KPMG

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INDEPENDENT AUDITORS' REPORT

To the shareholders of
First Investment Bank AD

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of First Investment Bank AD ("the Bank"), which comprise the consolidated statement of financial position as at 31 December 2012, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated financial statements.

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

KPMG

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Bank as at 31 December 2012, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Tzvetelinka Koleva
Authorized representative

Krassimir Hadjidinev
Registered auditor

KPMG Bulgaria OOD

Sofia, 05 April 2013

СПЕЦИАЛИЗИРАНО ОДИТОРСКО ПРЕДПРИЯТИЕ
София
Рег. №045
"КПМГ - България" ООД

FIRST INVESTMENT BANK AD

CONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2012
WITH INDEPENDENT AUDITOR'S REPORT THEREON

Fibank
First Investment Bank

Consolidated statement of comprehensive income for for the year ended 31 December 2012

In thousands of BGN

	Note	2012	2011
Interest income		465,512	440,803
Interest expense		(311,277)	(278,814)
Net interest income	6	**154,235**	**161,989**
Fee and commission income		83,995	80,758
Fee and commission expense		(9,691)	(8,430)
Net fee and commission income	7	**74,304**	**72,328**
Net trading income	8	8,539	11,294
Other operating income/(expenses)	9	2,819	(2,139)
TOTAL INCOME FROM BANKING OPERATIONS		**239,897**	**243,472**
General administrative expenses	10	(160,022)	(157,926)
Impairment losses	11	(36,709)	(35,263)
Other expenses, net		(9,218)	(10,224)
PROFIT BEFORE TAX		**33,948**	**40,059**
Income tax expense	12	(3,375)	(4,097)
GROUP PROFIT AFTER TAX		**30,573**	**35,962**
Other comprehensive income			
Available for sale financial assets, net of taxes		269	842
Revaluation reserve on land and buildings, net of taxes		4,500	-
Exchange differences on translating foreign operations		(77)	34
Other comprehensive income for the period		**4,692**	**876**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**35,265**	**36,838**
Profit attributable to:			
Owners of the Bank		30,504	35,864
Non-controlling interests		69	98
Total comprehensive income attributable to:			
Owners of the Bank		35,196	36,740
Non-controlling interests		69	98
Basic and diluted earnings per share *(in BGN)*	13	**0.28**	**0.33**

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 53.

Dimitar Kostov
Executive Director
Chairman of the Managing Board

Svetoslav Moldovansky
Executive Director

Ianko Karakolev
Chief Financial Officer

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Tzvetelinka Koleva
Authorized representative
KPMG Bulgaria OOD

Krassimir Hadjidinev
Registered auditor

Fibank
First Investment Bank

Consolidated statement of financial position as at 31 December 2012

In thousands of BGN

	Note	2012	2011
ASSETS			
Cash and balances with central banks	14	1,140,889	926,394
Financial assets held for trading	15	6,553	8,659
Available for sale investments	16	726,619	663,925
Financial assets held to maturity	17	118,770	65,886
Loans and advances to banks and financial institutions	18	45,939	100,427
Loans and advances to customers	19	4,540,389	4,182,236
Property and equipment	20	120,840	119,242
Intangible assets	21	18,339	19,074
Derivative assets held for risk management		1,088	-
Current tax assets		2,120	1,265
Other assets	23	328,902	87,344
TOTAL ASSETS		**7,050,448**	**6,174,452**
LIABILITIES AND CAPITAL			
Due to credit institutions	24	2,580	1,782
Due to other customers	25	6,189,721	5,388,310
Liabilities evidenced by paper	26	62,420	112,306
Subordinated term debt	27	54,988	50,596
Perpetual debt	28	99,584	99,376
Hybrid debt	29	123,901	42,800
Deferred tax liability	22	3,565	3,636
Derivative liabilities held for risk management		1,309	358
Current tax liabilities		255	49
Other liabilities	30	6,858	5,237
TOTAL LIABILITIES		**6,545,181**	**5,704,450**
Issued share capital	32	110,000	110,000
Share premium	32	97,000	97,000
Statutory reserve	32	39,861	39,861
Revaluation reserve on available for sale investments		1,083	814
Revaluation reserve on land and buildings		4,500	-
Reserve from translation of foreign operations		(2,777)	(2,700)
Retained earnings	32	253,255	222,751
SHAREHOLDERS' EQUITY		**502,922**	**467,726**
Non-controlling interests		2,345	2,276
TOTAL GROUP EQUITY		**505,267**	**470,002**
TOTAL LIABILITIES AND GROUP EQUITY		**7,050,448**	**6,174,452**

The statement of 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 53.

Dimitar Kostov
Executive Director
Chairman of the Managing Board

Svetoslav Moldovansky
Executive Director

Ianko Karakolev
Chief Financial Officer

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Consolidated statement of cash flows for the the year ended 31 December 2012

In thousands of BGN

	2012	2011
Net cash flow from operating activities		
Profit for the period	30,573	35,962
Adjustment for non-cash items		
Impairment losses	36,709	35,263
Depreciation and amortisation	21,125	22,043
Income tax expense	3,375	4,097
(Profit)/loss from sale and derecognition of tangible and intangible fixed assets, net	(19)	45
(Profit) from sale of other assets, net	(189)	(72)
	91,574	**97,338**
Change in operating assets		
Decrease in financial instruments held for trading	2,106	7,982
(Increase)/decrease in available for sale investments	(62,312)	52,322
(Increase) /decrease in loans and advances to banks and financial institutions	26,098	(20,432)
(Increase) in loans to customers	(394,862)	(800,405)
Net (Increase) in other assets	(246,010)	(27,187)
	(674,980)	**(787,720)**
Change in operating liabilities		
Increase /(decrease) in deposits from banks	798	(7,044)
Increase in amounts owed to other depositors	801,411	1,102,617
Net increase/(decrease) in other liabilities	3,265	(1,471)
	805,474	**1,094,102**
Income tax paid	(4,623)	(1,310)
NET CASH FLOW FROM OPERATING ACTIVITIES	**217,445**	**402,410**
Cash flow from investing activities		
(Purchase) of tangible and intangible fixed assets	(17,020)	(10,875)
Sale of tangible and intangible fixed assets	51	31
Sale of other assets	2,698	3,027
(Increase) of investments	(52,884)	(8,784)
NET CASH FLOW FROM INVESTING ACTIVITIES	**(67,155)**	**(16,601)**
Financing activities		
Increase in borrowings	35,815	41,983
NET CASH FLOW FROM FINANCING ACTIVITIES	**35,815**	**41,983**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**186,105**	**427,792**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	**988,073**	**560,281**
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD (see note 34)	**1,174,178**	**988,073**

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 53.

Dimitar Kostov
Executive Director
Chairman of the Managing Board

Svetoslav Moldovansky
Executive Director

Ianko Karakolev
Chief Financial Officer

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Fibank
First Investment Bank

Consolidated statement of changes in equity for the year ended 31 December 2012

In thousands of BGN

	Share capital	Share premium	Retained earnings	Revaluation reserve on available for sale investments	Revaluation reserve on land and buildings	Reserve from translation of foreign operations	Statutory reserve	Non-controlling interests	Total
Balance as at 1 January 2011	**110,000**	**97,000**	**186,799**	**(28)**	**-**	**(2,734)**	**39,861**	**2,277**	**433,175**
Total comprehensive income									
Profit for the year ended 31 December 2011	-	-	35,864	-	-	-	-	98	35,962
Other comprehensive income									
Revaluation reserve on available for sale investments	-	-	-	842	-	-	-	-	842
Reserve from translation of foreign operations	-	-	-	-	-	34	-	-	34
Transaction with owners recognised directly in equity									
Acquisition of non-controlling interest's shareholding	-	-	88	-	-	-	-	(99)	(11)
Balance as at 31 December 2011	**110,000**	**97,000**	**222,751**	**814**	**-**	**(2,700)**	**39,861**	**2,276**	**470,002**
Total comprehensive income									
Profit for the year ended 31 December 2012	-	-	30,504	-	-	-	-	69	30,573
Other comprehensive income									
Revaluation reserve on available for sale investments, net of taxes	-	-	-	269	-	-	-	-	269
Revaluation reserve on land and buildings, net of taxes	-	-	-	-	4,500	-	-	-	4,500
Reserve from translation of foreign operations	-	-	-	-	-	(77)	-	-	(77)
Balance as at 31 December 2012	**110,000**	**97,000**	**253,255**	**1,083**	**4,500**	**(2,777)**	**39,861**	**2,345**	**505,267**

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 53.

The financial statements have been approved by the Managing Board on 5 April 2013 and signed on its behalf by:

Dimitar Kostov
Executive Director
Chairman of the Managing Board

Svetoslav Moldovansky
Executive Director

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Ianko Karakolev
Chief Financial Officer

Tzvetelinka Koleva
Authorized representative
KPMG Bulgaria OOD

Krassimir Hadjidinev
Registered auditor

Notes to the financial statements

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 the Bulgarian legislation.

As a result of a successful initial public offering (IPO) of new shares on the Bulgarian Stock Exchange – Sofia the Bank is registered as a public company at the Register of the Financial Supervision Commission in accordance with the provisions of the Bulgarian Public Offering of Securities Act on 13 June 2007.

The consolidated financial statements of the Bank as at and for the year ended 31 December 2012 comprise the Bank and its subsidiaries (see note 37), together referred to as the "Group".

The Group has foreign operatios in Cyprus and Albania.

(b) Statement of compliance

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted 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 consolidated financial statements, are disclosed in note 2 (p).

(c) Basis of preparation

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.

(d) Changes in the accounting policy

Subsequent valuation of buildings

In 2012 the Bank changed its accounting policy for subsequent measurement of all items within the separate class "Properties" (buildings) which is part of property, plant and equipment held for use.

As a result of the change, the Bank applies the revaluation model stated in IAS 16 for the purposes of subsequent measurement of buildings. The revalued amount is the fair value of the asset as at the date of revaluation less any subsequent amortisation and depreciation and accumulated impairment losses.

Previously, the Bank measured all items of property, plant and equipment at their historical cost less accumulated depreciation and impairment losses.

All tangible non-current assets different from land and buildings continue to be presented in the statement of financial position at their historical cost less accumulated depreciation and impairment losses.

1. Basis of preparation, continued

(d) Changes in the accounting policy, continued

Impact of change in accounting policy

As specifically required by IAS 16, the change in accounting policy has been applied prospectively. The following table summarizes the adjustments made to the statement of financial position on implementation of the new accounting policy:

in thousands of BGN	**Land and buildings**	**Deferred tax liability**	**Revaluation reserve**
Net book value at 31 December 2012, applying previous policy	8,450	-	-
Impact of change in accounting policy	5,000	(500)	4,500
Restated balances at 31 December 2012	**13,450**	**(500)**	**4,500**

The effects on the statement of comprehensive income were as follows:

in thousands of BGN	**2012**
Increase in revaluation of property, plant and equipment recognised in OCI	5,000
Tax on other comprehensive income	(500)
Total	**4,500**

2. Significant accounting policies

(a) Income recognition

(i) Interest income

Interest income and expense is recognised in 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.

2. Significant accounting policies, continued

(a) Income recognition, continued

(iii) Net trading income

Net gains (losses) on financial assets and liabilities held for trading include 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 dividends 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 controls the subsidiary, subsequent acquisitions/sales of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders and therefore no goodwill is recognised as a result of such transactions.

(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

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 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.

2. Significant accounting policies, continued

(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 internally evaluated and reported on a fair value basis. 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 has the positive intention and ability to hold to maturity. Were the Group to sell or reclassify other than an insignificant amount of held-to-maturity assets, the entire category shall be reclassified as available for sale.

(iv) Available-for-sale

Available-for-sale investments are those non-derivative financial assets 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

2. Significant accounting policies, continued

(d) Financial assets, continued

(vi) Measurement, continued

at which 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

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 with 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. Where the Group has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity 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.

2. Significant accounting policies, continued

(d) Financial assets, continued

(vii) Fair value measurement, continued

The Group determines the fair value of the financial instruments applying the next methods hierarchy that reflects the significance of the factors used for fair value measurement:

- Level 1 – fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – valuation techniques using inputs that are observable for the fair value of the financial instruments either directly (i.e., as prices) or indirectly (i.e., derived from prices). This level includes quotations in not active market or instruments measured by using a valuation technique;
- Level 3 – fair value measurements using inputs for the financial asset or liability that are not based on observable market data. In addition, this level includes equity investments in other institutions, related to the membership of the Group in certain organizations, whose fair value cannot be reliably measured and are measured at cost.

The next table analyses the financial instruments measured at fair value by valuation models.

in thousands of BGN

31 December 2012	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets held for trading	6,553	-	-	6,553
Available for sale investments	694,430	26,480	5,709	726,619
Derivatives held for risk management	1,088	(1,309)	-	(221)
Total	**702,071**	**25,171**	**5,709**	**732,951**

in thousands of BGN

31 December 2011	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets held for trading	8,659	-	-	8,659
Available for sale investments	630,453	26,934	6,538	663,925
Derivatives held for risk management	-	(358)	-	(358)
Total	**639,112**	**26,576**	**6,538**	**672,226**

(viii) Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. 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 assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the statement of financial position. Transfers of assets

2. Significant accounting policies, continued

(d) Financial assets, continued

(viii) Derecognition, continued

with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

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 central banks and short-term highly liquid investments with maturity of three months or less.

(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 (expense).

(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.

2. Significant accounting policies, continued

(h) Borrowings, continued

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

The carrying amounts of the Group's assets are reviewed at the end of each reporting period 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

The amount of the loss is determined as the difference between the assets's carrying amount and the present value of estimated future cash flows discounted at the instrument's original effective interest rate. If a loan has a variable interest rate, the discount rate is the current effective interest rate determined under the contract. Short-term balances are not discounted. Calculation of the present value of estimated future cash flows includes interest and principal repayments as well as the cash flows that could arise from high-liquid collateral.

Loans and advances are presented net of individual or portfolio allowances for impairment. The carrying amount of the assets is reduced through use of an allowance account. Individual allowances are allocated against the carrying amount of loans and advances for which objective evidence of impairment exists as a result of past events that occurred after the initial recognition of the asset. Objective evidence of impairment include significant financial difficulty of the issuer or obligor; a breach of contract, such as a default or delinquency in interest or principal payments; the borrower will probably enter bankruptcy; observable data indicating that there is a measurable decrease in the estimated cash flows from a group of financial assets. Portfolio allowances are maintained to reduce the carrying amount of portfolios of loans and advances with similar credit risk characteristics that are collectively assessed for impairment. The expected cash flows for portfolios of similar assets are estimated on the basis of historical loss experience for assets with characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current 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 recognised 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.

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 even though the financial asset has not been derecognised. 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, plant and equipment

As disclosed in note 1 (d) land and buildings are presented at revalued amount, being their fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. All other Items of property, plant and equipment are stated in the statement of financial position at their acquisition cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on a straight line basis at prescribed rates designed to decrease the cost of fixed assets over their expected useful lives. The following are approximations of the annual rates used:

Assets	**%**
▪ Buildings	3 - 4
▪ Equipment	10 – 50
▪ Fixtures and fittings	10 – 15
▪ 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:

Assets	**%**
▪ Licences, trademarks	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 a reliable estimate can be made of the amount of the obligation. If the effect is material, provisions are determined by discounting the expected future cash

2. Significant accounting policies, continued

(m) Provisions, continued

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 period 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 end of each reporting period, 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 amount of an asset or liability for financial reporting purposes and the amount 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.

2. Significant accounting policies, continued

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

(ii) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant estimates are required in determining the overall 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 its ordinary shares. Basic EPS is calculated by dividing the profit or loss 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.

(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 (a fund) and will have no legal or constructive obligation to pay further amounts. The respective jurisdictions are responsible for providing pensions under a defined contribution pension plan. The Group’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 obligation to pay certain amounts to each employee who retires with the Bank in accordance with Art. 222, paragraph 3 of the Bulgarian Labor Code. According to these regulations, when a labor contract of an employee of the Bank, who has acquired a pension right, is ended, the Bank is obliged to pay him or her compensations amounted to two gross monthly salaries. In case the employee has service in the Bank during the last 10 years as at retirement date, then the compensation amounts to six gross monthly salaries. As at the end of the reporting period, the management of the Group 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.

2. Significant accounting policies, continued

(r) Employee benefits, continued

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 employees, 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.

(s) New IFRS and interpretations (IFRIC) not yet adopted as at the reporting date

A number of new standards, amendments to standards and interpretations, endorsed by the European Commission, are available for early adoption in the annual period ended 31 December 2012, although they are not yet mandatory until a later periods. These changes to IFRS have not been applied in preparing these financial statements and the Group does not plan to adopt these standards early.

Standards, Interpretations and amendments to published Standards that have not been early adopted – endorsed by the EC:

- Amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2013. The Group is evaluating the new requirements but it is not expect the Amendments to have any impact on the financial statements.

- IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosures of Interests in Other Entities,* 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) shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2014. The Group does not expect IAS 27 (2011) to have material impact on the financial statements, since it does not results in a change in the Group's accounting policy.

- IFRS 13 *Fair Value Measurement* provides a single source of guidance on how fair value is measured, and replaces the fair value measurement guidance that is currently dispersed throughout IFRS. Subject to limited exceptions, IFRS 13 is applied when fair value measurements or disclosures are required or permitted by other IFRSs. The Group does not expect IFRS 13 to have material impact on the financial statements since management considers the methods and assumptions currently used to measure the fair value of assets to be consistent with IFRS 13.

- Amendments to IAS 1 Presentation of Items of Other Comprehensive Income are shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 July 2012. The impact of the initial application of the amendments will depend on the specific items of other comprehensive income at the date of initial application. If the Group were to adopt the amendments from 1 January 2012, then the following items of the other comprehensive income would be presented as items that may be reclassified to profit or loss in the future:

2. Significant accounting policies, continued

(s) New IFRS and interpretations (IFRIC) not yet adopted as at the reporting date, continued

- BGN 1,196 thousand recognised as reserve for available for sale investments;
- Tax effect on the items above in the amount of BGN (113) thousand.

The remaining amounts and items of other comprehensive income would never be reclassified to profit or loss.

- Amended IAS 19 Employee Benefits shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2013. The Group does not expect the amendments to have material impact on the financial statements, since it does not results in a change in the Group's accounting policy.

- Amendments to IAS 12 Deferred Tax: Recovery of Underlying Assets is effective shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2013. The Group does not expect the amendments to have any impact on the financial statements, since they do not result in a change in the Group's accounting policy.

- Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities i shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2014. The Group is currently evaluating the changes but does not expect the amendments to have material impact on the financial statements.

- IFRIC Interpretation 20: Stripping Costs in the Production Phase of a Surface Mine shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2013. The Group does not expect the Interpretation to have any impact on the financial statements since the Group does not have any stripping activities.

- Amendments to IFRS 1 Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2013. The Group does not expect the Amendments to have any impact on the financial statements.

IASB/IFRIC documents not yet endorsed by 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 actual effective dates for them will depend on the endorsement decision by the EC.

- 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 1 Government Loans with an effective date of 1 January 2013.

- Improvements to IFRSs 2009-2011 with an effective date of 1 January 2013.

- Amendments to IFRS 10, IFRS 11 and IFRS 12 Transition Guidance with an effective date of 1 January 2013.

- Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities with an effective date of 1 January 2014.

3. Risk management disclosures

A. Trading activities

The Group maintains active trading positions in a limited number of non-derivative financial instruments. Most of the Group's trading activities are customer driven. In anticipation of customer demand, the Group 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 Group to provide customers with money market products at competitive prices.

The Group manages its trading activities by type of risk involved and on the basis of the categories of trading instruments held.

(i) Credit risk

Default risk is the risk that counterparties 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 counterparty 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 Group 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 Group'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 set by senior management by buying or selling instruments.

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% 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 Group'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 2012:

	31 December	Twelve months ended 31 December 2012			31 December
in thousands of BGN	**2012**	**average**	**low**	**high**	**2011**
VaR	1,103	679	224	1 385	243

3. Risk management disclosures, continued

B. Non-trading activities

Below is a discussion of the various risks the Group 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 Group will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk arises in the general funding of the Group'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, 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 Group 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 Group continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Group strategy.

3. Risk management disclosures, continued

B. Non-trading activities, continued

(i) Liquidity risk, continued

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

Maturity table as at 31 December 2012

In thousands of BGN	**Up to 1 Month**	**From 1 to 3 Months**	**From 3 months to 1 year**	**Over 1 year**	**Maturity not defined**	**Total**
Assets						
Cash and balances with central banks	606,992	-	-	-	533,897	**1,140,889**
Financial assets held for trading	6,553	-	-	-	-	**6,553**
Available for sale investments	704,783	3,682	11,707	738	5,709	**726,619**
Financial assets held to maturity	34,652	15,098	32,218	36,802	-	**118,770**
Loans and advances to banks and financial institutions	33,289	-	3,989	8,661	-	**45,939**
Loans and advances to customers	411,853	202,675	1,180,361	2,745,500	-	**4,540,389**
Other financial assets	1,088	-	-	-	-	**1,088**
Total financial assets	**1,799,210**	**221,455**	**1,228,275**	**2,791,701**	**539,606**	**6,580,247**
Liabilities						
Due to credit institutions	2,580	-	-	-	-	**2,580**
Due to other customers	606,985	959,063	2,583,163	1,139,762	900,748	**6,189,721**
Liabilities evidenced by paper	21,280	3,716	4,112	33,312	-	**62,420**
Subordinated term debt	-	-	-	54,988	-	**54,988**
Perpetual debt	-	-	-	-	99,584	**99,584**
Hybrid debt	-	-	-	-	123,901	**123,901**
Other financial liabilities	1,309	-	-	-	-	**1,309**
Total financial liabilities	**632,154**	**962,779**	**2,587,275**	**1,228,062**	**1,124,233**	**6,534,503**
Net liquidity gap	**1,167,056**	**(741,324)**	**(1,359,000)**	**1,563,639**	**(584,627)**	**45,744**

The table presents available for sale investments mainly within a maturity of up to 1 month as it reflects the managenent's intent to sell them in a short-term period.

3. Risk management disclosures, continued

B. Non-trading activities, continued

(i) Liquidity risk, continued

Maturity table as at 31 December 2011

In thousands of BGN	Up to 1 Month	From 1 to 3 Months	From 3 months to 1 year	Over 1 year	Maturity not defined	Total
Assets						
Cash and balances with central banks	474,180	-	-	-	452,214	**926,394**
Financial assets held for trading	8,659	-	-	-	-	**8,659**
Available for sale investments	647,548	3,975	5,864	-	6,538	**663,925**
Financial assets held to maturity	-	-	1,796	64,090	-	**65,886**
Loans and advances to banks and financial institutions	74,362	-	17,404	8,661	-	**100,427**
Loans and advances to customers	293,894	297,741	1,011,165	2,579,436	-	**4,182,236**
Total financial assets	**1,498,643**	**301,716**	**1,036,229**	**2,652,187**	**458,752**	**5,947,527**
Liabilities						
Due to credit institutions	1,782	-	-	-	-	**1,782**
Due to other customers	590,477	1,028,593	2,536,795	486,104	746,341	**5,388,310**
Liabilities evidenced by paper	24,094	51,835	4,261	32,116	-	**112,306**
Subordinated term debt	-	-	-	50,596	-	**50,596**
Perpetual debt	-	-	-	-	99,376	**99,376**
Hybrid debt	-	-	-	-	42,800	**42,800**
Other financial liabilities	358	-	-	-	-	**358**
Total financial liabilities	**616,711**	**1,080,428**	**2,541,056**	**568,816**	**888,517**	**5,695,528**
Net liquidity gap	**881,932**	**(778,712)**	**(1,504,827)**	**2,083,371**	**(429,765)**	**251,999**

As at 31 December 2012 the funds by the thirty largest non-bank depositors represent 5.40% of total deposits from other customers (2011: 5.62%).

3. Risk management disclosures, continued

B. Non-trading activities, continued

(i) Liquidity risk, continued

The following table provides remaining maturities analysis of the financial liabilities of the Group as at 31 December 2012 based on the contractual undiscounted cash flows.

In thousands of BGN	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	Over 1 year	Total
Due to credit institutions	2,580	-	-	-	**2,580**
Due to other customers	608,294	967,477	2,667,865	2,160,169	**6,403,805**
Liabilities evidenced by paper	21,313	3,740	4,209	37,102	**66,364**
Subordinated term debt	337	330	2,697	69,239	**72,603**
Perpetual debt	-	4,775	6,601	121,406	**132,782**
Hybrid debt	-	-	14,278	164,485	**178,763**
Total financial liabilities	**632,524**	**976,322**	**2,695,650**	**2,552,401**	**6,856,897**

(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 Group'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 Group is also exposed to basis risk, which is the difference in repricing characteristics of the various floating rate indices, such as the Bulgarian Base 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 Group measures the impact of a change in the market rates both on net interest income and on the Group'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 Group following a standardised shock of +100bp/-100bp as of 31 December 2012 is BGN +3.7/-3.7 Mio. The interest rate risk on the Group's net interest income one year forward following a standardised shock of +100bp/-100bp as of 31 December 2012 is BGN +4.8/-4.8 Mio.

3. Risk management disclosures, continued

***B.* Non-trading activities, continued**

(ii) Market risk, continued

Interest rate risk, continued

The following table indicates the periods in which financial liabilities and assets reprice at 31 December 2012.

			Fixed rate instruments			
In thousands of BGN	**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	115,838	97,977	17,861	-	-	-
Financial assets held for trading	3,627	-	3,627	-	-	-
Available for sale investments	720,910	31,587	677,721	3,682	7,182	738
Financial assets held to maturity	118,770	-	34,652	15,098	32,218	36,802
Loans and advances to banks and financial institutions	41,729	2,668	26,411	-	3,989	8,661
Loans and advances to customers	4,175,969	3,351,542	85,558	54,077	257,986	426,806
Total interest-earning assets	**5,176,843**	**3,483,774**	**845,830**	**72,857**	**301,375**	**473,007**
Liabilities						
Due to credit institutions	2,580	2,580	-	-	-	-
Due to other customers	6,183,378	900,748	600,642	959,063	2,583,163	1,139,762
Liabilities evidenced by paper	62,420	4,875	21,280	57	2,896	33,312
Subordinated term debt	54,988	-	-	-	-	54,988
Perpetual debt	99,584	-	-	-	-	99,584
Hybrid debt	123,901	-	-	-	-	123,901
Total interest-bearing liabilities	**6,526,851**	**908,203**	**621,922**	**959,120**	**2,586,059**	**1,451,547**

3. **Risk management disclosures, continued**

B. **Non-trading activities, continued**

(ii) Market risk, continued

Interest rate risk, continued

The following table indicates the periods in which financial liabilities and assets reprice at 31 December 2011.

In thousands of BGN	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	155,920	75,318	80,602	-	-	-
Financial assets held for trading	5,523	-	5,523	-	-	-
Available for sale investments	657,387	32,828	614,720	3,975	5,864	-
Financial assets held to maturity	65,886	-	-	-	1,796	64,090
Loans and advances to banks and financial institutions	97,802	374	71,363	-	17,404	8,661
Loans and advances to customers	3,979,089	3,439,308	74,695	20,847	124,267	319,972
Total interest-earning assets	**4,961,607**	**3,547,828**	**846,903**	**24,822**	**149,331**	**392,723**
Liabilities						
Due to credit institutions	1,782	1,740	42	-	-	-
Due to other customers	5,385,493	750,243	583,758	1,028,593	2,536,795	486,104
Liabilities evidenced by paper	112,306	55,237	22,739	5,212	-	29,118
Subordinated term debt	50,596	-	-	-	-	50,596
Perpetual debt	99,376	-	-	-	-	99,376
Hybrid debt	42,800	-	-	-	-	42,800
Total interest-bearing liabilities	**5,692,353**	**807,220**	**606,539**	**1,033,805**	**2,536,795**	**707,994**

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 Group is exposed to currency risk through transactions in foreign currencies and on financial instruments that are denominated in a foreign currency.

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 Group presents it financial statements is the Bulgarian lev, the Group's financial statements are effected by movements in the exchange rates between the Bulgarian lev and currencies other than the Euro.

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

In thousands of BGN	**2012**	**2011**
Monetary assets		
Euro	4,898,203	4,360,034
US dollar	490,105	423,633
Other currencies	186,581	114,867
Gold	10,847	7,983
Monetary liabilities		
Euro	3,080,119	2,930,874
US dollar	492,057	424,823
Other currencies	189,614	122,575
Gold	-	-
Net position		
Euro	1,818,084	1,429,160
US dollar	(1,952)	(1,190)
Other currencies	(3,033)	(7,708)
Gold	10,847	7,983

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

3. Risk management disclosures, continued

B. Non-trading activities, continued

(iii) Credit risk

Credit risk is the risk that a counterparty to a financial instrument will cause a financial loss for the Group by failing to discharge an obligation. The Group 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 contingent liabilities. 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 Group'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 in the statement of financial position. These exposures are as follows:

31 December 2012		*In thousands of BGN*
Class of exposure	**Gross amount of loans and advances to customers**	**Carrying amount of loans and advances to customers**
Collectively impaired		
Standard	3,859,270	3,853,724
Individually impaired		
Watch	247,003	232,181
Nonperforming	318,648	295,407
Loss	284,547	159,077
Total	**4,709,468**	**4,540,389**

31 December 2011		*In thousands of BGN*
Class of exposure	**Gross amount of loans and advances to customers**	**Carrying amount of loans and advances to customers**
Collectively impaired		
Standard	3,656,207	3,651,517
Individually impaired		
Watch	409,356	393,524
Nonperforming	30,538	21,749
Loss	218,958	115,446
Total	**4,315,059**	**4,182,236**

At 31 December 2012 the total gross amount of past due loans and advances to customers, measured as exposures overdue more than 90 days, is BGN 442,294 thousand (2011: BGN 243,383 thousand).

In addition, the Group is exposed to off-balance sheet credit risk through commitments to extend credits and issue contingent liabilities (see note 33).

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 also 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 thousands of BGN	**2012**	**2011**
Trade	1,188,145	953,599
Industry	1,179,216	1,130,651
Services	462,063	442,324
Finance	83,651	82,315
Transport, logistics	252,027	272,403
Communications	70,490	56,632
Construction	185,347	183,957
Agriculture	85,537	85,503
Tourist services	148,290	121,215
Infrastructure	150,482	161,993
Private individuals	888,863	811,133
Other	15,357	13,334
Less allowance for impairment	(169,079)	(132,823)
Total	**4,540,389**	**4,182,236**

The Group 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 31 December 2012 with total exposures amounting to BGN 95,634 thousand (2011: BGN 116,335 thousand) - ferrous and non-ferrous metallurgy, BGN 61,015 thousand (2011: BGN 61,015 thousand) – mining industry and BGN 135,510 thousand (2011: BGN 104,836 thousand) - power engineering.

The Group has extended loans and issued contingent liabilities to 19 individual clients or groups (2011:21) with each individual exposure exceeding 10% of the capital base of the Group. The total amount of these exposures is BGN 1,761,619 thousand which represents 275.81% of the Group's capital base (2011: BGN 1,668,778 thousand which represented 289.26%of capital base) of which BGN 1,633,700 thousand (2011: BGN 1,498,781 thousand) represent loans and BGN 127,919 thousand (2011: BGN 169,997 thousand) represent guarantees, letters of credit and other commitments.

The loans extended by the Cyprus branch amount to BGN 483,331 thousand amortised cost before allowance (2011: BGN 290,861 thousand) and in Albania – BGN 85,357 thousand (2011: BGN 60,148 thousand).

The amounts reflected in the tables represent the maximum accounting loss that would be recognised at the end of the reporting period if counterparties failed completely to perform as contracted and any collateral or security proved to be of no value. The amounts, therefore, significantly exceed expected losses, which are included in the allowance for impairment.

The Group's policy is to require suitable collateral to be provided by 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 Group'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, pledge of inventory, listed investments or other property.

3. Risk management disclosures, continued

B. Non-trading activities, continued

(iii) Credit risk, continued

The table below shows a breakdown of total loans and advances extended to customers by the Group by type of collateral, excluding credit cards in the amount of BGN 212,811 thousand (2011: BGN 202,495 thousand):

In thousands of BGN	**2012**	**2011**
Mortgage	1,612,010	1,692,112
Pledge of receivables	592,400	197,134
Pledge of commercial enterprise	581,575	789,238
Securities	158,282	80,069
Bank guarantee	6,308	13,759
Other guaranties	270,977	466,166
Pledge of goods	167,701	185,501
Pledge of machines	261,300	203,484
Money deposit	171,518	48,566
Stake in capital	374,096	144,694
Gold	97	18
Other collateral	247,952	243,628
Unsecured	52,441	48,195
Total	**4,496,657**	**4,112,564**

Other collateral position includes insurance policies limited up to the insurance amount, future money transfers to account, other proceeds as salaries transfers and other.

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 thousands of BGN	**2012**	**2011**
Loan to value (LTV) ratio		
Less than 50%	176,494	147,977
From 50% to 70%	83,606	95,473
From 70% to 90%	84,023	88,789
From 90% to 100%	16,098	10,456
More than 100%	15,953	12,037
Total	**376,174**	**354,732**

3. Risk management disclosures, continued

B. Non-trading activities, continued

(iii) Credit risk, continued

Loans and advances to corporate customers

The Group's loans and advances to corporate customers, small and medium enterprises and microlending 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 extended to it. However, collateral provides additional security and the Group requests corporate borrowers to provide it. The Group may take collateral in the form of a first charge over real estate, floating charges over all corporate assets and other liens and guarantees.

The Group periodically analyses provided collateral in terms of possible changes in its valuation due to alteration in market conditions, legal framework or because of arrangements of the borrower in respect to the collateral. If these valuation changes lead to insufficient collateral coverage, the Group requires extra collateral security in a certain period of time.

At 31 December 2012 the net carrying amount of individually impaired loans and advances to corporate customers, small and medium enterprises and microlending amounts to BGN 431,477 thousand (2011: BGN 277,392 thousand) and the value of identifiable collateral held against those loans and advances amounts to BGN 938,070 thousand (2011: BGN 1,002,108 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 Group closely manages this risk throughout the year 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 Group does not recognise allowance for impairment against the exposures which are measured at amortised cost as at 31 December 2012 and 31 December 2011 as well as those classified as available for sale.

In thousands of BGN

31 December 2012

Portfolio	**Bulgaria**	**Belgium**	**Albania**	**Italy**	**Spain**	**European Financial Stability Facility**
Financial assets held for trading	3,627	-	-	-	-	-
Available for sale investments	304,026	289,156	14,955	-	-	86,293
Financial assets held to maturity	34,652	-	26,419	23,409	15,559	-
Total	**342,305**	**289,156**	**41,374**	**23,409**	**15,559**	**86,293**

In thousands of BGN

31 December 2011

Portfolio	**Bulgaria**	**France**	**Belgium**	**Albania**
Financial assets held for trading	5,523	-	-	-
Available for sale investments	103,649	371,465	136,894	18,445
Financial assets held to maturity	36,054	-	-	10,925
Total	**145,226**	**371,465**	**136,894**	**29,370**

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 2012

In thousands of BGN

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	192,038	-	-	72,764	77,503	**342,305**
Belgium	-	113,375	175,781	-	-	**289,156**
Albania	3,353	5,114	14,098	18,809	-	**41,374**
Italy	-	13,666	9,743	-	-	**23,409**
Spain	-	-	15,559	-	-	**15,559**
European Financial Stability Facility	-	58,894	7,816	19,583	-	**86,293**
Total	**195,391**	**191,049**	**222,997**	**111,156**	**77,503**	**798,096**

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

in thousands of BGN

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	78	-	-	120,767	24,381	**145,226**
France	97,782	195,552	78,131	-	-	**371,465**
Belgium	136,894	-	-	-	-	**136,894**
Albania	21	5,892	12,817	10,640	-	**29,370**
Total	**234,775**	**201,444**	**90,948**	**131,407**	**24,381**	**682,955**

3. Risk management disclosures, continued

C. Capital adequacy

The Group's lead regulator, the Bulgarian National Bank (BNB) sets and monitors capital requirements both on consolidated and stand-alone basis. Individual banking operations are directly supervised by their local regulators. BNB issued Ordinance 8 on Capital Adequacy of Credit Institutions effective from 1 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 and their amendments. In implementing current capital requirements the Group 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 Group holds insignificant trading book, the Group 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 Group 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 carrying 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 carrying amount equivalents. The resulting equivalent amounts are then weighted for risk using different percentages (0%, 20%, 35%, 50%, 75%, 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 Group calculates also capital requirements for market risk for foreign currency and commodity instruments in trading book and banking book.

In addition, the Group 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 Group's regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes ordinary share capital, share premium, statutory reserve, other general reserves, retained earnings from past years, current half-year audited profit, translation reserve, non-controlling interests and hybrid instruments without incentive to redeem after deductions for goodwill and other intangible assets and unrealised loss from available for sale investments.
- 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 capital base include specific provisions for credit risk, which at 31 December 2012 amount to BGN 55,468 thousand (2011: BGN 8,421 thousand).

3. Risk management disclosures, continued

C. Capital adequacy, continued

The Group has complied with all capital requirements.

Capital adequacy level is as follows:

In thousands of BGN	**Carrying amount/notional amount**		**Risk weighted amount**	
	2012	**2011**	**2012**	**2011**
Risk weighted assets for credit risk				
Assets				
Exposure class				
Central governments and central banks	1,711,419	1,334,276	59,644	42,841
Institutions	191,216	291,315	58,030	78,284
Corporates	3,078,881	3,124,169	2,886,798	3,068,530
Retail	547,232	521,031	395,121	378,162
Claims secured by residential property	588,697	402,106	206,044	140,737
Past due exposures	270,026	126,510	270,026	126,510
Collective investment undertaking	1,933	1,936	1,933	1,936
Other items	574,898	335,410	436,145	199,892
TOTAL	**6,964,302**	**6,136,753**	**4,313,741**	**4,036,892**
Off-balance sheet items				
Exposure class				
Central governments and central banks	-	97	-	-
Institutions	11,406	15,266	3,271	3,458
Corporates	494,451	552,625	170,046	179,903
Retail	262,430	261,614	802	2,834
Claims secured by residential property	8,753	3,468	1,523	601
Other items	-	-	24	13
TOTAL	**777,040**	**833,070**	**175,666**	**186,809**
Derivatives				
Exposure class				
Central governments and central banks	-	1,760	-	-
Institutions	1,669	171	334	34
Corporates	547	390	547	390
Other items	1,109	-	1,109	-
TOTAL	**3,325**	**2,321**	**1,990**	**424**
Total risk-weighted assets for credit risk			**4,491,397**	**4,224,125**
Risk-weighted assets for market risk			**12,400**	**6,100**
Risk-weighted assets for operational risk			**371,240**	**358,364**
Total risk-weighted assets			**4,875,037**	**4,588,589**

Capital adequacy ratios	**Capital**		**Capital ratios %**	
	2012	**2011**	**2012**	**2011**
Tier 1 Capital	**555,159**	**467,303**	**11.39%**	**10.18%**
Total capital base	**638,713**	**576,921**	**13.10%**	**12.57%**

4. Segment reporting

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

Measurement and reporting of segment assets and liabilities and segment revenues and expenses are based on the accounting policies set out in the accounting policy note.

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

The Group operates principally in Bulgaria, but also has operations in Cyprus and Albania.

In presenting information on the basis of geographical segments, income and expenses are allocated based on the location of the Group affiliate that generates them. Segment assets and liabilities are allocated based on their geographical location.

In thousands of BGN	**Bulgarian operations**		**Foreign operations**		**Total**	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
Interest income	424,224	409,194	41,288	31,609	465,512	440,803
Interest expense	(304,896)	(273,743)	(6,381)	(5,071)	(311,277)	(278,814)
Net interest income	**119,328**	**135,451**	**34,907**	**26,538**	**154,235**	**161,989**
Fee and commission income	81,903	79,649	2,092	1,109	83,995	80,758
Fee and commission expense	(9,515)	(8,271)	(176)	(159)	(9,691)	(8,430)
Net fee and commission income	**72,388**	**71,378**	**1,916**	**950**	**74,304**	**72 328**
General administrative expenses	(153,951)	(151,729)	(6,071)	(6,197)	(160,022)	(157,926)
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
Segment assets	**6,384,181**	**5,773,283**	**666,267**	**401,169**	**7,050,448**	**6,174,452**
Segment liabilities	**6,341,254**	**5,568,094**	**203,927**	**136,356**	**6,545,181**	**5,704,450**

The following table presents the allocation of assets and liabilities, income and expenses based on business segments as at 31 December 2012 and for the year then ended:

In thousands of BGN

Business segment	**Assets**	**Liabilities**	**Interest income**	**Interest expense**	**Net fee and commission income**	**Net trading income**	**Other operating expenses**
Commercial banking	3,685,943	1,162,716	345,675	(41,227)	42,301	-	-
Retail banking	854,446	5,027,005	102,740	(238,002)	13,961	-	-
Cards business	-	-	-	-	17,138	-	-
Treasury	2,039,858	24,241	17,097	(811)	(207)	8,539	2,813
Other	470,201	331,219	-	(31,237)	1,111	-	6
Total	**7,050,448**	**6,545,181**	**465,512**	**(311,277)**	**74,304**	**8,539**	**2,819**

5. Financial assets and liabilities

Accounting classification and fair values

The table below sets out the Group's classification of each class of financial assets and liabilities, and their fair values as at 31 December 2012.

In thousands of BGN

	Trading	Held-to-maturity	Loans and receivables	Available for sale	Other amortised cost	Other	Total carrying amount	Fair value
ASSETS								
Cash and balances with central banks	-	-	1,013,484	-	-	127,405	1,140,889	1,140,889
Financial assets held for trading	6,553	-	-	-	-	-	6,553	6,553
Available for sale investments	-	-	-	726,619	-	-	726,619	726,619
Financial assets held to maturity	-	118,770	-	-	-	-	118,770	118,764
Loans and advances to banks and financial institutions	-	-	45,939	-	-	-	45,939	45,939
Loans and advances to customers	-	-	4,540,389	-	-	-	4,540,389	4,540,389
Other financial assets	-	-	-	-	-	1,088	1,088	1,088
Total	**6,553**	**118,770**	**5,599,812**	**726,619**	**-**	**128,493**	**6,580,247**	**6,580,241**
LIABILITIES								
Due to credit institutions	-	-	-	-	2,580	-	2,580	2,580
Due to other customers	-	-	-	-	6,189,721	-	6,189,721	6,189,721
Liabilities evidenced by paper	-	-	-	-	62,420	-	62,420	62,420
Subordinated term debt	-	-	-	-	54,988	-	54,988	54,988
Perpetual debt	-	-	-	-	99,584	-	99,584	99,584
Hybrid debt	-	-	-	-	123,901	-	123,901	123,901
Other financial liabilities	-	-	-	-	-	1,309	1,309	1,309
Total	**-**	**-**	**-**	**-**	**6,533,194**	**1,309**	**6,534,503**	**6,534,503**

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 loans and advances to customers is approximately equal to their carrying value due to the fact that the main part of the loan portfolio carry floating interest rates which reflect the changes in the market conditions. The fair value of liabilities evidenced by paper is approximately equal to their carrying value due to the fact that the main part of liabilities evidenced by paper are either with short-term maturity or carry floating interest rates which reflect the changes in the market conditions.

Notes to the financial statements

5. Financial assets and liabilities, continued

Accounting classification and fair values, continued

The table below sets out the Group's classification of each class of financial assets and liabilities, and their fair values as at 31 December 2011.

In thousands of BGN

	Trading	Held-to-maturity	Loans and receivables	Available for sale	Other amortised cost	Other	Total carrying amount	Fair value
ASSETS								
Cash and balances with central banks	-	-	796,489	-	-	129,905	926,394	926,394
Financial assets held for trading	8,659	-	-	-	-	-	8,659	8,659
Available for sale investments	-	-	-	663,925	-	-	663,925	663,925
Financial assets held to maturity	-	65,886	-	-	-	-	65,886	65,522
Loans and advances to banks and financial institutions	-	-	100,427	-	-	-	100,427	100,427
Loans and advances to customers	-	-	4,182,236	-	-	-	4,182,236	4,182,236
Total	**8,659**	**65,886**	**5,079,152**	**663,925**	**-**	**129,905**	**5,947,527**	**5,947,163**
LIABILITIES								
Due to credit institutions	-	-	-	-	1,782	-	1,782	1,782
Due to other customers	-	-	-	-	5,388,310	-	5,388,310	5,388,310
Liabilities evidenced by paper	-	-	-	-	112,306	-	112,306	112,306
Subordinated term debt	-	-	-	-	50,596	-	50,596	50,596
Perpetual debt	-	-	-	-	99,376	-	99,376	100,830
Hybrid debt					42,800	-	42,800	42,800
Other financial liabilities	-	-	-	-	-	358	358	358
Total	**-**	**-**	**-**	**-**	**5,695,170**	**358**	**5,695,528**	**5,696,982**

6. Net interest income

In thousands of BGN

	2012	2011
Interest income		
Accounts with and placements to banks and financial institutions	2,210	3,537
Retail customers	99,630	93,466
Loans to corporate clients	316,799	303,170
Loans to small and medium enterprises	28,876	27,060
Microlending	3,110	3,345
Debt instruments	14,887	10,225
	465,512	**440,803**
Interest expense		
Deposits from banks	(213)	(731)
Deposits from other customers	(279,229)	(250,862)
Liabilities evidenced by paper	(3,413)	(4,769)
Subordinated term debt	(8,340)	(6,867)
Perpetual debt	(11,583)	(11,551)
Hybrid debt	(8,468)	(4,013)
Lease agreements and other	(31)	(21)
	(311,277)	**(278,814)**
Net interest income	**154,235**	**161,989**

For 2012 the recognised interest income on individually impaired financial assets (loans and advances to customers) amounts to BGN 48,186 thousand (2011: BGN 41,056 thousand).

7. Net fee and commission income

In thousands of BGN

	2012	2011
Fee and commission income		
Letters of credit and guarantees	8,215	8,466
Payments transactions	9,858	9,233
Customer accounts	15,933	14,859
Cards business	24,953	23,116
Other	25,036	25,084
	83,995	**80,758**
Fee and commission expense		
Letters of credit and guarantees	(686)	(840)
Correspondent accounts	(746)	(679)
Cards business	(7,815)	(6,730)
Other	(444)	(181)
	(9,691)	**(8,430)**
Net fee and commission income	**74,304**	**72,328**

8. Net trading income

In thousands of BGN	2012	2011
Net trading gains/(losses) arise from:		
- Debt instruments	297	3,943
- Equity instruments	(131)	(284)
- Foreign exchange	8,373	7,635
Net trading income	**8,539**	**11,294**

9. Other operating income/(expenses)

In thousands of BGN	2012	2011
Other operating income/(expenses) arise from:		
- Debt instruments	2,303	(2,176)
- Equity instruments	510	-
- Other	6	37
Other operating income/(expenses)	**2,819**	**(2,139)**

10. General administrative expenses

In thousands of BGN	2012	2011
General and administrative expenses comprise:		
- Personnel cost	53,366	51,813
- Depreciation and amortisation	21,125	22,043
- Advertising	7,998	8,008
- Building rent expense	31,869	30,746
-Telecommunication, software and other computer maintenance	13,341	13,735
- Administration, consultancy, audit and other costs	32,323	31,581
General administrative expenses	**160,022**	**157,926**

Personnel costs include salaries, social and health security contributions under the provisions of the respective local legislation. At 31 December 2012 the total number of employees of the Group is 2,859 (31 December 2011: 2,838).

11. Impairment losses

In thousands of BGN	2012	2011
Write-downs		
Loans and advances to customers	(46,091)	(46,148)
Reversal of write-downs		
Loans and advances to customers	9,382	10,885
Net impairment losses	**(36,709)**	**(35,263)**

12. Income tax expense

In thousands of BGN	2012	2011
Current taxes	(3,946)	(3,709)
Deferred taxes (see note 22)	571	(388)
Income tax expense	**(3,375)**	**(4,097)**

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

In thousands of BGN	2012	2011
Accounting profit before taxation	**33,948**	**40,059**
Corporate tax at applicable tax rate (10% for 2012 and 10% for 2011)	3,395	4,006
Effect of tax rates of foreign subsidiaries and branches	(29)	45
Tax effect of permanent tax differences	122	46
Other	(113)	-
Income tax expense	**3,375**	**4,097**
Effective tax rate	9.94%	10.23%

13. Earnings per share

	2012	2011
Net profit attributable to shareholders *(in thousands of BGN)*	30,504	35,864
Weighted average number of ordinary shares *(in thousands)*	110,000	110,000
Earnings per share *(in BGN)*	**0.28**	**0.33**

The basic earnings per share, calculated in accordance with IAS 33, are based on the profit attributable to ordinary equity holders of the Bank. During 2012 as in the previous year, no conversion or option rights were outstanding. The diluted earnings per share, therefore, correspond to the basic earnings per share.

14. Cash and balances with central banks

In thousands of BGN	2012	2011
Cash on hand		
- In Bulgarian leva	87,631	91,555
- In foreign currencies	39,774	38,350
Balances with central banks	917,022	655,739
Current accounts and amounts with resident banks	109	103
Current accounts and amounts with foreign banks	96,353	140,647
Total	**1,140,889**	**926,394**

15. Financial assets held for trading

In thousands of BGN	2012	2011
Bonds, notes and other instruments issued by:		
Bulgarian government, assessed with BBB rating :		
- denominated in Bulgarian leva	3,517	3,518
- denominated in foreign currencies	110	2,005
Other issuers – equity instruments (unrated)	2,926	3,136
Total	**6,553**	**8,659**

16. Available for sale investments

In thousands of BGN	2012	2011
Bonds, notes and other instruments issued by:		
Bulgarian government		
- denominated in Bulgarian leva	82,794	18,115
- denominated in foreign currencies	221,232	85,534
Foreign governments		
- treasury bills	370,822	526,804
- government bonds	19,582	-
Foreign banks	26,480	26,934
Other issuers – equity instruments	5,709	6,538
Total	**726,619**	**663,925**

17. Financial assets held to maturity

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

In thousands of BGN	2012	2011
Securities held to maturity issued by:		
Bulgarian government	34,652	36,054
Foreign governments	65,387	10,925
Foreign banks	18,731	18,907
Total	**118,770**	**65,886**

18. Loans and advances to banks and financial institutions

(a) Analysis by type

In thousands of BGN	2012	2011
Placements and other amounts due from banks	41,136	85,512
Receivables under resale agreements (see note 31)	-	12,683
Other	4,803	2,232
Total	**45,939**	**100,427**

(b) Geographical analysis

In thousands of BGN	2012	2011
Resident banks and financial institutions	2,197	13,093
Foreign banks and financial institutions	43,742	87,334
Total	**45,939**	**100,427**

19. Loans and advances to customers

In thousands of BGN	**2012**	**2011**
Retail customers		
- Consumer loans	295,486	238,603
- Mortgage loans	376,174	354,732
- Credit cards	212,811	202,495
Small and medium enterprises	316,788	268,162
Microlending	30,075	26,612
Corporate customers	3,478,134	3,224,455
Less allowance for impairment	(169,079)	(132,823)
Total	**4,540,389**	**4,182,236**

(a) Movement in impairment allowances

In thousands of BGN

Balance at 1 January 2012	**132,823**
Additional allowances	46,091
Amounts released	(9,382)
Write – offs	(441)
Effects of changes in foreign currencies rates	(12)
Balance at 31 December 2012	**169,079**

20. Property and equipment

In thousands of BGN	Land and buildings	Fixtures and fittings	Motor vehicles	Assets under construction	Leasehold improvements	Total
Cost						
At 1 January 2011	12,639	116,332	6,183	25,409	57,432	217,995
Additions	-	215	-	10,415	78	10,708
Foreign exchange differences	-	(2)	-	-	(2)	(4)
Acquired through business combination	-	17	-	-	-	17
Disposals	-	(833)	(298)	(58)	(88)	(1,277)
Transfers	276	4,909	228	(8,497)	2,985	(99)
At 31 December 2011	12,915	120,638	6,113	27,269	60,405	227,340
Additions	-	65	64	16,872	5	17,006
Depreciation elimination before revaluation	(3,360)	-	-	-	-	(3,360)
Revaluation	5,000	-	-	-	-	5,000
Foreign exchange differences	-	(4)	(2)	-	(6)	(12)
Disposals	-	(2,193)	(358)	(7)	(83)	(2,641)
Transfers	-	9,057	536	(13,484)	2,236	(1,655)
At 31 December 2012	**14,555**	**127,563**	**6,353**	**30,650**	**62,557**	**241,678**
Depreciation						
At 1 January 2011	3,579	64,722	4,933	-	16,198	89,432
Foreign exchange differences	-	7	1	-	1	9
Acquired through business combination	-	9	-	-	-	9
Charge for the year	438	14,792	628	-	3,991	19,849
On disposals	-	(825)	(298)	-	(78)	(1,201)
At 31 December 2011	4,017	78,705	5,264	-	20,112	108,098
Foreign exchange differences	-	(8)	(1)	-	(5)	(14)
Charge for the year	448	13,940	404	-	3,931	18,723
Depreciation elimination before revaluation	(3,360)	-	-	-	-	(3,360)
On disposals	-	(2,169)	(358)	-	(82)	(2,609)
At 31 December 2012	**1,105**	**90,468**	**5,309**	**-**	**23,956**	**120,838**
Net book value						
At 1 January 2011	**9,060**	**51,610**	**1,250**	**25,409**	**41,234**	**128,563**
At 31 December 2011	**8,898**	**41,933**	**849**	**27,269**	**40,293**	**119,242**
At 31 December 2012	**13,450**	**37,095**	**1,044**	**30,650**	**38,601**	**120,840**

21. Intangible assets

In thousands of BGN	Software and licences	Greenhouse allowances	Goodwill	Total
Cost				
At 1 January 2011	22,355	3,820	587	26,762
Additions	40	-	-	40
Exchange differences on translating foreign operations	(3)	-	-	(3)
Acquired through business combinations	-	-	134	134
Disposals	(4)	-	-	(4)
Transfers	99	-	-	99
At 31 December 2011	22,487	3,820	721	27,028
Additions	19	-	-	19
Exchange differences on translating foreign operations	(4)	-	-	(4)
Disposals	(168)	-	-	(168)
Transfers	1,655	-	-	1,655
At 31 December 2012	**23,989**	**3,820**	**721**	**28,530**
Depreciation				
At 1 January 2011	5,765	-	-	5,765
Acquired through business combination	(1)	-	-	(1)
Charge for the year	2,194	-	-	2,194
On disposals	(4)	-	-	(4)
At 31 December 2011	7,954	-	-	7,954
Exchange differences on translating foreign operations	3	-	-	3
Charge for the year	2,402	-	-	2,402
On disposals	(168)	-	-	(168)
At 31 December 2012	**10,191**	**-**	**-**	**10,191**
Net book value				
At 1 January 2011	**16,590**	**3,820**	**587**	**20,997**
At 31 December 2011	**14,533**	**3,820**	**721**	**19,074**
At 31 December 2012	**13,798**	**3,820**	**721**	**18,339**

22. 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 thousands of BGN	Assets		Liabilities		Net	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
Property, equipment and intangibles	-	-	3,482	3,502	3,482	3,502
Other items	(258)	(208)	341	342	83	134
Net tax (assets)/liabilities	**(258)**	**(208)**	**3,823**	**3,844**	**3,565**	**3,636**

Movements in temporary differences in 2012 are recognised, as follows:

In thousands of BGN	**2011**	**Recognised in profit or loss for the period**	**Recognised in capital for the period**	**2012**
Property, equipment and intangibles	3,502	(520)	500	3,482
Other	134	(51)	-	83
Net tax (assets)/liabilities	**3,636**	**(571)**	**500**	**3,565**

23. Other assets

In thousands of BGN	**2012**	**2011**
Deferred expense	11,298	10,614
Gold bullion	10,847	7,983
Other assets	306,757	68,747
Total	**328,902**	**87,344**

As at 31 December 2012 under Other assets position there are assets obtained by taking possession of collateral for the amount of BGN 286,274 thousand (31 December 2011: BGN 54,843 thousand), measured at the lower of cost and net realisable value.

24. Due to credit institutions

In thousands of BGN	**2012**	**2011**
Term deposits	564	42
Payable on demand	2,016	1,740
Total	**2,580**	**1,782**

25. Due to other customers

In thousands of BGN	**2012**	**2011**
Retail customers		
- current accounts	504,682	430,325
- term and savings deposits	4,522,323	4,028,187
Corporate, state-owned and public institutions		
- current accounts	396,066	316,016
- term deposits	766,650	613,782
Total	**6,189,721**	**5,388,310**

26. Liabilities evidenced by paper

In thousands of BGN	**2012**	**2011**
Acceptances under letters of credit	2,564	9,217
Liabilities under repurchase agreements (see note 31)	20,352	27,951
Other term liabilities	39,504	75,138
Total	**62,420**	**112,306**

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

27. Subordinated term debt

As at 31 December 2012 the Bank has entered into six separate subordinated loan agreements. All these subordinated loan agreements are governed by English Law with funds raised outside the Republic of Bulgaria.

Subordinated liabilities can be analysed as follows:

In thousands of BGN

Lender	Original principal amount	Orirginal maturity	Maturity date	Amortised cost as at 31 December 2012
Growth Management Limited	5,867	10 years	27.08.2014	16,993
Growth Management Limited	3,912	10 years	24.02.2015	9,258
Estrado Holding Ltd	9,779	10 years	01.03.2015	9,927
Growth Management Limited	1,956	10 years	17.03.2015	4,536
ING Bank NV/ Atlantic Forfaitierungs AG	9,779	10 years	22.04.2015	10,058
Hypo-Alpe-Adria Bank	3,912	10 years	14.04.2015	4,216
Total	**35,205**			**54,988**

The treatment of these liabilities 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.

28. Perpetual debt

In thousands of BGN	Principal amount	Amortised cost as at 31 December 2012
Step-up guaranteed perpetual subordinated bonds EUR 27 mio	52,807	55,115
Step-up guaranteed perpetual subordinated bonds EUR 21 mio	41,073	44,469
Total	**93,880**	**99,584**

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, a subsidiary 100% owned by the Bank was fully guaranteed by the Bank. The terms and conditions of the subordinated bonds 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 the Bulgarian National Bank.

29. Hybrid debt

In thousands of BGN	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 thousands of BGN	Principal amount	Amortised cost as at 31 December 2011
Hybrid debt with original principal EUR 20 mio	39,117	42,800
Total	**39,117**	**42,800**

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 issed the second tranche of the instrument with nominal value of EUR 20,000 thousand, which after obtaining permission from the Bulgarian National Bank was included as Tier 1 capital.

In November 2012 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 60,000 thousand.

30. Other liabilities

In thousands of BGN	2012	2011
Liabilities to personnel	2,277	1,892
Other payables	4,581	3,345
Total	**6,858**	**5,237**

31. Repurchase and resale agreements

The Group 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-earning assets, depending on the prevailing interest rates. At 31 December 2012 assets sold under repurchase agreements are as follows:

In thousands of BGN	Fair value of underlying assets	Carrying amount of corresponding liabilities
Other government securities	20,424	20,352
Total	**20,424**	**20,352**

31. Repurchase and resale agreements, continued

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

In thousands of BGN	Fair value of underlying assets	Carrying amount of corresponding liabilities
Bulgarian government securities	23,123	22,740
Other government securities	5,211	5,211
Total	**28,334**	**27,951**

The Group also purchases financial instrument under agreements to resell them at future dates ("reverse repurchase agreements"). The seller commits to repurchase the same instruments at an agreed future date. Reverse repurchases are entered into as a facility to provide funds of customers.

At 31 December 2012 there were no outstanding reverse repurchase agreements.

At 31 December 2011 assets purchased subject to agreements to resell were as follows:

In thousands of BGN	Fair value of assets held as collateral	Carrying amount of corresponding receivables
Bulgarian government securities	12,913	12,683
Total	**12,913**	**12,683**

32. Capital and reserves

(a) Number and face value of registered shares as at 31 December 2012

As at 31 December 2012 the registered share capital of the Bank is BGN 110,000,000 divided into 110,000,000 ordinary dematerialized shares with voting rights of BGN 1 par value each. All the shares have been fully paid-up.

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

32. Capital and reserves, continued

(b) Shareholders

The table below shows those shareholders of the Bank holding shares as at 31 December 2012 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 the Bulgarian Stock Exchange – Sofia.

(c) Statutory reserve

Statutory reserves comprise amounts appropriated for purposes defined by the local legislation. Under Bulgarian law, the Bank is required to allocate 1/10 of its annual profit as statutory reserves until their aggregate amount reaches 1/10 of the Banks' share capital.

In 2012, as in the previous year, the Bank has not distributed dividends.

33. Commitments and contingent liabilities

(a) Memorandum items

The Group 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 represent the maximum accounting loss that would be recognised at the end of the reporting period if counterparties failed completely to perform as contracted and any collateral or security proved to be of no value.

In thousands of BGN	**2012**	**2011**
Bank guarantees		
- in BGN	178,464	148,694
- in foreign currency	198,306	202,611
Total guarantees	**376,770**	**351,305**
Unused credit lines	383,083	385,569
Promissory notes	2,448	4,926
Letters of credit	14,739	91,270
Total	**777,040**	**833,070**

33. Commitments and contingent liabilities, continued

(a) Memorandum items, continued

These commitments and contingent liabilities have off balance-sheet credit risk because only organisation 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 end of the reporting period there are no other significant commitments and contingencies which require additional disclosure.

At 31 December 2012 the extent of collateral held for guarantees and letters of credit is 100 percent.

34. Cash and cash equivalents

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

In thousands of BGN	**2012**	**2011**
Cash and balances with central banks	1,140,889	926,394
Loans and advances to banks and financial institutions with maturity less than 90 days	33,289	61,679
Total	**1,174,178**	**988,073**

35. 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 thousands of BGN	**2012**	**2011**
FINANCIAL ASSETS		
Cash and balances with central banks	1,012,504	730,580
Financial assets held for trading	7,765	16,144
Available for sale investments	760,027	650,152
Financial assets held to maturity	88,717	55,947
Loans and advances to banks and financial institutions	69,741	70,351
Loans and advances to customers	4,381,081	3,837,553
FINANCIAL LIABILITIES		
Due to credit institutions	6,531	23,689
Due to other customers	5,813,478	4,797,374
Liabilities evidenced by paper	80,048	127,175
Subordinated term debt	52,222	48,562
Perpetual debt	98,708	98,505
Hybrid debt	69,885	24,916

36. Related party transactions

Parties are considered to be related if one party controls or exercises significant influence over the other party on making financial or operational decisions, or the parties are under common control.
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 are 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 thousands of BGN	**2012**	**2011**	**2012**	**2011**
Loans				
Loans outstanding at beginning of the period	1,674	2,997	23,161	19,055
Loans issued/(repaid) during the period	(325)	(1,323)	1,295	4,106
Loans outstanding at end of the period	1,349	1,674	24,456	23,161
Deposits and other financing received				
Deposits at beginning of the period	11,466	7,994	12,795	14,197
Deposits received/(repaid) during the period	903	3,472	9,009	(1,402)
Deposits at end of the period	12,369	11,466	21,804	12,795
Deposits placed				
Deposits at beginning of the period	-	-	3,916	3,922
Deposits placed/(matured) during the period	-	-	73	(6)
Deposits at end of the period	-	-	3,989	3,916
Off-balance sheet commitments issued by the Group				
At beginning of the period	1,843	1,204	2,116	1,289
Granted/(expired)	(2)	639	(1,864)	827
At the end of the period	1,841	1,843	252	2,116

The key management personnel of the Bank received remuneration of BGN 4,460 thousand for 2012.
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37. Subsidiary undertakings

(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., which is wholly owned by the Bank. Its purpose 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 proceeds from which are used to finance the operations of the Bank. The authorised share capital of the company amounts to EUR 90 thousand, divided into 900 common shares of EUR 100 each. Issued and paid up are 180 shares. The Bank consolidates its investment in this company.

(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 31 December 2012 the registered share capital of the company is BGN 610 thousand, and the Bank's shareholding is 94.79%. The Bank consolidates its investment in the company.

(c) First Investment Bank − Albania Sh.a.

In April 2006 the Bank founded First Investment Bank - Albania Sh.a. with a 99.9998% shareholding. On 27 June 2007 First Investment Bank – Albania was granted a full banking licence by the Bank of Albania, and on 1 September 2007 effectively took over the activities of the former FIB-Tirana Branch by assuming all its rights and obligations, assets and liabilities.

As at 31 December 2012 the share capital of First Investment Bank − Albania Sh.a. is EUR 11,975 thousand, fully paid in and the Bank's shareholding is 100%. The Bank consolidates its investment in the company.

(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. Each of the new companies has a capital of BGN 150,000, which is divided in the following way:

1. Debita OOD – 70% or 105,000 shares held by the Bank, and 30% or 45,000 shares held by FFBH.

2. Realtor OOD – 51% or 76,500 shares held by the Bank, and 49% or 73,500 shares held by FFBH.

The affiliate companies are set up with the aim to act as servicing companies in accordance to Article 18 of the Special Purpose Investment Companies Act. Debita OOD will be engaged in the following activities - acquisition, servicing, management and transactions with receivables, as well as consultancy services in relation to such operations, and Realtor OOD - in management, servicing and maintenance of real estate, organization of construction and renovation of buildings, and consultancy services related to real estate. The Bank consolidates its investments in the companies.

(e) Health Insurance Fund FI Health AD

In the second half of 2010 the Bank acquired a majority stake capital of Health Insurance Fund FI Health AD (formerly Health Insurance Fund Prime Health AD), a company engaged in voluntary health insurance as well as acquisition, management and sale of investments in other companies. As at 31 December 2012 the share capital of Health Insurance Fund FI Health AD is BGN 5,000 thousand and the Bank's shareholding is 59.10%. The Bank consolidates its investment in the company.

37. Subsidiary undertakings, continued

(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. The Bank consolidates its investment in the company.

(g) Balkan Financial Services EAD

In February 2011 the Bank acquired 100 shares representing 100% of the capital of Balkan Financial Services OOD. The company is engaged in consultancy services related to implementation of financial information systems and software development. In January 2012 the company was transformed in a single member joint stock company. As at 31 December 2012 the registered share capital of the company is BGN 50 thousand, and the Bank’s shareholding is 100%. The Bank consolidates its investment in the company.

38. Subsequent events

There are no events after the reporting period that require additional disclosure or adjustments to the Group’s financial statements.

ANNUAL REPORT

(ON A CONSOLIDATED BASIS)

OF FIRST INVESTMENT BANK AD
FOR 2012

APRIL 2013

The present report is prepared on the grounds of and in compliance with the requirements of art.33, par. 3 of the Accounting Act, of art.100н of the Law on Public Offering of Securities, Ordinance №2 of the Financial Supervision Commission from 17.09.2003 for the prospects of public offering and admittance for trade on a regulated market of securities and for the disclosure of information by public companies and other issuers of securities, Ordinance №8 of the BNB on the capital adequacy of credit institutions and the National corporate governance code.

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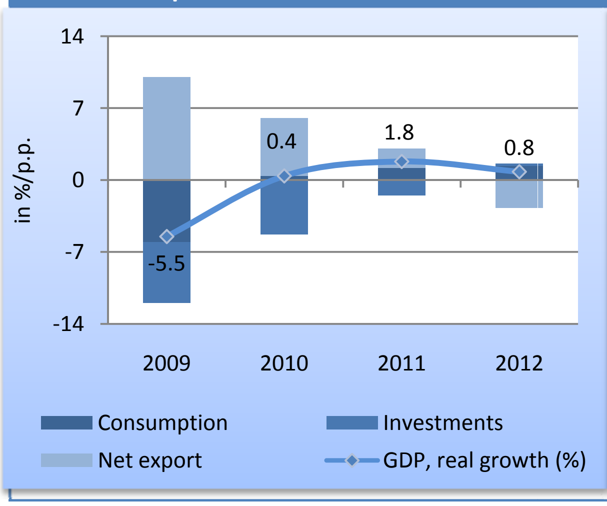
In 2012 the Bulgarian economy slowed down its recovery influenced by the recession and continuing debt crisis in the Euro Area countries. Slower external demand and unstable environment had negative effect on economic activity in the country. Financial stability was maintained as a result of a balanced fiscal policy, the existing system of a currency board, and the resilient banking system.

	2012	2011	2010	2009	2008
Gross domestic product, real growth (%)	0.8	1.8	0.4	(5.5)	6.2
Consumption, real growth (%)	1.8	1.5	0.5	(7.3)	2.6
Gross fixed capital formation, real growth (%)	0.8	(6.5)	(18.3)	(17.6)	21.9
Inflation at period-end (%)	4.2	2.8	4.5	0.6	7.8
Average annual inflation (%)	3.0	4.2	2.4	2.8	12.3
Unemployment (%)	11.4	10.4	9.2	9.1	6.3
Current account (% of GDP)	(0.7)	0.3	(1.5)	(8.9)	(23.1)
Trade balance (% of GDP)	(9.1)	(5.6)	(7.7)	(11.9)	(24.3)
Foreign exchange reserves of BNB (EUR million)	15,553	13,349	12,977	12,919	12,713
Foreign direct investments (% of GDP)	3.5	4.5	3.2	7.0	19.0
Gross external debt (% of GDP)	95.6	93.1	102.7	108.3	105.1
Public sector external debt (% of GDP)	11.6	11.0	12.0	12.0	11.1
Consolidated budget balance (% of GDP)	(0.5)	(2.0)	(4.0)	(0.9)	2.9
Average exchange rate of USD (BGN for USD 1)	1.48	1.51	1.47	1.36	1.39

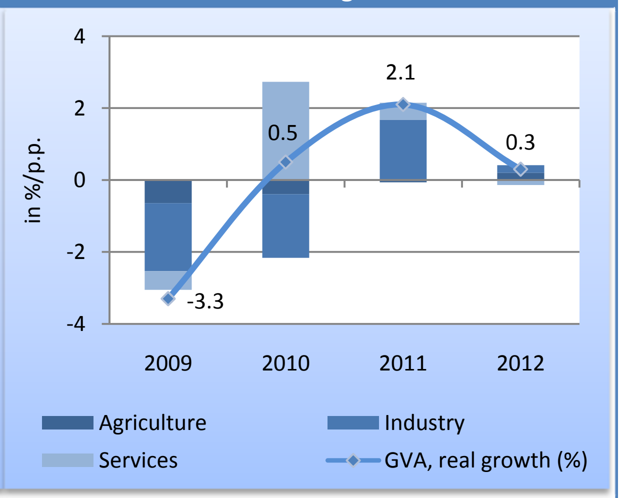
Source: BNB, Ministry of finance, National Statistics Institute

In 2012 the economy in the country registered a real growth of 0.8% (2011: 1.8%), which slowed down to 0.3% in the last quarter of 2012 as a result of the unstable international situation and its negative influence on Bulgarian exports.

Components contribution to GDP



Sector contribution to gross value added



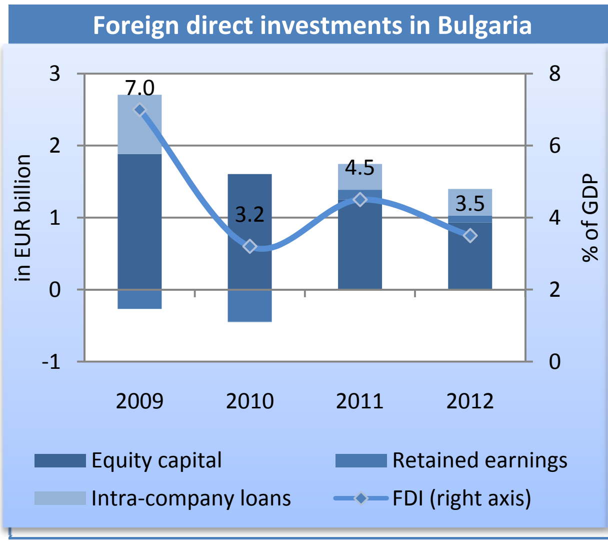
The volume of exports, which was the major driver of the economy during the last years, decreased by 0.4% in 2012 (2011: growth of 12.3%; 2010: 14.7%) and by 1.7% in the forth quarter of the year. The volume of imports decreased its growth to 3.7%, compared to 8.8% a year earlier.

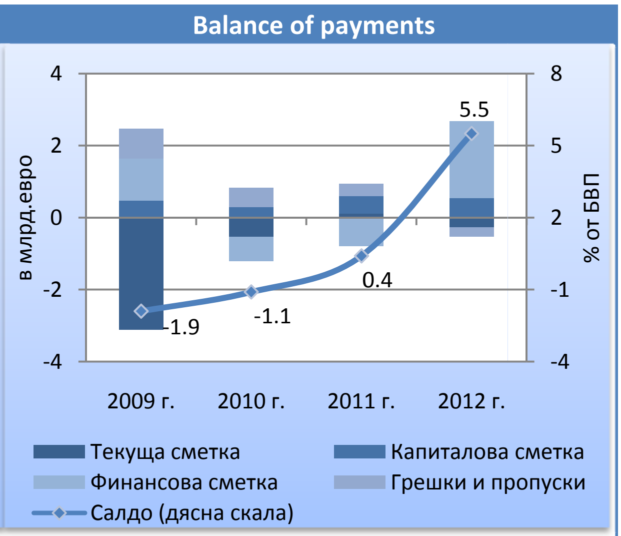
The negative influence on net export was offset by a growth in final consumption, including households, which gradually increased during the last three years and reached 1.8% in 2012 (2011: 1.5%; 2010: 0.5%). Internal demand remained under the influence of labour market dynamics and continuing caution in terms of spending. Investment activity registered an annual growth of 0.8% for the first time since the beginning of the crisis, reflecting the higher government capital expenditures and the inflow of foreign direct investments in the country.

During the period the gross value added increased by 0.3% (2011: 2.1%), the main contributor being the industry sector and the agriculture, which grew by 0.7% and 3.5% respectively (2011: 5.9% and -1.1%). Negative contribution to value added had the services sector, which decreased by 0.2% on aggregate for the year (2011: growth of 0.7%), despite separate spheres with positive influence, such as trade, transportation and state government.

The labour market remained unstable in accordance with current economic activity and companies' behavior, which restricted operating costs, including labour costs. As a result unemployment increased and remained high at 11.4% as at end-2012 (2011: 10.4%; 2010: 9.2%), but comparable to EU and Euro Area averages.

In 2012 foreign direct investments in the country decreased to EUR 1,398 million (3.5% of GDP), compared to EUR 1,746 million (4.5% of GDP) a year earlier, resulting mainly from a decline in the last quarter. A contributor for the decrease was the lower inflow in the form of equity capital, which reached EUR 933 million at year-end (2011: EUR 1,254 million) and retained earnings to EUR 96 million (2011: EUR 134 million). By sectors, the largest inflow of investments were in transport (EUR 473 million), electricity (EUR 437 million) and trade (EUR 354 million), while net payments were registered in financial intermediary (EUR -162 million), manufacturing (EUR -83 million) and real estate operations (EUR -42 million). Other investments, which include commercial credits, loans, currency deposits and other assets and liabilities, increased as a result of which the financial account of the balance of payments was positive at EUR 2,161 million at the end of 2012, compared to EUR 159 million a year earlier.

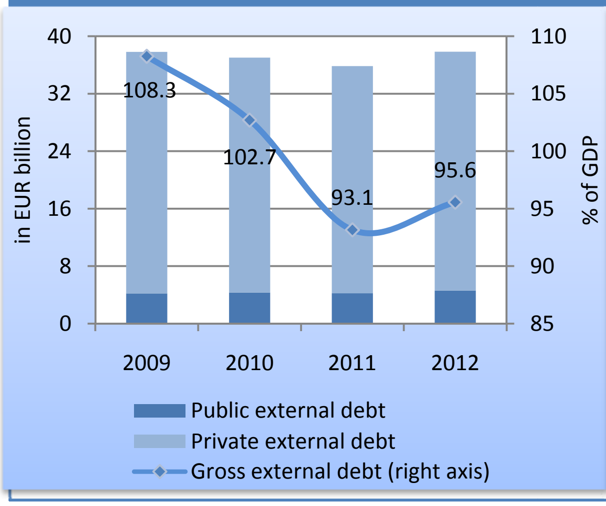




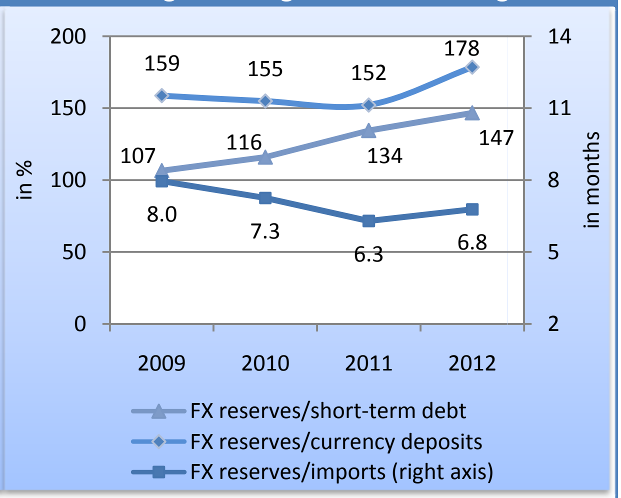
The current account balance in 2012 was negative by EUR 268 million (0.7% of GDP), compared to positive balance by EUR 104 million (0.3% of GDP) the prior year. A major contributor was the increase in trade deficit by EUR 1,438 million to EUR 3,594 million or 9.1% of GDP (2011: EUR -2,156 million or -5.6% of GDP). Imports grew faster than exports, reaching EUR 24,386 million or 8.8% more than 2011, due mainly to recovering internal demand. Exports increased by 2.6% (2011: 30,2%) to EUR 20,792 million, against EUR 20,264 million year-on-year, as a result of the recession in the Euro Area and the related weaker external demand. In 2012 the European Union remained the major trading partner, accounting for 58.4% of exports (2011: 62.2%) and 47.5% of imports (2011: 48.4%). An increase was registered in trade with third countries, including China, Turkey, Russia.

Gross external debt rose by 5.6% to EUR 37,846 million or 95.6% of GDP as at end-2012 (2011: EUR 35,846 million or 93.1% of GDP). The increase was mainly due to higher private unguaranteed external debt, in particular company loans, which reached EUR 33,240 million, against EUR 31,621 million the prior year. Public and publicly guaranteed external debt also increased to EUR 4,606 million at period-end (2011: EUR 4,225 million), but remained low as a percentage of GDP at 11.6% (2011: 11.0%) as compared to most EU countries. Foreign exchange reserves covered 146.7% of short-term external obligations (2011: 134.4%) and 178.5% of currency deposits (2011: 152.2%) in the country.

Gross external debt



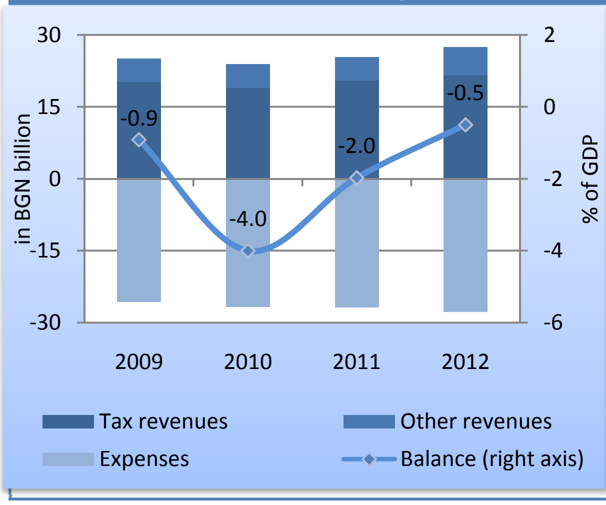
Foreign exchange reserves coverage



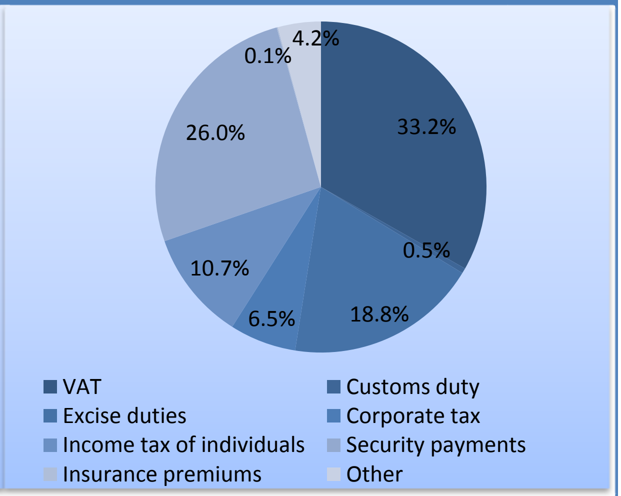
At the beginning of July 2012 Bulgaria successfully issued EUR 950 million five-year Eurobonds on global markets at a return of 4.436% and spread above the average interest rate swaps of 320 bps.

In 2012 the consolidated budget deficit decreased to BGN 350 million (0.5% of GDP), against BGN 1,487 million (2.0% of GDP) a year earlier, main contributors being the increased revenues from indirect taxes and non-tax revenues and contributions. In the period VAT revenues rose by 8.2% to BGN 7,152 million (2011: BGN 6,612 million) resulting from heightened collection control, including remote real-time connection of merchants' fiscal devices to the National Revenue Agency, and the growth in imports in the country. Revenues from excise duties reached BGN 4,048 million, compared to BGN 3,860 million year-on-year, boosted by growth in all major groups of excise goods, in particular fuel and tobacco products. Indirect tax on insurance premiums generated additional revenues to the budget of BGN 25 million, against BGN 22 million the prior year. Corporate tax revenues in 2012 amounted to BGN 1,395 million or 2.9% year-on-year (2011: BGN 1,356 million), due mainly to higher revenues from financial institutions. Revenues from income tax from individuals grew by 5.6% to BGN 2,282 million (2011: BGN 2,162 million), influenced mainly by the increased minimum social security thresholds by business activities and the increased level of average salary. Social security contributions increased to BGN 5,590 million, against BGN 5,500 million a year earlier.

Consolidated budget



Structure of tax revenues for 2012



Total expenditures on the consolidated budget grew and reached BGN 27,820 million (2011: BGN 26,960 million), due mainly to an increase in capital expenditures (2012: BGN 3,667 million; 2011: BGN 3,075 million) and social security and health insurance payments (2012: BGN 10,717 million; 2011: BGN 10,315 million).

Average annual inflation in the country was 3.0% in 2012, compared to 4.2% in 2011 (2010: 2.4%). Accumulated inflation (since the beginning of the year) amounted to 4.2% at period-end (2011: 2.8%), major contributors being the rise in food prices (by 5.4%), overheads and utilities (by 10.3%) and transport (by 4.9%), which had the largest relative shares of 37.2%, 17.1% and 7.5% in the consumer price index formation. Harmonised inflation, which is a comparable measure for inflation in the EU countries and one of the price stability criteria for joining the Euro Area, was 2.4% for the period on average annual basis (2011: 3.4%; 2010: 3.0%).

During the year Bulgaria's short-term credit rating was increased by the international rating agency Standard & Poor's from „A-3" to „A-2" as a result of a change in the agency's rating methodology. The long-term credit rating was confirmed to „BBB" with a stable outlook, reflecting the prudent fiscal policy, decrease in the budget deficit and low level of public debt.

The main challenges for further development and recovery of economic activity in Bulgaria during 2013 remain surmounting the negative trend in net exports, the unfavourable conditions continuing in the labour market, accelerating domestic consumption and investment activity, and maintaining political stability. The effective absorption of EU funds, including in accordance with the new program time-frame period (2014-2020), as well as the strengthening of structural reforms continue to be among the factors for sustainable and long-term economic development.

THE BANKING SYSTEM

In 2012 the banking system in Bulgaria was characterised by resilience and retained confidence, registering good financial results, liquidity and capital position, and growing volumes in accordance with the external environment and global financial markets. The banking sector, under the Bulgarian National Bank's supervision, continued to generate value added to economy and contribute to macroeconomic stability in the country.

in %/p.p.	2012	2011	2010	%	%
Capital adequacy ratio	16.66	17.53	17.48	(0.87)	0.05
Tier 1 capital ratio	15.16	15.74	15.24	(0.58)	0.50
Ratio of liquid assets	26.00	25.57	24.37	0.43	1.20
Loans/deposits ratio (to customers)	98.82	103.42	112.03	(4.60)	(8.61)
Leverage ratio (equity/assets)	13.17	13.60	13.61	(0.43)	(0.01)
Return-on-equity (ROE)	5.71	6.10	6.73	0.68	(0.63)
Return-on-assets (ROA)	0.71	0.78	0.86	(0.07)	(0.08)
Problem loans (90 days past due)	16.62	14.93	11.90	1.69	3.03

Source: Bulgarian National Bank

The capital position of the banking system remained stable with total capital adequacy ratio of 16.66% and tier 1 capital ratio of 15.16%, reflecting the increased assessment of potential risks, in particular credit risk, in view of external environment developments. The buffer of capital above the regulatory minimum of 12% amounted to BGN 2,559 million (2011: BGN 2,907 million; 2010: BGN 2,794 million), retaining system's capacity to absorb potential shocks. Leverage ratio remained close to previous-year-levels at 13.17%, reflecting the lower equity growth (including retained earnings), as compared to assets.

The liquidity of the banking system was increased, in accordance with the structure and volume of cash flows. Continuing growth of liquid assets and customer deposits raised the ratio of liquid assets, measuring the extent of coverage of borrowed funds with highly liquid instruments, to 26%, while loans/deposits ratio for individuals and corporates decreased to 98.82%. Liquidity indicators reflected the increased capacity for meeting liquidity risk.

In BGN million/%	2012	2011	2010	%	%
Net interest income	2,625	2,869	2,917	(8.5)	(1.6)
Net fee and commission income	779	786	760	(0.9)	3.4
Administrative expenses	1,755	1,732	1,691	1.3	2.4
Impairment	1,209	1,290	1,317	(6.3)	(2.1)
Net profit	567	586	617	(3.2)	(5.0)

Source: Bulgarian National Bank

The profitability of the banking system remained under pressure in accordance with current business activity and higher interest expenses. Net profit for the period amounted to BGN 567 million, against

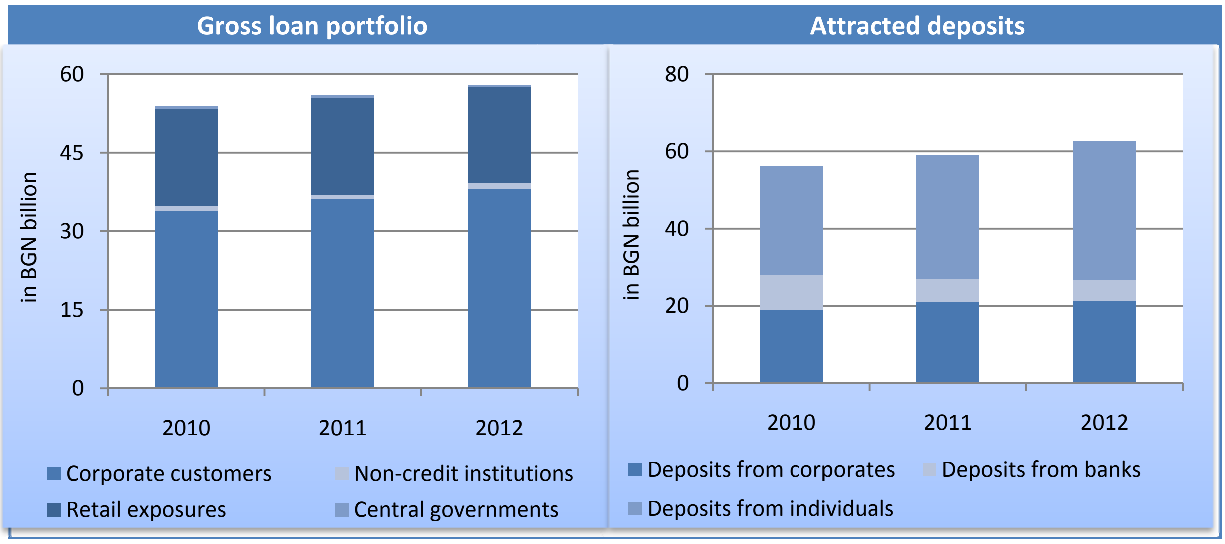
BGN 586 million the prior year (2010: BGN 617 million). The financial result was influenced by lower net interest income resulting from the increased volume of attracted funds from customers, as well as by lesser net fee and commission income and impairment costs. The reported results ensured a return-on-assets (ROA) of 0.71% and return-on-equity (ROE) of 5.71%, reflecting the banking system's capacity to generate profit in line with the economic cycle specifics.

In BGN million/%	2012	2011	2010	%	%
Assets	82,416	76,811	73,726	7.3	4.2
Loans to corporates	38,166	36,104	33,993	5.7	6.2
Loans to individuals	18,415	18,513	18,579	(0.5)	(0.4)
Deposits from corporates	21,387	20,907	18,891	2.3	10.7
Deposits from individuals	35,869	31,902	28,037	12.4	13.8

Source: Bulgarian National Bank

Total balance-sheet assets of the system grew by 7.3% year-on-year to BGN 82,416 million, as increase was registered in cash and balances with central banks, available for sale investments and loans. Loans lessened their relative share to 73.0% of total assets, but remained structure-determining for the system (2011: 78.6%; 2010: 79.2%).

The gross loan portfolio (without credit institutions) increased by 3.2% to BGN 57,841 million, due mainly to a growth in loans to corporates, which reached BGN 38,166 million or 5.7% more than end-2011 (2011/2010: 6.2%). Loans to individuals decreased by 0.5% to BGN 18,415 million, as consumer loans registered a drop by 1.9% to BGN 8,973 million, while mortgage loans – an increase by 0.8% to BGN 9,442 million. The behavior of individuals reflected the continuing uncertainty with regard to future incomes and labour market conditions.



In 2012 problem loans (those classified as nonperforming and loss) increased by 1.7 percentage points to 16.62% of the gross loan portfolio (excluding credit institutions), against 14.93% at year end-2011 (2010: 11.9%), with the status of loans to individuals remaining better than that of corporate loans.

Attracted funds in the banking system grew by 7.8% reaching BGN 70,702 million (2011: BGN 65,607 million; 2010: BGN 63,011 million) due to a steady growth in deposits from individuals by 12.5% (BGN

3,968 million) to BGN 35,869 million. An increase was also registered in deposits from corporates by 2.3% (BGN 480 million) to BGN 21,387 million. The currency structure of attracted funds continued to grow in the BGN portion to 48.1% (2011: 45.2%; 2010: 41.3%), at the expense of those in EUR to 44.9% (2011: 48.0%; 2010: 52.0%). Funds in other currencies remained almost unchanged at 6.9% of total attracted funds in the system (2011: 6.8%; 2010: 6.7%).

The banking system in Bulgaria continued its functioning in compliance with national and EU regulations.

During the year a number of regulatory changes were adopted, ensuring implementation of the EU standards in terms of electronic money; extension of the scope of the Central Credit Register by including loans granted by payment institutions and electronic money institutions; regulating the opportunity for implementing electronic distraints and developing a single environment for their exchange.

In November 2012 amendments in the Law on Consumer Credit were introduced, which implemented additional admissions and updated existing ones with respect to the annual percentage rate of charge calculation aiming at better clarity for consumers.

Adopted were also amendments in the Law on Income Tax of Individuals, which introduced a new tax of 10% on interest income from deposit accounts of individuals effective from 1 January 2013 г., which is withheld by the banks in the country.

As at 31 December 2012, 31 credit institutions operated in the country, including 7 branches of foreign banks. The balance sheet capital of the banking system amounted to BGN 10,850 million (2011: BGN 10,448 million, 2010: BGN 10,032 million), with predominantly foreign participation of investors from the European Economic Area.

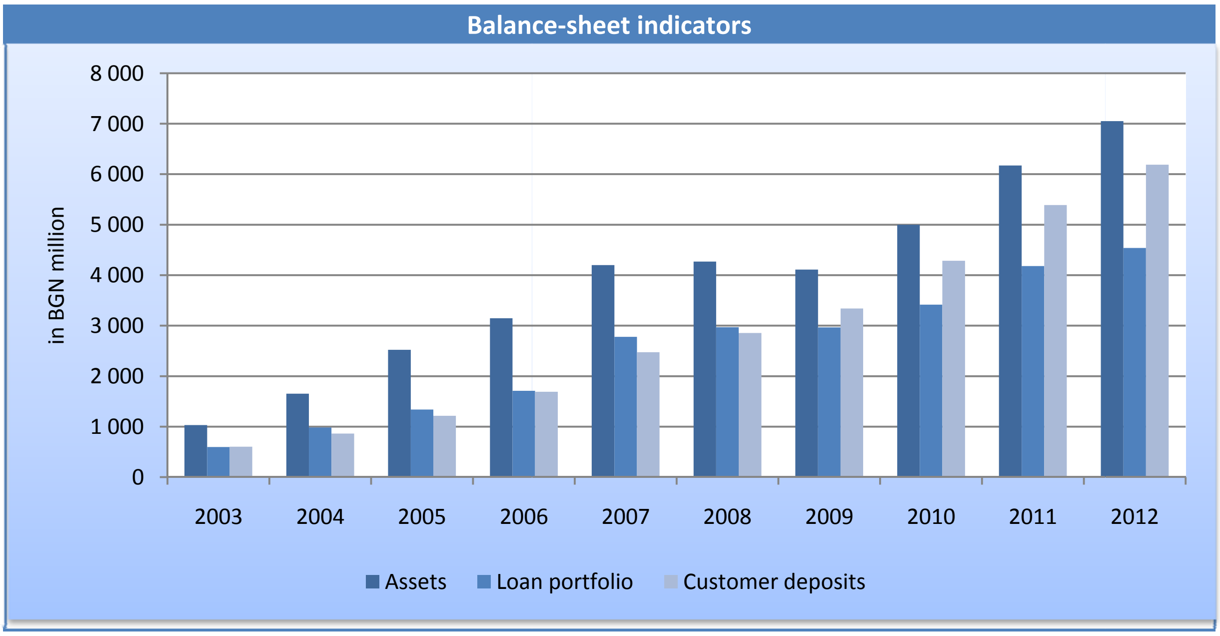
MISSION

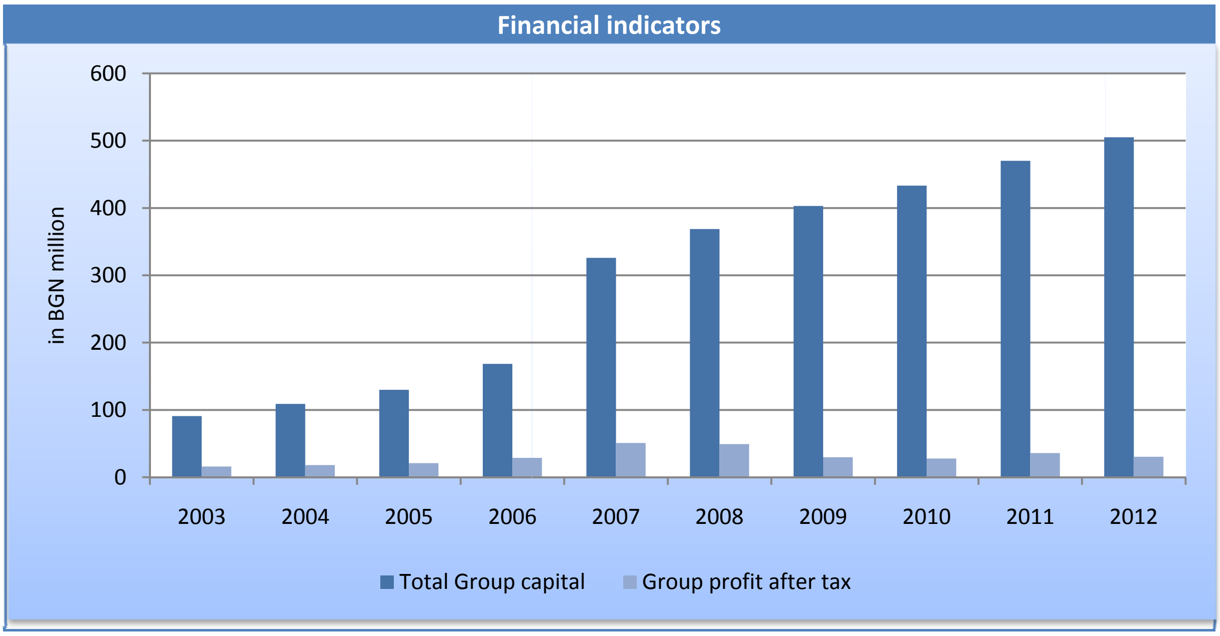
First Investment Bank AD aspires to continue to be one of the best banks in Bulgaria, recognized as a rapidly growing, innovative, customer-oriented bank, offering outstanding products and services to its customers, ensuring excellent careers for its employees, and contributing to the community. The Bank shall continue to develop high-technological solutions providing its customers with opportunities for banking from any place around the world at any time.

GROWTH

In 2012 First Investment Bank (Fibank, the Bank) continued to successfully develop its flexible business model in accordance with customers' needs and the changing market environment.

During the year Fibank increased its capital base and retained high level of liquidity and risk management, while registering sustainable growth, good financial results and increased competitiveness. Diversity and quality of the products and services offered lay in the foundation of its success, confirming its position among the leading banks in Bulgaria and as the preferred bank for savings of individuals.





BANK PROFILE

CORPORATE STATUS

First Investment Bank is a joint-stock company registered with Sofia City Court pursuant to a ruling dated 8 October 1993. Since 28 February 2008 the Bank has been registered in the Commercial Register at the Registry Agency.

First Investment Bank is a public company registered in the Commercial Register of Sofia City Court by a decision dated 4 June 2007 and in the register of public companies and other issuers held by the Financial Supervision Commission by a decision dated 13 June 2007.

The Bank owns a universal banking license for domestic and international operations.

First Investment Bank is a licensed primary dealer in government securities and is a registered investment intermediary.

PARTICIPATIONS AND MEMBERSHIPS

- Association of Banks in Bulgaria
- Bulgarian Stock Exchange – Sofia AD
- Central Depository AD
- BORICA – Bankservice AD
- MasterCard International
- VISA International
- S.W.I.F.T.

MARKET POSITION*

- Among the leading banks in the cards business
- Among the leading banks in international settlements and trade finance
- Third in assets
- Fifth in lending
  - Second in corporate lending
- Third in deposits
  - Second in deposits from individuals
- Fifth in profit
- Eight in shareholders' equity

* Market positions are based on unconsolidated data from the BNB, Borica – Bankservice AD, MasterCard International, VISA Europe and SWIFT.

MARKET SHARE*

- 6.61% of sent and 8.62% of received international transfers in foreign currency
- 4.85% of sent and 6.81% of received cross-border transactions for trade finance
- 8.38% of bank assets in Bulgaria
- 8.14% of loans in Bulgaria
  - 9.89% of corporate lending
  - 5.48% of consumer lending
  - 3.83% of mortgage lending
- 10.52% of deposits in Bulgaria
  - 13.66% of deposits from individuals

CORRESPONDENT RELATIONS

Fibank has a wide network built up of over 600 correspondent banks, through which it performs international payments and trade finance operations in almost all parts of the world. The Bank executes international transfers in over 140 foreign currencies, issues cheques and performs different documentary operations.

Fibank is a demanded, reliable and fair partner, which has built over the years a good reputation among international financial institutions and gained valuable experience and know-how from its numerous business partners, investors, customers and counterparties.

BRANCH NETWORK

As at 31 December 2012 the Group of First Investment Bank had a total of 162 branches and offices: the Head Office, 150 branches and offices throughout Bulgaria, one foreign branch in Cyprus, and a Head Office and 9 branches of the subsidiary Bank in Albania.

SUBSIDIARY COMPANIES

FIRST INVESTMENT BANK – ALBANIA SH.A.

In June 2007 First Investment Bank – Albania Sh.a. was granted a full banking licence by the Bank of Albania, and in September 2007 effectively took over the activities of the former FIB-Tirana Branch, which operated on the Albanian market since 1999, by assuming all its rights and obligations, assets and liabilities.

First Investment Bank – Albania Sh.a. offers a full range of products and services for individuals and small and medium enterprises. The bank actively develops card payments by offering debit and credit cards, based on EMV compliant chip technology, as well as by offering e-banking tailored to clients' growing needs and requirements. The bank was the first to offer products of investment gold and other precious metals on the Albanian market.

First Investment Bank – Albania Sh.a.'s corporate governance comprises of the Executive management (Directorate), the Managing Board (Steering Council) and the Audit Committee. The CEO of First Investment Bank – Albania Sh.a. is Mr. Bojidar Todorov, who has extensive professional

* Пазарните дялове са определени въз основа на неконсолидирани данни от БНБ и SWIFT.

experience in the banking sector including several top-level management positions in First Investment Bank AD related to corporate asset management.

DINERS CLUB BULGARIA AD

Diners Club Bulgaria AD is a joint-stock company registered in November 1996 as an issuer of Diners Club credit cards and a processor of payments. In 2010 the company was licensed by BNB as a payment institution to perform payment operations through payment cards and the issuing and acceptance of payments by payment instruments.

Throughout the years Diners Club Bulgaria AD has worked systematically and consistently for increasing the penetration of Diners Club brand on the local market, by offering new services to cardholders and expanding the network of POS terminals which accept payments with Diners Club cards.

Diners Club Bulgaria AD has a one-tier management system, comprising the Executive management (Executive Director) and the Board of Directors. The Executive Director, entitled to represent Diners Club Bulgaria AD is Mrs. Anna Angelova, who has extensive professional experience in the card business, including management positions in First Investment Bank AD related to card payments.

First Investment Bank AD has other subsidiary companies as follows: First Investment Finance B.V., Health Insurance Fund FiHealth AD, Debita OOD, Realtor OOD, Framas Enterprises Limited and Balkan Financial Services EAD.

For further information regarding subsidiary companies see note 37 “Subsidiary undertakings” of the Consolidated Financial Statements as at 31 December 2012 together with the Report of the Independent Auditor.

AWARDS 2012

- Fibank was recognized as the strongest brand in Bulgaria among the financial institutions by the global organization Superbrands, based on an independent survey conducted among consumers in the Bulgarian market.
- Fibank was granted the prestigious “Bank of the Year 2011“ award in the annual ranking of “Bank of the Year” Association, with best complex performance in terms of market share, efficiency and development dynamics. The Bank was also awarded the prize for market share for a second consecutive year.
- Fibank received the “Golden Martenitsa” 2011 award for financial institutions. The award was received for the most favourable credit policy towards SMEs in Bulgaria and for the support of Bulgarian companies in EU programme financing.
- Fibank was distinguished from Wells Fargo, as well as for third consecutive year from Deutsche Bank and Commerzbank for superior quality and meeting high world standards in the area of international payments.
- Fibank was awarded for mobile banking in a “Secret Customer” survey carried out in the EU banking sector by International Service Check.
- Fibank was included in the Top 1000 World Banks ranking of the prestigious magazine The Banker in terms of Tier 1 capital.
- Mr. Vassil Christov, Executive Director of First Investment Bank (Fibank) won the prestigious award Banker of the Year 2012 of the “Banker” Weekly for young and perspective manager.

- For a second consecutive year, Fibank became “Favourite Brand for 2011” of the Bulgarian consumer in the category “Financial Institutions” at the annual “My Love Marks” competition, organized by “Business Lady”.
- Fibank’s corporate website (www.fibank.bg) was awarded "BG Site of the Year 2012” in the annual awards of "BG Site" foundation.

FIRST INVESTMENT BANK: DATES AND FACTS

1993	First Investment Bank was established on 8 October 1993 in Sofia. Fibank was granted a full banking licence for carrying out operations in Bulgaria and abroad.
1994-95	The Bank developed and specialised in servicing corporate clients.
1996	Fibank was the first in Bulgaria to offer services enabling banking from home or from the office. Fibank was the first bank to receive a 5-year loan from the European Bank for Reconstruction and Development for financing small and medium-sized enterprises in Bulgaria.
1997	The Bank started issuing Cirrus/Maestro debit cards, Eurocard/Mastercard credit cards and the American Express card. Fibank was the first Bulgarian bank to offer debit cards with international access. Thompson Bankwatch awarded Fibank its first credit rating. The Bank opened its first branch abroad, in Cyprus.
1998	Fibank obtained its first syndicated loan from foreign banks. The Bank negotiated financing for the import of investment goods from Austria, Belgium, Denmark, Finland, France, Germany, Italy, the Netherlands, Norway, Portugal, Spain, Sweden and Switzerland, guaranteed by export insurance agencies.
1999	The Bank negotiated a syndicated loan organized by EBRD on the total amount of EUR 12.5 million. Fibank received a midium-term loan for EUR 6.6 million from a German government organization for financing of Bulgarian companies. The Bank opened a foreign branch in Tirana, Albania offering banking services to Albanian companies and individuals.
2000	First Investment Bank started developing its business in the field of retail banking. Deposits from private individuals grew 2.3 fold.
2001	First Investment Bank launched the first virtual bank branch in Bulgaria, allowing customers to bank via the Internet. The Bank was awarded the prize “Bank of the Year” by ‘Pari’ (‘Money’) daily. Maya Georgieva (Executive Director of Fibank), received the prize “Banker of the Year” from ‘Banker’ Weekly.
2002	Fibank was named “Bank of the Client“ in the annual rating of ‘Pari’ daily.
2003	Products and services to individuals became the focus of the Bank’s activities. Loans to individuals increased over five times during the year. Fibank was named “Bank of the Client” for the second time in the annual rating of ‘Pari’ daily.
2004	The Bank expanded its infrastructure. The branch network expanded by 27 new branches and offices, the ATM network more than doubled. The Bank was awarded the prize “Financial Product of the Year” for its Mortgage Overdraft product.

2005	• Fibank acquired 80% of the capital of Diners Club Bulgaria AD. • The Bank issued Eurobonds at the amount of EUR 200 million on the Luxembourg Stock Exchange. Fibank was also the first Bulgarian bank to issue perpetual subordinated bonds. • Matthew Mateev (Deputy Chief Executive Director of Fibank) was awarded the prize "Banker of the Year" by 'Banker' weekly.
2006	• Fibank negotiated financing for SMEs, at the amount of USD 10 million for a 5-year term, covered by OPIC. • Share capital was increased from BGN 10 million to BGN 20 million through the issuance of 1 million shares. • Fibank was named "Bank of the Client" for the third time in the annual rating of 'Pari' daily. • Fibank received a syndicated loan, at the amount of EUR 185 million, organised by Bayerische Landesbank, in which 33 banks participated. • Fibank's share capital was increased from BGN 20 million to BGN 100 million by transforming retained profits into 8 million new shares with a nominal value of BGN 10 each.
2007	• Fibank realized the biggest banking initial public offering of shares in Bulgaria. The Bank became a public company and increased its issued share capital from BGN 100 million to BGN 110 million. • „Fibank Mobile" – the first banking mobile portal created by Fibank with useful financial information for its customers, started functioning. • Fibank was one of the first banks in Bulgaria to implement the new chip technology when issuing debit and credit cards. The processing of card transactions was transferred to the new authorization centre in Macedonia – CaSys International. • The Albanian Central Bank issued a full banking licence to First Investment Bank – Albania Sh.a. • Fibank became an official representative of the New Zealand Mint for Bulgaria and the Balkans.
2008	• The Bank repaid on maturity EUR 200 million of principal and EUR 15 million of interest on a long-term bond, issued by First Investment Finance B.V. • Fibank successfully completed the first stage of the new centralized and integrated core banking information system FlexCube, suitable for retail banking as well as for corporate banking, with a module for Internet banking and a module for work processes management. • Fibank was named "Bank of the Client" for the fourth time in the annual rating of 'Pari' daily. • First Investment Bank received a syndicated loan at the amount of EUR 65 million from 11 leading banks all over the world. • Fibank became the first bank in Bulgaria with its own corporate blog – an Internet platform where clients, employees and fans of Fibank can exchange ideas, share impressions of the Bank in general, its products and services, its initiatives and values. • Fibank received the prestigious card business award OSCARDS of Publi-News in the Europe region for innovation in the card business.

2009	❖ Fibank became the first and only bank in Bulgaria to start offering the sale and redemption of investment diamonds. ❖ Fibank offered a new Internet service “My FIBank” – part of the Bank’s Ecological program, which provides e-statements on customers’ current and deposit accounts and credit cards. ❖ Two syndicated loans received from leading banks all over the world were repaid. ❖ Fibank offered a new service for cardholders – VISA Cash Back providing an opportunity to withdraw cash from POS terminals in Bulgaria. ❖ Part of Fibank’s Head Office was moved to a new modern building, situated on 81G, Bulgaria Blvd in Sofia with the aim of improving the working processes and optimizing and exploiting maintenance costs. ❖ Fibank signed an agreement for partnership with the Export-Import Bank of China.
2010	❖ Fibank welcomed its one millionth client. ❖ Fibank was named “Bank of the Client” for the fifth time in the annual bank awards of ‘Pari’ daily. ❖ Fibank signed an agreement with IFC (International Finance Corporation) for cooperation in the field of trade finance. ❖ Fibank was the first Bank in Bulgaria to offer contactless payments based on PayPass technology – an innovative service of a new bank card generation. ❖ Fibank’s loyalty program YES started with a new credit card and a bonus points program for loyal clients. ❖ Fibank acquired four new subsidiaries – Debita OOD, Realtor OOD, Health Insurance Fund FI Health AD, Framas Enterprises Limited.
2011	❖ Fibank was recognized as the Best Bank in Bulgaria in 2011 by the financial magazine Euromoney, for introducing the most innovative market solutions and products, and demonstrating strong growth and stable indicators for efficiency and profit. ❖ Fibank developed its services on financing and project management under the EU Programmes, by providing clients with full administrative and financial support at every stage of the project cycle. ❖ The Bank issued new hybrid debt on the amount of EUR 20 million, placing perpetual subordinated bonds under private subscription, which was included as Tier 1 capital. ❖ Fibank offered new services for remote banking, including telephone banking, new mobile version and integration of mass transfers service within the Virtual Banking Branch, and new platform for virtual banking of Cyprus branch. ❖ New Executive Directors of the Bank were appointed – Dimitar Kostov, Vassil Christov, Svetoslav Moldovansky. ❖ Maya Georgieva (Executive Director of First Investment Bank) received the Banker of the Year 2011 award of the ‘Banker’ Weekly for achieved market sustainability and earned customer confidence.

HIGHLIGHTS 2012

JANUARY

- A new service was started through My Fibank electronic system for payments of utility bills and of other obligations on accounts and cards, kept with Fibank.
- MasterCard World Elite – a new exclusive bank product in the premium segment, which combines a credit card with a high credit limit, prolonged interest-free grace period, additional (concierge) services, personal attention and first-class servicing.
- A new service was started – registration of 3D Card Security, which allows using the additional security programs for payments over the Internet (Verified by Visa and MasterCard SecureCode).

FEBRUARY

- The Bank donated BGN 300,000 to the people that suffered from the floods in Harmanli and Svilengrad municipalities, as part of its corporate social responsibility program.
- Three new committees were established to the Supervisory Board of the Bank – Presiding Committee, Risk Committee and Remuneration Committee.
- Evgeni Lukanov, Maya Georgieva and Jordan Skortchev were entered as members of the Supervisory Board of the Bank.
- Fibank offered promotional products for St. Valentine's Day – a silver color coin for lovers "St. Valentine" and palladium bar Talisman-Hearth.
- A EUR 20 million loan to LRP Landesbank was repaid at maturity.
- As a general sponsor of the Bulgarian Ski Federation the Bank supported the World Ski Championship in Bansko, where a charity event was organised and therefore collected BGN 20,000 in support of children's skiing in Bulgaria.

MARCH

- The Bank started redemption of investment gold and silver in the form of bars and coins with the cooperation of the Italian refinery "Italpreziosi".
- Easter Loan – a new consumer loan with a maximum amount of BGN 50,000, fixed interest rate for the first two years of the loan's term and no application and prepayment fees and commissions.
- The rating agency Fitch Ratings confirmed Fibank's ratings, as follows: long-term rating „BB-" with a stable outlook, short-term rating „B", support rating „3" and support rating floor „BB-". Viability rating was changed from „b+" to „b".

- A new opportunity was offered to agricultural producers who have received subsidies under the 2011 Single Payment per Area Scheme (SPAS) for applying and receiving loans before having received a certificate for 2012 from the "Agriculture" State Fund.

- New products were developed for contactless payments – Visa Classic payWave credit cards and Visa Electron payWave debit cards, based on NFC (Near Field Communication) contactless technology.

APRIL

- Free Mortgage Loan – a new mortgage loan with fixed interest rate for the first seven years, financing of up to 100% of the purchased real estate and option for currency selection. The loan gives conforming customers the opportunity to receive a bonus from the Bank (in the form of cashback) on the amount of 1% of the remaining loan principal per year.
- The office in Yambol was converted into a branch with the aim of expanding the scope of services offered and ensuring deeper market penetration.
- Fibank with a special promotion for Palm Sunday, offering gold and silver medallion-bars Blooms and "Bulgarian rose" coin.

MAY

- A regular annual general meeting of shareholders was held, at which a decision was taken that the entire net profit of the Bank for 2011 shall be capitalized and mendments were made to the structure of the Audit Committee of Fibank.
- Fibank was awarded for a third year in a row by Deutsche Bank for exceptional quality and meeting global standards in international payments.
- A new designer's collection of medallion-shaped bars icOns WINGS was offered of the Swiss mint PAMP with images of butterfly and humming bird.

JUNE

- Fibank joined the agreement between the "Agriculture" State Fund and 11 commercial banks in the country for introducing a more simple mechanism for bank guarantee confirmation, in order to expediate subsidy payments to beneficiaries.
- The Bank successfully issued second tranche of hybrid instrument (bond issue) on the amount of EUR 20 million, placed under private subscription, which was included in the Bank's tier 1 capital.

JULY

- Bank's policies were further developed in terms of change management in IT systems, with the aim to ensure standardized approach, effective management and prompt processing of all changes relating to IT infrastructure controls.
- The Bank awarded EU champions in the track-and-field athletics, in its capacity of a general sponsor of the Bulgarian Athletics Federation.

AUGUST

- Fibank was included in the Top 1000 banks in terms of tier 1 capital of the world ranking, made by The Banker prestigious edition.
- The Bank sponsored for a consecutive year the organization of the Bansko Jazz Festival, as part of its policy for support of important cultural and musical projects.
- Fibank's football team won the mini football tournament "Corporate champion league 2012", which comprised 24 teams of different companies, banking and financial institutions in the country.

SEPTEMBER

- New specialized security modules were implemented in the sphere of information technology.
- The rating agency Fitch Ratings confirmed Fibank's ratings as follows: long-term rating "BB-" with a stable outlook, short-term rating "B", support rating "3" and level of the support rating "BB-". The viability rating was changed from "b" to "b-".
- Fibank organized a competition "Best Bulgarian company of the year" with the aim at focusing on good and successful examples for doing business in the country and motivating companies to be competitive.

OCTOBER

- The database platform of the main banking system was successfully migrated to a higher version and more modern hardware with the aim at increasing speed and enhancing productivity.
- Fibank updated the vision and functionality of its corporate website in line with the most modern opportunities of web, by adding new channels for receiving feedback including a chat in real time, dynamic map of Fibank's branches and offices, and a new function for adapting the website to the specific screen of the device used for viewing.

NOVEMBER

- Fibank issued a new hybrid instrument (bond issue) under private subscription with a nominal value of EUR 20 million, constituting the first tranche of a bond issue with a total amount of up to EUR 60 million, which was included in the Bank’s tier 1 capital.
- The Bank supported the Bulgarian Paraolympics Association by a charity project – developing a corporate calendar for 2013 with famous Bulgarian sportsmen and donation of their royalties amounting to BGN 30 000 to the association.
- A new silver coin devoted to the Year of the Snake started offering, as well as two new luxury collections for children designed by the world famous photographer and designer Anne Geddes.

DECEMBER

- Fibank renewed its frame agreement with Eximbank of Taiwan for extending of credits for delivery of delivery of goods from Taiwan.
- A general meeting of bondholders of the first tranche subordinated bonds, placed under private subscription was held.
- An extraordinary meeting of shareholders was held, at which amendments to the By-laws of the Bank were made. The amendments empowered the Managing Board with the approval of the Supervisory Board to make decisions for increasing the issued share capital of Fibank up to BGN 210 million by issuing of new shares, as well as the opportunity for issuance of privileged shares with guaranteed and/or additional dividend and redemption privilege.
- The Bank sighed an agreement with the European Investment Fund for financing of small and medium enterprises under the JEREMIE initiative on the total amount of EUR 70 million, at twice lower interest rates and preferential terms for collateral and fees and commissions.

KEY INDICATORS

	2012	2011	2010	June'12	June'11
Financial indicators (BGN thousand)					
Net interest income	154,235	161,989	137,854	74,708	84,461
Net fee and commission income	74,304	72,328	55,923	33,890	31,135
Net trading income	8,539	11,294	8,752	3,754	7,803
Total income from banking operations	239,897	243,472	206,976	113,310	120,120
General administrative expenses	(160,022)	(157,926)	(144,568)	(78,324)	(76,216)
Impairment	(36,709)	(35,263)	(27,099)	(11,650)	(14,830)
Group profit after tax	30,573	35,962	27,851	15,241	20,076
Earnings per share (in BGN)	0.28	0.33	0.25	0.14	0.18
Balance-sheet indicators (BGN thousand)					
Assets	7,050,448	6,174,452	4,998,776	6,659,262	5,542,885
Loans and advances to customers	4,540,389	4,182,236	3,417,094	4,454,278	3,933,134
Loans and advances to banks and financial institutions	45,939	100,427	21,736	33,398	86,405
Due to other customers	6,189,721	5,388,310	4,285,693	5,846,298	4,716,532
Liabilities evidenced by paper	62,420	112,306	116,725	76,829	137,226
Total Group equity	505,267	470,002	433,175	486,029	452,915
Key ratios (in %)					
Capital adequacy ratio	13.10	12.57	13.23	12.89	12.74
Tier 1 capital ratio	11.39	10.18	10.21	10.75	10.22
Liquidity ratio	27.64	26.17	26.06	27.21	22.56
Loans/deposits	76.09	80.08	82.02	78.66	85.78
Loan provisioning ratio	3.99	3.29	2.95	3.35	2.90
Net interest income/ Total income from banking operations	64.29	66.53	66.60	65.93	70.31
Return-on-equity (after tax)	6.29	7.95	6.67	6.42	9.14
Return-on-assets (after tax)	0.46	0.64	0.61	0.48	0.77
Cost/income ratio	66.70	64.86	69.85	69.12	63.45
Resources (in numbers)					
Branches and offices	162	173	172	171	173
Staff	2,859	2,838	2,690	2,871	2,754

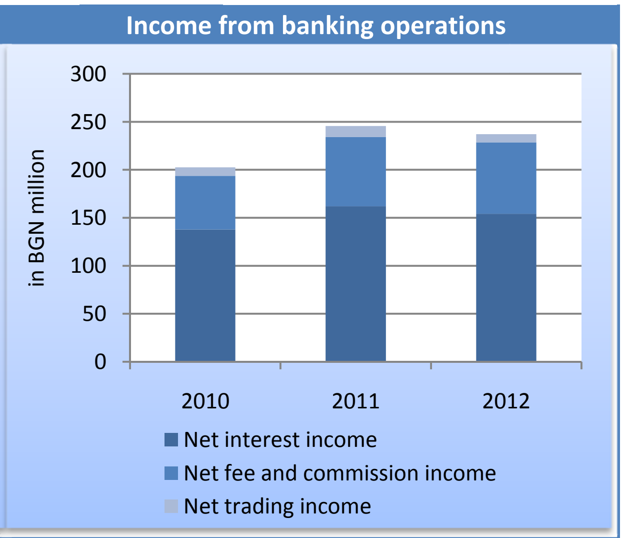
RATINGS

	2012	2011	2010
Long-term rating	BB-	BB-	BB-
Short-term rating	B	B	B
Viability rating / Individual rating	b-	b+ / D	D
Support rating	3	3	3
Support rating floor	BB-	BB-	BB-
Outlook	Stable	Watch	Negative

In March 2012 the rating agency Fitch Ratings confirmed the ratings of First Investment Bank, as follows: long-term rating „BB-” with a stable outlook, short-term rating „B”, support rating „3” and support rating floor „BB-”, which reflected Fibank's systemic importance to the Bulgarian banking market. The viability rating was changed from „b+” to „b”. In September 2012 the Bank's ratings were once again confirmed, while the viability rating changed from „b” to „b-”.

FINANCIAL RESULTS

In 2012 the Group of First Investment Bank (the Group) reported group profit after tax in the amount of BGN 30,573 thousand, which was 15.0% less than the prior year. The decrease was due to lower operating income, including net interest income, generated under the conditions of ongoing instability of external environment and increased propensity for saving of individuals. A contributor was also the increased high-liquid but low-profit assets such as cash and first-class government securities, which ensure higher levels of liquidity. During the year Fibank improved its market position to fifth place in terms of profit amongst banks in the country (2011: seventh; 2010: eighth). The Bank's market share amounted to 5.10% on an unconsolidated basis (2011: 6.23%; 2010: 5.00%). Return-on-equity (after tax) was 6.29% (2011: 7.95%; 2010: 6.67%), return-on-assets (after tax) was 0.46% (2011: 0.64%; 2010: 0.61%), while earnings per share stood at BGN 0.28 (2011: BGN 0.33; 2010: BGN 0.25).



During the reporting period First Investment Bank continued its business development in accordance with the economic environment and the needs for financing. Total income from banking operations amounted to BGN 239,897 thousand, against BGN 243,472 thousand a year earlier (2010: BGN 206,976 thousand).

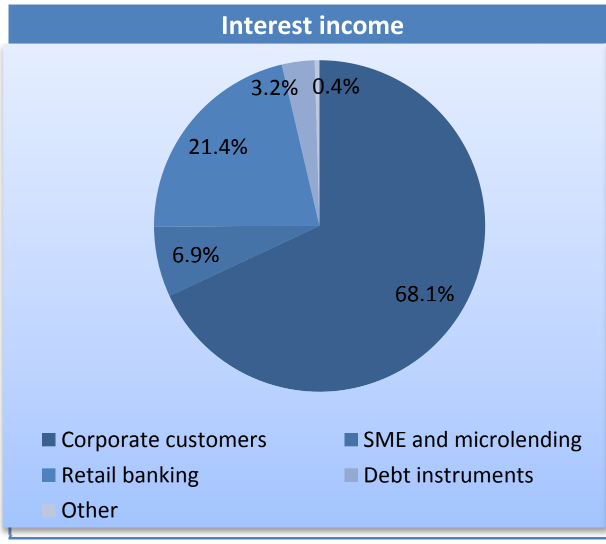
Interest income rose by 5.6% to BGN 465,512 thousand (2011: BGN 440,803 thousand; 2010: BGN 397,790 thousand), a major contributor being the higher income from loans to corporate customers by 4.5% to BGN 316,799 thousand (2011: BGN 303,170 thousand; 2010: BGN 266,262 thousand). This had the predominant share and formed 68.1% of Group's interest income. Interest income from retail customers also increased by 6.6% to BGN 99,630 thousand (2011: BGN 93,466 thousand; 2010: BGN 89,491 thousand), as well as this from debt instruments by 45.6% to BGN 14,887 thousand (2011: BGN 10,225 thousand; 2010: BGN 8,257 thousand), forming 21.4% and 3.2% of total interest income respectively. Interest income from micro, small and medium enterprises remained almost unchanged at BGN 31,986 thousand at the end of the period (2011: BGN 30,405 thousand; 2010: BGN 32,273 thousand).

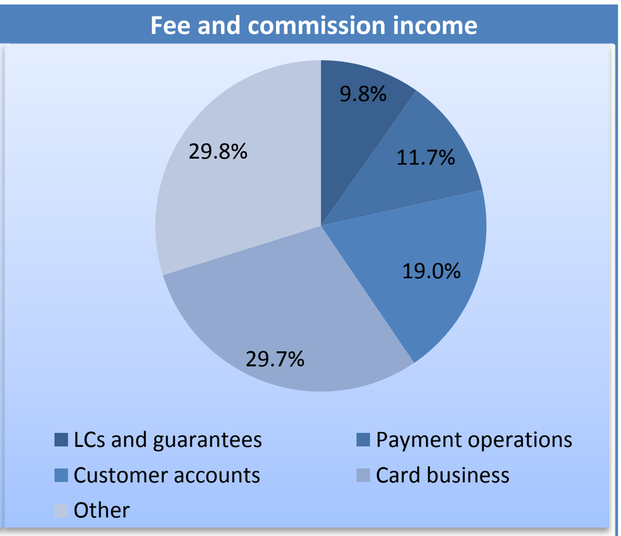
Interest expenses grew by 11.6% to BGN 311,277 thousand (2011: BGN 278,814 thousand; 2010: BGN 259,936 thousand), resulting mainly from the increased deposit base and newly issued hybrid debt during the period. Interest expenses on deposits from other customers reached BGN 279,229 thousand, compared to BGN 250,862 thousand a year earlier (2010: BGN 238,319 thousand), forming

89.7% of total interest expenses. These on hybrid debt reached BGN 8,468 thousand, against BGN 4,013 thousand the prior year. During the year the Bank continued to optimize the structure and cost of funds in accordance with market conditions.

Net interest income was the main source of income for the Group, which formed 64.3% of total income from banking operations. It amounted to BGN 154,235 thousand, compared to BGN 161,989 thousand a year earlier (2010: BGN 137,854 thousand). Fibank's foreign operations increased and formed 22.6% of net interest income (2011: 16.4%; 2010: 13.8%).

Net fee and commission income grew by 2.7% or BGN 1,976 thousand and reached BGN 74,304 thousand (2011: BGN 72,328 thousand; 2010: BGN 55,953 thousand), due to increased business volumes and customers of the Bank. A growth was registered in the major business lines generating fee and commission income, including: card business by 7.9% to BGN 24,953 thousand (2011: BGN 23,116 thousand; 2010: BGN 21,223 thousand), customer accounts by 7.2% to BGN 15,933 thousand (2011: BGN 14,859 thousand; 2010: BGN 13,930 thousand) and payment transactions by 6.8% to 9,858 thousand (2011: BGN 9,233 thousand; 2010: BGN 8,126 thousand). Net fee and commission income increased its relative share to 31.0% of total income from banking operations, against 29.7% in 2011 and 27.0% in 2010, as a result of the Bank's consistent policy for diversification of income from banking operations. Fibank's foreign operations formed 2.6% of net fee and commission income (2011: 1.3%; 2010: 1.4%).





Net trading income amounted to BGN 8,539 thousand for the period, compared to BGN 11,294 thousand the prior year (2010: BGN 8,752 thousand). The decreased was due mainly to lower income from debt instruments (2012: BGN 297 thousand; 2011: BGN 3,943 thousand; 2010: BGN 943 thousand). Net traing gains, arising from foreign exchange increased to BGN 8,373 thousand, against BGN 7,635 thousand (2010: BGN 7,779 thousand). Net trading losses, arising from equity instruments totaled BGN 131 thousand, compared to BGN 284 thousand a year earlier (2010: net gains of BGN 30 thousand). The relative share of net trading income remained insignificant at 3.6% of total income from banking operations (2011: 4.6%; 2010: 4.2%).

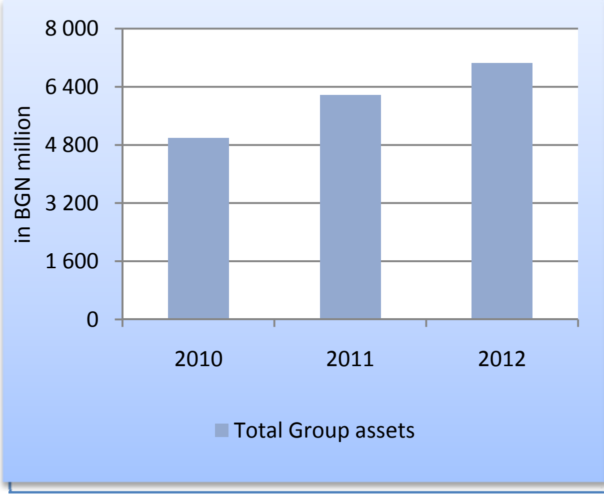
For the reporting period administrative expenses grew by 1.3% and reached BGN 160,022 thousand (2011: BGN 157,926 thousand; 2010: BGN 144,568 thousand), reflecting mainly the increased number of staff and the related costs for salaries, social and health security contributions. A growth was registered in building rent expenses as well to BGN 31,869 thousand (2011: BGN 30,746 thousand; 2010: BGN 25,497 thousand) and in administration, consultancy, audit and other costs to BGN 32,323 thousand (2011: BGN 31,581 thousand; 2010: BGN 27,011 thousand). The cost/income ratio was 66.70% for the period, against 64.86% the prior year (2010: 69.85%), due mainly to lower operating income.

Group's impairment on credit exposures amounted to BGN 36,709 thousand for 2012, compared to BGN 35,263 thousand a year earlier (2010: BGN 27,099 thousand), reflecting the influence of the economic cycle. The growth in impairment registered a slow-down of BGN 1,446 thousand or 4.1% for the 2012/2011 period, against BGN 8,164 thousand or 30.1% for the 2011/2010 period.

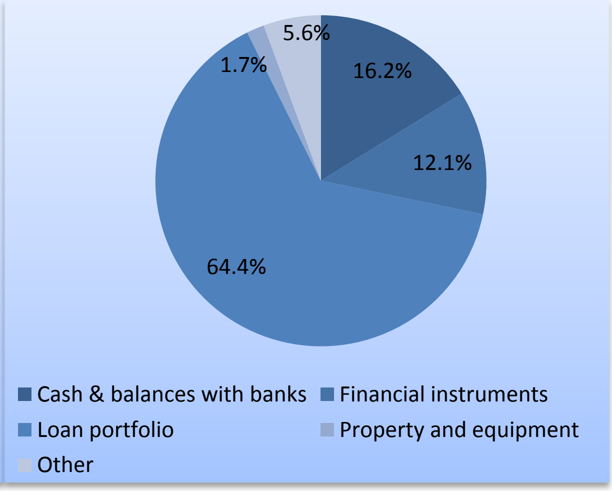
BALANCE SHEET

As at the end of December 2012 the total assets of the Group of First Investment Bank amounted to BGN 7,050,448 thousand (2011: BGN 6,174,452 thousand; 2010: BGN 4,998,776 thousand), an increase of 14.2% (BGN 875,996 thousand), resulting mainly from the growth in attracted funds from customers. Fibank improved its market position, ranking third amongst banks in the country (2011: fifth; 2010: sixth). The Bank's market share rose to 8.38% on an unconsolidated basis (2011: 7.94%; 2010: 6.71%).

Total Group assets



Asset structure



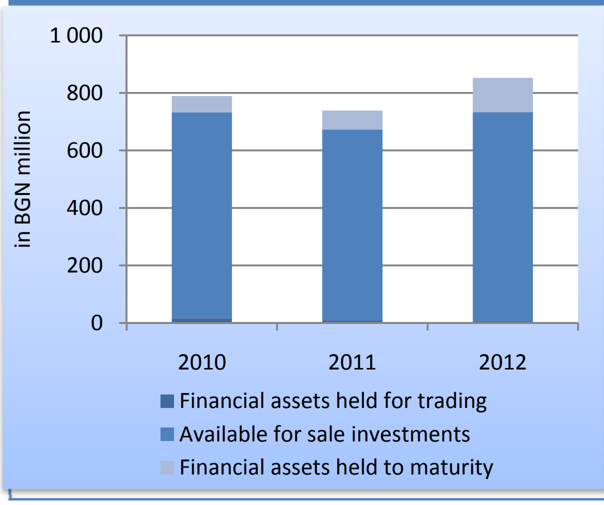
The asset structure remained relatively unchanged, reflecting market conditions and the Bank;s strategy for maintaining adequate balance between risk, capital and return. The share of loans and advances to customers remained structure-determining forming 64.4% (2011: 67.7%; 2010: 68.4%) of total assets, followed by cash and balances with central banks at 16.2% (2011: 15.0%; 2010: 11.1%) and by portfolio of financial instruments (financial assets held for trading, available for sale investments and financial assets held to maturity) at 12.1% (2011: 12.0%; 2010: 15.8%).

Cash and balances with central banks grew by 23.2% (BGN 214,495 thousand) to BGN 1,140,889 thousand (2011: BGN 926,394 thousand; 2010: BGN 556,861 thousand), mainly due to an increase in balances with central banks, which reached BGN 917,022 thousand (2011: BGN 655,739 thousand; 2010: BGN 383,064 thousand) and reflected the growing deposit base and the related minimum required reserves. Cash on hand decreased to BGN 127,405 thousand, against BGN 129,905 thousand the prior year (2010: BGN 122,713 thousand), as the Bank continued to optimize the management of cash balances in accordance with market environment and external conditions. Current accounts and amounts with foreign banks amounted to BGN 96,353 thousand as at end-2012 (2011: BGN 140,647 thousand; 2010: BGN 44,084 thousand), depending on the Bank's liquidity needs and cash flows.

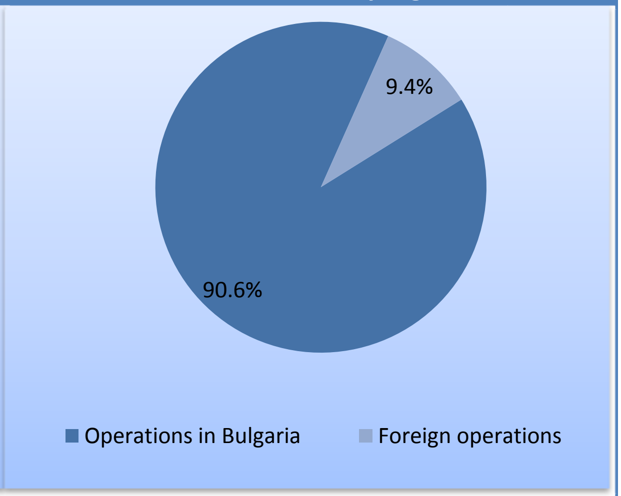
Loans and advances to banks and financial institutions totaled BGN 45,939 thousand, against BGN 100,427 thousand a year earlier (2010: BGN 21,736 thousand), as a result of a decrease in placements due from banks and receivables under resale agreements. As at the end of the reporting period placements and other amounts due from banks were BGN 41,136 thousand (2011: BGN 85,512 thousand; 2010: BGN 13,316 thousand;), of which most were from foreign banks and financial institutions.

Available for sale investments rose to BGN 726,619 thousand (2011: BGN 663,925 thousand; 2010: BGN 715,405 thousand) due to portfolio restructuring and increase in bonds and notes issued by the Bulgarian government (2012: BGN 304,026 thousand; 2011: BGN 103,649 thousand; 2010: BGN 40,636 thousand), at the expense of treasury bills and government bonds issued by foreign governments (2012: BGN 390,404 thousand; 2011: BGN 526,804 thousand; 2010: BGN 631,198 thousand). Bonds, notes and other instruments from foreign banks decreased slightly to BGN 26,480 thousand (2011: BGN 26,934 thousand; 2010: BGN 37,552 thousand).

Portfolio of financial instruments



Asset structure by region



At the end of 2012 financial assets held for trading amounted to BGN 6,553 thousand (2011: BGN 8,659 thousand; 2010: BGN 16,641 thousand), reflecting the Bank's investment policy and its limited engagement in operations with assets, held for the purpose of realizing profit from short-term price fluctuations. Financial assets held to maturity increased to BGN 118,770 thousand (2011: BGN 65,886 thousand; 2010: BGN 57,102 thousand) resulting from acquired throughout the period securities issued by foreign governments, which amounted to BGN 65,387 thousand at end-2012.

The Bank aimed at optimal risk management of exposures related to government debt, as this portfolio amounted to BGN 798,096 thousand at the end of 2012, compared to BGN 682,955 thousand the prior year (2010: BGN 731,572 thousand).

Fibank's foreign operations increased as assets reached BGN 666,267 thousand or 9.4% of total Group assets (2011: BGN 401,169 thousand or 6.5%; 2010: BGN 305,977 thousand or 6.1%).

Other assets amounted to BGN 328,902 thousand (2011: BGN 87,344 thousand; 2010: BGN 57,864 thousand), comprising acquired collaterals, measured at the lower between acquisition price and net realized value.

LOAN PORTFOLIO

LOANS

In 2012 the Group's loan portfolio before impairment rose by 9.1% (BGN 394,409 thousand) and reached BGN 4,709,468 thousand at end-period (2011: BGN 4,315,059 thousand; 2010: BGN 3,514,920 thousand), due to increase in all business lines. Fibank's market share increased to 8.14% on an unconsolidated basis (2011: 7.71%; 2010: 6.54%). The Bank improved its market position, ranking fifth in terms of lending amongst banks in the country (2011: sixth; 2010: sixth).

In BGN thousand / % of total	2012	%	2011	%	2010	%
Retail customers	884,471	18.8	795,830	18.5	742,674	21.1
Small and medium enterprises	316,788	6.7	268,162	6.2	240,128	6.8
Microlending	30,075	0.6	26,612	0.6	27,017	0.8
Corporate customers	3,478,134	73.9	3,224,455	74.7	2,505,101	71.3
Gross loan portfolio	**4,709,468**	**100**	**4,315,059**	**100**	**3,514,920**	**100**
Impairment	(169,079)		(132,823)		(97,826)	
Loan portfolio after impairment	**4,540,389**		**4,182,236**		**3,417,094**	

During the reporting period lending to large corporate customers retained its structure-determining share at 73.9% of Group's loan portfolio as at end-2012 (2011: 74.7%; 2010: 71.3%). Fibank continued to support competitive projects in accordance with the needs for financing and the market conditions in the country. Loans to small and medium enterprises increased their relative share to 6.7% of total loans (2011: 6.2%; 2010: 6.8%), while these to retail customers to 18.8% (2011: 18.5%; 2010: 21.1%), as part of the policy for diversification of credit risk. Microlending preserved its share at 0.6% (2011: 0.6%; 2010: 0.8%) of total loan portfolio.

At the end of the year First Investment Bank signed an agreement with the European Investment Fund for providing financing to small and medium enterprises under the JEREMIE initiative, according to which the Bank shall provide investment and working-capital loans on the total amount of EUR 70 million, at twice lower interest rates and preferential terms for collateral and fees and commissions.

In BGN thousand / % of total	2012	%	2011	%	2010	%
Loans in BGN	1,054,329	22.4	969,144	22.5	867,685	24.7
Loans in EUR	3,328,544	70.7	3,012,599	69.8	2,324,778	66.1
Loans in other currency	326,595	6.9	333,316	7.7	322,457	9.2
Gross loan portfolio	**4,709,468**	**100**	**4,315,059**	**100**	**3,514,920**	**100**
Impairment	(169,079)		(132,823)		(97,826)	
Loan portfolio after impairment	**4,540,389**		**4,182,236**		**3,417,094**	

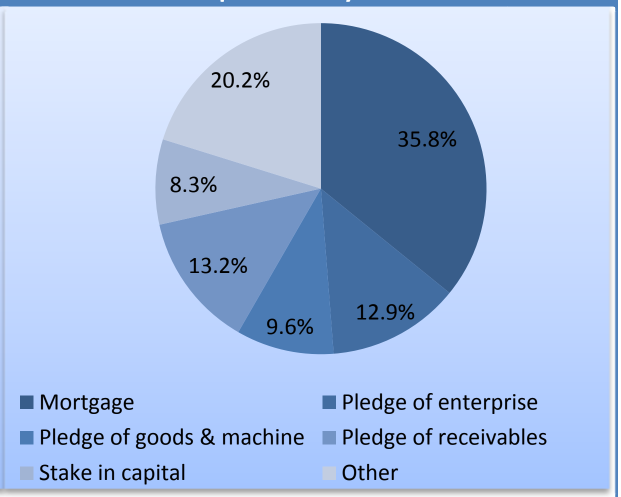
In the currency structure of the loan portfolio loans in EUR formed a predominant share of 70.7% (2011: 69.8%; 2010: 66.1%). They continued to grow and reached BGN 3,328,544 thousand at period-end (2011: BGN 3,012,599 thousand; 2010: BGN 2,324,778 thousand), maintaining their upward trend from the last years. The increase reflected the Currency Board Arrangement effective in the country, which minimizes currency risk, as well as commerce with EU member states. Loans in BGN also increased by BGN 1,054,329 thousand (2011: BGN 969,144 thousand; 2010: BGN 867,685 thousand) or 22.4% of total portfolio (2011: 22.5%; 2010: 24.7%), at the expense of loans in other currency, which decreased to BGN 326,595 thousand (2011: BGN 333,316 thousand; 2010: BGN 322,457 thousand) or 6.9% of total loans (2011: 7.7%; 2010: 9.2%).

Gross loans extended by the Bank's units in abroad grew by BGN 217,679 thousand and reached BGN 568,688 thousand (2011: BGN 351,009 thousand; 2010: BGN 260,502 thousand).

In accordance with the Bank's policy for calculating potential losses from credit risk, impairment of portfolio increased to BGN 169,079 thousand at the end of the period (2011: BGN 132,823 thousand; 2010: BGN 97,826 thousand), influenced by the economic cycle and the credit risk in the country. The Bank applies rules for the classification and impairment of risk exposures which are in compliance with the effective legislation and with the criteria provided by Ordinance №9 of the Bulgarian National Bank. During the year loans and advances to customers amounting to BGN 441 thousand were recorded off balance sheet, against BGN 301 thousand a year earlier (2010: BGN 2,466 thousand). The loan provisioning ratio was 3.99% (2011: 3.29%; 2010: 2.95%).

Loan portfolio and impairment

Loan portfolio by collateral



The policy of the Group requires proper collateral before granting a loan. In this respect, it accepts all types of collateral permitted by law and applies discaount rates depending on the expected realizable net value of the collateral. At the end of 2012 collaterals with the largest share in the Group's portfolio were mortgages at 35.8%, followed by pledge of receivables at 13.2%, pledge of commercial enterprise at 12.9%, stake in capital at 8.3%.

For more information regarding loan portfolio, see Note 3 "Risk management" of the Consolidated Financial Statements as at 31 December 2012 together with the Report of the Independent Auditor.

RELATED PARTY TRANSACTIONS

In the normal course of business the Bank carries out transactions with related parties. These transactions were effected in market conditions. The internal rules and regulations of the Bank with respect to such loans are in compliance with the effective legislation.

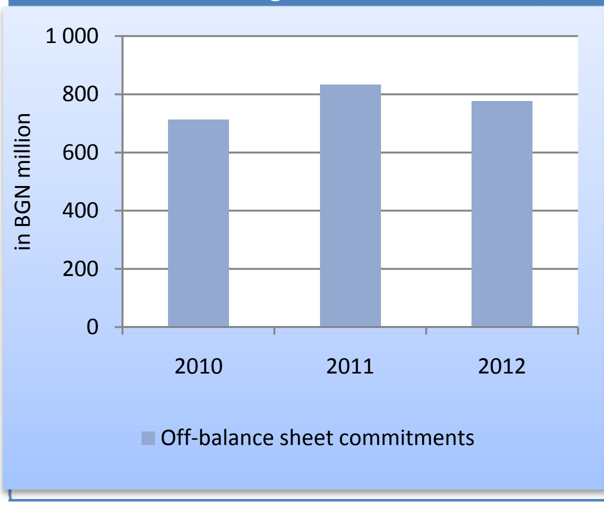
In BGN thousand	2012	2011	2010
Loans			
Parties that control or manage the Bank	1,349	1,674	2,997
Enterprises under common control	24,456	23,161	19,055
Off-balance sheet commitments			
Parties that control or manage the Bank	1,841	1,843	1,204
Enterprises under common control	252	2,116	1,289

For more information regarding related party transactions, see Note 36 "Related party transactions" of the Consolidated Financial Statements as at 31 December 2012 together with the Report of the Independent Auditor.

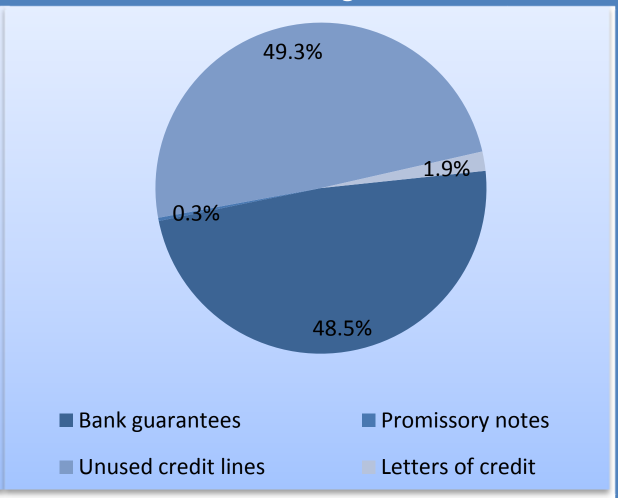
COMMITMENTS AND CONTINGENT LIABILITIES

Commitments and contingent liabilities of the Bank include bank guarantees, letters of credit in foreign currency, credit lines and promissory notes. These are issued in compliance with the general loan policy of the Bank on risk assessment and collateral sufficiency. Contingent liabilities are preferred instruments for credit institutions because they carry lower credit risk and at the same time are good sources of fee and commission income. They are also preferred by clients because they not only facilitate payments but also reduce the cost of financing as compared to direct financing and immediate payment.

Contingent liabilities



Structure of contingent liabilities



At the end of the reporting period the total amount of off-balance sheet commitments amounted to BGN 777,040 thousand, compared to BGN 833,070 thousand a year earlier (2010: BGN 713,134 thousand). The decrease was due to a decline in letters of credit, which reached BGN 14,739 thousand (2011: BGN 91,270 thousand; 2010: BGN 77,805 thousand), in unused credit lines to BGN 383,083 thousand (2011: BGN 385,569 thousand; 2010: BGN 303,400 thousand) and in promissory notes to BGN 2,448 thousand (2011: BGN 4,926 thousand; 2010: BGN 8,093 thousand). Bank guarantees in BGN and in foreign currency increased by 7.2% to BGN 376,770 thousand (2011: BGN 351,305 thousand; 2010: BGN 323,836 thousand), forming 48.5% of the Group's off-balance sheet commitments (2011: 42.2%; 2010: 45.4%).

ATTRACTED FUNDS

In 2012 attracted funds from customers rose by 14.9% (BGN 801,411 thousand) and reached BGN 6,189,721 thousand (2011: BGN 5,388,310 thousand; 2010: BGN 4,285,693 thousand), remaining the Group's major source of funding, which formed 94.6% of total liabilities (2011: 94.5%; 2010: 93.9%). A factor in the increase were the various and flexible savings products offered to customers, which are in line with the market environment and market conditions in the country, and represented the most important indicator for customers' trust and satisfaction from the services offered by the Bank.

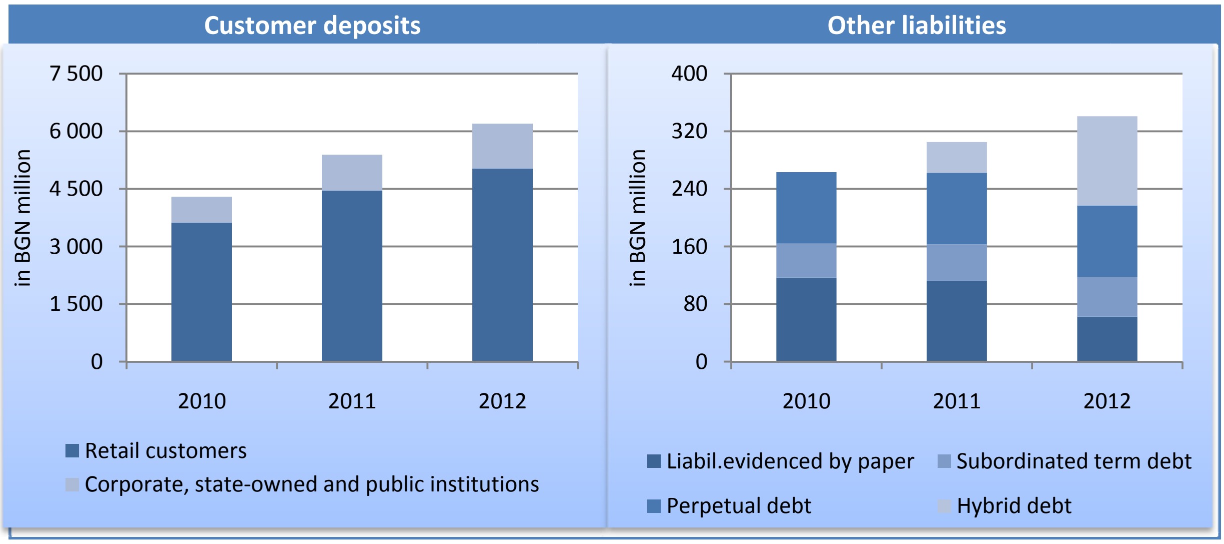
During the year Fibank maintained its market position, ranking third in terms of deposits amongst banks in Bulgaria (2011: third; 2010: fifth). The Bank's market share increased to 10.52% on an unconsolidated basis (2011: 10.01%; 2010: 8.96%) at the end of the period.

Attracted funds from retail customers continued to grow by 12.8% (BGN 568,493 thousand) to BGN 5,027,005 thousand (2011: BGN 4,458,512 thousand; 2010: BGN 3,621,627 thousand) in line with the trend from the last years, preserving its structure-determining share at 81.2% of total attracted funds from customers (2011: 82.7%; 2010: 84.5%). In the currency structure of attracted funds from retail customers those in EUR prevailed at 36.9% (2011: 42.8%; 2010: 47.5%) of total attracted funds from customers, followed by those in BGN at 35.8% (2011: 31.8%; 2010: 29.3%) and those in other currency at 8.5% (2011: 8.1%; 2010: 7.7%).

In BGN thousand / % of total	2012	%	2011	%	2010	%
Attracted funds from retail customers	**5,027,005**	**81.2**	**4,458,512**	**82.7**	**3,621,627**	**84.5**
In BGN	2,214,064	35.8	1,712,193	31.8	1,256,629	29.3
In EUR	2,284,859	36.9	2,309,132	42.8	2,036,301	47.5
In other currency	528,082	8.5	437,187	8.1	328,697	7.7
Attracted funds from corporate, state-owned and public institutions	**1,162,716**	**18.8**	**929,798**	**17.3**	**664,066**	**15.5**
In BGN	688,951	11.1	548,124	10.2	388,585	9.1
In EUR	339,559	5.5	305,561	5.7	217,039	5.1
In other currency	134,206	2.2	76,113	1.4	58,442	1.3
Total attracted funds from customers	**6,189,721**	**100**	**5,388,310**	**100**	**4,285,693**	**100**

First Investment Bank sets aside the required annual premiums in accordance with the Bank Deposit Guarantee Act, which serves to increase the safety of the Bank's depositors. According to regulatory requirements the amount guaranteed by the Fund on customer's bank accounts held with the Bank is BGN 196,000 per customer.

Attracted funds from corporate, state-owned and public institutions rose by 25.1% (BGN 232,918 thousand) to BGN 1,162,716 thousand (2011: BGN 929,798 thousand; 2010: BGN 664,066 thousand) during the year, increasing their relative share by 1.5 p.p. to 18.8% of total attracted funds from customers (2011: 17.3%; 2010: 15.5%). In the currency structure of attracted funds from corporate, state-owned and public institutions those in BGN formed 11.1% of total attracted funds from customers (2011: 10.2%; 2010: 9.1%), those in EUR were 5.5% (2011: 5.7%; 2010: 5.1%), and those in other currency were 2.2% (2011: 1.4%; 2010: 1.3%).

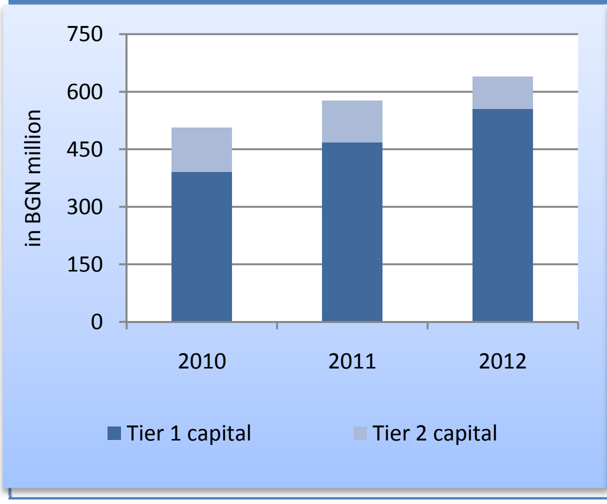


Liabilities evidenced by paper decreased to BGN 62,420 thousand, against BGN 112,306 thousand the prior year (2010: BGN 116,725 thousand) resulting mainly from a decline in other term liabilities, in particular from repaid at maturity loan on the amount of EUR 20 million throughout the year. As at 31 December 2012 other term liabilities totaled BGN 39,504 thousand (2011: BGN 75,138 thousand; 2010: BGN 80,142 thousand), which comprised mainly financing obtained from financial institutions through extension of loan facilities. A decrease was reported in acceptances under letters of credit to BGN 2,64 thousand (2011: BGN 9,217 thousand; 2010: BGN 15,375 thousand) and in liabilities under repurchase agreements to BGN 20,352 thousand (2011: BGN 27,951 thousand; 2010: BGN 21,208 thousand) and more specifically in repurchase agreements with Bulgarian government securities.

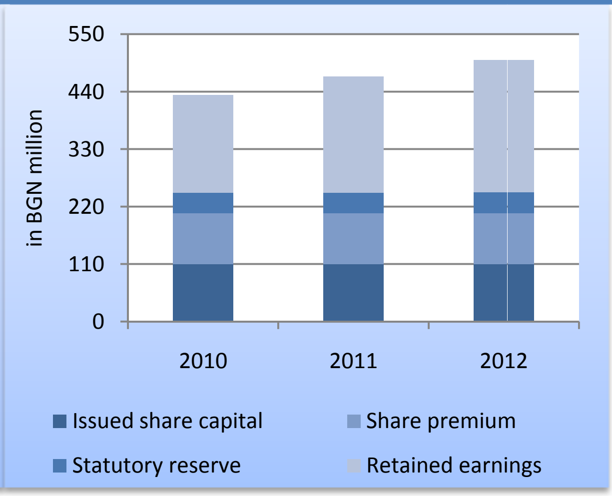
CAPITAL

The total capital base of the Group of First Investment Bank increased by 10.7% and reached BGN 638,713 thousand at the end of 2012 (2011: BGN 576,921 thousand; 2010: BGN 505,695 thousand), as part of the Bank's consistent policy for capital development with a focus on tier 1 capital. Tier 1 capital rose by 18.8% (BGN 87,856 thousand) during the year to BGN 555,159 thousand (2011: BGN 467,303 thousand; 2010: BGN 390,169 thousand), as a result of capitalizing profits and the issuance of new hybrid debt.

Capital base



Equity structure



In June 2012 Fibank successfully issued the second tranche of the hybrid instrument (bond issue), whose first tranche on the amount of EUR 20,000 thousand was placed in March 2011 under private subscription. The second tranche with the same amount of EUR 20,000 thousand was placed under identical conditions as previously, thus successfully reaching the total expected amount of the bond issue of EUR 40,000 thousand. The bonds were registered, dematerialized, interest-bearing, perpetual, unsecured, freely transferable, non-convertible, deeply subordinated and without incentive to redeem. In November 2012 the Bank issued a new bond instrument (hybrid debt) again under private subscription with a total nominal amount of EUR 20 million, constituting the first tranche of a bond issue for up to EUR 60 million. Both bond issues were included in the Bank's tier 1 capital, after obtained permission from the Bulgarian National Bank. The amortised cost of the hybrid debt as at end-2012 was BGN 123,901 thousand, compared to BGN 42,800 thousand a year earlier.

During the year Fibank was included in the Top 1000 banks in terms of tier 1 capital of the world ranking, made by The Banker prestigious edition.

To develop its capital base Fibank also uses perpetual debt instruments and subordinated term debt, which are recognized as Tier 2 capital. As at 31 December 2012 the Bank had entered into six separate subordinated loan agreements on the amount of BGN 54,988 thousand, against BGN 50,596 thousand a year earlier (2010: BGN 47,169 thousand). At the end of the period the Bank had two step-up guaranteed perpetual subordinated bonds on the amount of BGN 99,584 thousand (2011: BGN 99,376 thousand; 2010: BGN 99,201 thousand).

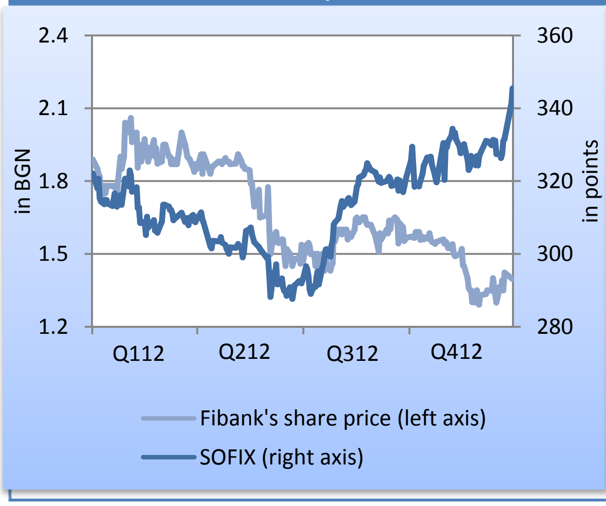
As at 31 December 2012 the capital indicators of the Group were above the established regulatory requirements – total capital adequacy ratio amounted to 13.10% (2011: 12.57%; 2010: 13.23%), while tier 1 capital ratio was 11.39% (2011: 10.18%; 2010: 10.21%). In calculating its capital adequacy, the Bank applies the Basel capital standards, as adopted in the EU Directives and Ordinance №8 of the BNB, setting aside capital for credit, market and operational risk.

In BGN thousand/% of risk-weighted assets	2012	%	2011	%	2010	%
Tier 1 capital	555,159	11.39	467,303	10.18	390,169	10.21
Total capital base	638,713	13.10	576,921	12.57	505,695	13.23
Risk-weighted assets	**4,875,037**		**4,588,589**		**3,821,008**	

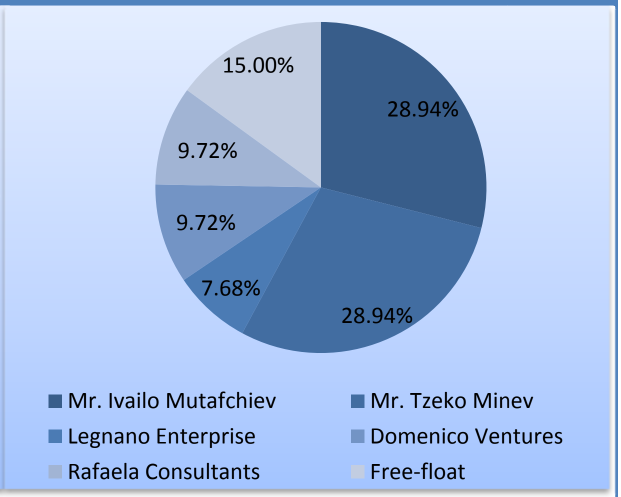
Total Group equity rose by 7.5% to BGN 505,267 thousand (2011: BGN 470,002 thousand; 2010: BGN 433,175 thousand), resulting from an increase in retained earnings, which reached BGN 253,255 thousand at year-end (2011: BGN 222,751 thousand; 2010: BGN 186,799 thousand). Fibank's issued share capital was BGN 110,000 thousand, divided into 110,000,000 common voting shares with a nominal value of BGN 1 each.

As at 31 December 2012 the shareholder structure of the Bank remained unchanged. The major shareholders of First Investment Bank were Mr. Tzeko Minev (28.94%), Mr. Ivailo Mutafchiev (28.94%), Domenico Ventures Limited (9.72%), Rafaela Consultants Limited (9.72%) and Legnano Enterprise Limited (7.68%). The remaining 15% of the Bank's issued share capital (BGN 16.5 million) was owned by other shareholders, holding shares subject to free trade on the Bulgarian Stock Exchange – Sofia (free-float).

Fibank's share price in 2012



Shareholders' structure



During the reporting period the price of the Bank's shares fluctuated in the range between BGN 1.28 to BGN 2.13. The last price of the shares of the Bank for the reporting period was BGN 1.40 (2011: BGN 1.89; 2010: BGN 2.15). A total of 1,258 transactions were concluded with shares of the Bank on the regulated market, amounting to a turnover of BGN 2,953 thousand, compared to 4,044 transactions and a BGN 14,053 thousand turnover a year earlier. The Bank's shares are traded on the Main market, Premium Equities Segment of the Bulgarian Stock Exchange and are included in three stock indices – SOFIX, BG40 and BGTR30, which bring together the largest, most traded and most liquid companies on the stock market in the country.

RISK MANAGEMENT

Fibank builds, maintains and develops a reliable risk management system, which ensures the timely identification, estimation and management of risks inherent to its activity.

The framework for risk management comprises written policies, rules and procedures, mechanisms for identification, measurement, monitoring and control of risks as well as risk mitigation. Fundamental principles embedded in it are: objectivity, dual control of each operation, centralized management, separation of duties, and clearly defined authority levels.

Fibank's strategy for risk management is a part of the overall strategy for the development of the Bank. The general risk profile of the Bank is managed in order to achieve a good balance between risk, return and capital.

In 2012 Fibank continued to work towards improvement and development of its systems for forecasting, assessment and management of risks according to the internal conditions and the best banking practices, while maintaining the flexibility and adaptability to the market needs. The Bank continued to develop its infrastructure for maintaining sufficient capital buffers in accordance with the environmental risks and the regulatory requirements.

COLLECTIVE RISK MANAGEMENT BODIES

For the purpose of managing various types of risks complying with the regulatory requirements of the Bulgarian National Bank, the Basel Committee recommendations and internationally established standards, the following collective management bodies operate at the head office of Fibank: the Credit Council, the Liquidity Council, the Credit Committee and the Operational Risk Committee.

The Credit Council administers the credit risk undertaken by the Bank by issuing opinions on loan transactions in accordance with the authority level assigned thereto. As at the end of 2012 the Credit Council consisted of six members elected by the Managing Board – representatives of the Corporate Banking, SME Lending, Legal, Risk Management and Branch Network departments.

The Liquidity Council oversees on an ongoing basis the Bank's assets, liabilities and liquidity. It conducts systemic analyses of the interest and maturity structure of assets and liabilities, and of liquidity indicators with a view to their optimisation. As at 31 December 2012, it comprised five members – two members of the Managing Board, the Chief Financial Officer and the heads of the Treasury and Risk Management Departments.

The Credit Committee is a specialised body for monitoring loan exposures with indicators for impairment. As at 31 December 2012, it has seven members elected by the Managing Board – representatives of the Impaired Assets and Provisioning, Finance and Accounting, Corporate Banking, SME Lending, Retail Banking, Risk Management and Legal departments. The Credit Committee members are employees of the Bank who are not directly involved in decision-making on the extension of loans. The Credit Committee monitors and analyses asset impairment and allowances both generally (at the portfolio level) and in terms of specific, individually significant exposures.

The Operational Risk Committee is a consultative body established to facilitate the adequate management of operational risk by monitoring and analyzing operating events. The Committee proposes measures for the minimizing of operational risks, as well as preventive measures. As at 31 December 2012, the Committee includes seven members – representatives of the following departments: Risk Management, Methodology, Finance and Accounting, Operations, Card Payments, and Branch Network.

In addition to these collective management bodies, Fibank employs a specialised unit – the Risk Management department. The department exercises secondary control over risk exposures, monitors and assesses the bank's risk profile, and is responsible for the implementation of the requirements related to risk assessment and capital adequacy.

A **Risk Committee** functions as well as an auxiliary body to the Supervisory Board of the Bank, which is responsible for the supervision of the risk management activities of the Managing Board and for a broad strategic and tactical supervision of the activities of the risk management function within the Bank, including the approval of large risk exposures. As at 31 December 2012, the Risk Committee comprised three members of the Fibank's Supervisory Board.

Considering the external environment, the Bank's management continued its conservative approach to risk management, centralized management of the loan portfolio and the application of forecasting models, stress tests and programs for internal analysis of capital adequacy (ICAAP).

The Bank reflects the risk profile of its activities by assessing the basic indicators of the used quantitative methods in case of an unfavorable economic environment scenario. The internal system for assessment of the internal capital needed is based on prognostic VaR models for credit risk and market risk, stress tests for liquidity risk and interest risk in the bank portfolio and a basic indicator approach in relation to operational risk.

The primary mechanisms and tools for the management of different types of risk are summarised below:

CREDIT RISK

Credit risk is the risk arising from the debtor's inability to meet the requirements of a contract with the bank or inability to act in accordance with the agreed terms. Credit risk is the major source of risk to the banking business and its effective assessment and management are crucial for the long-term success of credit institutions.

Fibank regularly updates its internal rules and procedures to optimise the timely detection and analysis of risks. The Bank applies limits on all exposures to credit risk, including to individual customers / customer groups / counterparts, to types of instruments, industries etc.

Internal models for credit risk assessment based on statistical methods for processing and analysis of historical information, help assess the probability of default (PD) and loss on default (LGD) for certain classes of exposures that allows the calculation of risk-adjusted return. All credit risk exposures are controlled on an ongoing basis. Fibank requires collateral for credit risk exposures, including for contingent liabilities.

Considering the impact of the economic cycle the Bank continued to actively manage its problem exposures – aiming at their timely diagnosis and taking measures consistent with the repayment capacity of the clients and the Bank's policy on risk-taking.

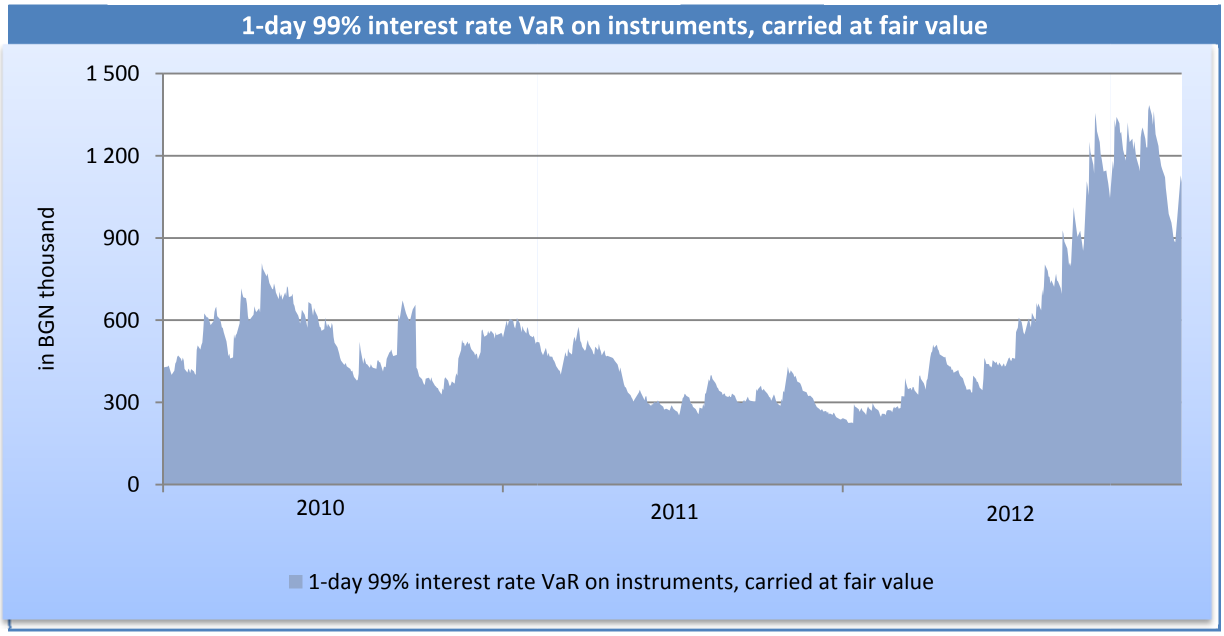
For further information regarding credit risk see note 3 "Risk management" of the Consolidated Financial Statements as at 31 December 2012 together with the Report of the Independent Auditor.

MARKET RISK

Market risk is the risk of losses due to changes in the price of financial instruments resulting from general risk factors not related to the specific characteristics of individual instruments, such as changes in interest rates, exchange rates and / or specific risk factors relating to the issuer.

Interest rate risk is the risk of change in the income of the Bank as a result of adverse changes in interest rates. Fibank manages interest rate risk in the banking book though written rules, limits and procedures aimed at reducing the mismatch between interest-sensitive assets and liabilities. Interest rate risk in the banking book is measured using models that assess the impact of interest rate scenarios on the economic value of the Bank and on the net interest income with a one-year horizon. Evaluation of the impact on the economic value of the Bank is based on models of duration of interest-bearing assets and liabilities. The evaluation of the impact on net interest income is based on a maturity/repricing table of assets and liabilities and the estimated change in interest rates by classes of instruments following a change in market interest rates.

To manage the interest rate risk of securities carried at fair value, Fibank applies VaR analysis (see infra), duration analysis and analysis of standardised interest rate shocks.



Currency risk is the risk of loss resulting from an adverse change in exchange rates. Fibank controls this risk by limiting its open foreign exchange position to 2 per cent of its capital base. Fibank is also exposed to currency risk when effecting proprietary trading in foreign exchange. The volume of such trading operations is very limited, and is controlled through limits on open foreign currency positions and stop-loss limits on open positions.

For further information regarding market risk see note 3 "Risk management" of the Consolidated Financial Statements as at 31 December 2012 together with the Report of the Independent Auditor.

LIQUIDITY RISK

Liquidity risk originates from the funding of the banking business and in positions management. It includes the risk of failure to meet a payment when due, or failure to sell certain assets at a fair price and in the short term to meet an obligation.

Fibank manages liquidity risk through an internal system for monitoring and daily liquidity management, the maintenance of sufficient amount of cash in view of the maturity and currency structure of assets and liabilities, a monthly gap analysis of inflows and outflows, maintaining a low risk portfolio of assets to meet current liabilities, and operations on the interbank market. Fibank's policy on liquidity management is specified and pursued so as to ensure that the Bank can meet all obligations under external (systemic) or idiosyncratic stress, as well as to maintain an adequate level and structure of liquid buffers and the application of appropriate mechanisms for the distribution of costs, profits and risk, related to liquidity.

During the reporting year Fibank continued to maintain an adequate amount of liquid assets – as at 31 December 2012 the liquidity ratio increased and reached 27.64% on a consolidated basis (2011: 26.17%; 2010: 26.06%).

For further information regarding liquidity risk see note 3 "Risk management" of the Consolidated Financial Statements as at 31 December 2012 together with the Report of the Independent Auditor.

OPERATIONAL RISK

In the context of the Basel standards operational risk is the risk of loss resulting from inadequate or failed processes, people or systems, or from external events. In order to mitigate the risks arising from operational events Fibank applies written policies, rules and procedures that are based on the requirements laid down in Bulgarian and EU legislation and good banking practices.

The managing of operational risk is based on the principles of not assuming unsound risk, strict compliance with the authority levels and applicable laws, and the active management of operational risk.

The Bank also maintains a system for the registration, tracking and control of operational incidents and near-misses that complies with Ordinance No.8 of the BNB. The Risk Management department defines and categorises operational events across event types and business lines inherent in banking; the department also defines the responsibilities of the employees tasked with data collection. The Operational Risk Committee regularly reviews operating events and suggests to the managing Board measures for the immediate correction of the reasons for them, as well for the optimization of the processes, activities, products and services of all levels in the Bank's system.

RISK-WEIGHTED ASSETS

Since January 1, 2007 Fibank has applied the standardised approach for the calculation of risk-weighted assets for credit risk under Basel standards and the provisions of Ordinance No.8 of the BNB on the capital adequacy of credit institutions. Due to the limited volume of financial instruments in the trading book (bonds and other securities) capital requirements are calculated in accordance with the requirements of Ordinance No.8 of the BNB as applied to the banking book. The Bank applies the basic indicator approach for calculation of the capital requirement to cover the risk of operational losses.

In BGN thousand / % of total	2012	%	2011	%	2010	%
For credit risk	4,491,397	92.1	4,224,125	92.1	3,456,345	90.4
For market risk	12,400	0.3	6,100	0.1	5,988	0.2
For operational risk	371,240	7.6	358,364	7.8	358,675	9.4
Risk-weighted assets	**4,875,037**	**100**	**4,588,589**	**100**	**3,821,008**	**100**

Apart from Supervisory purposes, Fibank also calculates the economic capital that will ensure its solvency and business continuity in adverse market conditions. For that purpose, Fibank uses analytical tools and techniques, stress tests and forecasting models, which allow a more detailed assessment of the capital adequacy commensurate with the Bank's risk profile and the current operating environment.

DISTRIBUTION CHANNELS

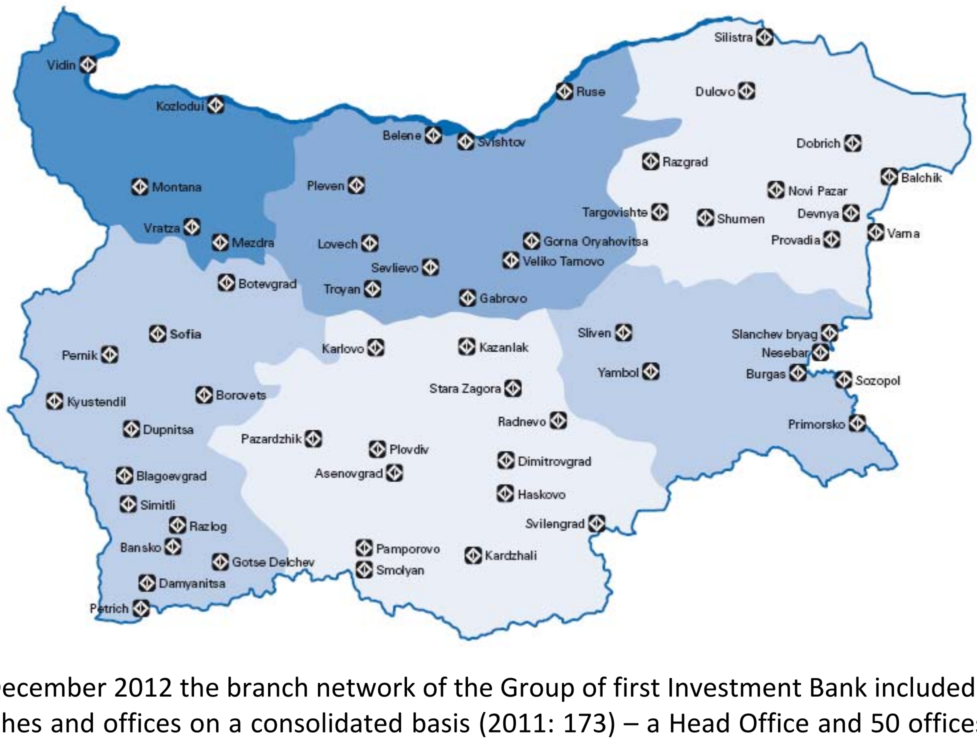
First Investment Bank uses various types of distribution channels for its products and services – well developed branch network, broad network of ATM and POS terminals, distant access to information and services through its own contact centre, direct sales, e-banking and telephone banking.

In 2012 Fibank developed the distribution channels in accordance with the external environment and customer needs, adding new services and functionalities to the Virtual banking branch, My Fibank and the contact centre of the Bank.

BRANCH NETWORK

The branch network is the basic channel for the distribution of the bank products and services of Fibank.

In 2012 Fibank remained focused on optimizing and increasing the efficiency of the branch network, while taking into account the external environment, working processes, maintenance costs and the volume of business generated by each branch or office. In this relation during the year 13 offices were closed, of which nine in retail chains and four in Razgrad, Varna and Sofia, while two new offices were opened in Sofia and Blagoevgrad. At the same time the Bank continued to develop its branch network by expanding the scope of services offered and ensuring deeper market penetration in the respective populated areas – during the year the office in Yambol was transformed and functions as a separate branch.



As of 31 December 2012 the branch network of the Group of first Investment Bank included a total of 162 branches and offices on a consolidated basis (2011: 173) – a Head Office and 50 offices in Sofia, 100 branches and offices throughout the rest of Bulgaria, one foreign branch in Cyprus and a subsidiary bank in Albania, which operated through a Head Office in Tirana and nine branches in the country.

CONTACT CENTRE – *BANK (*2265), 0800 11 011

Fibank's Contact centre functions as an effective channel for communication with customers and for the active sale of specific banking products and services. The Contact Centre's customers can apply for credit and debit cards, for a debit card overdraft, receive accurate and correct information on products and services and the Bank's Terms and Conditions (Tariff) and interest rates, the location of branches and bank offices' working times, as well as adequate and professional assistance from the Contact Centre employees whenever questions or problems occur.

The Bank has worked systematically throughout the years on the development and diversification of the services offered. In relation to that in 2012 the Contact Centre started servicing a new communication channel with customers – a chat in real time through the Bank's corporate website, offering information on the banking products and services. During the reported period a fully automated technological optimization was implemented in the calls to cardholders, through the computer-phone system of the Contact Centre by recording interactive voice messages containing information on due amounts, payment deadlines and providing a possibility for direct connection with an operator.

In 2012 through the Contact Centre more than 224 thousand phone calls were carried out, as the served incoming calls rose by 18%. A recognition of the good service and the development of activity was the received award for "best mobile banking" in the "Secret customer" European survey, which included an assessment of the Bank's Contact Centre.

CORPORATE BLOG

The corporate blog of First Investment Bank has already operated for four years as an alternative channel for communication, aiming at open dialogue in an accessible language with customers and partners. It publicises a range of social and corporate initiatives, presents the employees of the Bank, and assesses the use of products and services through open discussion and interactive inquires. It presents interesting analysis and research, made by the Bank with regards to the market for credit products and the tendencies in this segment.

First Investment Bank has a strong positive image in the Internet society, maintaining active communication in real time with its customers and stakeholders through leading social networks – Facebook, Twitter, Youtube, Svejo.net, Foursquare, Google+.

SALES

The direct sales are another channel for distribution used by the Bank to provide products and services, as well as complex banking servicing to institutional and corporate customers.

This channel also contributes for attracting new customers and for establishing long-term relations with key customers, as well as for receiving direct feed-back on the Bank's products and services. In 2012 a number of new corporate customers from different market segments were attracted through direct sales to First Investment Bank.

Sales Department employees represent Fibank at trade fairs and exhibitions and actively take part in promotional campaigns for selling the Bank's services. The Department has considerable experience in taking part in tender procedures and the servicing of budget spending units, state and municipal companies.

REMOTE BANKING

VIRTUAL BANKING BRANCH (e-fibank)

First Investment Bank has successfully developed and offered electronic banking for more than ten years now and is among the pioneers in this field, providing its customers with a modern, fast, cheap and safe way to use a wide range of banking products and services.

Fibank continuously works for improving the products and services, offered by the Virtual Banking Branch, aiming at reaching optimum speed, functionality, efficiency and security. In 2012 effectively started working the service for performing mass transfers through the Virtual Banking Branch, which was integrated within the virtual banking (e-fibank) at the end of 2011, thus centralizing and facilitating its use, and broadening its functionality.

For the period, the outgoing transfers through the Virtual Banking Branch increased and reached 40% of the number (2011: 33%) and 47% of the amount (2011: 43%) of all outgoing transfers performed by the Bank. The number of customers using the virtual banking of First Investment Bank continued to grow, as registrations in the e-fibank increased by 27% during the year.

In 2012 First Investment Bank added new functionalities to its e-banking, by offering the opportunity for performing payments of utility bills and payments for tax obligations towards budget.

TELEPHONE BANKING – *bank (*2265), 0700 19 599

Through the telephone banking the Bank's customers are allowed to perform active banking operations by phone during the working hours of the Bank, and passive operations without time limitations, 7 days a week, 24 hours a day.

Telephone banking allows customers of the Bank to order money transfers, to negotiate exchange rates and to purchase currency with one phone call. Furthermore, they can make inquiries about balances on their accounts, about performed transactions, and acquire information on exchange rates.

MY Fibank

First Investment Bank successfully offers its customers electronic banking services through My Fibank for more that three years. The service, as part of the Bank's Ecoprogram, provides customers with electronic statements from their current and deposit accounts, their credit cards, as well as with information about sent and received interbank transfers in foreign currency.

In 2012 new services are offered to customers, such as payments through My Fibank of utility bills and of other obligations on accounts and cards kept with the Fibank, as well as registration of 3D Card Security – a new functionality increasing the security of payments over the Internet (through the programs MasterCard SecureCode and Verified by Visa).

During the year an increased customer interest in the electronic services offered through My Fibank was reported, as evidenced by the growth of 61% in the registrations for the use of that service.

INFORMATION TECHNOLOGIES

The development of information technologies is one of the strategic priorities of First Investment Bank. The accumulated experience and successfully completed projects in the sphere of information technologies enable the Bank to be amongst the most technological banks on the Bulgarian banking market.

Modern IT environment is a main prerequisite for developing a full range of banking products and services of last generation, complying to EU and world standards. Banking information systems are highly flexible and adaptive to higher customers needs. The Bank strives to offer prompt and first-class servicing at high level of security in performing banking transactions through parameterized double control and the use of contemporary methods for prevention of unauthorized access including in remote banking operations. New functionalities in My Fibank, electronic sales of services, including of products of investment gold and other precious metals, contribute to Fibank's development as an innovative bank.

In October 2012 the corporate website was updated through adding new functionalities such as: dynamic map of Fibank's branches and offices and opportunity for adapting the site to the screen of the device used. The feedback, Fibank receives from customers is based on contemporary technologies for communication, as in 2012 a new opportunity for communication was realized through real-time chat integrated in the Bank's corporate website.

During the year the database platform of the main banking information system was successfully migrated to higher version and modern, innovative hardware, which shall contribute to increase in the speed and system's productivity.

The Bank consistently conducts a policy for increasing the level of system security, as new specialized modules for additional protection and prevention were implemented throughout the year.

New services in the sphere of card payments were offered: 3D card security, which offers customers with debit and credit cards greater safety in online payments through inclusion in the additional security programs for payments over the Internet (Verified by Visa and MasterCard SecureCode), as well as credit and debit cards VISA Pay Wave, based on NFC (Near Field Communication) technology.

In 2012 Bank's policies for change management in the control and IT infrastructure were optimized, as a new specialized internal body was adopted – Change management council.

CORPORATE GOVERNANCE

To First Investment Bank corporate governance means reaching its strategic goals and attaining long-term sustainable results on behalf of its shareholders, lenders, employees, customers and the public in general.

Fibank follows a Programme for the Implementation of Internationally Recognised Good Corporate Governance Standards consistent with the practices of the Organisation for Economic Cooperation and Development (OECD), the National Corporate Governance Code (the Code) and the regulatory requirements which the Bank reconsiders every year in terms of its adherence and effectiveness. For establishing contemporary professional and ethical standards, required and applicable to the Bank as a business company, working environment and credit institution, Fibank has a Code of Conduct that determines the major principles, ethical norms and corporate values which underlie the policies and business plans, rules, procedures and daily operational work of the Bank.

During 2012 First Investment Bank continued to work for applying the highest standards and to further develop its policies in the sphere of compliance with the effective legislation and best practices in this sphere. During the reported period the Presiding committee, Risk committee and Remuneration committee started functioning. The Presiding committee is primarily responsible for the supervision of the activities of the Managing Board in regards to important strategic decisions, including the issuance of new shares, bonds, hybrid instruments, and the adoption of programs and budgets in relation to the activity of the Bank. The Remuneration committee shall assist the Supervisory Board in overseeing the application of the Bank's remuneration policy and its further amendments as well as in any other matters regarding remunerations, in compliance with the regulatory requirements and best practices in this sphere. The Risk committee assists the supervision of the risk management activities of the Managing Board and for a broad strategic and tactical supervision of the activities of the risk management function within the Bank, including the approval of large risk exposures.

Fibank`s corporate governance is a system with clearly defined functions, rights and responsibilities at all levels – the General Meeting of Shareholders (GMS), the Supervisory Board and its committees, the Managing Board, the Specialised Internal Audit Service, and internal councils and committees and structures at the Head Office and the branches. First Investment Bank has a two-tier management system, comprising the Supervisory Board and the Managing Board.

The Supervisory Board does not participate directly in the Bank`s management. It sets the main business objectives of the Bank and the attainment strategy, elects and discharges members of the Managing Board, as well as approving the major strategic decisions of the Bank. The Supervisory Board's activity was supported also by an Audit Committee which carries out its activities on the basis of a predetermined written structure, scope of activities and functions, related with the observation of the financial reporting process, the independent financial audit, as well as of the effectiveness of the Bank`s internal control systems and risk management systems.

The Managing Board carries out the management of the Bank by resolving all issues in its line of business, except those within the exclusive competence of the General Meeting of Shareholders or the Supervisory Board. The Managing Board of Fibank holds sessions every week. The Managing Board's activity is supported by internal bodies such as: the Credit Council, the Credit Committee, the Liquidity Council, the Operational Risk Committee, Deposit Products Commitee which carry out their activities on the basis of written internal rules.

The General Meeting of Shareholders of Fibank has the right to amend and supplement the Bank`s by-laws, to increase and reduce share capital, as well as to transform and terminate the Bank. The

General Meeting of Shareholders has competences to elect and dismiss the members of the Supervisory Board and the management of the Specialised Internal Audit Service of the Bank.

In May 2012 a regular annual general meeting of shareholders was held, at which a decision was taken that the entire net profit of the Bank for 2011 shall be capitalized and that no dividends shall be paid, or any other deductions made from the profit for 2012. KPMG Bulgaria OOD was selected as a specialized auditing company, which will verify the annual financial statements for 2012. Amendments were made to the structure of the Audit Committee of Fibank, as new members were elected: Ms. Maya Georgieva and Mr. Jordan Skortchev, who replaced the former members Mr. Todor Breshkov and Mr. Nedelcho Nedelchev. Ms. Stefana Tsenova (Chairperson of the Audit Committee) was re-elected for a new three-year mandate. In December 2012 the first general meeting of bondholders was held for the issue of perpetual subordinated bonds of the Bank with a principal amount of EUR 20 million, issued in November 2012 under the conditions of a private placement. In the same month an extraordinary general meeting of shareholders was held, at which amendments were made to the By-laws of the Bank that empowered the Managing Board of the Bank, with the approval of the Supervisory Board, to take decision for increasing the Bank's capital of up to total nominal amount of BGN 210 million by issuing of new shares. Additional amendments in the By-laws of the Bank were made as well, allowing the Bank to issue privileged shares with guaranteed and/or additional dividend, with a redemption privilege, as well as all other privileges permitted by the applicable legislation.

Being a public company Fibank discloses to the public (through the news agency www.x3news.com) regular information including annual and semi-annual financial statements audited by an independent auditor, as well as interim quarterly financial statements and activity reports. The Bank immediately discloses additional ad hoc information regarding important events in connection with its business activity. The information is also available on Fibank`s website: www.fibank.bg, section "Investor information".

During the reporting period Fibank met the requirements set in its Programme for the Implementation of Internationally Recognised Good Corporate Governance Standards, including the requirements for providing regular information in connection with its financial calendar for 2012. In addition every year, together with its annual report and financial statements, the Bank has issued to the public a Card for the assessment of its corporate governance, which has been developed in accordance with the National Corporate Governance Code.

HUMAN CAPITAL

The policy of First Investment Bank on personnel management is oriented towards achieving long-term correspondence between the personal goals of employees and those of the institution as a whole – the fulfillment of the objectives and strategy of Fibank, linking payment incentives with the sustainability of achieved results and the reliable management of risks, and the affirmation of the Bank as a preferred workplace for employees. It is based on the principles of transparency, the prevention of conflicts of interest, accountability, and objectivity.

Fibank has a Remuneration Policy adopted in compliance with the Law on Credit Institutions and Ordinance No. 4 of the BNB on the Requirements for Remunerations in Banks, which is consistent with the business strategy, objectives and values of the Bank, and is based on the effective management of risks. It is aimed at motivating employees to achieve high results at a moderate level of risk, and in accordance with the long-term interests of the Bank and its shareholders. The Policy sets out the main principles in the setting of remunerations – fixed and variable. Variable remunerations are based on performance results and the targets achieved in the long term, using an evaluation based on financial (quantitative) and non-financial (qualitative) criteria. For certain categories of employees – senior management and other employees whose work significantly influences the risk profile of the Bank, the Policy establishes specific requirements for the distribution of variable remuneration: not less than 50% of it is to be provided in the form of financial instruments – i.e. shares and other instruments related to shares, instruments under Art. 3a of Ordinance No. 8 of the BNB. It also determines an appropriate retention period for these instruments, and deferral of part of the variable remuneration (at least 40%, and for persons under Art. 10 of the Law on Credit Institutions at least 60%) for a period of three to five years.

The Bank aims constantly to develop its policies concerning human capital in accordance with best practices and the regulatory requirements. In relation to this, during the period activities have been carried out for the realization of Bank`s policy on human capital management, including:

- adoption and implementation of a Procedure for planning, application and fulfillment of trainings, reflecting the Bank`s ambition to invest in the development of its employees;
- updating Procedures for organizational and structural development, selection and assessment of the employees` working performance, aiming at synchronizing of processes with business needs, achieving higher efficiency in human capital management and enhancing employees' motivation and adherence;

- a permanent Commission for examination of employees’ complaints and signals was adopted, aiming at supporting and developing the working processes, team relations, internal communication and employees’ motivation;
- other internal rules for staff management were implemented, aiming at supporting and developing the working processes, team relations, internal communication and proper relations between the employees and the Bank as responsible and committed employer.

In 2012 First Investment Bank continued to invest purposeful efforts in enhancement of the qualification, training and development of its employees – 70% of the Bank's staff underwent various forms of training during the year.

In 2012 the Bank prepared a large-scale training project, with which it applied under Operational Program "Human Resources Development 2007-2013". The project foresees trainings for improvement of key competencies of 565 employees. The project named "Development - A Matter of Tradition" is approved for financing and its implementation is forthcoming during 2013.

As at 31 December 2012, the number of staff reached 2,859 on a consolidated basis (2011: 2,838; 2010: 2,690).

CHARITY

In 2012 First Investment Bank continued to support socially important projects and initiatives, as part of its corporate social responsibility program and active participation in the country's social life. In this respect, the Bank donated BGN 300,000 to the people that suffered from the floods in Harmanli and Svilengrad municipalities in February 2012.

Fibank continued its successful cooperation with the Workshop for Civic Initiatives Foundation, as funds were collected for the support of people in an unequal condition. In support of Bulgarian schools the Bank granted funds for equipment of the computer room in 176th Elementary school "St.st. Kiril and Metodiy" in Negovan village.

As a general sponsor of the Bulgarian Ski Federation the Bank supported the World Ski Championship in Bansko, where a charity event was organized and therefore collected BGN 20,000 in support of children's skiing in Bulgaria. During the reporting period Fibank awarded European champions and young promising sportsmen in track-and-field athletics, in its capacity as a general sponsor of the Bulgarian Athletics Federation. In January 2013 Fibank renewed its partnership with the Federation, and shall continue to support its activities in the main competitions and sport initiatives.

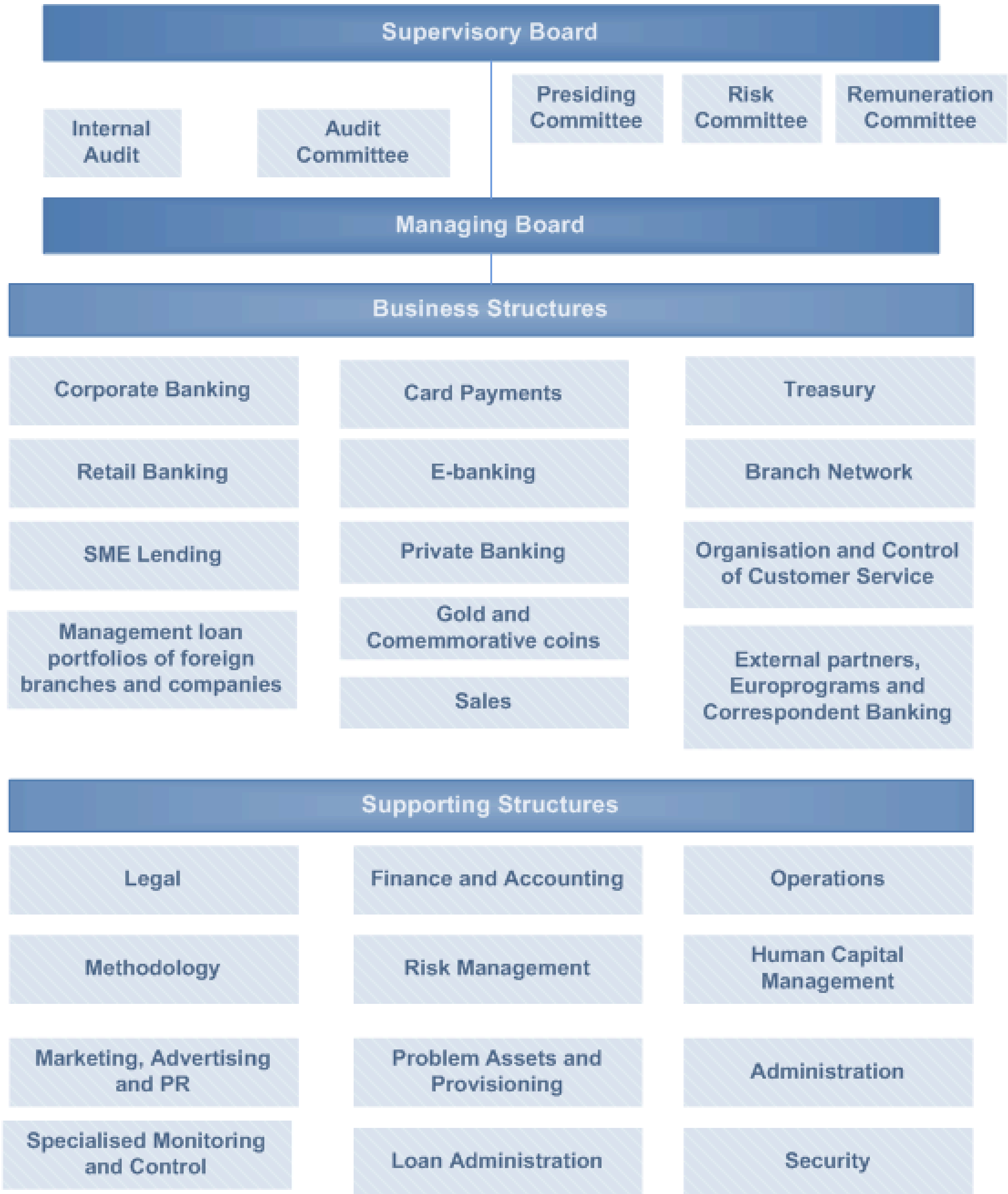
Fulfilling its policy for support of cultural and musical projects, the Bank sponsored the organization of the Bansko Jazz Festival for a consecutive year.

In November 2012 Fibank supported the Bulgarian Paraolympics Association by a charity project – developing a corporate calendar for 2013 with famous Bulgarian sportsmen and donation of their royalties amounting to BGN 30,000 to the association.

During the year First Investment Bank – Albania Sh.a. developed its corporate social responsibility and contribution to community, by supporting social initiatives in Albania. The bank granted funds for supporting orphan-children and families of killed policemen. Another project was realized throughout the year for organizing a summer camp for children in an unequal condition, in which around 60 children participated.

During the period Diners Club Bulgaria AD continued to allocate resources for corporate donorship – in May 2012 the company organized a charity auction, at which BGN 11,000 was donated to the "Arte Viva" foundation for establishing a puppet-theatre show for children, based on Bulgarian folklore. Sportsmen were also awarded and sponsorship to a final in the World Ski Championship 2012 in Bansko was provided.

BUSINESS STRUCTURE



SUPERVISORY BOARD

Evgeni Krastev Lukanov	Chairman of the Supervisory Board
Maya Lubenova Georgieva	Deputy Chair of the Supervisory Board
Georgi Dimitrov Mutafchiev	Member of the Supervisory Board
Radka Vesselinova Mineva	Member of the Supervisory Board
Jordan Velichkov Skortchev	Member of the Supervisory Board

In February 2012 Mr. Evgeni Lukanov, Ms. Maya Georgieva and Mr. Jordan Skortchev were entered as members of the Supervisory Board of the Bank and replaced the members Mr. Todor Breshkov, Mr. Nedelcho Nedelchev and Mr. Kaloyan Ninov. In the same month Mr. Evgeni Lukanov was elected Chairman of the Supervisory Board of the Bank, while Ms. Maya Georgieva was elected Deputy Chair of the Supervisory Board of the Bank.

As at 31 December 2012 the members of the Supervisory Board held a total of 208,706 shares of Fibank and none of them owned more than 1% of the issued share capital.

Number of shares / % of issued share capital	2012	%
Evgeni Krastev Lukanov	168,739	0.15
Maya Lubenova Georgieva	11,388	0.01
Georgi Dimitrov Mutafchiev	9,454	0.01
Radka Vesselinova Mineva	0	0
Jordan Velichkov Skortchev	19,125	0.02
Total number of shares, held by members of the Supervisory Board	**208,706**	**0.19**

The business address of all Supervisory Board members is 37, Dragan Tsankov Blvd., 1797 Sofia.

MANAGING BOARD

Dimitar Kostov Kostov	Executive Director, Chairman of the Managing Board
Vassil Christov Christov	Executive Director
Svetoslav Stoyanov Moldovansky	Executive Director
Stanislav Ganev Bozhkov	Deputy Executive Director
Maya Ivanova Oyfalosh	Director Management of loan portfolios of foreign branches and companies Department

In pursuance of the decision taken at the extraordinary general meeting of shareholders in October 2011 for election of new members of the Supervisory Board of Fibank, in January 2012 Ms. Maya Georgieva, Mr. Jordan Skortchev and Mr. Evgeni Lukanov were dismissed as Executive Directors and members of the Managing Board of the Bank.

In February 2012 Mr. Dimitar Kostov was elected Chairman of the Managing Board of the Bank.

In February 2013 Mr. Stanislav Bozhkov was written off as member of the Managing Board and Deputy Executive Director of Fibank.

As at 31 December 2012 the members of the Managing Board held a total of 24,026 shares of Fibank and none of them owned more than 1% of the issued share capital.

Number of shares / % of issued share capital	2012	%
Dimitar Kostov Kostov	0	0
Vassil Christov Christov	21,676	0.02
Svetoslav Stoyanov Moldovansky	0	0
Stanislav Ganev Bozhkov	0	0
Maya Ivanova Oyfalosh	2,350	0.00
Total number of shares, held by members of the Managing Board	**24,026**	**0.02**

In 2012 the key management personnel received remuneration amounting to BGN 4,460 thousand.

The business address of all Managing Board members is 37, Dragan Tsankov Blvd., 1797 Sofia.

INVESTOR RELATIONS DIRECTOR

Vassilka Momchilova Stamatova	Investor Relations Director

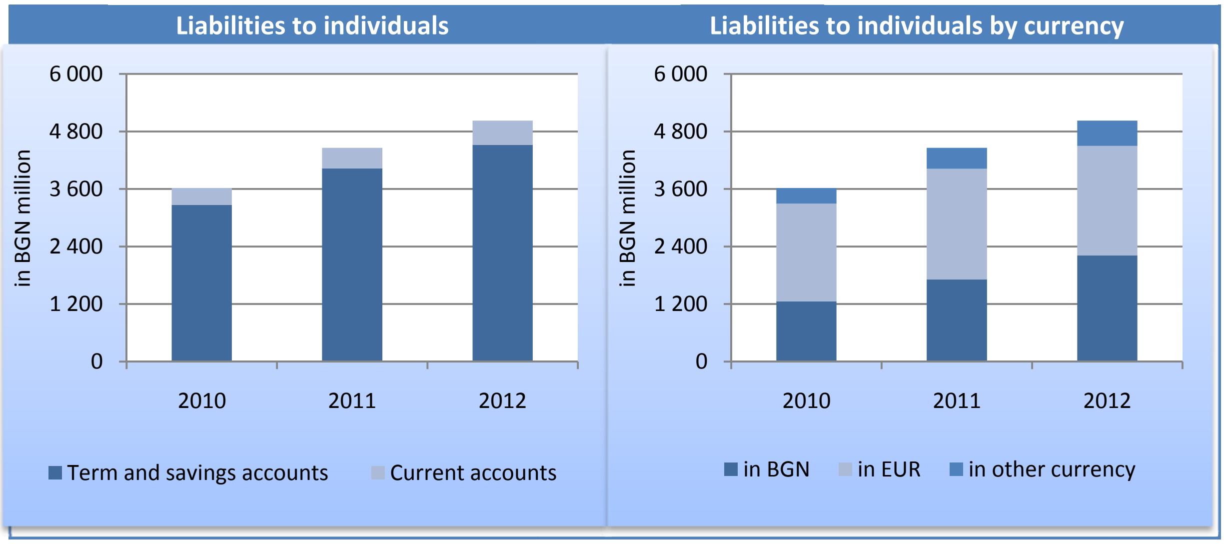
The business address of the Investor Relations Director is 37, Dragan Tsankov Blvd., 1797 Sofia, tel. 02/ 81 71 430, email: vstamatova@fibank.bg.

BUSINESS OVERVIEW

RETAIL BANKING

DEPOSITS

In 2012 attracted funds from individuals rose by 12.8% or BGN 568,493 thousand (above the average for the banking system at 12.4%) and reached BGN 5,027,005 thousand (2011: BGN 4,458,512 thousand; 2010: BGN 3,621,627 thousand). The increase was mainly due to a growth in term and saving accounts (12.3% or BGN 494,136 thousand), which reached BGN 4,522,323 thousand (2011: BGN 4,028,187 thousand; 2010: BGN 3,268,087 thousand) and retained their structure-determining share at 90.0% of attracted funds from individuals (2011: 90.3%; 2010: 90.2%). During the year First Investment Bank – Albania Sh.a. offered a new product "Open deposit" in ALL and in EUR with growing interest rate and option for drawing money without losing the interest.



At the end of the period current accounts amounted to BGN 504,682 thousand or 17.3% (BGN 74,357 thousand) more than the prior year (2011: BGN 430,325 thousand; 2010: BGN 353,540 thousand). A contributing factor were the various current accounts offered by the Bank, as well as value added services. The Bank started offering new current accounts to individuals – a current account with minimum balance and free current account with different periods for accumulating interest.

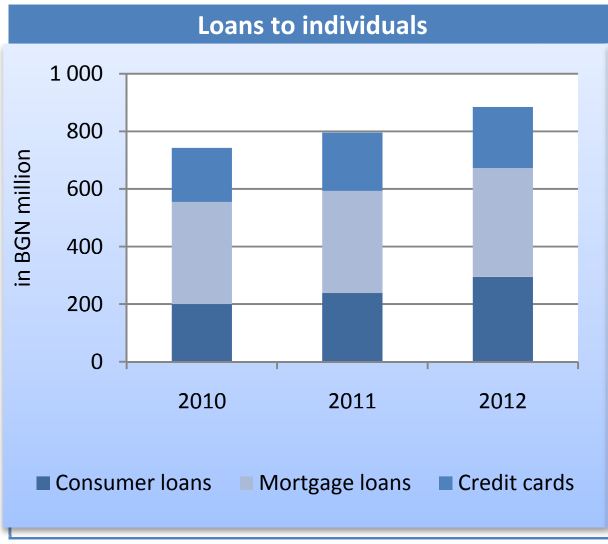
Fibank ranked second amongst banks in the country in terms of attracted funds from individuals (2011: second; 2010: second). As at end-2012 the Bank's market share amounted to 13.66% on an unconsolidated basis (2011: 13.68%; 2010: 12.66%).

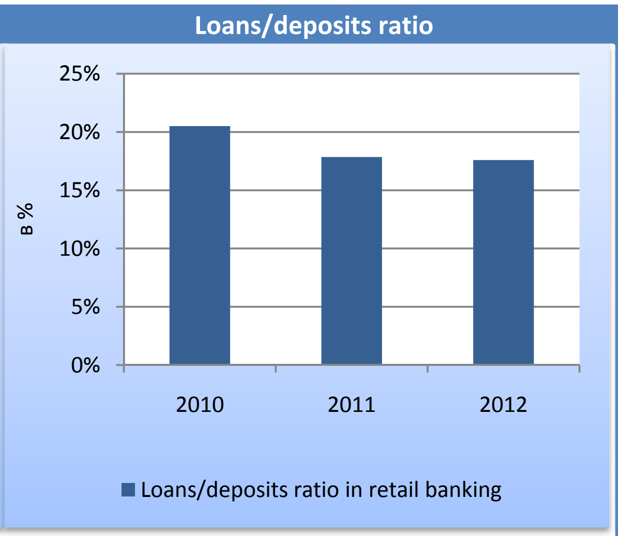
Evidence and proof of the good results in this sphere can be seen in the Bank receiving the market share award at the annual bank awards of the "Bank of the Year" association for a second consecutive year. The Bank has achieved the highest performance ratio per unit of share capital, by attracting the largest amount of deposits from households and businesses in the country, and returning the greatest part of these funds in the Bulgarian economy. Fibank was awarded also as "Bank of the year", with the best complex performance in terms of market share, efficiency and development dynamics.

LOANS

The portfolio of loans to individuals increased by 11.1% (the banking system – a decrease of 0.5%) to BGN 884,471 thousand (2011: BGN 795,830 thousand; 2010: BGN 742,674 thousand) as a result of a growth in all segments, the main contributor being consumer loans.

Consumer loans grew by 23.8% to BGN 295,486 thousand, against BGN 238,603 thousand the prior year (2010: BGN 199,671 thousand), due to the competitive terms, offered by the Bank, the facilitated application procedure and the development of new products, including seasonal offerings, which were in accordance with the needs of the market and consumers. During the year Fibank started offering new consumer loans "Easter loan" and "For excellent students" with a maximum amount of up to BGN 50,000, fixed interest rate for the first two years and no prepayment and loan application fees. The continued its focus on debit cards overdrafts as a product with lower risk and development potential. In 2012 First Investment Bank – Albania Sh.a. offered a new consumer loan "spring offer" with a term of up to seven years and financing up to ALL 1 million, with no application, renegotiation and prepayment fees. Fibank's market share in this segment increased to 5.48% (2011: 4.66%; 2010: 4.03%), as the Bank maintained its market position at seventh place in terms of consumer loans amongst banks in the country on an unconsolidated basis.





Mortgage loans grew by 6.0% to BGN 376,174 thousand as at end-December 2012, compared to BGN 354,732 thousand a year earlier (2010: BGN 355,737 thousand), retaining their main share at 42.5% (2011: 44,6%; 2010: 47,9%) of the retail loan portfolio. During April 2012 a new "Free mortgage loan" was started with a fixed interest rate for the first seven years and financing of up to 100% of the value of the purchased real estate. The loan gives conforming customers the opportunity to receive a bonus from the Bank (in the form of cashback) on the amount of 1% of the remaining loan principal per year. During the year First Investment Bank – Albania Sh.a. started offering a new mortgage loan "Spring Offer" with a term of up to 30 years and financing of up to 70% of the market value of purchased real estate, with a fixed interest rate for the first year of the loan term and no application, prepayment and renegotiation fees. As at 31 December 2012 Fibank's market share in this segment was increased to 3.83% (2011: 3.68%; 2010: 4.02%), as the Bank maintained its market position at eighth place in terms of mortgage loans (2011: eighth; 2010: eighth) amongst the banks in the country on an unconsolidated basis.

Utilized limits on credit cards grew by 5.1% and reached BGN 212,811 thousand (2011: BGN 202,495 thousand; 2010: BGN 187,266 thousand), a contributor being the various and innovative card products and services offered by Fibank, as well as the Bank's consistent policy for stimulating this type of non-cash payment. The relative share of loans, utilized by credit cards in the total retail loan portfolio at 24.1% (2011: 25.4%; 2010: 25.2%).

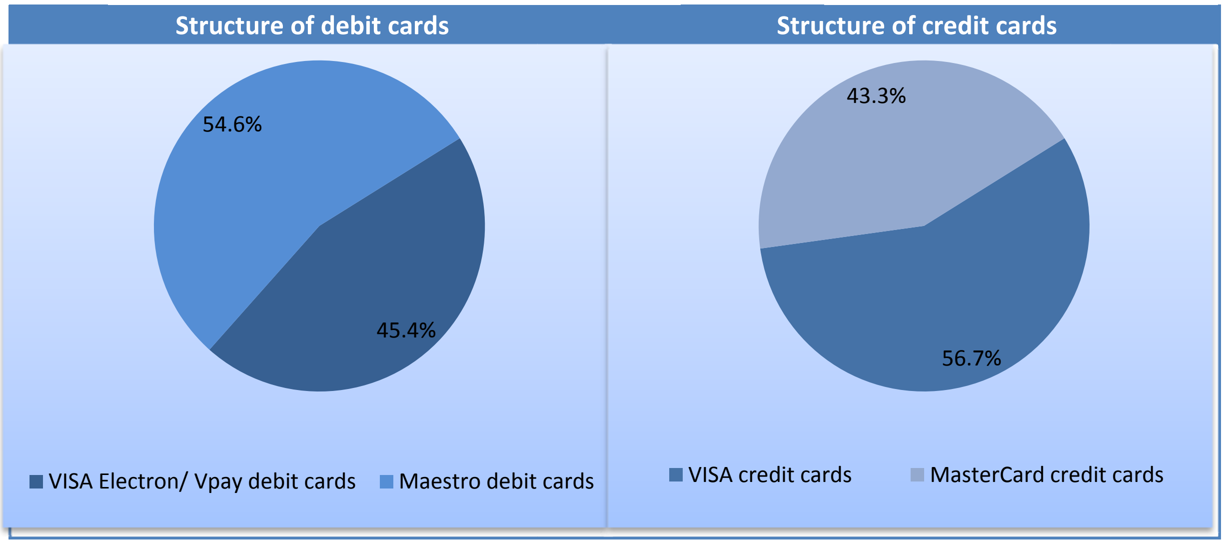
CARD PAYMENTS

In 2012 First Investment Bank has again a leading position in the sphere of card business in the country, by expanding the products and services offered and further developing and promoting contactless payments.

At the end of the year the Bank started offering a new exclusive bank product in the premium segment – MasterCard World Elite, which combines a credit card with a high credit limit, prolonged interest-free grace period, additional services and first-class servicing.

To ensure greater security in online payments with credit and debit cards, Fibank offered a new service to its cardholders – the registration of 3D Card Security, which allows using the additional security programs for payments over the Internet (Verified by Visa and MasterCard SecureCode) and generating a personal 3D password (a combination of letters and numbers).

The Bank continued its focus on development and promoting cards with innovative functionality for contactless payments, including the offering of new products in this segment – Visa Classic payWave credit cards and Visa Electron payWave debit cards, based on NFC (Near Field Communication) technology. Thus Fibank expanded its range of market decisions in favour of customers and is the only bank in Bulgaria that issues and services the MasterCard PayPass and the Visa payWave contactless cards. As at the end of 2012 the cards for contactless payments issued by the Bank exceeded 58 thousand, of which 54% were debit and 46% were credit cards.



The Bank's market share was 15.09% in credit cards and 7.66% in debit cards based on data from VISA and MasterCard as at September 2012 on an unconsolidated basis.

During the year Fibank continued to work on optimizing the efficiency of the terminal network and on developing the network of terminals servicing contactless payments, as well as of such included in the Bank's loyalty program. At the end of 2012 Fibank maintained a network of POS terminals of over 9,500, of which over 1,300 with innovative functionality for contactless payments. The number of ATM terminals amounted to 641, against 648 the prior year. Separately, the subsidiary bank in Albania maintained its own ATM network.

In 2012 Diners Club Bulgaria AD started issuing credit cards, based on EMV compliant chip technology for ensuring greater safety to cardholders, better protection against the risk of fraud and implementing new functionalities. Customers were offered also SMS notifications and e-mail statements, which help the usage of credit cards. During the period the company successfully finalized a project for expanding the network of POS terminals in the country which accept payments with Diners Club cards.

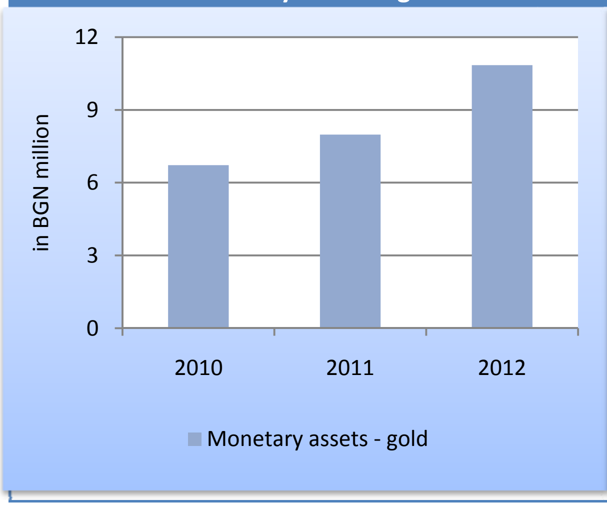
GOLD AND COMMEMORATIVE COINS

In 2012 First Investment Bank continued to actively develop its business of investment gold and other precious metals, retaining its leading position amongst the banks in the country.

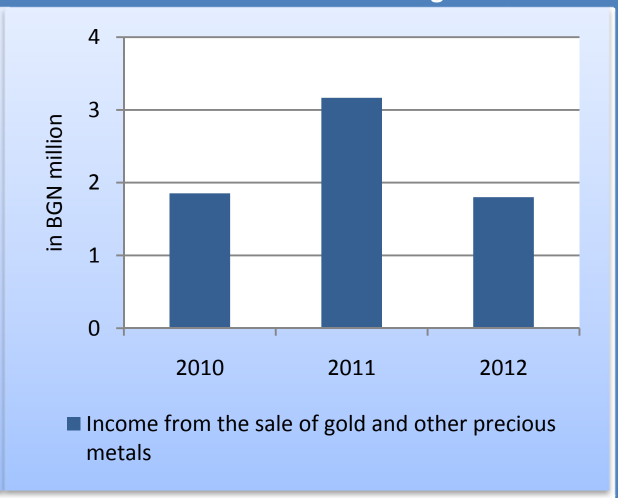
During the year the Bank successfully realized two projects – a system for redemption of investment bars and coins with the cooperation of the Italian refinery “Italpreziosi”, as well as adopting an option for online sale of products from investment gold and other precious metals. The product range was expanded by a new collection of gold and silver medallion-shaped bars icOns WINGS, a new collection series of five silver coins “Google ZOOM” of the Swiss mint PAMP with partial overgild and three commemorative coins of the BNB.

The Bank continued its successful cooperation with the New Zealand mint, as in 2012 a new silver wedding coin “Love Forever”, a new silver coin dedicated on the Year of the snake and two luxury collections for children, designed by the world-famous photographer and designer Anne Geddes.

Monetary assets – gold



Income from the sale of gold



For the period, revenues from the sale of investment gold and other precious metals articles amounted to BGN 1,800 thousand (2011: BGN 3,167 thousand; 2010: BGN 1,854 thousand). In carrying out transactions with gold and other precious metal articles, Fibank has invariably complied with all the quality criteria of the London Metal Exchange and with international standards for ethical trade.

PRIVATE BANKING

First Investment Bank has successfully offered private banking for individuals since 2003 and for corporate customers since 2005. Private banking gives the opportunity for personal attention by an individual Bank officer who is responsible for the entire servicing of a customer, as well as a joint team principle for performing more complex banking services. This banking is offered in the branches and offices of the Bank, as well as by visiting the client’s office.

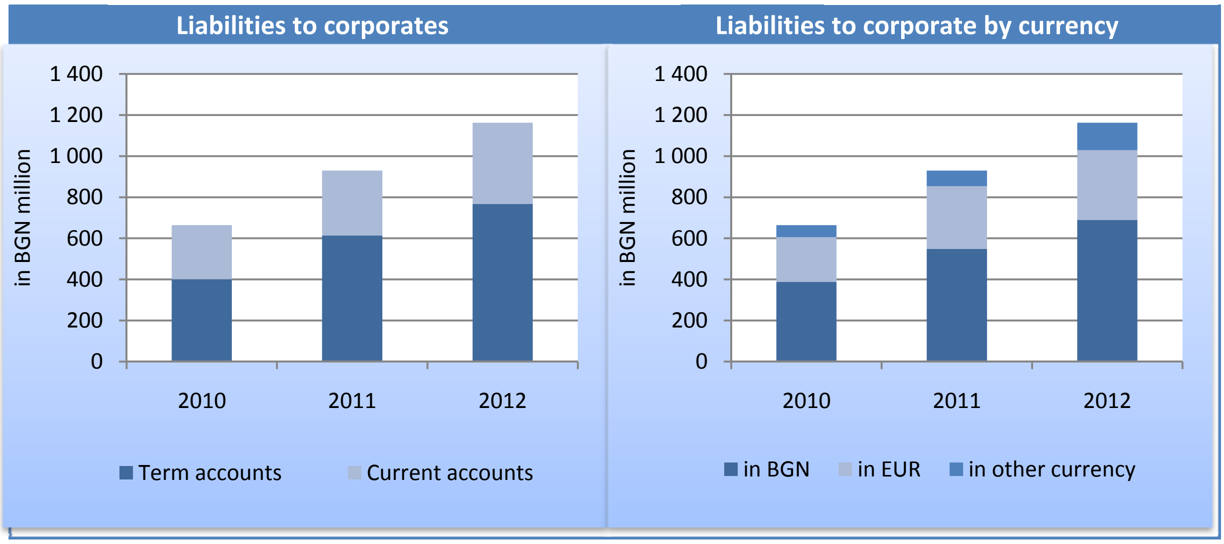
Private banking is offered to individuals and legal entities matching a number of criteria: a definite amount of collections and turnover on accounts with the Bank on a monthly basis as well as use of additional products and services.

During the year the Bank continued to work for extending the channels and the scope of the services offered by the private banking.

CORPORATE BANKING

DEPOSITS

Attracted funds from corporate, state-owned and public institutions rose by 25.1% or BGN 232,918 thousand (above the average for the banking system at 2.3%) to BGN 1,162,722 thousand, compared to BGN 929,716 thousand a year earlier (2010: BGN 664,066 thousand). The increase was mainly due to a growth in term deposit accounts (24.9% or BGN 152,868 thousand), which reached BGN 766,650 thousand (2011: BGN 613,782 thousand; 2010: BGN 400,651 thousand) and retained their structure-determining share at 65.9% (2011: 66.0%; 2010: 60.3%) of attracted funds from corporate customers.



Current accounts also increased by 25.3% (BGN 80,050 thousand) to BGN 396,066 thousand (2011: BGN 316,016 thousand; 2010: BGN 263,415 thousand), as their relative share amounted to 34.1% of funds attracted from corporate, state-owned and public institutions (2011: 34.0%; 2010: 39.7%).

As at 31 December 2012 the funds of the thirty largest non-bank depositors represented 5.40% of total amount due to other customers (2011: 5.62%; 2010: 4.59%).

LOANS

Corporate lending

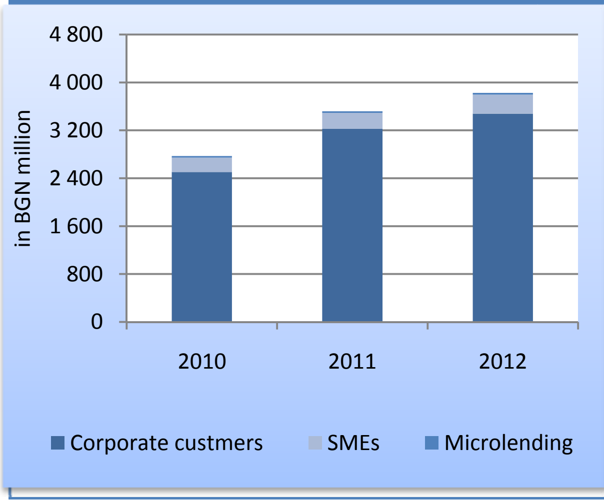
In 2012 the portfolio of loans to corporate rose by 8.7% or BGN 305,768 thousand (above the average for the banking system at 5.7%) and reached BGN 3,824,997 thousand (2011: BGN 3,519,229 thousand; 2010: BGN 2,772,246 thousand) due to a increase in all business lines and in particular in loans to large corporate customers. The Bank provides varied financing to its corporate customers including working capital loans, investment loans, guarantees, etc.

The Bank's market share in terms of this indicator increased to 9.89% of corporate loans in the banking system (2011: 9.66%; 2010: 8.09%), while Fibank's market position was improved at second place (2011: third; 2010: forth) amongst banks in the country on an unconsolidated basis.

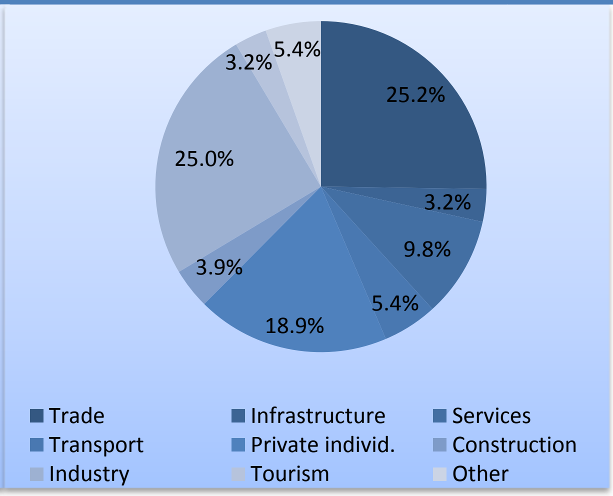
In BGN thousand/ % of total	2012	%	2011	%	2010	%
Corporate customers	3,478,134	90.9	3,224,455	91.6	2,505,101	90.4
Small and medium enterprises	316,788	8.3	268,162	7.6	240,128	8.6
Microlending	30,075	0.8	26,612	0.8	27,017	1.0
Total loans to corporates	**3,824,997**	**100**	**3,519,229**	**100**	**2,772,246**	**100**

Loans to large corporate customers increased by 7.9% (BGN 253,679 thousand) to BGN 3,478,134 thousand (2011: BGN 3,224,455 thousand; 2010: BGN 2,505,101 thousand), retaining their structure-determining share in the portfolio of loans to corporates at 90.9% as at year-end (2011: 91.6%; 2010: 90.4%). Loans to small and medium enterprises formed 8.3% of company loans (2011: 7.6%; 2010: 8.6%), while microlending constituted 0.8% (2011: 0.8%; 2010: 1.0%).

Corporate portfolio



Portfolio breakdown by sector

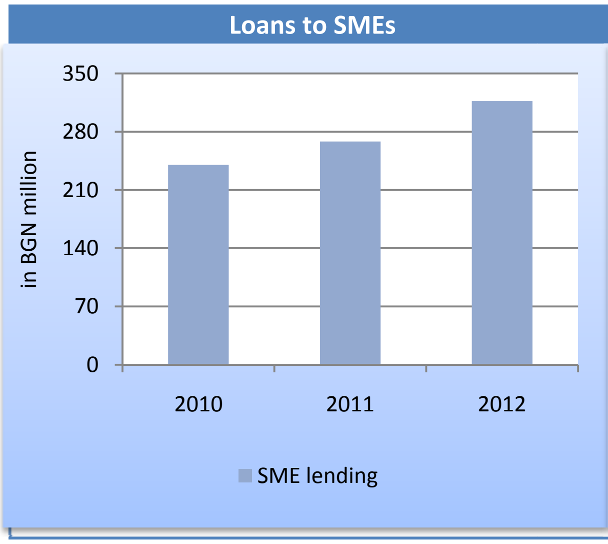


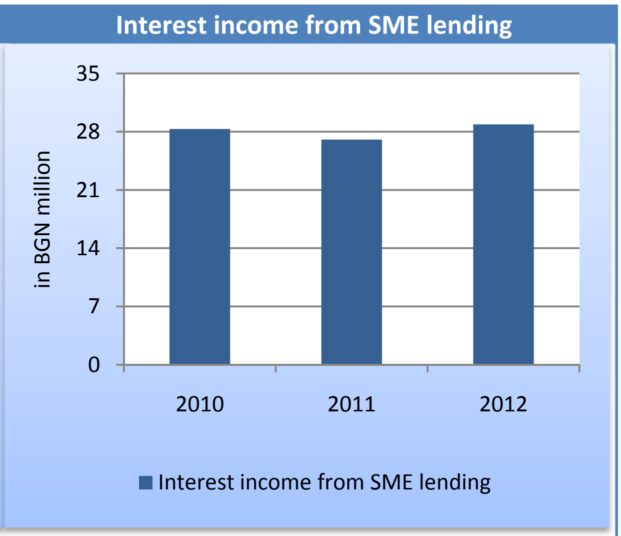
During the year the biggest growth was registered in loans in the sector of trade by 24.6% (BGN 234,546 thousand) to BGN 1,188,145 thousand (2011: BGN 953,599 thousand; 2010: BGN 891,439 thousand). Loans to this sector increased their relative share to 25.2% of all loans (2011: 22.1%; 2010: 25.4%). Loans in the sector of industry grew by 4.3% (BGN 48,565 thousand) and reached BGN 1,179,216 thousand (2011: BGN 1,130,651 thousand; 2010: BGN 668,427 thousand), forming 25.0% of Group's loan portfolio (2011: 26.2%; 2010: 19.0%). A growth was registered in other industry sectors as well, including in services to BGN 462,063 thousand (2011: BGN 442,324 thousand; 2010: BGN 236,986 thousand), in tourism to BGN 148,290 thousand (2011: BGN 121,215 thousand; 2010: BGN 137,996 thousand) and in communications to BGN 70,490 thousand (2011: BGN 56,632 thousand; 2010: BGN 38,018 thousand). A decrease was reported mainly in loans in the transportation sector to BGN 252,027 thousand (2011: BGN 272,403 thousand; 2010: BGN 256,342 thousand) and in infrastructure to BGN 150,482 thousand (2011: BGN 161,993 thousand; 2010: BGN 142,906 thousand).

During the year Fibank organized a competition for "Best Bulgarian company of the year" with the aim at focusing on good and successful examples for doing business in the country and motivating companies to be competitive.

SME lending

In 2012 loans to small and medium enterprises grew by 18.1% and reached BGN 316,788 thousand at the end of the period, compared to BGN 268,162 thousand a year earlier (2010: BGN 240,128 thousand).





With the aim at facilitating borrowers, the Bank further developed its terms on lending to agricultural producers, by offering to those who have received subsidies under the 2011 Single Payment per Area Scheme (SPAS) the opportunity for applying and receiving loans before having received a certificate for 2012 from the “Agriculture” State Fund. In June 2012 Fibank joined the agreement between the “Agriculture” State Fund and 11 commercial banks in the country for introducing a more simple mechanism for bank guarantee confirmation, in order to expediate subsidy payments to beneficiaries.

In financing SMEs the Bank has a successful cooperation using guarantee schemes of the National Guarantee Fund, the Bulgarian Agency for Export Insurance and the Municipal Guarantee Fund of Sofia Municipality. Through its flexible financing Fibank also actively supports companies/beneficiaries under programs for the utilization of funds from the European structural and cohesion funds, including under the initiative “Joint European Resources for Micro, Small and Medium Enterprises”, the JEREMIE initiative.

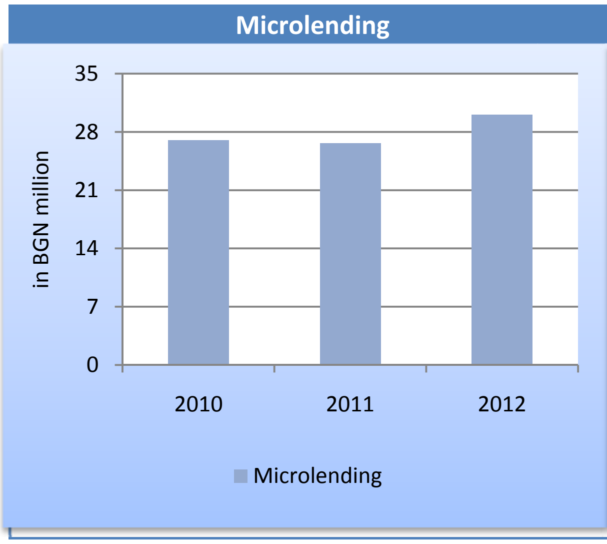
Evidence and proof of the good results in this sphere can be seen in the Bank receiving the “Golden Martenitsa” award for financial institution of 2011 with most favourable loan policy towards small and medium enterprises in Bulgaria and support of Bulgarian companies in financing on EU programs.

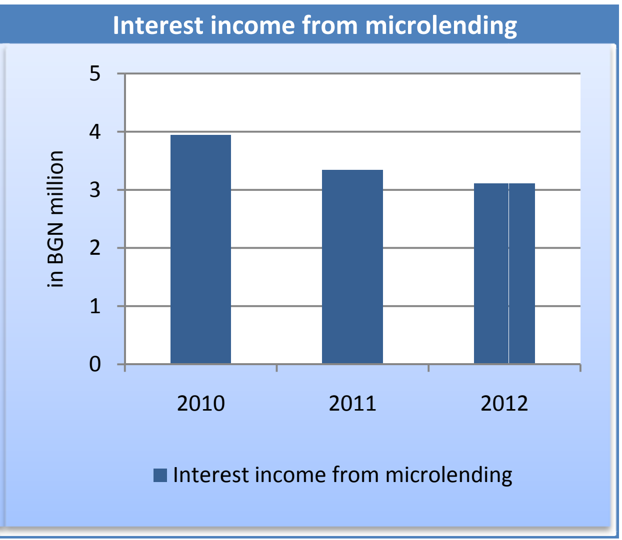
Microlending

Fibank’s program for microlending comprises financing to a wide spectrum of traders, producers, farmers and freelancers, including start-up companies and companies with less market experience.

In 2012 the portfolio of loans to micro enterprises grew by 13.0% and reached BGN 30,075 thousand at the end of the period, against BGN 26,612 thousand the prior year (2010: BGN 27,017 thousand).

During the reporting period the Bank diversified the products offered, at the same time maintaining the heightened requirements in relation to credit risk and creditworthiness specific for this segment.





EUROPROGRAMS

In 2012 First Investment Bank continued to actively offer the service "Full Support", which gives integrated customer assistance in the utilization of funds from European funds. Through it the Bank provides assistance in the preliminary research of the administrative and financial eligibility of the project idea, ensures expert assistance in the development and implementation of the project, and full servicing of the implementation phase following approval. During the year by means of the service "Full Support" Fibank has supported its customers in the successful realization of projects, financed by funds from the European Union on the amount exceeding BGN 35 million, including in receiving grants of up to 70% of the project value.

The Bank offers a wide range of products and services related to the utilization of funds under the Operational Program Competitiveness of the Bulgarian Economy, the Program for Rural Development and others, including investment loans for the overall implementation of projects, bridge financing to the amount of the approved financial assistance, issuance of bank guarantees to secure advance payments of approved grant amounts, and other banking products specifically tailored to cover customer needs.

During the year Fibank continued to actively monitor opportunities for the participation of the Bank and its customers in other European programs and initiatives, including those related to the instruments proposed under the initiatives Jeremie, Jessica, and other donor programs available to Bulgaria. As a result of this, in December 2012, First Investment Bank signed an agreement with the European Investment Fund (EIF) for providing financing to micro, small and medium enterprises with risk-sharing element under the JEREMIE initiative. With regard to this, the Bank shall provide investment and working-capital loans on the total amount of EUR 70 million, at twice lower interest rates and preferential terms for collateral and fees and commissions, with a maximum loan term of 10 years.

PAYMENT SERVICES

First Investment Bank carries out its activity related to money transfers and other payment services in compliance with Bulgarian legislation, including the Law on Payment services and Payment Systems and Ordinance №3 of the BNB on the Conditions and Procedure for the Execution of Payment Transactions and for the Use of Payment Instruments. The Bulgarian regulatory frame in this sphere has been harmonized to that of the European Community in regards to Payment Services Directive and reflects contemporary European tendencies in the establishment of the single European market for payment services.

In 2012 Fibank is a member and participant in the payment systems and agent of other payment service providers, as follows:

- Bank Integrated System for Electronic Transactions (BISERA)
- Real-Time Gross Settlement System (RINGS)
- System for Servicing of Clients Transfers in Euro (BISERA7-EUR)
- Trans-European Automated Real-Time Gross Settlement Express Transfer system (TARGET2)
- Bank Organisation for Payments Initiated by Cards (BORICA)
- MoneyGram Agent
- Express-M Agent
- EasyPay Agent

INTERNATIONAL PAYMENTS

First Investment Bank is among the leading banks in Bulgaria in the sphere of international payments and trade financing. Fibank is a popular, reliable and fair business partner which has built a good reputation during the years among international financial institutions and has gained valuable experience and know-how from its numerous international business partners, investors, customers and contractors.

In 2012 the Bank reported better market shares in international transfers in foreign currency (as per SWIFT's data) at 6.61% of outgoing transfers (2011: 5.93%) and 8.62% of incoming transfers (2011: 8.11%). Contributors to the growth were the increased incoming and outgoing transfers in foreign currency in terms of number and amount. A measure of the good results in this sphere were the prizes awarded to Fibank by Wells Fargo, as well as for third consecutive year by Deutsche Bank and Commerzbank for superior quality and meeting high world standards in the area of international payments.

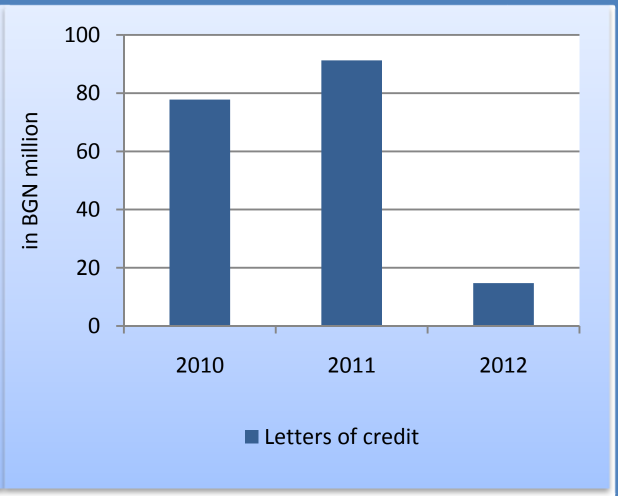
During the period Fibank renewed its framework agreement with Eximbank Taiwan for granting loans meant to effect shipments of goods from Taiwan. The agreement, which has a renewal option for every following year, provides financing terms from 6 months to 1 year for consumer goods and from 6 months to 5 years for deliveries of non-consumer goods from Taiwan. During 2009 First Investment Bank was the first Bulgarian bank to conclude a long-term banking partnership agreement with Eximbank China (The Export-Import Bank of China).

At the end of 2012 Fibank carried out 4.85% of outgoing (2011: 7.54%) and 6.81% of incoming (2011: 9.17%) trade finance operations as per SWIFT's data.

During the reporting period the letters of credit and bank guarantees in foreign currency issued by the Bank to guarantee the performance of customers to third parties amounted to BGN 213,045 thousand (2011: BGN 293,881 thousand; 2010: BGN 298,991 thousand), forming 27.4% of the Group's off-balance sheet commitments (2011: 35.3%; 2010: 41.9%).

Bank guarantees in foreign currency

Letters of credit



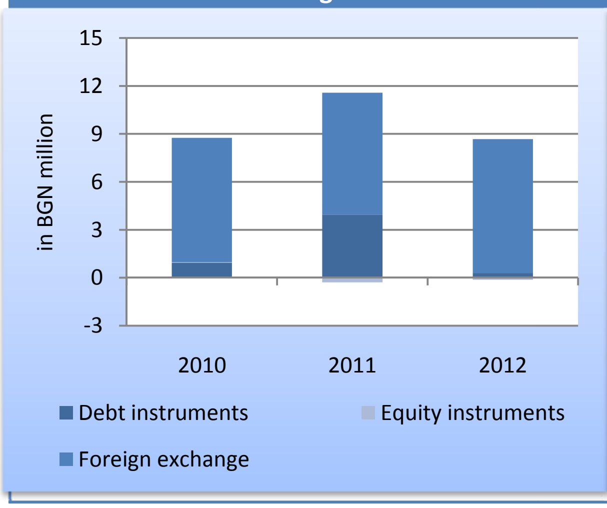
Fibank maintains a wide network of correspondent banks and services international bank guarantees and letters of credit in almost every part of the world.

CAPITAL MARKETS

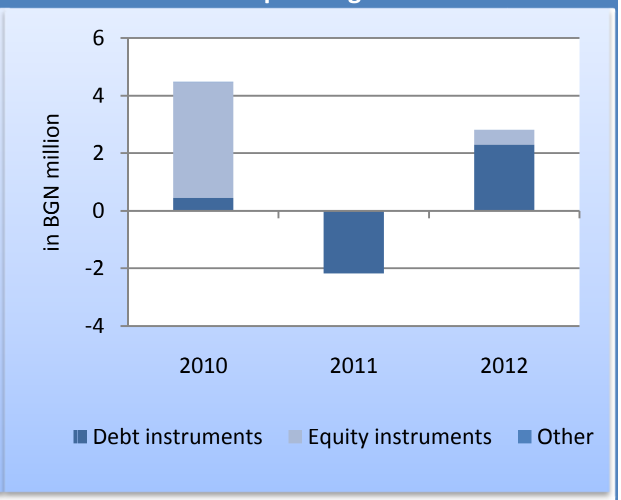
In 2012 the Group's net trading income amounted to BGN 8,539 thousand (2011: BGN 11,294 thousand; 2010: BGN 8,752 thousand), mainly as a result of the lower net trading gains from debt instruments. Other operating income, arising from debt and equity instruments increased to BGN 2,819 thousand, against BGN -2,139 thousand the prior year (2010: BGN 4,447 thousand).

The portfolio of financial instruments as at the end of the year amounted BGN 851,942 thousand, compared to BGN 738,470 thousand a year earlier (2010: BGN 789,148 thousand), of which available for sale investments were BGN 726,619 thousand (2011: BGN 663,925 thousand; 2010: BGN 715,405 thousand), financial assets held for trading were BGN 6,553 thousand (2011: BGN 8,659 thousand; 2010: BGN 16,641 thousand) and financial assets held to maturity were BGN 118,770 thousand (2011: BGN 65,886 thousand; 2010: BGN 57,102 thousand).

Net trading income



Other operating income



At the beginning of 2012 the entire activity related to investment services on local and foreign markets was unified into a new structure – the Treasury Department, comprising asset management, liquidity and dealing divisions.

During the period Fibank developed its policies and services related to its activities as a registration agent, as the Bank performs all registration services and activities set in the Rules of Procedure of Central Depository AD, including transfer of dematerialized financial and compensatory instruments in the cases of donation or inheritance, of transaction preliminarily concluded between the parties, as well as issuance of duplicates of certification documents. Further developed were the services for conclusion of agreements and acceptance of orders for transactions in financial instruments through remote means, in accordance with the regulatory requirements.

In its capacity as an investment intermediary and a primary dealer of government securities, First Investment Bank carries out transactions with financial instruments in the country and abroad including transactions of government securities, shares, corporate and municipal bonds, compensatory instruments as well as primary money market instruments. The Bank also offers trust portfolio management, investment consultation, as well as depositary and custodian services to private individuals and corporates, including maintaining registers of investment intermediaries, of accounts of securities, income payments and servicing payments under transactions in financial instruments. Fibank's activities are in compliance with MiFID regulations in accordance with the Markets in Financial Instruments Act and Ordinance №38 of the Financial Supervision Commission, which ensures a higher level of protection for non-professional customers. The Bank has a unit for the control of investment services and activities, which ensures the observing of the requirements regarding Fibank's activity as an investment intermediary.

Orders for the subscription/redemption of units in four mutual funds (FIB Garant Mutual Fund, FIB Classic Mutual Fund, FIB Avangard Mutual Fund and FFBH Vostok Mutual Fund, managed by the Management company FFBH Asset Management AD) can be accepted in Fibank's offices which are registered with the Financial Supervision Commission.

FULLFILMENT OF THE GOALS FOR 2012

N	Goals	Fulfillment
1	To continue to rank among the leading banks in the country, enjoying the confidence of shareholders and customers, while maintaining an appropriate balance between risk, capital and profitability.	Fibank improved its market positions: in terms of assets (from fifth to third place), in terms of lending (from sixth to fifth place), in terms of corporate lending (from third to second place) and it terms of profit (from seventh to fifth place), keeping its third place in deposits and second place in deposits from individuals among the banks in Bulgaria. The increase in attracted funds is a proof for the confidence, while the good indicators for capital adequacy and liquidity ensured an adequate balance compared to the risk-taking.
2	To increase the capital base, mainly focusing on tier one capital.	The capital base increased by 10.7% (BGN 61,792 thousand), while the tier 1 capital by 18.8% (BGN 87,856 thousand), as a result of capitalizing profits and the issuance of a new hybrid debt included in the Bank's tier 1 capital.
3	To continue to maintain adequate liquidity ratio in accordance with the market environment.	Fibank maintains an adequate amount of liquid assets – as at 31 December 2012 the liquidity ratio was 27.64% (2011: 26.17%; 2010: 26.06%).
4	To increase its loan portfolio in accordance with the market conditions, while maintaining its high standards of risk management.	In 2012 the gross loan portfolio of the Bank increased by 9.1% (BGN 394,409 thousand) and reached BGN 4,709,468 thousand in accordance with the needs for financing and the market conditions in the country.
5	To continue to finance competitive projects, with an emphasis on programs for the utilization of EU funds.	In 2012 the corporate loan portfolio increased by 8.7% (BGN 305,768 thousand) and reached BGN 3,824,997 thousand. During the year, through the “Full support” service, Bank's customers were assisted successfully in implementing projects, financed by the EU for more than BGN 35 million. At the end of 2012 Fibank signed an agreement with the European Investment Fund for financing of small and medium enterprises under the JEREMIE initiative at the total amount of EUR 70 million at lower interest rates and preferential terms for collateral and fees and commisions.
6	To maintain its place among the leading banks in the deposit market by offering new flexible products to individuals and corporate customers, while optimizing the structure and cost of funds in accordance with market conditions.	At the end of 2012 the market shares of Fibank reached: 10.52% of total customer deposits (2011: 10.01%) and 13.7% of deposits from individuals (2011: 13.7%) on an unconsolidated basis, as Fibank remained the second most preferable bank for people's savings and third in terms of attracted funds from individuals and companies. The Bank continued to work on optimizing the cost of funds in accordance with the market environment.
7	To preserve its leadership in the field of card payments offering innovative market solutions and products, including by developing and populizing card contactless payments.	In 2012 Fibank expanded its range of card products for contactless payments by offering new Visa Classic payWave credit cards and Visa Electron payWave debit cards, based on NFC (Near Field Communication) technology. At the end of the year the number of cards issued by the Bank for contactless payments increased and exceeded 58 thousand, as the network of terminals, serving this innovative functionality, was developed as well.
8	To continue to be among the leading credit institutions in Bulgaria in the	In 2012 the Bank reported better market shares in terms of international transfers in foreign currency (as per SWIFT's data) – 6.61%

	area of international transactions and trade finance, as a demanded, reliable and fair partner.	of outgoing transfers (2011: 5.93%) and 8.62% of incoming transfers (2011: 8.11%). Fibank was distinguished by Wells Fargo, as well as for a third consecutive year by Deutsche Bank and Commerzbank for superior quality and meeting high world standards in the area of international payments. During the period Fibank renewed its framework agreement with Eximbank Taiwan for granting loans for making deliveries of goods from Taiwan.
9	To further develop electronic banking in accordance with the necessities and the needs of the customers.	During the year new e-services were introduced through My Fibank – payments of utility bills and registration of 3D Card Security for increasing the security of payments over the Internet through the programs MasterCard SecureCode and Verified by Visa. An opportunity for online sales of gold and other precious metals articles was launched. For the period, the outgoing transfers through the Virtual Banking Branch increased, reaching 40% of the number and 47% of the amount of all outgoing transfers performed by the Bank.
10	Maintaining its strategic focus on high standards of customer service.	An appraisal for the high quality of customer services were the increased number of customers and deposit base, as well as the received awards during the year, including: the Strongest brand in Bulgaria among the financial institutions (Superbrands); Favourite Brand of the Bulgarian consumer among financial institutions (My Love Marks); Bank of the Year (Bank of the Year Association); for superior quality and meeting high standards in the area of international payments (Wells Fargo, Deutsche Bank, Commerzbank); for mobile banking (International Service Check).

GOALS FOR DEVELOPMENT DURING 2013

- To strengthen its position among the leading banks in the country, enjoying the confidence of shareholders and customers, while maintaining an appropriate balance between risk, capital and return.
- To increase the shareholders' equity, aiming at sustainable growth of assets and business operations.
- To continue to maintain adequate liquidity and capital adequacy in accordance with the market environment.
- To increase its loan portfolio in accordance with the market conditions, while maintaining high standards of risk management and focusing on loans to small and medium enterprises.
- To continue to finance competitive projects, with an emphasis on programs for the utilization of EU funds.
- To maintain its position on the deposit market, as preferred bank for savings from individuals and corporates.
- To preserve its leading position in the field of card payments offering innovative market solutions and products.
- To remain among the leading credit institutions in Bulgaria in the area of international transactions and documentary payments, as a demanded, reliable and fair partner.
- To further develop electronic banking in accordance with the necessities and the needs of the customers.
- To maintain its strategic focus on high standards of customer service.

OTHER INFORMATION

MEMBERS OF THE SUPERVISORY BOARD

Evgeni Lukanov - Chairman of the Supervisory Board

Mr. Lukanov joined First Investment Bank AD in 1998 as Deputy Director, and later as Director and General Manager of the Tirana Branch, Albania. From 2001 to 2003 he was Director of the Bank's Vitosha Branch (Sofia).

Mr. Lukanov has occupied a number of senior positions with Fibank (First Investment Bank AD).

From 2003 to 2007 he was Director of the Risk Management Department and Member of the Managing Board.

From 2004 to 2012 - Executive Director and Member of the Managing Board of First Investment Bank AD.

During his 15-year experience with the Bank, Mr. Lukanov has been Chairman of the Credit Council and the Liquidity Council of the Bank. He has been in charge of the following departments: Risk Management, Impaired Assets and Provisioning, Loan Administration, Specialized Monitoring and Control, Retail Banking, Methodology, and Liquidity.

Mr. Lukanov has also been member of the Managing Board of First Investment Bank – Albania Sh.a.

In the beginning of February 2012, Mr. Lukanov was elected as Chairman of the Supervisory Board of First Investment Bank AD and as Chairman of the Risk Committee to the Supervisory Board of the Bank.

Mr. Lukanov holds a Masters Degree in Economics from the University of National and World Economy, Sofia. Prior to joining Fibank, Mr. Evgeni Lukanov has worked as currency broker with First Financial Brokerage House OOD.

Besides his position on the Supervisory Board of the Bank, Mr. Lukanov is also Chairman of the Audit Committee of First Investment Bank - Albania Sh.a, Chairman of the Board of Directors of Health Insurance Fund FiHealth AD, and Manager of Debita OOD and Realtor OOD. He is owner of ET Imeksa-Evgeni Lukanov and holds more than 10% of the capital of Avea OOD.

Maya Georgieva - Deputy Chair of the Supervisory Board

Prior to joining Fibank (First Investment Bank), Ms. Maya Georgieva has worked for 19 years with the Bulgarian National Bank where she gained considerable experience in international banking. Her last appointment with BNB was as Head of the Balance of Payments Division.

Ms. Maya Georgieva joined Fibank in 1995 as Director of the International Department. From 1998 to 2012 she served as Executive Director of First Investment Bank and Member of the Managing Board. During her 18-year experience with the Bank she was responsible of the following departments: SME Lending Department, HR Department, Administrative Department, Sales Department, Retail Banking, Marketing, Advertising and PR, Branch Network, Private Banking and the Vault.

Alongside her responsibilities at the Bank, Ms. Georgieva has also occupied a number of other senior executive positions.

From 2003 to 2011 she chaired the Supervisory Board of CASYS International - a Macedonia-based card processing company servicing card payments in Bulgaria, Macedonia and Albania.

From 2009 to 2011 she was Chair of the Board of Directors of Diners Club Bulgaria AD – a franchise company of Diners Club International, owned by First Investment Bank. In this capacity she inspired the launch of a number of products, including the first female-oriented credit card.

From 2006 to 2011 she was also member of the Managing Board of First Investment Bank - Albania Sh.a., a subsidiary of First Investment Bank.

In the beginning of February 2012, Ms. Georgieva was elected as Deputy Chair of the Supervisory Board of Fibank and Chair of the Presiding Committee to the Supervisory Board of Fibank.

Ms. Georgieva holds a Masters Degree in Macroeconomics from the University of National and World Economy in Sofia and has post-graduate specializations in International Payments with the International Monetary Fund and the Bulgarian Union of Science and Technology.

In both 2001 and 2011, she was granted the "Banker of the Year" award of the Bulgarian financial weekly "Banker".

Georgi Mutafchiev, Ph.D. - Member of the Supervisory Board

Mr. Mutafchiev began his career in 1985 as an expert, and later as a senior expert on development of the system for management and coordination of enterprises of the Electronic Industry Association.

In 1987 he joined Techno-Import-Export Foreign Trade Company as a senior expert with the Department of Coordination and Development under the Executive Director.

In 1991 Mr. George Mutafchiev started work at the Bulgarian National Bank as Head Reserve Manager with the Foreign Currency Operations Department. During his six-year experience with the National Bank, he was responsible of the investment of foreign currency reserve and controlled the management thereof.

From 1997 to 2011 he was Executive Director of Flavia AD and Flavin AD. Flavia AD is one of the largest light industry companies in Bulgaria.

Along with its responsibilities in Flavia, as of the year 2000 Mr. Mutafchiev was elected as member of the Supervisory Board of First Investment Bank.

Mr. Mutafchiev graduated in law at the Sofia University St. Kliment Ohridski in 1982. From 1982 to 1984 he studied at the Sorbonne in Paris, where he received a PhD degree in Business Law. The same year Mr. Mutafchiev also acquired an MBA degree from the Schiller University, Paris.

He is a member of the Board of Directors of Flavia AD and owns more than 25% of the company capital.

Radka Mineva - Member of the Supervisory Board

Prior to joining Fibank (First Investment Bank AD), Ms. Mineva worked as a capital markets dealer at the Bulgarian National Bank where she gained considerable experience in banking. During the time spent with the Central bank, she specialized at the Frankfurt Stock Exchange and the London Stock Exchange as a capital markets dealer.

Ms. Mineva started her career as an expert with the foreign trade enterprise Main Engineering Office, where she worked for 9 years; she also spent three years as an expert at RVM Trading Company.

Since 2000, Ms. Mineva has been a Member of the Supervisory Board of First Investment Bank AD.

She is a graduate of the University of National and World Economy in Sofia, with a degree in Trade and Tourism.

Besides her position on the Supervisory Board of the Bank, Ms. Mineva is Manager of Balkan Holidays Services OOD - a company with activities in the sphere of tourism, transportation, hotel business, tour operation, and tour agency services. Ms. Mineva is also Manager of Balkan Holidays Partners OOD – a company engaged in international and domestic tourism services, foreign economic transactions, and financial management. She owns more than 25% of the capital of Balkan Holidays Partners OOD.

Jordan Skortchev - Member of the Supervisory Board

Before joining Fibank (First Investment Bank), Mr. Jordan Skortchev has worked for two years with the Central and Latin America Department of the foreign trade organization Intercommerce, followed by five years with First Private Bank, Sofia as an FX Dealer and Head of the Dealing Division.

Mr. Skortchev joined First Investment Bank in 1996 as Chief Dealer, FX Markets.

From 2000 to 2012 Mr. Skortchev was Member of the Managing Board and Executive Director of the Bank.

During his 17-year experience with the Bank, Mr. Skortchev has been responsible for the following departments: Card Payments, Operations, Gold and Numismatics, Internet Banking, Dealing, Security and Office Network-Sofia.

Alongside his responsibilities at the Bank, Mr. Skortchev has also occupied other senior executive positions.

Mr. Skortchev has been Chairman of the Supervisory Board of UNIBank, Republic of Macedonia, member of the Supervisory Board of CaSys International, Republic of Macedonia, member of the Board of Directors of Diners Club Bulgaria AD, member of the Board of Directors of Bankservice AD, member of the Board of Directors of Medical center FiHealth AD, and Manager of FiHealth OOD.

In the begining of February 2012, as a Member of the Supervisory Board of the Fibank, Mr. Skortchev was elected as Chairman of the Remuneration Committee to the Supervisory Board of the Bank.

Mr. Skortchev holds a Masters Degree in International Economic Relations from the Higher Institute of Economics (now the University of National and World Economy) in Sofia. He has specialized in banking in Luxembourg, in swap deals at Euromoney, and in futures and options at the Chicago Stock Exchange.

Mr. Skortchev holds more than 10% of the capital of Delta Stock AD.

MEMBERS OF THE MANAGING BOARD

Dimitar Kostov – Chairman of the Managing Board and Executive Director

Mr. Dimitar Kostov joined Fibank's team in 2003 as a specialist in the "Risk Management" Department. Soon after that he was promoted to head of "Evaluation of risk exposures" Division. From 2004 to 2007 he was a deputy director of "Risk Management" Department, and from 2007 to 2011 he was a director of "Risk Management" Department. In 2010, Mr. Kostov has been elected as a member of a Managing Board of Fibank, and in the beginning of 2011 he was appointed as a Deputy Executive Director. Since the end of 2011 Mr. Kostov has been an Executive Director of the Bank and since the beginning of 2012 has been elected Chairman of the Managing Board of the Bank.

Previously, Mr. Kostov had worked as a manager "Customer relations" at Raiffeisenbank (Bulgaria) EAD and in United Bulgarian Bank AD as a senior bank officer "Large Corporate Clients". He holds a Master's degree in Business Administration from the Sofia University "St. Kliment Ohridski". Mr.Kostov is a CFA charterholder.

In the Bank he is responsible for the Corporate Banking Department, the Management of Loan Portfolios of Foreign Branches and Companies Department, the SME Lending Department, the Treasury Department and the Sales Department.

Besides his position in the Bank, Mr. Kostov is also a member of the Supervisory Board of UNIBank, Republic of Macedonia.

Vassil Christov - Member of the Managing Board and Executive Director

Mr. Vassil Christov joined Fibank in 2001 as a head of the "Mortgage loans" Division. From 2002 he was a director of "Retail banking" Department, and from 2005 to 2010 he was a director of "Branch network Department". In 2010 Mr.Christov was elected as a member of the Managing Board of Fibank, and in beginning of 2011 was appointed as a Deputy Executive Director. Since the end of 2011 Mr. Christov has been an Executive Director of the Bank.

Previously, Mr. Christov had worked as a senior credit officer of "Large corporate customers" at United Bulgarian Bank AD. He holds a Master's in accounting and control from the University of National and World Economy in Sofia.

In the Bank he is responsible for the Retail Banking Department, the Branch Network Department, the Administration Department, the Marketing, Advertising and PR Department, the Private Banking Department, the Organization and Control of Customer Service Department and the Vault.

Besides his position in the Bank, Mr. Christov is also a Chairman of the Managing Board (Steering Council) of the First Investment Bank – Albania Sh.a. and a member of the Board of Directors of Diners Club Bulgaria AD. Mr. Christov is a member of the Board of Directors of Medical centers FiHealth AD and Medical centers FiHealth Plovdiv AD.

In 2012 Mr. Christov was granted the prestige "Banker of the Year" award of the Bulgarian financial weekly "Banker".

Svetoslav Moldovansky - Member of the Managing Board and Executive Director

Mr. Svetoslav Moldovansky joined Fibank in 2005 as a director of "Specialised internal control service". From 2007 to 2008 he was a Chief Executive Officer of "First Investment Bank – Albania Sh.a". From 2008 to 2010 he held a position as a director of "Operations" Department. In 2010 he was elected as a member of the Managing Board of Fibank, and in the beginning of 2011 he was appointed as a Deputy Executive Director. Since the end of 2011 Mr. Moldovansky has been an Executive Director of the Bank.

Previously, Mr. Moldovansky had worked as a manager "Management of the corporate risk" at KPMG Bulgaria OOD and as a senior auditor at Deloitte&Touche (now Deloitte), Bulgaria. He holds a Master's in Finance from the University of National and World Economy in Sofia. Mr. Moldovansky is certified auditor from the Information Systems Audit and Control Association (ISACA), USA.

In the Bank he is responsible for the Operations Department, the Card Payments Department, the E-banking Department, the Gold and Commemorative Coins Department, Human Capital Management Department and the Security Department.

Besides his position in the Bank, Mr. Moldovansky is also a member of the Audit Committee of First Investment Bank – Albania Sh.a., a member of the Supervisory Board of UNIBank, Republic of Macedonia, a member of the Supervisory Board of Casys International, Republic of Macedonia, a member of the Board of Directors of Diners Club Bulgaria AD a chairman of the Board of Directors of Balkan Financial Services EAD. Mr. Moldovansky possesses more than 10% of the capital of Next DC OOD, of the capital of Club 12 OOD and of the capital of Cook and More OOD.

Maya Oyfalosh - Member of the Managing Board and Director of Management of Loan Portfolios of Foreign Branches and Companies Department

Mrs. Maya Oyfalosh joined the Bank in 1993 as a credit specialist. Later she was promoted to a Director of "Analysis of Corporate Loans" and elected as a member of the Credit Council of the Bank. In 2004, Mrs. Oyfalosh was appointed Director of Corporate Banking Department and elected as a member of the Managing Board. In the beginning of 2011 she has been appointed as a Director of "Management of Loan Portfolios of Foreign Branches and Companies" Department and is a member of the Managing Board of Fibank.

Previously, Mrs. Oyfalosh had worked as a department director at First West Finance House and as a credit specialist at First Private Bank.

Mrs. Oyfalosh does not hold outside professional positions.

The present Annual report (on a consolidated basis) for 2012 was approved by the Managing Board of First Investment Bank AD in accordance with the Bank's internal regulations at a meeting dated 5 April 2013.

Dimitar Kostov
Executive Director

(signed)

Svetoslav Moldovansky
Executive Director

(signed)

Ianko Karakolev
Chief Financial Officer

(signed)