

**Consolidated statement of shareholders' equity for the nine months ended 30 September 2012**

unaudited

in BGN '000

	Issued share capital	Share premium	Retained earnings	Revaluation reserve on available for sale investments	Reserve from translation of foreign operations	Statutory reserve	Non-controlling interest	Total
<b>Balance as at 1 January 2011</b>	<b>110 000</b>	<b>97 000</b>	<b>186 799</b>	<b>(28)</b>	<b>(2 734)</b>	<b>39 861</b>	<b>2 277</b>	<b>433 175</b>
<b>Total comprehensive income for the period</b>								
Net profit for the nine months ended on 30 September 2011	-	-	29 376	-	-	-	49	29 425
<b>Other comprehensive income for the period</b>								
Revaluation reserve on available for sale investments	-	-	-	182	-	-	-	182
Reserve from translation of foreign operations	-	-	-	-	(215)	-	-	(215)
Non-controlling interest upon establishment of subsidiaries							-	-
Movement related to the changes in non-controlling interest's shareholding			89				(99)	(10)
<b>Balance as at 30 September 2011</b>	<b>110 000</b>	<b>97 000</b>	<b>216 264</b>	<b>154</b>	<b>(2 949)</b>	<b>39 861</b>	<b>2 227</b>	<b>462 557</b>
<b>Balance as at 1 January 2012</b>	<b>110 000</b>	<b>97 000</b>	<b>222 751</b>	<b>814</b>	<b>(2 700)</b>	<b>39 861</b>	<b>2 276</b>	<b>470 002</b>
<b>Total comprehensive income for the period</b>								
Net profit for the nine months ended on 30 September 2012	-	-	22 442	-	-	-	(31)	22 411
<b>Other comprehensive income for the period</b>								
Revaluation reserve on available for sale investments	-	-	-	120	-	-	-	120
Reserve from translation of foreign operations	-	-	-	-	(147)	-	-	(147)
Movement related to the changes in non-controlling interest's shareholding	-	-	47	-	-	-	(47)	-
<b>Balance as at 30 September 2012</b>	<b>110 000</b>	<b>97 000</b>	<b>245 240</b>	<b>934</b>	<b>(2 847)</b>	<b>39 861</b>	<b>2 198</b>	<b>492 386</b>

DIMITAR KOSTOV  
Executive Director

VASSIL CHRISTOV  
Executive Director

**Consolidated statement of cash flows for the nine months ended 30 September 2012**

unaudited

	<i>in BGN '000</i>	
	nine months ended 30 September 2012	nine months ended 30 September 2011
<b>Net cash flow from operating activities</b>		
Net profit	22 411	29 425
<b>Adjustment for non-cash items</b>		
Allowance for impairment	23 115	25 603
Depreciation and amortization	15 656	16 600
Income tax expense	2 528	3 296
Profit from sale and write-off of tangible and intangible fixed assets, net	8	(52)
	<b>63 718</b>	<b>74 872</b>
<b>Change in operating assets</b>		
Decrease in financial instruments held for trading	2 323	7 955
(Increase)/decrease in available for sale investments	(64 596)	147 409
(Increase)/decrease in loans and advances to banks and financial institutions	9 342	(60 921)
(Increase) in loans to customers	(381 309)	(725 879)
(Increase) in other assets	(51 021)	(9 113)
	<b>(485 261)</b>	<b>(640 549)</b>
<b>Change in operating liabilities</b>		
Increase in due to banks	9 420	38 790
Increase in amounts owed to other depositors	670 104	759 396
Net increase/(decrease) in other liabilities	(25)	930
	<b>679 499</b>	<b>799 116</b>
	(3	(861)
Income tax paid	755)	
<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>254 201</b>	<b>232 578</b>
<b>Cash flow from investing activities</b>		
(Purchase) of tangible and intangible fixed assets	(13 661)	(8 448)
Sale of tangible and intangible fixed assets	36	30
(Increase)/decrease of investments	(30 689)	(5 147)
<b>NET CASH FLOW FROM INVESTING ACTIVITIES</b>	<b>(44 314)</b>	<b>(13 565)</b>
<b>Financing activities</b>		
Increase in borrowings	6 529	40 146
	-	-
Non-controlling interest upon establishment of subsidiaries	-	-
<b>NET CASH FLOW FROM FINANCING ACTIVITIES</b>	<b>6 529</b>	<b>40 146</b>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>216 416</b>	<b>259 159</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD</b>	<b>988 073</b>	<b>560 281</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF PERIOD</b>	<b>1 204 489</b>	<b>819 440</b>

DIMITAR KOSTOV  
Executive Director

VASSIL CHRISTOV  
Executive Director

**Consolidated statement of the financial position as at 30 September 2012**

unaudited

*in BGN '000*

	<b>30 September 2012</b>	<b>31 December 2011</b>
<b>ASSETS</b>		
Cash and balances with Central Banks	1 165 851	926 394
Financial assets held for trading	6 336	8 659
Available for sale investments	728 641	663 925
Financial assets held to maturity	96 575	65 886
Loans and advances to banks and other financial institutions	68 044	100 427
Loans and advances to customers	4 540 430	4 182 236
Property and equipment	117 959	119 242
Intangible assets	18 318	19 074
Derivatives held for risk management	1457	-
Current tax assets	2 874	1 265
Other assets	135 299	87 344
<b>TOTAL ASSETS</b>	<b>6 881 784</b>	<b>6 174 452</b>
<b>LIABILITIES AND CAPITAL</b>		
Due to banks	11 202	1 782
Due to other customers	6 058 414	5 388 310
Liabilities evidenced by paper	79 880	112 306
Subordinated term debt	53 319	50 596
Perpetual debt	96 688	99 376
Hybrid debt	81 720	42 800
Deferred tax liability	3 277	3 636
Derivatives held for risk management	0	358
Current tax liabilities	199	49
Other liabilities	4 699	5 237
<b>TOTAL LIABILITIES</b>	<b>6 389 398</b>	<b>5 704 450</b>
Issued share capital	110 000	110 000
Share premium	97 000	97 000
Statutory reserve	39 861	39 861
Revaluation reserve on available for sale investments	934	814
Reserve from translation of foreign operations	(2 847)	(2 700)
Retained earnings	245 240	222 751
<b>SHAREHOLDERS' EQUITY</b>	<b>490 188</b>	<b>467 726</b>
Non-controlling interest	2 198	2 276
<b>TOTAL GROUP EQUITY</b>	<b>492 386</b>	<b>470 002</b>
<b>TOTAL LIABILITIES AND GROUP EQUITY</b>	<b>6 881 784</b>	<b>6 174 452</b>

DIMITAR KOSTOV  
Executive Director

VASSIL CHRISTOV  
Executive Director

**Consolidated statement of comprehensive income for the nine months ended 30 September 2012**

unaudited

in BGN '000

	nine months ended 30 September 2012	nine months ended 30 September 2011
Interest income	345 809	327 839
Interest expense and similar charges:	(232 418)	(202 929)
<b>Net interest income</b>	<b>113 391</b>	<b>124 910</b>
Fee and commission income	61 957	57 801
Fee and commission expense	(7 371)	(6 316)
<b>Net fee and commission income</b>	<b>54 586</b>	<b>51 485</b>
<b>Net trading income</b>	<b>6 649</b>	<b>9 492</b>
<b>Other net operating income/(expense)</b>	<b>2 330</b>	<b>(2 455)</b>
<b>TOTAL INCOME FROM BANKING OPERATIONS</b>	<b>176 956</b>	<b>183 432</b>
Administrative expenses	(118 808)	(116 933)
Allowance for impairment	(23 115)	(25 603)
Other expenses, net	(10 094)	(8 175)
<b>PROFIT BEFORE TAX</b>	<b>24 939</b>	<b>32 721</b>
<b>Income tax expense</b>	<b>(2 528)</b>	<b>(3 296)</b>
<b>GROUP PROFIT AFTER TAX</b>	<b>22 411</b>	<b>29 425</b>
<b>Other comprehensive income for the period</b>		
Exchange rate differences from translation of foreign operations	(147)	(215)
Revaluation reserve on available for sale investments	120	182
<b>Total other comprehensive income</b>	<b>(27)</b>	<b>(33)</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>22 384</b>	<b>29 392</b>
Net profit attributable to:		
Ordinary equity holders	22 442	29 376
Non-controlling interest	(31)	49
Total comprehensive income attributable to:		
Ordinary equity holders	22 415	29 343
Non-controlling interest	(31)	49
<b>Basic and diluted earnings per share (BGN)</b>	<b>0.20</b>	<b>0.27</b>

DIMITAR KOSTOV  
Executive Director

VASSIL CHRISTOV  
Executive Director

**ADDENDUM TO THE CONSOLIDATED FINANCIAL STATEMENTS OF FIRST INVESTMENT  
BANK AD  
AS AT 30.09.12**

**NOTES**

**1. Basis of preparation**

**(a) Statute**

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

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

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

The consolidated financial statements of the Bank as at and for the quarter ended 31 September 2012 comprise the Bank and its subsidiaries, together referred to as the “Group”.

The Group has foreign operations in Cyprus and Albania.

**(b) Statement of compliance**

The 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 Group'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 Bank has made certain reclassifications to the financial statements as of 31 December 2011 in order to provide more clear and precise comparison figures.

## **2. Significant accounting policies**

### **(a) Income recognition**

#### **(i) Interest Income**

Interest income and expense is recognised in the profit or loss as it accrues, taking into account the effective yield of the asset (liability) or an applicable floating rate. Interest income and expense include the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

#### **(ii) Fee and Commission**

Fee and commission income arises on financial services provided by the Group 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 Group.

#### **(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**

Subsidiaries are those enterprises controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Special purpose entities are consolidated when the substance of the relationship between the Group and the special purpose entity indicates that the special purpose entity is controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

As long as the Bank holds a controlling interest in a subsidiary, the subsequent acquisition or sale of non-controlling interests is stated as a transaction with shareholders in their capacity of shareholders and thus goodwill is not recognised.

### **(c) Foreign currency transactions**

#### **(i) Functional and presentation currency**

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Bulgarian leva, which is the Group's functional and presentation currency.

#### **(ii) Transactions and balances**

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

#### **(iii) Foreign operations**

The assets and liabilities of foreign operations are translated to Bulgarian leva at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Bulgarian leva at exchange rates at the dates of the transactions. Foreign currency differences are recognised in other comprehensive income. The functional currency of the foreign operations in Cyprus is determined by the management to be the Euro. The functional currency of the foreign operations in Albania is determined by the management to be the Albanian Lek.

**(d) Financial assets**

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

**(i) Financial assets at fair value through profit or loss**

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management because its performance is 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 Group provides money, goods or services directly to a debtor with no intention of trading the receivable.

**(iii) Held-to-maturity**

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Were the Group to sell or re-classify other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available for sale.

**(iv) Available-for-sale**

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

**(v) Recognition**

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

**(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 Group's right to receive payment is established.

**(vii) Fair value measurement principles**

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Group establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Group calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss depending on the individual facts and circumstances of the transaction but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.



Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. For netting positions average market prices are used to measure net risk positions and the “buy” or “sell” price is only applied to the respective net open position. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group and counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Group believes a third-party market participant would take them into account in pricing a transaction.

The Group assesses the fair value of financial instruments using the following hierarchy of methods:

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

**(viii) Derecognition**

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when the Group 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 Group is recognised as a separate asset or liability.

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

The Group enters into transactions whereby it transfers 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 Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if it does not retain control over the asset. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers in which, control over the asset is retained, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

**(e) Cash and cash equivalents**

Cash and cash equivalents comprise cash balances on hand, cash deposited with the central bank and short-term highly liquid investments with maturity of up to three months.

**(f) Investments**

Investments that the Group holds for the purpose of short-term profit taking are classified as trading instruments. Debt investments that the Group has the intent and ability to hold to maturity are classified as held-to-maturity assets. Other investments are classified as available-for-sale assets.

**(g) Securities borrowing and lending business and repurchase transactions**

**(i) Securities borrowing and lending**

Investments lent under securities lending arrangements continue to be recognised in the statement of financial position and are measured in accordance with the accounting policy for assets held for trading or available-for-sale as appropriate. Cash collateral received in respect of securities lent is recognised as liabilities to either banks or customers. Investments borrowed under securities borrowing agreements are not recognised. Cash collateral placements in respect of securities borrowed are recognised under loans and advances to either banks or customers. Income and expenses arising from the securities borrowing and lending business are recognised on an accrual basis over the period of the transactions and are included in interest income or expense.

**(ii) Repurchase agreements**

The Group enters into purchases (sales) of investments under agreements to resell (repurchase) substantially identical investments at a certain date in the future at a fixed price. Investments purchased subject to commitments to resell them at future dates are not recognised. The amounts paid are recognised in loans to either banks or customers. The receivables are shown as collateralised by the underlying security. Investments sold under repurchase agreements continue to be recognised in the statement of financial position and are measured in accordance with the accounting policy for either assets held for trading or available-for-sale as appropriate. The proceeds from the sale of the investments are reported as liabilities to either banks or customers.

The difference between the purchase (sale) and resell (repurchase) considerations is recognised on an accrual basis over the period of the transaction and is included in interest income (expenses).

**(h) Borrowings**

Borrowings are recognised initially at 'cost', being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost and any difference between net proceeds and the redemption value is recognised in profit or loss over the period of the borrowings using the effective yield method.

If the Group purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of a liability and the consideration paid is included in other operating income.

**(i) Offsetting**

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when the Group has a legally enforceable right to set off the recognised amounts and the transactions are intended to be settled on a net basis.

**(j) Impairment 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 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. General allowance is accounted for decreasing the carrying amount of a portfolio of loans with similar credit risk characteristics, which are collectively assessed for impairment. The estimated cash flows for a group of similar assets are determined on the basis of past practice and historical loss experience for portfolios with comparable characteristics. Historical loss experience should be adjusted, on the basis of observable data, to reflect the effects of current conditions. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. Increases in the allowance account are recognised in profit or loss. When a loan is identified to be not recoverable, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off directly.

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

**(ii) Financial assets available-for-sale**

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

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

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

**(k) Property and equipment**

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

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

<b>Assets</b>	<b>%</b>
• Buildings	3 - 4
• Equipment	10 - 50
• Fixtures and fittings	10 - 20
• Motor vehicles	10 - 20

- Leasehold Improvements 2 - 50

Assets are not depreciated until they are brought into use and transferred from assets in the course of construction into the relevant asset category.

**(l) Intangible assets**

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

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

<b>Assets</b>	<b>%</b>
• Licences	10 - 20
• Computer software	8 - 50

**(m) Provisions**

A provision is recognised in the statement of financial position when the Group has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and 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 Group agrees to pay, at a stipulated future date, a draft drawn on it for a specified amount. The Group's acceptances primarily arise from documentary credits stipulating payment for the goods to be made a certain number of days after receipt of required documents. The Group negotiates most acceptances to be settled at a later date following the reimbursement from the customers. Acceptances are accounted for as liabilities evidenced by paper.

**(o) Taxation**

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

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

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

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

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

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated

and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

**(i) Impairment losses on loans and advances**

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

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

**(ii) Income taxes**

The Group 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 Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

**(q) Earnings per share**

The Group presents basic and diluted earnings per share (EPS) data for the Bank's ordinary shares. Basic EPS is calculated by dividing the profit or loss for the period attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

**(r) Employee benefits**

**Defined contribution plans**

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. The authorities in the respective countries are 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 Group's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value.

The Bank has an obligation to pay certain amounts to each employee who retires with the Bank in accordance with Art. 222, § 3 of the Labor Code. According to these regulations in the

LC, when a labor contract of a bank's employee, who has acquired a pension right, is ended, the Bank is obliged to pay him compensations amounted to two gross monthly salaries.

In case the employee's length of service in the bank equals to or is greater than 10 or more years, as at retirement date, then the compensation amounts 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 Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

#### Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably. The Group recognises as a liability the undiscounted amount of the estimated costs related to annual leave expected to be paid in exchange for the employee's service for the period completed.

During the third quarter of 2012:

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

**EXECUTIVE DIRECTOR:**

**D. KOSTOV**

**EXECUTIVE DIRECTOR:**

**V. CHRISTOV**