

**FIRST INVESTMENT BANK AD**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT 30 JUNE 2011**  
**WITH INDEPENDENT AUDITOR'S REPORT THEREON**



**REPORT  
OF THE INDEPENDENT AUDITOR  
TO THE SHAREHOLDERS OF FIRST INVESTMENT BANK AD**

Sofia, 28 July 2011

**Report on the consolidated financial statements**

We have audited the accompanying consolidated financial statements of First Investment Bank AD (“the Group”), which comprise the consolidated statement of financial position as at 30 June 2011, the consolidated statements of comprehensive income, changes in equity and cash flows for the 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, adopted by European Commission, 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 policies 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.

*Opinion*

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 30 June 2011, and of its consolidated financial performance and its consolidated cash flows for the period then ended in accordance with International Financial Reporting Standards, adopted by European Commission.



Gilbert McCull  
*Partner*

Margarita Goleva  
*Registered auditor*

KPMG Bulgaria OOD  
45A Bulgaria Blvd  
1404 Sofia  
Bulgaria

**Consolidated statement of comprehensive income for the six months ended 30 June 2011**
*In thousands of BGN*

	Note	Six months ended 30 June 2011	Six months ended 30 June 2010
Interest income		215,404	188,041
Interest expense		(130,943)	(125,726)
<b>Net interest income</b>	<b>6</b>	<b>84,461</b>	<b>62,315</b>
Fee and commission income		35,155	28,090
Fee and commission expense		(4,020)	(3,957)
<b>Net fee and commission income</b>	<b>7</b>	<b>31,135</b>	<b>24,133</b>
<b>Net trading income</b>	<b>8</b>	<b>7,803</b>	<b>4,071</b>
<b>Other operating income/(expenses)</b>	<b>9</b>	<b>(3,279)</b>	<b>918</b>
<b>TOTAL INCOME FROM BANKING OPERATIONS</b>		<b>120,120</b>	<b>91,437</b>
General administrative expenses	10	(76,216)	(70,037)
Impairment losses	11	(14,830)	(8,303)
Other income/(expenses), net		(6,820)	999
<b>PROFIT BEFORE TAX</b>		<b>22,254</b>	<b>14,096</b>
<b>Income tax expense</b>	<b>12</b>	<b>(2,178)</b>	<b>(1,680)</b>
<b>GROUP PROFIT AFTER TAX</b>		<b>20,076</b>	<b>12,416</b>
<b>Other comprehensive income</b>			
Exchange differences on translating foreign operations		(287)	191
Available for sale financial assets		(39)	14
<b>Other comprehensive income for the period</b>		<b>(326)</b>	<b>205</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>19,750</b>	<b>12,621</b>
Profit attributable to:			
Owners of the Bank		20,054	12,463
Non-controlling interests		22	(47)
Total comprehensive income attributable to:			
Owners of the Bank		19,728	12,668
Non-controlling interests		22	(47)
<b>Basic and diluted earnings per share (in BGN)</b>	<b>13</b>	<b>0.18</b>	<b>0.11</b>

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 50.

  
 Maya Georgieva  
 Executive Director

  
 Jordan Skortchev  
 Executive Director

  
 Ianko Karakolev  
 Chief Financial Officer

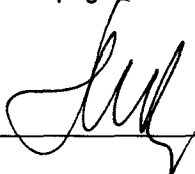
 Gilbert McCaul  
 Partner  
 KPMG Bulgaria OOD

  
 Margarita Goleva  
 Registered auditor

**Consolidated statement of financial position as at 30 June 2011**
*In thousands of BGN*

	Note	30 June 2011	31 December 2010
<b>ASSETS</b>			
Cash and balances with central banks	14	705,793	556,861
Financial assets held for trading	15	18,351	16,641
Available for sale investments	16	522,627	715,405
Financial assets held to maturity	17	52,531	57,102
Loans and advances to banks and financial institutions	18	86,405	21,736
Loans and advances to customers	19	3,933,134	3,417,094
Property and equipment	20	124,492	128,563
Intangible assets	21	20,087	20,997
Current tax assets		4,262	6,513
Other assets	23	75,203	57,864
<b>TOTAL ASSETS</b>		<b>5,542,885</b>	<b>4,998,776</b>
<b>LIABILITIES AND CAPITAL</b>			
Due to credit institutions	24	35,969	8,826
Due to other customers	25	4,716,532	4,285,693
Liabilities evidenced by paper	26	137,226	116,725
Subordinated term debt	27	47,539	47,169
Perpetual debt	28	100,184	99,201
Hybrid debt	29	40,254	-
Deferred tax liability	22	3,443	3,248
Derivative liabilities held for risk management		107	247
Current tax liabilities		2,602	1,080
Other liabilities	30	6,114	3,412
<b>TOTAL LIABILITIES</b>		<b>5,089,970</b>	<b>4,565,601</b>
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	32	(67)	(28)
Reserve from translation of foreign operations	32	(3,021)	(2,734)
Retained earnings	32	206,942	186,799
<b>SHAREHOLDERS' EQUITY</b>		<b>450,715</b>	<b>430,898</b>
Non-controlling interests	32	2,200	2,277
<b>TOTAL GROUP EQUITY</b>		<b>452,915</b>	<b>433,175</b>
<b>TOTAL LIABILITIES AND GROUP EQUITY</b>		<b>5,542,885</b>	<b>4,998,776</b>

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 50.



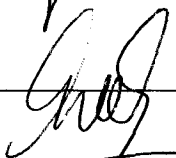

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 Maya Georgieva  
 Executive Director



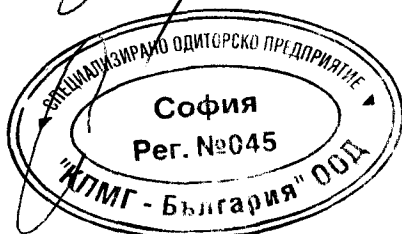

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 Jordan Skortchev  
 Executive Director




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 Ianko Karakolev  
 Chief Financial Officer

 Gilbert McCaul  
 Partner  
 KPMG Bulgaria OOD




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 Margarita Goleva  
 Registered auditor

**Consolidated statement of cash flows for the six months ended 30 June 2011**
*In thousands of BGN*

	Six months ended 30 June 2011	Six months ended 30 June 2010
<b>Net cash flow from operating activities</b>		
Profit for the period	20,076	12,416
<b>Adjustment for non-cash items</b>		
Impairment losses	14,830	8,303
Depreciation and amortisation	11,098	10,343
Income tax expense	2,178	1,680
Profit from sale and derecognition of tangible and intangible fixed assets, net	(27)	(4,949)
	<b>48,155</b>	<b>27,793</b>
<b>Change in operating assets</b>		
(Increase) in financial instruments held for trading	(1,710)	(2,377)
(Increase)/decrease in available for sale investments	192,739	(280,072)
(Increase)/decrease in loans and advances to banks and financial institutions	(50,934)	3,473
(Increase) in loans to customers	(530,870)	(153,466)
(Increase) in other assets	(15,088)	(11,969)
	<b>(405,863)</b>	<b>(444,411)</b>
<b>Change in operating liabilities</b>		
Increase/(decrease) in deposits from banks	27,143	(5,955)
Increase in amounts owed to other depositors	430,839	519,772
Net increase/(decrease) in other liabilities	1,975	(590)
	<b>459,957</b>	<b>513,227</b>
Income tax paid	(161)	(629)
<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>102,088</b>	<b>95,980</b>
<b>Cash flow from investing activities</b>		
(Purchase) of tangible and intangible fixed assets	(6,093)	(10,735)
Sale of tangible and intangible fixed assets	3	5,001
(Increase)/decrease of investments	4,561	(3,493)
<b>NET CASH FLOW FROM INVESTING ACTIVITIES</b>	<b>(1,529)</b>	<b>(9,227)</b>
<b>Financing activities</b>		
Increase/(decrease) in borrowings	62,108	(73,685)
Non-controlling interests at incorporation of subsidiaries	-	119
<b>NET CASH FLOW FROM FINANCING ACTIVITIES</b>	<b>62,108</b>	<b>(73,566)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>162,667</b>	<b>13,187</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD</b>	<b>560,281</b>	<b>612,084</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF PERIOD (see note 34)</b>	<b>722,948</b>	<b>625,271</b>

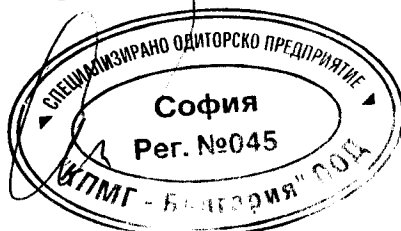
The cash flow statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 50.

\_\_\_\_\_  
 Maya Georgieva  
 Executive Director

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 Jordan Skortchev  
 Executive Director

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 Ianko Karakolev  
 Chief Financial Officer

Gilbert McCaul  
 Partner  
 KPMG Bulgaria OOD



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 Margarita Goleva  
 Registered auditor

**Consolidated statement of changes in equity for the six months ended 30 June 2011**
*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
<b>Balance as at 1 January 2010</b>	<b>110,000</b>	<b>97,000</b>	<b>158,857</b>	<b>(146)</b>	<b>(2,629)</b>	<b>39,861</b>	<b>92</b>	<b>403,035</b>
<b>Total comprehensive income</b>								
Profit for the six months ended 30 June 2010	-	-	12,463	-	-	-	(47)	12,416
<b>Other comprehensive income</b>								
Revaluation reserve on available for sale investments	-	-	-	14	-	-	-	14
Reserve from translation of foreign operations	-	-	-	-	191	-	-	191
Non-controlling interests at incorporation of subsidiaries	-	-	-	-	-	-	119	119
<b>Transaction with owners recognised directly in equity</b>								
Acquisition of non-controlling interest's shareholding	-	-	(23)	-	-	-	23	-
<b>Balance as at 30 June 2010</b>	<b>110,000</b>	<b>97,000</b>	<b>171,297</b>	<b>(132)</b>	<b>(2,438)</b>	<b>39,861</b>	<b>187</b>	<b>415,775</b>
<b>Balance as at 1 January 2011</b>	<b>110,000</b>	<b>97,000</b>	<b>186,799</b>	<b>(28)</b>	<b>(2,734)</b>	<b>39,861</b>	<b>2,277</b>	<b>433,175</b>
<b>Total comprehensive income</b>								
Profit for the six months ended 30 June 2011	-	-	20,054	-	-	-	22	20,076
<b>Other comprehensive income</b>								
Revaluation reserve on available for sale investments	-	-	-	(39)	-	-	-	(39)
Reserve from translation of foreign operations	-	-	-	-	(287)	-	-	(287)
<b>Transaction with owners recognised directly in equity</b>								
Acquisition of non-controlling interest's shareholding	-	-	89	-	-	-	(99)	(10)
<b>Balance as at 30 June 2011</b>	<b>110,000</b>	<b>97,000</b>	<b>206,942</b>	<b>(67)</b>	<b>(3,021)</b>	<b>39,861</b>	<b>2,200</b>	<b>452,915</b>

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 50.

The financial statements have been approved by the Managing Board on 28 July 2011 and signed on its behalf by:

\_\_\_\_\_  
 Maya Georgieva  
 Executive Director

\_\_\_\_\_  
 Jordan Skortchev  
 Executive Director

\_\_\_\_\_  
 Ianko Karakolev  
 Chief Financial Officer

\_\_\_\_\_  
 Gilbert McCaul  
 Partner  
 KPMG Bulgaria OOD



\_\_\_\_\_  
 Margarita Goleva  
 Registered auditor

## Notes to the financial statements

### 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 2011 comprise the Bank and its subsidiaries (see note 37), together referred to as the “Group”.

The Group has foreign operations 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.

The Group has made certain reclassifications to the financial statements as of 31 December 2010 in order to provide more clear and precise comparison figures.

### 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.



## Notes to the financial statements

### 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*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the exchange rates at the reporting date of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss. Translation differences on non-monetary items are included in other comprehensive income.

##### (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.

## Notes to the financial statements

### 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

## Notes to the financial statements

### 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.

## Notes to the financial statements

### 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*

<b>30 June 2011</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Financial assets held for trading	18,351	-	-	18,351
Available for sale investments	492,153	24,015	6,459	522,627
Derivatives held for risk management	-	(107)	-	(107)
<b>Total</b>	<b>510,504</b>	<b>23,908</b>	<b>6,459</b>	<b>540,871</b>

*in thousands of BGN*

<b>31 December 2010</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Financial assets held for trading	16,641	-	-	16,641
Available for sale investments	671,834	37,552	6,019	715,405
Derivatives held for risk management	-	(247)	-	(247)
<b>Total</b>	<b>688,475</b>	<b>37,305</b>	<b>6,019</b>	<b>731,799</b>

##### (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

## Notes to the financial statements

### 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.

## Notes to the financial statements

### 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.

## Notes to the financial statements

### 2. Significant accounting policies, continued

#### (j) Impairment, continued

##### (ii) Available for sale financial assets

If there is objective evidence that an impairment loss has been incurred on an equity instrument not carried at fair value, the amount of the loss is measured as the difference between its carrying amount and the present value of estimated future cash flows discounted at the current market rate of return.

When an asset remeasured to fair value through other comprehensive income is impaired, the decline in the fair value of the asset that had been previously recognised in other comprehensive income is reclassified to profit or loss even though the financial asset has not been derecognised.

If in a subsequent period the fair value of a debt instrument classified as available for sale increases and the increase can be related to an event after the impairment loss recognition, the impairment loss is reversed and recognised in profit or loss.

#### (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 - 50
▪ Fixtures and fittings	10 - 20
▪ 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	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.

## Notes to the financial statements

### 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.



## Notes to the financial statements

### 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.

## Notes to the financial statements

### 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 effective for annual periods beginning after 1 January 2011, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Group.

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

- Amendments to IFRS 7 *Disclosures - Transfers of Financial Assets* (effective for annual periods beginning on or after 1 July 2011). The Group does not expect the amendment to IFRS 7 to have material impact on the financial statements.
- IFRS 9 *Financial Instruments* (2009) (effective for annual periods beginning on or after 1 January 2013). It is expected that this new standard, when initially applied, will have a significant impact on the financial statements, since it will be required to be retrospectively applied. However, the Group is not able to prepare an analysis of the impact this will have on the financial statements until the date of initial application. The Group has not yet decided on the date that it will initially apply the new standard.
- Additions to IFRS 9 *Financial Instruments* (2010) (effective for annual periods beginning on or after 1 January 2013) The 2010 additions to IFRS 9 replace the guidance in IAS 39 *Financial Instruments: Recognition and Measurement*, about classification and measurement of financial liabilities and the derecognition of financial assets and financial liabilities. The Group does not expect the amendment to IFRS 9 to have material impact on the financial statements.
- IFRS 10 *Consolidated Financial Statements* and IAS 27 (2011) *Separate Financial Statements* (effective for annual periods beginning on or after 1 January 2013). IFRS 10 provides a single model to be applied in the control analysis for all investees and introduces new requirements to assess control that are different from the existing requirements. The Group does not expect the new IFRS 10 to have material impact on the financial statements.
- IFRS 11 *Joint Arrangements* (effective for annual periods beginning on or after 1 January 2013) supersedes and replaces IAS 31, *Interest in Joint Ventures*. IFRS 11 does not introduce substantive changes to the overall definition of an arrangement subject to joint control. The Group does not expect the new IFRS 11 to have material impact on the financial statements.
- IFRS 12 *Disclosure of Interests in Other Entities* (effective for annual periods beginning on or after 1 January 2013) requires additional disclosures relating to significant judgements and assumptions made in determining the nature of interests in an entity or arrangement, interests in subsidiaries, joint arrangements and associates and unconsolidated structured entities. The Group does not expect IFRS 12 to have material impact on the financial statements.

## Notes to the financial statements

- IFRS 13 *Fair Value Measurement* (effective prospectively for annual periods beginning on or after 1 January 2013). IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. The Group does not expect IFRS 13 to have material impact on the financial statements since management considers the methods and assumptions currently used to measure the fair value of assets to be consistent with IFRS 13.
- Amendments to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income* (effective for annual periods beginning on or after 1 July 2012). The amendments require that an entity presents separately the items of other comprehensive income that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. The impact of the initial application of the amendments will depend on the specific items of other comprehensive income at the date of initial application.
- Amendments to IAS 12 *Income taxes - Deferred Tax: Recovery of Underlying Assets* (effective for annual periods beginning on or after 1 January 2012). The Group does not expect the amendment to IAS 12 to have material impact on the financial statements.
- Amendments to IAS 19 (2011) *Employee Benefits* (effective for annual periods beginning on or after 1 January 2013). The amendment requires actuarial gains and losses to be recognised immediately in other comprehensive income. The Group does not expect the amendment to IAS 19 to have material impact on the financial statements.
- Amendments to IAS 27 (2011) *Separate Financial Statements* (effective for annual periods beginning on or after 1 January 2013). The Group does not expect the amendment to IAS 27 to have material impact on the financial statements.
- Amendments to IAS 28 (2011) *Investments in Associates and Joint Ventures* (effective for annual periods beginning on or after 1 January 2013). The Group does not expect the amendment to IAS 28 to have material impact on the financial statements.

## Notes to the financial statements

### 3. Risk management disclosures

#### A. Trading activities

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

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

The Group operates in the condition of a dynamically developing global financial and economic crisis. Its further extension might result in negative implications on the financial position of the Group. The management of the Group performs daily monitoring over all positions of assets and liabilities, income and expenses, as well as the development of the international financial markets, applying the best banking practices. The management based on this analyses profitability, capital base, liquidity and the cost of funds and implements adequate measures in respect to credit, market (primarily interest rate) and liquidity risk, thus limiting the possible negative effects from the global financial and economic crisis. In this way the Group responds to the challenges of the market environment, maintaining a stable capital and liquidity position.

#### (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.

In a developing money and capital market, the prices at which transactions are realised can be different from quoted prices. While the management has used available market information in estimating fair value, it may not be fully reflective of the value that could be realised under the current circumstances.

## Notes to the financial statements

### 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 half of 2011:

	30 June	Six months ended 30 June 2011			31 December
<i>in thousands of BGN</i>	2011	average	low	high	2010
<b>VaR</b>	284	447	271	608	538

#### 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.

## Notes to the financial statements

### 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 2011**

<i>In thousands of BGN</i>	<b>Up to 1 Month</b>	<b>From 1 to 3 Months</b>	<b>From 3 months to 1 year</b>	<b>Over 1 year</b>	<b>Maturity not defined</b>	<b>Total</b>
<b>Assets</b>						
Cash and balances with central banks	705,793	-	-	-	-	<b>705,793</b>
Financial assets held for trading	18,351	-	-	-	-	<b>18,351</b>
Available for sale investments	1,724	131,222	323,534	59,688	6,459	<b>522,627</b>
Financial assets held to maturity	-	1,002	3,091	48,438	-	<b>52,531</b>
Loans and advances to banks and financial institutions	31,368	-	46,917	8,120	-	<b>86,405</b>
Loans and advances to customers	282,839	180,319	965,031	2,504,945	-	<b>3,933,134</b>
<b>Total financial assets</b>	<b>1,040,075</b>	<b>312,543</b>	<b>1,338,573</b>	<b>2,621,191</b>	<b>6,459</b>	<b>5,318,841</b>
<b>Liabilities</b>						
Due to credit institutions	6,431	15,813	13,725	-	-	<b>35,969</b>
Due to other customers	1,134,117	835,839	1,805,286	941,290	-	<b>4,716,532</b>
Liabilities evidenced by paper	50,782	5,712	48,085	32,647	-	<b>137,226</b>
Subordinated term debt	-	-	-	47,539	-	<b>47,539</b>
Perpetual debt	-	-	-	-	100,184	<b>100,184</b>
Hybrid debt	-	-	-	-	40,254	<b>40,254</b>
Other financial liabilities	107	-	-	-	-	<b>107</b>
<b>Total financial liabilities</b>	<b>1,191,437</b>	<b>857,364</b>	<b>1,867,096</b>	<b>1,021,476</b>	<b>140,438</b>	<b>5,077,811</b>
<b>Net liquidity gap</b>	<b>(151,362)</b>	<b>(544,821)</b>	<b>(528,523)</b>	<b>1,599,715</b>	<b>(133,979)</b>	<b>241,030</b>

**Notes to the financial statements**
**3. Risk management disclosures, continued**
**B. Non-trading activities, continued**
**(i) Liquidity risk, continued**
**Maturity table as at 31 December 2010**

<i>In thousands of BGN</i>	<b>Up to 1 Month</b>	<b>From 1 to 3 Months</b>	<b>From 3 months to 1 year</b>	<b>Over 1 year</b>	<b>Maturity not defined</b>	<b>Total</b>
<b>Assets</b>						
Cash and balances with central banks	556,861	-	-	-	-	556,861
Financial assets held for trading	16,641	-	-	-	-	16,641
Available for sale investments	118,590	234,511	288,336	67,949	6,019	715,405
Financial assets held to maturity	5,394	9,167	6,774	35,767	-	57,102
Loans and advances to banks and financial institutions	8,705	611	4,043	8,377	-	21,736
Loans and advances to customers	165,799	210,735	763,802	2,276,758	-	3,417,094
<b>Total financial assets</b>	<b>871,990</b>	<b>455,024</b>	<b>1,062,955</b>	<b>2,388,851</b>	<b>6,019</b>	<b>4,784,839</b>
<b>Liabilities</b>						
Due to credit institutions	8,826	-	-	-	-	8,826
Due to other customers	1,350,080	815,919	992,620	1,127,074	-	4,285,693
Liabilities evidenced by paper	21,311	11,258	3,422	80,734	-	116,725
Subordinated term debt	-	-	-	47,169	-	47,169
Perpetual debt	-	-	-	-	99,201	99,201
Other financial liabilities	247	-	-	-	-	247
<b>Total financial liabilities</b>	<b>1,380,464</b>	<b>827,177</b>	<b>996,042</b>	<b>1,254,977</b>	<b>99,201</b>	<b>4,557,861</b>
<b>Net liquidity gap</b>	<b>(508,474)</b>	<b>(372,153)</b>	<b>66,913</b>	<b>1,133,874</b>	<b>(93,182)</b>	<b>226,978</b>

As at 30 June 2011 the funds by the thirty largest non-bank depositors represent 5.63% of total deposits from other customers (2010: 4.59%).

## Notes to the financial statements

### 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 2011 based on the contractual undiscounted cash flows.

<i>In thousands of BGN</i>	<b>Up to 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 months to 1 year</b>	<b>Over 1 year</b>	<b>Total</b>
Due to credit institutions	6,431	15,920	13,934	-	<b>36,285</b>
Due to other customers	1,135,289	844,494	1,875,157	1,057,934	<b>4,912,874</b>
Liabilities evidenced by paper	50,836	5,737	48,859	35,169	<b>140,601</b>
Subordinated term debt	-	-	3,374	73,275	<b>76,649</b>
Perpetual debt	-	6,601	4,775	139,382	<b>150,758</b>
Hybrid debt	-	-	5,630	59,066	<b>64,696</b>
Other financial liabilities	107	-	-	-	<b>107</b>
<b>Total financial liabilities</b>	<b>1,192,663</b>	<b>872,752</b>	<b>1,951,729</b>	<b>1,364,826</b>	<b>5,381,970</b>

##### (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 2011 is BGN +1.3/-1.3 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 2011 is BGN +4.1/-4.1Mio.



## Notes to the financial statements

### 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 2011 and the periods in which financial liabilities and assets reprice.

<i>In thousands of BGN</i>	Total	Weighted average effective interest rate	Floating rate instruments	Fixed rate instruments			
				Less than 1 month	Between 1 month and 3 months	Between 3 months and 1 year	More than 1 year
<b>Assets</b>							
Cash and balances with central banks	183,471	0.74%	18,836	164,635	-	-	-
Financial assets held for trading	14,758	3.49%	-	-	-	-	14,758
Available for sale investments	516,168	1.48%	29,298	1,724	131,221	323,534	30,391
Financial assets held to maturity	52,531	5.40%	-	-	1,002	3,091	48,438
Loans and advances to banks and financial institutions	82,946	3.45%	-	27,923	-	46,915	8,108
Loans and advances to customers	3,846,112	11.81%	3,310,952	60,493	37,968	159,079	277,620
Non-interest earning assets	846,899						
<b>Total assets</b>	<b>5,542,885</b>		<b>3,359,086</b>	<b>254,775</b>	<b>170,191</b>	<b>532,619</b>	<b>379,315</b>
<b>Liabilities</b>							
Due to credit institutions	35,969	2.95%	2,431	4,000	15,813	13,725	-
Due to other customers	4,714,135	5.37%	647,929	484,955	834,675	1,805,286	941,290
Liabilities evidenced by paper	137,226	2.54%	59,482	50,782	-	-	26,962
Subordinated term debt	47,539	15.16%	-	-	-	-	47,539
Perpetual debt	100,184	12.58%	-	-	-	-	100,184
Hybrid debt	40,254	12.86%	-	-	-	-	40,254
Non-interest bearing liabilities	14,663		-	-	-	-	-
<b>Total liabilities</b>	<b>5,089,970</b>		<b>709,842</b>	<b>539,737</b>	<b>850,488</b>	<b>1,819,011</b>	<b>1,156,229</b>

## Notes to the financial statements

### 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 2010 and the periods in which financial liabilities and assets reprice.

<i>In thousands of BGN</i>	Total	Weighted average effective interest rate	Floating rate instruments	Fixed rate instruments			
				Less than 1 month	Between 1 month and 3 months	Between 3 months and 1 year	More than 1 year
<b>Assets</b>							
Cash and balances with central banks	62,835	0.31%	27,537	35,298	-	-	-
Financial assets held for trading	13,428	3.58%	-	-	-	-	13,428
Available for sale investments	709,386	0.95%	46,349	118,590	235,511	287,335	21,601
Financial assets held to maturity	57,102	5.80%	-	5,394	9,167	6,774	35,767
Loans and advances to banks and financial institutions	19,128	5.05%	121	6,701	-	3,929	8,377
Loans and advances to customers	3,379,115	12.49%	2,945,624	71,810	24,395	132,795	204,491
Non-interest earning assets	757,782	-	-	-	-	-	-
<b>Total assets</b>	<b>4,998,776</b>		<b>3,019,631</b>	<b>237,793</b>	<b>269,073</b>	<b>430,833</b>	<b>283,664</b>
<b>Liabilities</b>							
Due to credit institutions	8,826	0.18%	1,826	7,000	-	-	-
Due to other customers	4,284,196	5.62%	1,382,820	453,651	701,800	851,761	894,164
Liabilities evidenced by paper	116,725	3.40%	68,326	21,215	78	14	27,092
Subordinated term debt	47,169	15.15%	-	-	-	-	47,169
Perpetual debt	99,201	12.55%	-	-	-	-	99,201
Non-interest bearing liabilities	9,484	-	-	-	-	-	-
<b>Total liabilities</b>	<b>4,565,601</b>		<b>1,452,972</b>	<b>481,866</b>	<b>701,878</b>	<b>851,775</b>	<b>1,067,626</b>

## Notes to the financial statements

### 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 its financial statements is the Bulgarian lev, the Group's financial statements are affected 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:

<i>In thousands of BGN</i>	<b>30 June 2011</b>	<b>31 December 2010</b>
<b>Monetary assets</b>		
Euro	3,880,315	3,422,525
US dollar	354,846	381,025
Other currencies	104,417	81,936
Gold	8,248	6,723
<b>Monetary liabilities</b>		
Euro	2,786,925	2,475,250
US dollar	355,651	382,068
Other currencies	108,899	86,387
Gold	-	-
<b>Net position</b>		
Euro	1,093,390	947,275
US dollar	(805)	(1,043)
Other currencies	(4,482)	(4,451)
Gold	8,248	6,723

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.

## Notes to the financial statements

### 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:

<b>30 June 2011</b>	<i>In thousands of BGN</i>	
<b>Class of exposure</b>	<b>Gross amount of loans and advances to customers</b>	<b>Carrying amount of loans and advances to customers</b>
Collectively impaired		
Standard	3,496,366	3,491,351
Individually impaired		
Watch	328,961	317,803
Nonperforming	30,526	26,280
Loss	189,884	97,700
<b>Total</b>	<b>4,045,737</b>	<b>3,933,134</b>

<b>31 December 2010</b>	<i>In thousands of BGN</i>	
<b>Class of exposure</b>	<b>Gross amount of loans and advances to customers</b>	<b>Carrying amount of loans and advances to customers</b>
Collectively impaired		
Standard	3,057,066	3,053,222
Individually impaired		
Watch	311,715	305,126
Nonperforming	27,875	24,275
Loss	118,264	34,471
<b>Total</b>	<b>3,514,920</b>	<b>3,417,094</b>

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

## Notes to the financial statements

### 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 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.

<i>In thousands of BGN</i>	<b>30 June 2011</b>	<b>31 December 2010</b>
Trade	865,249	891,439
Industry	1,083,855	668,427
Services	462,275	236,986
Finance	11,826	30,931
Transport, logistics	254,752	256,342
Communications	48,396	38,018
Construction	197,574	170,447
Agriculture	77,170	74,408
Tourist services	113,000	137,996
Infrastructure	149,401	142,906
Private individuals	772,920	742,982
Other	9,319	124,038
Less allowance for impairment	<u>(112,603)</u>	<u>(97,826)</u>
<b>Total</b>	<b><u>3,933,134</u></b>	<b><u>3,417,094</u></b>

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 2011 with total exposures amounting to BGN 111,457 thousand (2010: BGN 78,336 thousand) - ferrous and non-ferrous metallurgy, BGN 63,831 thousand (2010: BGN 68,850 thousand) - mining industry and BGN 106,167 thousand (2009: BGN 108,113 thousand) - power engineering.

The Group has extended loans and issued contingent liabilities to 20 individual clients or groups (2010: 17) with each individual exposure exceeding 10% of the capital base of the Group. The total amount of these exposures is BGN 1,483,275 thousand which represents 267.21% of the Group's capital base (2010: BGN 1,324,378 thousand which represented 261.89% of capital base) of which BGN 1,297,584 thousand (2010: BGN 1,102,284 thousand) represent loans and BGN 185,691 thousand (2010: BGN 222,094 thousand) represent guarantees, letters of credit and other commitments.

## Notes to the financial statements

### 3. Risk management disclosures, continued

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

##### (iii) Credit risk, continued

The loans extended by the Cyprus branch amount to BGN 222,637 thousand (2010: BGN 175,938 thousand) and in Albania – BGN 49,556 thousand (2010: BGN 45,575 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 199,873 thousands (2010: BGN 187,266 thousands):

<i>In thousands of BGN</i>	<b>30 June 2011</b>	<b>31 December 2010</b>
Mortgage	1,659,471	1,489,092
Pledge of receivables	500,328	241,395
Pledge of commercial enterprise	433,736	443,797
Securities	83,859	130,044
Bank guarantee	15,155	7,127
Other guaranties	378,265	305,410
Pledge of goods	130,648	164,800
Pledge of machines	196,566	219,301
Money deposit	41,390	37,146
Stake in capital	129,501	29,013
Gold	18	18
Other collateral	235,176	227,206
Unsecured	41,751	33,305
<b>Total</b>	<b>3,845,864</b>	<b>3,327,654</b>

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

## Notes to the financial statements

### 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.

## Notes to the financial statements

### 3. Risk management disclosures, continued

#### C. Capital adequacy, continued

Capital adequacy level is as follows:

<i>In thousands of BGN</i>	Carrying amount/notional amount		Risk weighted amount	
	30 June 2011	31 December 2010	30 June 2011	31 December 2010
<b>Risk weighted assets for credit risk</b>				
<b>Assets</b>				
<b>Exposure class</b>				
Central governments and central banks	952,328	1,111,542	42,310	36,403
Institutions	307,192	123,335	79,009	37,492
Corporates	2,897,546	2,462,179	2,856,957	2,433,889
Retail	516,534	508,642	375,434	369,494
Claims secured by residential property	394,906	383,677	138,217	134,287
Past due exposures	113,232	51,909	113,232	51,909
Collective investment undertaking	2,184	2,100	2,184	2,100
Other items	327,869	323,709	207,846	195,795
<b>TOTAL</b>	<b>5,511,791</b>	<b>4,967,093</b>	<b>3,815,189</b>	<b>3,261,369</b>
<b>Off-balance sheet items</b>				
<b>Exposure class</b>				
Central governments and central banks	91	851	-	-
Institutions	17,249	15,464	4,118	3,468
Corporates	483,174	465,959	171,653	187,034
Retail	247,441	226,751	2,710	3,515
Claims secured by residential property	3,646	4,109	636	708
Other items	-	-	13	13
<b>TOTAL</b>	<b>751,601</b>	<b>713,134</b>	<b>179,130</b>	<b>194,738</b>
<b>Derivatives</b>				
<b>Exposure class</b>				
Institutions	289	830	58	166
Corporates	469	72	469	72
<b>TOTAL</b>	<b>758</b>	<b>902</b>	<b>527</b>	<b>238</b>
<b>Total risk-weighted assets for credit risk</b>			<b>3,994,846</b>	<b>3,456,345</b>
<b>Risk-weighted assets for market risk</b>			<b>5,463</b>	<b>5,988</b>
<b>Risk-weighted assets for operational risk</b>			<b>358,363</b>	<b>358,675</b>
<b>Total risk-weighted assets</b>			<b>4,358,672</b>	<b>3,821,008</b>
<b>Capital adequacy ratios</b>	<b>Capital</b>		<b>Capital ratios %</b>	
	<b>30 June 2011</b>	<b>31 December 2010</b>	<b>30 June 2011</b>	<b>31 December 2010</b>
<b>Tier 1 Capital</b>	<b>445,558</b>	<b>390,169</b>	<b>10.22%</b>	<b>10.21%</b>
<b>Total capital base</b>	<b>555,102</b>	<b>505,695</b>	<b>12.74%</b>	<b>13.23%</b>



## Notes to the financial statements

### 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.

<i>In thousands of BGN</i>	Bulgarian operations		Foreign operations		Total	
	Six months ended 30 June 2011	Six months ended 30 June 2010	Six months ended 30 June 2011	Six months ended 30 June 2010	Six months ended 30 June 2011	Six months ended 30 June 2010
Interest income	200,675	177,109	14,729	10,932	215,404	188,041
Interest expense	(128,549)	(123,463)	(2,394)	(2,263)	(130,943)	(125,726)
<b>Net interest income</b>	<b>72,126</b>	<b>53,646</b>	<b>12,335</b>	<b>8,669</b>	<b>84,461</b>	<b>62,315</b>
Fee and commission income	34,696	27,762	459	328	35,155	28,090
Fee and commission expense	(3,939)	(3,891)	(81)	(66)	(4,020)	(3,957)
<b>Net fee and commission income</b>	<b>30,757</b>	<b>23,871</b>	<b>378</b>	<b>262</b>	<b>31,135</b>	<b>24,133</b>
<b>General administrative expenses</b>	<b>(73,340)</b>	<b>(66,926)</b>	<b>(2,876)</b>	<b>(3,111)</b>	<b>(76,216)</b>	<b>(70,037)</b>
	<b>30 June 2011</b>	<b>31 December 2010</b>	<b>30 June 2011</b>	<b>31 December 2010</b>	<b>30 June 2011</b>	<b>31 December 2010</b>
<b>Segment assets</b>	<b>5,169,263</b>	<b>4,692,799</b>	<b>373,622</b>	<b>305,977</b>	<b>5,542,885</b>	<b>4,998,776</b>
<b>Segment liabilities</b>	<b>4,964,170</b>	<b>4,452,439</b>	<b>125,800</b>	<b>113,162</b>	<b>5,089,970</b>	<b>4,565,601</b>

## Notes to the financial statements

### 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 2011 and for the six months then ended:

*In thousands of BGN*

<b>Business segment</b>	<b>Assets</b>	<b>Liabilities</b>	<b>Interest income</b>	<b>Interest expense</b>	<b>Net fee and commission income</b>	<b>Net trading income</b>	<b>Other operating income/ (expenses)</b>
Commercial banking	3,185,449	786,972	161,104	(14,325)	10,639	-	-
Retail banking	747,685	3,929,560	47,567	(104,050)	4,562	-	-
International business	-	272,011	-	(11,683)	4,353	-	-
Cards business	-	-	-	-	6,515	-	-
Liquidity	1,375,655	89,161	6,733	(869)	5	3,802	(3,381)
Dealing	10,052	-	-	-	(68)	4,001	-
Clients services	-	-	-	-	4,870	-	-
Other	224,044	12,266	-	(16)	259	-	102
<b>Total</b>	<b>5,542,885</b>	<b>5,089,970</b>	<b>215,404</b>	<b>(130,943)</b>	<b>31,135</b>	<b>7,803</b>	<b>(3,279)</b>

## Notes to the financial statements

### 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 2011.

*In thousands of BGN*

	Trading	Held-to-maturity	Loans and receivables	Available for sale	Other amortised cost	Other	Total carrying amount	Fair value
<b>ASSETS</b>								
Cash and balances with central banks	-	-	587,450	-	-	118,343	705,793	705,793
Financial assets held for trading	18,351	-	-	-	-	-	18,351	18,351
Available for sale investments	-	-	-	522,627	-	-	522,627	522,627
Financial assets held to maturity	-	52,531	-	-	-	-	52,531	51,207
Loans and advances to banks and financial institutions	-	-	86,405	-	-	-	86,405	86,405
Loans and advances to customers	-	-	3,933,134	-	-	-	3,933,134	3,933,134
<b>Total</b>	<b>18,351</b>	<b>52,531</b>	<b>4,606,989</b>	<b>522,627</b>	<b>-</b>	<b>118,343</b>	<b>5,318,841</b>	<b>5,317,517</b>
<b>LIABILITIES</b>								
Due to credit institutions	-	-	-	-	35,969	-	35,969	35,969
Due to other customers	-	-	-	-	4,716,532	-	4,716,532	4,716,532
Liabilities evidenced by paper	-	-	-	-	137,226	-	137,226	137,226
Subordinated term debt	-	-	-	-	47,539	-	47,539	47,539
Perpetual debt	-	-	-	-	100,184	-	100,184	101,339
Hybrid debt	-	-	-	-	40,254	-	40,254	40,254
Other financial liabilities	-	-	-	-	-	107	107	107
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,077,704</b>	<b>107</b>	<b>5,077,811</b>	<b>5,078,966</b>

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.

## Notes to the financial statements

### 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 2010.

*In thousands of BGN*

	Trading	Held-to-maturity	Loans and receivables	Available for sale	Other amortised cost	Other	Total carrying amount	Fair value
<b>ASSETS</b>								
Cash and balances with central banks	-	-	434,148	-	-	122,713	556,861	556,861
Financial assets held for trading	16,641	-	-	-	-	-	16,641	16,641
Available for sale investments	-	-	-	715,405	-	-	715,405	715,405
Financial assets held to maturity	-	57,102	-	-	-	-	57,102	56,949
Loans and advances to banks and financial institutions	-	-	21,736	-	-	-	21,736	21,736
Loans and advances to customers	-	-	3,417,094	-	-	-	3,417,094	3,417,094
<b>Total</b>	<b>16,641</b>	<b>57,102</b>	<b>3,872,978</b>	<b>715,405</b>	<b>-</b>	<b>122,713</b>	<b>4,784,839</b>	<b>4,784,686</b>
<b>LIABILITIES</b>								
Due to credit institutions	-	-	-	-	8,826	-	8,826	8,826
Due to other customers	-	-	-	-	4,285,693	-	4,285,693	4,285,693
Liabilities evidenced by paper	-	-	-	-	116,725	-	116,725	116,725
Subordinated term debt	-	-	-	-	47,169	-	47,169	47,169
Perpetual debt	-	-	-	-	99,201	-	99,201	96,800
Other financial liabilities	-	-	-	-	-	247	247	247
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,557,614</b>	<b>247</b>	<b>4,557,861</b>	<b>4,555,460</b>

## Notes to the financial statements

### 6. Net interest income

*In thousands of BGN*

	Six months ended 30 June 2011	Six months ended 30 June 2010
<b>Interest income</b>		
Accounts with and placements to banks and financial institutions	1,538	874
Retail customers	45,833	43,928
Loans to corporate clients	147,535	123,185
Loans to small and medium enterprises	13,569	13,954
Microlending	1,734	2,016
Debt instruments	5,195	4,084
	<b>215,404</b>	<b>188,041</b>
<b>Interest expense</b>		
Deposits from banks	(206)	(8)
Deposits from other customers	(118,375)	(114,632)
Liabilities evidenced by paper	(2,249)	(2,114)
Subordinated term debt	(2,871)	(3,077)
Perpetual debt	(5,759)	(5,875)
Hybrid debt	(1,467)	-
Lease agreements and other	(16)	(20)
	<b>(130,943)</b>	<b>(125,726)</b>
<b>Net interest income</b>	<b>84,461</b>	<b>62,315</b>

For the six months ended 30 June 2011 and 30 June 2010 the recognised interest income on individually impaired financial assets (loans and advances to customers) amounts to BGN 27,056 thousand and BGN 14,919 thousand respectively.

### 7. Net fee and commission income

*In thousands of BGN*

	Six months ended 30 June 2011	Six months ended 30 June 2010
<b>Fee and commission income</b>		
Letters of credit and guarantees	4,198	3,182
Payments transactions	4,326	3,762
Customer accounts	7,748	5,954
Cards business	9,605	8,992
Other	9,278	6,200
	<b>35,155</b>	<b>28,090</b>
<b>Fee and commission expense</b>		
Letters of credit and guarantees	(509)	(203)
Correspondent accounts	(326)	(394)
Cards business	(3,090)	(3,031)
Other	(95)	(329)
	<b>(4,020)</b>	<b>(3,957)</b>
<b>Net fee and commission income</b>	<b>31,135</b>	<b>24,133</b>

## Notes to the financial statements

### 8. Net trading income

*In thousands of BGN*

	<b>Six months ended 30 June 2011</b>	<b>Six months ended 30 June 2010</b>
Net trading gains/(losses) arise from:		
- Debt instruments	3,802	631
- Equity instruments	179	(188)
- Foreign exchange	3,822	3,628
<b>Net trading income</b>	<b>7,803</b>	<b>4,071</b>

### 9. Other operating income/(expenses)

*In thousands of BGN*

	<b>Six months ended 30 June 2011</b>	<b>Six months ended 30 June 2010</b>
Other operating income/(expenses) arise from:		
- Debt instruments	(3,381)	233
- Equity instruments	-	679
- Other	102	6
<b>Other operating income/(expenses)</b>	<b>(3,279)</b>	<b>918</b>

### 10. General administrative expenses

*In thousands of BGN*

	<b>Six months ended 30 June 2011</b>	<b>Six months ended 30 June 2010</b>
General and administrative expenses comprise:		
- Personnel cost	25,501	21,657
- Depreciation and amortisation	11,098	10,343
- Advertising	2,720	2,268
- Building rent expense	13,335	13,314
- Telecommunication, software and other computer maintenance	5,530	5,670
- Unclaimable VAT	4,819	4,817
- Administration, consultancy, audit and other costs	13,213	11,968
<b>General administrative expenses</b>	<b>76,216</b>	<b>70,037</b>

Personnel costs include salaries, social and health security contributions under the provisions of the local legislation. At 30 June 2011 the total number of employees of the Group is 2,754 (30 June 2010: 2,610).

## Notes to the financial statements

### 11. Impairment losses

<i>In thousands of BGN</i>	<b>Six months ended 30 June 2011</b>	<b>Six months ended 30 June 2010</b>
<b>Write-downs</b>		
<i>Loans and advances to customers</i>	(21,457)	(15,668)
<b>Reversal of write-downs</b>		
<i>Loans and advances to customers</i>	6,627	7,365
<b>Net impairment losses</b>	<b>(14,830)</b>	<b>(8,303)</b>

### 12. Income tax expense

<i>In thousands of BGN</i>	<b>Six months ended 30 June 2011</b>	<b>Six months ended 30 June 2010</b>
Current taxes	(1,983)	(1,141)
Deferred taxes (see note 22)	(195)	(539)
<b>Income tax expense</b>	<b>(2,178)</b>	<b>(1,680)</b>

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

<i>In thousands of BGN</i>	<b>Six months ended 30 June 2011</b>	<b>Six months ended 30 June 2010</b>
<b>Accounting profit before taxation</b>	<b>22,254</b>	<b>14,096</b>
Corporate tax at applicable tax rate (10% for 2011 and 10% for 2010)	2,225	1,410
Effect of tax rates of foreign subsidiaries and branches	37	266
Tax effect of permanent tax differences	(279)	(535)
Tax effect of temporary differences	195	539
<b>Income tax expense</b>	<b>2,178</b>	<b>1,680</b>
Effective tax rate	9.79%	11.92%

### 13. Earnings per share

	<b>Six months ended 30 June 2011</b>	<b>Six months ended 30 June 2010</b>
Net profit attributable to shareholders ( <i>in thousands of BGN</i> )	20,054	12,463
Weighted average number of ordinary shares ( <i>in thousands</i> )	110,000	110,000
<b>Earnings per share (<i>in BGN</i>)</b>	<b>0.18</b>	<b>0.11</b>

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 2011 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.

**Notes to the financial statements**
**14. Cash and balances with central banks**

<i>In thousands of BGN</i>	<b>30 June 2011</b>	<b>31 December 2010</b>
Cash on hand		
- In Bulgarian leva	75,830	85,366
- In foreign currencies	38,609	37,347
Balances with central banks	416,868	383,064
Current accounts and amounts with resident banks	4,025	7,000
Current accounts and amounts with foreign banks	170,461	44,084
<b>Total</b>	<b>705,793</b>	<b>556,861</b>

**15. Financial assets held for trading**

<i>In thousands of BGN</i>	<b>30 June 2011</b>	<b>31 December 2010</b>
Bonds, notes and other instruments issued by:		
Bulgarian government, assessed with BBB rating :		
- denominated in Bulgarian leva	4,945	3,898
- denominated in foreign currencies	7,857	7,574
Bulgarian banks, assessed with BBB- rating	1,956	1,956
Other issuers – equity instruments (unrated)	3,593	3,213
<b>Total</b>	<b>18,351</b>	<b>16,641</b>

**16. Available for sale investments**

<i>In thousands of BGN</i>	<b>30 June 2011</b>	<b>31 December 2010</b>
Bonds, notes and other instruments issued by:		
Bulgarian government		
- denominated in Bulgarian leva	37,332	31,839
- denominated in foreign currencies	9,220	8,797
Foreign governments		
- treasury bills	445,601	631,198
Foreign banks	24,015	37,552
Other issuers – equity instruments	6,459	6,019
<b>Total</b>	<b>522,627</b>	<b>715,405</b>



## Notes to the financial statements

### 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.

<i>In thousands of BGN</i>	<b>30 June 2011</b>	<b>31 December 2010</b>
<b>Securities held to maturity issued by:</b>		
Bulgarian government	21,457	29,371
Foreign governments	13,170	18,895
Foreign banks	17,904	8,836
<b>Total</b>	<b>52,531</b>	<b>57,102</b>

### 18. Loans and advances to banks and financial institutions

#### (a) Analysis by type

<i>In thousands of BGN</i>	<b>30 June 2011</b>	<b>31 December 2010</b>
Placements and other amounts due from banks	55,806	13,316
Receivables under resale agreements (see note 31)	26,402	5,910
Other	4,197	2,510
<b>Total</b>	<b>86,405</b>	<b>21,736</b>

#### (b) Geographical analysis

<i>In thousands of BGN</i>	<b>30 June 2011</b>	<b>31 December 2010</b>
Resident banks and financial institutions	26,496	6,298
Foreign banks and financial institutions	59,909	15,438
<b>Total</b>	<b>86,405</b>	<b>21,736</b>

**Notes to the financial statements**
**19. Loans and advances to customers**

<i>In thousands of BGN</i>	<b>30 June 2011</b>	<b>31 December 2010</b>
Retail customers		
- Consumer loans	212,820	199,671
- Mortgage loans	355,281	355,737
- Credit cards	199,873	187,266
Small and medium enterprises	247,073	240,128
Microlending	26,375	27,017
Corporate customers	3,004,315	2,505,101
Less allowance for impairment	(112,603)	(97,826)
<b>Total</b>	<b>3,933,134</b>	<b>3,417,094</b>

**(a) Movement in impairment allowances**
*In thousands of BGN*

<b>Balance at 1 January 2011</b>	<b>97,826</b>
Additional allowances	21,457
Amounts released	(6,627)
Write – offs	(51)
Effects of changes in foreign currencies rates	(2)
<b>Balance at 30 June 2011</b>	<b>112,603</b>

**Notes to the financial statements**
**20. Property and equipment**

<i>In thousands of BGN</i>	<b>Land and buildings</b>	<b>Fixtures and fittings</b>	<b>Motor vehicles</b>	<b>Assets under construction</b>	<b>Leasehold improvements</b>	<b>Total</b>
<b>Cost</b>						
<b>At 1 January 2010</b>	10,829	105,640	5,959	35,331	48,136	205,895
Additions	-	56	31	16,982	168	17,237
Foreign exchange differences	-	(17)	(2)	(1)	(9)	(29)
Acquired through business combination	-	3	-	-	-	3
Disposals	(448)	(3,478)	(79)	(463)	(365)	(4,833)
Transfers	2,258	14,128	274	(26,440)	9,502	(278)
<b>At 31 December 2010</b>	12,639	116,332	6,183	25,409	57,432	217,995
Additions	-	107	-	5,915	62	6,084
Foreign exchange differences	-	(58)	(5)	(1)	(29)	(93)
Acquired through business combination	-	17	-	-	-	17
Disposals	-	(263)	(98)	(53)	-	(414)
Transfers	4	2,658	100	(4,402)	1,590	(50)
<b>At 30 June 2011</b>	12,643	118,793	6,180	26,868	59,055	223,539
<b>Depreciation</b>						
<b>At 1 January 2010</b>	3,410	53,485	4,243	-	12,964	74,102
Foreign exchange differences	-	(9)	-	-	(3)	(12)
Acquired through business combination	-	2	-	-	-	2
Charge for the year	378	14,596	769	-	3,500	19,243
On disposals	(209)	(3,352)	(79)	-	(263)	(3,903)
<b>At 31 December 2010</b>	3,579	64,722	4,933	-	16,198	89,432
Foreign exchange differences	-	(20)	(1)	-	(19)	(40)
Acquired through business combination	-	9	-	-	-	9
Charge for the period	218	7,471	328	-	1,983	10,000
On disposals	-	(256)	(98)	-	-	(354)
<b>At 30 June 2011</b>	3,797	71,926	5,162	-	18,162	99,047
<b>Net book value</b>						
<b>At 1 January 2010</b>	<b>7,419</b>	<b>52,155</b>	<b>1,716</b>	<b>35,331</b>	<b>35,172</b>	<b>131,793</b>
<b>At 31 December 2010</b>	<b>9,060</b>	<b>51,610</b>	<b>1,250</b>	<b>25,409</b>	<b>41,234</b>	<b>128,563</b>
<b>At 30 June 2011</b>	<b>8,846</b>	<b>46,867</b>	<b>1,018</b>	<b>26,868</b>	<b>40,893</b>	<b>124,492</b>

**Notes to the financial statements**
**21. Intangible assets**

<i>In thousands of BGN</i>	<b>Software and licences</b>	<b>Greenhouse allowances</b>	<b>Goodwill</b>	<b>Total</b>
<b>Cost</b>				
<b>At 1 January 2010</b>	22,687	-	107	22,794
Additions	36	-	-	36
Exchange differences on translating foreign operations	(1)	-	-	(1)
Acquired through business combinations	100	3,820	480	4,400
Disposals	(745)	-	-	(745)
Transfers	278	-	-	278
<b>At 31 December 2010</b>	22,355	3,820	587	26,762
Additions	9	-	-	9
Exchange differences on translating foreign operations	(11)	-	-	(11)
Acquired through business combinations	-	-	134	134
Disposals	(3)	-	-	(3)
Transfers	50	-	-	50
<b>At 30 June 2011</b>	22,400	3,820	721	26,941
<b>Amortisation</b>				
<b>At 1 January 2010</b>	4,251	-	-	4,251
Acquired through business combination	81	-	-	81
Charge for the year	2,178	-	-	2,178
On disposals	(745)	-	-	(745)
<b>At 31 December 2010</b>	5,765	-	-	5,765
Exchange differences on translating foreign operations	(7)	-	-	(7)
Acquired through business combination	-	-	-	-
Charge for the period	1,098	-	-	1,098
On disposals	(2)	-	-	(2)
<b>At 30 June 2011</b>	6,854	-	-	6,854
<b>Net book value</b>				
<b>At 1 January 2010</b>	<b>18,436</b>	<b>-</b>	<b>107</b>	<b>18,543</b>
<b>At 31 December 2010</b>	<b>16,590</b>	<b>3,820</b>	<b>587</b>	<b>20,997</b>
<b>At 30 June 2011</b>	<b>15,546</b>	<b>3,820</b>	<b>721</b>	<b>20,087</b>

## Notes to the financial statements

### 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:

<i>In thousands of BGN</i>	<b>Assets</b>		<b>Liabilities</b>		<b>Net</b>	
	<b>30 June 2011</b>	<b>31 December 2010</b>	<b>30 June 2011</b>	<b>31 December 2010</b>	<b>30 June 2011</b>	<b>31 December 2010</b>
Property, equipment and intangibles	-	-	3,317	3,017	3,317	3,017
Other items	(208)	(208)	334	439	126	231
<b>Net tax (assets)/liabilities</b>	<b>(208)</b>	<b>(208)</b>	<b>3,651</b>	<b>3,456</b>	<b>3,443</b>	<b>3,248</b>

Movements in temporary differences for the six months ended 30 June 2011 at the amount of BGN 195 thousand are recognised in the net profit for the period.

### 23. Other assets

<i>In thousands of BGN</i>	<b>30 June 2011</b>	<b>31 December 2010</b>
Deferred expense	21,867	10,288
Gold bullion	8,248	6,723
Other assets	45,088	40,853
<b>Total</b>	<b>75,203</b>	<b>57,864</b>

### 24. Due to credit institutions

<i>In thousands of BGN</i>	<b>30 June 2011</b>	<b>31 December 2010</b>
Term deposits	33,538	7,000
Payable on demand	2,431	1,826
<b>Total</b>	<b>35,969</b>	<b>8,826</b>

## Notes to the financial statements

### 25. Due to other customers

<i>In thousands of BGN</i>	<b>30 June 2011</b>	<b>31 December 2010</b>
Retail customers		
- current accounts	389,719	353,540
- term and savings deposits	3,539,841	3,268,087
Corporate, state-owned and public institutions		
- current accounts	284,061	263,415
- term and savings deposits	502,911	400,651
<b>Total</b>	<b>4,716,532</b>	<b>4,285,693</b>

### 26. Liabilities evidenced by paper

<i>In thousands of BGN</i>	<b>30 June 2011</b>	<b>31 December 2010</b>
Acceptances under letters of credit	9,167	15,375
Liabilities under repurchase agreements (see note 31)	53,192	21,208
Other term liabilities	74,867	80,142
<b>Total</b>	<b>137,226</b>	<b>116,725</b>

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

## Notes to the financial statements

### 27. Subordinated term debt

As at 30 June 2011 the Bank has entered into six separate subordinated loan agreements with four different lenders. 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	Original maturity	Maturity date	Amortised cost as at 30 June 2011
Growth Management Limited	5,867	10 years	27.08.2014	14,347
Growth Management Limited	3,912	10 years	24.02.2015	7,159
Hillside Apex Fund Limited	9,779	10 years	01.03.2015	9,791
Growth Management Limited	1,956	10 years	17.03.2015	3,542
ING Bank NV/ Deutsche Forfait AG	9,779	10 years	22.04.2015	8,789
Hypo-Alpe-Adria Bank	3,912	10 years	14.04.2015	3,911
<b>Total</b>	<b>35,205</b>			<b>47,539</b>

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 2011
Step-up guaranteed perpetual subordinated bonds EUR 27 mio	52,807	58,201
Step-up guaranteed perpetual subordinated bonds EUR 21 mio	41,073	41,983
<b>Total</b>	<b>93,880</b>	<b>100,184</b>

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.

## Notes to the financial statements

### 29. Hybrid debt

<i>In thousands of BGN</i>	Principal amount	Amortised cost as at 30 June 2011
Hybrid debt with original principal EUR 21 mio	39,317	40,254
<b>Total</b>	<b>39,317</b>	<b>40,254</b>

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.

### 30. Other liabilities

<i>In thousands of BGN</i>	30 June 2011	31 December 2010
Liabilities to personnel	1,928	1,822
Other payables	4,186	1,590
<b>Total</b>	<b>6,114</b>	<b>3,412</b>

### 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 2011 assets sold under repurchase agreements are as follows:

<i>In thousands of BGN</i>	Fair value of underlying assets	Carrying amount of corresponding liabilities
Bulgarian government securities	36,663	35,945
Other government securities	17,840	17,247
<b>Total</b>	<b>54,503</b>	<b>53,192</b>

At 31 December 2010 assets sold under repurchase agreements were as follows:

<i>In thousands of BGN</i>	Fair value of underlying assets	Carrying amount of corresponding liabilities
Bulgarian government securities	1,938	1,970
Other government securities	22,107	19,238
<b>Total</b>	<b>24,045</b>	<b>21,208</b>



## Notes to the financial statements

### 31. Repurchase and resale agreements, continued

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 2011 assets purchased subject to agreements to resell them are as follows:

<i>In thousands of BGN</i>	<b>Fair value of assets held as collateral</b>	<b>Carrying amount of corresponding receivables</b>
Bulgarian government securities	26,735	26,402
<b>Total</b>	<b>26,735</b>	<b>26,402</b>

At 31 December 2010 assets purchased subject to agreements to resell were as follows:

<i>In thousands of BGN</i>	<b>Fair value of assets held as collateral</b>	<b>Carrying amount of corresponding receivables</b>
Bulgarian government securities	5,863	5,910
<b>Total</b>	<b>5,863</b>	<b>5,910</b>

### 32. Capital and reserves

#### (a) Number and face value of registered shares as at 30 June 2011

As at 30 June 2011 the registered share capital of the Bank is BGN 110,000,000 divided into 110,000,000 ordinary dematerialized shares with voting rights of BGN 1 par value each. All the shares have been fully paid-up.

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

#### (b) Shareholders

The table below shows those shareholders of the Bank holding shares as at 30 June 2011 together with the number and percentage of total issued shares.

	<b>Number of shares</b>	<b>% of issued share capital</b>
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
<b>Total</b>	<b>110,000,000</b>	<b>100.00</b>

## Notes to the financial statements

### 32. Capital and reserves, continued

#### (b) Shareholders, continued

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 2011, 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 counterparties failed completely to perform as contracted and any collateral or security proved to be of no value.

<i>In thousands of BGN</i>	<b>30 June 2011</b>	<b>31 December 2010</b>
Bank guarantees		
- in BGN	140,072	102,650
- in foreign currency	200,178	221,186
<b>Total guarantees</b>	<b>340,250</b>	<b>323,836</b>
Unused credit lines	336,758	303,400
Promissory notes	6,520	8,093
Letters of credit	68,073	77,805
<b>Total</b>	<b>751,601</b>	<b>713,134</b>

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 2011 the extent of collateral held for guarantees and letters of credit is 100 percent.

## Notes to the financial statements

### 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:

<i>In thousands of BGN</i>	<b>30 June 2011</b>	<b>30 June 2010</b>
Cash and balances with central banks	705,793	620,528
Loans and advances to banks and financial institutions with maturity less than 90 days	17,155	4,743
<b>Total</b>	<b>722,948</b>	<b>625,271</b>

### 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.

<i>In thousands of BGN</i>	<b>Six months ended 30 June 2011</b>	<b>Six months ended 30 June 2010</b>
<b>FINANCIAL ASSETS</b>		
Cash and balances with central banks	638,197	589,208
Financial assets held for trading	24,022	13,284
Available for sale investments	672,886	454,605
Financial assets held to maturity	50,537	35,337
Loans and advances to banks and financial institutions	54,855	25,805
Loans and advances to customers	3,629,386	3,025,719
<b>FINANCIAL LIABILITIES</b>		
Due to credit institutions	23,015	2,876
Due to other customers	4,517,824	3,620,664
Liabilities evidenced by paper	135,795	137,793
Subordinated term debt	47,499	58,671
Perpetual debt	98,889	99,100
Hybrid debt	17,070	-

## Notes to the financial statements

### 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	
	Six months ended 30 June 2011	2010	Six months ended 30 June 2011	2010
<i>In thousands of BGN</i>				
<b>Loans</b>				
Loans outstanding at beginning of the period	2,997	2,130	19,055	21,721
Loans issued/(repaid) during the period	(901)	867	477	(2,666)
Loans outstanding at end of the period	2,096	2,997	19,532	19,055
<b>Deposits and other financing received</b>				
Deposits at beginning of the period	7,994	8,306	14,197	25,075
Deposits received/(repaid) during the period	1,779	(312)	30,894	(10,878)
Deposits at end of the period	9,773	7,994	45,091	14,197
<b>Deposits placed</b>				
Deposits at beginning of the period	-	-	3,922	3,912
Deposits placed/(matured) during the period	-	-	29,559	10
Deposits at end of the period	-	-	33,481	3,922
<b>Off-balance sheet commitments issued by the Group</b>				
At beginning of the period	1,204	2,280	1,289	1,322
Granted/(expired)	269	(1,076)	975	(33)
At the end of the period	1,473	1,204	2,264	1,289

The key management personnel of the Bank received remuneration of BGN 2,801 thousand in the first half of 2011.

### 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.

## Notes to the financial statements

### 37. Subsidiary undertakings, continued

#### (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 2011 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 2011 the share capital of First Investment Bank – Albania Sh.a. is EUR 10,975 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 2011 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.

#### (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 EOOD

In February 2011 the Bank acquired 100 shares representing 100% of the capital of Balkan Financial Services EOOD. The company is engaged in consultancy services related to implementation of financial information systems and software development.