	-	**1,782**
Due to other customers	1,336,818	1,028,593	2,536,795	486,104	-	**5,388,310**
Liabilities evidenced by paper	24,094	51,835	4,261	32,116	-	**112,306**
Subordinated term debt	-	-	-	50,596	-	**50,596**
Perpetual debt	-	-	-	-	99,376	**99,376**
Hybrid debt	-	-	-	-	42,800	**42,800**
Other financial liabilities	358	-	-	-	-	**358**
Total financial liabilities	**1,363,052**	**1,080,428**	**2,541,056**	**568,816**	**142,176**	**5,695,528**
Net liquidity gap	**587,805**	**(778,712)**	**(1,504,827)**	**2,083,371**	**(135,638)**	**251,999**

As at 30 June 2012 the funds by the thirty largest non-bank depositors represent 6.05% of total deposits from other customers (2011: 5.62%).

3. Risk management disclosures, continued

B. Non-trading activities, continued

(i) Liquidity risk, continued

The following table provides a remaining maturities analysis of the financial liabilities of the Group as at 30 June 2012 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**	**Total**
Due to credit institutions	8,780	-	-	-	**8,780**
Due to other customers	1,465,117	1,131,762	2,667,788	765,218	**6,029,885**
Liabilities evidenced by paper	32,215	3,272	7,525	37,239	**80,251**
Subordinated term debt	334	-	3,031	69,910	**73,275**
Perpetual debt	-	6,601	4,775	128,007	**139,383**
Hybrid debt	-	-	9,510	108,158	**117,668**
Total financial liabilities	**1,506,446**	**1,141,635**	**2,692,629**	**1,108,532**	**6,449,242**

(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 is 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 of 30 June 2012 is BGN -4.4/+4.4 Mio. The interest rate risk on the Group's net interest income one year forward following a standardised shock of +100bp/-100bp as of 30 June 2012 is BGN +0.8/-0.8 Mio.

3. Risk management disclosures, continued

B. **Non-trading activities, continued**

(ii) Market risk, continued

Interest rate risk, continued

The following table indicates the effective interest rates at 30 June 2012 and the periods in which financial liabilities and assets reprice.

In thousands of BGN	Total	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	124,482	53,768	70,714	-	-	-
Financial assets held for trading	5,724	-	5,724	-	-	-
Available for sale investments	839,885	32,515	786,985	-	20,385	-
Financial assets held to maturity	96,849	-	-	19,516	49,073	28,260
Loans and advances to banks and financial institutions	30,526	1,042	17,382	-	3,996	8,106
Loans and advances to customers	4,096,377	3,456,845	59,717	30,947	168,142	380,726
Non-interest earning assets	1,465,419					
Total assets	**6,659,262**	**3,544,170**	**940,522**	**50,463**	**241,596**	**417,092**
Liabilities						
Due to credit institutions	8,780	2,113	6,667	-	-	-
Due to other customers	5,840,910	789,131	669,181	1,120,997	2,575,350	686,251
Liabilities evidenced by paper	76,829	7,607	32,173	224	4,723	32,102
Subordinated term debt	51,362	-	-	-	-	51,362
Perpetual debt	100,393	-	-	-	-	100,393
Hybrid debt	79,196	-	-	-	-	79,196
Non-interest bearing liabilities	15,763	-	-	-	-	-
Total liabilities	**6,173,233**	**798,851**	**708,021**	**1,121,221**	**2,580,073**	**949,304**

3. Risk management disclosures, continued

B. Non-trading activities, continued

(ii) Market risk, continued

Interest rate risk, continued

The following table indicates the effective interest rates at 31 December 2011 and the periods in which financial liabilities and assets reprice.

In thousands of BGN	Total	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	155,920	75,318	80,602	-	-	-
Financial assets held for trading	5,523	-	5,523	-	-	-
Available for sale investments	657,387	32,828	614,720	3,975	5,864	-
Financial assets held to maturity	65,886	-	-	-	1,796	64,090
Loans and advances to banks and financial institutions	97,802	374	71,363	-	17,404	8,661
Loans and advances to customers	3,979,089	3,439,308	74,695	20,847	124,267	319,972
Non-interest earning assets	1,212,845					
Total assets	**6,174,452**	**3,547,828**	**846,903**	**24,822**	**149,331**	**392,723**
Liabilities						
Due to credit institutions	1,782	1,740	42	-	-	-
Due to other customers	5,385,493	750,243	583,758	1,028,593	2,536,795	486,104
Liabilities evidenced by paper	112,306	55,237	22,739	5,212	-	29,118
Subordinated term debt	50,596	-	-	-	-	50,596
Perpetual debt	99,376	-	-	-	-	99,376
Hybrid debt	42,800	-	-	-	-	42,800
Non-interest bearing liabilities	12,097					
Total liabilities	**5,704,450**	**807,220**	**606,539**	**1,033,805**	**2,536,795**	**707,994**

3. Risk management disclosures, continued

B. Non-trading activities, continued

(ii) Market risk, continued

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 profit or loss. 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 2012**	**31 December 2011**
Monetary assets		
Euro	4,781,685	4,360,034
US dollar	480,115	423,633
Other currencies	151,459	114,867
Gold	9,920	7,983
Monetary liabilities		
Euro	2,995,144	2,930,874
US dollar	479,805	424,823
Other currencies	154,847	122,575
Gold	-	-
Net position		
Euro	1,786,541	1,429,160
US dollar	310	(1,190)
Other currencies	(3,388)	(7,708)
Gold	9,920	7,983

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.

3. Risk management disclosures, continued

B. Non-trading activities, continued

(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 in the statement of financial position. These exposures are as follows:

30 June 2012		*In thousands of BGN*
Class of exposure	**Gross amount of loans and advances to customers**	**Carrying amount of loans and advances to customers**
Collectively impaired		
Standard	3,890,246	3,882,693
Individually impaired		
Watch	340,489	327,524
Nonperforming	104,648	97,233
Loss	263,167	146,828
Total	**4,598,550**	**4,454,278**

31 December 2011		*In thousands of BGN*
Class of exposure	**Gross amount of loans and advances to customers**	**Carrying amount of loans and advances to customers**
Collectively impaired		
Standard	3,656,207	3,651,517
Individually impaired		
Watch	409,356	393,524
Nonperforming	30,538	21,749
Loss	218,958	115,446
Total	**4,315,059**	**4,182,236**

In addition, the Group is exposed to off-balance sheet credit risk through commitments to extend credits and issue contingent liabilities (see note 33).

3. Risk management disclosures, continued

B. Non-trading activities, continued

(iii) Credit risk, continued

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 also by location and type of customer in relation to the Group's investments, loans and advances and off-balance sheet commitments.

Total economic sector credit risk concentrations in loans and advances to customers are presented in the table below.

In thousands of BGN	**30 June 2012**	**31 December 2011**
Trade	1,062,768	953,599
Industry	1,198,046	1,130,651
Services	457,726	442,324
Finance	84,241	82,315
Transport, logistics	282,663	272,403
Communications	65,847	56,632
Construction	191,354	183,957
Agriculture	100,407	85,503
Tourist services	131,395	121,215
Infrastructure	151,861	161,993
Private individuals	856,483	811,133
Other	15,759	13,334
Less allowance for impairment	(144,272)	(132,823)
Total	**4,454,278**	**4,182,236**

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 2012 with total exposures amounting to BGN 137,786 thousand (2011: BGN 116,335 thousand) - ferrous and non-ferrous metallurgy, BGN 80,699 thousand (2011: BGN 61,015 thousand) – mining industry and BGN 98,114 thousand (2011: BGN 104,836 thousand) - power engineering.

The Group has extended loans and issued contingent liabilities to 16 individual clients or groups (2011:21) with each individual exposure exceeding 10% of the capital base of the Group. The total amount of these exposures is BGN 1,451,294 thousand which represents 230.66% of the Group's capital base (2011: BGN 1,668,778 thousand which represented 289.26%of capital base) of which BGN 1,309,687 thousand (2011: BGN 1,498,781 thousand) represent loans and BGN 141,607 thousand (2011: BGN 169,997 thousand) represent guarantees, letters of credit and other commitments.

3. Risk management disclosures, continued

B. Non-trading activities, continued

(iii) Credit risk, continued

The loans extended by the Cyprus branch amount to BGN 397,685 thousand amortized cost before allowance (2011: BGN 290,861 thousand) and in Albania – BGN 74,007 thousand (2011: BGN 60,148 thousand).

The amounts reflected in the tables represent the maximum accounting loss that would be recognised at the end of the reporting period 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 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 loans and advances extended to customers by the Group by type of collateral, excluding credit cards in the amount of BGN 209,324 thousand (2011: BGN 202,495 thousand):

In thousands of BGN	**30 June 2012**	**31 December 2011**
Mortgage	1,707,768	1,692,112
Pledge of receivables	228,879	197,134
Pledge of commercial enterprise	872,319	789,238
Securities	69,562	80,069
Bank guarantee	8,646	13,759
Other guaranties	497,784	466,166
Pledge of goods	201,008	185,501
Pledge of machines	213,249	203,484
Money deposit	61,696	48,566
Stake in capital	217,618	144,694
Gold	18	18
Other collateral	252,702	243,628
Unsecured	57,977	48,195
Total	**4,389,226**	**4,112,564**

Other collateral position includes insurance policies limited up to the insurance amount, future money transfers to account, other proceeds as salaries transfers and other.

3. Risk management disclosures, continued

B. Non-trading activities, continued

(iv) Government debt exposures

During 2011, concerns became apparent of the credit risk related to government debt issued by member states of the Eurozone. The Group closely manages this risk throughout the year and as a result the overall quality of the government debt portfolio is very high.

The table below shows the carrying amount of the government debt portfolio by country issuer. The assets are presented without any allowance for impairment. The Group does not recognise allowance for impairment against the exposures which are measured at amortised cost as at 30 June 2012 and 31 December 2011 as well as those classified as available for sale.

In thousands of BGN
30 June 2012

Portfolio	Bulgaria	Belgium	Albania	Italy	Spain	European Financial Stability Facility
Financial assets held for trading	5,724	-	-	-	-	-
Available for sale investments	256,775	458,241	19,427	-	-	78,232
Financial assets held to maturity	34,139	-	14,289	19,455	9,754	-
Total	**296,638**	**458,241**	**33,716**	**19,455**	**9,754**	**78,232**

In thousands of BGN
31 December 2011

Portfolio	Bulgaria	France	Belgium	Albania
Financial assets held for trading	5,523	-	-	-
Available for sale investments	103,649	371,465	136,894	18,445
Financial assets held to maturity	36,054	-	-	10,925
Total	**145,226**	**371,465**	**136,894**	**29,370**

3. Risk management disclosures, continued

B. Non-trading activities, continued

***(iv) Government debt exposures*, continued**

Maturity table of government debt securities by country issuer as at 30 June 2012

In thousands of BGN

Country issuer	**Up to 1 month**	**From 1 to 3 months**	**From 3 months to 1 year**	**From 1 to 5 years**	**Over 5 years**	**Total**
Bulgaria	-	986	207,169	59,744	28,739	**296,638**
Belgium	29,334	-	428,907	-	-	**458,241**
Albania	28	1,142	22,748	9,798	-	**33,716**
Italy	-	9,762	9,693	-	-	**19,455**
Spain	-	9,754	-	-	-	**9,754**
European Financial Stability Facility	-	-	78,232	-	-	**78,232**
Total	**29,362**	**21,644**	**746,749**	**69,542**	**28,739**	**896,036**

Maturity table of government debt securities by country issuer as at 31 December 2011

in thousands of BGN

Country issuer	**Up to 1 month**	**From 1 to 3 months**	**From 3 months to 1 year**	**From 1 to 5 years**	**Over 5 years**	**Total**
Bulgaria	78	-	-	120,767	24,381	**145,226**
France	97,782	195,552	78,131	-	-	**371,465**
Belgium	136,894	-	-	-	-	**136,894**
Albania	21	5,892	12,817	10,640		**29,370**
Total	**234,775**	**201,444**	**90,948**	**131,407**	**24,381**	**682,955**

3. Risk management disclosures, continued

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 and their amendments. 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 and a minimum prescribed ratio of 6% of Tier 1 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. As the Group holds insignificant trading book, the Group does not apply capital requirements to its exposures in trading portfolio in respect to market risk and calculates required capital for trading instruments in accordance with the provisions for banking book.

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 carrying amount. Off-balance-sheet credit related commitments are taken into account by applying different categories of conversion factors (0%, 20%, 50%, 100%), designed to convert these items into carrying amount equivalents. The resulting equivalent amounts are then weighted for risk using different percentages (0%, 20%, 35%, 50%, 75%, 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.

The Group calculates also capital requirements for market risk for foreign currency and commodity instruments in trading book and banking book.

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, non-controlling interests and hybrid instruments without incentive to redeem 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; qualifying term subordinated loan capital may not exceed 50 percent of tier 1 capital; and qualifying hybrid debt without incentive to redeem cannot exceed 35 percent of tier 1 capital. Deductions from capital base include specific provisions for credit risk.

The Group has complied with all capital requirements.

3. Risk management disclosures, continued

C. Capital adequacy, continued

Capital adequacy level is as follows:

In thousands of BGN	**Carrying amount/notional amount**		**Risk weighted amount**	
	30 June 2012	**31 December 2011**	**30 June 2012**	**31 December 2011**
Risk weighted assets for credit risk				
Assets				
Exposure class				
Central governments and central banks	1,580,811	1,334,276	50,389	42,841
Institutions	192,906	291,315	56,361	78,284
Corporates	3,239,480	3,124,169	3,177,241	3,068,530
Retail	564,644	521,031	411,100	378,162
Claims secured by residential property	410,776	402,106	143,772	140,737
Past due exposures	232,712	126,510	232,712	126,510
Collective investment undertaking	1,946	1,936	1,946	1,936
Other items	385,143	335,410	247,389	199,892
TOTAL	**6,608,418**	**6,136,753**	**4,320,910**	**4,036,892**
Off-balance sheet items				
Exposure class				
Central governments and central banks	-	97	-	-
Institutions	14,609	15,266	4,213	3,458
Corporates	450,259	552,625	173,456	179,903
Retail	258,533	261,614	1,633	2,834
Claims secured by residential property	3,939	3,468	678	601
Other items	-	-	162	13
TOTAL	**727,340**	**833,070**	**180,142**	**186,809**
Derivatives				
Exposure class				
Central governments and central banks	-	1,760	-	-
Institutions	331	171	66	34
Corporates	1,414	390	1,414	390
Other items	742	-	742	-
TOTAL	**2,487**	**2,321**	**2,222**	**424**
Total risk-weighted assets for credit risk			**4,503,274**	**4,224,125**
Risk-weighted assets for market risk			**6,398**	**6,100**
Risk-weighted assets for operational risk			**371,240**	**358,364**
Total risk-weighted assets			**4,880,912**	**4,588,589**

Capital adequacy ratios	**Capital**		**Capital ratios %**	
	30 June 2012	**31 December 2011**	**30 June 2012**	**31 December 2011**
Tier 1 Capital	**524,561**	**467,303**	**10.75%**	**10.18%**
Total capital base	**629,189**	**576,921**	**12.89%**	**12.57%**

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 and reporting of segment assets and liabilities and segment revenues and expenses are based on the accounting policies set out in the accounting policy note.

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 affiliate that generates them. Segment assets and liabilities are allocated based on their geographical location.

In thousands of BGN	**Bulgarian operations**		**Foreign operations**		**Total**	
	Six months ended 30 June 2012	**Six months ended 30 June 2011**	**Six months ended 30 June 2012**	**Six months ended 30 June 2011**	**Six months ended 30 June 2012**	**Six months ended 30 June 2011**
Interest income	210,509	200,675	17,485	14,729	227,994	215,404
Interest expense	(150,474)	(128,549)	(2,812)	(2,394)	(153,286)	(130,943)
Net interest income	**60,035**	**72,126**	**14,673**	**12,335**	**74,708**	**84,461**
Fee and commission income	37,344	34,696	1,198	459	38,542	35155
Fee and commission expense	(4,559)	(3,939)	(93)	(81)	(4,652)	(4,020)
Net fee and commission income	**32,785**	**30,757**	**1,105**	**378**	**33,890**	**31,135**
General administrative expenses	**(75,488)**	**(73,340)**	**(2,836)**	**(2,876)**	**(78,324)**	**(76,216)**
	30 June 2012	**31 December 2011**	**30 June 2012**	**31 December 2011**	**30 June 2012**	**31 December 2011**
Segment assets	**6,129,652**	**5,773,283**	**529,610**	**401,169**	**6,659,262**	**6,174,452**
Segment liabilities	**6,021,594**	**5,568,094**	**151,639**	**136,356**	**6,173,233**	**5,704,450**

4. **Segment reporting, continued**

The following table presents the allocation of assets and liabilities, income and expenses based on business segments as at 30 June 2012 and for the six months then ended:

In thousands of BGN

Business segment	Assets	Liabilities	Interest income	Interest expense	Net fee and commission income	Net trading income	Other operating expenses
Commercial banking	3,637,497	1,320,191	170,144	(33,340)	19,799	-	-
Retail banking	816,781	4,802,250	49,757	(119,528)	6,205	-	-
Cards business	-	-	-	-	7,735	-	-
Treasury	1,914,808	40,417	8,093	(407)	(128)	3,754	955
Other	290,176	10,375	-	(11)	279	-	3
Total	**6,659,262**	**6,173,233**	**227,994**	**(153,286)**	**33,890**	**3,754**	**958**

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 2012.

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	-	-	797,954	-	-	130,967	928,921	928,921
Financial assets held for trading	8,507	-	-	-	-	-	8,507	8,507
Available for sale investments	-	-	-	846,372	-	-	846,372	846,372
Financial assets held to maturity	-	96,849	-	-	-	-	96,849	97,206
Loans and advances to banks and financial institutions	-	-	33,398	-	-	-	33,398	33,398
Loans and advances to customers	-	-	4,454,278	-	-	-	4,454,278	4,454,278
Other financial assets	-	-	-	-	-	761	761	761
Total	**8,507**	**96,849**	**5,285,630**	**846,372**	**-**	**131,728**	**6,369,086**	**6,369,443**
LIABILITIES								
Due to credit institutions	-	-	-	-	8,780	-	8,780	8,780
Due to other customers	-	-	-	-	5,846,298	-	5,846,298	5,846,298
Liabilities evidenced by paper	-	-	-	-	76,829	-	76,829	76,829
Subordinated term debt	-	-	-	-	51,362	-	51,362	51,362
Perpetual debt	-	-	-	-	100,393	-	100,393	100,393
Hybrid debt					79,196		79,196	79,196
Total	**-**	**-**	**-**	**-**	**6,162,858**	**-**	**6,162,858**	**6,162,858**

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 the main part of the loan portfolio carry floating interest rates which reflect the changes in the market conditions. The fair value of liabilities evidenced by paper is approximately equal to their carrying value due to the fact that the main part of liabilities evidenced by paper are either with short-term maturity or carry floating interest rates which reflect the changes in the market conditions.

5. Financial assets and liabilities, continued

Accounting classification and fair values, continued

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 2011.

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	-	-	796,489	-	-	129,905	926,394	926,394
Financial assets held for trading	8,659	-	-	-	-	-	8,659	8,659
Available for sale investments	-	-	-	663,925	-	-	663,925	663,925
Financial assets held to maturity	-	65,886	-	-	-	-	65,886	65,522
Loans and advances to banks and financial institutions	-	-	100,427	-	-	-	100,427	100,427
Loans and advances to customers	-	-	4,182,236	-	-	-	4,182,236	4,182,236
Total	**8,659**	**65,886**	**5,079,152**	**663,925**	**-**	**129,905**	**5,947,527**	**5,947,163**
LIABILITIES								
Due to credit institutions	-	-	-	-	1,782	-	1,782	1,782
Due to other customers	-	-	-	-	5,388,310	-	5,388,310	5,388,310
Liabilities evidenced by paper	-	-	-	-	112,306	-	112,306	112,306
Subordinated term debt	-	-	-	-	50,596	-	50,596	50,596
Perpetual debt	-	-	-	-	99,376	-	99,376	100,830
Hybrid debt					42,800	-	42,800	42,800
Other financial liabilities	-	-	-	-	-	358	358	358
Total	**-**	**-**	**-**	**-**	**5,695,170**	**358**	**5,695,528**	**5,696,982**

6. Net interest income

In thousands of BGN

	Six months ended 30 June 2012	Six months ended 30 June 2011
Interest income		
Accounts with and placements to banks and financial institutions	1,166	1,538
Retail customers	48,232	45,833
Loans to corporate clients	156,488	147,535
Loans to small and medium enterprises	13,656	13,569
Microlending	1,525	1,734
Debt instruments	6,927	5,195
	227,994	**215,404**
Interest expense		
Deposits from banks	(73)	(206)
Deposits from other customers	(138,689)	(118,375)
Liabilities evidenced by paper	(1,769)	(2,249)
Subordinated term debt	(4,073)	(2,871)
Perpetual debt	(5,791)	(5,759)
Hybrid debt	(2,880)	(1,467)
Lease agreements and other	(11)	(16)
	(153,286)	**(130,943)**
Net interest income	**74,708**	**84,461**

For the six months ended 30 June 2012 and 30 June 2011 the recognised interest income on individually impaired financial assets (loans and advances to customers) amounts to BGN 24,395 thousand and BGN 27,056 thousand respectively.

7. Net fee and commission income

In thousands of BGN	Six months ended 30 June 2012	Six months ended 30 June 2011
Fee and commission income		
Letters of credit and guarantees	4,040	4,198
Payments transactions	4,755	4,326
Customer accounts	7,797	7,045
Cards business	11,357	10,308
Other	10,593	9,278
	38,542	**35,155**
Fee and commission expense		
Letters of credit and guarantees	(464)	(509)
Correspondent accounts	(360)	(326)
Cards business	(3,622)	(3,090)
Other	(206)	(95)
	(4,652)	**(4,020)**
Net fee and commission income	**33,890**	**31,135**

8. Net trading income

In thousands of BGN	Six months ended 30 June 2012	Six months ended 30 June 2011
Net trading gains/(losses) arise from:		
- Debt instruments	61	3,802
- Equity instruments	(237)	179
- Foreign exchange	3,930	3,822
Net trading income	**3,754**	**7,803**

9. Other operating income/(expenses)

In thousands of BGN	Six months ended 30 June 2012	Six months ended 30 June 2011
Other operating income/(expenses) arise from:		
- Debt instruments	940	(3,381)
- Equity instruments	15	-
- Other	3	102
Other operating income/(expenses)	**958**	**(3,279)**

10. General administrative expenses

In thousands of BGN	Six months ended 30 June 2012	Six months ended 30 June 2011
General and administrative expenses comprise:		
- Personnel cost	26,404	25,501
- Depreciation and amortisation	10,464	11,098
- Advertising	3,690	3,444
- Building rent expense	15,682	15,420
-Telecommunication, software and other computer maintenance	6,677	6,405
- Administration, consultancy, audit and other costs	15,407	14,348
General administrative expenses	**78,324**	**76,216**

Personnel costs include salaries, social and health security contributions under the provisions of the respective local legislation. At 30 June 2012 the total number of employees of the Group is 2,871 (30 June 2011: 2,754).

11. Impairment losses

In thousands of BGN	Six months ended 30 June 2012	Six months ended 30 June 2011
Write-downs		
Loans and advances to customers	(16,709)	(21,457)
Reversal of write-downs		
Loans and advances to customers	5,059	6,627
Net impairment losses	**(11,650)**	**(14,830)**

12. Income tax expense

In thousands of BGN	Six months ended 30 June 2012	Six months ended 30 June 2011
Current taxes	(1,969)	(1,983)
Deferred taxes (see note 22)	196	(195)
Income tax expense	**(1,773)**	**(2,178)**

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

In thousands of BGN	Six months ended 30 June 2012	Six months ended 30 June 2011
Accounting profit before taxation	**17,014**	**22,254**
Corporate tax at applicable tax rate (10% for 2012 and 10% for 2011)	1,701	2,225
Effect of tax rates of foreign subsidiaries and branches	30	37
Tax effect of permanent tax differences	238	(279)
Tax effect of temporary differences	(196)	195
Income tax expense	**1,773**	**2,178**
Effective tax rate	10.42%	9.79%

13. Earnings per share

	Six months ended 30 June 2012	Six months ended 30 June 2011
Net profit attributable to shareholders *(in thousands of BGN)*	15,257	20,054
Weighted average number of ordinary shares *(in thousands)*	110,000	110,000
Earnings per share *(in BGN)*	**0.14**	**0.18**

The basic earnings per share, calculated in accordance with IAS 33, are based on the profit attributable to ordinary equity holders of the Bank. During the first half of 2012 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 2012	31 December 2011
Cash on hand		
- In Bulgarian leva	84,369	91,555
- In foreign currencies	46,598	38,350
Balances with central banks	687,222	655,739
Current accounts and amounts with resident banks	103	103
Current accounts and amounts with foreign banks	110,629	140,647
Total	**928,921**	**926,394**

15. Financial assets held for trading

In thousands of BGN	30 June 2012	31 December 2011
Bonds, notes and other instruments issued by:		
Bulgarian government, assessed with BBB rating :		
- denominated in Bulgarian leva	3,516	3,518
- denominated in foreign currencies	2,208	2,005
Other issuers – equity instruments (unrated)	2,783	3,136
Total	**8,507**	**8,659**

16. Available for sale investments

In thousands of BGN	30 June 2012	31 December 2011
Bonds, notes and other instruments issued by:		
Bulgarian government		
- denominated in Bulgarian leva	51,102	18,115
- denominated in foreign currencies	205,673	85,534
Foreign governments		
- treasury bills and bonds	555,900	526,804
Foreign banks	27,210	26,934
Other issuers – equity instruments	6,487	6,538
Total	**846,372**	**663,925**

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 2012	31 December 2011
Securities held to maturity issued by:		
Bulgarian government	34,139	36,054
Foreign governments	43,498	10,925
Foreign banks	19,212	18,907
Total	**96,849**	**65,886**

18. Loans and advances to banks and financial institutions

(a) Analysis by type

In thousands of BGN	30 June 2012	31 December 2011
Placements and other amounts due from banks	14,838	85,512
Receivables under resale agreements (see note 31)	15,685	12,683
Other	2,875	2,232
Total	**33,398**	**100,427**

(b) Geographical analysis

In thousands of BGN	30 June 2012	31 December 2011
Resident banks and financial institutions	16,443	13,093
Foreign banks and financial institutions	16,955	87,334
Total	**33,398**	**100,427**

Notes to the financial statements

19. Loans and advances to customers

In thousands of BGN	30 June 2012	31 December 2011
Retail customers		
- Consumer loans	273,964	238,603
- Mortgage loans	359,833	354,732
- Credit cards	209,324	202,495
Small and medium enterprises	295,526	268,162
Microlending	28,467	26,612
Corporate customers	3,431,436	3,224,455
Less allowance for impairment	(144,272)	(132,823)
Total	**4,454,278**	**4,182,236**

(a) Movement in impairment allowances

In thousands of BGN

Balance at 1 January 2012	**132,823**
Additional allowances	16,709
Amounts released	(5,059)
Write – offs	(216)
Effects of changes in foreign currencies rates	15
Balance at 30 June 2012	**144,272**

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 2011	12,639	116,332	6,183	25,409	57,432	217,995
Additions	-	215	-	10,415	78	10,708
Foreign exchange differences	-	(2)	-	-	(2)	(4)
Acquired through business combination	-	17	-	-	-	17
Disposals	-	(833)	(298)	(58)	(88)	(1,277)
Transfers	276	4,909	228	(8,497)	2,985	(99)
At 31 December 2011	**12,915**	**120,638**	**6,113**	**27,269**	**60,405**	**227,340**
Additions	-	22	64	11,645	1	11,732
Foreign exchange differences	-	21	2	1	10	34
Disposals	-	(983)	(40)	(7)	(1)	(1,031)
Transfers	-	1,962	398	(4,116)	1,194	(562)
At 30 June 2012	**12,915**	**121,660**	**6,537**	**34,792**	**61,609**	**237,513**
Depreciation						
At 1 January 2011	3,579	64,722	4,933	-	16,198	89,432
Foreign exchange differences	-	7	1	-	1	9
Acquired through business combination	-	9	-	-	-	9
Charge for the year	438	14,792	628	-	3,991	19,849
On disposals	-	(825)	(298)	-	(78)	(1,201)
At 31 December 2011	**4,017**	**78,705**	**5,264**	**-**	**20,112**	**108,098**
Foreign exchange differences	-	10	1	-	7	18
Charge for the period	224	6,960	208	-	1,941	9,333
On disposals	-	(983)	(40)	-	(1)	(1,024)
At 30 June 2012	**4,241**	**84,692**	**5,433**	**-**	**22,059**	**116,425**
Net book value						
At 1 January 2011	**9,060**	**51,610**	**1,250**	**25,409**	**41,234**	**128,563**
At 31 December 2011	**8,898**	**41,933**	**849**	**27,269**	**40,293**	**119,242**
At 30 June 2012	**8,674**	**36,968**	**1,104**	**34,792**	**39,550**	**121,088**

21. Intangible assets

In thousands of BGN	Software and licences	Greenhouse allowances	Goodwill	Total
Cost				
At 1 January 2011	22,355	3,820	587	26,762
Additions	40	-	-	40
Exchange differences on translating foreign operations	(3)	-	-	(3)
Acquired through business combinations	-	-	134	134
Disposals	(4)	-	-	(4)
Transfers	99	-	-	99
At 31 December 2011	22,487	3,820	721	27,028
Additions	19	-	-	19
Exchange differences on translating foreign operations	1	-	-	1
Disposals	(2)	-	-	(2)
Transfers	562	-	-	562
At 30 June 2012	23,067	3,820	721	27,608
Amortisation				
At 1 January 2011	5,765	-	-	5,765
Acquired through business combination	(1)	-	-	(1)
Charge for the year	2,194	-	-	2,194
On disposals	(4)	-	-	(4)
At 31 December 2011	7,954	-	-	7,954
Exchange differences on translating foreign operations	7	-	-	7
Charge for the period	1,131	-	-	1,131
On disposals	(2)	-	-	(2)
At 30 June 2012	9,090	-	-	9,090
Net book value				
At 1 January 2011	**16,590**	**3,820**	**587**	**20,997**
At 31 December 2011	**14,533**	**3,820**	**721**	**19,074**
At 30 June 2012	**13,977**	**3,820**	**721**	**18,518**

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:

In thousands of BGN	Assets		Liabilities		Net	
	30 June 2012	31 December 2011	30 June 2012	31 December 2011	30 June 2012	31 December 2011
Property, equipment and intangibles	-	-	3,306	3,502	3,306	3,502
Other items	(208)	(208)	342	342	134	134
Net tax (assets)/liabilities	**(208)**	**(208)**	**3,648**	**3,844**	**3,440**	**3,636**

Movements in temporary differences for the six months ended 30 June 2012 at the amount of BGN 196 thousand are recognised in the net profit for the period.

23. Other assets

In thousands of BGN	30 June 2012	31 December 2011
Deferred expense	25,069	10,614
Gold bullion	9,920	7,983
Other assets	112,643	68,747
Total	**147,632**	**87,344**

24. Due to credit institutions

In thousands of BGN	30 June 2012	31 December 2011
Term deposits	6,908	42
Payable on demand	1,872	1,740
Total	**8,780**	**1,782**

25. Due to other customers

In thousands of BGN	30 June 2012	31 December 2011
Retail customers		
- current accounts	456,475	430,325
- term and savings deposits	4,345,775	4,028,187
Corporate, state-owned and public institutions		
- current accounts	367,961	316,016
- term deposits	676,087	613,782
Total	**5,846,298**	**5,388,310**

26. Liabilities evidenced by paper

In thousands of BGN	30 June 2012	31 December 2011
Acceptances under letters of credit	3,201	9,217
Liabilities under repurchase agreements (see note 31)	31,637	27,951
Other term liabilities	41,991	75,138
Total	**76,829**	**112,306**

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

27. Subordinated term debt

As at 30 June 2012 the Bank has entered into six separate subordinated loan agreements. All these subordinated loan agreements are governed by English Law with funds raised outside the Republic of Bulgaria.

Subordinated liabilities can be analysed as follows:

In thousands of BGN

Lender	Original principal amount	Orirginal maturity	Maturity date	Amortised cost as at 30 June 2012
Growth Management Limited	5,867	10 years	27.08.2014	16,031
Growth Management Limited	3,912	10 years	24.02.2015	8,524
Estrado Holding Ltd	9,779	10 years	01.03.2015	9,553
Growth Management Limited	1,956	10 years	17.03.2015	4,187
ING Bank NV/ Atlantic Forfaitierungs AG	9,779	10 years	22.04.2015	9,126
Hypo-Alpe-Adria Bank	3,912	10 years	14.04.2015	3,941
Total	**35,205**			**51,362**

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 2012
Step-up guaranteed perpetual subordinated bonds EUR 27 mio	52,807	58,344
Step-up guaranteed perpetual subordinated bonds EUR 21 mio	41,073	42,049
Total	**93,880**	**100,393**

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, a subsidiary 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 the Bulgarian National Bank.

29. Hybrid debt

In thousands of BGN	Principal amount	Amortised cost as at 30 June 2012
Hybrid debt with original principal EUR 40 mio	78,233	79,196
Total	**78,233**	**79,196**

In thousands of BGN	Principal amount	Amortised cost as at 31 December 2011
Hybrid debt with original principal EUR 20 mio	39,117	42,800
Total	**39,117**	**42,800**

In March 2011 the Bank issued a hybrid instrument (bond issue) and, after obtaining permission from the Bulgarian National Bank, included it as Tier 1 capital pursuant to Art. 3a of Ordinance 8 on Capital Adequacy of Credit Institutions. The Bank placed the bond issue under private subscription with a total nominal and issue value of EUR 20,000 thousand, constituting the first tranche of a bond issue for up to EUR 40,000 thousand. The bonds are registered, dematerialized, interest-bearing, perpetual, unsecured, freely transferable, non-convertible, deeply subordinated and without incentive to redeem. In June 2012 the Bank issed the second tranche of the instrument with nominal value of EUR 20,000 thousand, which after obtaining permission from the Bulgarian National Bank was included as Tier 1 capital.

30. Other liabilities

In thousands of BGN	30 June 2012	31 December 2011
Liabilities to personnel	1,955	1,892
Other payables	4,034	3,345
Total	**5,989**	**5,237**

31. Repurchase and resale agreements

The Group 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-earning assets, depending on the prevailing interest rates. At 30 June 2012 assets sold under repurchase agreements are as follows:

In thousands of BGN	Fair value of underlying assets	Carrying amount of corresponding liabilities
Bulgarian government securities	28,834	28,671
Other government securities	3,355	2,966
Total	**32,189**	**31,637**

31. Repurchase and resale agreements, continued

At 31 December 2011 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	23,123	22,740
Other government securities	5,211	5,211
Total	**28,334**	**27,951**

The Group also purchases financial instrument under agreements to resell them at future dates ("reverse repurchase agreements"). The seller commits to repurchase the same instruments at an agreed future date. Reverse repurchases are entered into as a facility to provide funds of customers. At 30 June 2012 assets purchased 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	16,185	15,685
Total	**16,185**	**15,685**

At 31 December 2011 assets purchased subject to agreements to resell were as follows:

In thousands of BGN	**Fair value of assets held as collateral**	**Carrying amount of corresponding receivables**
Bulgarian government securities	12,913	12,683
Total	**12,913**	**12,683**

32. Capital and reserves

(a) Number and face value of registered shares as at 30 June 2012

As at 30 June 2012 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.

32. Capital and reserves, continued

(b) Shareholders

The table below shows those shareholders of the Bank holding shares as at 30 June 2012 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
Legnano Enterprise Limited Cyprus	8,450,000	7.68
Domenico Ventures Limited, British Virgin Islands	10,695,000	9.72
Rafaela Consultants Limited, British Virgin Islands	10,695,000	9.72
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 the 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.

In 2012, as in the previous year, the Bank has not distributed dividends.

33. 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 end of the reporting period if counterparts failed completely to perform as contracted and any collateral or security proved to be of no value.

In thousands of BGN	30 June 2012	31 December 2011
Bank guarantees		
- in BGN	145,102	148,694
- in foreign currency	214,968	202,611
Total guarantees	**360,070**	**351,305**
Unused credit lines	334,293	385,569
Promissory notes	4,422	4,926
Letters of credit	28,555	91,270
Total	**727,340**	**833,070**

33. Commitments and contingent liabilities, continued

(a) Memorandum items, continued

These commitments and contingent liabilities have off balance-sheet credit risk because only organisation fees and accruals for probable losses are recognised in the statement of financial position until the commitments are fulfilled or expire. Most 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 end of the reporting period there are no other significant commitments and contingencies which require additional disclosure.

At 30 June 2012 the extent of collateral held for guarantees and letters of credit is 100 percent.

34. 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	**Six months ended 30 June 2012**	**Six months ended 30 June 2011**
Cash and balances with central banks	928,921	705,793
Loans and advances to banks and financial institutions with maturity less than 90 days	5,610	17,155
Total	**934,531**	**722,948**

35. 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 2012**	**Six months ended 30 June 2011**
FINANCIAL ASSETS		
Cash and balances with central banks	918,594	638,197
Financial assets held for trading	8,645	24,022
Available for sale investments	781,624	672,886
Financial assets held to maturity	76,079	50,537
Loans and advances to banks and financial institutions	78,241	54,855
Loans and advances to customers	4,274,890	3,629,386
FINANCIAL LIABILITIES		
Due to credit institutions	6,292	23,015
Due to other customers	5,606,418	4,517,824
Liabilities evidenced by paper	85,979	135,795
Subordinated term debt	51,134	47,499
Perpetual debt	99,089	98,889
Hybrid debt	48,097	17,070

36. Related party transactions

Parties are considered to be related if one party controls or exercises 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 are carried out on commercial terms and at market rates. The volume of these transactions and outstanding balances at the end of respective periods 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 2012**	**2011**	**Six months ended 30 June 2012**	**2011**
Loans				
Loans outstanding at beginning of the period	1,674	2,997	23,161	19,055
Loans issued/(repaid) during the period	8	(1,323)	219	4,106
Loans outstanding at end of the period	1,682	1,674	23,380	23,161
Deposits and other financing received				
Deposits at beginning of the period	11,466	7,994	12,795	14,197
Deposits received/(repaid) during the period	(188)	3,472	20,476	(1,402)
Deposits at end of the period	11,278	11,466	33,271	12,795
Deposits placed				
Deposits at beginning of the period	-	-	3,916	3,922
Deposits placed/(matured) during the period	-	-	80	(6)
Deposits at end of the period	-	-	3,996	3,916
Off-balance sheet commitments issued by the Group				
At beginning of the period	1,843	1,204	2,116	1,289
Granted/(expired)	(128)	639	(415)	827
At the end of the period	1,715	1,843	1.701	2,116

The key management personnel of the Bank received remuneration of BGN 2,452 thousand in the first half of 2012.

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37. 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 company was incorporated in 1996 as a franchise and processing agent of Diners Club International. As at 30 June 2012 the registered share capital of the company is BGN 610 thousand, and the Bank's shareholding is 94.79%. The Bank consolidates its investment in the 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. 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.

As at 30 June 2012 the share capital of First Investment Bank − Albania Sh.a. is EUR 11,975 thousand, fully paid in and the Bank's shareholding is 100%. The Bank consolidates its investment in the company.

(d) Debita OOD and Realtor OOD

Acting jointly the Bank and First Financial Brokerage House OOD (FFBH) set up two new companies Debita OOD and Realtor OOD, which were entered in the Commercial Registry in January 2010. Each of the new companies has a capital of BGN 150,000, which is divided in the following way:

1. Debita OOD – 70% or 105,000 shares held by the Bank, and 30% or 45,000 shares held by FFBH.

2. Realtor OOD – 51% or 76,500 shares held by the Bank, and 49% or 73,500 shares held by FFBH.

The affiliate companies are set up with the aim to act as servicing companies in accordance to Article 18 of the Special Purpose Investment Companies Act. Debita OOD will be engaged in the following activities - acquisition, servicing, management and transactions with receivables, as well as consultancy services in relation to such operations, and Realtor OOD - in management, servicing and maintenance of real estate, organization of construction and renovation of buildings, and consultancy services related to real estate. The Bank consolidates its investments in the companies.

(e) Health Insurance Fund FI Health AD

In the second half of 2010 the Bank acquired a majority stake capital of Health Insurance Fund FI Health AD (formerly Health Insurance Fund Prime Health AD), a company engaged in voluntary health insurance as well as acquisition, management and sale of investments in other companies. As at 30 June 2012 the share capital of Health Insurance Fund FI Health AD is BGN 5,000 thousand and the Bank's shareholding is 59.10%. The Bank consolidates its investment in the company.

37. Subsidiary undertakings, continued

(f) Framas Enterprises Limited

In November 2010 the Bank acquired 10,000 shares, representing 100% of the issued share capital of Framas Enterprises Limited, British Virgin Islands, with the view of providing auxiliary services pursuant to Article 2 (4) of the Law on Credit Institutions. The Bank consolidates its investment in the company.

(g) Balkan Financial Services EAD

In February 2011 the Bank acquired 100 shares representing 100% of the capital of Balkan Financial Services OOD. The company is engaged in consultancy services related to implementation of financial information systems and software development. In January 2012 the company was transformed in single member joint stock company. As at 30 June 2012 the registered share capital of the company is BGN 50 thousand, and the Bank's shareholding is 100%.

38. Subsequent events

There are no events after the reporting period that required additional disclosures or adjustments to the Group's financial statements.