# Half Year Report

# 2010

Fibank
First Investment Bank

# Message From The Managing Board

## Dear shareholders, customers and colleagues,

The results of First Investment Bank /the Bank, FIBank/ for the first half of 2010 proved again that our client-oriented business model combined with a good capital base and proactive risk management could generate good financial results even under unfavorable external conditions.

Business conditions remained unstable despite some separate indications for recovery in the Bulgarian economy registered as at the end of the first half of the year. First Investment Bank succeeded in following its strategic priorities for 2010 in an environment of reduced business activity and of high volatility in the international financial markets.

For the first six months of 2010 the Bank reported a positive financial result on the amount of BGN 14 million before tax; 11% growth of total assets at to BGN 4,565 million; very good capital adequacy indicators: total capital adequacy ratio – 13.89% and tier 1 capital ratio at 10.67%; liquidity ratio at 26.03%; and maintenance of market position in terms of assets, loans and deposits in at sixth place. The Bank's net income increased by 5% to reach BGN 91 million, return-on-equity was 6.12%. Impairment was up by BGN 10 million resulting from the unfavorable business environment. During the reporting period First Investment Bank continued to do business by using traditional banking instruments. The loan portfolio reached BGN 3,112 million, and attracted funds from customers were BGN 3,859 million. FIBank allocated resources to the development of the card business, by updating the bank card information system and by increasing POS terminals by 572. The Bank retained its wide network of correspondent banks and the high share of cross-border operations compared to domestic competitors, despite the ongoing uncertainty in international markets (5.65% of sent and 7.27% of received transfers in foreign currency, and 10.12% of sent and 9.69% of received trade financing transactions).

Our focus on the quality of customer service, and the development of products and services in compliance with the best banking standards remained the pillar on which we build our business and create a base for future success. During the first half of 2010 we allocated resources to the finalizing of the loyalty program of First Investment Bank – "YES". YES to flexible decisions, to attractive offers, to customer satisfaction.

Our corporate governance is based on recognized regulations "Code of conduct", "Program for application of internationally recognized good corporate governance standards" and is in compliance with the effective legislation. We know that a good combination of entrepreneurship, loyalty, early anticipation and the minimization of risks is the golden rule, a condition and a guarantee for the future success of First Investment Bank, despite unfavorable external conditions. Following the restrictive policy carried out by the Bulgarian National Bank, we made efforts for the development of FIBank's internal regulations towards heightening requirements and discipline at each level of management and in each banking activity.

We are aware that First Investment Bank's potential is far greater than what has been achieved at this stage. Our efforts are directed to successfully overcoming the challenges of the external environment and to the preparation for growth in the long-term. We realize that we could not achieve all of this without the constant support and trust of our shareholders, of our customers and counterparties, whom we thank.

Managing Board of First Investment Bank AD

Sofia, September 2010

# Macroeconomic Development

During the first half of 2010 the Bulgarian economy reported separate indications for recovery relating to external demand and an improved international situation. Economic activity remained unstable, due to the ongoing negative effects of the recession, continued tensions in the global markets and concerns for a worsening fiscal position in some Euro area countries. Macroeconomic stability in the country was retained, due to the balanced fiscal policy, the Currency Board Agreement and the highly regulated banking system.

Table 1: Macroeconomic indicators

| | EA-16 | EU-27 | Bulgaria | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **H1'10** | **H1'10** | **H1'10** | **Q1'10** | **2009** | **2008** | **2007** | **2006** |
| GDP real growth, (%) | 1.9 | 1.9 | (2.5) | (3.6) | (5.0) | 6.0 | 6.2 | 6.3 |
| Average inflation, HICP, (%) | 0.7 | 1.3 | 1.6 | 1.7 | 2.5 | 12.0 | 7.6 | 7.4 |
| Unemployment, (%) | 10.0 | 9.6 | 9.3 | 10.1 | 9.1 | 6.3 | 6.9 | 9.1 |
| Long-term interest rates, (%) | 3.6 | 3.8 | 6.1 | 6.2 | 7.2 | 5.4 | 4.5 | 4.2 |
| Current account, (% of GDP) | (1.1) | (1.7) | (1.8) | (1.5) | (9.4) | (24.0) | (26.8) | (18.4) |
| Foreign direct investment,(% of GDP) | 1.9* | 1.9* | 1.0 | 0.4 | 9.5 | 19.6 | 31.3 | 24.7 |
| Government debt, (% of GDP) | 78.7* | 73.6* | 12.3 | 12.1 | 12.3 | 11.4 | 14.2 | 18.0 |
| Gross external debt, (% of GDP) | - | - | 106.5 | 106.9 | 111.3 | 108.7 | 100.4 | 82.0 |
| Cash balance, (% of GDP) | (6.3)* | (6.8)* | (2.2) | (2.5) | (0.9) | 3.0 | 3.5 | 3.5 |
| BGN/EUR exchange rate (in BGN) | - | - | Currency board: fixed rate BGN 1.95583 for EUR 1 | | | | | |
| BGN/USD exchange rate (in BGN) | - | - | 1.59 | 1.45 | 1.36 | 1.39 | 1.33 | 1.49 |

* Data as at December 2009

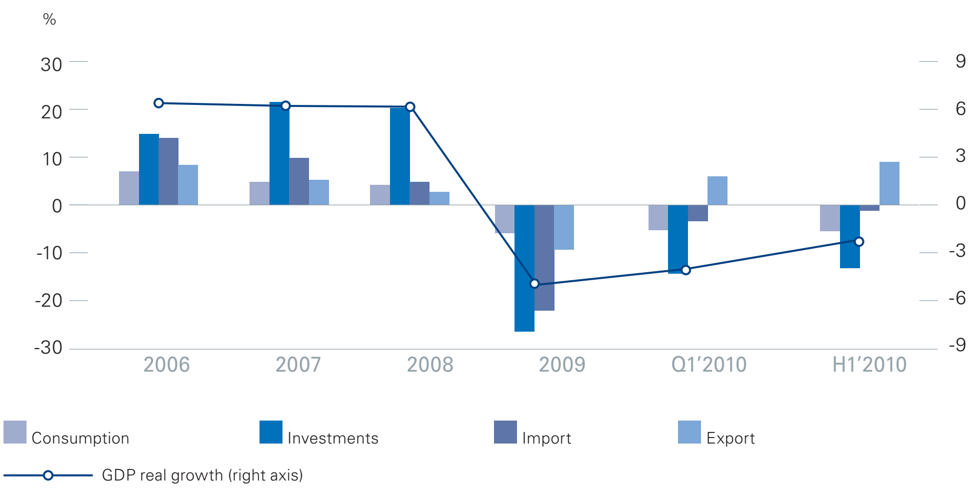
Source: Eurostat, BNB, National Statistics Institute, Ministry of Finance

During the first six months of 2010 the Bulgarian economy registered a drop of 2.5% on an annual basis, and slowed to 1.4% during the second quarter, which was the lowest rate reported since the beginning of the crisis. A similar slowing in the trend of decline in economic activity was registered in the Balkan region countries.

A contributing factor in the recovery of the economy was the net export, which increased over a period of three consecutive quarters – Q2'2010: 12.4%; Q1'2010: 5.9%; Q4'2009: 0.8%.

The increased savings rate of households due to uncertainty in regards to future income contributed to the drop in internal demand and private consumption in the country (Q2'2010: -5.7%; Q1'2010: -5.7%; 2009: -6.0%). Companies delayed their investment costs, as gross fixed capital formation was down by 13.6% in H1'2010 on an annualised basis (Q1'2010: -14.9%; 2009: -26.9%).

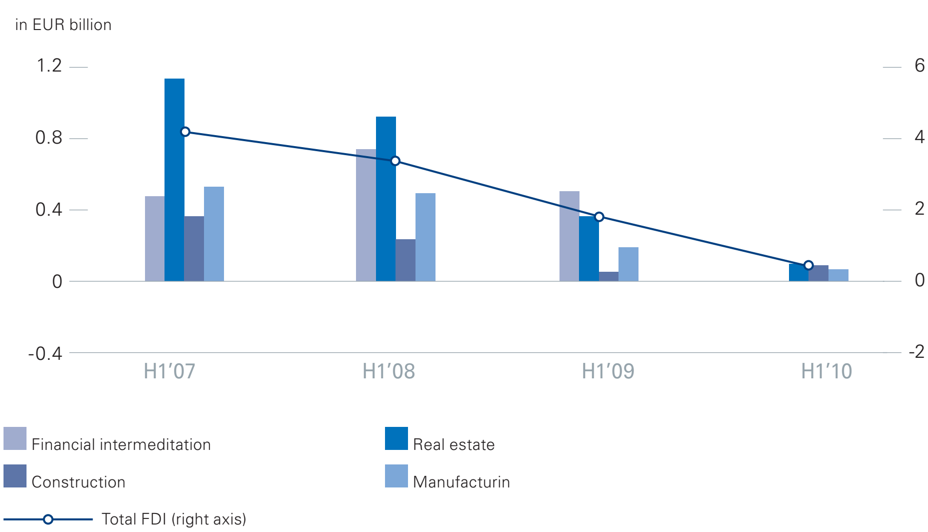
Chart 1: GDP composition




Gross value added in services decreased by 0.8% year-on-year in the first half of 2010 and slowed to -0.3% during Q2'2010, compared to -1.2% in Q1'2010. Value added in the industrial sector was 0.4% in H1'2010 (Q1'2010: -0.9%), mainly due to the lower recovery rate of business activity in manufacturing and yet negative growth in construction sector. Agricultural sector reported a 1.3% growth for the first six months, as the rate accelerated to 3.6% during Q2'2010.

Companies in Bulgaria continued to minimize and restructure their administrative costs (including labour) in order to stabilize profits and their financial position. Unemployment was high at 9.3% as at end-June 2010 (Q1'2010: 10.1%, 2009: 9.1%; 2008: 6.3%; 2007: 6.9%), but commensurate with the EU (9.6%) and Euro area (10.0%) average rate.

Chart 2: FDI composition



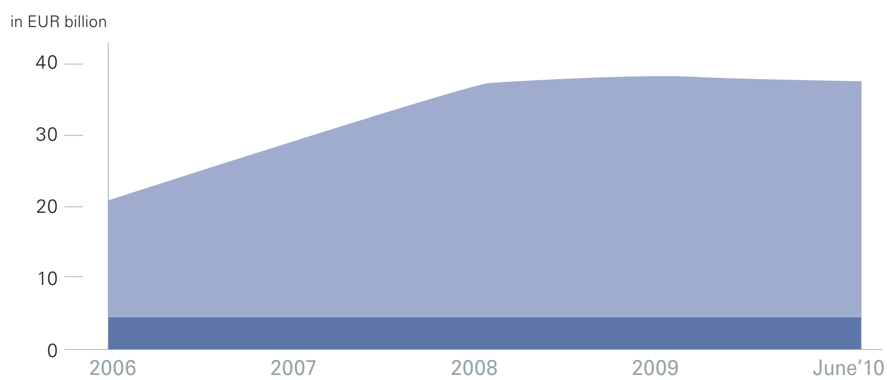
During the reporting period foreign direct investment decreased to EUR 359 million or 1% of GDP, compared to EUR 1,617 million or 4.5% of GDP a year earlier.

Most investments were attracted in the electricity and thermal power production sector (EUR 108 million) and in real estate (EUR 96 million). The largest net outflow was in the trade, repairs and technical service sector (EUR -147 million).

Despite the lower inflow of foreign capital Bulgaria's external position remained resilient, supported mainly by a shrinking of the current account deficit and its full coverage with foreign direct investments – 166.7% for a one-year period (June 2009: 76.6%). The current account balance was negative at the end of the reporting period on the amount of EUR 624 million (1.8% of GDP) or four times less than a year earlier (June 2009: EUR 2,647 million or 7.8% of GDP).

The cut in the current account deficit resulted from the decreased trade balance, which was due to higher growth in export volumes of goods and services. Exports grew during H1'2010 and reached EUR 6,808 million or 25.6% more compared to the same period a year earlier, influenced mainly by growth in investment and consumer goods. Imports increased at a moderate rate of 5% and reached EUR 8,206 million, due to a slower recovery of economic activity and internal demand. Trade volumes with EU countries decreased in H1'2010, compared to those with Russia and with the Balkan region countries. Nevertheless, the EU remained the country's main trade partner, taking 59.8% of exports (H1'2009: 64.4%; H1'2008: 60.2%) and 51.7% of imports (H1'2009: 53.3%; H1'2008: 50.2%).

Chart 3: Gross external debt



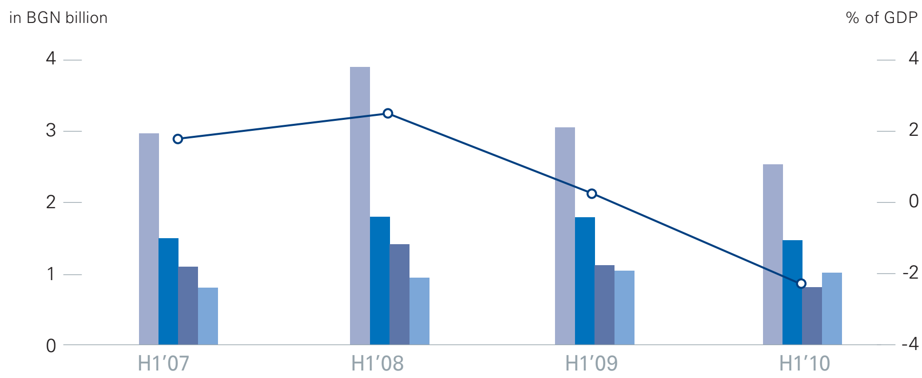

Private unguaranteed foreign debt

Public and publicly guaranteed foreign debt

The country's gross external debt decreased by 1.6% to EUR 37,095 million or 106.5% of GDP by end-June 2010 (2009: EUR 37,706 million or 111.3% of GDP). This decrease was at the expense of private unguaranteed foreign debt and more specifically of banks' short-term liabilities. Public and publicly guaranteed foreign debt, on the other hand, increased by 2.7% to EUR 4,271 million (2009: EUR 4,159 million), but remained low as a percentage of GDP – 12.3% (2009: 12.3%; 2008: 11.4%; 2007: 14.2%).

During the first six months of 2010 the consolidated budget deficit increased and reached BGN 1,515 million or 2.2% of GDP, compared to a positive balance on the amount of BGN 184 million (0.3% of GDP) a year ago. The increased budget deficit resulted from lower tax revenues including from VAT – by 17.3% to BGN 2,523 million, and from corporate tax - by 27.8% to BGN 816 million and from excise duties – by 0.8% to BGN 1,795 million.

## Chart 4: Budget composition

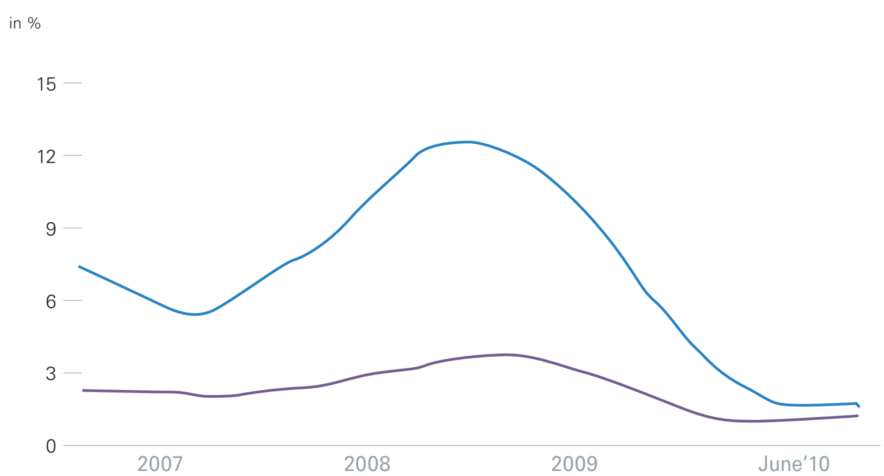



Revenues from VAT
Revenues from excise duties
Revenues from corporate tax
Revenues from income tax for individuals
Cash balance (right axis)

Revenues from income tax for individuals, working on a labour contract grew by 1.5% to BGN 815 million, resulting from the increased amount of minimum social security income for 2010 and the reduced (by 2%) social security payment for pensions, which led to a broader basis for income taxation.

Despite the measures undertaken for minimizing expenses total budget expenses decreased at a slower pace of 0.5% y/o/y and reached BGN 12,704 million. Contributing factors were the growing social security expenses including compensations due to increased unemployment.

## Chart 5: Harmonized inflation in Bulgaria and in EU




Inflation in Bulgaria
Inflation in EU-27

Annual inflation reached 2.4% as at end-June 2010, compared to 0.6% as at year-end of 2009. The reported increased was due to higher oil prices on the global markets, as well as to increased excise duties for tobacco goods in the country. Despite the inflationary effect of excise duties and global prices lower internal demand continued to keep the harmonized index of consumer goods at low levels in accordance with the business cycle at 1.6% (Q1'2010: 1.7%, 2009: 2.5%).

Table 2: Credit ratings of Bulgaria

| | **Long-term rating** | **Outlook** | **Last rating action** |
|---|---|---|---|
| Standard & Poor's | BBB | stable | confirmed rating – July 2010 |
| Moody's Investor Service | Baa3 | positive | improved outlook – January 2010 |
| Fitch Ratings | BBB- | negative | confirmed rating – August 2010 |
| Japan Credit Rating Agency | BBB | negative | confirmed rating – July 2009 |

Source: Ministry of Finance

The effective utilization of funds from EU structural funds and the Cohesion fund remains among the challenges Bulgaria faces on its way to long-term and stable economic development. Despite the progress reported in the last monitoring report of the European Commission in regards to fighting corruption and organized crime, reforms in these spheres, including in the judiciary system, continues to be under surveillance from various EU bodies.

# The Banking System

During the first half of 2010 the banking system in Bulgaria remained stable and reported a positive financial result on the amount of BGN 352 million, which supported the maintenance of existing buffers – capital base and liquidity.

Table 3: The banking system – key indicators

| | in % | | | change in p.p. | |
|---|---|---|---|---|---|
| | **June'10** | **2009** | **June'09** | **June'10/2009** | **June'10/June'09** |
| Capital adequacy ratio | 18.0 | 17.0 | 17.6 | 1.0 | 0.4 |
| Tier 1 capital ratio | 15.2 | 14.0 | 13.9 | 1.2 | 1.3 |
| Liquidity ratio | 22.1 | 21.9 | 21.3 | 0.2 | 0.8 |
| Loans/deposits ratio | 95.6 | 96.8 | 94.6 | (1.2) | 1.0 |
| Return-on-equity | 7.9 | 9.3 | 12.2 | (1.4) | (4.3) |
| Return-on-assets | 1.0 | 1.1 | 1.4 | (0.1) | (0.4) |
| Problem loans (over 90 days) | 9.5 | 6.1 | 4.3 | 3.4 | 5.2 |

Source: Bulgarian National Bank

As at end-June 2010 total capital adequacy ratio reached 18.03% (2009: 17.04%; 2008: 14.86%), while tier 1 capital ratio was up to 15.22% (2009: 14.03%; 2008: 11.16%). Contributing factors with a positive effect were the restrictive banking policy for assuming risks and the allocation of additional capital buffer (capitalization of 2009 profit by most banks in the country). As at end-June 2010 the capital base exceeded the 12% regulatory minimum by BGN 3,072 million. Liquid assets increased, compared to end-December 2009 figures and contributed to the increase in liquidity ratio to 22.14% by end-June 2010.

Table 4: The banking system – more important items from the financial statements

| | in BGN million | | | change in % | |
|---|---|---|---|---|---|
| | **June'10** | **2009** | **June'09** | **June'10/2009** | **June'10/June'09** |
| Assets | 71,031 | 70,868 | 69,470 | 0.2 | 2.2 |
| Loans to corporates | 32,812 | 32,712 | 32,140 | 0.3 | 2.1 |
| Loans to individuals | 18,638 | 18,664 | 17,823 | (0.1) | 4.6 |
| Deposits from corporates | 18,638 | 18,449 | 19,234 | 1.0 | (3.1) |
| Deposits from individuals | 26,319 | 24,837 | 22,922 | 6.0 | 14.8 |
| Profit after tax | 352 | 780 | 498 | - | (29.3) |
| Impairment | 566 | 1,040 | 402 | - | 40.8 |

Source: Bulgarian National Bank

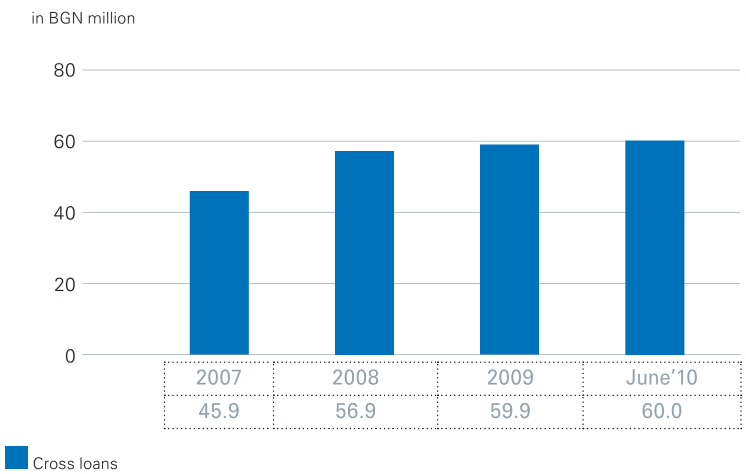
Banking system assets increased by BGN 163 million (0.2%) during the first half of 2010, and by BGN 1,561 million (2.2%) year-on-year. The assets structure was retained, as loans formed a predominant share with 80.8%. On the liability side, the share of attracted funds from the local market continued its growth, at the expense of international financing.

Table 5: Bank assets

| | June'10 | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|---|
| Bank assets (% of GDP) | 104.7 | 107.0 | 104.2 | 104.5 | 85.5 | 76.8 |
| Loans to individuals per capita (in BGN) | 2,476 | 2,461 | 2,277 | 1,694 | 1,061 | 799 |

Source: BNB, NSI

Chart 6: Gross loans




The loan portfolio before allowances increased by 0.1% in the first six months of 2010, as a result of a change in demand and the heightened criteria for credit risk assessment adopted by banks.

Corporate loans grew by 0.3% (BGN 100 million), while loans to individuals and households decreased slightly, influenced mainly by a drop in consumer loans (by 1.7%) and a slight growth in mortgage loans (by 1.5%).

Chart 7: Loans to individuals and corporates

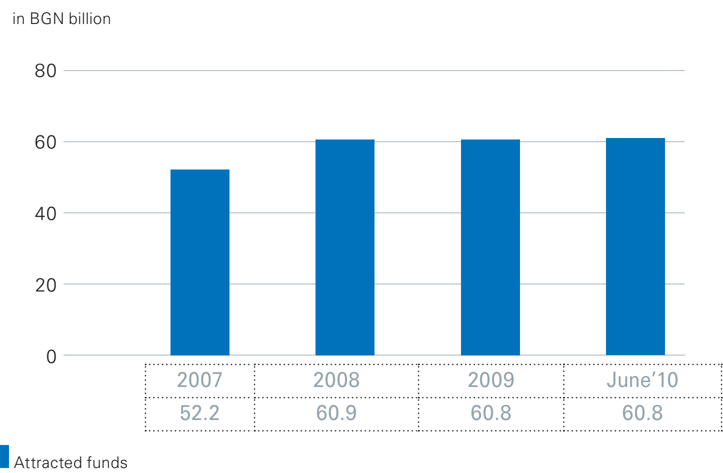
As at end-June 2010 loans to corporates formed a 54.7% share of gross loans and advances, consumer loans had a 15.9% share, while mortgage loans were at 15.2%.

The currency structure of the banking system's loan portfolio reported an increase in the loans in EUR to 58.4% (2009: 57.9%; 2008: 56.1%), compared to loans in BGN to 37.6% (2009: 38.5%; 2008: 40.0%).

Problem loans (90 days overdue) increased by 3.4 percentage points to 9.5% of the gross loan portfolio, as a result of the negative effect of the economic cycle (2009: 6.1%; 2008: 2.4%). The increase was adequately covered by impairment and additionally accumulated buffers allocated by the credit institutions. At the same time, banks allocated additional resources to the development of their risk management methodologies, including mechanisms for the identification, assessment, monitoring and control of risks.

The amount of attracted funds remained at a good level. They decreased by 0.1% in the first half of the year and grew by 1.3% y/o/y. Deposits from individuals increased by BGN 1,482 million (6.0%), while deposits other than from credit institutions by BGN 189 million (1.0%) for H1'2010. Attracted funds from individuals and households reached 43.3% of total attracted funds, and those other than from credit institutions reached 30.7%, those from credit institutions decreased to 14.6%.

Chart 8: Attracted funds




Unlike loans, the currency structure of attracted funds registered a decrease in funds in EUR to 55.2% (2009: 58.7%; 2008: 53.9%) and an increase in funds in BGN and in other currency to 37.7% and 7.0% respectively (2009: 35.4% and 5.8%; 2008: 39.8% and 6.3%).

Profits and the effectiveness ratios of banks in the country deteriorated, due to the economic crisis and the unstable external environment – profit as at 30 June 2010 dropped by 29.3% y/o/y, return-on-assets (ROA) was 1%, while return-on-equity (ROE) was 7.9%. The banking system profitability remained at adequate level.

Table 6: Effectiveness ratios

| in % | H1'10 | H1'09 | H1'08 | H1'07 |
|---|---|---|---|---|
| Return-on-assets (ROA) | 1.0 | 1.4 | 2.4 | 2.2 |
| Return-on-equity (ROE) | 7.9 | 12.2 | 24.3 | 23.3 |

Source: Bulgarian National Bank

During the first half of 2010 regulatory changes aimed at increasing protection for consumers and the stability of the banking system took place. A new Law on consumer credit was adopted, which transposed the requirements of Directive 2008/48/EC of the European Parliament and of the Council on credit agreements for consumers. The new law increased the maximum amount of a loan to BGN 147,000 and extended the volume and type of pre-contractual information given to customers in Standard European Form. Consumers were given the right to fully or partly repay their obligations at any time, as their total expenses on the loan decreased.

Since 1 February 2010 Bulgarian banking community effectively joined the Transeuropean Automated Real-time Gross Settlement Express Transfer System – TARGET2. The national system component TARGET2-BNB includes the BNB and 17 bank-participants, as well as the auxiliary system for servicing of customer transfers in Euro up to the amount of EUR 50,000, designated to be executed at a defined moment – BISERA7-EUR.

In February 2010 new amendments in Ordinance №21 on the Minimum Required Reserves Maintained with the Bulgarian National Bank by Banks were adopted. Except recognition of 50% of the available cash funds of the banks as reserve assets, for such assets were also recognized funds on banks' settlement accounts in TARGET2-BNB equal to 10% of the average daily amount of successfully settled payment orders, calculated for the maintenance period.

In March 2010 new changes in Ordinance №8 on the Capital Adequacy of Credit Institutions took effect with regard to the treatment of interim profits and of retained earnings from previous years. The new treatment abolished the requirement to convene a general meeting of shareholders for recognizing these profits as an element of the capital base. The treatment of two main risk exposure classes in accordance with the standardized approach to credit risk was amended as well: risk weight for retail exposures was amended from 100% to 75%, while risk weight for exposures secured by real estate property was amended from 50% to 35%.

As at 30 June 2010 a total of 30 trade banks operated within the country, of which 6 were branches of foreign banks. As at the end of the reporting period the total equity of the banking system amounted to BGN 9,523 million, which was predominantly owned by foreign investors from the European Economic Area.

# Bank Activities

During the first half of 2010 First Investment Bank reported a positive financial result and good liquidity and equity position, retained competitive positions and market share, emphasizing risk management, the attraction of funds and cost optimization in conditions of an insecure external environment.

Table 7: Key indicators

| | **H1'10** | **2009** | **H1'09** |
|---|---|---|---|
| Key indicators (%) | | | |
| Capital adequacy ratio | 13.89 | 13.83 | 13.68 |
| Liquidity ratio | 26.03 | 19.79 | 20.02 |
| Cost/Income ratio | 76.60 | 76.00 | 80.70 |
| Return-on-equity (after tax) | 6.12 | 7.65 | 9.52 |
| Return-on-assets (after tax) | 0.58 | 0.72 | 0.86 |
| Loan provisioning ratio | 2.66 | 2.56 | 2.15 |
| Net interest income/Income from banking operations | 68.15 | 67.47 | 65.10 |
| Loans/Deposits | 82.67 | 91.02 | 103.94 |
| Earnings per share (in BGN) | 0.11 | 0.27 | 0.17 |
| Resources (in numbers) | | | |
| Branches and offices | 172 | 170 | 170 |
| Staff | 2,610 | 2,486 | 2,476 |

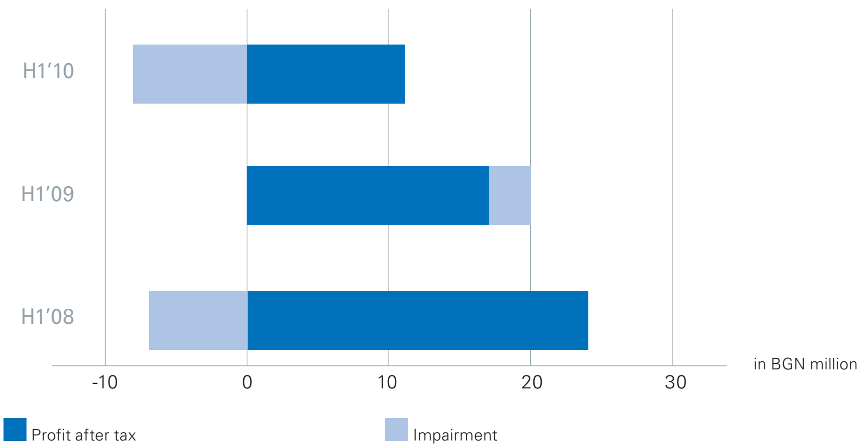
Source: First Investment Bank

As at 30th of June 2010 the credit ratings of the Bank from Fitch Ratings remained without any changes: long-term "BB-", short-term "B", individual rating "D", outlook "negative" and support rating "3".

# Financial Results

In the first half of 2010, the Group of First Investment Bank reported profit after tax in the amount of BGN 12,416 thousand, a decrease of 31.1% compared to the same period in the previous year. The decrease was mainly due to increased impairment losses by BGN 10,150 thousand on an annual basis, which reached BGN 8,303 thousand. At the same time FIBank improved its market share among the banks in the country in this indicator to 4.2% on an unconsolidated basis, compared to 3.8% a year earlier.

Chart 9: Group profit and impairment




The net interest income of the Group increased by 9.7% (BGN 5,494 thousand) to BGN 62,315 thousand (June 2009: BGN 56,821 thousand). Higher growth in interest income (by BGN 15,446 thousand or 8.9% on an annual basis), compared to interest expenses (by BGN 9,952 thousand or 8.6%). Net interest income remained structure determining by forming 68.2% (June 2009: 65.1%) of total income from banking operations, which reached BGN 91,437 thousand (June 2009: BGN 87,280 thousand) for the first six months of the year.

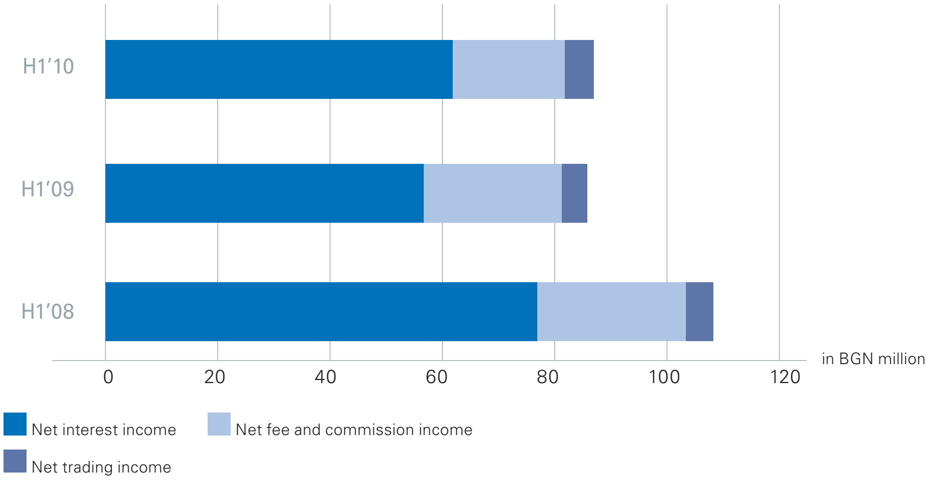
Table 8: Main indicators of the comprehensive income

| | In BGN thousands | | | change % | |
|---|---|---|---|---|---|
| | **June'10** | **June'09** | **June'08** | **June'10/June'09** | **June'09/June'08** |
| Net interest income | 62,315 | 56,821 | 78,531 | 9.7 | (27.6) |
| Net fee and commission income | 24,133 | 25,893 | 30,495 | (6.8) | (15.1) |
| Net trading income | 4,071 | 4,712 | 1,883 | (13.6) | 150.2 |
| Total income from banking operations | 91,437 | 87,280 | 108,468 | 4.8 | (19.5) |
| General administrative expenses | (70,037) | (70,437) | (72,350) | (0.6) | (2.6) |
| Impairment | (8,303) | 1,847 | (7,258) | 549.5 | (125.4) |
| Group profit after tax | 12,416 | 18,012 | 24,006 | (31.1) | (25.0) |

Source: First Investment Bank

Net fee and commission income amounted to BGN 24,133 thousand or 6.8% (BGN 1,760 thousand) less on annual basis (June 2009: BGN 25,893 thousand). The decrease was a result of the reduced business activity in the country, a reflection of the economic crisis.

Chart 10: Income from banking operations




Net trading income decreased by 13.6% (BGN 641 thousand) to BGN 4,071 thousand, at the expense mainly of foreign exchange operations, which dropped by 25.3% and reached BGN 3,628 thousand.

General administrative expenses continued its decrease by 0.6% (BGN 400 thousand) for the period to BGN 70,037 thousand (June 2009: BGN 70,437 thousand; June 2008: BGN 72,350 thousand), as a result of the measures taken for expenses reduction. Cost/income ratio was improved 76.60%, compared to 80.70% as at June 2009.

# Balance Sheet

At the end of June 2010, the total assets of the Group of First Investment Bank reached BGN 4,565,426 thousand (2009: BGN 4,112,284 thousand), an increase of 11.0% (BGN 453,142 thousand), mainly as a result of the growth of attracted deposits from individuals and households. In conditions of high competition the market share of FIBank remained stable at 6.4% (2009: 5.8%; June 2009: 6.0%). The Bank kept its competitive market position – sixth place in terms of assets among the banks in the country.

Table 9: Main balance sheet indicators

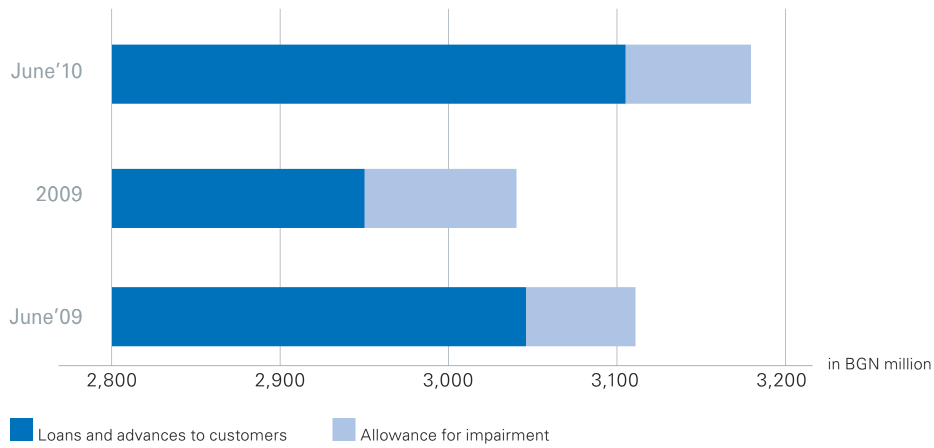
| | In BGN thousands | | | change % | |
|---|---|---|---|---|---|
| | **June'10** | **2009** | **June'09** | **June'10/2009** | **2009/June'09** |
| Assets | 4,565,426 | 4,112,284 | 4,192,353 | 11.0 | (1.9) |
| Loans and advances to customers | 3,111,624 | 2,966,461 | 3,046,865 | 4.9 | (2.6) |
| Loans and advances to banks and other financial institutions | 19,165 | 26,187 | 25,701 | (26.8) | 1.9 |
| Customer deposits | 3,859,318 | 3,339,546 | 2,992,983 | 15.6 | 11.6 |
| Liabilities evidenced by paper | 126,082 | 193,363 | 608,214 | (34.8) | (68.2) |
| Group shareholders' equity | 415,775 | 403,035 | 392,927 | 3.2 | 2.6 |

Source: First Investment Bank

Loans and advances to customers reported a growth of 4.9% (BGN 145,163 thousand) during the first half of 2010, compared to 2.6% (BGN 76,881 thousand) as at 30th of June 2009. In this indicator, FIBank ranked sixth in the banking system, while remaining its market position at the end of 2009.

Loans and advances to banks and other financial institutions decreased to BGN 19,165 thousand (2009: BGN 26,187 thousand), following the market tendency as a whole.

Chart 11: Loan portfolio and impairment

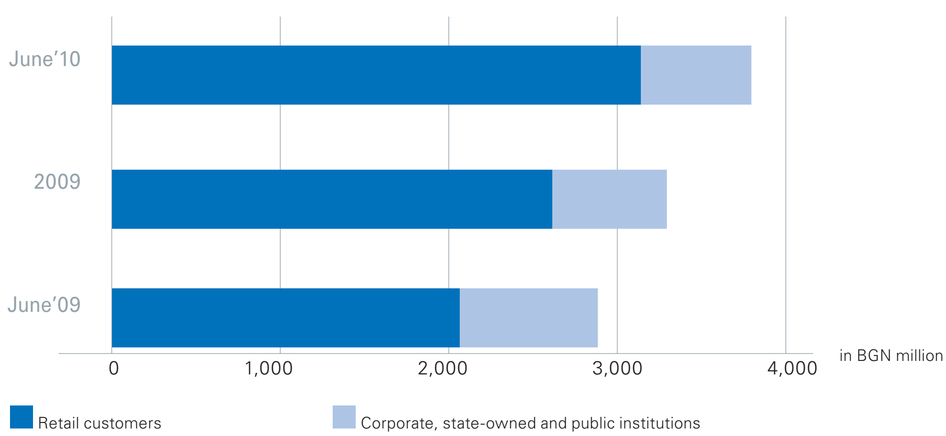



The quality of the loan portfolio during the first half of the year remained good – above the average for the banking system. Loans classified as loss (overdue above 180 days), formed 3.1% of all loans before allowances (2009: 3.0%, June 2009: 2.4%), while these together with those classified as non-performing stood at 4.1% (9.5% for the banking system) of all loans (2009: 4.1%, June 2009: 3.5%).

Cash and balances with central banks grew by 2.8% (BGN 16,736 thousand) to BGN 620,528 thousand, mainly at the expense of balances with central banks, which reached BGN 305,832 thousand (2009: BGN 261,943 thousand), as a result of the increased deposit base.

Available for sale investments grew by 98.2% (BGN 280,086 thousand) and reached BGN 565,196 thousand, as a result of acquired treasury bonds issued by foreign governments.

Chart 12: Attracted funds from customers



Financial assets held for trading grew by 26.3% to BGN 11,400 thousand, as part of the liquidity management of the Bank. At the end of the period liquidity ratio increased to 26.03% (2009: 19.79%; June 2009: 20.02%). Financial assets held to maturity amounted to BGN 38,918 thousand, compared to BGN 35,425 thousand as at 31st of December 2009.

Attracted funds from customers (deposits and current accounts) grew by 15.6% (BGN 519,772 thousand) to BGN 3,859,318 thousand (2009: BGN 3,339,546 thousand) mainly due to deposits from individuals and households, which are structure determining - 83.1% of all attracted funds from customers (2009: 81.1%). At the end of June 2010, FIBank was positioned at sixth place in terms of deposits in the banking system, retaining its market position, compared to the previous period and a year earlier.

Liabilities evidenced by paper decreased by 34.8% (BGN 67,281 thousand) to BGN 126,082 thousand (2009: BGN 193,363 thousand), as a result of repaid financing obtained from financial institutions through granted loan facilities.

At the end of the period subordinated term debt amounted to BGN 53,258 thousand or by 12.2% (BGN 7,383 thousand) less compared to 31st of December 2009. The decrease was a result of the repayment of accrued and capitalized interests on two agreements for subordinated term debts, renegotiated during the reported period. The amount of the perpetual debt amounted to BGN 99,931 thousand compared to BGN 98,952 thousand the year before.

# Capital

As at 30th of June FIBank maintained capital adequacy above the regulatory requirements – total capital adequacy ratio was at 13.89% (2009: 13.83%, June 2009: 13.68%), Tier 1 capital adequacy ratio – was at 10.64% (2009: 10.39%, June 2009: 10.18%). When calculating capital adequacy, FIBank applied the New Basel Capital Accord (Basel II), as formulated in the applicable EC directives and Ordinance N 8 of the BNB.

The total capital base increased to BGN 489,672 thousand or by 1.2% (BGN 6,015 thousand) more than the end of 2009. The growth was as a result of the increase in the amount of Tier 1 capital by 3.3% (BGN 11,949 thousand) to BGN 375,186 thousand, as a result of the decision of the General Meeting of Shareholders of the Bank held in May 2010 for capitalization of the Bank's profit for 2009 and retained as other general reserves.

The shareholders' equity of the Group grew by 3.2% to BGN 415,775 thousand (2009: BGN 403,035 thousand). At the end of June 2010 the issued share capital of FIBank remained unchanged in the amount of BGN 110,000 thousand divided into 110,000,000 ordinary dematerialized shares with voting rights of BGN1 par value each.

During the reporting period FIBank share price ranged between BGN 1.86 and 2.54 according to the main stock indices of the Bulgarian Stock exchange – Sofia. The last FIBank share price for the reporting period was BGN 1.90 (June 2009: BGN 2.18), while the Bank's market capitalization calculated on this basis was BGN 209,000 thousand (June 2009: BGN 239,800 thousand).

Chart 13: FIBank share price


FIBank shares are traded on the Official market segment "B" on the Bulgarian Stock Exchange, and are included in three stock indices - SOFIX, BG40 and BGTR30, which combine the largest, the most traded and the companies with the highest liquidity on the Stock Exchange in the country.

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During the first half of 2010 FIBank continued to work systematically towards the development of systems for the prognosis and management of risks, while managing FIBank's entire risk profile with the aim of building an efficient balance of risk, return and capital. The Bank regularly executed internal analysis and stress tests for assessment of the possible effect from the external environment on the loan portfolio and all the Bank's activity. As at the end of June 2010 the Bank was adequately positioned to meet all the economic difficulties which Bulgarian business faces.

Table 10: Risk-weighted assets

| In BGN thousand | **June'10** | **2009** | **June'09** |
|---|---|---|---|
| For credit risk | 3,161,680 | 3,166,229 | 3,234,093 |
| For market risk | 4,787 | 4,325 | 3,712 |
| For operational risk | 358,675 | 327,113 | 327,113 |
| Total risk-weighted assets | 3,525,142 | 3,497,667 | 3,564,918 |

Source: First Investment Bank

# Branch network

At the end of the reporting period the Group of First Investment Bank operated through 172 branches and offices (2009: 170, June 2009: 170), of these 52 are in Sofia, 109 in the rest of the country, 1 foreign branch in Cyprus and 10 branches and offices of the subsidiary bank in Albania. In the sixth months of 2010, four new offices were opened in Sofia, Varna and Haskovo, and two closed – in Haskovo and Yambol, as part of the optimization program for the efficiency of the branch network.

Chart 14: Branch network


During the reporting period FIBank set up two new subsidiary companies with main activities – servicing, management and maintenance of real estates – "Realtor" OOD (51% of the equity) and "Debita" OOD (70% of the equity).

In February 2010, FIBank increased its shareholdings in Diners Club Bulgaria AD to 91.18% (2009: 87.93%), as a result of the increased equity of the subsidiary and the acquisition of all newly issued shares by the Bank.

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FIBank fulfilled the requirements set up in the Program of the Bank for the application of internationally recognized good Corporate Governance standards, including disclosure of regular information, as well as information according to the financial calendar for 2010. The governance of the Bank is in compliance with the requirements of effective legislation, the National Corporate Governance Code, the Instruction of Basel Committee of Bank Supervision for the Improving of Banks' Corporate Governance, as well as the By-Laws of FIBank and settled internal rules and procedures within the Bank.

There were no changes in the composition of the Managing and Supervisory Board of First Investment Bank during the first half of the year, nor in the shareholders' structure of the Bank.

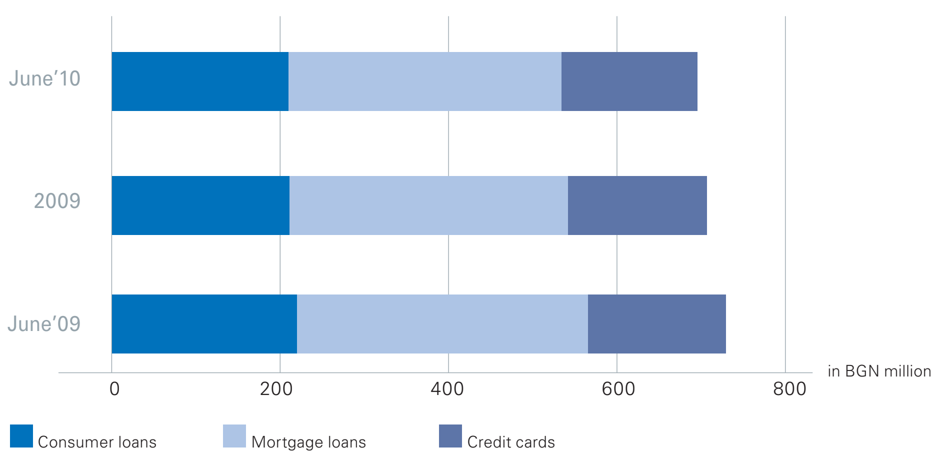
As at 30th of June 2010 the total number of employees reached 2,610 (2009: 2,486, June 2009: 2,476).

The priorities of the social program of FIBank for 2010 are the re-socialization and professional qualification for the children deprived of parental care, for their personal development and future realization in life. Six social projects were approved in April 2010, including practical training for children deprived of parential care with the aim of attaining professional qualification and orientation, assuring part-time employment, art therapies etc. During the period FIBank donated its award for "the best Corporate Blog" to its long-term partner the "Workshop for Civil Initiatives" foundation. In this way the Bank provide the foundation with a business package of highly technological communication services, which covers the contemporary requirements of a corporate office.

# Retail Banking

During the first six months of 2010 attracted funds from individuals and households increased by 18.4% (BGN 498,105 thousand) and reached BGN 3,207,313 thousand (2009: BGN 2,709,208 thousand). The increase was due to the various and flexible deposit products offered by the Bank, the good and effective customer servicing, as well as increased demand for savings products from the population. As at the end of June 2010 deposits formed 88.1% of all attracted funds from individuals and households, keeping its relative share of 88.2% at the end of 2009. During the period FIBank offered a new six-month deposit "Spring" allowing a choice of currency from BGN, EUR and USD. In terms of deposits from individuals the Bank ranked at third place among the banks in the country on unconsolidated basis (2009: third; June 2009: fifth).

Chart 15: Loan portfolio to individuals




The loan portfolio to individuals on a consolidated basis amounted to BGN 726,426 thousand at the end of June 2010 or 1.6% less than the previous period, mainly at the expense of the decrease in mortgage loans by 3.1% (BGN 11,159 thousand) and in consumer loans by 2.3% (BGN 4,865 thousand). The decrease was in line with the general market tendency and reflected the shrinking in demand for loans to individuals.

Mortgage loans kept their main share in this segment by 48.1% or BGN 349,622 thousand (2009: 48.9% or BGN 360,781 thousand), followed by consumer loans by 28.3% or BGN 205,469 thousand (2009: 28.5% or BGN 210 334 thousand). As at 30th of June 2010 First Investment Bank kept its market position – seventh in consumer loans and eighth in mortgage loans.

During the first six months of 2010 the growth in utilized credit limits on credit cards and overdrafts continued – by 2.7% (BGN 4,533 thousand) to BGN 171,335 thousand, due to various card products and services offered by Fibank. The relative share of credit cards in the total loan portfolio of individuals and households increased to 23.6% or BGN 171,335 thousand (2009: 22.6% or BGN 166 802 thousand, June 2009: 22.1% or BGN 168,219 thousand).

During the period FIBank applied the new requirements of the Law on Consumer Credit, while enlarging the volume and type of pre-contractual information in a Standard European Form given to customers in order to take an informed decision when applying for a loan.

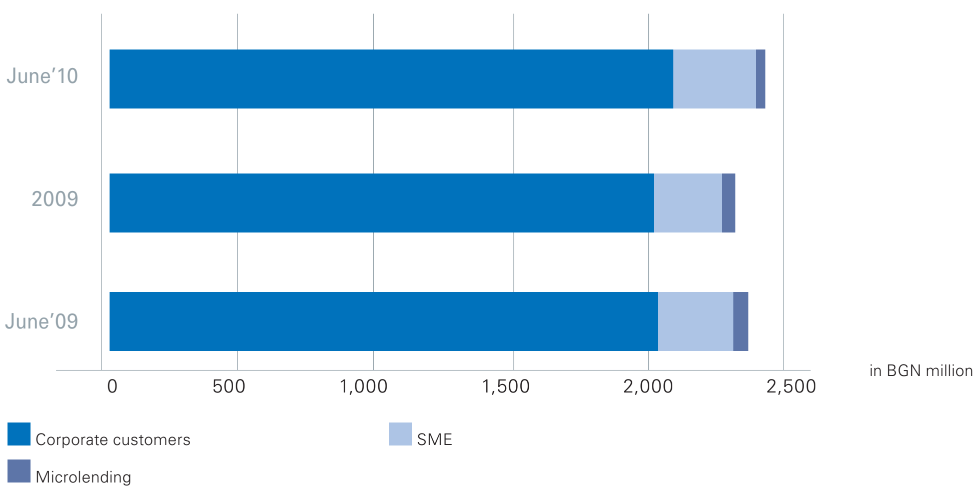
The Bank continued its successful cooperation with the New Zealand Mint and the Swiss mint PAMP . During the first six months a new silver coin was launched dedicated to the Year of the Tiger as well as new gold and silver medallion-shaped bars of the icOns BLOOMS series.

# Corporate Banking

As at end-June 2010 FIBank's corporate loan portfolio increased by 7.1% (BGN 162,496 thousand) and reached BGN 2,464,242 thousand (2009: BGN 2,301,746 thousand). FIBank's market share in corporate lending was retained at fifth place amongst the banks in the country.

Loans to large corporate customers had a structure determining share of 89.8% (2009: 89.2%) of all corporate loans and were a contributing factor in the increase reported in this segment. The large corporates loan portfolio reached BGN 2,212,427 thousand, an increase of 7.8% (BGN 159,190 thousand) compared to the previous period.

Chart 16: Loan portfolio to corporate customers



Loans to small and medium-sized enterprises increased in the first six months of 2010 and reached BGN 224,137 thousand (2009: BGN 219,053 thousand). During the reporting period the Bank continued to support the business of SMEs for the realization of projects financed with resources from EU funds by means of the specialized product – investment loans guaranteed by the National Guarantee Fund. For a consecutive year FIBank proved to its corporate customers its readiness for not only providing appropriate financing but also for assisting through timely and accurate information . The Bank organized a seminar on "Competitiveness of the Bulgarian economy" operative program.

As at 30 June 2010 the Bank's microlending portfolio reached BGN 27,678 thousand compared to BGN 29,456 thousand at the end of 2009. The reported decrease was a result of lowered production activity in the country as well as higher requirements related to credit risk and creditworthiness specific for this segment.

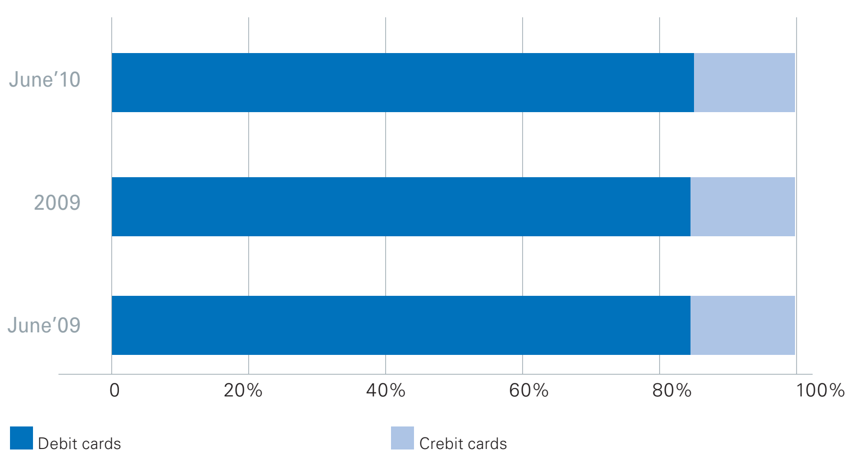
Attracted funds from corporates increased to BGN 652,005 thousand during the period compared to BGN 630,338 thousand as at the end of 2009. The structure of funds attracted by corporate customers was retained against the general market tendency and companies' need of liquidity – 47% or BGN 306,496 thousand were current accounts (2009: 47.4% or BGN 299,011 thousand) and 53% or BGN 345,509 thousand were term deposits (2009: 52.6% or BGN 331,327 thousand).

# Card Payments

In the first half-year of 2010 FIBank updated and migrated its card system to a new higher version giving the addition of new products and functionalities. This renewal was part of the Bank's aspiration for constant improvement of customer service and for offering improved card products and services in accordance with best banking practices.

In H12010 FIBank increased its market share of issued credit cards to 13.1% (2009: 12.4%) on an unconsolidated basis and kept its share of the debit cards at 10.1%, compared to the end of 2009. The Group of First investment bank sustained a large and effective network of ATM terminals (672 terminals) and POS terminals (8,513 terminals) as at the end of June 2010 (2009: 669 and 7,941 terminals respectively).

Chart 17: Bank cards



During the first six months of the year the structure of the bank cards was kept. 86% (2009: 85.3%) of all issued cards were debit cards (Maestro and VISA Electron) and 14% (2009: 14.7%) were credit cards (VISA, MasterCard and Diners Club). The number of issued debit cards increased by 5%, while the number of issued credit cards decreased by 1.3% during the period.

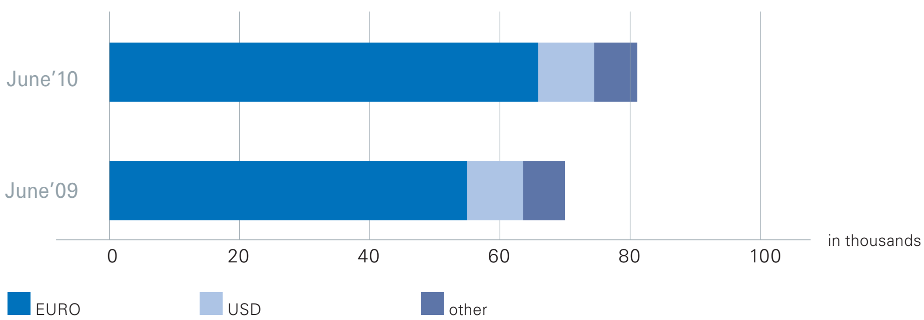
FIBank developed its services in relation to cash withdrawal from commercial outlets (cash back) and added Maestro debit cards to the already offered bank cards VISA, VISA Electron and V Pay.

A new product from Diners Club Bulgaria (FIBank's subsidiary company) was offered during the period – a revolving credit card with minimum repayment installment of 10% and a grace period up to 45 days. The new product provided customers with the possibility to repay the obligation by installments and use of the already repaid part of the card's credit limit

# International Payments

During the first six months of 2010 First Investment bank registered better market shares in its international activities related to trade financing with 10.12% of outgoing transactions (June 2009: 8.08%) and 9.69% of incoming transactions (June 2009: 9.23%). The year-on-year market shares of foreign currency transfers were also improved with 5.65% of outgoing transfers (June 2009: 5.44%) and 7.27% of incoming transfers (June 2009: 6.58%).

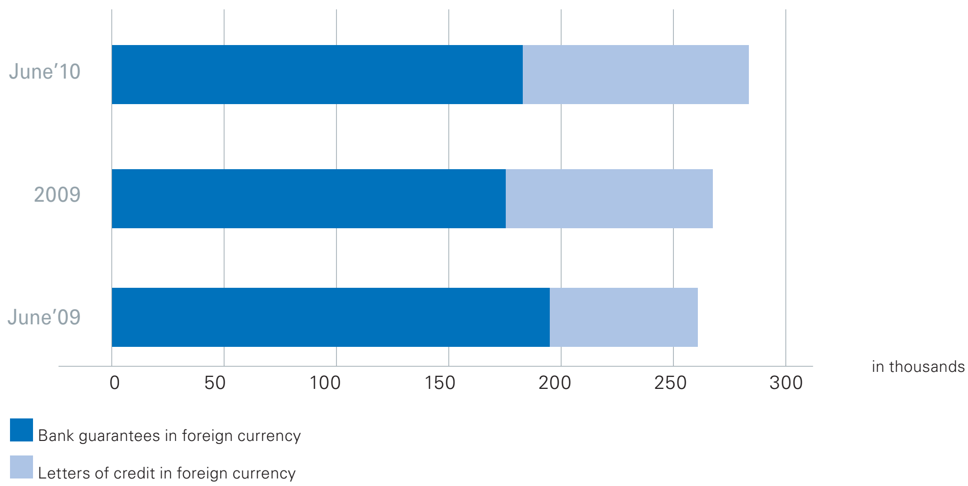
Chart 18: Number of transfers in foreign currency




This was due to the increased number of transfers in Euro (by 17.2% more compared to the first six months of 2009), which formed a structure determining share at 80.1% of all foreign currency transfers of the Bank.

In February 2010 FIBank joined the national system component of TARGET2 (TARGET2-BNB) as a direct participant for the execution of real-time express transfers in Euro.

Chart 19: Bank guarantees and letters of credit in foreign currency




During the period the guarantees and letters of credit in foreign currency issued by FIBank to guarantee the performance of customers to third parties amounted to BGN 286,892 thousand (2009: BGN 283,947 thousand), forming 41.2% (2009: 37.7%) of the off-balance sheet commitments of the Group.

The offering of the highest class bank products and services is amongst the priorities of the Bank in relation to international payments. Proof of this is the reward which FIBank received in June 2010 - „Straight-Through Processing (STP) Excellence Award-2009" from Deutsche Bank for exceptional quality and meeting global standards for the coverage of international payments.

# Consolidated Financial Statements as at 30 June 2010 with Independent Auditor's Report Thereon

KPMG

## Report of the independent auditor to the shareholders of First Investment Bank AD

Sofia, 24 September 2010

### Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of First Investment Bank AD ("the Bank"), which comprise the consolidated statement of financial position as at 30 June 2010, and the consolidated statements of comprehensive income, changes in equity and cash flows for the period 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 consolidated financial statements in accordance with International Financial Reporting Standards, adopted by 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 consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with 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 entity'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 consolidated financial statements give a true and fair view of the consolidated financial position of First Investment Bank AD as at 30 June 2010, and of its consolidated financial performance and its consolidated cash flows for the period then ended in accordance with International Financial Reporting Standards, adopted by European Commission.

Gilbert McCaul
Partner,

KPMG Bulgaria OOD
45A Bulgaria Blvd.
1404 Sofia
Bulgaria

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

Margarita Goleva
Registered auditor

0202 Маргарита Голева
Регистриран одитор

# Consolidated statement of comprehensive income for the six months ended 30 June 2010

| In thousands of BGN | Note | Six months ended 30 June 2010 | Six months ended 30 June 2009 |
|---|---|---|---|
| Interest income | | 188,041 | 172,595 |
| Interest expense | | (125,726) | (115,774) |
| **Net interest income** | 6 | **62,315** | **56,821** |
| Fee and commission income | | 28,090 | 29,569 |
| Fee and commission expense | | (3,957) | (3,676) |
| **Net fee and commission income** | 7 | **24,133** | **25,893** |
| **Net trading income** | 8 | **4,071** | **4,712** |
| **Other operating income/(expenses)** | 9 | **918** | **(146)** |
| **TOTAL INCOME FROM BANKING OPERATIONS** | | **91,437** | **87,280** |
| General administrative expenses | 10 | (70,037) | (70,437) |
| Impairment (losses)/loss reversals | 11 | (8,303) | 1,847 |
| Other expenses, net | | 999 | 2,271 |
| **PROFIT BEFORE TAX** | | **14,096** | **20,961** |
| **Income tax expense** | 12 | **(1,680)** | **(2,949)** |
| **GROUP PROFIT AFTER TAX** | | **12,416** | **18,012** |
| **Other comprehensive income** | | | |
| Exchange differences on translating foreign operations | | 191 | (893) |
| Available for sale financial assets | | 14 | 7,074 |
| **Other comprehensive income for the period** | | **205** | **6,181** |
| **TOTAL COMPREHENSIVE INCOME FOR THE PERIOD** | | **12,621** | **24,193** |
| **Profit attributable to:** | | | |
| Owners of the Bank | | 12,463 | 18,208 |
| Non-controlling interests | | (47) | (196) |
| **Total comprehensive income attributable to:** | | | |
| Owners of the Bank | | 12,668 | 24,389 |
| Non-controlling interests | | (47) | (196) |
| **Basic and diluted earnings per share (in BGN)** | 13 | **0.11** | **0.17** |

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 30 to 66.

Gilbert McCaul
Partner
KPMG Bulgaria OOD

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# Consolidated statement of financial position as at 30 June 2010

| In thousands of BGN | Note | 30 June 2010 | 31 December 2009 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and balances with central banks | 14 | **620,528** | 603,792 |
| Financial assets held for trading | 15 | **11,400** | 9,023 |
| Available for sale investments | 16 | **565,196** | 285,110 |
| Financial assets held to maturity | 17 | **38,918** | 35,425 |
| Loans and advances to banks and financial institutions | 18 | **19,165** | 26,187 |
| Loans and advances to customers | 19 | **3,111,624** | 2,966,461 |
| Property and equipment | 20 | **132,953** | 131,793 |
| Intangible assets | 21 | **17,723** | 18,543 |
| Derivative assets held for risk management | | **11** | – |
| Other assets | 23 | **47,908** | 35,950 |
| **TOTAL ASSETS** | | **4,565,426** | **4,112,284** |
| **LIABILITIES AND CAPITAL** | | | |
| Due to credit institutions | 24 | **1,695** | 7,650 |
| Due to other customers | 25 | **3,859,318** | 3,339,546 |
| Liabilities evidenced by paper | 26 | **126,082** | 193,363 |
| Subordinated term debt | 27 | **53,258** | 60,641 |
| Perpetual debt | 28 | **99,931** | 98,952 |
| Deferred tax liability | 22 | **2,483** | 1,944 |
| Derivative liabilities held for risk management | | **–** | 248 |
| Other liabilities | 29 | **6,884** | 6,905 |
| **TOTAL LIABILITIES** | | **4,149,651** | **3,709,249** |
| 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 | **(132)** | (146) |
| Reserve from translation of foreign operations | 31 | **(2,438)** | (2,629) |
| Retained earnings | 31 | **171,297** | 158,857 |
| **SHAREHOLDERS' EQUITY** | | **415,588** | **402,943** |
| Non-controlling interests | 31 | **187** | 92 |
| **TOTAL GROUP EQUITY** | | **415,775** | **403,035** |
| **TOTAL LIABILITIES AND GROUP EQUITY** | | **4,565,426** | **4,112,284** |

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 30 to 66.

Gilbert McCaul
Partner
KPMG Bulgaria OOD

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0202 Маргарита Голева
Регистриран одитор

# Consolidated statement of cash flows for the six months ended 30 June 2010

| In thousands of BGN | Six months ended 30 June 2010 | Six months ended 30 June 2009 |
|---|---|---|
| **Net cash flow from operating activities** | | |
| Profit for the period | 12,416 | 18,012 |
| **Adjustment for non-cash items** | | |
| Impairment losses/(loss reversals) | 8,303 | (1,847) |
| Depreciation and amortisation | 10,343 | 9,657 |
| Income tax expense | 1,680 | 2,949 |
| (Profit)/loss from sale and derecognition of tangible and intangible fixed assets, net | (4,949) | (5,954) |
| | **27,793** | **22,817** |
| **Change in operating assets** | | |
| (Increase) in financial instruments held for trading | (2,377) | (17,390) |
| (Increase) in available for sale investments | (280,072) | (67,404) |
| (Increase)/decrease in loans and advances to banks and financial institutions | 3,473 | (18,636) |
| (Increase) in loans to customers | (153,466) | (75,034) |
| (Increase) in other assets | (11,969) | (10,452) |
| | **(444,411)** | **(188,916)** |
| **Change in operating liabilities** | | |
| (Decrease) in deposits from banks | (5,955) | (19,517) |
| Increase in amounts owed to other depositors | 519,772 | 137,656 |
| Net (decrease) in other liabilities | (590) | (2,846) |
| | **513,227** | **115,293** |
| Income tax paid | (629) | (1,532) |
| **NET CASH FLOW FROM OPERATING ACTIVITIES** | **95,980** | **(52,338)** |
| **Cash flow from investing activities** | | |
| (Purchase) of tangible and intangible fixed assets | (10,735) | (6,610) |
| Sale of tangible and intangible fixed assets | 5,001 | 7,612 |
| (Increase)/decrease of investments | (3,493) | 28,371 |
| **NET CASH FLOW FROM INVESTING ACTIVITIES** | **(9,227)** | **29,373** |
| **Financing activities** | | |
| (Decrease) in borrowings | (73,685) | (220,194) |
| Non-controlling interests at incorporation of subsidiaries | 119 | – |
| **NET CASH FLOW FROM FINANCING ACTIVITIES** | **(73,566)** | **(220,194)** |
| **NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS** | **13,187** | **(243,159)** |
| **CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD** | **612,084** | **752,334** |
| **CASH AND CASH EQUIVALENTS AT THE END OF PERIOD (see note 33)** | **625,271** | **509,175** |

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 30 to 66.

Gilbert McCaul
Partner
KPMG Bulgaria OOD

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Регистриран одитор

# Consolidated statement of changes in equity for the six months ended 30 June 2010

| In thousands of BGN | Share capital | Share premium | Retained earnings | Revaluation reserve on available for sale investments | Reserve from translation of foreign operations | Statutory reserve | Non-controlling interests | Total |
|---|---|---|---|---|---|---|---|---|
| **Balance as at 1 January 2009** | **110,000** | **97,000** | **129,095** | **(6,467)** | **(813)** | **39,861** | **58** | **368,734** |
| **Total comprehensive income for the period** | | | | | | | | |
| Profit for the six months ended 30 June 2009 | – | – | 18,208 | – | – | – | (196) | **18,012** |
| **Other comprehensive income for the period** | | | | | | | | |
| Revaluation reserve on available for sale investments | – | – | – | 7,074 | – | – | – | **7,074** |
| Reserve from translation of foreign operations | – | – | – | – | (893) | – | – | **(893)** |
| Movement related to the changes in non-controlling interest's shareholding | – | – | (251) | – | – | – | 251 | **–** |
| **Balance as at 30 June 2009** | **110,000** | **97,000** | **147,052** | **607** | **(1,706)** | **39,861** | **113** | **392,927** |
| **Balance as at 1 January 2010** | **110,000** | **97,000** | **158,857** | **(146)** | **(2,629)** | **39,861** | **92** | **403,035** |
| **Total comprehensive income for the period** | | | | | | | | |
| Profit for the six months ended 30 June 2010 | – | – | 12,463 | – | – | – | (47) | **12,416** |
| **Other comprehensive income for the period** | | | | | | | | |
| Revaluation reserve on available for sale investments | – | – | – | 14 | – | – | – | **14** |
| Reserve from translation of foreign operations | – | – | – | – | 191 | – | – | **191** |
| Non-controlling interests at incorporation of subsidiaries | – | – | – | – | – | – | 119 | **119** |
| Movement related to the changes in non-controlling interest's shareholding | – | – | (23) | – | – | – | 23 | **–** |
| **Balance as at 30 June 2010** | **110,000** | **97,000** | **171,297** | **(132)** | **(2,438)** | **39,861** | **187** | **415,775** |

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 30 to 66.

The financial statements have been approved by the Managing Board on 24 September 2010 and signed on its behalf by:

Evgeni Lukanov
Executive Director

Maya Georgieva
Executive Director

Radoslav Milenkov
Chief Financial Officer

Gilbert McCaul
Partner
KPMG Bulgaria OOD

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

Margarita Goleva
Registered auditor

0202 Маргарита Голева
Регистриран одитор

# 1. Basis of preparation

## (a) Statute

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

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

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

The consolidated financial statements of the Bank as at and for the six months ended 30 June 2010 comprise the Bank and its subsidiaries (see note 36), together referred to as the "Group".

The Group has foreign operatios in Cyprus and Albania.

## (b) Statement of compliance

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the European Commission.

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

## (c) Basis of preparation

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

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

# 2. Significant accounting policies

## (a) Income recognition

**(i) Interest income**

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

**(ii) Fee and commission**

Fee and commission income arises on financial services provided by the Group and is recognised in profit or loss when the corresponding service is provided.

**(iii) Net trading income**

Net gains (losses) on financial assets and liabilities held for trading include those gains and losses arising from disposals and changes in the fair value of financial assets and liabilities held for trading as well as trading income in dealing with foreign currencies and exchange differences from daily revaluation of the net open foreign currency position of the Group.

**(iv) Dividend income**

Dividend income is recognised when the right to receive dividends is established. Usually this is the ex-dividend date for equity securities.

## (b) Basis of consolidation of subsidiaries

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

As long as the Bank controls the subsidiary, subsequent acquisitions/sales of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders and therefore no goodwill is recognised as a result of such transactions.

## (c) Foreign currency transactions

**(i) Functional and presentation currency**

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

**(ii) Transactions and balances**

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 reporting date of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss. Translation differences on non-monetary items are included in other comprehensive income.

**(iii) Foreign operations**

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

## (d) Financial assets

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

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

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

**(ii) Loans and receivables**

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

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

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

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

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

**(v) Recognition**

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

**(vi) Measurement**

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

Interest calculated using the effective interest method is recognised in profit or loss. Dividends on equity instruments are recognised in profit or loss when the Group’s right to receive payment is established.

**(vii) Fair value measurement**

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

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

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

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

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

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

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

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

| in BGN thousand | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **30 June 2010** | | | | |
| Financial assets held for trading | 11,400 | – | – | **11,400** |
| Available for sale investments | 522,824 | 39,630 | 2,742 | **565,196** |
| Derivatives held for risk management | 11 | – | – | **11** |
| **Total** | **534,235** | **39,630** | **2,742** | **576,607** |

| in BGN thousand | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **31 December 2009** | | | | |
| Financial assets held for trading | 7,595 | 1,428 | – | **9,023** |
| Available for sale investments | 247,224 | 35,166 | 2,720 | **285,110** |
| Derivatives held for risk management | (248) | – | – | **(248)** |
| **Total** | **254,571** | **36,594** | **2,720** | **293,885** |

### (viii) Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

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

The Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

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

## (e) Cash and cash equivalents

Cash and cash equivalents comprise cash balances on hand, cash deposited with central banks and short-term highly liquid investments with maturity of three months or less.

## (f) Investments

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

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

**(i) Securities borrowing and lending**

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

**(ii) Repurchase agreements**

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

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

## (h) Borrowings

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

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

## (i) Offsetting

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

## (j) Impairment

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

**(i) Loans and advances**

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

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

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

**(ii) Available for sale financial assets**

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

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

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

## (k) Property, plant and equipment

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

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

| Assets | % |
|---|---|
| Buildings | 3 – 4 |
| Equipment | 10 – 33 |
| Fixtures and fittings | 10 – 20 |
| Vehicles | 10 – 20 |
| Leasehold improvements | 2 – 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, which are acquired by the Group, are stated at cost less accumulated amortisation and any impairment losses.

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

| Assets | % |
|---|---|
| Licences | 10 – 20 |
| Computer software | 10 – 33 |

## (m) Provisions

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

## (n) Acceptances

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

## (o) Taxation

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

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

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

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

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

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

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

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

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

**(ii) Income taxes**

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

## (q) Earnings per share

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

## (r) Employee benefits

**Defined contribution plans**

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further amounts. The respective jurisdictions are responsible for providing pensions under a defined contribution pension plan. The Group's contributions to the defined contribution pension plan are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

**Defined benefit plans**

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value.

The Bank has obligation to pay certain amounts to each employee who retires with the Bank in accordance with Art. 222, paragraph 3 of the Bulgarian Labor Code. According to these regulations, when a labor contract of an employee of the Bank, who has acquired a pension right, is ended, the Bank is obliged to pay him compensations amounted to two gross monthly salaries. In case the employee has service in the Bank during the last 10 years as at retirement date, then the compensation amounts to six gross monthly salaries. As at the end of the reporting period, the management of the Group estimates the approximate amount of the potential expenditures for every employee using the projected unit credit method.

**Termination benefits**

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

**Short-term employee benefits**

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

## (s) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the six months period ended 30 June 2010, and have not been applied in preparing these consolidated financial statements.

**New, revised or amended standards:**

Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* is effective for annual period beginning on or after 1 February 2010. The management does not expect amendment to IAS 32 to have an effect on financial statements as the Group has not issued such instruments at any time in the past.

Documents issued by IASB/IFRIC, that are not approved for application by the European Commission:

The management believes that it is appropriate to disclose that the following revised standards, new interpretations and amendments to current standards, which are already issued by the International Accounting Standards Board (IASB), are not yet endorsed for adoption by the European Commission, and therefore are not taken into account in preparing these financial statements. The actual effective dates for them will depend on the endorsement decision by the EC.

- Revised IAS 24 *Related Party Transactions* (issued November 2009), effective date 1 January 2011;
- IFRS 9 Financial Instruments (issued November 2009), effective date 1 January 2013;
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* (issued November 2009), effective date 1 July 2010.
- Improvements to IFRSs 2010 (issued May 2010), various effective dates, earliest 1 July 2010;
- Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement* (issued November 2009), effective date 1 January 2011;

- Amendments to IFRS 1 *First-time Adoption of IFRSs: Additional exemptions for first-time adopters* (issued July 2009), effective date 1 July 2010;

The management has not yet completed the estimation of the potential impact of these changes on the financial statements.

# 3. Risk management disclosures

## A. Trading activities

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

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

The Group operates in the condition of a dynamically developing global financial and economic crisis. Its further extension might result in negative implications on the financial position of the Group. The management of the Group performs daily monitoring over all positions of assets and liabilities, income and expenses, as well as the development of the international financial markets, applying the best banking practices. The management based on this analyses profitability, liquidity and the cost of funds and implements adequate measures in respect to credit, market (primarily interest rate) and liquidity risk, thus limiting the possible negative effects from the global financial and economic crisis. In this way the Group responds to the challenges of the market environment, maintaining a stable capital and liquidity position.

**(i) Credit risk**

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

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

In a developing money and capital market, the prices at which transactions are realised can be different from quoted prices. While the 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.

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

The Value at Risk is calculated and monitored on a daily basis as part of the Group's ongoing risk management. The following table summarises the range of interest rate VaR for all positions carried at fair value that was experienced in the first half of 2010:

| in thousands of BGN | 30 June 2010 | Six months ended 30 June 2010 | | | 31 December 2009 |
|---|---|---|---|---|---|
| | | average | low | high | |
| VaR | **581** | 590 | 401 | 808 | 531 |

## B. Non-trading activities

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

**(i) Liquidity risk**

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

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

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

## Maturity table as at 30 June 2010

| In thousands of BGN | Up to 1 month | From 1 to 3 months | From 3 months to 1 year | Over 1 year | Maturity not defined | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and balances with central banks | 620,528 | – | – | – | – | **620,528** |
| Financial assets held for trading | 11,400 | – | – | – | – | **11,400** |
| Available for sale investments | – | – | 488,501 | 73,953 | 2,742 | **565,196** |
| Financial assets held to maturity | 1,431 | – | 19,284 | 18,203 | – | **38,918** |
| Loans and advances to banks and financial institutions | 6,611 | 458 | 3,985 | 8,111 | – | **19,165** |
| Loans and advances to customers | 421,202 | 104,641 | 566,680 | 2,019,101 | – | **3,111,624** |
| Other financial assets | 11 | – | – | – | – | **11** |
| **Total financial assets** | **1,061,183** | **105,099** | **1,078,450** | **2,119,368** | **2,742** | **4,366,842** |
| **Liabilities** | | | | | | |
| Due to credit institutions | 1,695 | – | – | – | – | **1,695** |
| Due to other customers | 1,259,238 | 1,120,225 | 1,102,013 | 377,842 | – | **3,859,318** |
| Liabilities evidenced by paper | 20,823 | 10,046 | 12,189 | 83,024 | – | **126,082** |
| Subordinated term debt | – | – | – | 53,258 | – | **53,258** |
| Perpetual debt | – | – | – | – | 99,931 | **99,931** |
| **Total financial liabilities** | **1,281,756** | **1,130,271** | **1,114,202** | **514,124** | **99,931** | **4,140,284** |
| **Net liquidity gap** | **(220,573)** | **(1,025,172)** | **(35,752)** | **1,605,244** | **(97,189)** | **226,558** |

Maturity table as at 31 December 2009

| In thousands of BGN | Up to 1 month | From 1 to 3 months | From 3 months to 1 year | Over 1 year | Maturity not defined | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and balances with central banks | 603,792 | – | – | – | – | **603,792** |
| Financial assets held for trading | 9,023 | – | – | – | – | **9,023** |
| Available for sale investments | 39,101 | – | 175,059 | 68,230 | 2,720 | **285,110** |
| Financial assets held to maturity | – | 16,504 | 4,000 | 14,921 | – | **35,425** |
| Loans and advances to banks and financial institutions | 11,101 | – | 6,422 | 8,664 | – | **26,187** |
| Loans and advances to customers | 337,111 | 131,313 | 537,291 | 1,960,746 | – | **2,966,461** |
| **Total financial assets** | **1,000,128** | **147,817** | **722,772** | **2,052,561** | **2,720** | **3,925,998** |
| **Liabilities** | | | | | | |
| Due to credit institutions | 7,650 | – | – | – | – | **7,650** |
| Due to other customers | 1,213,508 | 833,777 | 1,241,352 | 50,909 | – | **3,339,546** |
| Liabilities evidenced by paper | 68,545 | 23,626 | 9,359 | 91,833 | – | **193,363** |
| Subordinated term debt | – | – | – | 60,641 | – | **60,641** |
| Perpetual debt | – | – | – | – | 98,952 | **98,952** |
| Other financial liabilities | 248 | – | – | – | – | **248** |
| **Total financial liabilities** | **1,289,951** | **857,403** | **1,250,711** | **203,383** | **98,952** | **3,700,400** |
| **Net liquidity gap** | **(289,823)** | **(709,586)** | **(527,939)** | **1,849,178** | **(96,232)** | **225,598** |

As at 30 June 2010 the funds by the thirty largest non-bank depositors represent 4.72% of total deposits from other customers (2009: 6.52%).

The following table provides a remaining maturities analysis of the financial liabilities of the Group as at 30 June 2010 based on the contractual undiscounted cash flows.

| In thousands of BGN | Up to 1 month | From 1 to 3 months | From 3 months to 1 year | Over 1 year | Total |
|---|---|---|---|---|---|
| Due to credit institutions | 1,695 | – | – | – | **1,695** |
| Due to other customers | 1,261,244 | 1,134,966 | 1,156,216 | 437,344 | **3,989,770** |
| Liabilities evidenced by paper | 20,852 | 10,103 | 12,448 | 91,509 | **134,912** |
| Subordinated term debt | 7,976 | – | 2,924 | 76,649 | **87,549** |
| Perpetual debt | – | 6,601 | 4,775 | 150,758 | **162,134** |
| **Total financial liabilities** | **1,291,767** | **1,151,670** | **1,176,363** | **756,260** | **4,376,060** |

### (ii) Market risk

### Interest rate risk

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

In order to quantify the interest rate risk of its non-trading activities, the Group measures the impact of a change in the market rates both on net interest income and on the Group's economic value defined as the difference between fair value of assets and fair value of liabilities. The interest rate risk on the economic value of the Group following a standardised shock of +100bp/-100bp as at 30 June 2010 is BGN +6.6/-6.6 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 2010 is BGN -7.9/+7.9 Mio.

The following table indicates the effective interest rates at 30 June 2010 and the periods in which financial liabilities and assets reprice.

| | | | | Fixed rate instruments | | | |
|---|---|---|---|---|---|---|---|
| In thousands of BGN | **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 | **209,601** | 0.29% | 26,056 | 183,545 | – | – | – |
| Financial assets held for trading | **8,405** | 4.84% | – | – | – | – | 8,405 |
| Available for sale investments | **562,454** | 1.17% | 45,282 | – | – | 488,501 | 28,671 |
| Financial assets held to maturity | **38,918** | 5.19% | 9,563 | 1,435 | – | 19,380 | 8,540 |
| Loans and advances to banks and financial institutions | **14,962** | 7.60% | 4,443 | 2,408 | – | – | 8,111 |
| Loans and advances to customers | **3,052,443** | 13.19% | 2,628,202 | 81,525 | 32,921 | 133,622 | 176,173 |
| Non-interest earning assets | **678,643** | – | – | – | – | – | – |
| **Total assets** | **4,565,426** | | **2,713,546** | **268,913** | **32,921** | **641,503** | **229,900** |
| **Liabilities** | | | | | | | |
| Due to credit institutions | **1,695** | 0.03% | 1,695 | – | – | – | – |
| Due to other customers | **3,845,744** | 6.59% | 1,253,923 | 418,826 | 862,464 | 1,044,687 | 265,844 |
| Liabilities evidenced by paper | **126,082** | 3.36% | 73,836 | 20,710 | 3,439 | 641 | 27,456 |
| Subordinated term debt | **53,258** | 15.15% | – | – | – | – | 53,258 |
| Perpetual debt | **99,931** | 12.58% | – | – | – | – | 99,931 |
| Non-interest bearing liabilities | **22,941** | – | – | – | – | – | – |
| **Total liabilities** | **4,149,651** | | **1,329,454** | **439,536** | **865,903** | **1,045,328** | **446,489** |

The following table indicates the effective interest rates at 31 December 2009 and the periods in which financial liabilities and assets reprice.

| In thousands of BGN | Total | Weighted average effective interest rate | Floating rate instruments | Fixed rate instruments: Less than 1 month | Fixed rate instruments: Between 1 month and 3 months | Fixed rate instruments: Between 3 months and 1 year | Fixed rate instruments: More than 1 year |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and balances with central banks | **205,870** | 0.24% | 36,351 | 169,519 | – | – | – |
| Financial assets held for trading | **5,862** | 5.74% | – | – | 70 | – | 5,792 |
| Available for sale investments | **282,390** | 1.84% | 40,541 | 39,101 | – | 175,059 | 27,689 |
| Financial assets held to maturity | **35,425** | 3.75% | – | – | 16,504 | 4,000 | 14,921 |
| Loans and advances to banks and financial institutions | **22,196** | 5.99% | 6,423 | 7,109 | – | – | 8,664 |
| Loans and advances to customers | **2,944,177** | 13.03% | 2,383,153 | 79,397 | 45,872 | 164,298 | 271,457 |
| Non-interest earning assets | **616,364** | – | – | – | – | – | – |
| **Total assets** | **4,112,284** | | **2,466,468** | **295,126** | **62,446** | **343,357** | **328,523** |
| **Liabilities** | | | | | | | |
| Due to credit institutions | **7,650** | 0.44% | 1,864 | 5,786 | – | – | – |
| Due to other customers | **3,335,415** | 6.52% | 1,084,683 | 376,614 | 729,572 | 1,124,361 | 20,185 |
| Liabilities evidenced by paper | **193,363** | 4.09% | 79,181 | 67,957 | 14,591 | 3,371 | 28,263 |
| Subordinated term debt | **60,641** | 13.55% | – | – | – | – | 60,641 |
| Perpetual debt | **98,952** | 12.51% | – | – | – | – | 98,952 |
| Non-interest bearing liabilities | **13,228** | – | – | – | – | – | – |
| **Total liabilities** | **3,709,249** | | **1,165,728** | **450,357** | **744,163** | **1,127,732** | **208,041** |

### Currency risk

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

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

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

| In thousands of BGN | **30 June 2010** | **31 December 2009** |
|---|---|---|
| **Monetary assets** | | |
| Euro | **2,210,754** | 2,362,649 |
| US dollar | **236,963** | 263,242 |
| Other currencies | **69,818** | 57,998 |
| Gold | **6,450** | 7,538 |
| **Monetary liabilities** | | |
| Euro | **1,968,991** | 1,991,204 |
| US dollar | **245,805** | 271,394 |
| Other currencies | **67,955** | 58,422 |
| Gold | **–** | – |
| **Net position** | | |
| Euro | **241,763** | 371,445 |
| US dollar | **(8,842)** | (8,152) |
| Other currencies | **1,863** | (424) |
| Gold | **6,450** | 7,538 |

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

### (iii) Credit risk

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

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

In thousands of BGN

| **30 June 2010**<br>**Class of exposure** | **Gross amount of loans and advances to customers** | **Carrying amount of loans and advances to customers** |
|---|---|---|
| Collectively impaired | | |
| Standard | 2,831,565 | 2,827,917 |
| Individually impaired | | |
| Watch | 227,683 | 224,554 |
| Nonperforming | 32,703 | 26,847 |
| Loss | 98,717 | 32,306 |
| **Total** | **3,190,668** | **3,111,624** |

In thousands of BGN

| 31 December 2009<br>Class of exposure | Gross amount of loans and advances to customers | Carrying amount of loans and advances to customers |
|---|---|---|
| Collectively impaired | | |
| Standard | 2,711,032 | 2,708,086 |
| Individually impaired | | |
| Watch | 205,423 | 202,547 |
| Nonperforming | 32,034 | 25,698 |
| Loss | 91,174 | 30,130 |
| **Total** | **3,039,663** | **2,966,461** |

In addition, the Group 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.

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

| In thousands of BGN | **30 June 2010** | **31 December 2009** |
|---|---|---|
| Trade | **685,235** | 758,855 |
| Industry | **629,828** | 652,808 |
| Services | **326,417** | 171,282 |
| Finance | **6,923** | 13,295 |
| Transport, logistics | **198,342** | 157,317 |
| Communications | **33,540** | 31,580 |
| Construction | **147,366** | 143,110 |
| Agriculture | **70,301** | 71,192 |
| Tourist services | **101,198** | 108,449 |
| Infrastructure | **129,784** | 126,091 |
| Private individuals | **739,188** | 752,021 |
| Other | **122,546** | 53,663 |
| Less allowance for impairment | **(79,044)** | (73,202) |
| **Total** | **3,111,624** | **2,966,461** |

The Group has extended loans to enterprises involved in different types of activities but within the same economic sector – industry. As such the exposures share a similar industry risk. There are three such groups of enterprises at 30 June 2010 with total exposures amounting to BGN 58,076 thousand (2009: BGN 45,903 thousand) – ferrous and non-ferrous metallurgy, BGN 77,122 thousand (2009: BGN 75,684 thousand) – mining industry and BGN 105,650 thousand (2009: BGN 105,139 thousand) – power engineering.

The Group has extended loans and issued contingent liabilities to 15 individual clients or groups (2009: 13) with each individual exposure exceeding 10% of the capital base of the Group. The total amount of these exposures is BGN 1,101,229 thousand which represents 224.89% of the Group's capital base (2009: BGN 804,532 thousand which represented 166.34%of capital base) of which BGN 880,540 thousand (2009: BGN 694,309 thousand) represent loans and BGN 220,689 thousand (2009: BGN 110,223 thousand) represent guarantees, letters of credit and other commitments.

The loans extended by the Cyprus branch amount to BGN 147,619 thousand (2009: BGN 147,095 thousand) and in Albania – BGN 29,822 thousand (2009: BGN 22,950 thousand).

The amounts reflected in the tables represent the maximum accounting loss that would be recognised at the end of the reporting period 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.

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

Collateral for loans, guarantees, and letters of credit is usually in the form of mortgage, cash, pledge of inventory, listed investments or other property.

The table below shows a breakdown of total loans and advances extended to customers by the Group by type of collateral, excluding credit cards in the amount of BGN 171,335 thousands (2009: BGN 166,802 thousands):

| In thousands of BGN | **30 June 2010** | **31 December 2009** |
|---|---|---|
| Mortgage | **1,440,712** | 1,392,732 |
| Pledge of receivables | **216,922** | 200,429 |
| Pledge of commercial enterprise | **451,979** | 433,880 |
| Securities | **76,258** | 68,904 |
| Bank guarantee | **4,723** | 4,159 |
| Other guaranties | **268,167** | 234,325 |
| Pledge of goods | **121,330** | 128,774 |
| Pledge of machines | **186,665** | 181,282 |
| Money deposit | **47,565** | 47,479 |
| Stake in capital | **28,463** | 28,006 |
| Gold | **18** | 18 |
| Other collateral | **156,203** | 128,736 |
| Unsecured | **20,328** | 24,137 |
| **Total** | **3,019,333** | **2,872,861** |

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

## C. Capital adequacy

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

The Group calculates requirements for credit risk for its exposures in banking and trading portfolios based on standardised approach defined by the BNB. Exposures are taken into account using their carrying amount. Off-balance-sheet credit related commitments are taken into account by applying different categories of conversion factors (0%, 20%, 50%, 100%), designed to convert these items into carrying amount equivalents. The resulting equivalent amounts are then weighted for risk using different percentages (0%, 20%, 35%, 50%, 75%, 100%) depending on the class of exposure and its credit rating assessment. Various credit risk mitigation techniques are used, for example collateralised transactions and guarantees. Forwards and options based derivative instruments are weighted for counterparty credit risk.

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

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

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

- Tier 1 capital, which includes ordinary share capital, share premium, statutory reserve, other general reserves, retained earnings from past years, current half-year audited profit, translation reserve and non-controlling 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 Group has complied with all capital requirements.

Capital adequacy level is as follows:

| | Carrying amount/notional amount | | Risk weighted amount | |
|---|---|---|---|---|
| In thousands of BGN | 30 June 2010 | 31 December 2009 | 30 June 2010 | 31 December 2009 |
| **Risk weighted assets for credit risk** | | | | |
| **Assets** | | | | |
| **Exposure class** | | | | |
| Central governments and central banks | 863,649 | 538,983 | 29,217 | 12,319 |
| Multirateral development banks | – | 3,224 | – | – |
| Institutions | 270,879 | 268,535 | 69,104 | 65,644 |
| Corporates | 2,138,509 | 1,977,273 | 2,105,552 | 1,948,053 |
| Retail | 532,480 | 533,454 | 384,861 | 511,035 |
| Claims secured by residential property | 369,137 | 395,941 | 129,198 | 197,971 |
| Past due exposures | 56,383 | 44,810 | 56,383 | 44,810 |
| Collective investment undertaking | 1,950 | 2,004 | 1,950 | 2,004 |
| Other items | 299,593 | 314,536 | 180,879 | 164,549 |
| **Total** | **4,532,580** | **4,078,760** | **2,957,144** | **2,946,385** |
| **Off-balance sheet items** | | | | |
| **Exposure class** | | | | |
| Central governments and central banks | 782 | – | – | – |
| Institutions | 27,690 | 26,704 | 7,531 | 7,147 |
| Corporates | 432,310 | 495,301 | 190,982 | 209,004 |
| Retail | 231,002 | 226,810 | 4,855 | 2,473 |
| Claims secured by residential property | 4,518 | 4,640 | 790 | 1,143 |
| Other items | – | – | 15 | 15 |
| **Total** | **696,302** | **753,455** | **204,173** | **219,782** |
| **Derivatives** | | | | |
| **Exposure class** | | | | |
| Institutions | 937 | 311 | 187 | 62 |
| Corporates | 176 | – | 176 | – |
| **Total** | **1,113** | **311** | **363** | **62** |
| **Total risk-weighted assets for credit risk** | | | **3,161,680** | **3,166,229** |
| **Risk-weighted assets for market risk** | | | **4,787** | **4,325** |
| **Risk-weighted assets for operational risk** | | | **358,675** | **327,113** |
| **Total risk-weighted assets** | | | **3,525,142** | **3,497,667** |

| **Capital adequacy ratios** | Capital | | Capital ratios % | |
|---|---|---|---|---|
| | 30 June 2010 | 31 December 2009 | 30 June 2010 | 31 December 2009 |
| **Tier 1 Capital** | **375,186** | **363,237** | **10.64%** | **10.39%** |
| **Total capital base** | **489,672** | **483,657** | **13.89%** | **13.83%** |

# 4. Segment Reporting

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

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

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

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

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

| | Bulgarian operations | | Foreign operations | | Total | |
|---|---|---|---|---|---|---|
| In thousands of BGN | **Six months ended 30 June 2010** | **Six months ended 30 June 2009** | **Six months ended 30 June 2010** | **Six months ended 30 June 2009** | **Six months ended 30 June 2010** | **Six months ended 30 June 2009** |
| Interest income | **177,109** | 162,938 | **10,932** | 9,657 | **188,041** | 172,595 |
| Interest expense | **(123,463)** | (114,749) | **(2,263)** | (1,025) | **(125,726)** | (115,774) |
| **Net interest income** | **53,646** | **48,189** | **8,669** | **8,632** | **62,315** | **56,821** |
| Fee and commission income | **27,762** | 29,064 | **328** | 505 | **28,090** | 29,569 |
| Fee and commission expense | **(3,891)** | (3,620) | **(66)** | (56) | **(3,957)** | (3,676) |
| **Net fee and commission income** | **23,871** | **25,444** | **262** | **449** | **24,133** | **25,893** |
| **General administrative expenses** | **(66,926)** | **(67,458)** | **(3,111)** | **(2,979)** | **(70,037)** | **(70,437)** |
| | **30 June 2010** | **31 December 2009** | **30 June 2010** | **31 December 2009** | **30 June 2010** | **31 December 2009** |
| **Segment assets** | **4,317,556** | **3,884,490** | **247,870** | **227,794** | **4,565,426** | **4,112,284** |
| **Segment liabilities** | **4,041,892** | **3,588,244** | **107,759** | **121,005** | **4,149,651** | **3,709,249** |

The following table presents the allocation of assets and liabilities, income and expenses based on business segments as at 30 June 2010 and for the six months then ended:

In thousands of BGN

| **Business segment** | **Assets** | **Liabilities** | **Interest income** | **Interest expense** | **Net fee and commission income** | **Net trading income** | **Other operating income** |
|---|---|---|---|---|---|---|---|
| Commercial banking | 2,420,343 | 652,005 | 139,668 | (13,607) | 7,152 | – | – |
| Retail banking | 691,281 | 3,207,313 | 43,402 | (101,146) | 1,999 | – | – |
| International business | – | 279,271 | – | (10,946) | 3,530 | – | – |
| Card business | – | – | – | – | 5,896 | – | – |
| Liquidity | 1,249,470 | 1,695 | 4,971 | (7) | 4 | 631 | 233 |
| Dealing | 5,748 | – | – | – | (49) | 3,440 | 679 |
| Clients services | – | – | – | – | 5,447 | – | – |
| Other | 198,584 | 9,367 | – | (20) | 154 | – | 6 |
| **Total** | **4,565,426** | **4,149,651** | **188,041** | **(125,726)** | **24,133** | **4,071** | **918** |

# 5. Financial assets and liabilities Accounting classification and fair values

The table below sets out the Group's classification of each class of financial assets and liabilities, and their fair values as at 30 June 2010.

| In thousands of BGN | Trading | Held-to-maturity | Loans and receivables | Available for sale | Other amortised cost | Other | Total carrying amount | Fair value |
|---|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | | |
| Cash and balances with central banks | – | – | 505,711 | – | – | 114,817 | 620,528 | 620,528 |
| Financial assets held for trading | 11,400 | – | – | – | – | – | 11,400 | 11,400 |
| Available for sale investments | – | – | – | 565,196 | – | – | 565,196 | 565,196 |
| Financial assets held to maturity | – | 38,918 | – | – | – | – | 38,918 | 38,719 |
| Loans and advances to banks and financial institutions | – | – | 19,165 | – | – | – | 19,165 | 19,165 |
| Loans and advances to customers | – | – | 3,111,624 | – | – | – | 3,111,624 | 3,111,624 |
| Other financial assets | – | – | – | – | – | 11 | 11 | 11 |
| **Total** | **11,400** | **38,918** | **3,636,500** | **565,196** | **–** | **114,828** | **4,366,842** | **4,366,643** |
| **LIABILITIES** | | | | | | | | |
| Due to credit institutions | – | – | – | – | 1,695 | – | 1,695 | 1,695 |
| Due to other customers | – | – | – | – | 3,859,318 | – | 3,859,318 | 3,859,318 |
| Liabilities evidenced by paper | – | – | – | – | 126,082 | – | 126,082 | 126,082 |
| Subordinated term debt | – | – | – | – | 53,258 | – | 53,258 | 53,258 |
| Perpetual debt | – | – | – | – | 99,931 | – | 99,931 | 98,541 |
| **Total** | **–** | **–** | **–** | **–** | **4,140,284** | **–** | **4,140,284** | **4,138,894** |

The fair value of cash, cash equivalents, demand and term deposits is approximately equal to the carrying value given, because of their short-term maturity. The fair value of loans and advances to customers is approximately equal to their carrying value due to the fact that the main part of the loan portfolio carry floating interest rates which reflect the changes in the market conditions. The fair value of liabilities evidenced by paper is approximately equal to their carrying value due to the fact that the main part of liabilities evidenced by paper with long-term maturity carry floating interest rates which reflect the changes in the market conditions.

The table below sets out the Group's classification of each class of financial assets and liabilities, and their fair values as at 31 December 2009.

| In thousands of BGN | Trading | Held-to-maturity | Loans and receivables | Available for sale | Other amortised cost | Other | Total carrying amount | Fair value |
|---|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | | |
| Cash and balances with central banks | – | – | 460,871 | – | – | 142,921 | 603,792 | 603,792 |
| Financial assets held for trading | 9,023 | – | – | – | – | – | 9,023 | 9,023 |
| Available for sale investments | – | – | – | 285,110 | – | – | 285,110 | 285,110 |
| Financial assets held to maturity | – | 35,425 | – | – | – | – | 35,425 | 35,402 |
| Loans and advances to banks and financial institutions | – | – | 26,187 | – | – | – | 26,187 | 26,187 |
| Loans and advances to customers | – | – | 2,966,461 | – | – | – | 2,966,461 | 2,966,461 |
| **Total** | **9,023** | **35,425** | **3,453,519** | **285,110** | **–** | **142,921** | **3,925,998** | **3,925,975** |
| **LIABILITIES** | | | | | | | | |
| Due to credit institutions | – | – | – | – | 7,650 | – | 7,650 | 7,650 |
| Due to other customers | – | – | – | – | 3,339,546 | – | 3,339,546 | 3,339,546 |
| Liabilities evidenced by paper | – | – | – | – | 193,363 | – | 193,363 | 193,363 |
| Subordinated term debt | – | – | – | – | 60,641 | – | 60,641 | 60,641 |
| Perpetual debt | – | – | – | – | 98,952 | – | 98,952 | 99,252 |
| Other financial liabilities | – | – | – | – | – | 248 | 248 | 248 |
| **Total** | **–** | **–** | **–** | **–** | **3,700,152** | **248** | **3,700,400** | **3,700,700** |

# 6. Net interest income

| In thousands of BGN | Six months ended 30 June 2010 | Six months ended 30 June 2009 |
|---|---|---|
| **Interest income** | | |
| Accounts with and placements to banks and financial institutions | 874 | 1,077 |
| Retail customers | 43,928 | 43,674 |
| Loans to corporate clients | 123,185 | 104,950 |
| Loans to small and medium enterprises | 13,954 | 14,717 |
| Microlending | 2,016 | 2,412 |
| Debt instruments | 4,084 | 5,765 |
| | **188,041** | **172,595** |
| **Interest expense** | | |
| Deposits from banks | (8) | (577) |
| Deposits from other customers | (114,632) | (84,261) |
| Liabilities evidenced by paper | (2,114) | (21,680) |
| Subordinated term debt | (3,077) | (3,440) |
| Perpetual debt | (5,875) | (5,770) |
| Lease agreements and other | (20) | (46) |
| | **(125,726)** | **(115,774)** |
| **Net interest income** | **62,315** | **56,821** |

For the six months ended 30 June 2010 and 30 June 2009 the recognised interest income on individually impaired financial assets (loans and advances to customers) amounts to BGN 14,919 thousand and BGN 6,051 thousand respectively.

# 7. Net fee and commission income

| In thousands of BGN | Six months ended 30 June 2010 | Six months ended 30 June 2009 |
|---|---|---|
| **Fee and commission income** | | |
| Letters of credit and guarantees | 3,182 | 3,565 |
| Payments transactions | 3,762 | 3,753 |
| Customer accounts | 5,954 | 4,588 |
| Cards business | 8,928 | 9,181 |
| Other | 6,264 | 8,482 |
| | **28,090** | **29,569** |
| **Fee and commission expense** | | |
| Letters of credit and guarantees | (203) | (421) |
| Correspondent accounts | (394) | (440) |
| Cards business | (3,031) | (2,764) |
| Other | (329) | (51) |
| | **(3,957)** | **(3,676)** |
| **Net fee and commission income** | **24,133** | **25,893** |

# 8. Net trading income

| In thousands of BGN | Six months ended 30 June 2010 | Six months ended 30 June 2009 |
|---|---|---|
| Net trading gains/(losses) arise from: | | |
| – Debt instruments | 631 | 438 |
| – Equities | (188) | (580) |
| – Foreign exchange | 3,628 | 4,854 |
| **Net trading income** | **4,071** | **4,712** |

# 9. Other operating income/(expenses)

Other operating income/(expenses) represent net gains/(losses) from disposal of financial instruments not carried at fair value through profit or loss.

| In thousands of BGN | Six months ended 30 June 2010 | Six months ended 30 June 2009 |
|---|---|---|
| Other operating income/(expenses) arise from: | | |
| – Debt instruments | 233 | (31) |
| – Equity instruments | 679 | – |
| – Other | 6 | (115) |
| **Other operating income/(expenses)** | **918** | **(146)** |

# 10. General administrative expenses

| In thousands of BGN | Six months ended 30 June 2010 | Six months ended 30 June 2009 |
|---|---|---|
| General and administrative expenses comprise: | | |
| – Personnel cost | 21,657 | 21,571 |
| – Depreciation and amortisation | 10,343 | 9,657 |
| – Advertising | 2,268 | 4,282 |
| – Building rent expense | 13,314 | 10,891 |
| – Telecommunication, software and other computer maintenance | 5,670 | 6,092 |
| – Unclaimable VAT | 4,817 | 4,670 |
| – Administration, consultancy and other costs | 11,968 | 13,274 |
| **General administrative expenses** | **70,037** | **70,437** |

Personnel costs include salaries, social and health security contributions under the provisions of the local legislation. At 30 June 2010 the total number of employees of the Group is 2,610 (30 June 2009: 2,476).

# 11. Impairment (losses)/loss reversals

| In thousands of BGN | Six months ended 30 June 2010 | Six months ended 30 June 2009 |
|---|---|---|
| **Write-downs** | | |
| Loans and advances to customers | (15,668) | (15,177) |
| **Reversal of write-downs** | | |
| Loans and advances to customers | 7,365 | 17,024 |
| **Net impairment (losses)/loss reversals** | **(8,303)** | **1,847** |

# 12. Income tax expense

| In thousands of BGN | Six months ended 30 June 2010 | Six months ended 30 June 2009 |
|---|---|---|
| Current taxes | (1,141) | (2,817) |
| Deferred taxes (see note 22) | (539) | (132) |
| **Income tax expense** | **(1,680)** | **(2,949)** |

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

| In thousands of BGN | Six months ended 30 June 2010 | Six months ended 30 June 2009 |
|---|---|---|
| **Accounting profit before taxation** | **14,096** | **20,961** |
| Corporate tax at applicable tax rate (10% for 2010 and 10% for 2009) | 1,410 | 2,096 |
| Effect of tax rates of foreign subsidiaries and branches | 266 | 136 |
| Tax effect of permanent tax differences | (535) | 585 |
| Tax effect of reversals of temporary differences | 539 | 132 |
| **Income tax expense** | **1,680** | **2,949** |
| Effective tax rate | 11.92% | 14.07% |

# 13. Earnings per share

| | Six months ended 30 June 2010 | Six months ended 30 June 2009 |
|---|---|---|
| Net profit attributable to shareholders (in thousands of BGN) | 12,463 | 18,208 |
| Weighted average number of ordinary shares (in thousands) | 110,000 | 110,000 |
| **Earnings per share (in BGN)** | **0.11** | **0.17** |

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 2010 as in the previous year, no conversion or option rights were outstanding. The diluted earnings per share, therefore, correspond to the basic earnings per share.

# 14. Cash and balances with central banks

| In thousands of BGN | 30 June 2010 | 31 December 2009 |
|---|---|---|
| Cash on hand | | |
| – In Bulgarian leva | **75,923** | 97,145 |
| – In foreign currencies | **38,894** | 45,776 |
| Balances with central banks | **305,832** | 261,943 |
| Current accounts and amounts with resident banks | **–** | 4,094 |
| Current accounts and amounts with foreign banks | **199,879** | 194,834 |
| **Total** | **620,528** | **603,792** |

# 15. Financial assets held for trading

| In thousands of BGN | 30 June 2010 | 31 December 2009 |
|---|---|---|
| **Bonds, notes and other instruments issued by:** | | |
| Bulgarian government, assessed with BBB rating: | | |
| – denominated in Bulgarian leva | **8,394** | 2,638 |
| – denominated in euro | **11** | – |
| Foreign banks, assessed with AAA rating | **–** | 3,224 |
| Other issuers – equity instruments (unrated) | **2,995** | 3,161 |
| **Total** | **11,400** | **9,023** |

# 16. Available for sale investments

| In thousands of BGN | 30 June 2010 | 31 December 2009 |
|---|---|---|
| **Bonds, notes and other instruments issued by:** | | |
| Bulgarian government | | |
| – denominated in Bulgarian leva | **28,671** | 27,688 |
| – denominated in foreign currencies | **5,652** | 5,376 |
| Foreign governments | | |
| – treasury bills | **488,501** | 214,160 |
| Foreign banks | **39,630** | 35,166 |
| Other issuers – equity instruments | **2,742** | 2,720 |
| **Total** | **565,196** | **285,110** |

# 17. Financial assets held to maturity

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

| In thousands of BGN | 30 June 2010 | 31 December 2009 |
|---|---|---|
| **Securities held to maturity issued by:** | | |
| Bulgarian government | 11,141 | 21,833 |
| Foreign governments | 18,214 | 5,407 |
| Foreign banks | 9,563 | 8,185 |
| **Total** | **38,918** | **35,425** |

# 18. Loans and advances to banks and financial institutions

## (a) Analysis by type

| In thousands of BGN | 30 June 2010 | 31 December 2009 |
|---|---|---|
| Placements and other amounts due from banks | 13,199 | 20,007 |
| Receivables under resale agreements (see note 30) | 1,867 | 2,810 |
| Other | 4,099 | 3,370 |
| **Total** | **19,165** | **26,187** |

## (b) Geographical analysis

| In thousands of BGN | 30 June 2010 | 31 December 2009 |
|---|---|---|
| Resident banks and financial institutions | 2,064 | 3,491 |
| Foreign banks and financial institutions | 17,101 | 22,696 |
| **Total** | **19,165** | **26,187** |

# 19. Loans and advances to customers

| In thousands of BGN | 30 June 2010 | 31 December 2009 |
|---|---|---|
| Retail customers | | |
| – Consumer loans | 205,469 | 210,334 |
| – Mortgage loans | 349,622 | 360,781 |
| – Credit cards | 171,335 | 166,802 |
| Small and medium enterprises | 224,137 | 219,053 |
| Microlending | 27,678 | 29,456 |
| Corporate customers | 2,212,427 | 2,053,237 |
| Less allowance for impairment | (79,044) | (73,202) |
| **Total** | **3,111,624** | **2,966,461** |

## (a) Movement in impairment allowances

| In thousands of BGN | |
|---|---|
| **Balance at 1 January 2010** | **73,202** |
| Additional allowances | 15,668 |
| Amounts released | (7,365) |
| Write – offs | (2,476) |
| Effects of changes in foreign currencies rates | 15 |
| **Balance at 30 June 2010** | **79,044** |

# 20. Property and equipment

| In thousands of BGN | Land and buildings | Fixtures and fittings | Motor vehicles | Assets under construction | Leasehold improvements | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 1 January 2009 | 12,367 | 97,196 | 6,261 | 60,104 | 39,468 | **215,396** |
| Additions | – | 283 | – | 11,625 | 27 | **11,935** |
| Disposals | (1,538) | (4,768) | (309) | (73) | (502) | **(7,190)** |
| Transfers | – | 12,929 | 7 | (36,325) | 9,143 | **(14,246)** |
| **At 31 December 2009** | **10,829** | **105,640** | **5,959** | **35,331** | **48,136** | **205,895** |
| Additions | – | 50 | – | 10,658 | – | **10,708** |
| Disposals | – | (2,941) | (34) | (39) | (202) | **(3,216)** |
| Transfers | 711 | 9,765 | 263 | (18,050) | 7,079 | **(232)** |
| **At 30 June 2010** | **11,540** | **112,514** | **6,188** | **27,900** | **55,013** | **213,155** |
| **Depreciation** | | | | | | |
| At 1 January 2009 | 3,603 | 44,641 | 3,632 | – | 10,161 | **62,037** |
| Charge for the year | 378 | 12,930 | 871 | – | 3,160 | **17,339** |
| On disposals | (571) | (4,086) | (260) | – | (357) | **(5,274)** |
| **At 31 December 2009** | **3,410** | **53,485** | **4,243** | **–** | **12,964** | **74,102** |
| Charge for the year | 189 | 7,054 | 388 | – | 1,633 | **9,264** |
| On disposals | – | (2,928) | (34) | – | (202) | **(3,164)** |
| **At 30 June 2010** | **3,599** | **57,611** | **4,597** | **–** | **14,395** | **80,202** |
| **Net book value** | | | | | | |
| **At 1 January 2009** | **8,764** | **52,555** | **2,629** | **60,104** | **29,307** | **153,359** |
| **At 31 December 2009** | **7,419** | **52,155** | **1,716** | **35,331** | **35,172** | **131,793** |
| **At 30 June 2010** | **7,941** | **54,903** | **1,591** | **27,900** | **40,618** | **132,953** |

# 21. Intangible assets

| In thousands of BGN | Software and licences | Goodwill | Total |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2009 | 8,487 | 107 | **8,594** |
| Additions | 88 | – | **88** |
| Disposals | (134) | – | **(134)** |
| Transfers | 14,246 | – | **14,246** |
| **At 31 December 2009** | **22,687** | **107** | **22,794** |
| Additions | 27 | – | **27** |
| Disposals | (745) | – | **(745)** |
| Transfers | 232 | – | **232** |
| **At 30 June 2010** | **22,201** | **107** | **22,308** |
| **Amortisation** | | | |
| At 1 January 2009 | 2,963 | – | **2,963** |
| Charge for the year | 1,393 | – | **1,393** |
| On disposals | (105) | – | **(105)** |
| **At 31 December 2009** | **4,251** | **–** | **4,251** |
| Charge for the year | 1,079 | – | **1,079** |
| On disposals | (745) | – | **(745)** |
| **At 30 June 2010** | **4,585** | **–** | **4,585** |
| **Net book value** | | | |
| **At 1 January 2009** | **5,524** | **107** | **5,631** |
| **At 31 December 2009** | **18,436** | **107** | **18,543** |
| **At 30 June 2010** | **17,616** | **107** | **17,723** |

# 22. Deferred Taxation

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

Deferred income tax balances are attributable to the following items:

| In thousands of BGN | Assets | | Liabilities | | Net | |
|---|---|---|---|---|---|---|
| | **30 June 2010** | **31 December 2009** | **30 June 2010** | **31 December 2009** | **30 June 2010** | **31 December 2009** |
| Property, equipment and intangibles | **–** | – | **2,661** | 2,273 | **2,661** | 2,273 |
| Other items | **(239)** | (392) | **61** | 63 | **(178)** | (329) |
| **Net tax (assets)/liabilities** | **(239)** | **(392)** | **2,722** | **2,336** | **2,483** | **1,944** |

Movements in temporary differences for the six months ended 30 June 2010 at the amount of BGN 539 thousand are recognised in the net profit for the period.

# 23. Other assets

| In thousands of BGN | 30 June 2010 | 31 December 2009 |
|---|---|---|
| Deferred expense | 17,723 | 5,003 |
| Gold bullion | 6,450 | 7,538 |
| Other assets | 23,735 | 23,409 |
| **Total** | **47,908** | **35,950** |

# 24. Due to credit institutions

| In thousands of BGN | 30 June 2010 | 31 December 2009 |
|---|---|---|
| Term deposits | – | 6,359 |
| Payable on demand | 1,695 | 1,291 |
| **Total** | **1,695** | **7,650** |

# 25. Due to other customers

| In thousands of BGN | 30 June 2010 | 31 December 2009 |
|---|---|---|
| Retail customers | | |
| – payable on demand | 383,268 | 319,647 |
| – term deposits | 2,824,045 | 2,389,561 |
| Corporate, state-owned and public institutions | | |
| – payable on demand | 306,496 | 299,011 |
| – term deposits | 345,509 | 331,327 |
| **Total** | **3,859,318** | **3,339,546** |

# 26. Liabilities evidenced by paper

| In thousands of BGN | 30 June 2010 | 31 December 2009 |
|---|---|---|
| Acceptances under letters of credit | 14,980 | 14,151 |
| Liabilities under repurchase agreements (see note 30) | 24,106 | 85,293 |
| Other term liabilities | 86,996 | 93,919 |
| **Total** | **126,082** | **193,363** |

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

# 27. Subordinated term debt

As at 30 June 2010 the Bank has entered into six separate subordinated loan agreements with four different lenders. All these subordinated loan agreements are governed by English Law with funds raised outside the Republic of Bulgaria.

Subordinated liabilities can be analysed as follows:

In thousands of BGN

| Lender | Original principal amount | Original maturity | Maturity date | Amortised cost as at 30 June 2010 |
|---|---|---|---|---|
| Growth Management Limited | 5,867 | 10 years | 27.08.2014 | 11,992 |
| Growth Management Limited | 3,912 | 10 years | 24.02.2015 | 6,878 |
| Hillside Apex Fund Limited | 9,779 | 10 years | 01.03.2015 | 17,310 |
| Growth Management Limited | 1,956 | 10 years | 17.03.2015 | 3,369 |
| ING Bank NV | 9,779 | 10 years | 22.04.2015 | 9,927 |
| Hypo-Alpe-Adria Bank | 3,912 | 10 years | 14.04.2015 | 3,782 |
| **Total** | **35,205** | | | **53,258** |

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

# 28. Perpetual debt

| In thousands of BGN | Principal amount | Amortised cost as at 30 June 2010 |
|---|---|---|
| Step-up guaranteed perpetual subordinated bonds EUR 27 mio | 52,807 | 58,027 |
| Step-up guaranteed perpetual subordinated bonds EUR 21 mio | 41,073 | 41,904 |
| **Total** | **93,880** | **99,931** |

The issue of the step-up subordinated bonds by First Investment Finance B.V., a limited liability company registered under the laws of the Netherlands, a subsidiary 100% owned by the Bank was fully guaranteed by the Bank. The terms and conditions of the subordinated bonds fully comply with Ordinance 8 on Capital Adequacy of Credit Institutions issued by BNB. The amounts received for the perpetual subordinated bonds are included in tier 2 capital after respective permissions by the Bulgarian National Bank.

# 29. Other liabilities

| In thousands of BGN | 30 June 2010 | 31 December 2009 |
|---|---|---|
| Liabilities to personnel | **2,121** | 3,668 |
| Current tax liability | **2,129** | 1,131 |
| Other payables | **2,634** | 2,106 |
| **Total** | **6,884** | **6,905** |

# 30. Repurchase and resale agreements

The Group raises funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate. Repurchase agreements are commonly used as a tool for short-term financing of interest-earning assets, depending on the prevailing interest rates. At 30 June 2010 assets sold under repurchase agreements are as follows:

| In thousands of BGN | Fair value of underlying assets | Carrying amount of corresponding liabilities |
|---|---|---|
| Bulgarian government securities | 19,542 | 21,070 |
| Other government securities | 3,036 | 3,036 |
| **Total** | **22,578** | **24,106** |

At 31 December 2009 assets sold under repurchase agreements were as follows:

| In thousands of BGN | Fair value of underlying assets | Carrying amount of corresponding liabilities |
|---|---|---|
| Bulgarian government securities | 25,944 | 26,992 |
| Other government securities | 58,264 | 58,301 |
| **Total** | **84,208** | **85,293** |

The Group also purchases financial instrument under agreements to resell them at future dates ("reverse repurchase agreements"). The seller commits to repurchase the same instruments at an agreed future date. Reverse repurchases are entered into as a facility to provide funds of customers. At 30 June 2010 assets purchased subject to agreements to resell them are as follows:

| In thousands of BGN | Fair value of assets held as collateral | Carrying amount of corresponding receivables |
|---|---|---|
| Bulgarian government securities | 1,922 | 1,867 |
| **Total** | **1,922** | **1,867** |

At 31 December 2009 assets purchased subject to agreements to resell were as follows:

| In thousands of BGN | Fair value of assets held as collateral | Carrying amount of corresponding receivables |
|---|---|---|
| Bulgarian government securities | 2,945 | 2,810 |
| **Total** | **2,945** | **2,810** |

# 31. Capital and reserves

## (a) Number and face value of registered shares as at 30 June 2010

As at 30 June 2010 the registered share capital of the Bank is BGN 110,000,000 divided into 110,000,000 ordinary dematerialized shares with voting rights of BGN 1 par value each. All the shares have been fully paid-up.

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

### (b) Shareholders

The table below shows those shareholders of the Bank holding shares as at 30 June 2010 together with the number and percentage of total issued shares.

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

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

### (c) Statutory reserve

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

In 2010, as in the previous year, the Bank has not distributed dividends.

## 32. Commitments and contingent liabilities

### (a) Memorandum items

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

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

| In thousands of BGN | 30 June 2010 | 31 December 2009 |
|---|---|---|
| Bank guarantees | | |
| – in BGN | 123,167 | 165,731 |
| – in foreign currency | 193,176 | 185,198 |
| **Total guarantees** | **316,343** | **350,929** |
| Unused credit lines | 273,721 | 289,482 |
| Promissory notes | 12,522 | 14,295 |
| Letters of credit in foreign currency | 93,716 | 98,749 |
| **Total** | **696,302** | **753,455** |

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

As at the end of the reporting period there are no other significant commitments and contingencies which require additional disclosure.

At 30 June 2010 the extent of collateral held for guarantees and letters of credit is 100 percent.

## 33. Cash and cash equivalents

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

| In thousands of BGN | 30 June 2010 | 30 June 2009 |
|---|---|---|
| Cash and balances with central banks | 620,528 | 502,304 |
| Loans and advances to banks and financial institutions with maturity less than 90 days | 4,743 | 6,871 |
| **Total** | **625,271** | **509,175** |

## 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 thousands of BGN | Six months ended 30 June 2010 | Six months ended 30 June 2009 |
|---|---|---|
| **FINANCIAL ASSETS** | | |
| Cash and balances with central banks | 589,208 | 543,637 |
| Financial assets held for trading | 13,284 | 22,739 |
| Available for sale investments | 454,605 | 385,814 |
| Financial assets held to maturity | 35,337 | 43,543 |
| Loans and advances to banks and financial institutions | 25,805 | 33,300 |
| Loans and advances to customers | 3,025,719 | 3,012,175 |
| **FINANCIAL LIABILITIES** | | |
| Due to credit institutions | 2,876 | 36,681 |
| Due to other customers | 3,620,664 | 2,920,344 |
| Liabilities evidenced by paper | 137,793 | 732,815 |
| Subordinated term debt | 58,671 | 55,475 |
| Perpetual debt | 99,100 | 98,804 |

# 35. Related party transactions

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

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

| **Type of related party** | **Parties that control or manage the Bank** | | **Enterprises under common control** | |
|---|---|---|---|---|
| In thousands of BGN | **Six months ended 30 June 2010** | **2009** | **Six months ended 30 June 2010** | **2009** |
| **Loans:** | | | | |
| Loans outstanding at beginning of the period | **2,130** | 2,455 | **21,721** | 11,728 |
| Loans issued during the period | **(135)** | (325) | **(2,185)** | 9,993 |
| Loans outstanding at end of the period | **1,995** | 2,130 | **19,536** | 21,721 |
| **Deposits and other financing received:** | | | | |
| Deposits at beginning of the period | **8,306** | 6,419 | **25,075** | 4,090 |
| Deposits received during the period | **(1,575)** | 1,887 | **(4,639)** | 20,985 |
| Deposits at end of the period | **6,731** | 8,306 | **20,436** | 25,075 |
| **Deposits placed** | | | | |
| Deposits at beginning of the period | **–** | – | **3,912** | 11,735 |
| Deposits matured during the period | **–** | – | **–** | (7,823) |
| Deposits at end of the period | **–** | – | **3,912** | 3,912 |
| **Off-balance sheet commitments issued by the Group** | | | | |
| At beginning of the period | **2,280** | 1,475 | **1,322** | 2,102 |
| Granted | **(580)** | 805 | **30** | (780) |
| At the end of the period | **1,700** | 2,280 | **1,352** | 1,322 |

The key management personnel of the Bank received remuneration of BGN 1,232 thousand for the first half of 2010 (first half of 2009: BGN 1,253 thousand).

# 36. Subsidiary undertakings

## (a) First Investment Finance B.V.

In April 2003 the Bank created a special purpose entity, incorporated in the Netherlands, First Investment Finance B.V., which is wholly owned by the Bank. Its purpose is to accomplish a narrow and well-defined objective of receiving loans from foreign financial institutions and attracting investors by issuing bonds and other financial instruments, guaranteed by the Bank, the proceeds from which are used to finance the operations of the Bank. The authorised share capital of the company amounts to EUR 90 thousand, divided into 900 common shares of EUR 100 each. Issued and paid up are 180 shares. The Bank consolidates its investment in this company.

### (b) Diners Club Bulgaria AD

In May 2005 the Bank acquired 80% of the share capital of Diners Club Bulgaria AD. The company was incorporated in 1996 as a franchise and processing agent of Diners Club International. As at 30 June 2010 the registered share capital of the company is BGN 1,860 thousand, and the Bank's shareholding is 91.18%. The Bank consolidates its investment in the company.

### (c) First Investment Bank – Albania Sh.a.

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

As at 30 June 2010 the share capital of First Investment Bank – Albania Sh.a. is EUR 10,475 thousand, fully paid in and the Bank's shareholding is 100%. The Bank consolidates its investment in the company.

### (d) Establishment of new companies affiliated to the Bank

Acting jointly the Bank and First Financial Brokerage House OOD (FFBH) set up two new companies Debita OOD and Realtor OOD, which were entered in Commercial Registry on 11 January 2010. Each of the new companies has a capital of BGN 150,000, which is divided in the following way:

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

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

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

## 37. Events after the reporting period

On 5 August 2010 the Bank acquired a 2% minority stake capital of "Health Insurance Fund Prime Health" AD and has the option of listing the amount of shares needed to become a majority shareholder at the next increase of capital of the company.

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### Trakia – Plovdiv
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### Radnevo
Radnevo 6260, 3, Georgi Dimitrov St.
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### Razgrad
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### Razlog
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### Aleksandrovska – Ruse
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### Technomarket – Ruse
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### Tsar Osvoboditel – Ruse
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### Rayonen sad (Regional Court) – Sevlievo
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### Dobrudzha – Silistra
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### Silistra
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### Slanchev bryag (Sunny Beach)
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### Sliven
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### Stara Zagora
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### Tsar Simeon – Stara Zagora
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### 8-mi Primorski polk – Varna
Varna 9000, 128, 8-mi Primorski polk Blvd.
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### Asparuhovo – Varna
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Varna 9000, 80-82, 8-mi Primorski polk Blvd.
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### Picadilly-Center – Varna
Varna 9000, Picadilly Store
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### Sveta Petka – Varna
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