Unconsolidated statement of cash flows for the nine months ended 30 September 2011
unaudited

in BGN '000

	nine months ended 30 September 2011	nine months ended 30 September 2010
Net cash flow from operating activities		
Net profit	29 558	23 457
Adjustment for non-cash items		
Allowance for impairment	24 795	13 644
Depreciation and amortization	15 932	15 193
Income tax expense	3 339	2 833
(Profit)/loss from sale and write-off of tangible and intangible fixed assets, net	40	(4 718)
	73 664	**50 409**
Change in operating assets		
Decrease in financial instruments held for trading	7 955	1 710
(Increase)/decrease in available for sale investments	158 304	(312 446)
(Increase)/decrease in loans and advances to banks and financial institutions	(59 017)	8 560
(Increase) in loans to customers	(715 505)	(370 382)
(Increase) in other assets	(9 469)	(14 255)
	(617 732)	**(686 813)**
Change in operating liabilities		
Increase/(decrease) in deposits from banks	38 380	(3 697)
Increase/(decrease) in amounts owed to other depositors	742 465	745 886
Net increase/(decrease) in other liabilities	1 343	(1 435)
	782 188	**740 754**
Income tax paid	(800)	(2 388)
NET CASH FLOW FROM OPERATING ACTIVITIES	**237 320**	**101 962**
Cash flow from investing activities		
(Purchase) of tangible and intangible fixed assets	(8 098)	(13 038)
Sale of tangible and intangible fixed assets	30	5 056
(Increase) of investments	(11 740)	(7 701)
NET CASH FLOW FROM INVESTING ACTIVITIES	**(19 808)**	**(15 683)**
Financing activities		
Increase/(decrease) in borrowings	41 380	(107 178)
NET CASH FLOW FROM FINANCING ACTIVITIES	**41 380**	**(107 178)**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**258 892**	**(20 899)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	**548 889**	**601 038**
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	**807 781**	**580 139**

EVGENI LUKANOV
EXECUTIVE DIRECTOR:

DIMITAR KOSTOV
DEPUTY EXECUTIVE DIRECTOR

Unconsolidated statement of comprehensive income for the nine months ended 30 September 2011
unaudited

in BGN '000

	nine months ended 30 September 2011	nine months ended 30 September 2010
Interest income	321 770	289 164
Interest expense and similar charges:	(200 952)	(193 044)
Net interest income	**120 818**	**96 120**
Fee and commission income	56 565	44 414
Fee and commission expense	(6 128)	(5 797)
Net fee and commission income	**50 437**	**38 617**
Net trading income	9 003	6 335
Other net operating income/(expense)	(2 707)	1 109
TOTAL INCOME FROM BANKING OPERATIONS	**177 551**	**142 181**
Administrative expenses	(111 596)	(100 440)
Allowance for impairment	(24 795)	(13 644)
Other expenses, net	(8 263)	(1 807)
PROFIT BEFORE TAX	**32 897**	**26 290**
Income tax expense	**(3 339)**	**(2 833)**
NET PROFIT	**29 558**	**23 457**
Other comprehensive income for the period		
Revaluation reserve on available for sale investments	373	34
Total other comprehensive income	**373**	**34**
TOTAL COMPREHENSIVE INCOME	**29 931**	**23 491**

EVGENI LUKANOV
EXECUTIVE DIRECTOR:

DIMITAR KOSTOV
DEPUTY EXECUTIVE DIRECTOR

Unconsolidated statement of the financial position as at 30 September 2011
unaudited

in BGN '000

	30 September 2011	31 December 2010
ASSETS		
Cash and balances with Central Banks	799 854	546 281
Financial assets held for trading	8 686	16 641
Available for sale investments	585 286	743 217
Financial assets held to maturity	49 947	38 207
Loans and advances to banks and other financial institutions	85 260	20 924
Loans and advances to customers	4 065 872	3 375 162
Property and equipment	118 512	124 909
Intangible assets	14 814	16 321
Current tax assets	3 885	6 509
Other assets	68 005	55 912
TOTAL ASSETS	**5 800 121**	**4 944 083**
LIABILITIES AND CAPITAL		
Due to banks	47 889	9 509
Due to other customers	4 947 485	4 205 020
Liabilities evidenced by paper	134 364	133 804
Subordinated term debt	49 051	47 169
Perpetual debt	99 299	101 888
Hybrid debt	41 527	-
Deferred tax liability	3 546	3 143
Derivatives held for risk management	276	247
Current tax liabilities	2 341	1 003
Other liabilities	4 648	2 536
TOTAL LIABILITIES	**5 330 426**	**4 504 319**
Issued share capital	110 000	110 000
Share premium	97 000	97 000
Statutory reserve	39 861	39 861
Revaluation reserve on available for sale investments	341	(32)
Retained earnings	222 493	192 935
SHAREHOLDERS' EQUITY	**469 695**	**439 764**
TOTAL LIABILITIES AND GROUP EQUITY	**5 800 121**	**4 944 083**

EVGENI LUKANOV
EXECUTIVE DIRECTOR:

DIMITAR KOSTOV
DEPUTY EXECUTIVE DIRECTOR

Unconsolidated statement of shareholders' equity for the nine months ended 30 September 2011
unaudited

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 nine months ended on 30 September 2010	-	-	23 457	-	-	23 457
Other comprehensive income for the period						
Revaluation reserve on available for sale investments	-	-	-	34	-	34
Balance as at 30 September 2010	**110 000**	**97 000**	**185 554**	**(112)**	**39 861**	**432 303**
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 nine months ended on 30 September 2011	-	-	29 558	-	-	29 558
Other comprehensive income for the period						
Revaluation reserve on available for sale investments	-	-	-	373	-	373
Balance as at 30 September 2011	**110 000**	**97 000**	**222 493**	**341**	**39 861**	**469 695**

EVGENI LUKANOV
EXECUTIVE DIRECTOR:

DIMITAR KOSTOV
DEPUTY EXECUTIVE DIRECTOR

ADDENDUM TO THE UNCONSOLIDATED FINANCIAL STATEMENTS OF FIRST INVESTMENT BANK AD
AS AT 30.09.11

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

(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.

(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.

(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 Labor Code. According to these regulations in the LC, when a labor 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.

During the first nine months of 2011:

1. There were no unusual (in terms of amount, nature or timing) assets, liabilities, equity, net income and cash flows.
2. There were no unusual changes in contingent assets and liabilities since the last annual financial statements.
3. There were not issued, repaid or repurchased capital instruments.
4. No dividends were accrued or paid.

E. LUKANOV	**D. KOSTOV**
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EXECUTIVE DIRECTOR:	DEPUTY EXECUTIVE DIRECTOR