

**INDEPENDENT AUDITOR'S REPORT**

To the shareholders of First Investment Bank AD

Sofia, 24<sup>th</sup> July 2012

**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 2012, the unconsolidated statement of comprehensive income, the unconsolidated statement of changes in equity and the unconsolidated statement of cash flows for the period then ended, and a summary of significant accounting policies and other explanatory notes.

*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 as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of 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 financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the 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 First Investment Bank AD as at 30 June 2012, and of its unconsolidated financial performance and its unconsolidated cash flows for the six months then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Tzvetelinka Koleva  
*Manager*

Krassimir Hadjidinev  
*Registered auditor*

KPMG Bulgaria OOD  
45A Bulgaria Blvd.  
Sofia 1404  
Bulgaria

**FIRST INVESTMENT BANK AD**

**UNCONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2012**  
**WITH INDEPENDENT AUDITOR'S REPORT THEREON**

**Unconsolidated statement of comprehensive income for the six months ended 30 June 2012**
*in BGN '000*

	Note	Six months ended 30 June 2012	Six months ended 30 June 2011
Interest income		223,269	211,650
Interest expense and similar charges:		(151,737)	(129,631)
<b>Net interest income</b>	<b>6</b>	<b>71,532</b>	<b>82,019</b>
Fee and commission income		37,564	34,303
Fee and commission expense		(4,514)	(3,895)
<b>Net fee and commission income</b>	<b>7</b>	<b>33,050</b>	<b>30,408</b>
Net trading income	8	3,785	7,292
Other net operating income/(expense)	9	955	(3,391)
<b>TOTAL INCOME FROM BANKING OPERATIONS</b>		<b>109,322</b>	<b>116,328</b>
Administrative expenses	10	(74,712)	(72,800)
Allowance for impairment	11	(11,172)	(14,445)
Other expenses, net		(6,437)	(6,834)
<b>PROFIT BEFORE TAX</b>		<b>17,001</b>	<b>22,249</b>
<b>Income tax expense</b>	<b>12</b>	<b>(1,741)</b>	<b>(2,246)</b>
<b>NET PROFIT</b>		<b>15,260</b>	<b>20,003</b>
<b>Other comprehensive income for the period</b>			
Revaluation reserve on available for sale investments		687	79
<b>Total other comprehensive income</b>		<b>687</b>	<b>79</b>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>15,947</b>	<b>20,082</b>

The statement of comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 51.

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 Dimitar Kostov  
*Executive Director*  
*Chairman of the Managing Board*


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 Vassil Christov  
*Executive Director*


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 Svetoslav Moldovansky  
*Executive Director*


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 Yanko Karakolev  
*Chief Financial Officer*

 Tsvetelinka Koleva  
*Manager*  
*KPMG Bulgaria OOD*

 Krassimir Hadjidinev  
*Registered auditor*

**Unconsolidated statement of the financial position as at 30 June 2012**
*in BGN '000*

	Note	30 June 2012	31 December 2011
<b>ASSETS</b>			
Cash and balances with Central Banks	13	915,079	913,598
Financial assets held for trading	14	7,933	8,659
Available for sale investments	15	862,816	680,924
Financial assets held to maturity	16	82,560	54,961
Loans and advances to banks and other financial institutions	17	30,765	100,054
Loans and advances to customers	18	4,389,106	4,127,002
Property and equipment	19	115,409	115,942
Intangible assets	20	13,777	14,343
Derivatives held for risk management		761	-
Current tax assets		2,928	1,255
Other assets	22	145,095	84,931
<b>TOTAL ASSETS</b>		<b>6,566,229</b>	<b>6,101,669</b>
<b>LIABILITIES AND CAPITAL</b>			
Due to banks	23	2,113	2,054
Due to other customers	24	5,740,644	5,286,891
Liabilities evidenced by paper	25	87,225	132,443
Subordinated term debt	26	51,362	50,596
Perpetual debt	27	103,390	102,357
Hybrid debt	28	79,197	42,800
Deferred tax liability	21	3,431	3,628
Derivatives held for risk management		-	358
Current tax liabilities		926	49
Other liabilities	29	4,949	3,448
<b>TOTAL LIABILITIES</b>		<b>6,073,237</b>	<b>5,624,624</b>
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	1,433	746
Retained earnings	31	244,698	229,438
<b>SHAREHOLDERS' EQUITY</b>		<b>492,992</b>	<b>477,045</b>
<b>TOTAL LIABILITIES AND GROUP EQUITY</b>		<b>6,566,229</b>	<b>6,101,669</b>

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.

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Dimitar Kostov  
*Executive Director*  
*Chairman of the Managing Board*

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*Executive Director*

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Svetoslav Moldovansky  
*Executive Director*

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Yanko Karakolev  
*Chief Financial Officer*

Tsvetelinka Koleva  
*Manager*  
*KPMG Bulgaria OOD*

Krassimir Hadjidinev  
*Registered auditor*

**Unconsolidated statement of cash flows for the six months ended 30 June 2012**
*in BGN '000*

	Six months ended 30 June 2012	Six months ended 30 June 2011
<b>Net cash flow from operating activities</b>		
Net profit	15,260	20,003
<b>Adjustment for non-cash items</b>		
Allowance for impairment	11,172	14,445
Depreciation and amortization	10,158	10,635
Income tax expense	1,741	2,246
Loss from sale and write-off of tangible and intangible fixed assets, net	-	58
(Profit) from sale of other assets, net	(132)	(27)
	<b>38,199</b>	<b>47,360</b>
<b>Change in operating assets</b>		
(Increase)/decrease in financial instruments held for trading	726	(1,710)
(Increase)/decrease in available for sale investments	(181,205)	204,578
(Increase)/decrease in loans and advances to banks and financial institutions	10,960	(50,933)
(Increase) in loans to customers	(273,276)	(526,981)
(Increase) in other assets	(63,607)	(20,132)
	<b>(506,402)</b>	<b>(395,178)</b>
<b>Change in operating liabilities</b>		
Increase in due to banks	59	26,982
Increase in amounts owed to other depositors	453,753	421,909
Net increase in other liabilities	1,781	396
	<b>455,593</b>	<b>449,287</b>
Income tax paid	(1,699)	(96)
	<b>(14,309)</b>	<b>101,373</b>
<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>(14,309)</b>	<b>101,373</b>
<b>Cash flow from investing activities</b>		
(Purchase) of tangible and intangible fixed assets	(9,066)	(5,871)
Sale of tangible and intangible fixed assets	7	3
Sale of other assets	1,141	5,090
(Increase) of investments	(27,599)	(1,154)
<b>NET CASH FLOW FROM INVESTING ACTIVITIES</b>	<b>(35,517)</b>	<b>(1,932)</b>
<b>Financing activities</b>		
Increase/(decrease) in borrowings	(7,022)	62,762
<b>NET CASH FLOW FROM FINANCING ACTIVITIES</b>	<b>(7,022)</b>	<b>62,762</b>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(56,848)</b>	<b>162,203</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD</b>	<b>974,904</b>	<b>548,889</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF PERIOD (See Note 33)</b>	<b>918,056</b>	<b>711,092</b>

The cash flow statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 51.

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 Dimitar Kostov  
*Executive Director*  
*Chairman of the Managing Board*


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 Vassil Christov  
*Executive Director*


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 Svetoslav Moldovansky  
*Executive Director*


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 Yanko Karakolev  
*Chief Financial Officer*

 Tsvetelinka Koleva  
*Manager*  
*KPMG Bulgaria OOD*

 Krassimir Hadjidinev  
*Registered auditor*

**Unconsolidated statement of shareholders' equity for the six months ended 30 June 2012**
*in BGN '000*

	Issued share capital	Share premium	Retained earnings	Revaluation reserve	Statutory reserve	Total
<b>Balance as at 1 January 2011</b>	<b>110,000</b>	<b>97,000</b>	<b>192,935</b>	<b>(32)</b>	<b>39,861</b>	<b>439,764</b>
<b>Total comprehensive income for the period</b>						
Net profit for the six months ended on 30 June 2011	-	-	20,003	-	-	20,003
<b>Other comprehensive income for the period</b>						
Revaluation reserve on available for sale investments	-	-	-	79	-	79
<b>Balance as at 30 June 2011</b>	<b>110,000</b>	<b>97,000</b>	<b>212,938</b>	<b>47</b>	<b>39,861</b>	<b>459,846</b>
<b>Balance as at 1 January 2012</b>	<b>110,000</b>	<b>97,000</b>	<b>229,438</b>	<b>746</b>	<b>39,861</b>	<b>477,045</b>
<b>Total comprehensive income for the period</b>						
Net profit for the six months ended on 30 June 2012	-	-	15,260	-	-	15,260
<b>Other comprehensive income for the period</b>						
Revaluation reserve on available for sale investments	-	-	-	687	-	687
<b>Balance as at 30 June 2012</b>	<b>110,000</b>	<b>97,000</b>	<b>244,698</b>	<b>1,433</b>	<b>39,861</b>	<b>492,992</b>

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 51.

The financial statements were approved by the Managing Board on 24 July 2012 and signed on its behalf by:

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Dimitar Kostov  
*Executive Director*  
*Chairman of the Managing Board*

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Vassil Christov  
*Executive Director*

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Svetoslav Moldovansky  
*Executive Director*

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Yanko Karakolev  
*Chief Financial Officer*

Tsvetelinka Koleva  
*Manager*  
*KPMG Bulgaria OOD*

Krassimir Hadjidinev  
*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 13<sup>th</sup> 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.



**Notes****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**

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

**(iii) Foreign operations**

The 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.

**Notes****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

**Notes**

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

**Notes**
**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*

<b>30 June 2012</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Financial assets held for trading	7,933	-	-	7,933
Available for sale investments	793,248	27,210	42,358	862,816
Derivatives held for risk management	728	33	-	761
<b>Total</b>	<b>801,909</b>	<b>27,243</b>	<b>42,358</b>	<b>871,510</b>

*in BGN '000*

<b>31 December 2011</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Financial assets held for trading	8,659	-	-	8,659
Available for sale investments	611,581	26,934	42,409	680,924
Derivatives held for risk management	-	(358)	-	(358)
<b>Total</b>	<b>620,240</b>	<b>26,576</b>	<b>42,409</b>	<b>689,225</b>

**Notes****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 accounts and advances to banks 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 financial assets for trading. 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

**Notes****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.

**Notes**
**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) Available for sale financial assets**

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in profit or loss. The amount of the cumulative loss that is removed from equity and recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss. If, in a subsequent period, the fair value of a financial instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. Any subsequent increase in the fair value of impaired equity security, available for sale, is recognized directly in the comprehensive income.

**(k) Property 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:

<b>Assets</b>	<b>%</b>
• 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.

**Notes****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:

<b>Assets</b>	<b>%</b>
• Licences	10 - 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.



**Notes****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.

**Notes****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.

**Notes****2. Significant accounting policies, continued****(r) New standards and interpretations not yet effective**

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 30 June 2012, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Bank.

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

- Изменения в МСС 1 *Представяне на позиции от Друг всеобхватен доход*, прилагат се най-късно от началната дата на първата финансова година, започваща на или след 1 юли 2012 г.
- Revised IAS 19 *Employee Benefits* will be applicable to annual periods beginning on or after 1 January 2013.

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

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

- IFRS 9 *Financial Instruments* (issued November 2009) and Additions to IFRS 9 issued October 2010) have an effective date 1 January 2015 and could change the classification and measurement of financial instruments.
- In May 2011 the IASB issued IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint arrangements*, IFRS 12 *Disclosures of Interests in Other Entities* and IFRS 13 *Fair Value Measurement*, which all have an effective date of 1 January 2013. The IASB also issued IAS 27 *Separate Financial Statements* (2011) which supersedes IAS 27 (2008) and IAS 28 *Investments in Associates and Joint Ventures* (2011) which supersedes IAS 28 (2008). All of these standards have an effective date of 1 January 2013.
- Amendments to IAS 12 *Deferred Tax: Recovery of Underlying Assets* (issued December 2010) has an effective date 1 January 2012.
- Amendments to IFRS 1 *Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* (issued December 2010) has an effective date 1 July 2012.
- In December 2011 the IASB issued amendments to IFRS 7 *Disclosures – Offsetting Financial Assets and Financial Liabilities* with an effective date of 1 January 2013.
- In December 2011 the IASB issued amendments to IAS 32 *Offsetting Financial Assets and Financial Liabilities* with an effective date of 1 January 2014.
- Amendments to IFRS 1 *Government Loans* (published March 2012), effective as of 1 January 2013.
- Amendments to IFRS 10, IFRS 11 and IFRS 12 *Transition Guidance* (published June 2012), effective as of 1 January 2013.
- IFRIC Interpretation 20: *Stripping Costs in the Production Phase of a Surface Mine* with an effective date of 1 January 2013.

**Notes****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.

**(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.

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 .

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 half of 2012:

**3. Risk management disclosures****A. Trading activities**

**Notes**
**(ii) Market risk, continued**

	<b>30 June</b>	<b>Six months ended 30 June 2012</b>			<b>31 December</b>
<i>in BGN '000</i>	<b>2012</b>	<b>average</b>	<b>low</b>	<b>high</b>	<b>2011</b>
<b>VaR</b>	463	360	224	511	243

**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.

**Notes**
**3. Risk management disclosures, continued**
**B. Non-trading activities, continued**
**(i) Liquidity risk, continued**
**Maturity table as at 30 June 2012**

<i>in BGN '000</i>	<b>Up to 1 Month</b>	<b>From 1 to 3 Months</b>	<b>From 3 months to 1 year</b>	<b>More than 1 year</b>	<b>Maturity not defined</b>	<b>Total</b>
<b>Assets</b>						
Cash and balances with Central Banks	915,079	-	-	-	-	<b>915,079</b>
Financial assets held for trading	7,933	-	-	-	-	<b>7,933</b>
Available for sale investments	800,073	-	20,385	-	42,358	<b>862,816</b>
Financial assets held to maturity	-	19,516	43,832	19,212	-	<b>82,560</b>
Loans and advances to banks and other financial institutions	18,559	-	3,996	8,210	-	<b>30,765</b>
Loans and advances to	374,223	332,579	1,011,357	2,670,947	-	<b>4,389,106</b>
Other trading assets	761	-	-	-	-	<b>761</b>
<b>Total financial assets</b>	<b>2,116,628</b>	<b>352,095</b>	<b>1,079,570</b>	<b>2,698,369</b>	<b>42,358</b>	<b>6,289,020</b>
<b>Liabilities</b>						
Due to banks	2,113	-	-	-	-	<b>2,113</b>
Due to other customers	1,429,675	1,091,056	2,531,689	688,224	-	<b>5,740,644</b>
Liabilities evidenced by paper	42,569	3,255	7,380	34,021	-	<b>87,225</b>
Subordinated term debt	-	-	-	51,362	-	<b>51,362</b>
Perpetual debt	-	-	-	-	103,390	<b>103,390</b>
Hybrid debt	-	-	-	-	79,197	<b>79,197</b>
<b>Total financial liabilities</b>	<b>1,474,357</b>	<b>1,094,311</b>	<b>2,539,069</b>	<b>773,607</b>	<b>182,587</b>	<b>6,063,931</b>
<b>Net liquidity gap</b>	<b>642,271</b>	<b>(742,216)</b>	<b>(1,459,499)</b>	<b>1,924,762</b>	<b>(140,229)</b>	<b>225,089</b>

**Notes**
**3. Risk management disclosures, continued**
**B. Non-trading activities, continued**
**(i) Liquidity risk, continued**
**Maturity table as at 31 December 2011**

<i>in BGN '000</i>	<b>Up to 1 Month</b>	<b>From 1 to 3 Months</b>	<b>From 3 months to 1 year</b>	<b>More than 1 year</b>	<b>Maturity not defined</b>	<b>Total</b>
<b>Assets</b>						
Cash and balances with Central Banks	913,598	-	-	-	-	<b>913,598</b>
Financial assets held for trading	-	-	-	5,523	3,136	<b>8,659</b>
Available for sale investments	632,651	-	5,864	-	42,409	<b>680,924</b>
Financial assets held to maturity	-	-	-	54,961	-	<b>54,961</b>
Loans and advances to banks and other financial institutions	73,989	-	17,404	8,661	-	<b>100,054</b>
Loans and advances to	294,614	296,547	1,008,178	2,527,663	-	<b>4,127,002</b>
<b>Total financial assets</b>	<b>1,914,852</b>	<b>296,547</b>	<b>1,031,446</b>	<b>2,596,808</b>	<b>45,545</b>	<b>5,885,198</b>
<b>Liabilities</b>						
Due to banks	2,054	-	-	-	-	<b>2,054</b>
Due to other customers	1,306,614	1,012,606	2,482,489	485,182	-	<b>5,286,891</b>
Liabilities evidenced by paper	48,206	47,860	4,261	32,116	-	<b>132,443</b>
Subordinated term debt	-	-	-	50,596	-	<b>50,596</b>
Perpetual debt	-	-	-	-	102,357	<b>102,357</b>
Hybrid debt	-	-	-	-	42,800	<b>42,800</b>
Other financial liabilities	358	-	-	-	-	<b>358</b>
<b>Total financial liabilities</b>	<b>1,357,232</b>	<b>1,060,466</b>	<b>2,486,750</b>	<b>567,894</b>	<b>145,157</b>	<b>5,617,499</b>
<b>Net liquidity gap</b>	<b>557,620</b>	<b>(763,919)</b>	<b>(1,455,304)</b>	<b>2,028,914</b>	<b>(99,612)</b>	<b>267,699</b>

As at 30 June 2012 the thirty largest non-bank depositors represent 6.16% of total deposits from other customers (31 December 2011: 5.73%).

**Notes**
**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 2012 based on the contractual undiscounted cash flows.

<i>in BGN '000</i>	<b>Up to 1 Month</b>	<b>From 1 to 3 Months</b>	<b>From 3 months to 1 year</b>	<b>More than 1 year</b>	<b>Total</b>
Due to banks	2,113	-	-	-	<b>2,113</b>
Due to other customers	1,431,168	1,101,518	2,622,423	767,198	<b>5,922,307</b>
Liabilities evidenced by paper	42,628	3,273	7,534	37,436	<b>90,871</b>
Subordinated term debt	334	-	3,031	69,910	<b>73,275</b>
Perpetual debt	-	6,912	4,933	131,651	<b>143,496</b>
Hybrid debt	-	-	9,511	108,157	<b>117,668</b>
<b>Total financial liabilities</b>	<b>1,476,243</b>	<b>1,111,703</b>	<b>2,647,432</b>	<b>1,114,352</b>	<b>6,349,730</b>

**(ii) Market risk**
**Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The 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 2012 is BGN -4.4/+4.4 Mio. The interest rate risk on the Group's net interest income one year forward following a standardised shock of +100bp/-100bp as at 30 June 2012 is BGN +0.8/-0.8 Mio



**Notes**
**3. Risk management disclosures, continued**
**B. Non-trading activities, continued**
**(ii) Market risk, continued**
**Interest rate risk, continued**

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

<i>in BGN '000</i>	Total	Floating rate Instruments	Fixed rate instruments			
			Less than 1 month	Between 1 month and 3 months	Between 3 months and 1 year	More than 1 year
<b>Assets</b>						
Cash and balances with Central Banks	113,037	42,323	70,714	-	-	-
Financial assets held for trading	5,150	-	5,150	-	-	-
Available for sale investments	820,458	32,515	767,558	-	20,385	-
Financial assets held to maturity	82,560	-	-	19,516	43,832	19,212
Loans and advances to banks and other financial institutions	23,498	110	11,284	-	3,996	8,108
Loans and advances to customers	4,031,765	3,405,824	52,810	30,898	167,626	374,607
Non-interest earning assets	1,489,761					
<b>Total assets</b>	<b>6,566,229</b>	<b>3,480,772</b>	<b>907,516</b>	<b>50,414</b>	<b>235,839</b>	<b>401,927</b>
<b>Liabilities</b>						
Due to banks	2,113	2,113	-	-	-	-
Due to other customers	5,735,751	789,291	635,490	1,091,056	2,531,689	688,225
Liabilities evidenced by paper	87,225	7,607	42,569	224	4,723	32,102
Subordinated term debt	51,362	-	-	-	-	51,362
Perpetual debt	103,390	-	-	-	-	103,390
Hybrid debt	79,197	-	-	-	-	79,197
Non-interest bearing liabilities	14,199					
<b>Total liabilities</b>	<b>6,073,237</b>	<b>799,011</b>	<b>678,059</b>	<b>1,091,280</b>	<b>2,536,412</b>	<b>954,276</b>

**Notes**
**3. Risk management disclosures, continued**
**B. Non-trading activities, continued**
**(ii) Market risk, continued**
**Interest rate risk, continued**

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

**Fixed rate instruments**

<i>in BGN '000</i>	<b>Total</b>	<b>Floating rate Instruments</b>	<b>Less than 1 month</b>	<b>Between 1 month and 3 months</b>	<b>Between 3 months and 1 year</b>	<b>More than 1 year</b>
<b>Assets</b>						
Cash and balances with Central Banks	145,059	64,457	80,602	-	-	-
Financial assets held for trading	5,523	-	-	-	-	5,523
Available for sale investments	638,515	32,828	234,676	195,552	78,132	97,327
Financial assets held to maturity	54,961	-	-	-	-	54,961
Loans and advances to banks and other financial institutions	97,428	-	71,363	-	17,404	8,661
Loans and advances to customers	3,924,638	3,390,792	74,159	20,616	124,100	314,971
Non-interest earning assets	1,235,545					
<b>Total assets</b>	<b>6,101,669</b>	<b>3,488,077</b>	<b>460,800</b>	<b>216,168</b>	<b>219,636</b>	<b>481,443</b>
<b>Liabilities</b>						
Due to banks	2,054	2,054	-	-	-	-
Due to other customers	5,284,091	750,243	553,571	1,012,606	2,482,489	485,182
Liabilities evidenced by paper	132,443	55,237	48,088	-	-	29,118
Subordinated term debt	50,596	-	-	-	-	50,596
Perpetual debt	102,357	-	-	-	-	102,357
Hybrid debt	42,800	-	-	-	-	42,800
Non-interest bearing liabilities	10,283					
<b>Total liabilities</b>	<b>5,624,624</b>	<b>807,534</b>	<b>601,659</b>	<b>1,012,606</b>	<b>2,482,489</b>	<b>710,053</b>

**Notes**
**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 its financial statements is the Bulgarian lev, the Bank's financial statements are affected 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:

<i>in BGN '000</i>	<b>30 June 2012</b>	<b>31 December 2011</b>
<b>Monetary assets</b>		
Euro	4,753,967	4,339,864
US dollar	477,813	421,496
Other	86,197	62,176
Gold bullion	9,798	7,856
<b>Monetary liabilities</b>		
Euro	2,985,893	2,909,370
US dollar	477,247	422,616
Other	85,821	61,577
Gold bullion	-	-
<b>Net position</b>		
Euro	1,768,074	1,430,494
US dollar	566	(1,120)
Other	376	599
Gold bullion	9,798	7,856

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:

**Notes**
**3. Risk management disclosures, continued**
**B. Non-trading activities, continued**
**(iii) Credit risk, continued**
**30 June 2012**

Class of exposure	Gross amount of loans and advances to customers	<i>in BGN '000</i>
		Carrying amount of loans and advances to customers
Collectively impaired		
Standard	3,832,320	3,825,881
Individually impaired		
Watch	334,519	321,666
Nonperforming	103,541	96,212
Loss	260,285	145,347
<b>Total</b>	<b>4,530,665</b>	<b>4,389,106</b>

**31 December 2011**

Class of exposure	Gross amount of loans and advances to customers	<i>in BGN '000</i>
		Carrying amount of loans and advances to customers
Collectively impaired		
Standard	3,607,040	3,603,069
Individually impaired		
Watch	404,324	388,558
Nonperforming	29,789	21,151
Loss	216,337	114,224
<b>Total</b>	<b>4,257,490</b>	<b>4,127,002</b>

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.

**Notes**
**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:

<i>in BGN '000</i>	<b>30 June 2012</b>	<b>31.12.11</b>
Trade	1,052,105	946,338
Industry	1,191,867	1,125,835
Services	447,405	433,874
Finance	91,229	87,849
Transport, logistics	281,096	270,019
Communications	65,321	56,221
Construction	179,036	173,246
Agriculture	99,462	85,353
Tourist services	126,900	117,310
Infrastructure	151,861	161,993
Private individuals	828,795	786,291
Other	15,588	13,161
Allowance for impairment	(141,559)	(130,488)
<b>Total</b>	<b>4,389,106</b>	<b>4,127,002</b>

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

The Bank has extended loans, confirmed letters of credit and granted guarantees to 19 individual clients or groups (2011: 23) with each individual exposure exceeding 10% of the capital base of the Bank. The total amount of these exposures is BGN 1,637,815 thousand which represents 270.65% of the capital base (2011: BGN 1,776,991 thousand which represented 321.11 % of the capital base) of which BGN 1,496,208 thousand (2011: BGN 1,776,991 thousand which represented 321.11% of capital base) of which BGN 1,496,208 thousand (2011: BGN 1,585,693 thousand) represent loans and BGN 141,607 thousand (2011: BGN 191,298 thousand) represent guarantees, letters of credit and other commitments.

Loans extended by the branch in Cyprus amount to BGN 397,685 thousand (gross carrying amount before any allowances) (2011: BGN 290,861 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.

**Notes**
**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 198,725 thousand (2011: BGN 193,303 thousand):

<i>in BGN '000</i>	<b>30 June 2012</b>	<b>31 December 11</b>
Mortgage	1,645,966	1,642,857
Pledge of receivables	237,695	201,992
Pledge of commercial enterprise	872,319	789,238
Securities	69,562	80,069
Guarantee	8,646	13,759
Other guaranties	496,410	464,606
Pledge of goods	201,008	185,502
Pledge of machines	209,871	200,925
Money deposit	58,725	45,797
Stake in capital	217,618	144,694
Gold	18	18
Other collateral	256,944	247,465
Unsecured	57,158	47,265
<b>Total</b>	<b>4,331,940</b>	<b>4,064,187</b>

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

**(iv) Government debt exposures**

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

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

**Notes**
**3. Risk management disclosures, continued**
**B. Non-trading activities, continued**
**(iv) Government debt exposures, continued**

in BGN '000

**30 June 2012**

<b>Portfolio</b>	<b>Bulgaria</b>	<b>Belgium</b>	<b>Italy</b>	<b>Spain</b>	<b>European Financial Stability Facility</b>
Financial assets held for trading	5,150	-	-	-	-
Available for sale investments	256,775	458,241	-	-	78,232
Financial assets held to maturity	34,139	-	19,455	9,754	-
<b>Total</b>	<b>296,064</b>	<b>458,241</b>	<b>19,455</b>	<b>9,754</b>	<b>78,232</b>

in BGN '000

**31 December 2011**

<b>Portfolio</b>	<b>Bulgaria</b>	<b>France</b>	<b>Belgium</b>
Financial assets held for trading	5,523	-	-
Available for sale investments	103,222	371,465	136,894
Financial assets held to maturity	36,054	-	-
<b>Total</b>	<b>144,799</b>	<b>371,465</b>	<b>136,894</b>

**Maturity table of government debt securities by country issuer as at 31 December 2012**

in BGN '000

<b>Country issuer</b>	<b>Up to 1 Month</b>	<b>From 1 to 3 Months</b>	<b>From 3 months to 1 year</b>	<b>From 1 to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
Bulgaria	-	986	207,169	59,170	28,739	<b>296,064</b>
Belgium	29,334	-	428,907	-	-	<b>458,241</b>
Italy	-	9,762	9,693	-	-	<b>19,455</b>
Spain	-	9,754	-	-	-	<b>9,754</b>
European Financial Stability Facility	-	-	78,232	-	-	<b>78,232</b>
<b>Total</b>	<b>29,334</b>	<b>20,502</b>	<b>724,001</b>	<b>59,170</b>	<b>28,739</b>	<b>861,746</b>

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

in BGN '000

Country issuer	Up to 1 Month	From 1 to 3 Months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Bulgaria	-	-	-	120,518	24,281	<b>144,799</b>
France	97,782	195,552	78,131	-	-	<b>371,465</b>
Belgium	136,894	-	-	-	-	<b>136,894</b>
<b>Total</b>	<b>234,676</b>	<b>195,552</b>	<b>78,131</b>	<b>120,518</b>	<b>24,281</b>	<b>653,158</b>

**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



**Notes**

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.

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

Capital adequacy level was as follows:

<i>in BGN '000</i>	Balance sheet/notional amount		Risk weighted assets	
	30 June 2012	31 December 2011	30 June 2012	31 December 2011
<b>Risk weighted assets for credit risk</b>				
<b>Balance sheet assets</b>				
<b>Exposure class</b>				
Central governments and central banks	1,535,205	1,293,965	5,357	2,956
Institutions	190,144	290,595	55,809	78,140
Corporates	3,255,609	3,135,180	3,193,371	3,079,542
Retail	498,341	468,354	363,601	340,731
Claims secured by residential property	400,471	393,051	140,165	137,568
Overdue items	228,019	121,995	228,019	121,995
Collective investment undertaking	1,946	1,936	1,946	1,936
Other items	374,021	327,252	238,662	193,667
<b>Total</b>	<b>6,483,756</b>	<b>6,032,328</b>	<b>4,226,930</b>	<b>3,956,535</b>
<b>Off balance sheet items</b>				
<b>Exposure class</b>				
Central governments and central banks	-	97	-	-
Institutions	14,609	15,266	4,213	3,458
Corporates	450,259	552,625	173,456	179,903
Retail	226,828	231,706	695	1,350
Claims secured by residential property	3,939	3,468	678	601
Other items	-	-	162	14
<b>Total</b>	<b>695,635</b>	<b>803,162</b>	<b>179,204</b>	<b>185,326</b>
<b>Derivatives</b>				
<b>Exposure class</b>				
Central governments and central banks	-	1,760	-	-
Institutions	331	171	66	34
Corporates	1,414	390	1,414	390
Other items	742	-	742	-
<b>Total</b>	<b>2,487</b>	<b>2,321</b>	<b>2,222</b>	<b>424</b>
<b>Total risk-weighted assets for credit risk</b>			<b>4,408,356</b>	<b>4,142,285</b>
<b>Risk-weighted assets for market risk</b>			<b>5,816</b>	<b>5,546</b>
<b>Risk-weighted assets for operational risk</b>			<b>357,991</b>	<b>344,453</b>
<b>Total risk-weighted assets</b>			<b>4,772,163</b>	<b>4,492,284</b>
<b>Capital adequacy ratios</b>	<b>Capital</b>		<b>Capital ratios %</b>	
	30 June 2012	31 December 2011	30 June 2012	31 December 2011
<b>Tier 1 Capital</b>	<b>518,690</b>	<b>461,959</b>	<b>10.87%</b>	<b>10.28%</b>
<b>Total capital base</b>	<b>605,133</b>	<b>553,392</b>	<b>12.68%</b>	<b>12.32%</b>

**Notes**
**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.

<i>in BGN '000</i>	<b>Bulgarian operations</b>		<b>Foreign operations</b>		<b>Total</b>	
	<b>Six months ended 30 June 2012</b>	<b>Six months ended 30 June 2011</b>	<b>Six months ended 30 June 2012</b>	<b>Six months ended 30 June 2011</b>	<b>Six months ended 30 June 2012</b>	<b>Six months ended 30 June 2011</b>
Interest income	210,463	200,631	12,806	11,019	223,269	211,650
Interest expense and similar charges:	(151,367)	(129,320)	(370)	(311)	(151,737)	(129,631)
<b>Net interest income</b>	<b>59,096</b>	<b>71,311</b>	<b>12,436</b>	<b>10,708</b>	<b>71,532</b>	<b>82,019</b>
Fee and commission income	36,938	34,162	626	141	37,564	34,303
Fee and commission expense	(4,510)	(3,889)	(4)	(6)	(4,514)	(3,895)
<b>Net fee and commission income</b>	<b>32,428</b>	<b>30,273</b>	<b>622</b>	<b>135</b>	<b>33,050</b>	<b>30,408</b>
<b>Net trading income</b>	<b>3,754</b>	<b>7,290</b>	<b>31</b>	<b>2</b>	<b>3,785</b>	<b>7,292</b>
<b>Administrative expenses</b>	<b>(74,344)</b>	<b>(72,595)</b>	<b>(368)</b>	<b>(205)</b>	<b>(74,712)</b>	<b>(72,800)</b>
	<b>30 June 2012</b>	<b>31 December 2011</b>	<b>30 June 2012</b>	<b>31 December 2011</b>	<b>30 June 2012</b>	<b>31 December 2011</b>
<b>Assets</b>	<b>6,161,965</b>	<b>5,805,179</b>	<b>404,264</b>	<b>296,490</b>	<b>6,566,229</b>	<b>6,101,669</b>
<b>Liabilities</b>	<b>6,043,964</b>	<b>5,602,298</b>	<b>29,273</b>	<b>22,326</b>	<b>6,073,237</b>	<b>5,624,624</b>

**Notes**
**4. Segment Reporting, continued**

The table below shows assets and liabilities and income and expense by business segments as at 30 June 2012.

*in BGN '000*

<b>Business</b>	<b>Assets</b>	<b>Liabilities</b>	<b>Interest income</b>	<b>Interest expense and similar charges:</b>	<b>Net fee and commission income</b>	<b>Net trading income</b>	<b>Other net operating income</b>
Commercial banking	3,599,035	1,320,741	168,176	(33,468)	19,564	-	-
Retail Banking	790,071	4,699,044	48,275	(117,505)	5,987	-	-
Card business	-	-	-	-	7,287	-	-
Treasury	1,863,543	44,146	6,818	(752)	(116)	3,785	955
Other	313,580	9,306	-	(12)	328	-	-
<b>Total</b>	<b>6,566,229</b>	<b>6,073,237</b>	<b>223,269</b>	<b>(151,737)</b>	<b>33,050</b>	<b>3,785</b>	<b>955</b>

**Notes**
**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 2012.

<i>in BGN '000</i>	Trading	Held-to-maturity	Loans and receivables	Available-for-sale	Other at amortised cost	Other	Net book value	Fair value
<b>ASSETS</b>								
Cash and balances with Central Banks	-	-	786,497	-	-	128,582	915,079	915,079
Financial assets held for trading	7,933	-	-	-	-	-	7,933	7,933
Available for sale investments	-	-	-	862,816	-	-	862,816	862,816
Financial assets held to maturity	-	82,560	-	-	-	-	82,560	82,917
Loans and advances to banks and other financial institutions	-	-	30,765	-	-	-	30,765	30,765
Loans and advances to customers	-	-	4,389,106	-	-	-	4,389,106	4,389,106
Other trading assets	-	-	-	-	-	761	761	761
<b>Total</b>	<b>7,933</b>	<b>82,560</b>	<b>5,206,368</b>	<b>862,816</b>	<b>-</b>	<b>129,343</b>	<b>6,289,020</b>	<b>6,289,377</b>
<b>LIABILITIES</b>								
Due to banks	-	-	-	-	2,113	-	2,113	2,113
Due to other customers	-	-	-	-	5,740,644	-	5,740,644	5,740,644
Liabilities evidenced by paper	-	-	-	-	87,225	-	87,225	87,225
Subordinated term debt	-	-	-	-	51,362	-	51,362	51,362
Perpetual debt	-	-	-	-	103,390	-	103,390	103,390
Hybrid debt	-	-	-	-	79,197	-	79,197	79,197
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,063,931</b>	<b>-</b>	<b>6,063,931</b>	<b>6,063,931</b>

The fair value of cash, cash equivalents, demand and term deposits is approximately equal to the carrying value given, because of their short-term maturity. The fair value of 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.

**Notes**
**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 2011.

<i>in BGN '000</i>	Trading	Held-to-maturity	Loans and receivables	Available-for-sale	Other at amortised cost	Other	Net book value	Fair value
<b>ASSETS</b>								
Cash and balances with Central Banks	-	-	785,868	-	-	-127,730	913,598	913,598
Financial assets held for trading	8,659	-	-	-	-	-	8,659	8,659
Available for sale investments	-	-	-	680,924	-	-	680,924	680,924
Financial assets held to maturity	-	54,961	-	-	-	-	54,961	54,598
Loans and advances to banks and other financial institutions	-	-	100,054	-	-	-	100,054	100,054
Loans and advances to customers	-	-	4,127,002	-	-	-	4,127,002	4,127,002
<b>Total</b>	<b>8,659</b>	<b>54,961</b>	<b>5,012,924</b>	<b>680,924</b>	<b>-127,730</b>	<b>5,885,198</b>	<b>5,884,835</b>	<b>5,884,835</b>
<b>LIABILITIES</b>								
Due to banks	-	-	-	-	2,054	-	2,054	2,054
Due to other customers	-	-	-	-	5,286,891	-	5,286,891	5,286,891
Liabilities evidenced by paper	-	-	-	-	132,443	-	132,443	132,443
Subordinated term debt	-	-	-	-	50,596	-	50,596	50,596
Perpetual debt	-	-	-	-	102,357	-	102,357	102,357
Hybrid debt	-	-	-	-	42,800	-	42,800	42,800
Other financial liabilities	-	-	-	-	-	358	358	358
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,617,141</b>	<b>358</b>	<b>5,617,499</b>	<b>5,617,499</b>

**Notes**
**6. Net interest income**
*in BGN '000*
**Interest income**

	<b>Six months ended 30 June 2012</b>	<b>Six months ended 30 June 2011</b>
Accounts with and placements to banks and financial institutions	1,072	1,432
Retail Banking	46,750	44,607
Corporate customers	157,066	148,037
Small and medium enterprises	11,110	11,661
Microlending	1,525	1,734
Debt instruments	5,746	4,179
	<b>223,269</b>	<b>211,650</b>

**Interest expense and similar charges:**

Deposits from banks	(3)	(205)
Deposits from other customers	(136,540)	(116,549)
Liabilities evidenced by paper	(2,181)	(2,563)
Subordinated term debt	(4,073)	(2,871)
Perpetual debt	(6,048)	(5,960)
Hybrid debt	(2,880)	(1,467)
Lease agreements and other	(12)	(16)
	<b>(151,737)</b>	<b>(129,631)</b>

**Net interest income**

	<b>71,532</b>	<b>82,019</b>
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For the six months ended 30 June 2012 and 30 June 2011 the recognised interest income on individually impaired financial assets (loans and advances to customers) amounts to BGN 24,054 thousand and BGN 26,739 thousand respectively.

**7. Net fee and commission income**
*in BGN '000*
**Fee and commission income**

	<b>Six months ended 30 June 2012</b>	<b>Six months ended 30 June 2011</b>
Letters of credit and guarantees	4,017	4,190
Payments transactions	4,644	4,244
Customer accounts	7,472	6,861
Cards business	10,790	9,650
Other	10,641	9,358
	<b>37,564</b>	<b>34,303</b>

**Fee and commission expense**

Letters of credit and guarantees	(458)	(486)
Deposits to banks and other financial institutions	(348)	(320)
Cards business	(3,503)	(2,994)
Other	(205)	(95)
	<b>(4,514)</b>	<b>(3,895)</b>

**Net fee and commission income**

	<b>33,050</b>	<b>30,408</b>
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**Notes**
**8. Net trading income**

<i>in BGN '000</i>	<b>Six months ended 30 June 2012</b>	<b>Six months ended 30 June 2011</b>
Net trading income/(expense) arises from:		
- Debt instruments	63	3,802
- Equities	(237)	179
- Foreign exchange rate fluctuations	3,959	3,311
<b>Net trading income</b>	<b>3,785</b>	<b>7,292</b>

**9. Other net operating income/(expense)**

<i>in BGN '000</i>	<b>Six months ended 30 June 2012</b>	<b>Six months ended 30 June 2011</b>
Other net operating income/(expense) arising from:		
- Debt instruments	940	(3,391)
- Equities	15	-
- other	-	-
<b>Other net operating income/(expense)</b>	<b>955</b>	<b>(3,391)</b>

**10. Administrative expenses**

<i>in BGN '000</i>	<b>Six months ended 30 June 2012</b>	<b>Six months ended 30 June 2011</b>
General and administrative expenses comprise:		
- Personnel cost	24,669	24,012
- Depreciation and amortisation	10,158	10,635
- Advertising	3,565	3,357
- Building rent expense	15,136	14,920
- Telecommunication, software and other computer maintenance	6,814	6,174
- Administration, consultancy, audit and other costs	14,370	13,702
<b>Administrative expenses</b>	<b>74,712</b>	<b>72,800</b>

Personnel costs include salaries, social and health security contributions under the provisions of the local legislation. At 30 June 2012 the total number of employees was 2,715 (30 June 2009: 2,618).



**Notes**
**11. Allowance for impairment**

<i>in BGN '000</i>	<b>Six months ended 30 June 2012</b>	<b>Six months ended 30 June 2011</b>
<b>Write-downs</b>		
<i>Loans and advances to customers</i>	(15,908)	(20,836)
<b>Reversal of write-downs</b>		
<i>Loans and advances to customers</i>	4,736	6,391
<b>Impairment, net</b>	<b>(11,172)</b>	<b>(14,445)</b>

**12. Income tax expense**

	<b>Six months ended 30 June 2012</b>	<b>Six months ended 30 June 2011</b>
Current taxes	(1,938)	(1,946)
Deferred taxes (See Note 21)	197	(300)
<b>Income tax expense</b>	<b>(1,741)</b>	<b>(2,246)</b>

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

<i>in BGN '000</i>	<b>Six months ended 30 June 2012</b>	<b>Six months ended 30 June 2011</b>
<b>Accounting profit before taxation</b>	<b>17,001</b>	<b>22,249</b>
Corporate tax at applicable tax rate (10% for 2012 and 10% for 2011)	1,700	2,225
Tax effect of permanent tax differences	238	(279)
Tax effect of reversals of temporary differences	(197)	300
<b>Income tax expense</b>	<b>1,741</b>	<b>2,246</b>
Effective tax rate	10.24%	10.09%

**Notes**
**13. Cash and balances with Central Banks**

<i>in BGN '000</i>	<b>30 June 2012</b>	<b>31 December 2011</b>
Cash on hand		
- in BGN	84,128	91,315
- in foreign currency	44,454	36,415
Balances with Central Banks	675,906	645,225
Current accounts and amounts with foreign banks	110,591	140,643
<b>Total</b>	<b>915,079</b>	<b>913,598</b>

**14. Financial assets held for trading**

<i>in BGN '000</i>	<b>30 June 2012</b>	<b>31 December 2011</b>
Bonds and notes issued by:		
Bulgarian government, rated BBB:		
- denominated in Bulgarian Leva	2,942	3,518
- denominated in foreign currencies	2,208	2,005
Other issuers – equity instruments (unrated)	2,783	3,136
<b>Total</b>	<b>7,933</b>	<b>8,659</b>

**15. Available for sale investments**

<i>In thousands of BGN</i>	<b>30 June 2012</b>	<b>31 December 2011</b>
Bonds and notes issued by:		
Bulgarian Government		
- denominated in Bulgarian Leva	51,102	17,688
- denominated in foreign currencies	205,673	85,534
Foreign governments treasury bills	536,473	508,359
Foreign banks and other financial institutions	27,210	26,934
Other issuers – equity instruments	5,987	6,038
Investments in subsidiaries	36,371	36,371
<b>Total</b>	<b>862,816</b>	<b>680,924</b>

**Notes**
**15. Available for sale investments, continued**

Investments in subsidiaries are as follows:

*In thousands of BGN*

<b>Entity:</b>	<b>% held</b>	<b>30 June 2012</b>	<b>31 December 2011</b>
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%	23,419	23,419
Debita OOD	70%	105	105
Realtor OOD	51%	77	77
Health Insurance Fund Fi Health AD	59.10%	3,315	3,315
Framas Enterprises Limited	100%	15	15
Balkan Financial Services EAD	100%	50	50
<b>Total</b>		<b>36,371</b>	<b>36,371</b>

**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.

<i>in BGN '000</i>	<b>30 June 2012</b>	<b>31 December 2011</b>
Securities held to maturity issued by:		
Bulgarian Government	34,139	36,054
Foreign governments	29,209	-
Foreign banks and other financial institutions	19,212	18,907
<b>Total</b>	<b>82,560</b>	<b>54,961</b>

**17. Loans and advances to banks and other financial institutions**
**(a) Analysis by type**

<i>in BGN '000</i>	<b>30 June 2012</b>	<b>31 December 2011</b>
Placements with banks	12,206	85,139
Receivables under resale agreements (see Note 30)	15,685	12,683
Other	2,874	2,232
<b>Total</b>	<b>30,765</b>	<b>100,054</b>

**(b) Geographical analysis**

<i>in BGN '000</i>	<b>30 June 2012</b>	<b>31 December 2011</b>
Domestic banks and financial institutions	16,443	13,093
Foreign banks and other financial institutions	14,322	86,961
<b>Total</b>	<b>30,765</b>	<b>100,054</b>

**Notes**
**18. Loans and advances to customers**

<i>in BGN '000</i>	<b>30 June 2012</b>	<b>31 December 2011</b>
Retail Banking		
- Consumer loans	268,235	233,107
- Mortgage loans	348,186	344,437
- Credit cards	198,725	193,303
Small and medium enterprises	239,593	223,990
Microlending	28,467	26,612
Corporate customers	3,447,459	3,236,041
Allowance for impairment	(141,559)	(130,488)
<b>Total</b>	<b>4,389,106</b>	<b>4,127,002</b>

**(a) Movement in impairment allowances**

<i>in BGN '000</i>	
<b>Balance as at 1 January 2012</b>	<b>130,488</b>
Additional allowances	15,908
Amounts released	(4,736)
Write - offs	(101)
<b>Balance as at 30 June 2012</b>	<b>141,559</b>

**Notes**
**19. Property and equipment**

<i>in BGN '000</i>	<b>Land and Buildings</b>	<b>Fixtures and fittings</b>	<b>Motor vehicles</b>	<b>Assets under Construction</b>	<b>Leasehold Improvements</b>	<b>Total</b>
<b>Cost</b>						
At 1 January 2011	12,639	112,926	5,910	24,668	55,898	212,041
Additions	-	72	-	10,219	-	10,291
Disposals	-	(833)	(298)	(58)	(88)	(1,277)
Transfers	276	4,850	228	(8,438)	2,985	(99)
At 31 December 2011	12,915	117,015	5,840	26,391	58,795	220,956
Additions	-	7	-	9,059	-	9,066
Disposals	-	(983)	(40)	(7)	(1)	(1,031)
Transfers	-	1,962	398	(4,077)	1,194	(523)
<b>At 30 June 2012</b>	<b>12,915</b>	<b>118,001</b>	<b>6,198</b>	<b>31,366</b>	<b>59,988</b>	<b>228,468</b>
<b>Amortisation</b>						
At 1 January 2011	3,579	63,329	4,857	-	15,367	87,132
Начислена през годината	438	14,362	601	-	3,682	19,083
On disposals	-	(825)	(298)	-	(78)	(1,201)
At 31 December 2011	4,017	76,866	5,160	-	18,971	105,014
Charge for the period	224	6,758	194	-	1,893	9,069
On disposals	-	(983)	(40)	-	(1)	(1,024)
<b>At 30 June 2012</b>	<b>4,241</b>	<b>82,641</b>	<b>5,314</b>	<b>-</b>	<b>20,863</b>	<b>113,059</b>
<b>Net book value</b>						
At 1 January 2011	<b>9,060</b>	<b>49,597</b>	<b>1,053</b>	<b>24,668</b>	<b>40,531</b>	<b>124,909</b>
At 31 December 2011	<b>8,898</b>	<b>40,149</b>	<b>680</b>	<b>26,391</b>	<b>39,824</b>	<b>115,942</b>
At 30 June 2012	<b>8,674</b>	<b>35,360</b>	<b>884</b>	<b>31,366</b>	<b>39,125</b>	<b>115,409</b>

**Notes**
**20. Intangible assets**
*in BGN '000*

	<b>Software and licences</b>	<b>Total</b>
<b>Cost</b>		
At 1 January 2011	21,694	21,694
Additions	-	-
Disposals	(4)	(4)
Transfers	99	99
At 31 December 2011	21,789	21,789
Disposals	(2)	(2)
Transfers	523	523
At 30 June 2012	22,310	22,310
<b>Amortisation</b>		
At 1 January 2011	5,373	5,373
Начислена през годината	2,077	2,077
On disposals	(4)	(4)
At 31 December 2011	7,446	7,446
Charge for the period	1,089	1,089
On disposals	(2)	(2)
At 30 June 2012	8,533	8,533
<b>Net book value</b>		
<b>At 1 January 2011</b>	<b>16,321</b>	<b>16,321</b>
<b>At 31 December 2011</b>	<b>14,343</b>	<b>14,343</b>
<b>At 30 June 2012</b>	<b>13,777</b>	<b>13,777</b>

**Notes**
**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:

<i>in BGN '000</i>	<b>Assets</b>		<b>Liabilities</b>		<b>Net</b>	
	<b>30 June 2012</b>	<b>31 December 2011</b>	<b>30 June 2012</b>	<b>31 December 2011</b>	<b>30 June 2012</b>	<b>31 December 2011</b>
Property, equipment and intangibles	-	-	3,305	3,502	3,305	3,502
Other	(208)	(208)	334	334	126	126
<b>Net tax (assets)/liabilities</b>	<b>(208)</b>	<b>(208)</b>	<b>3,639</b>	<b>3,836</b>	<b>3,431</b>	<b>3,628</b>

Movements in temporary differences during the six months ended 30 June 2012 at the amount of BGN 197 000 are recognised in net profit for the period.

**22. Other assets**

<i>in BGN '000</i>	<b>30 June 2012</b>	<b>31 December 2011</b>
Deferred expense	24,847	10,139
Gold bullion	9,798	7,856
Other assets	110,450	66,936
<b>Total</b>	<b>145,095</b>	<b>84,931</b>

**23. Due to banks**

<i>in BGN '000</i>	<b>30 June 2012</b>	<b>31 December 2011</b>
Payable on demand	2,113	2,054
<b>Total</b>	<b>2,113</b>	<b>2,054</b>

**24. Due to other customers**

<i>in BGN '000</i>	<b>30 June 2012</b>	<b>31 December 2011</b>
Retail customers		
- current accounts	433,672	412,152
- term and savings deposits	4,265,372	3,951,600
Businesses and public institutions		
- current accounts	362,793	308,835
- term and savings deposits	678,807	614,304
<b>Total</b>	<b>5,740,644</b>	<b>5,286,891</b>

**Notes**
**25. Liabilities evidenced by paper**

<i>in BGN '000</i>	<b>30 June 2012</b>	<b>31 December 2011</b>
Acceptances under letters of credit	3,201	9,217
Liabilities under repurchase agreements (see Note 30)	42,033	48,088
Other term liabilities	41,991	75,138
<b>Total</b>	<b>87,225</b>	<b>132,443</b>

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

**26. Subordinated term debt**

As at 31 June 2012 the Bank has entered into six separate subordinated Loan Agreements. 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:

<i>in BGN '000</i>	<b>Principal amount</b>	<b>Final maturity</b>	<b>Maturity</b>	<b>Amortised cost as at 30 June 2012</b>
Lender				
Growth Management Limited	5,867	10 years	27.08.2014	16,031
Growth Management Limited	3,912	10 years	24.02.2015	8,524
Estrado Holding Ltd	9,779	10 years	01.03.2015	9,553
Growth Management Limited	1,956	10 years	17.03.2015	4,187
ING Bank NV/ Atlantic				
Forfaitierungs AG	9,779	10 years	22.04.2015	9,126
Hypo-Alpe-Adria Bank	3,912	10 years	14.04.2015	3,941
<b>Total</b>	<b>35,205</b>			<b>51,362</b>

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.



**Notes**
**27. Perpetual debt**
*in BGN '000*

	<b>Principal amount</b>	<b>Amortised cost as at 30 June 2012</b>
Step-up Guaranteed Perpetual Subordinated Bonds EUR 27 mio	52,807	60,345
Step-up Guaranteed Perpetual Subordinated Bonds EUR 21 mio	41,073	43,045
<b>Total</b>	<b>93,880</b>	<b>103,390</b>

The issue of the Step-Up Subordinated Bonds by First Investment Finance B.V., a limited liability company registered under the laws of the Netherlands and 100% owned by First Investment Bank AD was fully guaranteed by the Bank. The terms and conditions of the debt capital instruments 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*

	<b>Principal amount</b>	<b>Amortised cost as at 30 June 2012</b>
Hybrid debt with original principal EUR 40 mio	78,233	79,197
<b>Total</b>	<b>78,233</b>	<b>79,197</b>

*in BGN '000*

	<b>Principal amount</b>	<b>Amortised cost as at 31 December 2011</b>
Hybrid debt with original principal EUR 20 mio	39,117	42,800
<b>Total</b>	<b>39,117</b>	<b>42,800</b>

In March 2011 the Bank issued a hybrid instrument (bond issue) and, after obtaining permission from the Bulgarian National Bank, included it as Tier 1 capital pursuant to Art. 3a of Ordinance 8 on Capital Adequacy of Credit Institutions. The Bank placed the bond issue under private subscription with a total nominal and issue value of EUR 20,000 thousand, constituting the first tranche of a bond issue for up to EUR 40,000 thousand. The bonds are registered, dematerialized, interest-bearing, perpetual, unsecured, freely transferable, non-convertible, deeply subordinated and without incentive to redeem. През юни 2012 г. Банката издава втория транш от инструмента в размер също на 20,000 хил. евро, който след получено разрешение от страна на БНБ включва в капитала си от първи ред.

**29. Other liabilities**
*in BGN '000*

	<b>30 June 2012</b>	<b>31 December 2011</b>
Liabilities to personnel	1,746	1,746
Other payables	3,203	1,702
<b>Total</b>	<b>4,949</b>	<b>3,448</b>

**Notes**
**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 2012 assets sold under repurchase agreements were as follows:

<i>in BGN '000</i>	<b>Fair value of underlying assets</b>	<b>Carrying amount of corresponding liabilities</b>
Bulgarian government securities	28,834	28,671
Other government securities	13,322	13,362
<b>Total</b>	<b>42,156</b>	<b>42,033</b>

At 31 December 2011 assets sold under repurchase agreements were as follows:

<i>in BGN '000</i>	<b>Fair value of underlying assets</b>	<b>Carrying amount of corresponding liabilities</b>
Bulgarian government securities	23,123	22,740
Other government securities	25,264	25,348
<b>Total</b>	<b>48,387</b>	<b>48,088</b>

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 2012 assets purchased subject to agreements to resell them are as follows:

<i>in BGN '000</i>	<b>Fair value of underlying assets</b>	<b>Carrying amount of liabilities</b>
Bulgarian government securities	16,185	15,685
<b>Total</b>	<b>16,185</b>	<b>15,685</b>

At 31 December 2011 assets purchased under repurchase agreements were as follows.

<i>in BGN '000</i>	<b>Fair value of underlying assets</b>	<b>Carrying amount of liabilities</b>
Bulgarian government securities	12,913	12,683
<b>Total</b>	<b>12,913</b>	<b>12,683</b>

**Notes**
**31. Capital and reserves**
**(a) Number and face value of registered shares as at 30 June 2012**

As at 30 June 2012 the registered share capital of the Bank is BGN 110,000,000 divided into 110,000,000 ordinary dematerialized shares with voting rights of BGN 1 par value each. All the shares have been fully paid-up.

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

**(b) Shareholders**

The table below shows those shareholders of the Bank holding shares as at 30 June 2012 together with the number and percentage of total issued shares.

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

**Notes**
**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 2012, 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.

<i>in BGN '000</i>	<b>30 June 2012</b>	<b>31 December 2011</b>
Guarantee		
- in BGN	145,102	148,694
- in foreign currency	213,201	199,476
<b>Total guarantees</b>	<b>358,303</b>	<b>348,170</b>
Unused credit lines	306,189	360,847
Promissory notes	4,422	4,926
Letters of credit	26,721	89,219
<b>Total</b>	<b>695,635</b>	<b>803,162</b>

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

**Notes**
**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*

	<b>30 June 2012</b>	<b>30 June 2011</b>
Cash and balances with Central Banks	915,079	694,679
Loans and advances to banks and financial institutions with original maturity less than 3 months	2,977	16,413
<b>Total</b>	<b>918,056</b>	<b>711,092</b>

**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*

	<b>Six months ended 30 June 2012</b>	<b>Six months ended 30 June 2011</b>
<b>FINANCIAL ASSETS</b>		
Cash and balances with Central Banks	875,931	644,769
Financial assets held for trading	8,732	24,022
Available for sale investments	815,921	642,185
Financial assets held to maturity	58,673	32,396
Loans and advances to banks and other financial institutions	105,030	51,245
Loans and advances to customers	4,195,186	3,618,983
<b>FINANCIAL LIABILITIES</b>		
Due to banks	2,535	20,226
Due to other customers	5,502,226	4,438,465
Liabilities evidenced by paper	103,527	142,161
Subordinated term debt	51,134	47,499
Perpetual debt	102,515	101,997
Hybrid debt	48,097	17,070

**Notes**
**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	
	Six months ended 30 June 2012	2011	Six months ended 30 June 2012	2011
<b>in BGN '000</b>				
<b>Loans</b>				
Loans outstanding at beginning of the period	1,674	2,997	34,749	30,758
Loans issued/(repaid) during the period	8	(1,323)	4,667	3,991
Loans outstanding at end of the period	1,682	1,674	39,416	34,749
<b>Deposits and loans received:</b>				
At beginning of the period	11,466	7,994	147,633	142,475
Received/(paid) during the period	(188)	3,472	9,698	5,158
At the end of the period	11,278	11,466	157,331	147,633
<b>Deposits placed</b>				
Deposits at beginning of the period	-	-	3,916	3,922
Deposits placed during the year	-	-	80	(6)
Deposits at end of the period	-	-	3,996	3,916
<b>OFF-BALANCE SHEET COMMITMENTS ISSUED BY THE BANK</b>				
At beginning of the period	1,843	1,204	10,874	9,812
Issued/(expired) during the period	(128)	639	(7,972)	1,062
At the end of the period	1,715	1,843	2,902	10,874

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

**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.

**Notes****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 2012 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 2012 the share capital of First Investment Bank – Albania Sh.a. was EUR 11,975 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 2012 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 EAD**

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