INDEPENDENT AUDITOR'S REPORT

To the shareholders of First Investment Bank AD

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 2013, the unconsolidated statement of comprehensive income, the unconsolidated statement of changes in equity and the unconsolidated statement of cash flows for the six months 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 unconsolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the unconsolidated financial statements.

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

Opinion

In our opinion, the unconsolidated financial statements give a true and fair view of the unconsolidated financial position of First Investment Bank AD as at 30 June 2013, 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.

Dobrina Kaloyanova
Manager

Margarita Goleva
Registered auditor

KPMG Bulgaria OOD

Sofia, 02 August 2013

FIRST INVESTMENT BANK AD

UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2013
WITH INDEPENDENT AUDITOR'S REPORT THEREON

Unconsolidated statement of comprehensive income for the six months ended 30 June 2013

in BGN '000

	Note	Six months ended 30 June 2013	Six months ended 30 June 2012
Interest income		217,077	223,269
Interest expense and similar charges:		(144,177)	(151,737)
Net interest income	**6**	**72,900**	**71,532**
Fee and commission income		51,104	37,564
Fee and commission expense		(5,121)	(4,514)
Net fee and commission income	**7**	**45,983**	**33,050**
Net trading income	8	**4,133**	**3,785**
Other net operating income	9	**1,669**	**955**
TOTAL INCOME FROM BANKING OPERATIONS		**124,685**	**109,322**
Administrative expenses	10	(66,594)	(74,712)
Allowance for impairment	11	(22,095)	(11,172)
Other expenses, net		(11,223)	(6,437)
PROFIT BEFORE TAX		**24,773**	**17,001**
Income tax expense	**12**	**(2,443)**	**(1,741)**
NET PROFIT		**22,330**	**15,260**
Other comprehensive income for the period			
Items which should or may be reclassified as profit or loss			
Revaluation reserve on available for sale investments, net		375	687
Total other comprehensive income		**375**	**687**
TOTAL COMPREHENSIVE INCOME		**22,705**	**15,947**

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 57.

Dimitar Kostov
Executive Director
Chairman of the Managing Board

Svetoslav Moldovansky
Executive Director

Maya Oyfalosh
Executive Director

Yanko Karakolev
Chief Financial Officer

Dobrina Kaloyanova
Manager
KPMG Bulgaria OOD

Margarita Goleva
Registered auditor

Fibank
Първа инвестиционна банка

Unconsolidated statement of the financial position as at 30 June 2013

in BGN '000

	Note	30 June 2013	31 December 2012
ASSETS			
Cash and balances with Central Banks	13	1,270,605	1,121,844
Financial assets held for trading	14	6,336	5,998
Available for sale investments	15	350,087	747,535
Financial assets held to maturity	16	131,709	92,351
Loans and advances to banks and other financial institutions	17	11,027	18,290
Loans and advances to customers	18	4,607,472	4,463,094
Property and equipment	19	109,370	115,613
Intangible assets	20	12,499	13,546
Derivatives held for risk management		2,460	1,088
Current tax assets		1,179	2,117
Other assets	22	467,612	325,861
TOTAL ASSETS		**6,970,356**	**6,907,337**
LIABILITIES AND CAPITAL			
Due to banks	23	3,027	2,597
Due to other customers	24	6,061,868	6,024,530
Liabilities evidenced by paper	25	77,946	77,304
Subordinated term debt	26	56,323	54,988
Perpetual debt	27	103,970	102,927
Hybrid debt	28	121,413	123,901
Deferred tax liability	21	3,327	3,560
Derivatives held for risk management		167	1,309
Current tax liabilities		303	178
Other liabilities	29	8,575	5,311
TOTAL LIABILITIES		**6,436,919**	**6,396,605**
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, net		1,393	1,018
Revaluation reserve on property, net		4,500	4,500
Retained earnings	31	280,683	258,353
SHAREHOLDERS' EQUITY		**533,437**	**510,732**
TOTAL LIABILITIES AND GROUP EQUITY		**6,970,356**	**6,907,337**

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 57.

Dimitar Kostov
Executive Director
Chairman of the Managing Board

Svetoslav Moldovansky
Executive Director

Maya Oyfalosh
Executive Director

Yanko Karakolev
Chief Financial Officer

Dobrina Kaloyanova
Manager
KPMG Bulgaria OOD

Margarita Goleva
Registered auditor

Unconsolidated statement of cash flows for the six months ended 30 June 2013

in BGN '000

	Six months ended 30 June 2013	Six months ended 30 June 2012
Net cash flow from operating activities		
Net profit	22,330	15,260
Adjustment for non-cash items		
Allowance for impairment	22,095	11,172
Depreciation and amortization	9,831	10,158
Tax expense	2,443	1,741
(Profit)/loss from sale and write-off of tangible and intangible fixed assets, net	(22)	-
(Profit) from sale of other assets, net	(32)	(132)
	56,645	**38,199**
Change in operating assets		
(Increase)/decrease in financial instruments held for trading	(338)	726
(Increase)/decrease in available for sale investments	397,865	(181,205)
Decrease in loans and advances to banks and financial institutions	7,575	10,960
(Increase) in loans to customers	(166,473)	(273,276)
(Increase) in other assets	(143,618)	(63,607)
	95,011	**(506,402)**
Change in operating liabilities		
Increase in due to banks	430	59
Increase in amounts owed to other depositors	37,338	453,753
Net increase in other liabilities	2,205	1,781
	39,973	**455,593**
Tax on profit, paid	(1,522)	(1,699)
NET CASH FLOW FROM OPERATING ACTIVITIES	**190,107**	**(14,309)**
Cash flow from investing activities		
(Purchase) of tangible and intangible fixed assets	(2,543)	(9,066)
Sale of tangible and intangible fixed assets	24	7
Sale of other assets	311	1,141
(Increase) of investments	(39,358)	(27,599)
NET CASH FLOW FROM INVESTING ACTIVITIES	**(41,566)**	**(35,517)**
Financing activities		
Increase/(decrease) in borrowings	532	(7,022)
NET CASH FLOW FROM FINANCING ACTIVITIES	**532**	**(7,022)**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**149,073**	**(56,848)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	**1,127,484**	**974,904**
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD (See Note 33)	**1,276,557**	**918,056**

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 57.

Dimitar Kostov
Executive Director
Chairman of the Managing Board

Svetoslav Moldovansky
Executive Director

Maya Oyfalosh
Executive Director

Yanko Karakolev
Chief Financial Officer

Dobrina Kaloyanova
Manager
KPMG Bulgaria OOD

Margarita Goleva
Registered auditor

Fibank
Първа инвестиционна банка

Unconsolidated statement of shareholders' equity for the six months ended 30 June 2013

in BGN '000

	Issued share capital	Share premium	Retained earnings	Revaluation reserve on available for sale investments	Revaluation reserve on property	Statutory reserve	Total
Balance as at 1 January 2012	**110,000**	**97,000**	**229,438**	**746**	**-**	**39,861**	**477,045**
Total comprehensive income for the period							
Net profit for the six months ended on 30 June 2012	-	-	15,260	-	-	-	15,260
Other comprehensive income for the period							
Revaluation reserve on available for sale investments	-	-	-	687	-	-	687
Balance as at 30 June 2012	**110,000**	**97,000**	**244,698**	**1,433**	**-**	**39,861**	**492,992**
Balance as at 1 January 2013	**110,000**	**97,000**	**258,353**	**1,018**	**4,500**	**39,861**	**510,732**
Total comprehensive income for the period							
Net profit for the six months ended on 30 June 2013	-	-	22,330	-	-	-	22,330
Other comprehensive income for the period							
Revaluation reserve on available for sale investments, net	-	-	-	375	-	-	375
Balance as at 30 June 2013	**110,000**	**97,000**	**280,683**	**1,393**	**4,500**	**39,861**	**533,437**

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 57.

The financial statements have been approved by the Managing Board on 02 August 2013 and signed on its behalf by:

Dimitar Kostov
Executive Director
Chairman of the Managing Board

Svetoslav Moldovansky
Executive Director

Maya Oyfalosh
Executive Director

Yanko Karakolev
Chief Financial Officer

Dobrina Kaloyanova
Manager
KPMG Bulgaria OOD

Margarita Goleva
Registered auditor

1. Basis of preparation

(a) Statute

First Investment Bank AD (the Bank) is incorporated in the Republic of Bulgaria and has its registered office in Sofia, at 37 Dragan Tzankov Blvd.

The Bank has a general banking license issued by the Bulgarian National Bank (BNB) according to which it is allowed to conduct all banking transactions permitted by Bulgarian legislation.

The Bank has foreign operations in Cyprus.

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

(b) Statement of compliance

The unconsolidated financial statements were drawn up in accordance with the International Financial Reporting Standards (IFRS) endorsed by the European Commission.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 2 (p).

(c) Presentation

The financial statements are presented in Bulgarian Leva (BGN) rounded to the nearest thousand.

The financial statements are prepared on a fair value basis for derivative financial instruments, financial assets and liabilities held for trading, and available-for-sale assets, except those for which a reliable measure of fair value is not available. Other financial assets and liabilities and non-financial assets and liabilities are stated at amortised cost or historical cost convention.

The present financial statements of the Bank are not consolidated. These individual financial statements form an integral part of the consolidated financial statements. Information about the basic earnings per share is given in the consolidated financial statements.

(d) Change in accounting policy

The Bank has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2013:

- IAS 1 Presentation of Items of Other Comprehensive Income
- IFRS 13 Fair value measurement

The nature and the effect of the changes are further explained below:

- IAS 1 Presentation of Items of Other Comprehensive Income

As a result of the amendments to IAS 1, the Bank has modified the presentation of items of other comprehensive income in its statement of comprehensive income, to present separately items that would be reclassified to profit or loss in the future from those that would never be. Comparative information has also been re-presented accordingly.

1. Basis of preparation, continued

(d) Change in accounting policy, continued

The adoption of the amendment to IAS 1 has no impact on the recognised assets, liabilities and comprehensive income of the Bank.

- IFRS 13 Fair value measurement

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other IFRSs. In particular, it unifies the definition of fair value as the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date. It also replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7 Financial Instruments: Disclosures. Some of these disclosures are specifically required in interim financial statements for financial instruments; accordingly, the Bank has included additional disclosures in this regard (see Note 5*).*

In accordance with the transitional provisions of IFRS 13, the Bank has applied the new fair value measurement guidance prospectively, and has not provided any comparative information for new disclosures. Notwithstanding the above, the change had no significant impact on the measurements of the Bank's assets and liabilities.

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.

2. Significant accounting policies, continued

(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.

(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.

2. Significant accounting policies, continued

(d) Financial assets, continued

(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.

(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 price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When applicable, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction.

2. Significant accounting policies, continued

(d) Financial assets, continued

(vii) Fair value measurement principles, continued

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk, are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

(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.

2. Significant accounting policies, continued

(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

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. The portfolio 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.

2. Significant accounting policies, continued

(j) Impairment, continued

(ii) Available for sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in profit or loss. 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

Land and buildings are presented in the statement of financial position at their revalued amount which is the fair value of the asset as at the date of revaluation less any subsequent amortisation and depreciation and accumulated impairment losses. All others classes of items of property, plant and equipment are stated in the statement of financial position at their acquisition cost less accumulated depreciation and allowance for impairment.

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

Assets	**%**
• Buildings	3 - 4
• Equipment	10 - 50
• 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.

(l) Intangible assets

Intangible assets acquired by the Bank are stated at cost, less accumulated amortisation and any impairment losses.

Amortisation is calculated on a straight-line basis over the expected useful life of the asset. The annual rates of amortisation are as follows:

Assets	**%**
• Licences	10 - 15
• Computer software	8 - 50

(m) Provisions

A provision is recognised in the statement of financial position when the Bank has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and an reliable assessment of the amount due can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(n) Acceptances

An acceptance is created when the Bank agrees to pay, at a stipulated future date, a draft drawn on it for a specified amount. The Bank's acceptances primarily arise from documentary credits stipulating payment to be made a certain number of days after receipt of required documents. The Bank negotiates most acceptances to be settled at a later date following the reimbursement from the customers. Acceptances are accounted for as liabilities evidenced by paper.

(o) Taxation

Tax on the profit for the year comprises current tax and the change in deferred tax. Current tax comprises tax payable calculated on the basis of the expected taxable income for the year, using the tax rates enacted by the statement of financial position date, and any adjustment of tax payable for previous years.

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

Deferred tax is calculated on the basis of the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. The effect on deferred tax of any changes in tax rates is charged to profit or loss, except to the extent that it relates to items previously recognised either in other comprehensive income or directly in equity.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

2. Significant accounting policies, continued

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

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(i) Impairment losses on loans and advances

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

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

(ii) Income taxes

The Bank is subject to income taxes in numerous jurisdictions. Significant estimates are required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Bank recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(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.

2. Significant accounting policies, continued

(q) Employee benefits, continued

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.

(r) New standards and interpretations not yet effective

A number of new standards, amendments to standards and interpretations endorsed by the European Commission may be applied early for the annual period ending on 30 June 2013, although they are not mandatory. These changes to IFRS have not been applied early in preparing these financial statements. The Bank does not plan to adopt these standards early.

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

- IFRS 10 Consolidated Financial Statements, IFRS 11 Joint arrangements, IFRS 12 Disclosures of Interests in Other Entities and 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) are effective for annual periods beginning on or after 1 January 2014. The Bank does not consider that amendments to IFRS 27 will have significant impact on the Bank's financial statements because they will not lead to changes in accounting policy.

2. Significant accounting policies, continued

(r) New standards and interpretations not yet effective, continued

- Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities are effective for annual periods beginning on or after 1 January 2013. The Bank is in the process of analysing changes but they are not expected to have material impact on the financial statements.
- Amendments to IAS 36 Recoverable amount disclosures for non-financial assets are effective for annual periods beginning on or after 1 January 2014. The Bank is in the process of analysing changes but they are not expected to have material impact on the financial statements.
- Amendments to IAS 39 Novation of Derivatives are effective for annual periods beginning on or after 1 January 2014. The Bank is in the process of analysing changes but they are not expected to have material impact on the financial statements.

Standards, interpretations and amendments to standards 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 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) has an effective date 1 January 2015 and could change the classification and measurement of financial instruments.
- Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities are effective as of 1 January 2014.

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 2013:

3. Risk management disclosures, continued

A. Trading activities, continued

(ii) Market risk, continued

	30 June	Six months ended 30 June 2013			31 December
in BGN '000	**2013**	**average**	**low**	**high**	**2012**
VaR	2,399	1,534	1,060	2,423	1,103

B. Non-trading activities

Below is a discussion of the various risks the Bank is exposed to as a result of its non-trading activities and the approach taken to manage those risks.

(i) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk arises in the general funding of the Bank's activities and in the management of positions. It includes both the risk of being unable to fund assets at appropriate maturity and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame to meet the liability obligations.

Funds are raised using a broad range of instruments including deposits, other liabilities evidenced by paper, subordinated debt instruments and share capital. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. The Bank makes its best efforts to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturity. The Bank continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Bank strategy.

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

3. Risk management disclosures, continued

B. Non-trading activities, continued

(i) Liquidity risk, continued

Maturity table as at 30 June 2013

in BGN '000	Up to 1 Month	From 1 to 3 Months	From 3 months to 1 year	More than 1 year	Maturity not defined	Total
Assets						
Cash and balances with Central Banks	745,700	-	-	-	524,905	**1,270,605**
Financial assets held for trading	6,336	-	-	-	-	**6,336**
Available for sale investments	253,574	-	54,933	-	41,580	**350,087**
Financial assets held to maturity	9,777	-	103,077	18,855	-	**131,709**
Loans and advances to banks and other financial institutions	11,027	-	-	-	-	**11,027**
Loans and advances to	419,552	197,658	1,101,377	2,888,885	-	**4,607,472**
Other trading assets	2,460	-	-	-	-	**2,460**
Total financial assets	**1,448,426**	**197,658**	**1,259,387**	**2,907,740**	**566,485**	**6,379,696**
Liabilities						
Due to banks	3,027	-	-	-	-	**3,027**
Due to other customers	542,537	811,696	2,528,301	1,238,095	941,239	**6,061,868**
Liabilities evidenced by paper	32,345	1,213	7,511	36,877	-	**77,946**
Subordinated term debt	-	-	-	56,323	-	**56,323**
Perpetual debt	-	-	-	-	103,970	**103,970**
Hybrid debt	-	-	-	-	121,413	**121,413**
Other financial liabilities	167	-	-	-	-	**167**
Total financial liabilities	**578,076**	**812,909**	**2,535,812**	**1,331,295**	**1,166,622**	**6,424,714**
Net liquidity gap	**870,350**	**(615,251)**	**(1,276,425)**	**1,576,445**	**(600,137)**	**(45,018)**

The table shows mainly investments available for sale with a maturity of up to 1 month in order to reflect the management's intent to sell them within a short-term period.

3. Risk management disclosures, continued

B. Non-trading activities, continued

(i) Liquidity risk, continued

Maturity table as at 31 December 2012

in BGN '000	Up to 1 Month	From 1 to 3 Months	From 3 months to 1 year	More than 1 year	Maturity not defined	Total
Assets						
Cash and balances with Central Banks	601,948	-	-	-	519,896	**1,121,844**
Financial assets held for trading	5,998	-	-	-	-	**5,998**
Available for sale investments	701,430	-	4,525	-	41,580	**747,535**
Financial assets held to maturity	34,652	13,666	25,302	18,731	-	**92,351**
Loans and advances to banks and other financial institutions	5,640	-	3,989	8,661	-	**18,290**
Loans and advances to	406,271	201,147	1,171,436	2,684,240	-	**4,463,094**
Other trading assets	1,088	-	-	-	-	**1,088**
Total financial assets	**1,757,027**	**214,813**	**1,205,252**	**2,711,632**	**561,476**	**6,450,200**
Liabilities						
Due to banks	2,597	-	-	-	-	**2,597**
Due to other customers	582,828	947,193	2,499,650	1,138,502	856,357	**6,024,530**
Liabilities evidenced by paper	36,164	3,716	4,112	33,312	-	**77,304**
Subordinated term debt	-	-	-	54,988	-	**54,988**
Perpetual debt	-	-	-	-	102,927	**102,927**
Hybrid debt	-	-	-	-	123,901	**123,901**
Other financial liabilities	1,309	-	-	-	-	**1,309**
Total financial liabilities	**622,898**	**950,909**	**2,503,762**	**1,226,802**	**1,083,185**	**6,387,556**
Net liquidity gap	**1,134,129**	**(736,096)**	**(1,298,510)**	**1,484,830**	**(521,709)**	**62,644**

As at 30 June 2013 the thirty largest non-bank depositors represent 5.88% of total deposits from other customers (31 December 2012: 5.14%).

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 2013 based on the contractual undiscounted cash flows.

in BGN '000	**Up to 1 Month**	**From 1 to 3 Months**	**From 3 months to 1 year**	**More than 1 year**	**Total**
Due to banks	3,027	-	-	-	**3,027**
Due to other customers	1,484,868	818,340	2,605,649	1,359,367	**6,268,224**
Liabilities evidenced by paper	32,370	1,217	7,599	38,963	**80,149**
Subordinated term debt	334	337	2,698	66,541	**69,910**
Perpetual debt	-	6,912	4,933	119,806	**131,651**
Hybrid debt	-	4,303	9,975	154,511	**168,789**
Total financial liabilities	**1,520,599**	**831,109**	**2,630,854**	**1,739,188**	**6,721,750**

(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 2013 is BGN +2.6/-2.6 Mio. The interest rate risk on the Bank's net interest income one year forward following a standardised shock of +100bp/-100bp as at 30 June 2013 is BGN +4.7/-4.7 Mio

3. Risk management disclosures, continued

B. Non-trading activities, continued

(ii) Market risk, continued

Interest rate risk, continued

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

			Fixed rate instruments			
in BGN '000	**Total**	**Floating rate Instruments**	**Less than 1 month**	**Between 1 month and 3 months**	**Between 3 months and 1 year**	**More than 1 year**
Assets						
Cash and balances with Central Banks	151,771	62,831	88,940	-	-	-
Financial assets held for trading	3,282	-	3,282	-	-	-
Available for sale investments	308,507	30,694	222,880	-	54,933	-
Financial assets held to maturity	131,709	-	9,777	-	103,077	18,855
Loans and advances to banks and other financial institutions	5,075	-	5,075	-	-	-
Loans and advances to customers	4,172,912	3,364,584	130,220	38,725	199,366	440,017
Total interest-bearing assets	**4,773,256**	**3,458,109**	**460,174**	**38,725**	**357,376**	**458,872**
Liabilities						
Due to banks	3,027	3,027	-	-	-	-
Due to other customers	6,052,342	931,713	542,537	811,696	2,528,301	1,238,095
Liabilities evidenced by paper	66,126	2,834	31,758	256	5,590	25,688
Subordinated term debt	56,323	-	-	-	-	56,323
Perpetual debt	103,970	-	-	-	-	103,970
Hybrid debt	121,413	-	-	-	-	121,413
Total interest-bearing liabilities	**6,403,201**	**937,574**	**574,295**	**811,952**	**2,533,891**	**1,545,489**

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 2012 and the periods in which financial liabilities and assets reprice.

in BGN '000	**Total**	**Floating rate Instruments**	**Fixed rate instruments** Less than 1 month	Between 1 month and 3 months	Between 3 months and 1 year	More than 1 year
Assets						
Cash and balances with Central Banks	100,004	83,963	16,041	-	-	-
Financial assets held for trading	3,072	-	3,072	-	-	-
Available for sale investments	705,955	31,587	674,368	-	-	-
Financial assets held to maturity	92,351	-	34,652	13,666	25,302	18,731
Loans and advances to banks and other financial institutions	13,500	405	445	-	3,989	8,661
Loans and advances to customers	4,101,827	3,292,079	78,236	53,747	256,919	420,846
Total interest-bearing assets	**5,016,709**	**3,408,034**	**806,814**	**67,413**	**286,210**	**448,238**
Liabilities						
Due to banks	2,597	2,597	-	-	-	-
Due to other customers	6,018,568	848,891	584,332	947,193	2,499,650	1,138,502
Liabilities evidenced by paper	77,304	4,875	36,164	57	2,896	33,312
Subordinated term debt	54,988	-	-	-	-	54,988
Perpetual debt	102,927	-	-	-	-	102,927
Hybrid debt	123,901	-	-	-	-	123,901
Total interest-bearing liabilities	**6,380,285**	**856,363**	**620,496**	**947,250**	**2,502,546**	**1,453,630**

3. Risk management disclosures, continued

B. Non-trading activities, continued

(ii) Market risk, continued

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Bank is exposed to currency risk in performing transactions in foreign currencies and foreign-currency denominated financial instruments.

As a result of the currency Board in place in Bulgaria, the Bulgarian currency is pegged to the Euro. As the currency in which the Bank presents it financial statements is the Bulgarian lev, the Bank's financial statements are effected by movements in the exchange rates between the Bulgarian lev and currencies other than the Euro.

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

in BGN '000	**30 June 2013**	**31 December 2012**
Monetary assets		
Euro	4,532,724	4,859,149
US dollar	549,679	486,038
Other	120,788	82,016
Gold bullion	12,051	10,728
Monetary liabilities		
Euro	3,031,121	3,062,103
US dollar	551,174	487,620
Other	119,923	81,999
Gold bullion	4,921	-
Net position		
Euro	1,501,603	1,797,046
US dollar	(1,495)	(1,582)
Other	865	17
Gold bullion	7,130	10,728

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

(iii) Credit risk

Credit risk is the risk that a counterparty to a financial instrument will cause a financial loss for the Bank by failing to discharge an obligation. The Bank is subject to credit risk through its lending activities and in cases where it acts as an intermediary on behalf of customers or other third parties or issues guarantees. The management of the credit risk exposures to borrowers is conducted through regular analysis of the borrowers' credit worthiness and the assignment of a rating grade. Exposure to credit risk is also managed in part by obtaining collateral and guarantees.

The Bank's primary exposure to credit risk arises through its loans and advances. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the balance sheet. These exposures are as follows:

3. Risk management disclosures, continued

B. Non-trading activities, continued

(iii) Credit risk, continued

30 June 2013 *in BGN '000*

Class of exposure	Gross amount of loans and advances to customers	Carrying amount of loans and advances to customers
Collectively impaired		
Standard	3,988,240	3,978,387
Individually impaired		
Watch	213,540	196,594
Nonperforming	281,470	261,551
Loss	309,912	170,940
Total	**4,793,162**	**4,607,472**

31 December 2012 *in BGN '000*

Class of exposure	Gross amount of loans and advances to customers	Carrying amount of loans and advances to customers
Collectively impaired		
Standard	3,791,155	3,786,560
Individually impaired		
Watch	238,554	223,957
Nonperforming	317,468	294,346
Loss	282,153	158,231
Total	**4,629,330**	**4,463,094**

As at 30 June 2013 the gross amount of overdue advances to customers measured as 90+ days exposures is BGN 522,204 thousand (2012: BGN 434,408 thousand).

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

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

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

3. Risk management disclosures, continued

B. Non-trading activities, continued

(iii) Credit risk, continued

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

in BGN '000	**30 June 2013**	**31 December 2012**
Trade	1,201,540	1,169,503
Industry	1,158,754	1,173,451
Services	394,948	451,190
Finance	91,838	90,821
Transport, logistics	258,679	248,475
Communications	70,759	70,015
Construction	179,524	173,417
Agriculture	90,152	84,706
Tourist services	165,653	143,869
Infrastructure	296,006	150,482
Private individuals	872,551	858,224
Other	12,758	15,177
Allowance for impairment	(185,690)	(166,236)
Total	**4,607,472**	**4,463,094**

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 2013 with total exposures amounting to BGN 93,923 thousand (2012: BGN 95,634 thousand) - ferrous and non-ferrous metallurgy, BGN 61,015 thousand (2012: BGN 61,015 thousand) – mining industry and BGN 135,288 thousand (2012: BGN 135,510 thousand) - power engineering.

The Bank has extended loans, confirmed letters of credit and granted guarantees to 21 individual clients or groups (2012: 22) with each individual exposure exceeding 10% of the capital base of the Bank. The total amount of these exposures is BGN 2,012,750 thousand which represents 318.41% of the capital base (2012: BGN 1,886,855 thousand which represented 307.15 % of the capital base) of which BGN 1,853,590 thousand (2012: BGN 1,696,770 thousand) represent loans and BGN 159,160 thousand (2012: BGN 190,085 thousand) represent guarantees, letters of credit and other commitments.

Loans extended by the branch in Cyprus amount to BGN 411,754 thousand (gross carrying amount before any allowances) (2012: BGN 483,331 thousand).

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

3. Risk management disclosures, continued

B. Non-trading activities, continued

(iii) Credit risk, continued

The Bank's policy is to require suitable collateral to be provided by certain customers prior to the disbursement of approved loans. Guarantees and letters of credit are also subject to strict credit assessments before being provided. The agreements specify monetary limits to the Bank's obligations. The extent of collateral held for guarantees and letters of credit is 100 percent.

Collateral for loans, guarantees, and letters of credit is usually in the form of mortgage, cash, plant and equipment, securities, or other property.

The table below shows a breakdown of total loans and advances extended to customers by the Bank by type of collateral, excluding credit cards in the amount of BGN 206,804 thousand (2012: BGN 201,295 thousand):

in BGN '000	**30 June 2013**	**31 December 2012**
Mortgage	1,265,579	1,540,821
Pledge of receivables	775,653	601,041
Pledge of commercial enterprise	566,293	581,575
Securities	112,445	158,282
Guarantee	6,260	6,308
Other guaranties	446,307	269,780
Pledge of goods	164,237	167,115
Pledge of machines	380,798	258,440
Money deposit	169,381	169,590
Stake in capital	349,214	374,096
Gold	18	97
Other collateral	264,741	250,175
Unsecured	85,432	50,715
Total	**4,586,358**	**4,428,035**

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

Residential mortgage lending

The table below represents credit exposures from housing and mortgage loans to individual customers by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan to the value of the collateral. The gross amount excludes any impairment allowances. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is based on the collateral value at origination updated based on changes in house price indices.

in BGN '000	**30 June 2013**	**31 December 2012**
Loan to value (LTV) ratio		
Less than 50%	166,895	170,841
51% to 70%	81,644	80,627
71% to 90%	76,025	80,256
91% to 100%	15,647	15,451
More than 100%	18,400	14,531
Total	**358,611**	**361,706**

3. Risk management disclosures, continued

B. Non-trading activities, continued

(iii) Credit risk, continued

Loans to corporate customers

The loans to corporate customers are subject to individual credit appraisal and impairment testing. The general creditworthiness of a corporate customer tends to be the most relevant indicator of credit quality of a loan. However, collateral provides additional security and the Bank requests corporate borrowers to provide it. The Bank takes collateral in the form of a first charge over real estate, floating charges over all corporate assets, and other liens and guarantees.

The Bank routinely analyses collateral for possible changes in value due to market conditions, legal framework or debtor's actions. Where such changes lead to a breach in the requirements for sufficiency of collateral, the Bank requires provision of additional collateral within a certain timeframe.

As at 30 June 2013 the net carrying amount of individually impaired loans to corporate customers amounts to BGN 424,914 thousand (2012: BGN 427,663 thousand) and the value of collateral held against those loans amounts to BGN 828,377 thousand (2012: BGN 927,443 thousand).

(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 2013 and 31 December 2012 as well as those classified as available for sale.

3. **Risk management disclosures, continued**

B. Non-trading activities, continued

(iv) Government debt exposures, continued

in BGN '000

30 June 2013

Portfolio	Bulgaria	Belgium	Italy	Spain	Portugal	European Financial Stability Facility
Financial assets held for trading	3,282	-	-	-	-	-
Available for sale investments	190,339	48,803	9,755	-	-	33,329
Financial assets held to maturity	-	-	77,784	25,294	9,776	-
Total	**193,621**	**48,803**	**87,539**	**25,294**	**9,776**	**33,329**

in BGN '000

31 December 2012

Portfolio	Bulgaria	Belgium	Italy	Spain	European Financial Stability Facility
Financial assets held for trading	3,072	-	-	-	-
Available for sale investments	304,026	289,156	-	-	86,293
Financial assets held to maturity	34,652	-	23,409	15,559	-
Total	**341,750**	**289,156**	**23,409**	**15,559**	**86,293**

3. Risk management disclosures, continued

B. Non-trading activities, continued

(iv) Government debt exposures, continued

Maturity table of government debt securities by country issuer as at 31 December 2013

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	-	-	8,782	65,822	119,017	**193,621**
Belgium	-	-	48,803	-	-	**48,803**
Italy	-	-	87,539	-	-	**87,539**
Spain	-	-	25,294	-	-	**25,294**
Portugal	9,776	-	-	-	-	**9,776**
European Financial Stability Facility	-	-	7,829	25,500	-	**33,329**
Total	**9,776**	**-**	**178,247**	**91,322**	**119,017**	**398,362**

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

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	191,991	-	-	72,464	77,295	**341,750**
Belgium	-	113,375	175,781	-	-	**289,156**
Italy	-	13,666	9,743	-	-	**23,409**
Spain	-	-	15,559	-	-	**15,559**
European Financial Stability Facility	-	58,895	7,816	19,582	-	**86,293**
Total	**191,991**	**185,936**	**208,899**	**92,046**	**77,295**	**756,167**

3. Risk management disclosures, continued

C. Solvency ratio (Capital adequacy)

The Bank's lead regulator, the Bulgarian National Bank (BNB) sets and monitors capital requirements both on consolidated and stand-alone basis. BNB issued Ordinance 8 on Capital Adequacy of Credit Institutions effective from 01 January 2007 that is the Bulgarian supervisory implementation of the International Convergence of Capital Measurement and Capital Standards (Revised Framework), known as Basel II and complies with EU Directives 2006/48/EC and 2006/49/EC. In implementing current capital requirements the Bank is required to maintain a minimum prescribed ratio of 12% of total capital to total risk-weighted assets and a minimum prescribed ratio of 6% of Tier 1 capital to total risk-weighted assets. Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. As the Bank holds insignificant trading book, the Bank does not apply capital requirements to its exposures in trading portfolio in respect to market risk and calculates required capital for trading instruments in accordance with the provisions for banking book.

The Bank calculates requirements for credit risk for its exposures in banking and trading portfolios based on standardised approach defined by the BNB. Exposures are taken into account using their balance sheet amount. Off-balance-sheet credit-related commitments are taken into account by applying different categories of conversion factors (0%, 20%, 50%, 100%), designed to convert these items into balance sheet equivalents. The resulting equivalent amounts are then weighted for risk using different percentages (0%, 20%, 50%, 100%) depending on the class of exposure and its credit rating assessment. Various credit risk mitigation techniques are used, for example collateralised transactions and guarantees. Forwards and options based derivative instruments are weighted for counterparty credit risk.

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

In addition, the Bank is required to hold capital for operational risk. The basic indicator approach is used. Required capital is equal to the average gross annual income over the previous three years multiplied by a fixed percentage (15%). Respective risk weighted assets are calculated by further multiplication by 12.5.

The Bank's regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes ordinary share capital, share premium, statutory reserve, other general reserves, audited current profit for the first six months after deductions for intangible assets and unrealised loss from available for sale financial instruments.
- Tier 2 capital, which includes qualifying subordinated liabilities, namely perpetual debt and subordinated term debt.

Following limits are applied to elements of the capital base: qualifying tier 2 capital cannot exceed tier 1 capital; qualifying term subordinated loan capital may not exceed 50 percent of tier 1 capital; and qualifying hybrid debt without incentive to redeem cannot exceed 35 percent of tier 1 capital. Deductions from the Bank's capital base include the balance-sheet value of unconsolidated investments in subsidiaries and specific provisions for credit risk which as at 30 June 2013 amount to BGN 44,461 thousand (2012: BGN 55,468 thousand).

The Bank has complied with the externally imposed capital requirements throughout the period.

3. Risk management disclosures, continued

C. Capital adequacy, continued

Capital adequacy level was as follows:

in BGN '000	**Balance sheet/notional amount**		**Risk weighted assets**	
	30 June 2013	**31 December 2012**	**30 June 2013**	**31 December 2012**
Risk weighted assets for credit risk				
Balance sheet assets				
Exposure class				
Central governments and central banks	1,398,236	1,653,774	2,206	2,553
Institutions	203,077	163,449	57,757	52,476
Corporates	3,211,792	3,095,352	3,006,772	2,903,269
Retail	493,040	473,392	353,105	341,187
Claims secured by residential property	519,422	574,903	181,798	201,216
Overdue items	338,757	263,979	338,757	263,979
Collective investment undertaking	2,055	1,933	2,055	1,933
Other items	665,311	562,923	530,477	427,382
Total	**6,831,690**	**6,789,705**	**4,472,927**	**4,193,995**
Off balance sheet items				
Exposure class				
Institutions	10,746	11,406	3,121	3,271
Corporates	464,666	494,451	147,536	170,046
Retail	243,264	234,215	319	171
Claims secured by residential property	13,303	8,753	2,303	1,523
Other items	-	-	121	24
Total	**731,979**	**748,825**	**153,400**	**175,035**
Derivatives				
Exposure class				
Institutions	3,192	1,669	638	334
Corporates	371	547	371	547
Other items	2,510	1,109	2,510	1,109
Total	**6,073**	**3,325**	**3,519**	**1,990**
Total risk-weighted assets for credit risk			**4,629,846**	**4,371,020**
Risk-weighted assets for market risk			**8,162**	**12,396**
Risk-weighted assets for operational risk			**379,546**	**357,990**
Total risk-weighted assets			**5,017,554**	**4,741,406**

Capital adequacy ratios	**Capital**		**Capital ratios %**	
	30 June 2013	**31 December 2012**	**30 June 2013**	**31 December 2012**
Tier 1 Capital	**567,120**	**548,933**	**11.30%**	**11.58%**
Total capital base	**632,125**	**614,301**	**12.60%**	**12.96%**

4. Segment Reporting

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

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

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

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

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

in BGN '000	**Bulgarian operations**		**Foreign operations**		**Total**	
	Six months ended 30 June 2013	**Six months ended 30 June 2012**	**Six months ended 30 June 2013**	**Six months ended 30 June 2012**	**Six months ended 30 June 2013**	**Six months ended 30 June 2012**
Interest income	198,616	210,463	18,461	12,806	217,077	223,269
Interest expense and similar charges:	(143,943)	(151,367)	(234)	(370)	(144,177)	(151,737)
Net interest income	**54,673**	**59,096**	**18,227**	**12,436**	**72,900**	**71,532**
Fee and commission income	50,373	36,938	731	626	51,104	37,564
Fee and commission expense	(5,118)	(4,510)	(3)	(4)	(5,121)	(4,514)
Net fee and commission income	**45,255**	**32,428**	**728**	**622**	**45,983**	**33,050**
Net trading income	**4,116**	**3,754**	**17**	**31**	**4,133**	**3,785**
Administrative expenses	**(66,164)**	**(74,344)**	**(430)**	**(368)**	**(66,594)**	**(74,712)**
	30 June 2013	**31 December 2012**	**30 June 2013**	**31 December 2012**	**30 June 2013**	**31 December 2012**
Assets	**6,554,024**	**6,416,281**	**416,332**	**491,056**	**6,970,356**	**6,907,337**
Liabilities	**6,417,401**	**6,365,278**	**19,518**	**31,327**	**6,436,919**	**6,396,605**

4. Segment Reporting, continued

The table below shows assets and liabilities and income and expense by business segments as at 30 June 2013.

in BGN '000

Business	Assets	Liabilities	Interest income	Interest expense and similar charges:	Net fee and commission income	Net trading income	Other net operating income
Commercial banking	3,770,352	1,190,089	160,819	(20,154)	33,024	-	-
Retail Banking	837,120	4,871,779	50,982	(105,087)	4,349	-	-
Card business	-	-	-	-	7,401	-	-
Treasury	1,735,853	34,898	5,276	(502)	893	4,133	1,669
Other	627,031	340,153	-	(18,434)	316	-	-
Total	**6,970,356**	**6,436,919**	**217,077**	**(144,177)**	**45,983**	**4,133**	**1,669**

5. Financial assets and liabilities

Accounting classification and fair values

The Bank's accounting policy on fair value measurements is set out in Note 2(d)(vii).

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: inputs are observable date for a given asset or liability. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Bank determines fair values using other valuation techniques.

Other valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Bank uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

However, where the Bank measures portfolios of financial assets and financial liabilities on the basis of net exposures, it applies judgement in determining appropriate portfolio level adjustments such as bid-ask spread.

5. Financial assets and liabilities, continued

Accounting classification and fair values, continued

Such adjustments are derived from observable bid-ask spreads for similar instruments and adjusted for factors specific to the portfolio.

For more complex instruments, the Bank uses proprietary valuation models, which usually are developed from recognised valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Example of instruments involving significant unobservable inputs include certain over the counter derivatives, certain loans and securities for which there is no active market and retained interests in securitisations. Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in the determination of fair value. Management judgement and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of probability of counterparty default and prepayments and selection of appropriate discount rates.

The Bank has an established control framework with respect to the measurement of fair values. This framework includes an Risk Management function, which is independent of Treasury division and reports to management, and which has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements. Specific controls include:

- verification of observable pricing;
- a review and approval process for new models and changes to models involving Risk Management division and Management Board;
- calibration of models against observed market transactions;
- analysis and investigation of significant daily valuation movements;
- review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3 instruments compared to previous month, by Risk Management division.

Where third-party information, such as broker quotes or pricing services, are used to measure fair value, Risk Management division assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS. This includes:

- verifying that the broker or pricing service is approved by the Bank for use in pricing the relevant type of financial instrument;
- understanding how the fair value has been arrived at and the extent to which it represents actual market transactions;
- when prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement;
- where a number of quotes for the same financial instrument have been obtained, how fair value has been determined using those quotes.
- Significant valuation issues are reported to the Audit Committee of the Bank.

5. Financial assets and liabilities, continued
Accounting classification and fair values, continued

Таблиците по-долу представят анализ на финансови инструменти оценявани по справедлива стойност в края на отчетния период, класифицирани по нива в рамките на йерархията на справедливите стойности, чрез която се категоризира измерването на справедливите стойности. Стойностите се базират на сумите признати в отчета за финансово състояние.

in BGN '000

30 June 2013	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets held for trading	6,336	-	-	6,336
Available for sale investments	282,226	26,281	41,580	350,087
Derivatives held for risk management	2,460	(167)	-	2,293
Total	**291,022**	**26,114**	**41,580**	**358,716**

in BGN '000

31 December 2012	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets held for trading	5,998	-	-	5,998
Available for sale investments	679,475	26,480	41,580	747,535
Derivatives held for risk management	1,088	(1,309)	-	(221)
Total	**686,561**	**25,171**	**41,580**	**753,312**

Таблиците по-долу анализират справедливите стойности на финансови инструменти, отчитани не по справедлива стойност, по ниво в йерархията на справедливите стойности, където се категоризира оценката по справедлива стойност.

in BGN '000

30 June 2013	**Level 1**	**Level 2**	**Level 3**	**Total fair values**	**Total balance sheet value**
Assets					
Cash and balances with Central Banks	-	1,270,605	-	1,270,605	1,270,605
Financial assets held to maturity	128,407	-	-	128,407	131,709
Loans and advances to banks and other financial institutions		11,027		11,027	11,027
Loans and advances to customers	-	4,607,472	-	4,607,472	4,607,472
Total	**128,407**	**5,889,104**	**-**	**6,017,511**	**6,020,813**
Liabilities					
Due to banks	-	3,027	-	3,027	3,027
Due to other customers	-	6,061,868	-	6,061,868	6,061,868
Liabilities evidenced by paper	-	77,946	-	77,946	77,946
Subordinated term debt	-	56,323	-	56,323	56,323
Perpetual debt	-	103,970	-	103,970	103,970
Hybrid debt	-	121,413	-	121,413	121,413
Total	**-**	**6,424,547**	**-**	**6,424,547**	**6,424,547**

5. Financial assets and liabilities, continued

Accounting classification and fair values, continued

in BGN '000 **31 December 2012**	**Level 1**	**Level 2**	**Level 3**	**Total fair values**	**Total balance sheet value**
Assets					
Cash and balances with Central Banks	-	1,121,844	-	1,121,844	1,121,844
Financial assets held to maturity	92,345	-	-	92,345	92,351
Loans and advances to banks and other financial institutions	-	18,290	-	18,290	18,290
Loans and advances to customers	-	4,463,094	-	4,463,094	4,463,094
Total	**92,345**	**5,603,228**	**-**	**5,695,573**	**5,695,579**
Liabilities					
Due to banks	-	2,597	-	2,597	2,597
Due to other customers	-	6,024,530	-	6,024,530	6,024,530
Liabilities evidenced by paper	-	77,304	-	77,304	77,304
Subordinated term debt	-	54,988	-	54,988	54,988
Perpetual debt	-	102,927	-	102,927	102,927
Hybrid debt	-	123,901	-	123,901	123,901
Total	**-**	**6,386,247**	**-**	**6,386,247**	**6,386,247**

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.

6. Net interest income

in BGN '000	**Six months ended 30 June 2013**	**Six months ended 30 June 2012**
Interest income		
Accounts with and placements to banks and financial institutions	574	1,072
Retail Banking	49,535	46,750
Corporate customers	150,000	157,066
Small and medium enterprises	10,819	11,110
Microlending	1,447	1,525
Debt instruments	4,702	5,746
	217,077	**223,269**
Interest expense and similar charges:-{}-		
Deposits from banks	(8)	(3)
Deposits from other customers	(125,241)	(136,540)
Liabilities evidenced by paper	(1,412)	(2,181)
Subordinated term debt	(4,333)	(4,073)
Perpetual debt	(6,042)	(6,048)
Hybrid debt	(7,122)	(2,880)
Lease agreements and other	(19)	(12)
	(144,177)	**(151,737)**
Net interest income	**72,900**	**71,532**

For the six months ended 30 June 2013 and 30 June 2012 the recognised interest income on individually impaired financial assets (loans and advances to customers) amounts to BGN 27,265 thousand and BGN 24,054 thousand respectively.

7. Net fee and commission income

in BGN '000

Fee and commission income	**Six months ended 30 June 2013**	**Six months ended 30 June 2012**
Letters of credit and guarantees	3,992	4,017
Payments transactions	4,722	4,644
Customer accounts	8,648	7,472
Card services	11,718	10,790
Other	22,024	10,641
	51,104	**37,564**
Fee and commission expense		
Letters of credit and guarantees	(216)	(458)
Deposits to banks and other financial institutions	(335)	(348)
Card services	(4,317)	(3,503)
Other	(253)	(205)
	(5,121)	**(4,514)**
Net fee and commission income	**45,983**	**33,050**

8. Net trading income

in BGN '000	**Six months ended 30 June 2013**	**Six months ended 30 June 2012**
Net trading income/(expense) arises from:		
- Debt instruments	222	63
- Equities	135	(237)
- Foreign exchange rate fluctuations	3,776	3,959
Net trading income	**4,133**	**3,785**

9. Other net operating income

in BGN '000	**Six months ended 30 June 2013**	**Six months ended 30 June 2012**
Other net operating income arising from:		
- Debt instruments	1,669	940
- Equities	-	15
Other net operating income	**1,669**	**955**

10. Administrative expenses

in BGN '000	**Six months ended 30 June 2013**	**Six months ended 30 June 2012**
General and administrative expenses comprise:		
- Personnel cost	24,369	24,669
- Depreciation and amortisation	9,831	10,158
- Advertising	3,069	3,565
- Building rent expense	7,986	15,136
-Telecommunication, software and other computer maintenance	7,551	6,814
- Administration, consultancy, audit and other costs	13,788	14,370
Administrative expenses	**66,594**	**74,712**

Personnel costs include salaries, social and health security contributions under the provisions of the local legislation. At 30 June 2013 the total number of employees was 2,745 (30 June 2012: 2,715).

11. Allowance for impairment

in BGN '000	Six months ended 30 June 2013	Six months ended 30 June 2012
Write-downs		
Loans and advances to customers	(34,306)	(15,908)
Reversal of write-downs		
Loans and advances to customers	12,211	4,736
Impairment, net	**(22,095)**	**(11,172)**

12. Income tax expense

	Six months ended 30 June 2013	Six months ended 30 June 2012
Current taxes	(2,676)	(1,938)
Deferred taxes (See Note 21)	233	197
Income tax expense	**(2,443)**	**(1,741)**

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

in BGN '000	Six months ended 30 June 2013	Six months ended 30 June 2012
Accounting profit before taxation	**24,773**	**17,001**
Corporate tax at applicable tax rate (10% for 2012 and 10% for 2011)	2,477	1,700
Tax effect of permanent tax differences	8	41
Other	(42)	-
Income tax expense	**2,443**	**1,741**
Effective tax rate	9.86%	10.24%

13. Cash and balances with Central Banks

in BGN '000	**30 June 2013**	**31 December 2012**
Cash on hand		
- in BGN	84,771	87,391
- in foreign currency	38,992	36,803
Balances with Central Banks	999,114	901,305
Current accounts and amounts with foreign banks	147,728	96,345
Total	**1,270,605**	**1,121,844**

14. Financial assets held for trading

in BGN '000	**30 June 2013**	**31 December 2012**
Bonds and notes issued by:		
Bulgarian government, rated BBB:		
- denominated in Bulgarian Leva	3,282	3,061
- denominated in foreign currencies	-	11
Other issuers – equity instruments (unrated)	3,054	2,926
Total	**6,336**	**5,998**

15. Available for sale investments

In thousands of BGN	**30 June 2013**	**31 December 2012**
Bonds and notes issued by:		
Bulgarian Government		
- denominated in Bulgarian Leva	105,486	82,794
- denominated in foreign currencies	84,853	221,232
Foreign governments		
- treasury bills	66,387	355,867
- treasury bonds	25,500	19,582
Foreign banks	26,281	26,480
Other issuers – equity instruments	5,209	5,209
Investments in subsidiaries	36,371	36,371
Total	**350,087**	**747,535**

15. Available for sale investments, continued

Investments in subsidiaries (see Note 36) are as follows:

In thousands of BGN

Entity:	% held	30 June 2013	31 December 2012
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
Fi Health Insurance AD	59.10%	3,315	3,315
Framas Enterprises Limited	100%	15	15
Balkan Financial Services EAD	100%	50	50
Turnaround Management EOOD	100%	-	-
Creative Investment EOOD	100%	-	-
Lega Solutions EOOD	100%	-	-
Total		**36,371**	**36,371**

16. Financial assets held to maturity

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

in BGN '000	30 June 2013	31 December 2012
Securities held to maturity issued by:		
Bulgarian Government	-	34,652
Foreign governments	112,854	38,968
Foreign banks	18,855	18,731
Total	**131,709**	**92,351**

17. Loans and advances to banks and other financial institutions

(a) Analysis by type

in BGN '000	**30 June 2013**	**31 December 2012**
Placements with banks	3,549	13,486
Receivables under resale agreements (see Note 30)	5,075	-
Other	2,403	4,804
Total	**11,027**	**18,290**

(b) Geographical analysis

in BGN '000	**30 June 2013**	**31 December 2012**
Domestic banks and financial institutions	5,262	2,197
Foreign banks and other financial institutions	5,765	16,093
Total	**11,027**	**18,290**

18. Loans and advances to customers

in BGN '000	**30 June 2013**	**31 December 2012**
Retail Banking		
- Consumer loans	306,401	290,477
- Mortgage loans	358,611	361,706
- Credit cards	206,804	201,295
Small and medium enterprises	259,231	251,191
Microlending	31,746	30,075
Corporate customers	3,630,369	3,494,586
Allowance for impairment	(185,690)	(166,236)
Total	**4,607,472**	**4,463,094**

(a) Movement in impairment allowances

in BGN '000	
Balance as at 1 January 2013	**166,236**
Additional allowances	34,306
Amounts released	(12,211)
Write - offs	(2,641)
Balance as at 30 June 2013	**185,690**

19. Property and equipment

in BGN '000	Land and Buildings	Fixtures and fittings	Motor vehicles	Assets under Construction	Leasehold Improvements	Total
Cost						
At 1 January 2012	12,915	117,015	5,840	26,391	58,795	220,956
Additions	-	9	-	14,177	-	14,186
Elimination of amortisation prior to revaluation	(3,360)	-	-	-	-	(3,360)
Revaluation	5,000	-	-	-	-	5,000
Disposals	-	(2,193)	(358)	(7)	(83)	(2,641)
Transfers	-	6,572	536	(10,852)	2,236	(1,508)
At 31 December 2012	14,555	121,403	6,018	29,709	60,948	232,633
Additions	-	3	-	2,540	-	2,543
Disposals	-	(2,042)	(304)	-	(1,649)	(3,995)
Transfers	-	8,256	-	(8,890)	496	(138)
At 30 June 2013	**14,555**	**127,620**	**5,714**	**23,359**	**59,795**	**231,043**
Amortisation						
At 1 January 2012	4,017	76,866	5,160	-	18,971	105,014
Charge for the period	448	13,311	373	-	3,843	17,975
Elimination of amortisation prior to revaluation	(3,360)	-	-	-	-	(3,360)
On disposals	-	(2,169)	(358)	-	(82)	(2,609)
At 31 December 2012	1,105	88,008	5,175	-	22,732	117,020
Accrued during the year	255	6,320	175	-	1,896	8,646
On disposals	-	(2,040)	(304)	-	(1,649)	(3,993)
At 30 June 2013	**1,360**	**92,288**	**5,046**	**-**	**22,979**	**121,673**
Net book value						
At 1 January 2012	**8,898**	**40,149**	**680**	**26,391**	**39,824**	**115,942**
At 31 December 2012	**13,450**	**33,395**	**843**	**29,709**	**38,216**	**115,613**
At 30 June 2013	**13,195**	**35,332**	**668**	**23,359**	**36,816**	**109,370**

20. Intangible assets

in BGN '000	Software and licences	Total
Cost		
At 1 January 2012	21,789	21,789
Disposals	(168)	(168)
Transfers	1,508	1,508
At 31 December 2012	23,129	23,129
Transfers	138	138
At 30 June 2013	**23,267**	**23,267**
Amortisation		
At 1 January 2012	7,446	7,446
Charge for the period	2,305	2,305
On disposals	(168)	(168)
At 31 December 2012	9,583	9,583
Accrued during the year	1,185	1,185
At 30 June 2013	**10,768**	**10,768**
Net book value		
At 1 January 2012	**14,343**	**14,343**
At 31 December 2012	**13,546**	**13,546**
At 30 June 2013	**12,499**	**12,499**

21. Deferred Taxation

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

Deferred income tax balances are attributable to the following items in the statement of financial position:

in BGN '000	**Assets**		**Liabilities**		**Net**	
	30 June 2013	**31 December 2012**	**30 June 2013**	**31 December 2012**	**30 June 2013**	**31 December 2012**
Property, equipment and intangibles	-	-	3,249	3,482	3,249	3,482
Other	(256)	(256)	334	334	78	78
Net tax (assets)/liabilities	**(256)**	**(256)**	**3,583**	**3,816**	**3,327**	**3,560**

Movements in temporary differences in the first six months of 2013 are recognised, as follows:

in BGN '000

	31 December 2012	**Recognised in profit or loss for the period**	**30 June 2013**
Property, equipment and intangibles	3,482	(233)	3,249
Other	78	-	78
Net tax (assets)/liabilities	**3,560**	**(233)**	**3,327**

22. Other assets

in BGN '000	**30 June 2013**	**31 December 2012**
Deferred expense	27,831	11,121
Gold bullion	12,051	10,728
Other	427,730	304,012
Total	**467,612**	**325,861**

As at 30 June 2013 "Other" include acquired collateral amounting to BGN 415,168 thousand (31 December 2012: BGN 285,506 thousand) valued at the lower of the acquisition cost or the expected net selling price.

23. Due to banks

in BGN '000	**30 June 2013**	**31 December 2012**
Payable on demand	3,027	2,597
Total	**3,027**	**2,597**

24. Due to other customers

in BGN '000	**30 June 2013**	**31 December 2012**
Retail customers		
- current accounts	507,429	479,900
- term and savings deposits	4,364,350	4,419,293
Businesses and other non-financial institutions		
- current accounts	433,810	376,457
- term deposits	756,279	748,880
Total	**6,061,868**	**6,024,530**

25. Liabilities evidenced by paper

in BGN '000	**30 June 2013**	**31 December 2012**
Acceptances under letters of credit	1,932	2,564
Liabilities under repurchase agreements (see Note 30)	31,704	35,236
Other term liabilities	44,310	39,504
Total	**77,946**	**77,304**

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

26. Subordinated term debt

As at 30 June 2013 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:

in BGN '000

Lender	Principal amount	Final maturity	Maturity	Amortised cost as at 30 June 2013
Growth Management Limited	5,867	10 years	27.08.2014	17,983
Growth Management Limited	3,912	10 years	24.02.2015	10,037
Estrado Holding Ltd	9,779	10 years	01.03.2015	9,967
Growth Management Limited	1,956	10 years	17.03.2015	4,902
ING Bank NV/ Atlantic Forfaitierungs AG	9,779	10 years	22.04.2015	9,462
Hypo-Alpe-Adria Bank	3,912	10 years	14.04.2015	3,972
Total	**35,205**			**56,323**

The treatment of subordinated term debt for capital adequacy purposes as Tier 2 capital is in accordance with the requirements of the local legislation. Any prepayment of subordinated debt prior to its final maturity is subject to written approval from the Bulgarian National Bank.

27. Perpetual debt

in BGN '000

	Principal amount	Amortised cost as at 30 June 2013
Step-up Guaranteed Perpetual Subordinated Bonds EUR 27 mio	52,807	60,932
Step-up Guaranteed Perpetual Subordinated Bonds EUR 21 mio	41,073	43,038
Total	**93,880**	**103,970**

in BGN '000

	Principal amount	Amortised cost as at 31 December 2012
Step-up Guaranteed Perpetual Subordinated Bonds EUR 27 mio	52,807	57,364
Step-up Guaranteed Perpetual Subordinated Bonds EUR 21 mio	41,073	45,563
Total	**93,880**	**102,927**

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

	Principal amount	Amortised cost as at 30 June 2013
Hybrid debt with original principal EUR 40 mio	78,233	79,667
Hybrid debt with original principal EUR 20 mio	39,117	41,746
Total	**117,350**	**121,413**

in BGN '000

	Principal amount	Amortised cost as at 31 December 2012
Hybrid debt with original principal EUR 40 mio	78,233	84,244
Hybrid debt with original principal EUR 20 mio	39,117	39,657
Total	**117,350**	**123,901**

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

In November 2012 the Bank issued a new 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 value of EUR 20,000 thousand, constituting the first tranche of a bond issue with an envisaged total amount of up to EUR 60,000 thousand.

29. Other liabilities

in BGN '000	30 June 2013	31 December 2012
Liabilities to personnel	2,177	2,177
Other payables	6,398	3,134
Total	**8,575**	**5,311**

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 2013 assets sold under repurchase agreements were as follows:

in BGN '000	**Fair value of underlying assets**	**Carrying amount of corresponding liabilities**
Bulgarian government securities	22,106	21,660
Foreign government securities	10,104	10,044
Total	**32,210**	**31,704**

At 31 December 2012 assets sold under repurchase agreements were as follows:

in BGN '000	**Fair value of underlying assets**	**Carrying amount of corresponding liabilities**
Foreign government securities	35,285	35,236
Total	**35,285**	**35,236**

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 2013 assets purchased subject to agreements to resell them are as follows:

in BGN '000	**Fair value of underlying assets**	**Carrying amount of liabilities**
Bulgarian government securities	**5,175**	**5,075**
Total	**5,175**	**5,075**

At 31 December 2012 there were no assets purchased under repurchase agreements.

31. Capital and reserves

(a) Number and face value of registered shares as at 30 June 2013

As at 31 December 2013 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 2013 together with the number and percentage of total issued shares.

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

Currently all newly issued shares plus the part of the existing shares held by First Financial Brokerage House Ltd. sold to new investors under the IPO (a total of 16,500,000 shares) are freely traded on the floor of 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 2013, as in the previous year, the Bank did not distribute dividends.

32. Commitments and contingent liabilities

(a) Contingent liabilities

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to two years.

The contractual amounts of commitments and contingent liabilities are set out in the following table by category. The amounts reflected in the table for contingent liabilities represent the maximum accounting loss that would be recognised in the statement of financial position if counterparts failed completely to perform as contracted and any collateral or security proved to be of no value.

in BGN '000	**30 June 2013**	**31 December 2012**
Guarantee		
- in BGN	148,014	178,464
- in foreign currency	165,554	197,613
Total guarantees	**313,568**	**376,077**
Unused credit lines	344,858	355,995
Promissory notes	1,632	2,448
Letters of credit	71,921	14,305
Total	**731,979**	**748,825**

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 2013 the extent of collateral held for guarantees and letters of credit is 100 percent.

33. Cash and cash equivalents

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

in BGN '000	**30 June 2013**	**30 June 2012**
Cash and balances with Central Banks	1,270,605	915,079
Loans and advances to banks and financial institutions with original maturity less than 3 months	5,952	2,977
Total	**1,276,557**	**918,056**

34. Average balances

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

in BGN '000	**Six months ended 30 June 2013**	**Six months ended 30 June 2012**
FINANCIAL ASSETS		
Cash and balances with Central Banks	1,338,093	875,931
Financial assets held for trading	6,188	8,732
Available for sale investments	502,649	815,921
Financial assets held to maturity	98,015	58,673
Loans and advances to banks and other financial institutions	19,505	105,030
Loans and advances to customers	4,506,581	4,195,186
FINANCIAL LIABILITIES		
Due to banks	2,885	2,535
Due to other customers	6,063,790	5,502,226
Liabilities evidenced by paper	80,002	103,527
Subordinated term debt	55,687	51,134
Perpetual debt	103,116	102,515
Hybrid debt	124,657	48,097

35. Related party transactions

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

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

Type of related party	**Parties that control or manage the Bank**		**Enterprises under common control**	
in BGN '000	**Six months ended 30 June 2013**	**2012**	**Six months ended 30 June 2013**	**2012**
Loans				
Loans outstanding at beginning of the period	1,349	1,674	40,803	34,749
Loans issued/(repaid) during the period	(53)	(325)	(6,236)	6,054
Loans outstanding at end of the period	1,296	1,349	34,567	40,803
Deposits and loans received:				
At beginning of the period	12,369	11,466	147,502	147,633
Received/(paid) during the period	2,791	903	(22,465)	(131)
At the end of the period	15,160	12,369	125,037	147,502
Deposits placed				
Deposits at beginning of the period	-	-	4,435	3,916
Deposits placed during the year	-	-	(2,968)	519
Deposits at end of the period	-	-	1,467	4,435
OFF-BALANCE SHEET COMMITMENTS ISSUED BY THE BANK				
At beginning of the period	1,841	1,843	4,221	10,874
Issued/(expired) during the period	24	(2)	168	(6,653)
At the end of the period	1,865	1,841	4,389	4,221

The key management personnel of the Bank received remuneration of BGN 1,959 thousand for the first half of 2013.

36. Subsidiaries

(a) First Investment Finance B.V.

In April 2003 the Bank created a special purpose entity, incorporated in the Netherlands, First Investment Finance B.V. The purpose for creating the entity is to accomplish a narrow and well-defined objective of receiving loans from foreign financial institutions and attracting investors by issuing bonds and other financial instruments guaranteed by the Bank. The entity's issued and paid up share capital is EUR 90 thousand divided into 900 ordinary shares, each with nominal value of EUR 100. 180 shares have been issued and paid up.

36. Subsidiaries, continued

(b) Diners Club Bulgaria AD

In May 2005 the Bank acquired 80% of the share capital of Diners Club Bulgaria AD. The company was incorporated in 1996 as a franchise and processing agent of Diners Club International. As at 30 June 2013 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 2013 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) Fi Health Insurance 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. With a decision of the Financial Supervision Commission issued in June 2013 the company has been granted a license to operate as an insurer. The name was changed to FI Health Insurance AD and the principal activity is insurance – Disease and Accident. As at 30 June 2013 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.

36. Subsidiaries, continued

(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 2013 the share capital of the company is BGN 50 thousand, and the Bank's shareholding is 100%.

(h) Turnaround Management EOOD, Creative Investment EOOD and Lega Solutions EOOD

During the first half of 2013 the Bank established as the sole shareholder the companies Turnaround Management EOOD, Creative Investment EOOD and Lega Solutions EOOD. Each company has the minimum required capital of BGN 2 and their principal activities include manufacturing and trade in goods and services in Bulgaria and abroad (Turnaround Management EOOD, Creative Investment EOOD), acquisition, management and sale of assets, information processing, financial consultations (Lega Solutions EOOD), etc.

37. Post balance sheet events

There are no significant post balance sheet events requiring additional disclosure.