

FIRST INVESTMENT BANK AD

Unconsolidated statement of cash flows for the nine months ended 30 September 2013

unaudited

in BGN '000

	nine months ended 30 September 2013	nine months ended 30 September 2012
Net cash flow from operating activities		
Net profit	24 792	21 892
Adjustment for non-cash items		
Allowance for impairment	41 566	22 455
Depreciation and amortization	14 551	15 202
Income tax expense	2 828	2 443
(Profit)/loss from sale and write-off of tangible and intangible fixed assets, net	(23)	-
(Profit) from sale of other assets, net	(23)	(7)
	83 691	61 985
Change in operating assets		
(Increase)/decrease in financial instruments held for trading	(346)	2 750
(Increase)/decrease in available for sale investments	339 290	(62 541)
(Increase)/decrease in loans and advances to banks and financial institutions	7 575	9 342
(Increase) in loans to customers	(312 725)	(363 017)
(Increase) in other assets	(161 827)	(50 779)
	(128 033)	(464 245)
Change in operating liabilities		
Increase in due to banks	209	105
Increase in amounts owed to other depositors	186 194	649 155
Net increase in other liabilities	3 462	794
	189 865	650 054
Income tax paid	(2 568)	(3 674)
	142 955	244 120
NET CASH FLOW FROM OPERATING ACTIVITIES		
Cash flow from investing activities		
(Purchase) of tangible and intangible fixed assets	(4 357)	(10 885)
Sale of tangible and intangible fixed assets	24	36
Sale of other assets	960	-
(Increase) of investments	(78 149)	(23 695)
	(81 522)	(34 544)
NET CASH FLOW FROM INVESTING ACTIVITIES		
Financing activities		
Increase/(decrease) in borrowings	11 917	(105)
	11 917	(105)
NET CASH FLOW FROM FINANCING ACTIVITIES		
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	73 350	209 471
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	1 127 484	974 904
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	1 200 834	1 184 375

DIMITAR KOSTOV

Executive Director

VASSIL CHRISTOV

Executive Director

FIRST INVESTMENT BANK AD

Unconsolidated statement of comprehensive income for the nine months ended 30 September 2013

unaudited

in BGN '000

	nine months ended 30 September 2013	nine months ended 30 September 2012
Interest income	329 204	338 354
Interest expense and similar charges:	(213 319)	(229 918)
Net interest income	115 885	108 436
Fee and commission income	73 634	60 430
Fee and commission expense	(7 873)	(7 154)
Net fee and commission income	65 761	53 276
Net trading income	6 305	6 286
Other net operating income	1 955	2 325
TOTAL INCOME FROM BANKING OPERATIONS	189 906	170 323
Administrative expenses	(103 180)	(113 250)
Allowance for impairment	(41 566)	(22 455)
Other expenses, net	(17 540)	(10 283)
PROFIT BEFORE TAX	27 620	24 335
Income tax expense	(2 828)	(2 443)
NET PROFIT	24 792	21 892
Other comprehensive income for the period		
Revaluation reserve on available for sale investments	253	97
Total other comprehensive income	253	97
TOTAL COMPREHENSIVE INCOME	25 045	21 989

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FIRST INVESTMENT BANK AD

Unconsolidated statement of the financial position as at 30 September 2013

unaudited

in BGN '000

	30 September	2013 31 December 2012
ASSETS		
Cash and balances with Central Banks	1 186 854	1 121 844
Financial assets held for trading	6 344	5 998
Available for sale investments	408 498	747 535
Financial assets held to maturity	170 500	92 351
Loans and advances to banks and other financial institutions	19 055	18 290
Loans and advances to customers	4 734 253	4 463 094
Property and equipment	107 046	115 613
Intangible assets	11 918	13 546
Derivatives held for risk management	3 604	1 088
Current tax assets	189	2 117
Other assets	486 163	325 861
TOTAL ASSETS	7 134 424	6 907 337
LIABILITIES AND CAPITAL		
Due to banks	2 806	2 597
Due to other customers	6 210 724	6 024 530
Liabilities evidenced by paper	90 594	77 304
Subordinated term debt	58 089	54 988
Perpetual debt	99 995	102 927
Hybrid debt	122 359	123 901
Deferred tax liability	3 232	3 560
Derivatives held for risk management	336	1309
Current tax liabilities	828	178
Other liabilities	9 684	5 311
TOTAL LIABILITIES	6 598 647	6 396 605
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	1 271	1 018
Revaluation reserve on property	4 500	4 500
Retained earnings	283 145	258 353
SHAREHOLDERS' EQUITY	535 777	510 732
TOTAL LIABILITIES AND GROUP EQUITY	7 134 424	6 907 337

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FIRST INVESTMENT BANK AD

Unconsolidated statement of shareholders' equity for the nine months ended 30 September 2013

unaudited

in BGN '000

	Issued share capital	Share premium	Retained earnings	Revaluation reserve	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 nine months ended on 30 September 2012	-	-	21 892	-	-	-	21 892
Other comprehensive income for the period							
Revaluation reserve on available for sale investments	-	-	-	97	-	-	97
Balance as at 30 September 2012	110 000	97 000	251 330	843	-	39 861	499 034
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	-	-	24 792	-	-	-	24 792
Other comprehensive income for the period							
Revaluation reserve on available for sale investments	-	-	-	253	-	-	253
Balance as at 30 June 2012	110 000	97 000	283 145	1 271	4 500	39 861	535 777

DIMITAR KOSTOV

Executive Director

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Executive Director

**ADDENDUM TO THE UNCONSOLIDATED FINANCIAL STATEMENTS OF FIRST INVESTMENT
BANK AD
AS AT 30.09.13**

NOTES

1. Basis of preparation

(a) Statute

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

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

The Bank has foreign operations in Cyprus.

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

(b) Statement of compliance

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

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

(c) Presentation

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

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

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

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 relating to IFRS 13 are included in 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.

(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 recognised 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.

2. Significant accounting policies, continued

(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.

(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.

(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.

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 amounting 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.
- 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.

During the third quarter of 2013:

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:

EXECUTIVE DIRECTOR:

D. KOSTOV

V. CHRISTOV