FIRST INVESTMENT BANK AD

UNCONSOLIDATED FINANCIAL STATEMENTS
AS AT 30 JUNE 2009
WITH INDEPENDENT AUDITOR'S REPORT THEREON

Translation from Bulgarian

Report
of the Independent Auditor
TO THE SHAREHOLDERS OF FIRST INVESTMENT BANK AD

Sofia, 28 September 2009

Report on the unconsolidated financial statements

We have audited the accompanying unconsolidated financial statements of First Investment Bank AD ("the Bank"), which comprise the unconsolidated statement of the financial position as at 30 June 2009, the unconsolidated statement of comprehensive income, the unconsolidated statement of changes in equity and the unconsolidated statement of cash flows for the six months then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these unconsolidated financial statements in accordance with International Financial Reporting Standards adopted by the European Commission. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these unconsolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the unconsolidated financial statements give a true and fair view of the unconsolidated financial position of First Investment Bank AD as at 30 June 2009, and of its unconsolidated cash flows and of its unconsolidated changes in equity for the six months then ended in accordance with International Financial Reporting Standards adopted by the European Commission.

Gilbert McCaul
Partner

Margarita Goleva
Registered auditor

KPMG Bulgaria OOD
37, Fridtjof Nansen Street
Sofia 1142

Unconsolidated statement of comprehensive income for the six months ended 30 June 2009

in BGN '000

	Note	Six months ended 30 June 2009	Six months ended 30 June 2008
Interest income		171,146	161,452
Interest expense and similar charges:		(116,331)	(84,314)
Net interest income	**6**	**54,815**	**77,138**
Fee and commission income		28,036	33,039
Fee and commission expense		(3,533)	(4,096)
Net fee and commission income	**7**	**24,503**	**28,943**
Net trading income/(expense)	**8**	**3,419**	**(308)**
Other net operating expense	**9**	**(148)**	**(2,443)**
TOTAL INCOME FROM BANKING OPERATIONS		**82,589**	**103,330**
Administrative expenses	10	(66,538)	(68,447)
Allowance for impairment	11	3,747	(6,075)
Other income/(expenses), net		2,196	(1,884)
PROFIT BEFORE TAX		**21,994**	**26,924**
Income tax expense	**12**	**(2,909)**	**(2,734)**
NET PROFIT		**19,085**	**24,190**
Other comprehensive income for the period			
Revaluation reserve on available for sale investments		7,074	(151)
Total other comprehensive income		**7,074**	**(151)**
TOTAL COMPREHENSIVE INCOME		**26,159**	**24,039**
Basic and diluted earnings per share (BGN)	**13**	**0.17**	**0.22**

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 49.

Gilbert McCaul
Partner
KPMG Bulgaria OOD

Margarita Goleva
Registered auditor

Unconsolidated statement of the financial position as at 31 June 2009

in BGN '000

	Note	30 June 2009	31 December 2008
ASSETS			
Cash and balances with Central Banks	14	506,603	745,083
Financial assets held for trading	15	27,071	9,681
Available for sale investments	16	389,977	311,544
Financial assets held to maturity	17	30,161	60,393
Loans and advances to banks and other financial institutions	18	21,920	10,168
Loans and advances to customers	19	3,024,570	2,945,516
Property and equipment	20	144,817	149,010
Intangible assets	21	4,658	5,164
Other assets	23	30,040	19,575
TOTAL ASSETS		**4,179,817**	**4,256,134**
LIABILITIES AND CAPITAL			
Due to banks	24	30,508	53,415
Due to other customers	25	3,174,889	3,179,321
Liabilities evidenced by paper	26	411,479	490,398
Subordinated term debt	27	57,069	53,852
Perpetual debt	28	101,607	100,474
Deferred tax liability	22	1,806	1,681
Other liabilities	29	5,830	6,523
TOTAL LIABILITIES		**3,783,188**	**3,885,664**
Issued share capital	31	110,000	110,000
Share premium	31	97,000	97,000
Statutory reserve	31	39,861	39,861
Revaluation reserve on available for sale investments	31	607	(6,467)
Retained earnings	31	149,161	130,076
SHAREHOLDERS' EQUITY		**396,629**	**370,470**
TOTAL LIABILITIES AND GROUP EQUITY		**4,179,817**	**4,256,134**

The statement of the financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 49.

Gilbert McCaul
Partner
KPMG Bulgaria OOD

Margarita Goleva
Registered auditor

Unconsolidated statement of cash flows for the six months ended 30 June 2009

in BGN '000

	Six months ended 30 June 2009	Six months ended 30 June 2008
Net cash flow from operating activities		
Net profit	19,085	24,190
Adjustment for non-cash items		
Allowance for impairment	(3,747)	6,075
Depreciation and amortization	9,204	7,548
Income tax expense	2,909	2,734
(Profit)/loss from sale and write-off of tangible and intangible fixed assets, net	(5,971)	149
	21,480	**40,696**
Change in operating assets		
(Increase)/decrease in financial instruments held for trading	(17,390)	2,202
(Increase)/decrease in available for sale investments	(71,359)	51,149
(Increase) in loans and advances to banks and financial institutions	(18,636)	(509)
(Increase) in loans to customers	(75,307)	(25,422)
(Increase) in other assets	(10,465)	(13,641)
	(193,157)	**13,779**
Change in operating liabilities		
Increase/(decrease) in deposits from banks	(22,907)	14,582
(Decrease) in amounts owed to other depositors	(4,432)	(451,970)
Net (decrease) in other liabilities	(1,978)	(1,191)
	(29,317)	**(438,579)**
Income tax paid	(1,499)	(2,873)
NET CASH FLOW FROM OPERATING ACTIVITIES	**(202,493)**	**(386,977)**
Cash flow from investing activities		
(Purchase) of tangible and intangible fixed assets	(5,914)	(26,830)
Sale of tangible and intangible fixed assets	7,380	43
Decrease in investments	30,232	35,883
NET CASH FLOW FROM INVESTING ACTIVITIES	**31,698**	**9,096**
Financing activities		
Increase/(decrease) in borrowings	(74,569)	279,223
NET CASH FLOW FROM FINANCING ACTIVITIES	**(74,569)**	**279,223**
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	**(245,364)**	**(98,658)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	**755,057**	**797,667**
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD (See Note 33)	**509,693**	**699,009**

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 49.

Gilbert McCaul	Margarita Goleva
Partner	*Registered auditor*
KPMG Bulgaria OOD	

Unconsolidated statement of shareholders' equity for the six months ended 30 June 2008

in BGN '000

	Issued share capital	Share premium	Retained earnings	Revaluation reserve	Statutory reserve	Total
Balance as at 1 January 2008	**110,000**	**97,000**	**79,145**	**(350)**	**39,861**	**325,656**
Revaluation reserve on available for sale investments	-	-	-	(151)	-	(151)
Net profit for the six months ended on 30 June 2008	-	-	24,190	-	-	24,190
Balance as at 30 June 2008	**110,000**	**97,000**	**103,335**	**(501)**	**39,861**	**349,695**
Balance as at 1 January 2009	**110,000**	**97,000**	**130,076**	**(6,467)**	**39,861**	**370,470**
Revaluation reserve on available for sale investments	-	-	-	7,074	-	7,074
Net profit for the six months ended on 30 June 2009	-	-	19,085	-	-	19,085
Balance as at 30 June 2009	**110,000**	**97,000**	**149,161**	**607**	**39,861**	**396,629**

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 49.

The financial statements were approved by the Managing Board on 28 September 2009 and signed on its behalf by:

Matthew Mateev
Chairman of the Managing Board and Executive Director

Evgeni Lukanov
Executive Director

Jordan Skortchev
Executive Director

Maya Georgieva
Executive Director

Radoslav Milenkov
Chief Financial Officer

Gilbert McCaul
Partner
KPMG Bulgaria OOD

Margarita Goleva
Registered auditor

Notes

1. Basis of preparation

(a) Statute

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

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

The Bank has foreign operations in Cyprus and until 31 August 2007 – in Albania.

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

(b) Statement of compliance

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

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

(c) Presentation

The financial statements are presented in Bulgarian Leva (BGN) rounded to the nearest thousand.
The Bank has made certain reclassifications to the financial statements as of 31 December 2008 in order to provide more clear and precise comparison figures.

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

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

2. Significant accounting policies

(a) Income recognition

Interest income and expense is recognised in the profit or loss as it accrues, taking into account the effective yield of the asset 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.

Fee and commission income arises on financial services provided by the Bank and is recognised when the corresponding service is provided.

Net trading income includes gains and losses arising from disposals and changes in the fair value of financial assets and liabilities held for trading.

(b) Basis of consolidation of subsidiaries

Investments in subsidiaries are stated at cost.

(c) Foreign currency transactions

(i) Functional and presentation currency

The financial statements are presented in Bulgarian leva, which is the Bank's functional and presentation currency.

(ii) Transactions and balances

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

(iii) Foreign operations

The functional currency of the foreign operations in Cyprus is determined by the management to be the Euro. In determining the functional currency of the foreign operations, the Bank takes into account the fact that they are carried out as an extension of the reporting entity.

2. Significant accounting policies, continued

(d) Financial assets

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

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

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money, goods or services directly to a debtor with no intention of trading the receivable.

(iii) Held-to-maturity

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

(iv) Available-for-sale

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

(v) Recognition

Purchases and sales of financial assets at fair value through profit or loss, held to maturity and available for sale are recognised on the date of the actual delivery of the assets. Loans are recognised when cash is advanced to the borrowers. Financial assets are initially recognised at fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or when the Bank has transferred substantially all risks and rewards of ownership.

2. Significant accounting policies, continued

(d) Financial assets, continued

(vi) Measurement

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are recognised in profit or loss. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income, until the financial asset is derecognised or impaired. At this time the cumulative gain or loss previously recognised in other comprehensive income is reclassified in profit or loss.

Interest calculated using the effective interest method is recognised in the income statement. Dividends on equity instruments are recognised in the income statement when the Bank's right to receive payment is established.

(vii) Fair value measurement principles

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

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

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

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured

Notes

2. Significant accounting policies, continued

(d) Financial assets, continued

(vii) Fair value measurement principles, continued

at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss depending on the individual facts and circumstances of the transaction but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank and counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Bank believes a third-party market participant would take them into account in pricing a transaction.

The table below analyses financial instruments at fair value by valuation models. Data does not include investments in subsidiaries and associates and other equity instruments measured at cost.

in BGN '000	**Quoted market prices at active markets**	**Valuation techniques using market inputs**	**Total**
30 June 2009			
Financial assets held for trading	27,071	-	27,071
Available for sale investments	320,796	38,267	359,063
Total	**347,867**	**38,267**	**386,134**
31 December 2008			
Financial assets held for trading	9,681	-	9,681
Available for sale investments	229,846	54,740	284,586
Total	**239,527**	**54,740**	**294,267**

(e) Cash and cash equivalents

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

(f) Investments

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

2. Significant accounting policies, continued

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

(ii) Repurchase agreements

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

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

(h) Borrowings

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

If the Bank purchases its own debt, it is removed from the balance sheet 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 balance sheet when the Bank has a legally enforceable right to set off the recognised amounts and the transactions are intended to be settled on a net basis.

(j) Impairment of Assets

The carrying amounts of the Bank's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

2. Significant accounting policies, continued

(j) Impairment, continued

(i) Loans and advances

Impairment loss on loans and receivables is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. Short-term balances are not discounted. The calculation of the present value of estimated future cash flows reflects not only interest and principal payments, but also cash flows that may result from foreclosure less costs for obtaining and selling the collateral for a given exposure.

Loans and advances are presented net of specific and general allowances for impairment. The carrying amount of the asset is reduced through use of an allowance account. Specific allowance for impairment is accounted for loans for which there is objective evidence of impairment as a result of a past event that occurred after initial recognition of the asset. Objective evidence of impairment includes significant financial difficulty of the obligor; a breach of contract, such as a default or delinquency in interest or principal payments; it becoming probable that the borrower will enter bankruptcy; observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets. General allowance is accounted for decreasing the carrying amount of a portfolio of loans with similar credit risk characteristics, which are collectively assessed for impairment. The estimated cash flows for a group of similar assets are determined on the basis of past practice and historical loss experience for portfolios with comparable characteristics. Historical loss experience should be adjusted, on the basis of observable data, to reflect the effects of current conditions. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. Increases in the allowance account are recognised in profit or loss. When a loan is identified to be not recoverable, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off directly.

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

(ii) Financial assets available-for-sale

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

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

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

Notes

2. Significant accounting policies, continued

(k) Property and equipment

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

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

Assets	**%**
• Buildings	3 - 4
• Equipment	10 - 33
• Fixtures and fittings	10 - 20
• Motor Vehicles	10 - 20
• Leasehold Improvements	3 - 67

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

(l) Intangible assets

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

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

Assets	**%**
• Licences	10 - 20
• Computer software	10 - 33

(m) Provisions

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

(n) Acceptances

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

(o) Taxation

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

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

2. Significant accounting policies, continued

(o) Taxation, continued

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

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

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

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

(i) Impairment losses on loans and advances

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

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

In 2009 the Management changed its estimates regarding the number of overdue days when classifying loans in the respective risk categories. A comparison between the new and the old estimates by risk category is presented in the table below:

Risk category	Estimates as at 30 June 2009	Risk category	Estimates as at 31 December 2008
Standard	0-30 days	Standard	0-30 days
Watch	30-90 days	Watch	30-60 days
Nonperforming	90-180 days	Substandard	60-90 days
Loss	More than 180 days	Nonperforming	More than 90 days

(ii) Income taxes

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

2. Significant accounting policies, continued

(q) Earnings per share

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

(r) New standards and interpretations not yet effective

A number of new standards, amendments to standards and interpretations are not yet effective for the six months ended 30 June 2009, and have not been applied in preparing these unconsolidated financial statements. None of these will have an effect on the consolidated financial statements of the Bank.

(s) Changes in the accounting policy

- IAS 1 *Presentation of Financial Statements*

The Bank applies revised IAS 1 *Presentation of Financial Statements* (2007), which became effective as of 1 January 2009. As a result, the Bank presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. This presentation has been applied to the financial statements for the six months ended 30 June 2009.

Comparative information has been presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on net profit and earnings per share.

- Operating Segments

As of 1 January 2009 the Group determines and presents operating segments in accordance with IFRS 8 *Operating Segments*. Previously operating segments were determined and presented in accordance with IAS 14 *Segment Reporting*. The new accounting policy in respect of segment operating disclosures is presented as follows.

Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on net profit and earnings per share.

An operating segment is a component, that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Bank's other components. An operating segment's operating results are reviewed regularly by the Bank's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

3. Risk management disclosures

A. Trading activities

The Bank maintains active trading positions in a limited number of non-derivative financial instruments. Most of the Bank's trading activities are customer driven. In anticipation of customer demand, the Bank carries an inventory of money market instruments and maintains access to market liquidity by trading with other market makers. These activities constitute the proprietary trading business and enable the Bank to provide customers with money market products at competitive prices.

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

The Bank operates under conditions characteristic of a dynamically evolving global financial and economic crisis. The further deepening of this crisis may have a negative impact on the Bank's financial situation. The management of the Bank monitors on a daily basis all assets and liabilities, income and expense, and the situation on the international financial markets, applying best banking practices. On the basis of this the Management analyses profitability, liquidity and the cost of funding and applies adequate measures with respect to credit, market (mostly interest-rate) and liquidity risk, thus limiting the possible adverse effects of the global financial and economic crisis. The Bank thus meets the challenges of the market environment, retaining its stable capital and liquidity position.

(i) Credit risk

The risk that counterparts to financial instruments might default on their obligations. Default risk is monitored on an ongoing basis subject to Group's internal risk management procedures and is controlled through minimum thresholds for the credit quality of the counterpart and setting limits on exposure amount. Exposures arising from trading activities are subject to total exposure limits and are authorised by the appropriate person or body as set out in credit risk management procedures.

Settlement risk is the risk of loss due to counterpart failing to deliver value (cash, securities or other assets) under contractually agreed terms. When trades are not cleared through clearing agent settlement risk is limited through simultaneous commencement of the payment and delivery legs.

(ii) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Bank assumes market risk when taking positions in debt instruments, equities, derivatives and foreign exchange transactions. These risks are managed by enforcing limits on positions taken and their risk sensitivities as measured by value-at-risk, duration or other measures appropriate for particular position in view of its sensitivity to risk factors. The major risk factors that affect Bank's trading activities are changes of interest rates (interest rate risk), changes of exchange rates (foreign exchange risk) and changes of equity prices (equity price risk).

Exposure to market risk is formally managed in accordance with risk limits for buying or selling instruments set by senior management .

In a developing capital market, the prices with which transactions are realised can be different from quoted prices. While management has used available market information in estimating fair value, it may not be fully reflective of the value that could be realised under the current circumstances.

3. Risk management disclosures, continued

A. Trading activities, continued

(ii) Market risk, continued

The quantitative measurement of interest rate risk is performed by applying VaR (Value at Risk) approach. The Value at Risk estimates the maximum loss that could occur over specified horizon, under normal market conditions, due to adverse changes in market rates if the positions remain unchanged for the specified time interval. Value at risk is calculated using one day horizon and 99 per cent confidence level, meaning that there is 1% probability that a portfolio will incur a loss in one day greater than its VaR. Parameters of the VaR model are estimated on the basis of exponentially weighted historical price changes of risk factors.

The Value at Risk is calculated and monitored on a daily basis as part of the Bank's ongoing risk management. The following table summarises the range of interest rate VaR for all positions carried at fair value that was experienced in the first half of 2009:

	30 June	**Six months ended 30 June 2009**			**31 December**
in BGN '000	**2009**	**average**	**low**	**high**	**2008**
VaR	973	1,715	973	2,648	1,373

B. Non-trading activities

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

(i) Liquidity risk

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

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

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

Notes

3. Risk management disclosures, continued

B. Non-trading activities, continued

(i) Liquidity risk, continued

Maturity table as at 30 June 2009

in BGN '000	Up to 1 Month	From 1 to 3 Months	From 3 months to 1 year	More than 1 year	Maturity not defined	Total
Assets						
Cash and balances with Central Banks	506,603	-	-	-	-	**506,603**
Financial assets held for trading	27,071	-	-	-	-	**27,071**
Available for sale investments	-	58,583	199,825	100,655	30,914	**389,977**
Financial assets held to maturity	-	-	15,148	15,013	-	**30,161**
Loans and advances to banks and other financial institutions	7,002	-	-	14,918	-	**21,920**
Loans and advances to customers	272,130	139,745	622,737	1,989,958	-	**3,024,570**
Property and equipment	-	-	-	-	144,817	**144,817**
Intangible assets	-	-	-	-	4,658	**4,658**
Other assets	30,040	-	-	-	-	**30,040**
Total assets	**842,846**	**198,328**	**837,710**	**2,120,544**	**180,389**	**4,179,817**
Liabilities						
Due to banks	10,445	20,063	-	-	-	**30,508**
Due to other customers	1,116,233	894,673	1,097,366	66,617	-	**3,174,889**
Liabilities evidenced by paper	148,240	127,946	19,978	115,315	-	**411,479**
Subordinated term debt	-	-	-	57,069	-	**57,069**
Perpetual debt	-	-	-	-	101,607	**101,607**
Deferred tax liability	-	-	-	-	1,806	**1,806**
Other liabilities	5,830	-	-	-	-	**5,830**
Total liabilities	**1,280,748**	**1,042,682**	**1,117,344**	**239,001**	**103,413**	**3,783,188**
Net liquidity gap	**(437,902)**	**(844,354)**	**(279,634)**	**1,881,543**	**76,976**	**396,629**

Notes

3. Risk management disclosures, continued

B. Non-trading activities, continued

(i) Liquidity risk, continued

Maturity table as at 31 December 2008

in BGN '000	Up to 1 Month	From 1 to 3 Months	From 3 months to 1 year	More than 1 year	Maturity not defined	Total
Assets						
Cash and balances with Central Banks	745,083	-	-	-	-	**745,083**
Financial assets held for trading	9,681	-	-	-	-	**9,681**
Available for sale investments	58,598	78,053	58,288	89,646	26,959	**311,544**
Financial assets held to maturity	8,858	9,396	2,047	40,092	-	**60,393**
Loans and advances to banks and other financial institutions	10,168	-	-	-	-	**10,168**
Loans and advances to customers	252,578	230,815	530,430	1,931,693	-	**2,945,516**
Property and equipment	-	-	-	-	149,010	**149,010**
Intangible assets	-	-	-	-	5,164	**5,164**
Other assets	19,575	-	-	-	-	**19,575**
Total assets	**1,104,541**	**318,264**	**590,765**	**2,061,431**	**181,133**	**4,256,134**
Liabilities						
Due to banks	53,415	-	-	-	-	**53,415**
Due to other customers	1,106,403	565,150	1,429,831	77,937	-	**3,179,321**
Liabilities evidenced by paper	72,805	62,929	272,808	81,856	-	**490,398**
Subordinated term debt	-	-	-	53,852	-	**53,852**
Perpetual debt	-	-	-	-	100,474	**100,474**
Deferred tax liability	-	-	-	-	1,681	**1,681**
Other liabilities	6,523	-	-	-	-	**6,523**
Total liabilities	**1,239,146**	**628,079**	**1,702,639**	**213,645**	**102,155**	**3,885,664**
Net liquidity gap	**(134,605)**	**(309,815)**	**(1,111,874)**	**1,847,786**	**78,978**	**370,470**

As at 30 June 2009 the thirty largest non-bank depositors represent 19.89% of total deposits from other customers (2008: 32.03%).

Notes

3. Risk management disclosures, continued

B. Non-trading activities, continued

(i) Liquidity risk, continued

The following table provides a remaining maturities analysis of the financial liabilities of the Bank as at 30 June 2009 based on the contractual undiscounted cash flows.

in BGN '000	**Up to 1 Month**	**From 1 to 3 Months**	**From 3 months to 1 year**	**More than 1 year**	**Maturity not defined**	**Total**
Due to banks	10,447	20,310	-	-	-	**30,757**
Due to other customers	1,117,848	906,637	1,146,219	77,278	-	**3,247,982**
Liabilities evidenced by paper	148,585	129,156	20,684	134,888	-	**433,313**
Subordinated term debt	-	-	-	115,946	-	**115,946**
Perpetual debt	-	6,790	4,910	70,200	94,962	**176,862**
Total financial liabilities	**1,276,880**	**1,062,893**	**1,171,813**	**398,312**	**94,962**	**4,004,860**

(ii) Market risk

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature or reprice at different times or in differing amounts. In the case of floating rate assets and liabilities the Bank is also exposed to basis risk, which is the difference in repricing characteristics of the various floating rate indices, such as the Bulgarian Basic Interest Rate, the LIBOR and EURIBOR, although these indices tend to move in high correlation. In addition, the actual effect will depend on a number of other factors, including the extent to which repayments are made earlier or later than the contracted dates and variations in interest rate sensitivity within repricing periods and among currencies.

In order to quantify the interest rate risk of its non-trading activities, the Bank measures the impact of a change in the market rates both on net interest income and on the Bank's economic value defined as the difference between fair value of assets and fair value of liabilities. The interest rate risk on the economic value of the Bank following a standardised shock of +100bp/-100bp as at 30 June 2009 is BGN +2.3/-2.3 Mio. The interest rate risk on the Group's net interest income one year forward following a standardised shock of +100bp/-100bp as at 30 June 2009 is BGN +0.8/-0.8 Mio

Notes

3. Risk management disclosures, continued

B. Non-trading activities, continued

(ii) Market risk, continued

Interest rate risk, continued

The following table indicates the effective interest rates at 30 June 2009 and the periods in which financial liabilities and assets reprice.

				Fixed rate instruments			
in BGN '000	**Total**	**Weighted average effective interest rate**	**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	175,672	0.19%	20,465	155,207	-	-	-
Financial assets held for trading	23,828	5.01%	-	-	-	13,156	10,672
Available for sale investments	359,063	2.11%	44,883	-	58,583	199,825	55,772
Financial assets held to maturity	30,161	2.76%	8,302	-	-	15,148	6,711
Loans and advances to banks and other financial institutions	18,830	6.37%	6,807	3,912	-	-	8,111
Loans and advances to customers	3,012,862	12.10%	2,469,754	70,654	29,099	137,092	306,263
Non-interest earning assets	559,401	-	-	-	-	-	-
Total assets	**4,179,817**		**2,550,211**	**229,773**	**87,682**	**365,221**	**387,529**
Liabilities							
Due to banks	30,508	4.54%	1,801	8,644	20,063	-	-
Due to other customers	3,159,375	6.31%	1,530,843	276,780	757,054	577,062	17,636
Liabilities evidenced by paper	411,479	5.58%	88,466	148,240	124,945	19,978	29,850
Subordinated term debt	57,069	13.50%	-	-	-	-	57,069
Perpetual debt	101,607	12.32%	-	-	-	-	101,607
Non-interest bearing liabilities	23,150	-	-	-	-	-	-
Total liabilities	**3,783,188**		**1,621,110**	**433,664**	**902,062**	**597,040**	**206,162**

3. Risk management disclosures, continued

Notes

B. Non-trading activities, continued

(ii) Market risk, continued

Interest rate risk, continued

The following table indicates the effective interest rates at 31.12.08 and the periods in which financial liabilities and assets reprice.

in BGN ‘000	**Total**	**Weighted average effective interest rate**	**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	150,039	1.98%	41,791	108,248	-	-	-
Financial assets held for trading	5,476	4.31%	-	-	-	-	5,476
Available for sale investments	284,585	3.08%	45,797	58,599	78,053	58,288	43,848
Financial assets held to maturity	60,393	3.25%	18,197	8,858	9,396	2,047	21,895
Loans and advances to banks and other financial institutions	3,920	3.50%	-	3,920	-	-	-
Loans and advances to customers	2,921,262	10.90%	2,505,727	21,056	11,034	148,778	234,667
Non-interest earning assets	830,459	-	-	-	-	-	-
Total assets	**4,256,134**		**2,611,512**	**200,681**	**98,483**	**209,113**	**305,886**
Liabilities							
Due to banks	53,035	4.68%	1,379	51,656	-	-	-
Due to other customers	3,169,876	5.58%	2,248,864	76,658	149,716	207,995	486,643
Liabilities evidenced by paper	490,397	6.77%	84,709	72,805	62,929	264,060	5,894
Subordinated term debt	53,852	13.10%	-	-	-	-	53,852
Perpetual debt	100,474	12.51%	-	-	-	-	100,474
Non-interest bearing liabilities	18,030	-	-	-	-	-	-
Total liabilities	**3,885,664**		**2,334,952**	**201,119**	**212,645**	**472,055**	**646,863**

Notes

3. Risk management disclosures, continued

B. Non-trading activities, continued

(ii) Market risk, continued

Currency risk

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

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

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

in BGN '000	**30 June 2009**	**31 December 2008**
Monetary assets		
Euro	2,350,242	2,175,826
US dollar	277,496	240,813
Other	54,256	33,378
Gold bullion	7,488	7,817
Monetary liabilities		
Euro	2,172,222	2,154,161
US dollar	281,418	240,268
Other	53,920	35,414
Gold bullion	-	-
Net position		
Euro	178,020	21,665
US dollar	(3,922)	545
Other	336	(2,036)
Gold bullion	7,488	7,817

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

(iii) Credit risk

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

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

3. Risk management disclosures, continued

B. Non-trading activities, continued

(iii) Credit risk, continued

30 June 2009 *in BGN '000*

Class of exposure	Gross amount of loans and advances to customers	Carrying amount of loans and advances to customers
Collectively impaired		
Standard	2,931,673	2,928,694
Individually impaired		
Watch	49,778	47,693
Nonperforming	30,626	25,198
Loss	75,579	22,985
Total	**3,087,656**	**3,024,570**

31 December 2008 *in BGN '000*

Class of exposure	Gross amount of loans and advances to customers	Carrying amount of loans and advances to customers
Collectively impaired		
Standard	2,890,929	2,887,855
Individually impaired		
Watch	24,723	23,688
Substandard	16,916	10,463
Nonperforming	79,792	23,510
Total	**3,012,360**	**2,945,516**

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

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

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

3. Risk management disclosures, continued

B. Non-trading activities, continued

(iii) Credit risk, continued

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

in BGN '000	**30 June 2009**	**31 December 2008**
Trade	676,345	644,657
Industry	724,293	704,072
Services	189,211	184,531
Finance	22,826	22,773
Transport, logistics	185,704	144,612
Communications	49,179	46,836
Construction	147,540	145,294
Agriculture	75,492	85,619
Tourist services	105,462	112,973
Infrastructure	105,523	106,212
Private individuals	753,021	761,441
Other items	53,060	53,340
Allowance for impairment	(63,086)	(66,844)
Total	**3,024,570**	**2,945,516**

The Bank has extended loans to enterprises involved in different types of activities but within the same economic sector - industry. As such the exposures share a similar industry risk. There are three such groups of enterprises at 30 June 2009 with total exposures amounting to BGN 40,962 thousand (2008: BGN 40,968 thousand) - ferrous and non-ferrous metallurgy, BGN 78,440 thousand (2008: BGN 77,149 thousand) – mining industry and BGN 105,509 thousand (2008: BGN 107,972 thousand) - power engineering.

The Bank has extended loans, confirmed letters of credit and granted guarantees to 15 individual clients or groups (2008: 16) with each individual exposure exceeding 10% of the capital base of the Bank and based on the book value of the corresponding credit facility. The total amount of these exposures is BGN 1,009,980 thousand which represents 207.17% of the Group's capital base (2008: BGN 1,109,642 thousand which represented 258.73 %of capital base) of which BGN 858,151 thousand (2008: BGN 938,241 thousand) represent loans and BGN 151,829 thousand (2008: BGN 171,401 thousand) represent guarantees, letters of credit and other commitments. Exposures secured by cash have been excluded from the calculation of the large exposures.

Loans extended by the branch in Cyprus amount to BGN 173,774 thousand (gross carrying amount before any allowances) (2008: BGN 53,986 thousand). BGN 130,871 thousand).

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

3. Risk management disclosures, continued

B. Non-trading activities, continued

(iii) Credit risk, continued

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

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

The table below shows a breakdown of total loans and advances extended to customers by the Bank by type of collateral, excluding credit cards in the amount of BGN 157,783 thousand (2008: BGN 149,796 thousand):

in BGN '000	**30 June 2009**	**31 December 2008**
Mortgage	1,303,832	1,346,172
Pledge of receivables	222,191	425,601
Pledge of commercial enterprise	487,531	286,287
Securities	64,398	144,981
Guarantee	3,516	155
Other guaranties	246,301	130,084
Pledge of goods	142,665	110,262
Pledge of machines	255,757	227,376
Money deposit	31,162	38,559
Stake in capital	26,554	36,559
Gold	18	33
Other collateral	136,300	100,272
Unsecured	9,648	16,223
Total	**2,929,873**	**2,862,564**

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

3. Risk management disclosures, continued

C. Solvency ratio (Capital adequacy)

The Bank's lead regulator, the Bulgarian National Bank (BNB) sets and monitors capital requirements both on consolidated and stand-alone basis. BNB issued new Ordinance 8 on Capital Adequacy of Credit Institutions effective from 01 January 2007 that is the Bulgarian supervisory implementation of the International Convergence of Capital Measurement and Capital Standards (Revised Framework), known as Basel II and complies with EU Directives 2006/48/EC and 2006/49/EC. In implementing current capital requirements the Bank is required to maintain a minimum prescribed ratio of 12% of total capital to total risk-weighted assets. 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.

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

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

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

- Tier 1 capital, which includes ordinary share capital, share premium, statutory reserve, other general reserves, retained earnings from past years, current half-year profit, translation reserve and minority interests 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; and qualifying term subordinated loan capital may not exceed 50 percent of tier 1 capital. Deductions from capital base include specific provisions for credit risk.

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

Notes

3. Risk management disclosures, continued

C. Capital adequacy, continued

Capital adequacy level was as follows:

in BGN '000	Balance sheet/notional amount		Risk weighted assets	
	30 June 2009	**31 December 2008**	**30 June 2009**	**31 December 2008**
Risk weighted assets for credit risk				
Balance sheet assets				
Class of exposure				
Central governments and central banks	549,849	706,316	2,704	3,011
Multirateral development banks	26,854	1,000	-	-
Institutions	240,894	231,376	56,340	75,716
Corporates	2,022,029	1,919,643	2,000,243	1,881,850
Retail	534,203	560,775	521,311	546,088
Claims secured by residential property	411,226	451,855	205,613	225,928
Overdue items*	48,138	-	48,138	-
Collective investment undertaking	1,929	1,964	1,929	1,964
Other items	301,377	339,604	177,850	173,733
Total	**4,136,499**	**4,212,533**	**3,014,128**	**2,908,290**
Off balance sheet items				
Exposure class				
Central governments and central banks	782	-	-	-
Institutions	19,552	17,879	4,900	8,157
Corporates	488,022	645,543	170,307	202,591
Retail	201,604	234,459	867	1,079
Claims secured by residential property	6,672	8,069	1,635	1,963
Other items	-	-	25	28
Total	**716,632**	**905,950**	**177,734**	**213,818**
Derivatives				
Exposure class				
Institutions	1,517	1,359	303	272
Corporates	1,313	19	1,313	19
Total	**2,830**	**1,378**	**1,616**	**291**
Total risk-weighted assets for credit risk			**3,193,478**	**3,122,399**
Risk-weighted assets for market risk			**3,712**	**3,250**
Risk-weighted assets for operational risk			**317,838**	**254,125**
Total risk-weighted assets			**3,515,028**	**3,379,774**

Capital adequacy ratios	**Capital**		**Capital ratios %**	
	30 June 2009	**31 December 2008**	**30 June 2009**	**31 December 2008**
Tier 1 Capital	**353,002**	**318,884**	**10.04%**	**9.44%**
Total capital base	**463,162**	**428,887**	**13.18%**	**12.69%**

*new exposure class since March 2009

Notes

4. Segment Reporting

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

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

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

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

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

in BGN '000	**Bulgarian operations**		**Foreign operations**		**Total**	
	Six months ended 30 June 2009	**Six months ended 30 June 2008**	**Six months ended 30 June 2009**	**Six months ended 30 June 2008**	**Six months ended 30 June 2009**	**Six months ended 30 June 2008**
Interest income	162,870	156,180	8,276	5,272	171,146	161,452
Interest expense and similar charges:	(115,987)	(84,058)	(344)	(256)	(116,331)	(84,314)
Net interest income	**46,883**	**72,122**	**7,932**	**5,016**	**54,815**	**77,138**
Fee and commission income	27,702	32,423	334	616	28,036	33,039
Fee and commission expense	(3,529)	(4,092)	(4)	(4)	(3,533)	(4,096)
Net fee and commission income	**24,173**	**28,331**	**330**	**612**	**24,503**	**28,943**
Net trading income/(expense)	**3,377**	**(263)**	**42**	**(45)**	**3,419**	**(308)**
Administrative expenses	**(66,296)**	**(68,205)**	**(242)**	**(242)**	**(66,538)**	**(68,447)**
	30 June 2009	**31 December 2008**	**30 June 2009**	**31 December 2008**	**30 June 2009**	**31 December 2008**
Assets	**3,980,712**	**4,107,244**	**199,105**	**148,890**	**4,179,817**	**4,256,134**
Liabilities	**3,763,626**	**3,871,727**	**19,562**	**13,937**	**3,783,188**	**3,885,664**

Notes

4. Segment Reporting, continued

The table below shows assets and liabilities and income and expense by business segments as at 30 June 2009.

in BGN '000

Business	**Assets**	**Liabilities**	**Interest income**	**Interest expense and similar charges:**	**Net fee and commission income**	**Net trading income**	**Other net operating expense**
Commercial banking	2,310,281	1,029,130	121,750	(31,424)	8,436	-	-
Retail Banking	714,289	2,145,759	42,776	(62,840)	2,908	-	-
International business	-	570,155	-	(21,463)	3,887	-	-
Card business	-	-	-	-	5,112	-	-
Liquidity ratio	941,575	30,508	6,620	(558)	3	438	(148)
Dealing	5,281	-	-	-	(5)	2,981	-
Customer service	-	-	-	-	3,825	-	-
Other items	208,391	7,636	-	(46)	337	-	-
Total	**4,179,817**	**3,783,188**	**171,146**	**(116,331)**	**24,503**	**3,419**	**(148)**

Notes

5. Financial assets and liabilities
Accounting classification and fair values

The table below sets out the classification of each class of financial assets and liabilities, and their fair values as at 30 June 2009.

in BGN '000	**Trading**	**Held-to-maturity**	**Loans and receivables**	**Available-for-sale**	**Other at amortised cost**	**Other items**	**Net book value**	**Fair value**
ASSETS								
Cash and balances with Central Banks	-	-	506,603	-	-	-	506,603	506,603
Financial assets held for trading	27,071	-	-	-	-	-	27,071	27,071
Available for sale investments	-	-	-	389,977	-	-	389,977	389,977
Financial assets held to maturity	-	30,161	-	-	-	-	30,161	29,868
Loans and advances to banks and other financial institutions	-	-	21,920	-	-	-	21,920	21,920
Loans and advances to customers	-	-	3,024,570	-	-	-	3,024,570	3,024,570
Other trading assets	-	-	-	-	-	810	810	810
	27,071	**30,161**	**3,553,093**	**389,977**	**-**	**810**	**4,001,112**	**4,000,819**
LIABILITIES								
Due to banks	-	-	-	-	30,508	-	30,508	30,508
Due to other customers	-	-	-	-	3,174,889	-	3,174,889	3,174,889
Liabilities evidenced by paper	-	-	-	-	411,479	-	411,479	411,107
Subordinated term debt	-	-	-	-	57,069	-	57,069	57,069
Perpetual debt	-	-	-	-	101,607	-	101,607	101,607
	-	**-**	**-**	**-**	**3,775,552**	**-**	**3,775,552**	**3,775,180**

The fair value of cash, cash equivalents, demand and term deposits is approximately equal to the carrying value given, because of their short-term maturity. The fair value of receivables from clients is approximately equal to their balance-sheet value due to the fact that the interest rate for most of the loan portfolio is floating and reflects changes in market conditions.

Notes

5. **Financial assets and liabilities, continued**

Accounting classification and fair values, continued

The table below sets out the classification of each class of financial assets and liabilities, and their fair values as at 31 December 2008.

in BGN '000	**Trading**	**Held-to-maturity**	**Loans and receivables**	**Available-for-sale**	**Other at amortised cost**	**Other items**	**Net book value**	**Fair value**
ASSETS								
Cash and balances with Central Banks	-	-	745,083	-	-	-	745,083	745,083
Financial assets held for trading	9,681	-	-	-	-	-	9,681	9,681
Available for sale investments	-	-	-	311,544	-	-	311,544	311,544
Financial assets held to maturity	-	60,393	-	-	-	-	60,393	59,483
Loans and advances to banks and other financial institutions	-	-	10,168	-	-	-	10,168	10,168
Loans and advances to customers	-	-	2,945,516	-	-	-	2,945,516	2,945,516
Other trading assets	-	-	-	-	-	274	274	274
	9,681	**60,393**	**3,700,767**	**311,544**	**-**	**274**	**4,082,659**	**4,081,749**
LIABILITIES								
Due to banks	-	-	-	-	53,415	-	53,415	53,415
Due to other customers	-	-	-	-	3,179,321	-	3,179,321	3,179,321
Liabilities evidenced by paper	-	-	-	-	490,398	-	490,398	490,287
Subordinated term debt	-	-	-	-	53,852	-	53,852	53,852
Perpetual debt	-	-	-	-	100,474	-	100,474	100,474
Other financial liabilities	-	-	-	-	-	1,336	1,336	1,336
	-	**-**	**-**	**-**	**3,877,460**	**1,336**	**3,878,796**	**3,878,685**

Notes

6. Net interest income

in BGN '000	Six months ended 30 June 2009	Six months ended 30 June 2008
Interest income		
Receivables and accounts with banks and financial institutions	993	3,664
Retail Banking	42,776	39,212
Loans to corporate clients	105,396	96,317
Loans to SMEs	13,942	12,934
Microlending	2,412	2,707
Debt instruments	5,627	6,618
	171,146	**161,452**
Interest expense and similar charges:		
Deposits from banks	(558)	(673)
Deposits from other customers	(94,264)	(58,567)
Liabilities evidenced by paper	(12,115)	(16,044)
Subordinated term debt	(3,440)	(3,105)
Perpetual debt	(5,908)	(5,902)
Lease agreements and other	(46)	(23)
	(116,331)	**(84,314)**
Net interest income	**54,815**	**77,138**

For the six months ended 30 June 2009 and 30 June 2008 the recognised interest income on individually impaired financial assets (loans and advances to customers) amounts to BGN 6,051 thousand and BGN 2,233 thousand respectively.

7. Net fee and commission income

in BGN '000 **Fee and commission income**	Six months ended 30 June 2009	Six months ended 30 June 2008
Letters of credit and guarantees	3,558	5,891
Payments transactions	3,739	5,218
Customer accounts	4,474	4,619
Cards business	7,786	7,621
Other items	8,479	9,690
	28,036	**33,039**
Fee and commission expense		
Letters of credit and guarantees	(394)	(941)
Deposits to banks and other financial institutions	(432)	(405)
Cards business	(2,673)	(2,483)
Other items	(34)	(267)
	(3,533)	**(4,096)**
Net fee and commission income	**24,503**	**28,943**

8. Net trading income

in BGN '000	**Six months ended 30 June 2009**	**Six months ended 30 June 2008**
Net trading income/(expense) arises from:		
- Debt instruments	438	(13)
- Equities	(580)	(2,301)
- Foreign exchange rate fluctuations	3,561	2,006
Net trading income/(expense)	**3,419**	**(308)**

9. Other net operating expense

Other net operating expense includes loss from sale of financial instruments, not assessed at fair value in profit or loss.

in BGN '000	**Six months ended 30 June 2009**	**Six months ended 30 June 2008**
Other net operating income/(expense) arising from:		
- Debt instruments	(31)	(2,471)
- other	(117)	28
Other net operating expense	**(148)**	**(2,443)**

10. Administrative expenses

in BGN '000	**Six months ended 30 June 2009**	**Six months ended 30 June 2008**
General and administrative expenses comprise:		
- Personnel cost	20,335	23,139
- Depreciation and amortisation	9,204	7,548
- Advertising	4,043	8,241
- Building rent expense	10,279	6,609
-Telecommunication, software and other computer maintenance	5,876	4,707
- Unclaimable VAT	4,597	4,301
- Administration, consultancy, audit and other costs	12,204	13,902
Administrative expenses	**66,538**	**68,447**

Personnel costs include salaries, social and health security contributions under the provisions of the local legislation. At 30 June 2009 the total number of employees was 2,317 (30 June 2008: 2,385).

11. Allowance for impairment

in BGN '000	**Six months ended 30 June 2009**	**Six months ended 30 June 2008**
Write-downs		
Loans and advances to customers	(13,276)	(14,417)
Reversal of write-downs		
Loans and advances to customers	17,023	8,342
Impairment, net	**3,747**	**(6,075)**

12. Income tax expense

in BGN '000	**Six months ended 30 June 2009**	**Six months ended 30 June 2008**
Current taxes	(2,784)	(2,561)
Deferred taxes (See Note 22)	(125)	(173)
Income tax expense	**(2,909)**	**(2,734)**

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

in BGN '000	**Six months ended June 2009**	**Six months ended 30 June 2008**
Accounting profit before taxation	**21,994**	**26,924**
Corporate tax at applicable tax rate (10% for 2009 and 10% for 2008)	2,199	2,692
Tax effect of permanent tax differences	585	(131)
Tax effect of reversals of temporary differences	125	173
Income tax expense	**2,909**	**2,734**
Effective tax rate	13.22%	10.15%

13. Earnings per share

	Six months ended 30 June 2009	Six months ended 30 June 2008
Net profit attributable to shareholders (in thousands of BGN)	19,085	24,190
Weighted average number of ordinary shares (in 000's)	110,000	110,000
Earnings per share (BGN)	**0.17**	**0.22**

The basic earnings per share, calculated in accordance with IAS 33, are based on the profit attributable to ordinary equity holders of the Bank. In the six months ended 30 June 2009 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 BGN '000	30 June 2009	31 December 2008
Cash on hand		
- in BGN	75,901	105,279
- in foreign currency	43,916	57,298
Gold bullion	7,488	7,817
Balances with Central Banks	207,021	426,547
Current accounts and amounts with local banks	-	30,115
Current accounts and amounts with foreign banks	172,277	118,027
Total	**506,603**	**745,083**

15. Financial assets held for trading

in BGN ‘000	**30 June 2009**	**31 December 2008**
Bonds and notes issued by:		
Bulgarian government, rated BBB+ or BBB-:		
- denominated in Bulgarian Leva	4,684	5,476
- denominated in foreign currencies	134	-
Foreign banks assessed with AAA rating	19,010	-
Other issuers – equity instruments (unrated)	3,243	4,205
Total	**27,071**	**9,681**

16. Available for sale investments

In thousands of BGN	**30 June 2009**	**31 December 2008**
Bonds and notes issued by:		
Bulgarian Government		
- denominated in BGN	32,550	27,872
- denominated in foreign currencies	5,469	6,033
Foreign governments		
- short term	272,541	194,941
- long term	-	-
Foreign banks and other financial institutions	48,503	55,740
Other issuers	2,038	2,038
Investments in subsidiaries	28,876	24,920
Total	**389,977**	**311,544**

Investments in subsidiaries are as follows:

in BGN ‘000	% held	**30 June 2009**	**31 December 2008**
Entity:			
First Investment Finance B.V. The Netherlands	100%	3,947	3,947
Diners Club Bulgaria AD	87.93%	4,443	2,443
First Investment Bank − Albania Sh.a.	99.999838%	20,486	18,530
Total		**28,876**	**24,920**

17. Financial assets held to maturity

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

in BGN '000	**30 June 2009**	**31 December 2008**
Securities held to maturity issued by:		
Bulgarian Government	21,858	42,196
Foreign banks and other financial institutions	8,303	18,197
Total	**30,161**	**60,393**

18. Loans and advances to banks and other financial institutions

(a) Analysis by type

in BGN '000	**30 June 2009**	**31 December 2008**
Placements with banks	15,012	3,920
Receivables under repurchase agreements (see Note 30)	3,912	-
Other items	2,996	6,248
Total	**21,920**	**10,168**

(b) Geographical analysis

in BGN '000	**30 June 2009**	**31 December 2008**
Domestic banks and financial institutions	4,666	625
Foreign banks and other financial institutions	17,254	9,543
Total	**21,920**	**10,168**

19. Loans and advances to customers

in BGN '000	**30 June 2009**	**31 December 2008**
Retail Banking		
- Consumer loans	216,899	227,610
- Mortgage loans	368,555	374,732
- Credit cards	157,783	149,796
Small and medium enterprises	227,684	251,455
Microlending	34,445	41,196
Corporate customers	2,082,290	1,967,571
Allowance for impairment	(63,086)	(66,844)
Total	**3,024,570**	**2,945,516**

(a) Movement in impairment allowances

in BGN '000	
Balance as at 1 January 2009	**66,844**
Additional allowances	13,276
Amounts released	(17,023)
Write - offs	(11)
Balance as at 30 June 2009	**63,086**

Notes

20. Property and equipment

in BGN '000	Land and Buildings	Fixtures and fittings	Motor Vehicles	Assets under Construction	Leasehold Improvements	Total
Cost						
At 1 January 2009	12,367	93,990	5,989	59,652	38,180	210,178
Additions	-	3	-	5,911	-	5,914
Disposals	(1,538)	(2,997)	(226)	(3)	-	(4,764)
Transfers	-	3,317	6	(3,595)	122	(150)
At 30 June 2009	10,829	94,313	5,769	61,965	38,302	211,178
Amortisation						
At 1 January 2009	3,603	44,030	3,600	-	9,935	61,168
Charge for the period	193	6,264	431	-	1,660	8,548
On disposals	(571)	(2,584)	(200)	-	-	(3,355)
At 30 June 2009	3,225	47,710	3,831	-	11,595	66,361
Net book value						
At 30 June 2009	**7,604**	**46,603**	**1,938**	**61,965**	**26,707**	**144,817**
At 1 January 2009	**8,764**	**49,960**	**2,389**	**59,652**	**28,245**	**149,010**

21. Intangible assets

in BGN '000	Software and licences	Total
Cost		
At 1 January 2009	8,006	8,006
Additions	-	-
Disposals	(90)	(90)
Transfers	150	150
At 30 June 2009	8,066	8,066
Amortisation		
At 1 January 2009	2,842	2,842
Charge for the period	656	656
On disposals	(90)	(90)
At 30 June 2009	3,408	3,408
Net book value		
At 30 June 2009	**4,658**	**4,658**
At 1 January 2009	**5,164**	**5,164**

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 BGN '000	**Assets**		**Liabilities**		**Net**	
	30 June 2009	**31 December 2008**	**30 June 2009**	**31 December 2008**	**30 June 2009**	**31 December 2008**
Property, equipment and intangibles	-	-	2,067	1,942	2,067	1,942
Other items	(261)	(261)	-	-	(261)	(261)
Net tax (assets)/liabilities	**(261)**	**(261)**	**2,067**	**1,942**	**1,806**	**1,681**

Movements in temporary differences during the six months ended 30 June 2009 at the amount of BGN 125 000 are recognised in income statement.

23. Other assets

in BGN '000	**30 June 2009**	**31 December 2008**
Deferred expense	13,382	6,138
Other assets	16,658	13,437
Total	**30,040**	**19,575**

24. Due to banks

in BGN '000	**30 June 2009**	**31 December 2008**
Term deposits	28,129	51,656
Payable on demand	2,379	1,759
Total	**30,508**	**53,415**

25. Due to other customers

in BGN '000	30 June 2009	31 December 2008
Retail customers		
- payable on demand	310,505	393,915
- term deposits	1,835,254	1,342,358
Businesses and public institutions		
- payable on demand	315,040	408,908
- term deposits	714,090	1,034,140
Total	**3,174,889**	**3,179,321**

26. Liabilities evidenced by paper

in BGN '000	30 June 2009	31 December 2008
Bonds issued	19,930	19,911
Acceptances under letters of credit	166,299	353,179
Liabilities under repurchase agreements (see Note 30)	120,156	12,276
Other term liabilities	105,094	105,032
Total	**411,479**	**490,398**

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

Bonds issued include:

in BGN '000	30 June 2009	31 December 2008
Mortgage bonds		
EUR 10,000,000, 7%, due 2009	19,930	19,911
Total	**19,930**	**19,911**

The mortgage bonds are payable to third parties in the years listed above and have been listed on the Bulgarian stock exchange.

Notes

27. Subordinated term debt

As at 30 June 2009 the Bank has entered into six separate subordinated Loan Agreements with four different lenders. All these subordinated Loan Agreements are governed by English Law and the funds raised outside the Republic of Bulgaria.

Subordinated liabilities can be analysed as follows:

in BGN '000

Lender	Principal amount	Final maturity	Maturity	Amortised cost as at 30 June 2009
Growth Management Limited	1,956	10 years	17.03.2015	3,109
Growth Management Limited	3,912	10 years	24.02.2015	6,324
Hypo-Alpe-Adria Bank	3,912	10 years	14.04.2015	6,104
Growth Management Limited	5,867	10 years	27.08.2014	10,343
Standard Bank London Ltd.	9,779	10 years	22.04.2015	15,417
Hillside Apex Fund Limited	9,779	10 years	01.03.2015	15,772
Total	**35,205**			**57,069**

Interest is capitalised annually and is payable at maturity. 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 BGN '000

	Principal amount	Amortised cost as at 30 June 2009
Step-up Guaranteed Perpetual Subordinated Bonds EUR 27 mio	52,807	58,832
Step-up Guaranteed Perpetual Subordinated Bonds EUR 21 mio	41,073	42,775
Total	**93,880**	**101,607**

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

29. Other liabilities

in BGN '000	30 June 2009	31 December 2008
Liabilities to personnel	2,288	2,288
Current tax liability	1,348	1,102
Other payables	2,194	3,133
Total	**5,830**	**6,523**

30. Repurchase and resale agreements

The Bank raises funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate. Repurchase agreements are commonly used as a tool for short-term financing of interest-bearing assets, depending on the prevailing interest rates. At 30 June 2009 assets sold under repurchase agreements were as follows:

in BGN '000	**Fair value of underlying assets**	**Carrying amount of corresponding liabilities**
Bulgarian government securities	21,585	22,048
Other government securities	104,226	96,724
Securities issued by banks	1,425	1,384
Total	**127,236**	**120,156**

At 31 December 2008 assets sold under repurchase agreements were as follows:

in BGN '000	**Fair value of underlying assets**	**Carrying amount of corresponding liabilities**
Bulgarian government securities	10,302	10,315
Other government securities	1,956	1,961
Total	**12,258**	**12,276**

The Bank also purchases financial instrument under agreements to resell them at future dates ("reverse repurchase agreements"). The seller commits to repurchase the same or similar instruments at an agreed future date. Reverse repurchases are entered into as a facility to provide funds of customers. At 30 June 2009 assets purchased subject to agreements to resell them are as follows:

in BGN '000	**Fair value of underlying assets**	**Carrying amount of liabilities**
Bulgarian government securities	3,961	3,912
Total	**3,961**	**3,912**

At 31 December 2008 there were no assets purchased under repurchase agreements.

Notes

31. Capital and reserves

(a) Number and face value of registered shares as at 30 June 2009

As at 31 December 2008 the registered share capital of the Bank is BGN 110,000,000 divided into 110,000,000 ordinary dematerialized shares with voting rights of BGN 1 par value each. All the shares have been fully paid-up.

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

(b) Shareholders

In October 2008 Balkan Holidays, London transferred in full its shares in FIBank to the minority shareholders Domenico Ventures Limited, British Virgin Islands and Rafaela Consultants Limited, British Virgin Islands, with which the shareholding in the Bank of each if them increased to 9.72%.

The table below shows those shareholders of the Bank holding shares as at 30 June 2009 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**

31. Capital and reserves, continued

(b) Shareholders, continued

Currently all newly issued shares plus the part of the existing shares held by First Financial Brokerage House Ltd. sold to new investors under the IPO (a total of 16,500,000 shares) are freely traded on the floor of Bulgarian Stock Exchange – Sofia.

(c) Statutory reserve

Statutory reserves include amounts set aside for purposes regulated by local legislation. According to Bulgarian legislation the Bank is obliged to set aside 1/10 of its annual profit as statutory reserve until the total amount of reserves reaches 1/10 of the Bank's share capital.

32. Commitments and contingent liabilities

(a) Memorandum items

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

The contractual amounts of commitments and contingent liabilities are set out in the following table by category. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the balance sheet date if counterparts failed completely to perform as contracted.

in BGN '000	**30 June 2009**	**31 December 2008**
Guarantee		
- in BGN	141,306	202,558
- in foreign currency	191,480	194,462
Total guarantees	**332,786**	**397,020**
Unused credit lines	309,050	367,111
Promissory notes	13,736	15,677
Letters of credit in foreign currency	61,062	126,142
Total	**716,634**	**905,950**

These commitments and contingent liabilities have off balance-sheet credit risk and only organization fees and accruals for probable losses are recognised in the balance sheet until the commitments are fulfilled or expire. Most of the contingent liabilities and commitments will expire without being advanced in whole or in part. Therefore, the amounts do not represent expected future cash flows.

As at the date of the report there are no significant contingent liabilities and commitments requiring additional disclosure.

At 30 June 2009 the extent of collateral held for guarantees and letters of credit is 100 percent.

33. Cash and cash equivalents

Notes

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

in BGN '000	**30 June 2009**	**30 June 2008**
Cash and balances with Central Banks	506,603	685,407
Loans and advances to banks and financial institutions with original maturity less than 3 months	3,090	13,602
Total	**509,693**	**699,009**

34. Average balances

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

in BGN '000	**Six months ended 30 June 2009**	**Six months ended 30 June 2008**
FINANCIAL ASSETS		
Cash and balances with Central Banks	547,722	639,781
Financial assets held for trading	22,739	10,489
Available for sale investments	412,430	252,762
Financial assets held to maturity	40,161	85,860
Loans and advances to banks and other financial institutions	32,743	45,049
Loans and advances to customers	2,988,940	2,783,275
FINANCIAL LIABILITIES		
Due to banks	35,235	23,396
Due to other customers	3,219,965	2,833,558
Liabilities evidenced by paper	418,461	606,174
Subordinated term debt	55,475	52,185
Perpetual debt	100,679	100,144

35. Related party transactions

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

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

Type of related party	**Parties that control or manage the Bank**		**Enterprises under common control**	
in BGN '000	**Six months ended 30 June 2009**	**2008**	**Six months ended 30 June 2009**	**2008**
Loans				
Loans outstanding at beginning of the period	2,455	2,474	21,081	12,168
Loans issued during the period	(241)	(19)	8,904	8,913
Loans outstanding at end of the period	2,214	2,455	29,985	21,081
Deposits and loans received:				
At beginning of the period	6,419	1,062	466,752	857,195
Received/(paid) during the period	741	5,357	(79,609)	(390,443)
At the end of the period	7,160	6,419	387,143	466,752
Deposits placed				
Deposits at beginning of the period	-	-	11,735	11,735
Deposits placed during the year	-	-	(7,823)	-
Deposits at end of the period	-	-	3,912	11,735
OFF-BALANCE SHEET COMMITMENTS ISSUED BY THE BANK				
At beginning of the period	1,475	387	5,953	3,175
Issued during the period	703	1,088	861	2,778
At the end of the period	2,178	1,475	6,814	5,953

During the first six months of 2009 the key management personnel of the Bank received remuneration of BGN 1,253 thousand (first half of 2008: BGN 1,135 thousand).

36. Subsidiaries

(a) First Investment Finance B.V.

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

36. Subsidiaries, continued

(b) Diners Club Bulgaria AD

In May 2005 the Bank acquired 80% of the share capital of Diners Club Bulgaria AD. The company was incorporated in 1996 as a franchise and processing agent of Diners Club International. As at 30 June 2009 the share capital of the company is BGN 6,000 thousand, and the Bank's shareholding is 87.93%.

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

In April 2006 the Bank acquired 99.9998% of the capital of First Investment Bank − Albania Sh.a. upon its incorporation. On 27 June 2007 First Investment Bank – Albania was granted a full banking licence by the Bank of Albania, and on 1 September 2007 it effectively took over the activities of the former branch FIB – Tirana, assuming all rights and obligations, assets and liabilities.

In July 2008 the share capital of First Investment Bank – Albania Sh.a. was increased by EUR 1 million through the issue of new shares, fully subscribed and paid by First Investment Bank AD. In February 2009 the share capital of First Investment Bank – Albania Sh.a. was increased again by EUR 1 million through the issue of new shares, fully subscribed and paid by First Investment Bank AD. Thus the Bank's shareholding increase insignificantly to 99.999838%. As at 30 June 2009 the share capital of First Investment Bank – Albania Sh.a. was EUR 10,475 thousand, fully paid up.

37. Post balance sheet events

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

38. Statement of compliance

IFRS 1	First-time Adoption of International Financial Reporting Standards
IFRS 2	Share-based Payment
IFRS 3	Business Combinations
IFRS 4	Insurance Contracts
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations
IFRS 6	Exploration for and Evaluation of Mineral Assets
IFRS 7	Financial Instruments: Recognition and Measurement Disclosures
IFRS 8	Operating segments
IAS 1	Presentation of Financial Statements
IAS 2	Inventories
IAS 7	Statement of Cash Flows
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10	Events After the Reporting Period
IAS 11	Construction Contracts
IAS 12	Income Taxes
IAS 16	Property, Plant and Equipment
IAS 17	Leases
IAS 18	Revenue
IAS 19	Employee Benefits

Notes

38. Statement of compliance, continued

IAS 20	Accounting for Government Grants and Disclosure of Government Assistance
IAS 21	The Effects of Changes in Foreign Exchange Rates
IAS 23	Borrowing Costs
IAS 24	Related Party Disclosures
IAS 26	Accounting and Reporting by Retirement Benefit Plans
IAS 27	Consolidated and Separate Financial Statements
IAS 28	Investments in Associates
IAS 29	Financial Reporting in Hyperinflationary Economies
IAS 31	Interests In Joint Ventures
IAS 32	Financial Instruments: Recognition and Measurement Presentation
IAS 33	Earnings Per Share
IAS 34	Interim Financial Reporting
IAS 36	Impairment of Assets
IAS 37	Provisions, Contingent Liabilities and Contingent Assets
IAS 38	Intangible assets
IAS 39	Financial Instruments: Recognition and Measurement Recognition and Measurement
IAS 40	Investment Property
IAS 41	Agriculture
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities
IFRIC 2	Members' Shares in Co-operative Entities and Similar Instruments
IFRIC 4	Determining Whether an Arrangement Contains a Lease
IFRIC 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Funds
IFRIC 6	Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
IFRIC 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary
IFRIC 8	Scope of IFRS 2
IFRIC 9	Reassessment of Embedded Derivatives
IFRIC	Interim Financial Reporting and Impairment
IFRIC	IFRS 2- Group and Treasury Share Transactions
IFRIC	Service Concession Arrangements
IFRIC	Customer Loyalty Programmes
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
IFRIC	Agreements for the Construction of Real Estate
IFRIC	Hedges of a Net Investment in a Foreign Operation
SIC 7	Introduction of the Euro
SIC 10	Government Assistance – No Specific Relation to Operating Activities
SIC 12	Consolidation – Special Purpose Entities
SIC 13	Jointly Controlled Entities – Non-Monetary Contributions by Venturers
SIC 15	Operating Leases – Incentives
SIC 21	Income Taxes – Recovery of Revalued Non-Depreciable Assets
SIC 25	Income Taxes – Changes in the Tax Status of an Enterprise or its Shareholders
SIC 27	Evaluating the Substance of Transactions in the Legal Form of a Lease
SIC 29	Disclosure – Service Concession Arrangements
SIC 31	Revenue – Barter Transactions Involving Advertising Services
SIC 32	Intangible Assets – Website Costs