FIRST INVESTMENT BANK AD

UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 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 unconsolidated financial statements

We have audited the accompanying unconsolidated financial statements of First Investment Bank AD ("the Bank"), which comprise the unconsolidated statement of the financial position as at 30 June 2011, the unconsolidated 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 unconsolidated financial statements

Management is responsible for the preparation and fair presentation of these unconsolidated financial statements in accordance with International Financial Reporting Standards adopted by the European Commission, and for such internal control as management determines is necessary to enable the preparation of unconsolidated 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 unconsolidated 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 unconsolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the unconsolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the unconsolidated 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 unconsolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the unconsolidated financial statements.

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

Opinion

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

Gilbert McCaul
Partner

Margarita Goleva
Registered auditor

KPMG Bulgaria OOD
45A Bulgaria Blvd
1404 Sofia
Bulgaria

Fibank
Първа инвестиционна банка

Unconsolidated statement of comprehensive income for the six months ended 30 June 2011

in BGN '000

	Note	Six months ended 30 June 2011	Six months ended 30 June 2010
Interest income		211,650	185,985
Interest expense and similar charges:		(129,631)	(125,464)
Net interest income	**6**	**82,019**	**60,521**
Fee and commission income		34,303	26,961
Fee and commission expense		(3,895)	(3,642)
Net fee and commission income	**7**	**30,408**	**23,319**
Net trading income	**8**	**7,292**	**4,116**
Other net operating income/(expense)	**9**	**(3,391)**	**912**
TOTAL INCOME FROM BANKING OPERATIONS		**116,328**	**88,868**
Administrative expenses	10	(72,800)	(66,349)
Allowance for impairment	11	(14,445)	(6,996)
Other income/(expenses), net		(6,834)	923
PROFIT BEFORE TAX		**22,249**	**16,446**
Income tax expense	**12**	**(2,246)**	**(1,651)**
NET PROFIT		**20,003**	**14,795**
Other comprehensive income for the period			
Revaluation reserve on available for sale investments		79	6
Total other comprehensive income		**79**	**6**
TOTAL COMPREHENSIVE INCOME		**20,082**	**14,801**

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 51.

Maya Georgieva
Executive Director

Jordan Skortchev
Executive Director

Yanko Karakolev
Chief Financial Officer

Gilbert McCall
Partner
KPMG Bulgaria OOD

Margarita Goleva
Registered auditor

Unconsolidated statement of the financial position as at 30 June 2011

in BGN '000

	Note	30 June 2011	31 December 2010
ASSETS			
Cash and balances with Central Banks	13	694,679	546,281
Financial assets held for trading	14	18,351	16,641
Available for sale investments	15	538,718	743,217
Financial assets held to maturity	16	39,361	38,207
Loans and advances to banks and other financial institutions	17	85,662	20,924
Loans and advances to customers	18	3,887,698	3,375,162
Property and equipment	19	121,072	124,909
Intangible assets	20	15,333	16,321
Current tax assets		4,262	6,509
Other assets	22	73,228	55,912
TOTAL ASSETS		**5,478,364**	**4,944,083**
LIABILITIES AND CAPITAL			
Due to banks	23	36,491	9,509
Due to other customers	24	4,626,929	4,205,020
Liabilities evidenced by paper	25	154,983	133,804
Subordinated term debt	26	47,539	47,169
Perpetual debt	27	102,847	101,888
Hybrid debt	28	40,254	-
Deferred tax liability	21	3,443	3,143
Derivatives held for risk management		107	247
Current tax liabilities		2,455	1,003
Other liabilities	29	3,470	2,536
TOTAL LIABILITIES		**5,018,518**	**4,504,319**
Issued share capital	31	110,000	110,000
Share premium	31	97,000	97,000
Statutory reserve	31	39,861	39,861
Revaluation reserve on available for sale investments	31	47	(32)
Retained earnings	31	212,938	192,935
SHAREHOLDERS' EQUITY		**459,846**	**439,764**
TOTAL LIABILITIES AND GROUP EQUITY		**5,478,364**	**4,944,083**

The statement of the 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 51.

Maya Georgieva
Executive Director

Jordan Skortchev
Executive Director

Yanko Karakolev
Chief Financial Officer

Gilbert McCall
Partner
KPMG Bulgaria OOD

Margarita Goleva
Registered auditor

Unconsolidated statement of cash flows for the six months ended 30 June 2011

in BGN '000

	Six months ended 30 June 2011	Six months ended 30 June 2010
Net cash flow from operating activities		
Net profit	20,003	14,795
Adjustment for non-cash items		
Allowance for impairment	14,445	6,996
Depreciation and amortization	10,635	9,897
Income tax expense	2,246	1,651
(Profit)/loss from sale and write-off of tangible and intangible fixed assets, net	58	(4,949)
	47,387	**28,390**
Change in operating assets		
(Increase) in financial instruments held for trading	(1,710)	(2,377)
(Increase)/decrease in available for sale investments	204,578	(279,542)
(Increase)/decrease in loans and advances to banks and financial institutions	(50,933)	3,473
(Increase) in loans to customers	(526,981)	(146,244)
(Increase) in other assets	(15,069)	(12,158)
	(390,115)	**(436,848)**
Change in operating liabilities		
Increase/(decrease) in deposits from banks	26,982	(4,512)
Increase in amounts owed to other depositors	421,909	501,972
Net increase/(decrease) in other liabilities	396	(681)
	449,287	**496,779**
Income tax paid	(96)	(596)
NET CASH FLOW FROM OPERATING ACTIVITIES	**106,463**	**87,725**
Cash flow from investing activities		
(Purchase) of tangible and intangible fixed assets	(5,871)	(10,615)
Sale of tangible and intangible fixed assets	3	5,001
(Increase)/decrease of investments	(1,154)	9,314
NET CASH FLOW FROM INVESTING ACTIVITIES	**(7,022)**	**3,700**
Financing activities		
Increase/(decrease) in borrowings	62,762	(76,999)
NET CASH FLOW FROM FINANCING ACTIVITIES	**62,762**	**(76,999)**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**162,203**	**14,426**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	**548,889**	**601,038**
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD (See Note 33)	**711,092**	**615,464**

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 51.

Maya Georgieva
Executive Director

Jordan Skortchev
Executive Director

Yanko Karakolev
Chief Financial Officer

Gilbert McCall
Partner
KPMG Bulgaria OOD

Margarita Goleva
Registered auditor

Unconsolidated statement of shareholders' equity for the six months ended 30 June 2011

in BGN '000

	Issued share capital	Share premium	Retained earnings	Revaluation reserve	Statutory reserve	Total
Balance as at 1 January 2010	**110,000**	**97,000**	**162,097**	**(146)**	**39,861**	**408,812**
Total comprehensive income for the period						
Net profit for the six months ended on 30 June 2010	-	-	14,795	-	-	14,795
Other comprehensive income for the period						
Revaluation reserve on available for sale investments	-	-	-	6	-	6
Balance as at 30 June 2010	**110,000**	**97,000**	**176,892**	**(140)**	**39,861**	**423,613**
Balance as at 1 January 2011	**110,000**	**97,000**	**192,935**	**(32)**	**39,861**	**439,764**
Total comprehensive income for the period						
Net profit for the six months ended on 30 June 2011	-	-	20,003	-	-	20,003
Other comprehensive income for the period						
Revaluation reserve on available for sale investments	-	-	-	79	-	79
Balance as at 30 June 2011	**110,000**	**97,000**	**212,938**	**47**	**39,861**	**459,846**

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 51.

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

Maya Georgieva
Executive Director

Jordan Skortchev
Executive Director

Yanko Karakolev
Chief Financial Officer

Gilbert McCall
Partner
KPMG Bulgaria OOD

Margarita Goleva
Registered auditor

Notes

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 Bulgarian legislation.

The Bank has foreign operations in Cyprus.

Following the successful Initial Public Offering of new shares at the Bulgarian Stock Exchange – Sofia, on June 13th 2007 the Bank was registered as a public company in the Register of the Financial Supervision Commission pursuant to the provisions of the Law on the Public Offering of Securities.

(b) Statement of compliance

The unconsolidated financial statements were drawn up in accordance with the International Financial Reporting Standards (IFRS) endorsed 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 Bank's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 2 (p).

(c) Presentation

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 present financial statements of the Bank are not consolidated. These individual financial statements form an integral part of the consolidated financial statements.

The Bank 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 the 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 Bank and is recognised in profit or loss when the corresponding service is provided.

(iii) Net trading income

Net gains (losses) on financial assets and liabilities held for trading includes 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 Bank.

(iv) Dividend income

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

(b) Basis of consolidation of subsidiaries

Investments in subsidiaries are stated at cost.

(c) Foreign currency transactions

(i) Functional and presentation currency

The financial statements are presented in Bulgarian leva, which is the Bank's functional and presentation currency.

(ii) Transactions and balances

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

(iii) Foreign operations

The functional currency of the foreign operations in Cyprus is determined by the management to be the Euro. In determining the functional currency of the foreign operations, the Bank takes into account the fact that they are carried out as an extension of the reporting entity.

2. Significant accounting policies, continued

(d) Financial assets

The Bank 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 assessed and monitored on the basis of its fair value. 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 Bank 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 Bank's management has the positive intention and ability to hold to maturity. Were the Bank to sell or re-classify other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available for sale.

(iv) Available-for-sale

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

(v) Recognition

Purchases and sales of financial assets at fair value through profit or loss, held to maturity and available for sale are recognised on the date of the actual delivery of the assets. Loans are recognised when cash is advanced to the borrowers. Financial assets are initially recognised at fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

2. Significant accounting policies, continued

(d) Financial assets, continued

(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. At this 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 Bank's right to receive payment is established.

(vii) Fair value measurement principles

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 Bank 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 Bank 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 Bank, 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 Bank calibrates valuation techniques and tests them for validity using prices from observable current market transactions in 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

2. Significant accounting policies, continued

(d) Financial assets, continued

(vii) Fair value measurement principles, continued

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. For netting positions average market prices are used to measure net risk positions and the “buy” or “sell” price is only applied to the respective net open position. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank 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 Bank believes a third-party market participant would take them into account in pricing a transaction.

The Bank assesses the fair value of financial instruments using the following hierarchy of methods която отразява значимостта на факторите използвани за определяне на справедлива стойност:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: fair value measurements based on market data either directly (i.e., as prices), or indirectly (i.e., derived from prices); This category includes quoted prices for instruments in an inactive market or instruments assessed by valuation techniques;
- Level 3: fair value measurements using inputs for the asset or liability that are not based on observable market data. In addition this level included capital investments in subsidiaries and other institutions related to the Bank’s membership in certain organizations, stated at cost, for which there is no reliable market assessment.

The table below analyses financial instruments at fair value by valuation models.

in BGN ‘000 **30 June 2011**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets held for trading	18,351	-	-	18,351
Available for sale investments	474,374	24,015	40,329	538,718
Derivatives held for risk management	-	(107)	-	(107)
Total	**492,725**	**23,908**	**40,329**	**556,962**

in BGN ‘000 **31 December 2010**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets held for trading	16,641	-	-	16,641
Available for sale investments	665,290	37,552	40,375	743,217
Derivatives held for risk management	-	(247)	-	(247)
Total	**681,931**	**37,305**	**40,375**	**759,611**

2. Significant accounting policies, continued

(d) Financial assets, continued

(viii) Derecognition

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

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

The Bank enters into transactions whereby it transfers financial assets recognised in its statement of financial position, but retains either all or substantially all risks and rewards of the transferred asset. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised in the statement of financial position (an example of such transactions are repo deals).

In transactions in which the Bank 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 Bank 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 the central bank and short-term highly liquid investments with maturity of up to three months.

(f) Investments

Investments that the Bank holds for the purpose of short-term profit taking are classified as trading instruments. Debt investments that the Bank 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 Bank 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

2. Significant accounting policies, continued

(g) Securities borrowing and lending business and repurchase transactions, continued

(ii) Repurchase agreements, continued

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 recognized in profit or loss over the period of the borrowings using the effective yield method.

If the Bank 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 Bank 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 of Assets

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

(i) Loans and advances

Impairment loss on loans and receivables is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. If the interest rate for the loan is a floating interest rate, the loan is discounted at the current effective contractual interest rate. Short-term balances are not discounted. The calculation of the present value of estimated future cash flows reflects not only interest and principal payments, but also cash flows that may result from foreclosure less costs for obtaining and selling the collateral for a given exposure.

Loans and advances are presented net of specific and general allowances for impairment. The carrying amount of the asset is reduced through use of an allowance account. Specific allowance for impairment is accounted for loans for which there is objective evidence of impairment as a result of a past event that occurred after initial recognition of the asset. Objective evidence of impairment includes significant financial difficulty of the issuer or obligor; a breach of contract, such as a default or delinquency in interest or principal payments; it becoming probable that the borrower will enter bankruptcy; observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets.

2. Significant accounting policies, continued

(j) Impairment, continued

(i) Loans and advances, continued

General allowance is accounted for decreasing the carrying amount of a portfolio of loans with similar credit risk characteristics, which are collectively assessed for impairment. The estimated cash flows for a group of similar assets are determined on the basis of past practice and historical loss experience for portfolios with comparable characteristics. Historical loss experience should be adjusted, on the basis of 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 recognized 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 directly.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the write down, the allowance reversal is recognised in profit or loss.

(ii) Financial assets available-for-sale

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of the 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 and equipment

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

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

Assets	**%**
• Buildings	3 - 4
• Equipment	10 - 33
• Fixtures and fittings	10 - 15
• Motor vehicles	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.

2. Significant accounting policies, continued

(l) Intangible assets

Intangible assets acquired by the Bank 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	15
• Computer software	8 - 33

(m) Provisions

A provision is recognised in the statement of financial position when the Bank 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 an reliable assessment of the amount due can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(n) Acceptances

An acceptance is created when the Bank agrees to pay, at a stipulated future date, a draft drawn on it for a specified amount. The Bank's acceptances primarily arise from documentary credits stipulating payment to be made a certain number of days after receipt of required documents. The Bank 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 statement of financial position date, and any adjustment of tax payable for previous years.

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

Deferred tax is calculated on the basis of the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. The effect on deferred tax of any changes in tax rates is charged to 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.

2. Significant accounting policies, continued

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

The Bank 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 Bank 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 Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

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

(ii) Income taxes

The Bank is subject to income taxes in numerous jurisdictions. Significant estimates are required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Bank 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.

2. Significant accounting policies, continued

(q) Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. The Government of Bulgaria is responsible for providing pensions in Bulgaria under a defined contribution pension plan. The Bank'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 Bank'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 an obligation to pay certain amounts to each employee who retires with the Bank in accordance with Art. 222, § 3 of the Labour Code. According to these regulations in the LC, when a labour contract of a bank's employee, who has acquired a pension right, is ended, the Bank is obliged to pay him compensations amounted to two gross monthly salaries. Where the employee has been with the same employer for the past 10 years, this employee is entitled to a compensation amounting to six gross monthly salaries. As at balance sheet date, the Management of the Bank 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 Bank 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 Bank 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.

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 Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably. The Bank 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.

2. Significant accounting policies, continued

(r) New standards and interpretations not applied earlier

A number of new standards, amendments to standards and interpretations effective for effective for annual periods beginning after 1 January 2011 have not been applied in preparing these financial statements. The Management considers that these future amendments will not have any impact on the Bank's financial statements.

Documents issued by IASB/IFRICs not yet endorsed by the European Commission

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

- Changes to IAS 7 *Financial Instruments*. *Disclosures – Transfers of Financial Assets* (issued in October 2010) – the Management does not expect the amendment to have material impact on the Bank's financial statements.

- IFRS 9 *Financial Instruments* (November 2009) will become effective for annual periods beginning on or after 1 January 2013 and may change the classification and assessment of financial instruments. It is expected that the standard will have a significant impact on the financial statements, since it will be required to be retrospectively applied. The potential impact on the financial statements has not yet been determined and it has not yet been decided on the date of initial application of the new standard.

- Additions to IFRS 9 *Financial Instruments* (October 2010) effective for annual periods beginning on or after 1 January 2013 and amending replace the guidance in IAS 39 regarding the classification and measurement of financial liabilities and the derecognition of financial assets and financial liabilities. The Management 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* become 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 in business combinations. The Management does not expect IFRS 10 to have material impact on the financial statements.

- IFRS 11 *Joint Arrangements* becomes effective for annual periods beginning on or after 1 January 2013 and 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 Management does not expect the new IFRS 11 to have material impact on the financial statements since the Bank is not a party to joint control arrangements.

- 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 Management does not expect IFRS 12 to have material impact on the financial statements.

- IFRS 13 *Fair Value Measurement* (effective for annual periods beginning on or after 1 January 2013). IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It is not expected that IFRS 13 will 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.

2. Significant accounting policies, continued

(r) New standards and interpretations not applied earlier, continued

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). *Recovery of Underlying Assets* (issued December 2010) has an effective date 1 January 2012 – not expected to have a significant impact on the financial statements of the Bank.

• Amendments to IAS 19 (2011) *Employee Benefits (*effective for annual periods beginning on or after 1 January 2013). The amendments require actuarial gains and losses to be recognised in other comprehensive income. The Management 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 Management 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 Management does not expect the amendment to IAS 28 to have material impact on the financial statements.

3. Risk management disclosures

A. Trading activities

The Bank maintains active trading positions in a limited number of non-derivative financial instruments. Most of the Bank's trading activities are customer driven. In anticipation of customer demand, the Bank 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 Bank to provide customers with money market products at competitive prices.

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

The Bank operates under conditions characteristic of a dynamically evolving global financial and economic crisis. The further deepening of this crisis may have a negative impact on the Bank's financial situation. The management of the Bank monitors on a daily basis all assets and liabilities, income and expense, and the situation on the international financial markets, applying best banking practices. On the basis of this the Management analyses profitability, capital base, liquidity and the cost of funding and applies adequate measures with respect to credit, market (mostly interest-rate) and liquidity risk, thus limiting the possible adverse effects of the global financial and economic crisis. The Bank thus meets the challenges of the market environment, retaining its stable capital and liquidity position.

(i) Credit risk

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.

3. Risk management disclosures, continued

A. Trading activities, continued

(i) Credit risk, continued

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 Bank 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 Bank'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 for buying or selling instruments set by senior management .

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

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

The Value at Risk is calculated and monitored on a daily basis as part of the Bank's ongoing risk management. The following table summarises the range of interest rate VaR for all positions carried at fair value that was experienced in the first six months of 2011:

	30 June	**Six months ended 30 June 2011**			**31 December**
in BGN '000	**2011**	**average**	**low**	**high**	**2010**
VaR	284	447	271	608	538

3. Risk management disclosures, continued

B. Non-trading activities

Below is a discussion of the various risks the Bank 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 Bank will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk arises in the general funding of the Bank'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, other 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 Bank 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 Bank continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Bank strategy.

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

3. Risk management disclosures, continued

B. Non-trading activities, continued

(i) Liquidity risk, continued

Maturity table as at 30 June 2011

in BGN '000	Up to 1 Month	From 1 to 3 Months	From 3 months to 1 year	More than 1 year	Maturity not defined	Total
Assets						
Cash and balances with Central Banks	694,679	-	-	-	-	**694,679**
Financial assets held for trading	18,351	-	-	-	-	**18,351**
Available for sale investments	1,687	131,068	311,044	54,590	40,329	**538,718**
Financial assets held to maturity	-	-	-	39,361	-	**39,361**
Loans and advances to banks and other financial institutions	30,681	-	46,861	8,120	-	**85,662**
Loans and advances to	275,941	179,318	968,139	2,464,300		**3,887,698**
Total financial assets	**1,021,339**	**310,386**	**1,326,044**	**2,566,371**	**40,329**	**5,264,469**
Liabilities						
Due to banks	6,953	15,813	13,725	-	-	**36,491**
Due to other customers	1,096,503	815,011	1,774,572	940,843	-	**4,626,929**
Liabilities evidenced by paper	70,960	3,291	48,085	32,647	-	**154,983**
Subordinated term debt	-	-	-	47,539	-	**47,539**
Perpetual debt	-	-	-	-	102,847	**102,847**
Hybrid debt	-	-	-	-	40,254	**40,254**
Other financial liabilities	107	-	-	-	-	**107**
Total financial liabilities	**1,174,523**	**834,115**	**1,836,382**	**1,021,029**	**143,101**	**5,009,150**
Net liquidity gap	**(153,184)**	**(523,729)**	**(510,338)**	**1,545,342**	**(102,772)**	**255,319**

3. Risk management disclosures, continued

B. Non-trading activities, continued

(i) Liquidity risk, continued

Maturity table as at 31 December 2010

in BGN '000	Up to 1 Month	From 1 to 3 Months	From 3 months to 1 year	More than 1 year	Maturity not defined	Total
Assets						
Cash and balances with Central Banks	546,281	-	-	-	-	**546,281**
Financial assets held for trading	16,641	-	-	-		**16,641**
Available for sale investments	117,297	234,510	286,895	64,140	40,375	**743,217**
Financial assets held to maturity	5,393	1,391	-	31,423	-	**38,207**
Loans and advances to banks and other financial institutions	7,893	611	4,043	8,377	-	**20,924**
Loans and advances to	155,852	209,664	762,293	2,247,353	-	**3,375,162**
Total financial assets	**849,357**	**446,176**	**1,053,231**	**2,351,293**	**40,375**	**4,740,432**
Liabilities						
Due to banks	9,509	-	-	-	-	**9,509**
Due to other customers	1,320,551	805,689	951,820	1,126,960	-	**4,205,020**
Liabilities evidenced by paper	38,390	11,258	3,422	80,734	-	**133,804**
Subordinated term debt	-	-	-	47,169	-	**47,169**
Perpetual debt	-	-	-	-	101,888	**101,888**
Other financial liabilities	247	-	-	-	-	**247**
Total financial liabilities	**1,368,697**	**816,947**	**955,242**	**1,254,863**	**101,888**	**4,497,637**
Net liquidity gap	**(519,340)**	**(370,771)**	**97,989**	**1,096,430**	**(61,513)**	**242,795**

As at 30 June 2011 the thirty largest non-bank depositors represent 5.74% of total deposits from other customers (2010: 4.60%). 4.60%).

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 Bank as at 30 June 2011 based on the contractual undiscounted cash flows.

in BGN '000	**Up to 1 Month**	**From 1 to 3 Months**	**From 3 months to 1 year**	**More than 1 year**	**Total**
Due to banks	6,953	15,920	13,934	-	**36,807**
Due to other customers	1,097,645	823,450	1,843,254	1,057,432	**4,821,781**
Liabilities evidenced by paper	71,042	3,307	48,932	35,408	**158,689**
Subordinated term debt	-	-	3,374	73,275	**76,649**
Perpetual debt	-	6,866	4,933	142,951	**154,750**
Hybrid debt	-	-	5,630	59,066	**64,696**
Other financial liabilities	107	-	-	-	**107**
Total financial liabilities	**1,175,747**	**849,543**	**1,920,057**	**1,368,132**	**5,313,479**

(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 Bank'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 Bank is also exposed to basis risk, which is the difference in repricing characteristics of the various floating rate indices, such as the Bulgarian Basic 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 Bank measures the impact of a change in the market rates both on net interest income and on the Bank'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 Bank following a standardised shock of +100bp/-100bp as at 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 at 30 June 2011 is BGN +4.1/-4.1 Mio

3. Risk management disclosures, continued

B. Non-trading activities, continued

(ii) Market risk, continued

Interest rate risk, continued

The following table indicates the effective interest rates at 30 June 2011 and the periods in which financial liabilities and assets reprice.

				Fixed rate instruments			
in BGN '000	**Total**	**Weighted average effective interest rate**	**Floating rate Instruments**	**Less than 1 month**	**Between 1 month and 3 months**	**Between 3 months and 1 year**	**More than 1 year**
Assets							
Cash and balances with Central Banks	178,562	0.73%	18,836	159,726	-	-	-
Financial assets held for trading	14,758	3.49%	-	-	-	-	14,758
Available for sale investments	498,389	1.29%	29,298	1,687	131,068	311,044	25,292
Financial assets held to maturity	39,361	4.20%	-	-	-	-	39,361
Loans and advances to banks and other financial institutions	81,371	3.46%	-	26,402	-	46,861	8,108
Loans and advances to	3,809,232	11.82%	3,280,490	60,221	37,768	158,244	272,509
Non-interest earning assets	856,691						
Total assets	**5,478,364**		**3,328,624**	**248,036**	**168,836**	**516,149**	**360,028**
Liabilities							
Due to banks	36,491	2.92%	2,953	4,000	15,813	13,725	-
Due to other customers	4,624,859	5.39%	650,385	444,048	815,011	1,774,572	940,843
Liabilities evidenced by paper	154,983	2.78%	57,072	70,949	-	-	26,962
Subordinated term debt	47,539	15.16%	-	-	-	-	47,539
Perpetual debt	102,847	12.47%	-	-	-	-	102,847
Hybrid debt	40,254	12.86%	-	-	-	-	40,254
Non-interest bearing liabilities	11,545						
Total liabilities	**5,018,518**		**710,410**	**518,997**	**830,824**	**1,788,297**	**1,158,445**

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.

in BGN '000	Total	Weighted average effective interest rate	Floating rate Instruments	Fixed rate instruments: Less than 1 month	Between 1 month and 3 months	Between 3 months and 1 year	More than 1 year
Assets							
Cash and balances with Central Banks	54,004	0.24%	27,445	26,559	-	-	-
Financial assets held for trading	13,428	3.58%	-	-	-	-	13,428
Available for sale investments	702,842	0.89%	46,348	117,297	234,510	286,895	17,792
Financial assets held to maturity	38,207	4.82%	-	5,394	1,391	-	31,422
Loans and advances to banks and other financial institutions	18,337	5.24%	121	5,910		3,922	8,384
Loans and advances to	3,338,357	12.52%	2,902,999	70,563	23,685	134,047	207,063
Non-interest earning assets	778,908						
Total assets	**4,944,083**		**2,976,913**	**225,723**	**259,586**	**424,864**	**278,089**
Liabilities							
Due to banks	9,509	0.18%	2,509	7,000	-	-	-
Due to other customers	4,204,032	5.65%	1,387,396	420,984	691,090	810,628	893,934
Liabilities evidenced by paper	133,804	3.33%	68,326	38,294	78	14	27,092
Subordinated term debt	47,169	15.15%	-	-	-	-	47,169
Perpetual debt	101,888	12.46%	-	-	-	-	101,888
Non-interest bearing	7,917						
Total liabilities	**4,504,319**		**1,458,231**	**466,278**	**691,168**	**810,642**	**1,070,083**

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 Bank is exposed to currency risk in performing transactions in foreign currencies and foreign-currency denominated financial instruments.

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 Bank presents it financial statements is the Bulgarian lev, the Bank's financial statements are effected by movements in the exchange rates between the Bulgarian lev and currencies other than the Euro.

The Bank's transactional exposures give rise to foreign currency gains and losses that are recognised in profit or loss. These exposures comprise the monetary assets and monetary liabilities of the Bank that are not denominated in the presentation currency of the Bank. These exposures were as follows:

in BGN '000	**30 June 2011**	**31 December 2010**
Monetary assets		
Euro	3,862,496	3,405,131
US dollar	353,408	379,669
Other	54,556	40,710
Gold bullion	8,140	6,603
Monetary liabilities		
Euro	2,769,740	2,458,966
US dollar	354,054	380,715
Other	54,060	40,385
Gold bullion	-	-
Net position		
Euro	1,092,756	946,165
US dollar	(646)	(1,046)
Other	496	325
Gold bullion	8,140	6,603

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

(iii) Credit risk

Credit risk is the risk that a counterparty to a financial instrument will cause a financial loss for the Bank by failing to discharge an obligation. The Bank 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 guarantees. 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 Bank's primary exposure to credit risk arises through its loans and advances. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the balance sheet. These exposures are as follows:

3. Risk management disclosures, continued

B. Non-trading activities, continued

(iii) Credit risk, continued

30 June 2011 *in BGN '000*

Class of exposure	**Gross amount of loans and advances to customers**	**Carrying amount of loans and advances to customers**
Collectively impaired		
Standard	3,455,066	3,450,684
Individually impaired		
Watch	327,587	316,486
Nonperforming	27,733	23,706
Loss	187,915	96,822
Total	**3,998,301**	**3,887,698**

31 December 2010 *in BGN '000*

Class of exposure	**Gross amount of loans and advances to customers**	**Carrying amount of loans and advances to customers**
Collectively impaired		
Standard	3,019,146	3,015,854
Individually impaired		
Watch	310,071	303,551
Nonperforming	25,369	21,948
Loss	116,775	33,809
Total	**3,471,361**	**3,375,162**

In addition, the Bank is exposed to off-balance sheet credit risk through commitments to extend credits and issue contingent liabilities (See Note 32).

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

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

3. Risk management disclosures, continued

B. Non-trading activities, continued

(iii) Credit risk, continued

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

in BGN '000	**30 June 2011**	**31 December 2010**
Trade	854,818	886,576
Industry	1,079,247	663,900
Services	458,086	232,960
Finance	18,149	37,683
Transport, logistics	256,283	253,646
Communications	47,961	37,952
Construction	188,977	161,971
Agriculture	77,019	73,802
Tourist services	108,909	134,041
Infrastructure	149,401	142,906
Private individuals	750,300	721,886
Other	9,151	124,038
Allowance for impairment	(110,603)	(96,199)
Total	**3,887,698**	**3,375,162**

The Bank 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 2011with 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 (2010: BGN 108,113 thousand) - power engineering.

The Bank has extended loans, confirmed letters of credit and granted guarantees to 21 individual clients or groups (2010: 18) with each individual exposure exceeding 10% of the capital base of the Bank.The total amount of these exposures is BGN 1,537,145 thousand which represents 288.44% of the capital base (2010: BGN 1,373,939 thousand which represented 284.54 % of the capital base) of which BGN 1,351,454 thousand (2010: BGN 1,150,431 thousand) represent loans and BGN 185,691 thousand (2010: BGN 223,508 thousand) represent guarantees, letters of credit and other commitments.

Loans extended by the branch in Cyprus amount to BGN 223,637 thousand (gross carrying amount before any allowances) (2010: BGN 175,938 thousand).

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

3. Risk management disclosures, continued

B. Non-trading activities, continued

(iii) Credit risk, continued

The Bank's policy is to require suitable collateral to be provided by certain customers prior to the disbursement of approved loans. Guarantees and letters of credit are also subject to strict credit assessments before being provided. The agreements specify monetary limits to the Bank'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, plant and equipment, securities, or other property.

The table below shows a breakdown of total loans and advances extended to customers by the Bank by type of collateral, excluding credit cards in the amount of BGN 190,512 thousand (2010: BGN 178,755 thousand):

in BGN '000	**30 June 2011**	**31 December 2010**
Mortgage	1,616,631	1,452,763
Pledge of receivables	505,664	246,679
Pledge of commercial enterprise	433,736	443,798
Securities	83,860	130,044
Guarantee	15,155	7,127
Other guaranties	376,595	303,529
Pledge of goods	130,648	164,799
Pledge of machines	195,285	218,747
Money deposit	41,390	37,146
Stake in capital	129,501	29,013
Gold	18	18
Other collateral	238,157	225,980
Unsecured	41,149	32,963
Total	**3,807,789**	**3,292,606**

Other collateral includes insurance policies up to the amount of the insurance cover, future receivables, remuneration transfers, etc.

3. Risk management disclosures, continued

C. Solvency ratio (Capital adequacy)

The Bank's lead regulator, the Bulgarian National Bank (BNB) sets and monitors capital requirements both on consolidated and stand-alone basis. BNB issued Ordinance 8 on Capital Adequacy of Credit Institutions effective from 01 January 2007 that is the Bulgarian supervisory implementation of the International Convergence of Capital Measurement and Capital Standards (Revised Framework), known as Basel II and complies with EU Directives 2006/48/EC and 2006/49/EC. In implementing current capital requirements the Bank 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 Bank holds insignificant trading book, the Bank 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 Bank calculates requirements for credit risk for its exposures in banking and trading portfolios based on standardised approach defined by the BNB. Exposures are taken into account using their balance sheet amount. Off-balance-sheet credit-related commitments are taken into account by applying different categories of conversion factors (0%, 20%, 50%, 100%), designed to convert these items into balance sheet equivalents. The resulting equivalent amounts are then weighted for risk using different percentages (0%, 20%, 50%, 100%) depending on the class of exposure and its credit rating assessment. Various credit risk mitigation techniques are used, for example collateralised transactions and guarantees. Forwards and options based derivative instruments are weighted for counterparty credit risk.

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

In addition, the Bank 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 Bank's regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes ordinary share capital, share premium, statutory reserve, other general reserves, audited current profit for the first six months after deductions for intangible assets and unrealised loss from available for sale financial instruments.
- 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 the Bank's capital base include the balance-sheet value of unconsolidated investments in subsidiaries and specific provisions for credit risk.
The Bank has complied with all externally imposed capital requirements throughout the period.

3. Risk management disclosures, continued
C. Capital adequacy, continued

Capital adequacy level was as follows:

in BGN '000	Balance sheet/notional amount		Risk weighted assets	
	30 June 2011	**31 December 2010**	**30 June 2011**	**31 December 2010**
Risk weighted assets for credit risk				
Balance sheet assets				
Exposure class				
Central governments and central banks	912,320	1,077,364	2,628	2,552
Institutions	306,185	122,539	78,808	37,333
Corporates	2,908,846	2,472,957	2,868,257	2,444,667
Retail	463,934	459,993	335,984	333,007
Claims secured by residential property	394,906	383,677	138,217	134,287
Overdue items	109,095	47,848	109,095	47,848
Collective investment undertaking	2,184	2,100	2,184	2,100
Other items	320,184	316,241	201,953	190,302
Total	**5,417,654**	**4,882,719**	**3,737,126**	**3,192,096**
Off balance sheet items				
Exposure class				
Central governments and central banks	91	851	-	-
Institutions	17,249	15,464	4,118	3,468
Corporates	483,174	465,959	171,654	187,035
Retail	217,111	194,927	989	1,029
Claims secured by residential property	3,646	4,109	636	708
Other items	-	-	13	13
Total	**721,271**	**681,310**	**177,410**	**192,253**
Derivatives				
Exposure class				
Institutions	289	830	58	166
Corporates	469	72	469	72
Total	**758**	**902**	**527**	**238**
Total risk-weighted assets for credit risk			**3,915,063**	**3,384,587**
Risk-weighted assets for market risk			**5,463**	**5,988**
Risk-weighted assets for operational risk			**344,450**	**345,650**
Total risk-weighted assets			**4,264,976**	**3,736,225**

Capital adequacy ratios	Capital		Capital ratios %	
	30 June 2011	**31 December 2010**	**30 June 2011**	**31 December 2010**
Tier 1 Capital	**440,555**	**384,513**	**10.33%**	**10.29%**
Total capital base	**532,914**	**482,861**	**12.50%**	**12.92%**

4. Segment Reporting

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

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

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

The Bank operates principally in Bulgaria, but also has operations in Cyprus.

In presenting information on the basis of geographical segments, revenue and operating income is allocated based on the location of the Bank branch that generated the revenue. Segment assets and liabilities are allocated based on their geographical location.

in BGN '000	**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	200,631	177,192	11,019	8,793	211,650	185,985
Interest expense and similar charges:	(129,320)	(124,827)	(311)	(637)	(129,631)	(125,464)
Net interest income	**71,311**	**52,365**	**10,708**	**8,156**	**82,019**	**60,521**
Fee and commission income	34,162	26,871	141	90	34,303	26,961
Fee and commission expense	(3,889)	(3,636)	(6)	(6)	(3,895)	(3,642)
Net fee and commission income	**30,273**	**23,235**	**135**	**84**	**30,408**	**23,319**
Net trading income	**7,290**	**4,093**	**2**	**23**	**7,292**	**4,116**
Administrative expenses	**(72,595)**	**(66,126)**	**(205)**	**(223)**	**(72,800)**	**(66,349)**
	30 June 2011	**31 December 2010**	**30 June 2011**	**31 December 2010**	**30 June 2011**	**31 December 2010**
Assets	**5,199,284**	**4,723,097**	**279,080**	**220,986**	**5,478,364**	**4,944,083**
Liabilities	**4,994,404**	**4,484,892**	**24,114**	**19,427**	**5,018,518**	**4,504,319**

4. Segment Reporting, continued

The table below shows assets and liabilities and income and expense by business segments as at 30 June 2011.

in BGN '000

Business	Assets	Liabilities	Interest income	Interest expense and similar charges:	Net fee and commission income	Net trading income	Other net operating expense
Commercial banking	3,162,034	780,353	159,698	(14,051)	10,506	-	-
Retail Banking	725,664	3,846,576	46,341	(102,498)	4,429	-	-
International business	-	274,674	-	(12,198)	4,375	-	-
Card business	-	-	-		5,953	-	-
Liquidity ratio	1,332,849	107,440	5,611	(868)	5	3,802	(3,391)
Dealing	9,552	-	-	-	(68)	3,490	-
Customer service	-	-	-	-	4,870	-	-
Other	248,265	9,475	-	(16)	338	-	
Total	**5,478,364**	**5,018,518**	**211,650**	**(129,631)**	**30,408**	**7,292**	**(3,391)**

5. Financial assets and liabilities
Accounting classification and fair values

The table below sets out the classification of each class of financial assets and liabilities, and their fair values as at 30 June 2011.

in BGN '000	Trading	Held-to-maturity	Loans and receivables	Available-for-sale	Other at amortised cost	Other	Net book value	Fair value
ASSETS								
Cash and balances with Central Banks	-	-	582,271	-	-	112,408	694,679	694,679
Financial assets held for trading	18,351	-	-	-	-	-	18,351	18,351
Available for sale investments	-	-	-	538,718	-	-	538,718	538,718
Financial assets held to maturity	-	39,361	-	-	-	-	39,361	38,037
Loans and advances to banks and other financial institutions	-	-	85,662	-	-	-	85,662	85,662
Loans and advances to customers	-	-	3,887,698	-	-	-	3,887,698	3,887,698
Total	**18,351**	**39,361**	**4,555,631**	**538,718**	**-**	**112,408**	**5,264,469**	**5,263,145**
LIABILITIES								
Due to banks	-	-	-	-	36,491	-	36,491	36,491
Due to other customers	-	-	-	-	4,626,929	-	4,626,929	4,626,929
Liabilities evidenced by paper	-	-	-	-	154,983	-	154,983	154,983
Subordinated term debt	-	-	-	-	47,539	-	47,539	47,539
Perpetual debt	-	-	-	-	102,847	-	102,847	102,847
Hybrid debt	-	-	-	-	40,254	-	40,254	40,254
Other financial liabilities	-	-	-	-	-	107	107	107
Total	**-**	**-**	**-**	**-**	**5,009,043**	**107**	**5,009,150**	**5,009,150**

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

5. Financial assets and liabilities, continued

Accounting classification and fair values, continued

The table below sets out the classification of each class of financial assets and liabilities, and their fair values as at 31 December 2010.

in BGN '000	**Trading**	**Held-to-maturity**	**Loans and receivables**	**Available-for-sale**	**Other at amortised cost**	**Other**	**Net book value**	**Fair value**
ASSETS								
Cash and balances with Central Banks	-	-	425,316	-	-	120,965	546,281	546,281
Financial assets held for trading	16,641	-	-	-	-	-	16,641	16,641
Available for sale investments	-	-	-	743,217	-	-	743,217	743,217
Financial assets held to maturity	-	38,207	-	-	-	-	38,207	38,054
Loans and advances to banks and other financial institutions	-	-	20,924	-	-	-	20,924	20,924
Loans and advances to customers	-	-	3,375,162	-	-	-	3,375,162	3,375,162
Total	**16,641**	**38,207**	**3,821,402**	**743,217**	**-**	**120,965**	**4,740,432**	**4,740,279**
LIABILITIES								
Due to banks	-	-	-	-	9,509	-	9,509	9,509
Due to other customers	-	-	-	-	4,205,020	-	4,205,020	4,205,020
Liabilities evidenced by paper	-	-	-	-	133,804	-	133,804	133,804
Subordinated term debt	-	-	-	-	47,169	-	47,169	47,169
Perpetual debt	-	-	-	-	101,888	-	101,888	101,888
Other financial liabilities	-	-	-	-	-	247	247	247
Total	**-**	**-**	**-**	**-**	**4,497,390**	**247**	**4,497,637**	**4,497,637**

6. Net interest income

in BGN '000	Six months ended 30 June 2011	Six months ended 30 June 2010
Interest income		
Receivables and accounts with banks and financial institutions	1,432	799
Retail Banking	44,607	43,092
Loans to corporate clients	148,037	123,611
Loans to SMEs	11,661	12,964
Microlending	1,734	2,016
Debt instruments	4,179	3,503
	211,650	**185,985**
Interest expense and similar charges:		
Deposits from banks	(205)	(4)
Deposits from other customers	(116,549)	(113,206)
Liabilities evidenced by paper	(2,563)	(3,227)
Subordinated term debt	(2,871)	(3,077)
Perpetual debt	(5,960)	(5,930)
Hybrid debt	(1,467)	-
Lease agreements and other	(16)	(20)
	(129,631)	**(125,464)**
Net interest income	**82,019**	**60,521**

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 26,739 thousand and BGN 14,585 thousand respectively.

7. Net fee and commission income

in BGN '000

Fee and commission income	Six months ended 30 June 2011	Six months ended 30 June 2010
Letters of credit and guarantees	4,190	3,152
Payments transactions	4,244	3,731
Customer accounts	7,564	5,809
Cards business	8,947	8,085
Other	9,358	6,184
	34,303	**26,961**
Fee and commission expense		
Letters of credit and guarantees	(486)	(175)
Deposits to banks and other financial institutions	(320)	(384)
Cards business	(2,994)	(2,974)
Other	(95)	(109)
	(3,895)	**(3,642)**
Net fee and commission income	**30,408**	**23,319**

8. Net trading income

in BGN '000	**Six months ended 30 June 2011**	**Six months ended 30 June 2010**
Net trading income/(expense) arises from:		
- Debt instruments	3,802	631
- Equities	179	(188)
- Foreign exchange rate fluctuations	3,311	3,673
Net trading income	**7,292**	**4,116**

9. Other net operating income/(expense)

in BGN '000	**Six months ended 30 June 2011**	**Six months ended 30 June 2010**
Other net operating income/(expense) arising from:		
- Debt instruments	(3,391)	233
- Equities	-	679
- other	-	-
Other net operating income/(expense)	**(3,391)**	**912**

10. Administrative expenses

in BGN '000	**Six months ended 30 June 2011**	**Six months ended 30 June 2010**
General and administrative expenses comprise:		
- Personnel cost	24,012	20,374
- Depreciation and amortisation	10,635	9,897
- Advertising	2,633	1,957
- Building rent expense	12,835	12,786
-Telecommunication, software and other computer maintenance	5,299	5,430
- Unclaimable VAT	4,796	4,777
- Administration, consultancy, audit and other costs	12,590	11,128
Administrative expenses	**72,800**	**66,349**

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 was 2,618 (30 June 2010: 2,481).

11. Allowance for impairment

in BGN '000	**Six months ended 30 June 2011**	**Six months ended 30 June 2010**
Write-downs		
Loans and advances to customers	(20,836)	(14,316)
Reversal of write-downs		
Loans and advances to customers	6,391	7,320
Impairment, net	**(14,445)**	**(6,996)**

12. Income tax expense

in BGN '000	**Six months ended 30 June 2011**	**Six months ended 30 June 2010**
Current taxes	(1,946)	(1,110)
Deferred taxes (See Note 21)	(300)	(541)
Income tax expense	**(2,246)**	**(1,651)**

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

in BGN '000	**Six months ended 30 June 2011**	**Six months ended 30 June 2010**
Accounting profit before taxation	**22,249**	**16,446**
Corporate tax at applicable tax rate (10% for 2011 and 10% for 2010)	2,225	1,645
Tax effect of permanent tax differences	(279)	(535)
Tax effect of reversals of temporary differences	300	541
Income tax expense	**2,246**	**1,651**
Effective tax rate	10.09%	10.04%

13. Cash and balances with Central Banks

in BGN ‘000	30 June 2011	31 December 2010
Cash on hand		
- in BGN	75,592	85,316
- in foreign currency	36,816	35,649
Balances with Central Banks	407,810	374,325
Current accounts and amounts with local banks	4,000	7,000
Current accounts and amounts with foreign banks	170,461	43,991
Total	**694,679**	**546,281**

14. Financial assets held for trading

in BGN ‘000	30 June 2011	31 December 2010
Bonds and notes issued by:		
Bulgarian government, rated BBB:		
- 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
Total	**18,351**	**16,641**

15. Available for sale investments

In thousands of BGN	30 June 2011	31 December 2010
Bonds and notes issued by:		
Bulgarian Government		
- denominated in Bulgarian Leva	37,006	31,512
- denominated in foreign currencies	9,220	8,797
Foreign governments treasury bills	428,148	624,981
Foreign banks and other financial institutions	24,015	37,552
Other issuers – equity instruments	5,959	6,019
Investments in subsidiaries	34,370	34,356
Total	**538,718**	**743,217**

15. Available for sale investments, continued

Investments in subsidiaries are as follows:

In thousands of BGN

Entity:	% held	30 June 2011	31 December 2010
First Investment Finance B.V., Netherlands	100%	3,947	3,947
Diners Club Bulgaria AD	94.79%	5,443	5,443
First Investment Bank – Albania Sh.a.	100%	21,464	21,464
Debita OOD	70%	105	105
Realtor OOD	51%	76	77
Health Insurance Fund Fi Health AD	59.10%	3,315	3,305
Framas Enterprises Limited	100%	15	15
Balkan Financial Services EOOD	100%	5	-
Total		**34,370**	**34,356**

16. Financial assets held to maturity

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

in BGN '000	30 June 2011	31 December 2010
Securities held to maturity issued by:		
Bulgarian Government	21,457	29,371
Foreign banks and other financial institutions	17,904	8,836
Total	**39,361**	**38,207**

17. Loans and advances to banks and other financial institutions

(a) Analysis by type

in BGN '000	30 June 2011	31 December 2010
Placements with banks	55,063	12,504
Receivables under resale agreements (see Note 30)	26,402	5,910
Other	4,197	2,510
Total	**85,662**	**20,924**

(b) Geographical analysis

in BGN '000	30 June 2011	31 December 2010
Domestic banks and financial institutions	26,440	6,189
Foreign banks and other financial institutions	59,222	14,735
Total	**85,662**	**20,924**

18. Loans and advances to customers

in BGN '000	30 June 2011	31 December 2010
Retail Banking		
- Consumer loans	209,599	196,054
- Mortgage loans	344,805	346,854
- Credit cards	190,512	178,755
Small and medium enterprises	211,492	207,045
Microlending	26,375	27,017
Corporate customers	3,015,518	2,515,636
Allowance for impairment	(110,603)	(96,199)
Total	**3,887,698**	**3,375,162**

(a) Movement in impairment allowances

in BGN '000	
Balance as at 1 January 2011	**96,199**
Additional allowances	20,836
Amounts released	(6,391)
Write - offs	(41)
Balance as at 30 June 2011	**110,603**

19. Property and equipment

in BGN '000	Land and Buildings	Fixtures and fittings	Motor vehicles	Assets under Construction	Leasehold Improvements	Total
Cost						
At 1 January 2010	10,829	102,269	5,715	34,796	46,598	200,207
Additions	-	7	-	16,775	-	16,782
Disposals	(448)	(3,478)	(79)	(463)	(202)	(4,670)
Transfers	2,258	14,128	274	(26,440)	9,502	(278)
At 31 December 2010	12,639	112,926	5,910	24,668	55,898	212,041
Additions	-	-	-	5,871	-	5,871
Disposals	-	(296)	(135)	(53)	-	(484)
Transfers	4	2,600	100	(4,344)	1,590	(50)
At 30 June 2011	12,643	115,230	5,875	26,142	57,488	217,378
Amortisation						
At 1 January 2010	3,410	52,500	4,191	-	12,423	72,524
Начислена през годината	378	14,181	745	-	3,146	18,450
On disposals	(209)	(3,352)	(79)	-	(202)	(3,842)
At 31 December 2010	3,579	63,329	4,857	-	15,367	87,132
Charge for the period	218	7,257	315	-	1,808	9,598
On disposals	-	(289)	(135)	-	-	(424)
At 30 June 2011	3,797	70,297	5,037	-	17,175	96,306
Net book value						
At 1 January 2010	**7,419**	**49,769**	**1,524**	**34,796**	**34,175**	**127,683**
At 31 December 2010	**9,060**	**49,597**	**1,053**	**24,668**	**40,531**	**124,909**
At 30 June 2011	**8,846**	**44,933**	**838**	**26,142**	**40,313**	**121,072**

20. Intangible assets

in BGN '000	**Software and licences**	**Total**
Cost		
At 1 January 2010	22,161	22,161
Additions	-	-
Disposals	(745)	(745)
Transfers	278	278
At 31 December 2010	21,694	21,694
Additions	-	-
Disposals	(3)	(3)
Transfers	50	50
At 30 June 2011	21,741	21,741
Amortisation		
At 1 January 2010	4,046	4,046
Accrued during the year	2,072	2,072
On disposals	(745)	(745)
At 31 December 2010	5,373	5,373
Charge for the period	1,037	1,037
On disposals	(2)	(2)
At 30 June 2011	6,408	6,408
Net book value		
At 1 January 2010	**18,115**	**18,115**
At 31 December 2010	**16,321**	**16,321**
At 30 June 2011	**15,333**	**15,333**

21. Deferred Taxation

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

Deferred income tax balances are attributable to the following items:

in BGN '000	Assets		Liabilities		Net	
	30 June 2011	31 December 2010	30 June 2011	31 December 2010	30 June 2011	31 December 2010
Property, equipment and intangibles	-	-	3,317	3,017	3,317	3,017
Other	(208)	(208)	334	334	126	126
Net tax (assets)/liabilities	**(208)**	**(208)**	**3,651**	**3,351**	**3,443**	**3,143**

Movements in temporary differences during the six months ended 30 June 2011 at the amount of BGN 300 000 are recognised in net profit for the period.

22. Other assets

in BGN '000	**30 June 2011**	**31 December 2010**
Deferred expense	21,425	9,833
Gold bullion	8,140	6,603
Other assets	43,663	39,476
Total	**73,228**	**55,912**

23. Due to banks

in BGN '000	**30 June 2011**	**31 December 2010**
Term deposits	33,538	7,000
Payable on demand	2,953	2,509
Total	**36,491**	**9,509**

24. Due to other customers

in BGN '000	**30 June 2011**	**31 December 2010**
Retail customers		
- current accounts	371,683	341,309
- term and savings deposits	3,474,893	3,208,171
Businesses and public institutions		
- current accounts	276,405	253,279
- term and savings deposits	503,948	402,261
Total	**4,626,929**	**4,205,020**

25. Liabilities evidenced by paper

in BGN '000	**30 June 2011**	**31 December 2010**
Acceptances under letters of credit	9,167	15,375
Liabilities under repurchase agreements (see Note 30)	70,949	38,287
Other term liabilities	74,867	80,142
Total	**154,983**	**133,804**

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

26. 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 and the funds raised outside the Republic of Bulgaria.

Subordinated liabilities can be analysed as follows:

in BGN '000

Lender	**Principal amount**	**Final maturity**	**Maturity**	**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
Total	**35,205**			**47,539**

The treatment of subordinated term debt 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.

27. Perpetual debt

in BGN '000

	Principal amount	Amortised cost as at 30 June 2011
Step-up Guaranteed Perpetual Subordinated Bonds EUR 27 mio	52,807	59,795
Step-up Guaranteed Perpetual Subordinated Bonds EUR 21 mio	41,073	43,052
Total	**93,880**	**102,847**

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

28. Hybrid debt

in BGN '000

	Principal amount	Amortised cost as at 30 June 2011
Hybrid debt with original principal EUR 21 mio	39,117	40,254
Total	**39,117**	**40,254**

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.

29. Other liabilities

in BGN '000	30 June 2011	31 December 2010
Liabilities to personnel	1,807	1,807
Other payables	1,663	729
Total	**3,470**	**2,536**

30. Repurchase and resale agreements

The Bank raises funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate. Repurchase agreements are commonly used as a tool for short-term financing of interest-bearing assets, depending on the prevailing interest rates. At 30 June 2011 assets sold under repurchase agreements were as follows:

in BGN '000	**Fair value of underlying assets**	**Carrying amount of corresponding liabilities**
Bulgarian government securities	36,663	35,945
Other government securities	34,731	35,004
Total	**71,394**	**70,949**

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

in BGN '000	**Fair value of underlying assets**	**Carrying amount of corresponding liabilities**
Bulgarian government securities	1,938	1,970
Other government securities	38,303	36,317
Total	**40,241**	**38,287**

The Bank also purchases financial instrument under agreements to resell them at future dates ("reverse repurchase agreements"). The seller commits to repurchase the same or similar instruments at an agreed future date. Reverse repurchases are entered into as a facility to provide funds of customers. At 30 June 2011 assests purcased subject to agreements to resell them are as follows:

in BGN '000	**Fair value of underlying assets**	**Carrying amount of liabilities**
Bulgarian government securities	26,735	26,402
Total	**26,735**	**26,402**

At 31 December 2010 assets purchased under repurchase agreements were as follows.

in BGN '000

	Fair value of underlying assets	**Carrying amount of liabilities**
Bulgarian government securities	5,863	5,910
Total	**5,863**	**5,910**

31. Capital and reserves

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

As at 31 December 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.

	Number of shares	% of issued share capital
Mr. Ivailo Dimitrov Mutafchiev	31,830,000	28.94
Mr. Tzeko Todorov Minev	31,830,000	28.94
Legnano Enterprise Limited, Cyprus	8,450,000	7.68
Domenico Ventures Limited, British Virgin Islands	10,695,000	9.72
Rafaela Consultants Limited, British Virgin Islands	10,695,000	9.72
Other shareholders (shareholders holding shares subject to free trade on the Bulgarian Stock Exchange – Sofia)	16,500,000	15.00
Total	**110,000,000**	**100.00**

31. 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 Bulgarian Stock Exchange – Sofia.

(c) Statutory reserve

Statutory reserves include amounts set aside for purposes regulated by local legislation. According to Bulgarian legislation the Bank is obliged to set aside at least 1/10 of its annual profit as statutory reserve until the total amount of reserves reaches 1/10 of the Bank's share capital.

In 2011, as in the previous year, the Bank did not distribute dividends.

32. Commitments and contingent liabilities

(a) Contingent liabilities

The Bank 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 for contingent liabilities represent the maximum accounting loss that would be recognised in the statement of financial position if counterparts failed completely to perform as contracted and any collateral or security proved to be of no value.

in BGN '000	**30 June 2011**	**31 December 2010**
Guarantee		
- in BGN	140,072	102,650
- in foreign currency	196,739	215,838
Total guarantees	**336,811**	**318,488**
Unused credit lines	312,741	280,124
Promissory notes	6,520	8,093
Letters of credit	65,199	74,605
Total	**721,271**	**681,310**

These commitments and contingent liabilities have off balance-sheet credit risk and only organization 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 date of the report there are no other significant contingent liabilities and commitments requiring additional disclosure.

At 30 June 2011 the extent of collateral held for guarantees and letters of credit is 100 percent.

33. Cash and cash equivalents

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

in BGN '000	**30 June 2011**	**30 June 2010**
Cash and balances with Central Banks	694,679	611,262
Loans and advances to banks and financial institutions with original maturity less than 3 months	16,413	4,202
Total	**711,092**	**615,464**

34. Average balances

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

in BGN '000	**Six months ended 30 June 2011**	**Six months ended 30 June 2010**
FINANCIAL ASSETS		
Cash and balances with Central Banks	644,769	581,150
Financial assets held for trading	24,022	13,284
Available for sale investments	642,185	482,985
Financial assets held to maturity	32,396	22,978
Loans and advances to banks and other financial institutions	51,245	23,809
Loans and advances to customers	3,618,983	3,000,657
FINANCIAL LIABILITIES		
Due to banks	20,226	3,173
Due to other customers	4,438,465	3,545,608
Liabilities evidenced by paper	142,161	179,013
Subordinated term debt	47,499	58,671
Perpetual debt	101,997	101,397
Hybrid debt	17,070	-

35. Related party transactions

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

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

Type of related party	**Parties that control or manage the Bank**		**Enterprises under common control**	
in BGN '000	**Six months ended 30 June 2011**	**2010**	**Six months ended 30 June 2011**	**2010**
Loans				
Loans outstanding at beginning of the period	2,997	2,130	30,758	29,310
Loans issued/(repaid) during the period	(901)	867	(124)	1,448
Loans outstanding at end of the period	2,096	2,997	30,634	30,758
Deposits and loans received:				
At beginning of the period	7,994	8,306	142,475	168,146
Received/(paid) during the period	1,779	(312)	34,213	(25,671)
At the end of the period	9,773	7,994	176,688	142,475
Deposits placed				
Deposits at beginning of the period	-	-	3,922	3,912
Deposits placed during the year	-	-	29,559	10
Deposits at end of the period	-	-	33,481	3,922
OFF-BALANCE SHEET COMMITMENTS ISSUED BY THE BANK				
At beginning of the period	1,204	2,280	9,812	13,149
Issued/(expired) during the period	269	(1,076)	3,402	(3,337)
At the end of the period	1,473	1,204	13,214	9,812

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

36. Subsidiaries

(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. The purpose for creating the entity 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 entity's issued and paid up share capital is EUR 90 thousand divided into 900 ordinary shares, each with nominal value of EUR 100. 180 shares have been issued and paid up.

36. Subsidiaries, 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 share capital of the company is BGN 610 thousand, and the Bank's shareholding is 94.79%.

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

In April 2006 the Bank acquired 99.9998% of the capital of First Investment Bank – Albania Sh.a. upon its incorporation. On 27 June 2007 First Investment Bank – Albania was granted a full banking licence by the Bank of Albania, and on 1 September 2007 it effectively took over the activities of the former branch FIB – Tirana, assuming all rights and obligations, assets and liabilities.

As at 30 June 2011 the share capital of First Investment Bank – Albania Sh.a. was EUR 10,975 thousand, fully paid up, and the Bank's shareholding is 100%.

(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. The capital of the two companies is BGN 150,000 each, distributed as follows:

1. Debita OOD - 70%, i.e. 105,000 shares for the Bank and 30%, i.e. 45,000 shares for FFBH OOD.

2. Realtor OOD - 51%, i.e. 76,500 shares for the Bank and 49%, i.e. 73,500 shares for FFBH OOD.

The companies were established as servicing companies within the meaning of Article 18 of the Law on Special Investment Purpose Companies. The main lines of business for Debita OOD include acquisition, servicing, management and disposal of receivables and the related consultancy services; the main lines of business for Realtor OOD include management, servicing and maintenance of real estate, construction and refurbishment works and consultancy in the field of real estate.

(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 the company is BGN 5,000 thousand, and the Bank's shareholding is 59.10%.

(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.

(g) Balkan Financial Services EOOD

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