Half Year Report 2011

Fibank
First Investment Bank

Message from the Managing Board

Dear shareholders, customers and colleagues,

During the first six months of 2011 the banks in Bulgaria retained their stability and trust despite ongoing uncertainty in the international markets and financial turbulence in the region. Due to our constant financial discipline, in compliance with the BNB's regulatory policy, we played our part in softening the effects of the crisis and avoiding the unpleasant scenarios played out in other countries.

As the largest Bulgarian-owned bank with systemic importance in the local market, First Investment Bank AD continued its consistent policy for business development with a focus on customer service and increased attention to risk management in accordance with the external environment and market conditions.

In the first half of 2011 First Investment Bank AD registered 62% growth in after-tax profit y/o/y to BGN 20.1 million, 11% growth in total assets compared to end-2010 to BGN 5,543 million, total capital adequacy ratio at 12.74% and tier 1 capital adequacy ratio at 10.22%, and liquidity ratio at 22.56%. Fibank retained its position as the sixth largest bank in terms of assets and loan portfolio. At the same time, we became the preferred bank for savings from individuals as the Bank's market position in terms of attracted deposits from non-financial institutions rose to third place. Fibank continued its policy of doing business by using traditional instruments in support of good projects – gross loan portfolio increased by 15% to reach BGN 4,046 million, and attracted funds from customers grew by 10% to BGN 4,717 million.

Our customers always expect the best. We develop our products and services to offer them quality support through modern technological applications and a team of professionals. During the reporting period a "telephone banking" service was launched offering active and passive banking operations over the telephone, and a new mobile version of the Virtual Branch was started. Investment banking services were further developed, including portfolio management and investment consultations. The card business focused on promoting PayPass contactless payments, developing the POS terminal network (by 528 terminals) and the partner network of merchants of the YES loyalty program. Fibank retained its high share of cross-border operations compared to domestic competitors, with 5.88% of sent and 7.98% of received transfers in foreign currency, and 7.77% of sent and 9.23% of received trade financing transactions.

We know how important good corporate governance is for successful development. We continued to make improvements in accordance with good practices and regulations. We used our own resources along with external consultants to restructure part of our business and involve new people in management. This will give Fibank the opportunity to expand in the future and to follow best practices in corporate governance and apply the lessons learned from the crisis.

The first half of 2011 was a successful period for First Investment Bank AD. We thank our customers for their loyalty, our shareholders for their support, our partners, as well as all our employees for their professionalism. We shall make efforts during the second half of the year to improve on our results, to offer the best banking services, to ensure the highest quality of customer service to our customers, to support Bulgarian business, and so implement our strategic goals.

Managing Board of First Investment Bank AD

Sofia, July 2011

Macroeconomic Development

In the first half of 2011 the Bulgarian economy marked a gradual recovery at a different pace in each sector of industry, as a result of net exports. Economic activity remained unstable, influenced by weak domestic consumption and by signals of slowdown in economic growth on a global scale. Macroeconomic stability in the country was sustained as a result of maintaining a balanced fiscal policy, the existing system of a currency board, and the stable banking system.

Table 1: Macroeconomic indicators

	H1'11	Q1'11	2010	2009	2008	2007	2006
GDP real growth, seasonally adjusted data (%)	2.0	3.3	0.2	(5.5)	6.2	6.4	6.5
Average inflation, HICP, (%)	3.8	3.7	3.0	2.5	12.0	7.6	7.4
Unemployment, (%)	9.6	9.5	9.2	9.1	6.3	6.9	9.1
Long-term interest rates, (%)	5.4	5.5	6.0	7.2	5.4	4.5	4.2
Current account, (% of GDP)	0.6	0.4	(1.3)	(8.9)	(23.1)	(25.2)	(17.6)
Foreign direct investments, (% of GDP)	0.3	(0.2)	4.9	7.0	19.0	29.4	23.5
Government debt, (% of GDP)	10.6	10.6	12.0	12.0	11.1	13.3	18.0
Gross external debt, (% of GDP)	92.2	92.1	102.8	108.3	105.1	94.3	82.0
Cash balance, (% of GDP)	(0.9)	(1.0)	(4.0)	(0.9)	2.9	3.3	3.4
BGN/EUR exchange rate (in BGN)	Currency board: fixed rate BGN 1.95583 for EUR 1						
BGN/USD exchange rate (in BGN)	1.35	1.38	1.47	1.36	1.39	1.33	1.49

Source: BNB, National statistics institute, Ministry of Finance

In the first quarter of 2011 the Bulgarian economy reported a real annual growth rate of 3.3% on a chain basis, which in the second quarter slowed to 2.0% (2010: 0.2%). The volume of exports of goods and services continued to underpin economic growth, increasing by 21.6% in the first quarter and by 12.2% in second quarter (2010: 16.2%). For the first time in two years, an acceleration in fixed capital investments was reported. For the period April-June 2011 they reached 8.4% growth on an annual basis (2010: -16.5%).

Chart 1: Gross domestic product

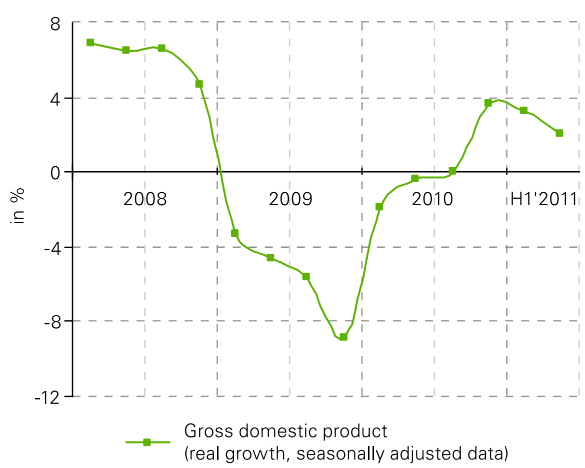
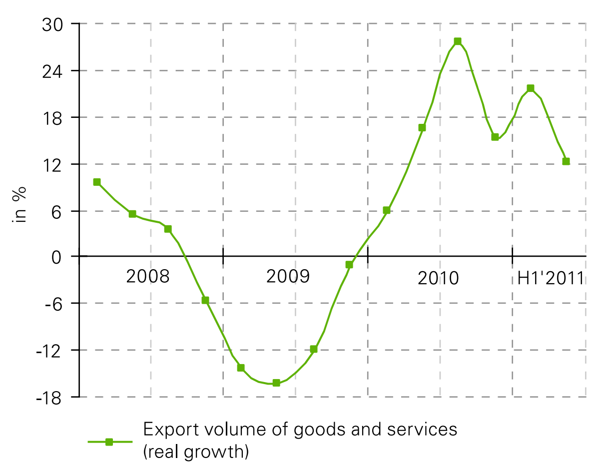


Chart 2: Export of goods and services



The continuing caution of households towards increasing their expenses and the volatile condition of the labour market contributed to the weak recovery of final consumption, which remained close to the levels as at the end of 2010: 1.2% growth for the first, and 1.4% for the second quarter of 2011 (2010: –1.1%).

By sectors, the major drivers of the economy were industry, where the gross value added increased by 5.7% on average for the period, reaching 5.9% in the second quarter, and the services sector, which grew by 0.1% in the first and second quarter of 2011. The agricultural sector deepened its decline from the first three months, to 2.5% for the period April-June 2011.

During the period companies continued to optimize their labor costs, as a result of which the unemployment rate remained high: 9.6% as at June 2011 (March 2011: 9.5%, 2010: 9.2%; 2009 : 9.1%) but remained comparable to the EU average (9.4%) and the Eurozone (9.9%).

In the first half of 2011, foreign direct investments in the country continued to decline to EUR 100 million (June 2010: EUR 565 million), mainly due to net payments on intercompany loans. Most investments were attracted in the sectors of transport, storage and communications (EUR 211 million), whereas the largest net payments occured in the sphere of manufacturing industry (EUR -269 million). An outflow of capital from the country was observed in portfolio investments and other investments, which include foreign assets and the liabilities of banks and companies in the form of loans and deposits. As a result, the financial account of the balance of payments at the end of June 2011 was negative by EUR 1,016 million, compared to negative by EUR 516 million a year earlier.

Chart 3: Foreign direct investments in Bulgaria

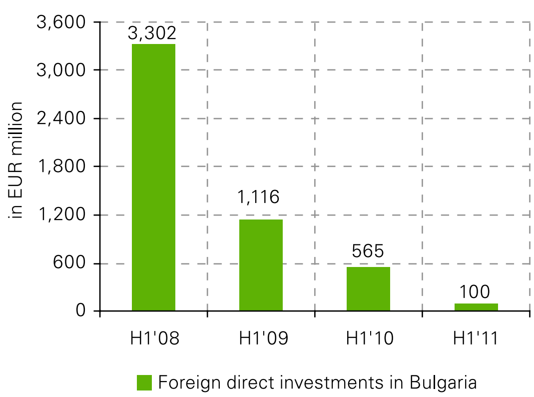
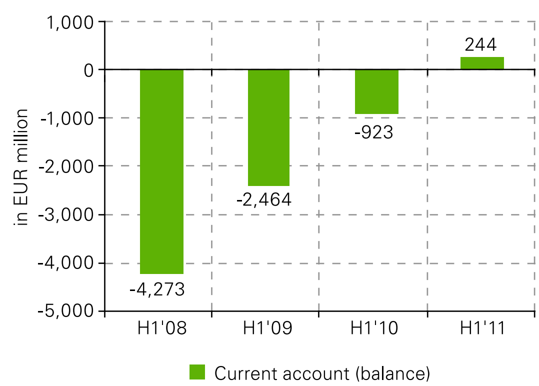


Chart 4: Current account of the balance of payments



The country's external position remained stable, supported mainly by the positive trend in the current account deficit, where a surplus EUR 244 million was reported for the first six months of 2011, amounting to 0.6% of GDP (June 2010: -923 million or -2.6% of GDP). A major contributor to this was the reduction of the trade deficit by 57.9% (EUR 881 million) to EUR 641 million, or 1.6% of GDP (June 2010: EUR 1,522 million or 4.2% of GDP). In the first six months of the year exports continued to grow at a faster pace than imports, reaching EUR 9,639 million or a 41.1% increase year on year. This was due mainly to the growth in raw materials and petroleum products. Imports increased by 23.0% and reached EUR 10,280 million (June 2010: EUR 8,358 million) mainly due to the increase in prices in the international markets and the gradual recovery of economic activity. In the first six months, the European Union remained the major trading partner, accounting for 61.5% of exports (June 2010: 60.4%, June 2009: 64.8%) and 49.8% of imports (June 2010: 51.2%, June 2009: 52.9%).

Chart 5: Gross external debt

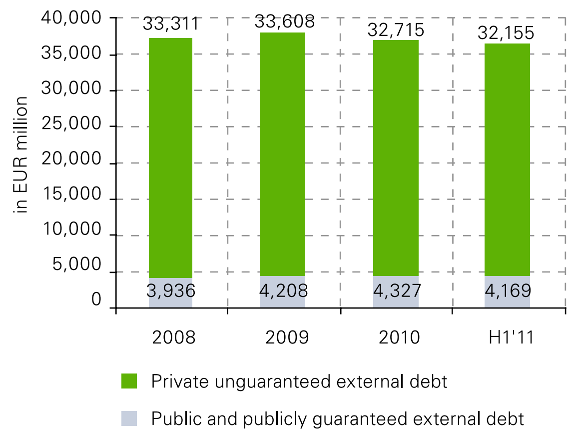
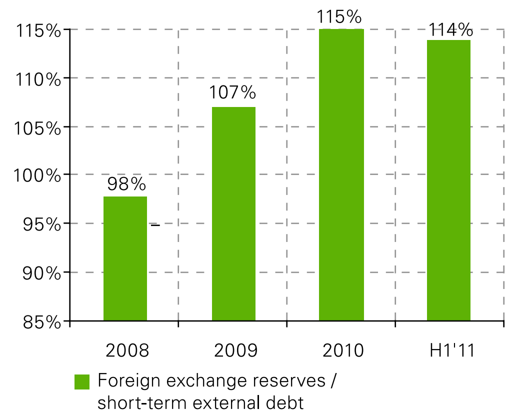


Chart 6: Short-term external debt coverage with foreign exchange reserves



Gross external debt decreased by 1.9% to EUR 36,324 million or 92.2% of GDP as at June 2011 (2010: EUR 37,042 million or 102.8% of GDP). The decrease was mainly at the expense of private unguaranteed debt, in particular bank deposits by non-residents. The public and publicly guaranteed external debt also decreased by 3.7% to EUR 4,169 million as at June 2011 (2010: EUR 4,327 million) and remained low as a percentage of GDP: 10.6% (2010: 12.0%; June 2010: 12.0%). Foreign exchange reserves cover 113.6% of the short-term external obligations of the country.

A balanced fiscal policy was maintained during the period. New fiscal rules and procedures for the control of expenditures were introduced to ensure the sustainability of public finances. In June 2011, the Pact for financial stability was adopted through amendments to the Law on State Budget Structure (in force as of 1 January, 2012), which limit the consolidated budget deficit to 2% of GDP, and expenditures on the consolidated fiscal program to 40% of GDP.

In the first half of 2011 the consolidated budget deficit decreased by 57.1% (BGN 865 million) to BGN 650 million, or 0.9% of GDP (June 2010: 1,515 million, or 2.2% of GDP), the main contributors to which were increased revenues from indirect taxes and social security payments. In the period, VAT revenues increased by 15.4% to BGN 2,912 million (June 2010: 2,523 million) as a result of increased control over collections and higher international oil prices. Revenues from excise duties reached BGN 1,707 million, compared to BGN 1,468 million a year earlier mainly due to increased excise rates on fuels and tobacco products. At the beginning of 2011, a new indirect tax on insurance premiums came into force, which generated additional revenue to the budget of BGN 9 million in the first six months of the year.

Chart 7: Cash balance

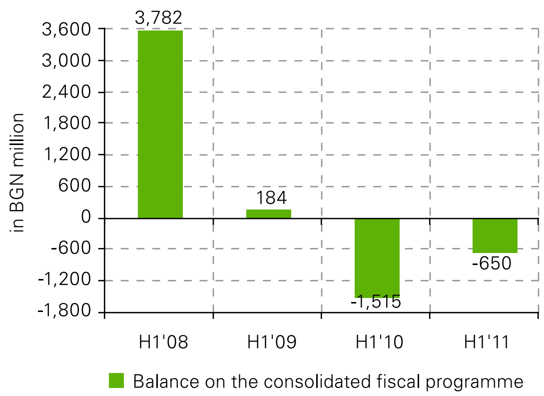
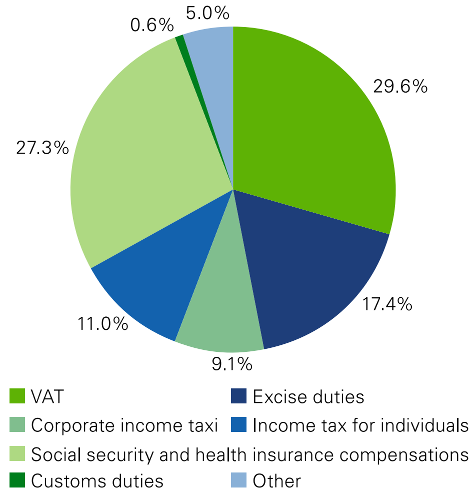


Chart 8: Composition of the tax revenues and compensations in H1'2011



Corporate tax revenues for the first half of 2011 totaled BGN 896 million or 9.8% over the same period last year (June 2010: BGN 816 million) while revenues from income tax of individuals grew by 5.6% to BGN 1,076 million (June 2010: BGN 1,019 million). Social security payments rose by 10.7% to BGN 2,682 million (June 2010: BGN 2,423 million) due to the higher pension contributions in force from the beginning of 2011. Total expenditures on the consolidated budget for the period decreased to BGN 12,691 million, compared to BGN 12,704 million a year earlier, due to reductions in capital expenditures.

Harmonized annual average inflation in the country reached 3.8% at the end of June 2011 compared to 3.0% by the end of 2010 (2009: 2.5%). This increase was a result of higher prices of foods and transport fuels in line with the dynamics of the international markets. Excise rates for tobacco products and fuels, which were increased during the period, also had an impact on the higher consumer price index in the country

Table 2: Credit ratings of Bulgaria

Rating Agency	**Long-term rating**	**Outlook**	**Change**
Standard & Poor's	BBB	stable	confirmed rating - July 2010
Moody's Investor Service	Baa2	stable	improved rating - July 2011
Fitch Ratings*	BBB-	positive	improved outlook - May 2011
Japan Credit Rating Agency*	BBB	stable	confirmed rating - July 2009

*The agreement for credit rating with the agency is terminated

Source: Ministry of Finance

Continuing fiscal discipline, complemented by ongoing structural reforms, improved institutional sustainability, as well as the relative flexibility of the financial system in the conditions of a volatile regional environment, warranted two international rating agencies to increase their estimates for the ratings and outlooks for the country during the year (Moody's Investor Service - increased long-term rating from Baa3 to Baa2 with a stable outlook; Fitch Ratings - improved outlook from negative to positive).

The main challenges for further recovery of the economic activity in Bulgaria in the second half of 2011 remain the activation of domestic demand, as well as overcoming the signals for the slowing of global economic growth and the associated external demand. The effective absorption of EU funds and strengthening of structural reforms continue to be among the factors for sustainable and long-term economic development.

The Banking System

In the first half of 2011, the banking system in Bulgaria was characterized by stability and continuing confidence and competitiveness. However there was a background of uncertainty in the financial markets on a global scale and a growing debt crisis in the region. Banks developed their systems for risk management and adapted their operations and financial positions according to the external conditions, by increasing their capital and liquidity buffers. The current regulatory and supervisory framework continues to evolve in accordance with EU regulations and standards, contributing to the good results of the banking system in Bulgaria.

Table 3: The banking system – key indicators

	in %			change in p.p.	
	June'11	2010	June'10	June'11/ 2010	June'11/ June'10
Capital adequacy ratio	17.73	17.48	18.03	0.25	(0.3)
Tier 1 capital ratio	15.54	15.24	15.22	0.30	0.32
Liquidity ratio	25.07	24.37	22.14	0.70	2.93
Loans/deposits ratio	93.03	93.67	95.62	(0.64)	(2.59)
Return-on-equity	6.47*	6.73	7.92	(0.26)	(1.45)
Return-on-assets	0.85	0.86	0.99	(0.01)	(0.14)
Loans past due over 90 days	13.53	11.90	9.45	1.63	4.08

* data as at 31.03.2011.

Source: Bulgarian National Bank

The capital position of the banking system was strengthened, with a focus on Tier I capital, as a result of the increase in share capital and other general purpose reserves. Total capital adequacy ratio increased by 0.25 percentage points, reaching 17.73% at the end of June 2011 (2010: 17.48%; June 2010: 18.03%) and that of Tier I capital - by 0.30 percentage points to 15.54% (2010: 15.24%; June 2010: 15.22%). The buffer of capital above the regulatory minimum of 12% increased and reached BGN 2,945 million (2010: BGN 2,794 million; June 2010: BGN 3,072 million), improving the capacity of the system to absorb potential shocks.

The liquidity of the banking system continued to be at a good level, adequate to the structure and volume of cash flows. Prudent lending activity and sustainable growth in customer deposits improved the liquidity indicators - the ratio of liquid assets, measuring the extent of coverage of borrowed funds with highly liquid instruments, reached 25.07% (2010: 24.37%; June 2010: 22.14%), the loans/deposits ratio decreased to 93.03% (2010: 93.67%; June 2010: 95.62%). These improved liquidity indicators increased the capacity for meeting liquidity risk.

The gradual recovery of economic activity along with cautious lending policies contributed to a slight increase in loans from banks. The credit risk and the associated increase in impairment charges, as well as the limited opportunities for expansion of income from other financial services, placed pressure on the profitability of the banking system. Profit after tax for the period was BGN 315 million (June 2010: BGN 352 million; June 2009: BGN 498 million), the return on assets (ROA) was 0.85% (June 2010: 0.99% June 2009: 2.14%) and the return on equity (ROE) was 6.47% (June 2010: 7.92%; June 2009: 12.21%).

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

	in BGN million			change in %	
	June'11	2010	June'10	June'11/ 2010	June'11/ June'10
Assets	74,979	73,726	71,031	1.70	5.56
Loans to corporates	34,654	33,993	32,812	1.94	5.61
Loans to individuals	18,596	18,579	18,638	0.09	(0.23)
Deposits from corporates	20,240	18,891	18,638	7.14	8.60
Deposits from individuals	29,293	28,037	26,319	4.48	11.30
Profit after tax	315	617	352	–	(10.51)
Impairment	625	1,317	566	–	10.42

Source: Bulgarian National Bank

The total balance sheet assets of the system increased by 1.7% to BGN 74,979 million (2010: BGN 73,726 million; June 2010: BGN 71,031 million), with loans retaining their determining share of 79.4% (2010: 79.2%; June 2010: 80.8%). The gross loan portfolio (excluding credit institutions) grew by 1.3% to BGN 54,570 million, mainly due to an increase in loans to corporate clients, which reached BGN 34,654 million or 1.9% more than at the end of 2010 (June 2010/2009: 0.3%). Loans to individuals rose by 0.1% to BGN 18,579 million as a result of an increase in mortgage loans (by 0.9% to BGN 9,351 million), and a decrease in consumer loans (by 0.7% to BGN 9,245 million). The behavior of individuals was determined by continuing uncertainty regarding future incomes and the slow improvement of labour market conditions.

Chart 9: Loan portfolio quality

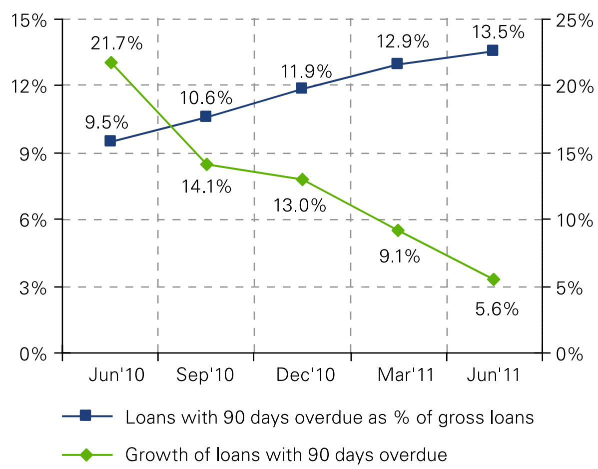
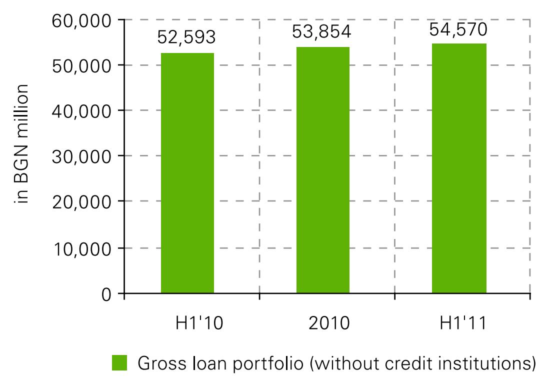


Chart 10: Gross loans



The tendency (from the third quarter of 2010) for a slowdown in the growth of classified loans (including loans in arrears more than 90 days) continued, with the status of loans to individuals remaining better than that of corporate loans. During the period, loans past due over 90 days increased by 1.63 percentage points to 13.53% of the gross loan portfolio (excluding credit institutions), compared to 11.90% at the end of 2010 (June 2010: 9.45%).

In the first half of 2011 the increase in local sources of funding continued, forming 78.1% of total attracted funds (2010: 76.3%) at the expense of sources from abroad which continued their decrease of the past three years. Total attracted funds in the banking system increased by 2.1%, reaching BGN 64,304 million (2010: BGN 63,011 million; June 2010: BGN 60,778 million) due to the continued growth in deposits from individuals by 4.5% (1,256 million) to BGN 29,293 million (2010: BGN 28,037 million; June 2010: BGN 26,319 million) and the increase in deposits from corporate customers by 7.1% (BGN 1,349 million) to BGN 20,240 million (2010: BGN 18,891 million; June 2010: BGN 18,638 million). The currency structure of attracted funds marked an increase in the BGN portion to 43.1% (2010: 41.3%), at the expense of the EUR - down to 50.3% (2010: 52.0%), and other currencies - to 6.6% (2010: 6.7%).

Chart 11: Attracted deposits

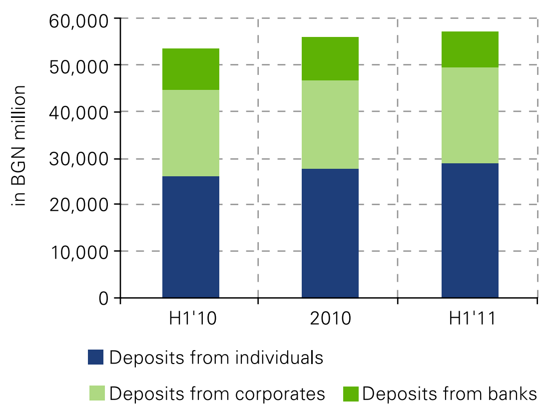
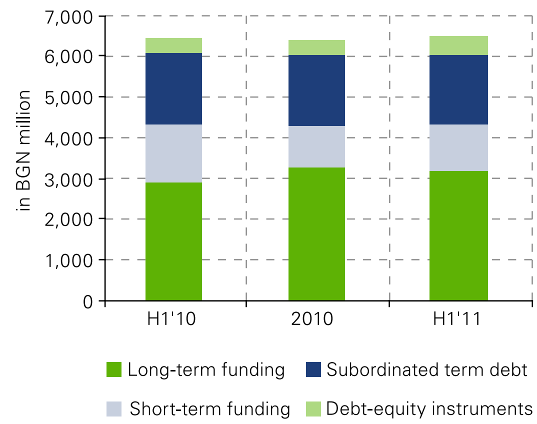


Chart 12: Other attracted funds



In the first six months of the year, regulatory changes were made in the direction of maintaining the anti-cyclical policy for regulating the activities of credit institutions and harmonizing national requirements with those of European legislation.

Banks continued to develop their policies in accordance with the regulatory changes in the field of risk management and capital adequacy, including the maintenance of liquidity and capital buffers for the absorption of potential shocks.

Since the beginning of the year, a new regulation of the BNB (Ordinance No 4) has been in effect in the requirements for remunerations in banks. The new provision, which is part of the overall framework for risk management, is driven by European directives regarding the principles and requirements for remuneration policies in banks, by which abstinence from excessive risk-taking is promoted.

In June 2011 changes were introduced to Ordinance No 9 of the BNB on the Evaluation and Classification of Risk Exposures of Banks and the Allocation of Specific Provisions for Credit Risk, whereby the acceptable regulatory limit for realization of collaterals (property in buildings or regulated land properties) was extended to 12 months.

During the period, a third settlement cycle of the system for the execution of client payment orders in BGN executed in a defined moment (BISERA 6) was introduced. There were also changes in the schedule of the real time gross settlement system RINGS, which was an important step towards optimizing cash flows in the country, assisting customers and businesses.

As at 30.06.2011, 30 credit institutions operated in the country, including 6 branches of foreign banks. During the period two banks changed ownership – NLB Banka Sofia was acquired by TBIF Financial Services BV (100% of the capital) and the Bulgarian-American Credit Bank by CSIF AD (49.99% of the capital). The balance sheet capital of the banking system amounted to BGN 10,009 million, with predominantly foreign participation of investors from the European Economic Area.

Bank Activities

In the first half of 2011 First Investment Bank AD (Fibank, the Bank) reported good financial results and expanded its position in the banking market. The bank retained its focus on product quality, high standards of service, and the management of risks in accordance with international standards, regulatory requirements, and the challenges of the external environment. It has competitive advantages in its good knowledge of the local market and the region, its flexible business model and good corporate governance.

Table 5: Key indicators

	June'11	2010	June'10
Key ratios (%)			
Capital adequacy ratio	12.74	13.23	13.89
Tier 1 capital adequacy ratio	10.22	10.21	10.64
Liquidity ratio	22.56	26.06	26.03
Cost/income ratio	63.45	69.85	76.60
Return-on-equity (after tax)	9.14	6.67	6.12
Return-on-assets (after tax)	0.77	0.61	0.58
Loan provisioning ratio	2.90	2.95	2.66
Net interest income/Total income from banking operations	70.31	66.60	68.15
Loans/Deposits	85.78	82.02	82.67
Earnings per share (in BGN)	0.18	0.25	0.11
Resources (in numbers)			
Branches and offices	173	172	172
Staff	2,754	2,690	2,610

Source: First Investment Bank AD

Fibank's credit ratings, rated by Fitch Ratings: long-term rating "BB-"; stable outlook, short-term rating "B"; viability rating "b+" (individual rating "D"); support rating "3", and level of the support rating "BB-".

Table 6: Market positions and market shares*

	Market positions (place)			Market shares (%)		
	June'11	2010	June'10	June'11	2010	June'10
Assets	6	6	6	7.31	6.71	6.38
Loans, including:	6	6	6	7.44	6.54	6.11
– corporate loans	4	4	5	9.39	8.09	7.45
– consumer loans	7	7	7	4.33	4.03	3.84
– mortgage loans	8	8	8	3.69	3.74	3.84
Deposits, including:	3	5	6	9.34	8.96	8.41
– deposits from individuals	2	2	3	13.13	12.66	11.96
	June'11	June'10	June'09	June'11	June'10	June'09
Net profit	7	8	8	6.35	4.20	3.83

* unconsolidated data

Source: Bulgarian National Bank

Evidence of the good performance of the Bank was recognition from the financial magazine Euromoney as the "Best Bank in Bulgaria" for 2011, the one which implemented the most innovative marketing solutions and demonstrated strong growth, improved ratings and sustainable indicators of efficiency and profit. During the period Fibank also received the award for market share in the annual ranking for bank awards of the "Bank of the Year" Association – the Bank achieved the most per unit of share capital, while attracting the largest number of deposits from households and companies in Bulgaria, and returning the majority of this money to the Bulgarian economy. Fibank also gecame "Favourite Brand for 2010" of the Bulgarian consumer in the category "Financial Institutions" at the competition of the magazine "BG Business Review".

Financial Results

In the first half of 2011, the Group of First Investment Bank reported profit after tax of BGN 20,076 thousand, an increase of 61.7%, or BGN 7,660 thousand over the same period of previous year. The increase was due to the higher income from banking operations, including from interests, fees and commissions. Fibank improved its market position, ranking seventh in terms of profit among the banks in the country (June 2010: eighth; June 2009: eighth). The Bank's market share rose to 6.35% on an unconsolidated basis, compared to 4.20% a year earlier (June 2009: 3.83%). Profitability indicators improved, with return on equity (after tax) reaching 9.14% (June 2010: 6.12%), return on assets (after tax) 0.77% (June 2010: 0.58%), and income per share BGN 0.18 (June 2010: BGN 0.11).

Table 7: Main indicators from the statement of comprehensive income

	in BGN thousand			change in %	
	June'11	**June'10**	**June'09**	**June'11/June'10**	**June'10/June'09**
Net interest income	84,461	62,315	56,821	35.5	9.7
Net fee and commission income	31,135	24,133	25,893	29.0	(6.8)
Net trading income	7,803	4,071	4,712	91.7	(13.6)
Total income from banking operations	120,120	91,437	87,280	31.4	4.8
Administrative expenses	(76,216)	(70,037)	(70,437)	8.8	(0.6)
Profit after tax	20,076	12,416	18,012	61.7	(31.1)

Source: First Investment Bank AD

The net interest income of the Group increased by 35.5% (BGN 22,146 thousand) to BGN 84,461 thousand (June 2010: BGN 62,315 thousand; June 2009: BGN 56,821 thousand) as a result of the higher interest income (14.6% or BGN 27,363 thousand), including from corporate loans (19.8% or BGN 24,350 thousand). Interest expenses increased by 4.1% to BGN 130,943 thousand due to the increased deposit base and the issued new hybrid debt. Net interest income reinforced its structural importance, forming 70,3% (June 2010: 68,2%; June 2009: 65.1%) of the total income from banking operations, which reached BGN 120,120 thousand in the first six months of the year (June 2010: BGN 91,437 thousand; June 2009: BGN 87,280 thousand).

Chart 13: Total income from banking operations

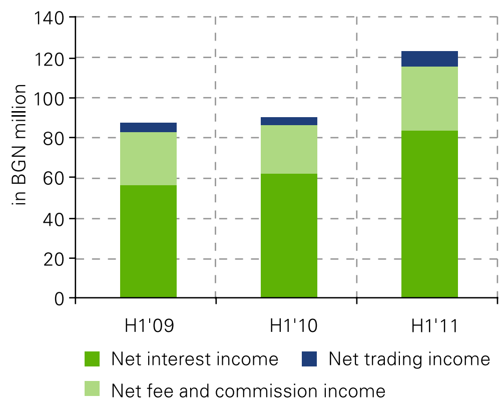


Chart 14: Group profit after tax

Net fee and commission income increased by 29% or BGN 7,002 thousand, amounting to BGN 31,135 thousand (June 2010: 24,133 thousand; June 2009: BGN 25,893 thousand). An increase was recorded in all major business lines generating incomes from fees and commissions, including: customer accounts (by 30.1% to BGN 7,748 thousand), card business (6.8% to BGN 9,605 thousand), payment operations (15% to BGN 4,326 thousand) and letters of credit and guarantees (by 31.9% to BGN 4,198 thousand).

Net trading income rose, reaching BGN 7,803 thousand for the period (June 2010: 4,071 thousand), including income from debt instruments increasing to BGN 3,802 thousand, from equity instruments to BGN 179 thousand, and from foreign currency transactions to BGN 3,822 thousand.

Administrative costs marked a growth of 8.8% and reached BGN 76,216 thousand (June 2010: BGN 70,037 thousand; June 2009: BGN 70,437 thousand), reflecting the increased numbers of staff and the related costs for salaries, social and health insurance. The ratio of operating expenses/income from banking operations continued to improve at 63,45% (June 2010: 76,60%; June 2009: 80.70%).

Impairment losses increased to BGN 14,830 thousand (June 2010: BGN 8,303 thousand), with the criteria for assessing the potential risk of loss applied by Fibank being in accordance with the regulations set by the BNB (Ordinance No 9).

Balance Sheet

As at the end of June 2011, the total assets of the Group of First Investment Bank reached BGN 5,542,885 thousand (2010: BGN 4,998,776 thousand), an increase of 10.9% (BGN 544,109 thousand). The market share of the Bank rose to 7.31% of the banking system's assets (2010: 6,71%; June 2010: 6.38%). The Bank retained its competitive market position, ranking sixth in terms of assets among the banks in the country on an unconsolidated basis.

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Table 8: Main balance sheet indicators

	in BGN thousand			change in %	
	June'11	2010	June'10	June'11/ 2010	June'11/June'10
Assets, including:	5,542,885	4,998,776	4,565,426	10.9	21.4
Loans and advances to customers	3,933,134	3,417,094	3,111,624	15.1	26.4
Loans and advances to banks and financial institutions	86,405	21,736	19,165	297.5	350.8
Liabilities, including:	5,089,970	4,565,601	4,149,651	11.5	22.7
Customer deposits	4,716,532	4,285,693	3,859,318	10.1	22.2
Liabilities evidenced by paper	137,226	116,725	126,082	17.6	8.8
Total group equity	452,915	433,175	415,775	4.6	8.9

Source: First Investment Bank AD

The cash and balances with central banks rose by 26.7% (BGN 148,932 thousand) to BGN 705,793 thousand, mainly due to the growth in accounts and receivables from foreign banks which reached BGN 170,461 thousand (2010: BGN 44,084 thousand), and receivables from central banks, which reached BGN 416,868 thousand (2010: BGN 383,064 thousand) as a result of the increased deposit base.

Available for sale investments decreased to BGN 522,627 thousand (2010: BGN 715,405 thousand) as a result of the settlement of discount treasury bills issued by foreign governments. Financial assets held for trading increased by 10.3% to BGN 18,351 thousand, and financial assets held to maturity decreased by 8% to BGN 52,531 thousand. The Bank seeks at all times to maintain optimal levels of liquidity. At the end of the period the liquidity ratio was 22.56% (2010: 26.06%; June 2010: 26.03%), the loans/deposits ratio 85.78% (2010: 82.02%; June 2010: 82.67%). Loans and advances to banks and financial institutions increased to BGN 86,405 thousand, compared to BGN 21,736 thousand at the end of 2010 as a result of increased deposits to banks and the receivables under resale agreements as part of liquidity management.

Chart 15: Portfolio of financial instruments

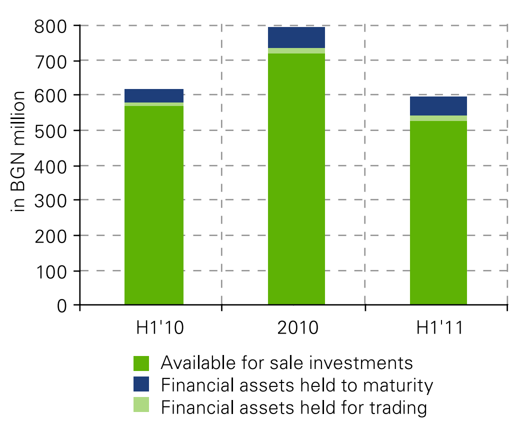
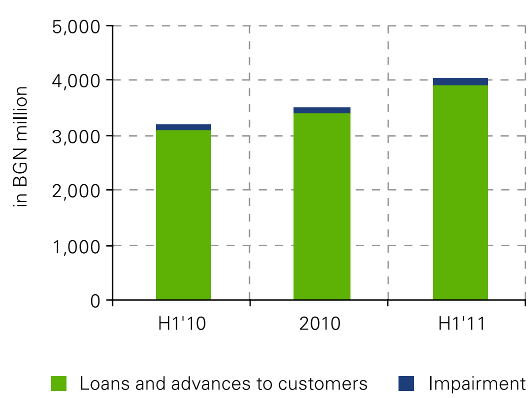


Chart 16: Loan portfolio and impairment



Loans and advances to customers recorded a growth of 15.1% (BGN 516,040 thousand) in the first half of 2011 and reached BGN 3,993,134 thousand (2010: BGN 3,417,094 thousand; June 2010: BGN 3,111,624 thousand), mainly due to the increase in loans to large corporate customers. In terms of credits, Fibank ranked sixth in the banking system on an unconsolidated basis, while maintaining its market position from the end of 2010.

The quality of the loan portfolio of the Bank remained at a good level. At the end of the reporting period, loans past due over 90 days formed 4.95% of total loans before allowances (2010: 4.01%). During the period, loans amounting to BGN 6,627 thousand were reintegrated (June 2010: BGN 7,365 thousand), and BGN 51 thousand were brought off-balance (June 2010: BGN 2,476 thousand). The loan provisioning ratio of risk exposures was 2.90% (2010: 2.95%; June 2010: 2.66%).

Attracted funds from customers increased by 10.1% (BGN 430,839 thousand) to BGN 4,716,532 thousand (2010: BGN 4,285,693 thousand), with a major contribution of deposits from individuals, which occupy the determinant share - 83.3% of all attracted funds from customers (2010: 84.5%). By the end of June 2010 Fibank improved its market position to rank third in terms of deposits among the banks in the country (2010: fifth; June 2010: sixth). The Bank's market share rose to 9.34% on an unconsolidated basis, compared to 8.96% six months earlier (June 2010: 8.41%).

Chart 17: Customer deposits

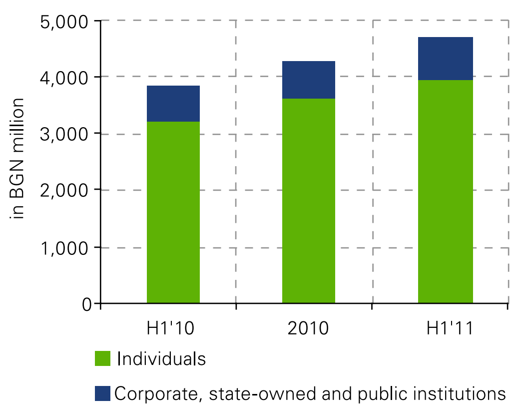
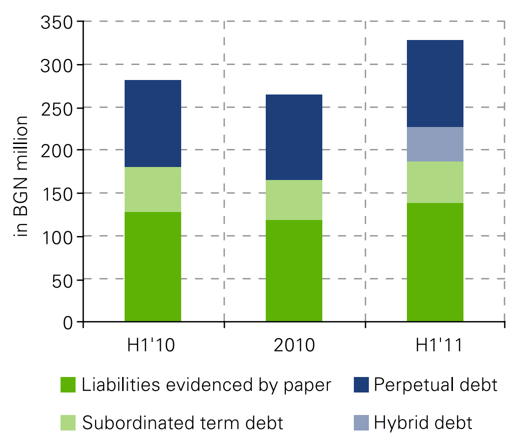


Chart 18: Other attracted funds



Liabilities evidenced by paper increased by 17.6% to BGN 137,226 thousand (2010: BGN 116,725 thousand) due to an increase in the liabilities under repurchase agreements, amounting to BGN 53,192 thousand (2010: 21,208 thousand) and in particular from repo transactions with Bulgarian government securities.

At the end of the period the sum of the subordinated term debt amounted to BGN 47,539 thousand, compared to BGN 47,169 thousand as at 31 December 2010. In May 2011, ING Bank NV transferred 20% (EUR 1 million) of its receivable under the subordinated debt agreement with Fibank to DF Deutsche Forfait AG. The sum of the perpetual debt amounted to BGN 100,184 thousand, compared to BGN 99,201 thousand for the preceding period.

In the first half of 2011 the Bank issued new hybrid debt by placing perpetual subordinated bonds under the conditions of a private placement with a total nominal and issue value of EUR 20,000 thousand, representing the first tranche of a bond issue with envisaged total amount of up to EUR 40,000 thousand. The hybrid debt was included in the Tier I capital of the Bank, following authorization from the BNB. The amortised cost of the debt as at the end of June 2011 amounted to BGN 40,254 thousand.

Capital

The total capital base increased and reached BGN 555,102 thousand or by 9.8% (BGN 49,407 thousand) more than at the end of 2010. Tier I capital increased by 14.2% (BGN 55,389 thousand) to BGN 445,558 thousand, as a result of the capitalization of the Bank's annual profit for 2010 and the issuance of new hybrid debt.

Chart 19: Capital base

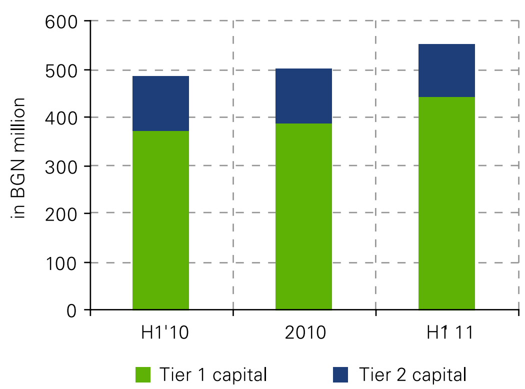
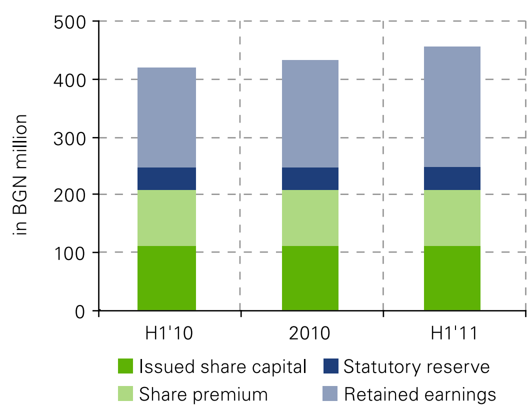


Chart 20: Equity structure



As at 30 June 2011 the capital indicators of the Bank were above the established regulatory requirements. Total capital adequacy ratio amounted to 12.74% (2010: 13.23%; June 2010: 13.89%), and Tier I capital was at 10.22% (2010: 10.21%; June 2010: 10.64%). In calculating its capital adequacy, the Bank applies the new Capital Accord (Basel II), as adopted in the EU Directives and Ordinance No 8 of the BNB.

Total Group equity increased by 4.6% to BGN 452,915 thousand (2010: BGN 433,175 thousand). As at the end of June 2011 the issued share capital of the Bank remained unchanged, amounting to BGN 110,000 thousand, divided into 110,000,000 common voting shares with a nominal value of BGN 1 each.

During the reporting period the price of the Bank's shares fluctuated in the range between BGN 2.05 to BGN 3.55, according to the leading market indices of the Bulgarian Stock Exchange. The last price of the shares of the Bank for the reporting period was BGN 3.08 (June 2010: BGN 1.90) and the market capitalization of the Bank, calculated on that basis, was BGN 338,250 thousand (June 2010: BGN 209,000 thousand). A total of 2,794 transactions were concluded with shares of the Bank, amounting to a turnover of BGN 11,716 thousand, compared to 2,177 transactions and BGN 5,091 thousand turnover a year earlier. The Bank's shares are traded on the Official market segment "B" of the Bulgarian Stock Exchange and are included in three stock indices - SOFIX, BG40 and BGTR30, which bring together the largest, most traded and most liquid companies on the stock market in the country.

Chart 21: Fibank's share price during H1'2011

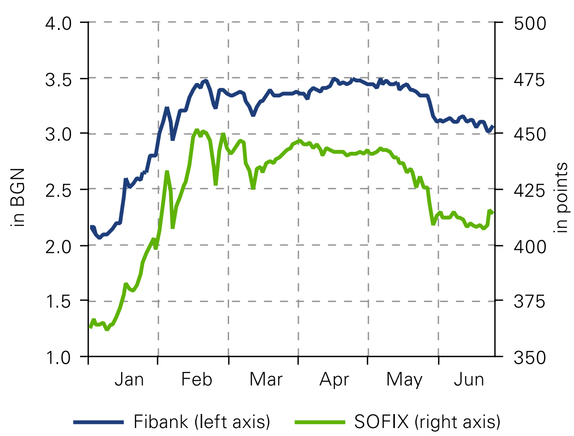
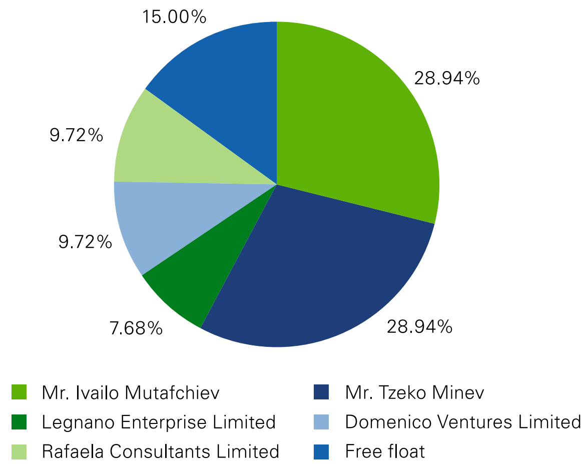


Chart 22: Shareholders' structure



As at 30 June 2011 the shareholder structure of the Bank remained unchanged.

First Investment Bank AD develops its internal system of risk management to ensure timely identification, evaluation and management of risks inherent ito its activity. The Bank determines its propensity to risk and risk tolerance levels so that they correspond to its strategic objectives, while its overall risk profile is managed by balancing the risks undertaken, the returns, the liquidity, and the adequacy of capital.

In the first half of 2011 Fibank continued to work towards developing systems for the forecasting and management of risks according to external conditions and good banking practices, while preserving flexibility and the adaptability of the Bank to the needs of the market.

Table 9: Risk-weighted assets

in BGN thousand	**June'11**	**2010**	**June'10**
For credit risk	3,994,846	3,456,345	3,161,680
For market risk	5,463	5,988	4,787
For operational risk	358,363	358,675	358,675
Total risk-weighted assets	4,358,672	3 821,008	3,525,142

Source: First Investment Bank AD

At the end of the reporting period the Group of First Investment Bank operated with 173 branches and offices (2010: 172, June 2010: 172), of which 53 in Sofia, 109 in the rest of Bulgaria, one foreign branch in Cyprus and 10 branches and offices of the subsidiary bank in Albania. For the six months of 2011 one new office was opened in Stara Zagora, and four offices were converted into branches (Razgrad, Targovishte, Kyustendil and Montana), as part of a program for optimizing and increasing the efficiency of the branch network, including through deeper market penetration in the localities.

As at 30 June 2011 the staff reached 2,754 employees on a consolidated basis (2010: 2,690; June 2010: 2,610).

In the first half of 2011, Fibank undertook new steps to improve its corporate governance in accordance with the current regulatory framework and good practices.

During the period, a new remuneration policy of Fibank was adopted in implementation of the Law on Credit Institutions and Ordinance No. 4 of the BNB on the Requirements for Remunerations in Banks. The policy is consistent with the business strategy, objectives and values of the Bank and is based on effective risk management. It is aimed at motivating employees to achieve high performance at a moderate level of risk in accordance with the long-term interests of the Bank and its shareholders. The Policy sets out the general principles in determining of remunerations – fixed and variable. Variable remunerations are based on performance and targets achieved in the long term, and on an estimate of the financial (quantitative) and non-financial (qualitative) criteria. For certain categories of staff – senior management personnel and other employees whose work significantly influences the risk profile of the Bank, the Policy sets out specific requirements for distribution of the variable remuneration: not less than 50% of it to be granted in the form of financial instruments – shares and other instruments relating to shares tools under Art. 3a of Ordinance No 8 of the BNB, and determining an appropriate period of retention for these instruments; deferring part of the variable remuneration (at least 40%, and for the persons under art. 10 of the Law on Credit Institutions – at least 60%) for a period of three to five years.

During the six months, Fibank further developed its corporate website in accordance with the National Corporate Governance Code, adding a special section on the rights of shareholders.

In May 2011 Mr. Stanislav Bozhkov was elected a member of the Managing Board and Deputy Executive Director of the Bank. Previously, Mr. Bozhkov was director of the Specialized Internal Audit Service of the Bank, and has held management positions in the Methodology and Risk Management departments. The composition of the Supervisory Board of the Bank remains unchanged.

A regular annual general meeting of shareholders was held during the reporting period, at which a decision was taken that the entire net profit of the Bank for 2010 shall be capitalized and that no dividends shall be paid, or any other deductions made from the profits for 2011. KPMG Bulgaria OOD was selected as a specialized auditing company, which will verify the annual financial statements for 2011. The first general meeting of bondholders was held for the issue of perpetual subordinated bonds of the Bank with a principal amount of EUR 20 million, issued under the conditions of a private placement.

The program for corporate social responsibility of the Bank focused on investments in the area of sport. In January 2011, the Bank renewed its five-year partnership with the Bulgarian Olympic Committee, undertaking to further support the organization of sports activities and events of the committee in carrying out its core program for the period 2011-2012. In February 2011 the Bank became the main sponsor of the Bulgarian Athletics Federation (BFLA), whose activities in 2011 will be supported financially by Fibank.

Retail Banking

In the first six months of 2011, attracted funds from individuals increased by 8.5% (BGN 307,933 thousand) and reached BGN 3,929,560 thousand (2010: BGN 3,621,627 thousand). The improvement resulted from the growth in term deposits (8.3% or BGN 271,754 thousand), which reached BGN 3,539,841 thousand, retaining their predominant share in attracted funds from individuals at 90.1% (2010: 90.2%). Fibank continued to adapt its diverse and flexible deposit products to market conditions and customer needs, while at the same time maintaining high standards of customer service.

At the end of the period current accounts amounted to BGN 389,719 thousand or by 10.2% (BGN 36,179 thousand) more than at the end of 2010. Fibank offers a variety of accounts such as: the current account "Optima" with debit card, savings accounts with competitive conditions, and specialized accounts tailored to the specific needs of certain customers such as accounts for condominium ownerships, notaries, insurance brokers, and others.

In terms of attracted funds from individuals, the Bank ranked second among the banks in the country. Its market share increased to 13.13% on an unconsolidated basis (2010: 12.66%; June 2010: 11.96%).

Chart 23: Attracted funds from individuals

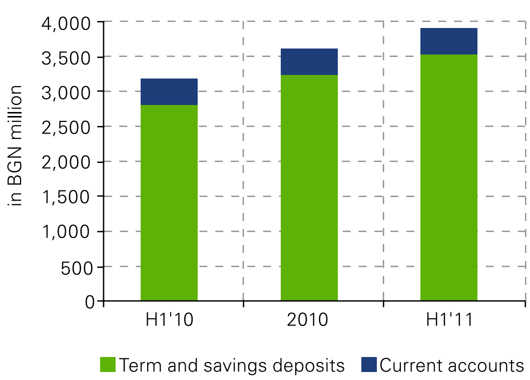
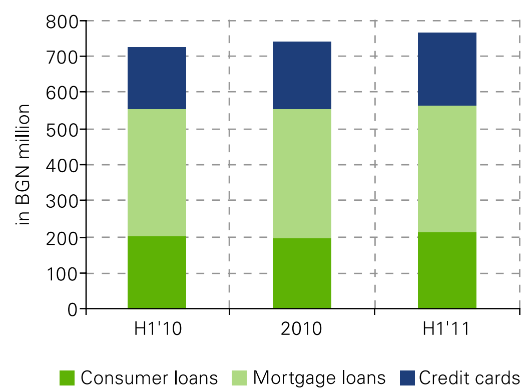


Chart 24: Loans to individuals



The credit portfolio of loans to individuals on a consolidated basis increased by 3.4% to BGN 767,974 thousand (2010: BGN 742,674 thousand) as a result of an increase in consumer loans, and utilized credit limits on credit cards and overdrafts.

Consumer loans grew by 6.6% to BGN 212,820 thousand, compared to BGN 199,671 thousand six months earlier. This was facilitated by simplified procedures for application and by the competitive conditions. The market share of Fibank in this segment increased to 4.33% (2010: 4.03%; June 2010: 3.84%), while the Bank maintained its market position – seventh place in consumer loans among the banks in the country on an unconsolidated basis.

Credit cards increased by 6.7% and reached BGN 199,873 thousand (2010: BGN 187,266 thousand). This can be attributed to the diverse and innovative card products and services of Fibank, and to the consistent policy of the Bank towards encouraging this kind of cashless payment. The share of loans utilized through credit cards in the total loan portfolio to individuals increased to 26% as at the end of June 2011 (2010: 25,2%; June 2010: 23.6%).

As at 30 June 2011 mortgage loans amounted to BGN 355,281 thousand, remaining almost unchanged from their levels at the end of 2010 - BGN 355,737 thousand. They retain a major share in the portfolio of loans to individuals at 46.3% (2010: 47.9%; June 2010: 48.1%) During the reporting period, the offering of a new "Advantage" mortgage loan began, with no charge for early repayment with own funds and no charge for reviewing documents. In June 2011 another new mortgage loan "Chance" was launched for the purchase of property offered for public sale by private bailiffs. As at 30 June 2011, Fibank's market position in this market segment remained unchanged – eighth place in mortgage loans with a market share of 3.69% on an unconsolidated basis.

In offering products from precious metals, the Bank continued to diversify its product range – it offered new gold and silver bullion medallions with signs of the zodiac (Aries, Taurus, Gemini, Cancer), two deluxe collection series ("Gold Rush" and "Muses") of gold and silver coins, as well as a new gold coin from the New Zealand Mint.

A new service was added to the list of remote banking services offered by Fibank – telephone banking, which allows active banking (transfers and purchase of currency) and passive banking (receiving bank reference information) by telephone, through the use of a token device. Also developed was a new mobile version of the Virtual Branch (e-fibank).

In the first half of 2011 the Bank allocated resources and funds for development of services in the area of investment banking, including trust portfolio management and investment consulting. A new Asset Management Department was created, and the corporate website was updated especially for investment services and activities.

Corporate Banking

At the end of June 2011 the corporate loans portfolio increased by 18.2% (BGN 505,517 thousand) and reached BGN 3,277,763 thousand (2010: BGN 2,772,246 thousand), a result of growth in loans to large corporate customers. The Bank's market share rose to 9.39% of all corporate loans in the banking system (2010: 8.09%; June 2010: 7.45%). Fibank maintained its competitive market position - fourth among the banks in the country under this indicator on an unconsolidated basis.

Loans to large corporate customers increased by 19.9% (BGN 499,214 thousand) to BGN 3,004,315 thousand (2010: BGN 2,505,101 thousand). The highest growth during the period was recorded in loans in the sectors of industry (BGN 415,428 thousand) and services (BGN 225,289 thousand). The portfolio of loans to large corporate customers reinforced its predominant share to 91.7% (2010: 90.4%; June 2010: 89.8%) of all corporate loans.

Chart 25: Loans to corporates

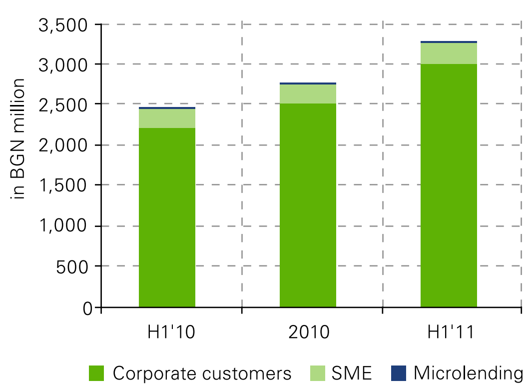
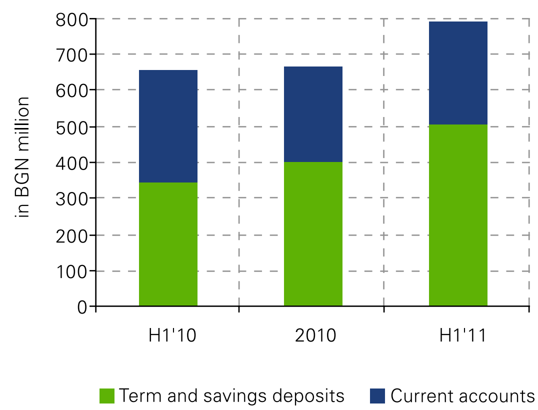


Chart 26: Attracted funds from corporates



Loans to SMEs increased by 2.9% and reached BGN 247,073 thousand as at 30 June 2011, compared to BGN 240,128 thousand six months earlier. During the reporting period two new mortgage products with a simplified application procedure were developed – the mortgage business overdraft (for working capital) and mortgage business loan (for working capital and investment purposes).

In April 2011 the Bank renegotiated the terms of its agreement with the National Guarantee Fund towards increasing the maximum amount of the loan portfolio guaranteed by the Fund. In this way Fibank continued to assist its SME clients looking for funding along this line.

As at 30 June 2011 the portfolio of microloans amounted to BGN 26,375 thousand, compared to BGN 27,017 thousand at the end of 2010. The reported reduction was due to increased requirements regarding credit risk and creditworthiness specific to this segment.

Attracted funds from corporates grew by 18.5% (BGN 122,906 thousand) during the period, to BGN 786,972 thousand, compared to BGN 664,066 thousand at the end of 2010. The relative share of term deposits in the structure of funds from corporate customers increased to 63.9% or BGN 502,911 thousand (2010: 60.3% or BGN 400,651 thousand) at the expense of current accounts, whose share was reduced to 36.1% or BGN 284,061 thousand (2010: 39.7% or BGN 263,415 thousand). As at 30 June 2011, the funds attracted from the thirty largest non-bank depositors represented 5.63% of the total liabilities due to other customers (2010: 4.59%; June 2010: 4.72%).

Card Payments

In the first half of 2011 Fibank affirmed its leading position in the sphere of card business, continuing its consistent policy towards encouraging card payments and the offering of sophisticated card products and services in accordance with the best practices. The Bank's market share in credit cards increased – up to 16.30% in June 2011 on an unconsolidated basis (2010: 14.57%), and in debit cards up to 8.23% (2010: 7.98%)

During the reporting period Fibank focused on promoting cards for contactless payments under the PayPass technology, which the Bank began offering at the end of 2010.

Efforts and resources were also allocated to the development of the YES loyalty program of the Bank, aimed at broadening the partnership network of merchants in the country. The YES program, which is the first fully automated loyalty program implemented by a bank in Bulgaria, is based on a special application on the smart cards for individuals participating in the program (credit cards MasterCard YES and Mastercard PayPass, and debit cards Maestro PayPass) which gives the card holder points, discounts and other rewards for every transaction made at a POS terminal of the Bank with a YES loyalty application installed.

Chart 27: Credit cards

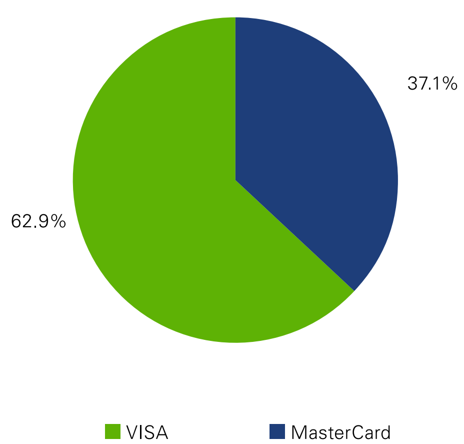
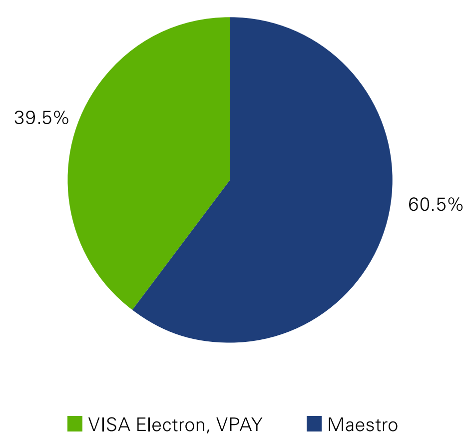


Chart 28: Debit cards



In the first six months of the year the structure of bank cards remained unchanged. With credit cards the distribution was 62.9%/37.1% respectively for VISA/MasterCard, while with debit cards it was 60.5%/39.5% respectively for Maestro/VISA Electron, VPAY. During the period, the number of issued credit cards increased by 11.5% thanks to growth in MasterCard cards, and that of debit cards by 3.8%, due to an increase in VISA products.

The Group of First Investment Bank continued to develop its network of POS terminal devices, increasing their number by 528 in the first six months of the year, to total 9,293 as at 30.06.2011, and continued to promote its virtual POS service. The Bank continued to work in the direction of optimizing its network of ATM terminals, whose number by 30 June 2011 amounted to 669 units (2010: 673 units).

During the period, the subsidiary of the Bank, Diners Club Bulgaria AD, devoted resources to the development of new projects – online credit card statements and SMS notifications, which will facilitate cardholders in using credit cards. The company continued to work on the introducing of chip technology, and grow the network of POS terminals in the country accepting payments by Diners Club cards.

International Payments

In the first six months of 2011, First Investment Bank AD reported improved market shares in international transfers in foreign currency (according to data from SWIFT), with 5.88% of the outgoing (June 2010: 5.65%) and 7.98% of the incoming (June 2010: 7.27%). Evidence of the good results in this sphere was the award received from Deutsche Bank for outstanding quality and covering the high global standards in the area of international payments in euro – achieving 97.36% correctly executed transfers.

In trade finance operations, by the end of June 2011 Fibank performed 7.77% of outgoing (June 2010: 10.12%), and 9.23% of incoming operations (June 2010: 9.69%).

Chart 29: Bank guarantees and letters of credit

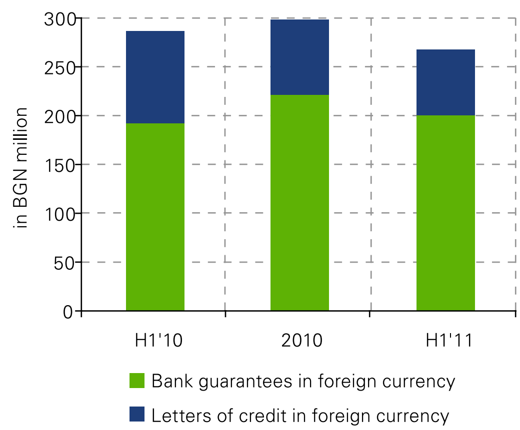
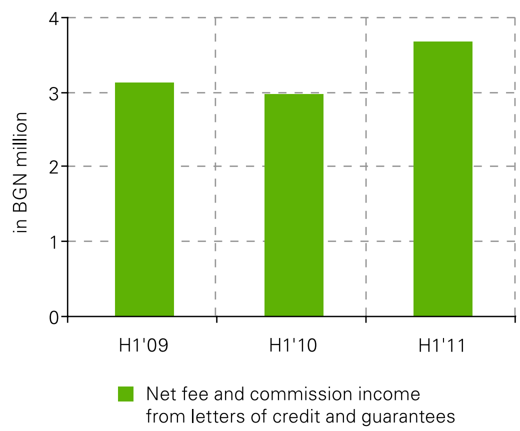


Chart 30: Net income from letters of credit and guarantees



During the period bank guarantees and letters of credit in foreign currency issued by Fibank to guarantee the performance of customers to third parties amounted to BGN 268,251 thousand (2010: BGN 298,991 thousand), forming 35.7% (2010: 41.9%) of the off-balance sheet commitments of the Group. Fibank has established a wide network of correspondent banks, allowing it to service international bank guarantees and letters of credit operations in almost any part of the world.

As at the end of June 2011 First Investment Bank AD had eight subsidiaries - First Investment Finance B.V. (100% of capital), Diners Club Bulgaria AD (94,79%), First Investment Bank Albania Sh.a. (100%), Debita OOD (70%), Realtor OOD (51%), Health Insurance Fund FI Health AD (59,10%), Framas Enterprises Limited (100%) and Balkan Financial Services EOOD (100%).

In January 2011 Fibank increased its shareholding participation in Health Insurance Fund FI Health AD to 59.10% (2010: 57.10%) of the company's capital.

In February 2011 the Bank acquired 100 company shares representing 100% of the capital of Balkan Financial Services. The company's provides consulting services for the implementation of financial information systems and software development.

Consolidated Financial Statements as at 30 June 2011 with Independent Auditor’s Report Thereon

Report of the Independent Auditor

to the Shareholders of First Investment Bank AD

Sofia, 28 July 2011.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of First Investment Bank AD ("the Group"), which comprise the consolidated statement of financial position as at 30 June 2011, the consolidated statements of comprehensive income, changes in equity and cash flows for the period then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, adopted by European Commission, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error..

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 30 June 2011, 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

Consolidated statement of comprehensive income for the six months ended 30 June 2011

In thousands of BGN

	Note	Six months ended 30 June 2011	Six months ended 30 June 2010
Interest income		215,404	188,041
Interest expense		(130,943)	(125,726)
Net interest income	**6**	**84,461**	**62,315**
Fee and commission income		35,155	28,090
Fee and commission expense		(4,020)	(3,957)
Net fee and commission income	**7**	**31,135**	**24,133**
Net trading income	**8**	**7,803**	**4,071**
Other operating income/(expenses)	**9**	**(3,279)**	**918**
TOTAL INCOME FROM BANKING OPERATIONS		**120,120**	**91,437**
General administrative expenses	10	(76,216)	(70,037)
Impairment losses	11	(14,830)	(8,303)
Other income/(expenses), net		(6,820)	999
PROFIT BEFORE TAX		**22,254**	**14,096**
Income tax expense	**12**	**(2,178)**	**(1,680)**
GROUP PROFIT AFTER TAX		**20,076**	**12,416**
Other comprehensive income			
Exchange differences on translating foreign operations		(287)	191
Available for sale financial assets		(39)	14
Other comprehensive income for the period		**(326)**	**205**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**19,750**	**12,621**
Profit attributable to:			
Owners of the Bank		20,054	12,463
Non-controlling interests		22	(47)
Total comprehensive income attributable to:			
Owners of the Bank		19,728	12,668
Non-controlling interests		22	(47)
Basic and diluted earnings per share (in BGN)	**13**	**0.18**	**0.11**

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 29 to 64.

Maya Georgieva
Executive Director

Jordan Skortchev
Executive Director

Ianko Karakolev
Chief Financial Officer

Gilbert McCaul
Partner
KPMG Bulgaria OOD

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

Margarita Goleva
Registered auditor

Consolidated statement of financial position as at 30 June 2011

In thousands of BGN

	Note	30 June 2011	31 December 2010
ASSETS			
Cash and balances with central banks	14	705,793	556,861
Financial assets held for trading	15	18,351	16,641
Available for sale investments	16	522,627	715,405
Financial assets held to maturity	17	52,531	57,102
Loans and advances to banks and financial institutions	18	86,405	21,736
Loans and advances to customers	19	3,933,134	3,417,094
Property and equipment	20	124,492	128,563
Intangible assets	21	20,087	20,997
Current tax assets		4,262	6,513
Other assets	23	75,203	57,864
TOTAL ASSETS		**5,542,885**	**4,998,776**
LIABILITIES AND CAPITAL			
Due to credit institutions	24	35,969	8,826
Due to other customers	25	4,716,532	4,285,693
Liabilities evidenced by paper	26	137,226	116,725
Subordinated term debt	27	47,539	47,169
Perpetual debt	28	100,184	99,201
Hybrid debt	29	40,254	–
Deferred tax liability	22	3,443	3,248
Derivative liabilities held for risk management		107	247
Current tax liabilities		2,602	1,080
Other liabilities	30	6,114	3,412
TOTAL LIABILITIES		**5,089,970**	**4,565,601**
Issued share capital	32	110,000	110,000
Share premium	32	97,000	97,000
Statutory reserve	32	39,861	39,861
Revaluation reserve on available for sale investments	32	(67)	(28)
Reserve from translation of foreign operations	32	(3,021)	(2,734)
Retained earnings	32	206,942	186,799
SHAREHOLDERS' EQUITY		**450,715**	**430,898**
Non-controlling interests	32	2,200	2,277
TOTAL GROUP EQUITY		**452,915**	**433,175**
TOTAL LIABILITIES AND GROUP EQUITY		**5,542,885**	**4,998,776**

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 pages29 to 64.

Maya Georgieva
Executive Director

Jordan Skortchev
Executive Director

Ianko Karakolev
Chief Financial Officer

Gilbert McCaul
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KPMG Bulgaria OOD

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Consolidated statement of cash flows for the six months ended 30 June 2011

In thousands of BGN

	Six months ended 30 June 2011	Six months ended 30 June 2010
Net cash flow from operating activities		
Profit for the period	20,076	12,416
Adjustment for non-cash items		
Impairment losses	14,830	8,303
Depreciation and amortisation	11,098	10,343
Income tax expense	2,178	1,680
Profit from sale and derecognition of tangible and intangible fixed assets, net	(27)	(4,949)
	48,155	**27,793**
Change in operating assets		
(Increase) in financial instruments held for trading	(1,710)	(2,377)
(Increase)/decrease in available for sale investments	192,739	(280,072)
(Increase)/decrease in loans and advances to banks and financial institutions	(50,934)	3,473
(Increase) in loans to customers	(530,870)	(153,466)
(Increase) in other assets	(15,088)	(11,969)
	(405,863)	**(444,411)**
Change in operating liabilities		
Increase/(decrease) in deposits from banks	27,143	(5,955)
Increase in amounts owed to other depositors	430,839	519,772
Net increase/(decrease) in other liabilities	1,975	(590)
	459,957	**513,227**
Income tax paid	(161)	(629)
NET CASH FLOW FROM OPERATING ACTIVITIES	**102,088**	**95,980**
Cash flow from investing activities		
(Purchase) of tangible and intangible fixed assets	(6,093)	(10,735)
Sale of tangible and intangible fixed assets	3	5,001
(Increase)/decrease of investments	4,561	(3,493)
NET CASH FLOW FROM INVESTING ACTIVITIES	**(1,529)**	**(9,227)**
Financing activities		
Increase/(decrease) in borrowings	62,108	(73,685)
Non-controlling interests at incorporation of subsidiaries	–	119
NET CASH FLOW FROM FINANCING ACTIVITIES	**62,108**	**(73,566)**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**162,667**	**13,187**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	**560,281**	**612,084**
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD (see note 34)	**722,948**	**625,271**

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 29 to 64.

Maya Georgieva
Executive Director

Jordan Skortchev
Executive Director

Ianko Karakolev
Chief Financial Officer

Gilbert McCaul
Partner
KPMG Bulgaria OOD

СПЕЦИАЛИЗИРАНО ОДИТОРСКО ПРЕДПРИЯТИЕ
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Margarita Goleva
Registered auditor

Consolidated statement of changes in equity for the six months ended 30 June 2011

In thousands of BGN

	Share capital	Share premium	Retained earnings	Revaluation reserve on available for sale invest-ments	Reserve from translation of foreign operations	Statutory reserve	Non-controlling interests	Total
Balance as at 1 January 2010	**110,000**	**97,000**	**158,857**	**(146)**	**(2,629)**	**39,861**	**92**	**403,035**
Total comprehensive income								
Profit for the six months ended 30 June 2010	–	–	12,463	–	–	–	(47)	12,416
Other comprehensive income								
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
Transaction with owners recognised directly in equity								
Acquisition of 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**
Balance as at 1 January 2011	**110,000**	**97,000**	**186,799**	**(28)**	**(2,734)**	**39,861**	**2,277**	**433,175**
Total comprehensive income								
Profit for the six months ended 30 June 2011	–	–	20,054	–	–	–	22	20,076
Other comprehensive income								
Revaluation reserve on available for sale investments	–	–	–	(39)	–	–	–	(39)
Reserve from translation of foreign operations	–	–	–	–	(287)	–	–	(287)
Transaction with owners recognised directly in equity								
Acquisition of non-controlling interest's shareholding	–	–	89	–	–	–	(99)	(10)
Balance as at 30 June 2011	**110,000**	**97,000**	**206,942**	**(67)**	**(3,021)**	**39,861**	**2,200**	**452,915**

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 29 to 64.

The financial statements have been approved by the Managing Board on 28 July 2011 and signed on its behalf by:

Maya Georgieva
Executive Director

Jordan Skortchev
Executive Director

Ianko Karakolev
Chief Financial Officer

Gilbert McCaul
Partner

СПЕЦИАЛИЗИРАНО ОДИТОРСКО ПРЕДПРИЯТИЕ
София
Рег. №045
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Margarita Goleva
Registered auditor

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 2011 comprise the Bank and its subsidiaries (see note 37), together referred to as the "Group".

The Group has foreign operatios in Cyprus and Albania.

(b) Statement of compliance

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

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

(c) Basis of preparation

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

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

The Group has made certain reclassifications to the financial statements as of 31 December 2010 in order to provide more clear and precise comparison figures.

2. Significant accounting policies

(a) Income recognition

(i) Interest income

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

(ii) Fee and commission

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

(iii) Net trading income

Net gains (losses) on financial assets and liabilities held for trading 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 thousands of BGN

30 June 2011	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets held for trading	18,351	–	–	18,351
Available for sale investments	492,153	24,015	6,459	522,627
Derivatives held for risk management	–	(107)	–	(107)
Total	**510,504**	**23,908**	**6,459**	**540,871**

In thousands of BGN

31 December 2010	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets held for trading	16,641	–	–	16,641
Available for sale investments	671,834	37,552	6,019	715,405
Derivatives held for risk management	–	(247)	–	(247)
Total	**688,475**	**37,305**	**6,019**	**731,799**

(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 – 50
Fixtures and fittings	10 – 20
Vehicles	10 – 20
Leasehold improvements	2 – 50

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

(l) Intangible assets

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

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

Assets	**%**
Licences	10 – 20
Computer software	8 – 50

(m) Provisions

A provision is recognised in the statement of financial position when the Group has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect is material, provisions are determined by discounting the expected future cash 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 amount of an asset or liability for financial reporting purposes and the amount used for taxation purposes.

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

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

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

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

(i) Impairment losses on loans and advances

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

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

(ii) Income taxes

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

(q) Earnings per share

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

(r) Employee benefits

Defined contribution plans

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

Defined benefit plans

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

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

Termination benefits

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

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 effective for annual periods beginning after 1 January 2011, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Group.

IASB/IFRIC documents not yet endorsed by the European Commission:

- Amendments to IFRS 7 *Disclosures – Transfers of Financial Assets* (effective for annual periods beginning on or after 1 July 2011). The Group does not expect the amendment to IFRS 7 to have material impact on the financial statements.
- IFRS 9 *Financial Instruments* (2009) (effective for annual periods beginning on or after 1 January 2013). It is expected that this new standard, when initially applied, will have a significant impact on the financial statements, since it will be required to be retrospectively applied. However, the Group is not able to prepare an analysis of the impact this will have on the financial statements until the date of initial application. The Group has not yet decided on the date that it will initially apply the new standard.
- Additions to IFRS 9 *Financial Instruments* (2010) (effective for annual periods beginning on or after 1 January 2013) The 2010 additions to IFRS 9 replace the guidance in IAS 39 Financial Instruments: Recognition and Measurement, about classification and measurement of financial liabilities and the derecognition of financial assets and financial liabilities. The Group does not expect the amendment to IFRS 9 to have material impact on the financial statements.
- IFRS 10 *Consolidated Financial Statements* and IAS 27 (2011) Separate Financial Statements (effective for annual periods beginning on or after 1 January 2013). IFRS 10 provides a single model to be applied in the control analysis for all investees and introduces new requirements to assess control that are different from the existing requirements. The Group does not expect the new IFRS 10 to have material impact on the financial statements.
- IFRS 11 *Joint Arrangements* (effective for annual periods beginning on or after 1 January 2013) supersedes and replaces IAS 31, *Interest in Joint Ventures.* IFRS 11 does not introduce substantive changes to the overall definition of an arrangement subject to joint control. The Group does not expect the new IFRS 11 to have material impact on the financial statements.
- IFRS 12 *Disclosure of Interests in Other Entities* (effective for annual periods beginning on or after 1 January 2013) requires additional disclosures relating to significant judgements and assumptions made in determining the nature of interests in an entity or arrangement, interests in subsidiaries, joint arrangements and associates and unconsolidated structured entities. The Group does not expect IFRS 12 to have material impact on the financial statements.
- IFRS 13 *Fair Value Measurement* (effective prospectively for annual periods beginning on or after 1 January 2013). IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. The Group does not expect IFRS 13 to have material impact on the financial statements since management considers the methods and assumptions currently used to measure the fair value of assets to be consistent with IFRS 13.
- Amendments to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income* (effective for annual periods beginning on or after 1 July 2012). The amendments require that an entity presents separately the items of other comprehensive income that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. The impact of the initial application of the amendments will depend on the specific items of other comprehensive income at the date of initial application.

- Amendments to IAS 12 *Income taxes – Deferred Tax: Recovery of Underlying Assets* (effective for annual periods beginning on or after 1 January 2012). The Group does not expect the amendment to IAS 12 to have material impact on the financial statements.
- Amendments to IAS 19 (2011) *Employee Benefits* (effective for annual periods beginning on or after 1 January 2013). The amendment requires actuarial gains and losses to be recognised immediately in other comprehensive income. The Group does not expect the amendment to IAS 19 to have material impact on the financial statements.
- Amendments to IAS 27 (2011) *Separate Financial Statements* (effective for annual periods beginning on or after 1 January 2013). The Group does not expect the amendment to IAS 27 to have material impact on the financial statements.
- Amendments to IAS 28 (2011) *Investments in Associates and Joint Ventures* (effective for annual periods beginning on or after 1 January 2013). The Group does not expect the amendment to IAS 28 to have material impact 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, capital base, 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 2011:

in thousands of BGN	**30 June 2011**	**Six months ended 30 June 2011**			**31 December 2010**
		average	**low**	**high**	
VaR	284	447	271	608	538

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 2011

In thousands of BGN	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	Over 1 year	Maturity not defined	Total
Assets						
Cash and balances with central banks	705,793	–	–	–	–	705,793
Financial assets held for trading	18,351	–	–	–	–	18,351
Available for sale investments	1,724	131,222	323,534	59,688	6,459	522,627
Financial assets held to maturity	–	1,002	3,091	48,438	–	52,531
Loans and advances to banks and financial institutions	31,368	–	46,917	8,120	–	86,405
Loans and advances to customers	282,839	180,319	965,031	2,504,945	–	3,933,134
Total financial assets	**1,040,075**	**312,543**	**1,338,573**	**2,621,191**	**6,459**	**5,318,841**
Liabilities						
Due to credit institutions	6,431	15,813	13,725	–	–	35,969
Due to other customers	1,134,117	835,839	1,805,286	941,290	–	4,716,532
Liabilities evidenced by paper	50,782	5,712	48,085	32,647	–	137,226
Subordinated term debt	–	–	–	47,539	–	47,539
Perpetual debt	–	–	–	–	100,184	100,184
Hybrid debt	–	–	–	–	40,254	40,254
Other financial liabilities	107	–	–	–	–	107
Total financial liabilities	**1,191,437**	**857,364**	**1,867,096**	**1,021,476**	**140,438**	**5,077,811**
Net liquidity gap	**(151,362)**	**(544,821)**	**(528,523)**	**1,599,715**	**(133,979)**	**241,030**

Maturity table as at 31 December 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	556,861	–	–	–	–	556,861
Financial assets held for trading	16,641	–	–	–	–	16,641
Available for sale investments	118,590	234,511	288,336	67,949	6,019	715,405
Financial assets held to maturity	5,394	9,167	6,774	35,767	–	57,102
Loans and advances to banks and financial institutions	8,705	611	4,043	8,377	–	21,736
Loans and advances to customers	165,799	210,735	763,802	2,276,758	–	3,417,094
Total financial assets	**871,990**	**455,024**	**1,062,955**	**2,388,851**	**6,019**	**4,784,839**
Liabilities						
Due to credit institutions	8,826	–	–	–	–	8,826
Due to other customers	1,350,080	815,919	992,620	1,127,074	–	4,285,693
Liabilities evidenced by paper	21,311	11,258	3,422	80,734	–	116,725
Subordinated term debt	–	–	–	47,169	–	47,169
Perpetual debt	–	–	–	–	99,201	99,201
Other financial liabilities	247	–	–	–	–	247
Total financial liabilities	**1,380,464**	**827,177**	**996,042**	**1,254,977**	**99,201**	**4,557,861**
Net liquidity gap	**(508,474)**	**(372,153)**	**66,913**	**1,133,874**	**(93,182)**	**226,978**

As at 30 June 2011 the funds by the thirty largest non-bank depositors represent 5.63% of total deposits from other customers (2010: 4.59%).

The following table provides a remaining maturities analysis of the financial liabilities of the Group as at 30 June 2011 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	6,431	15,920	13,934	–	36,285
Due to other customers	1,135,289	844,494	1,875,157	1,057,934	4,912,874
Liabilities evidenced by paper	50,836	5,737	48,859	35,169	140,601
Subordinated term debt	–	–	3,374	73,275	76,649
Perpetual debt	–	6,601	4,775	139,382	150,758
Hybrid debt	–	–	5,630	59,066	64,696
Other financial liabilities	107	–	–	–	107
Total financial liabilities	**1,192,663**	**872,752**	**1,951,729**	**1,364,826**	**5,381,970**

(ii) Market risk

Interest rate risk

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

In order to quantify the interest rate risk of its non-trading activities, the Group measures the impact of a change in the market rates both on net interest income and on the Group's economic value defined as the difference between fair value of assets and fair value of liabilities. The interest rate risk on the economic value of the Group following a standardised shock of +100bp/-100bp as of 30 June 2011 is BGN +1.3/-1.3 Mio. The interest rate risk on the Group's net interest income one year forward following a standardised shock of +100bp/-100bp as of 30 June 2011 is BGN +4.1/-4.1Mio.

The following table indicates the effective interest rates at 30 June 2011 and the periods in which financial liabilities and assets reprice.

In thousands of BGN	Total	Weighted average effective interest rate	Floating rate instru-ments	Fixed rate instruments			
				Less than 1 month	Between 1 month and 3 months	Between 3 months and 1 year	More than 1 year
Assets							
Cash and balances with central banks	183,471	0.74%	18,836	164,635	–	–	–
Financial assets held for trading	14,758	3.49%	–	–	–	–	14,758
Available for sale investments	516,168	1.48%	29,298	1,724	131,221	323,534	30,391
Financial assets held to maturity	52,531	5.40%	–	–	1,002	3,091	48,438
Loans and advances to banks and financial institutions	82,946	3.45%	–	27,923	–	46,915	8,108
Loans and advances to customers	3,846,112	11.81%	3,310,952	60,493	37,968	159,079	277,620
Non-interest earning assets	846,899	–	–	–	–	–	–
Total assets	**5,542,885**		**3,359,086**	**254,775**	**170,191**	**532,619**	**379,315**
Liabilities							
Due to credit institutions	35,969	2.95%	2,431	4,000	15,813	13,725	–
Due to other customers	4,714,135	5.37%	647,929	484,955	834,675	1,805,286	941,290
Liabilities evidenced by paper	137,226	2.54%	59,482	50,782	–	–	26,962
Subordinated term debt	47,539	15.16%	–	–	–	–	47,539
Perpetual debt	100,184	12.58%	–	–	–	–	100,184
Hybrid debt	40,254	12.86%	–	–	–	–	40,254
Non-interest bearing liabilities	14,663	–	–	–	–	–	–
Total liabilities	**5,089,970**		**709,842**	**539,737**	**850,488**	**1,819,011**	**1,156,229**

The following table indicates the effective interest rates at 31 December 2010 and the periods in which financial liabilities and assets reprice.

In thousands of BGN	Total	Weighted average effective interest rate	Floating rate instru-ments	Fixed rate instruments			
				Less than 1 month	Between 1 month and 3 months	Between 3 months and 1 year	More than 1 year
Assets							
Cash and balances with central banks	62,835	0.31%	27,537	35,298	–	–	–
Financial assets held for trading	13,428	3.58%	–	–	–	–	13,428
Available for sale investments	709,386	0.95%	46,349	118,590	235,511	287,335	21,601
Financial assets held to maturity	57,102	5.80%	–	5,394	9,167	6,774	35,767
Loans and advances to banks and financial institutions	19,128	5.05%	121	6,701		3,929	8,377
Loans and advances to customers	3,379,115	12.49%	2,945,624	71,810	24,395	132,795	204,491
Non-interest earning assets	757,782	–	–	–	–	–	–
Total assets	**4,998,776**		**3,019,631**	**237,793**	**269,073**	**430,833**	**283,664**
Liabilities							
Due to credit institutions	8,826	0.18%	1,826	7,000	–	–	–
Due to other customers	4,284,196	5.62%	1,382,820	453,651	701,800	851,761	894,164
Liabilities evidenced by paper	116,725	3.40%	68,326	21,215	78	14	27,092
Subordinated term debt	47,169	15.15%	–	–	–	–	47,169
Perpetual debt	99,201	12.55%	–	–	–	–	99,201
Non-interest bearing liabilities	9,484	–	–	–	–	–	–
Total liabilities	**4,565,601**		**1,452,972**	**481,866**	**701,878**	**851,775**	**1,067,626**

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 2011	31 December 2010
Monetary assets		
Euro	3,880,315	3,422,525
US dollar	354,846	381,025
Other currencies	104,417	81,936
Gold	8,248	6,723
Monetary liabilities		
Euro	2,786,925	2,475,250
US dollar	355,651	382,068
Other currencies	108,899	86,387
Gold	–	–
Net position		
Euro	1,093,390	947,275
US dollar	(805)	(1,043)
Other currencies	(4,482)	(4,451)
Gold	8,248	6,723

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:

30 June 2011		In thousands of BGN
Class of exposure	**Gross amount of loans and advances to customers**	**Carrying amount of loans and advances to customers**
Collectively impaired		
Standard	3,496,366	3,491,351
Individually impaired		
Watch	328,961	317,803
Nonperforming	30,526	26,280
Loss	189,884	97,700
Total	**4,045,737**	**3,933,134**

31 December 2010		In thousands of BGN
Class of exposure	**Gross amount of loans and advances to customers**	**Carrying amount of loans and advances to customers**
Collectively impaired		
Standard	3,057,066	3,053,222
Individually impaired		
Watch	311,715	305,126
Nonperforming	27,875	24,275
Loss	118,264	34,471
Total	**3,514,920**	**3,417,094**

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

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

The major concentrations of credit risk arise 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 2011**	**31 December 2010**
Trade	865,249	891,439
Industry	1,083,855	668,427
Services	462,275	236,986
Finance	11,826	30,931
Transport, logistics	254,752	256,342
Communications	48,396	38,018
Construction	197,574	170,447
Agriculture	77,170	74,408
Tourist services	113,000	137,996
Infrastructure	149,401	142,906
Private individuals	772,920	742,982
Other	9,319	124,038
Less allowance for impairment	(112,603)	(97,826)
Total	**3,933,134**	**3,417,094**

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 2011 with total exposures amounting to BGN 111,457 thousand (2010: BGN 78,336 thousand) - ferrous and non-ferrous metallurgy, BGN 63,831 thousand (2010: BGN 68,850 thousand) – mining industry and BGN 106,167 thousand (2009: BGN 108,113 thousand) - power engineering.

The Group has extended loans and issued contingent liabilities to 20 individual clients or groups (2010: 17) with each individual exposure exceeding 10% of the capital base of the Group. The total amount of these exposures is BGN 1,483,275 thousand which represents 267.21% of the Group's capital base (2010: BGN 1,324,378 thousand which represented 261.89%of capital base) of which BGN 1,297,584 thousand (2010: BGN 1,102,284 thousand) represent loans and BGN 185,691 thousand (2010: BGN 222,094 thousand) represent guarantees, letters of credit and other commitments.

The loans extended by the Cyprus branch amount to BGN 222,637 thousand (2010: BGN 175,938 thousand) and in Albania – BGN 49,556 thousand (2010: BGN 45,575 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 199,873 thousands (2010: BGN 187,266 thousands):

In thousands of BGN	**30 June 2011**	**31 December 2010**
Mortgage	1,659,471	1,489,092
Pledge of receivables	500,328	241,395
Pledge of commercial enterprise	433,736	443,797
Securities	83,859	130,044
Bank guarantee	15,155	7,127
Other guaranties	378,265	305,410
Pledge of goods	130,648	164,800
Pledge of machines	196,566	219,301
Money deposit	41,390	37,146
Stake in capital	129,501	29,013
Gold	18	18
Other collateral	235,176	227,206
Unsecured	41,751	33,305
Total	**3,845,864**	**3,327,654**

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, translation reserve, non-controlling interests and hybrid instruments without incentive to redeem after deductions for goodwill and other intangible assets and unrealised loss from available for sale investments.
- Tier 2 capital, which includes qualifying subordinated liabilities, namely perpetual debt and subordinated term debt.
- Following limits are applied to elements of the capital base. Qualifying tier 2 capital cannot exceed tier 1 capital; qualifying term subordinated loan capital may not exceed 50 percent of tier 1 capital; and qualifying hybrid debt without incentive to redeem cannot exceed 35 percent of tier 1 capital. Deductions from capital base include specific provisions for credit risk.

The Group has complied with all capital requirements.

Capital adequacy level is as follows:

In thousands of BGN	Carrying amount/notional amount		Risk weighted amount	
	30 June 2011	31 December 2010	30 June 2011	31 December 2010
Risk weighted assets for credit risk				
Assets				
Exposure class				
Central governments and central banks	952,328	1,111,542	42,310	36,403
Institutions	307,192	123,335	79,009	37,492
Corporates	2,897,546	2,462,179	2,856,957	2,433,889
Retail	516,534	508,642	375,434	369,494
Claims secured by residential property	394,906	383,677	138,217	134,287
Past due exposures	113,232	51,909	113,232	51,909
Collective investment undertaking	2,184	2,100	2,184	2,100
Other items	327,869	323,709	207,846	195,795
Total	**5,511,791**	**4,967,093**	**3,815,189**	**3,261,369**
Off-balance sheet items				
Exposure class				
Central governments and central banks	91	851	–	–
Institutions	17,249	15,464	4,118	3,468
Corporates	483,174	465,959	171,653	187,034
Retail	247,441	226,751	2,710	3,515
Claims secured by residential property	3,646	4,109	636	708
Other items	–	–	13	13
Total	**751,601**	**713,134**	**179,130**	**194,738**
Derivatives				
Exposure class				
Institutions	289	830	58	166
Corporates	469	72	469	72
Total	**758**	**902**	**527**	**238**
Total risk-weighted assets for credit risk			3,994,846	3,456,345
Risk-weighted assets for market risk			5,463	5,988
Risk-weighted assets for operational risk			358,363	358,675
Total risk-weighted assets			4,358,672	3,821,008
Capital adequacy ratios	**Capital**		**Capital ratios %**	
	30 June 2011	**31 December 2010**	**30 June 2011**	**31 December 2010**
Tier 1 Capital	445,558	390,169	10.22%	10.21%
Total capital base	555,102	505,695	12.74%	13.23%

4. Segment Reporting

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

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

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

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

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

In thousands of BGN	Bulgarian operations		Foreign operations		Total	
	Six months ended 30 June 2011	Six months ended 30 June 2010	Six months ended 30 June 2011	Six months ended 30 June 2010	Six months ended 30 June 2011	Six months ended 30 June 2010
Interest income	200,675	177,109	14,729	10,932	215,404	188,041
Interest expense	(128,549)	(123,463)	(2,394)	(2,263)	(130,943)	(125,726)
Net interest income	**72,126**	**53,646**	**12,335**	**8,669**	**84,461**	**62,315**
Fee and commission income	34,696	27,762	459	328	35,155	28,090
Fee and commission expense	(3,939)	(3,891)	(81)	(66)	(4,020)	(3,957)
Net fee and commission income	**30,757**	**23,871**	**378**	**262**	**31,135**	**24,133**
General administrative expenses	**(73,340)**	**(66,926)**	**(2,876)**	**(3,111)**	**(76,216)**	**(70,037)**
	30 June 2011	**31 December 2010**	**30 June 2011**	**31 December 2010**	**30 June 2011**	**31 December 2010**
Segment assets	**5,169,263**	**4,692,799**	**373,622**	**305,977**	**5,542,885**	**4,998,776**
Segment liabilities	**4,964,170**	**4,452,439**	**125,800**	**113,162**	**5,089,970**	**4,565,601**

The following table presents the allocation of assets and liabilities, income and expenses based on business segments as at 30 June 2011 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/ (expenses)
Commercial banking	3,185,449	786,972	161,104	(14,325)	10,639	–	–
Retail banking	747,685	3,929,560	47,567	(104,050)	4,562	–	–
International business	–	272,011	–	(11,683)	4,353	–	–
Cards business	–	–	–	–	6,515	–	–
Liquidity	1,375,655	89,161	6,733	(869)	5	3,802	(3,381)
Dealing	10,052	–	–	–	(68)	4,001	–
Clients services	–	–	–	–	4,870	–	–
Other	224,044	12,266	–	(16)	259	–	102
Total	**5,542,885**	**5,089,970**	**215,404**	**(130,943)**	**31,135**	**7,803**	**(3,279)**

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 2011.

In thousands of BGN	Trading	Held-to-maturity	Loans and receivables	Available for sale	Other amortised cost	Other	Total carrying amount	Fair value
ASSETS								
Cash and balances with central banks	–	–	587,450	–	–	118,343	705,793	705,793
Financial assets held for trading	18,351	–	–	–	–	–	18,351	18,351
Available for sale investments	–	–	–	522,627	–	–	522,627	522,627
Financial assets held to maturity	–	52,531	–	–	–	–	52,531	51,207
Loans and advances to banks and financial institutions	–	–	86,405	–	–	–	86,405	86,405
Loans and advances to customers	–	–	3,933,134	–	–	–	3,933,134	3,933,134
Total	**18,351**	**52,531**	**4,606,989**	**522,627**	**–**	**118,343**	**5,318,841**	**5,317,517**
LIABILITIES								
Due to credit institutions	–	–	–	–	35,969	–	35,969	35,969
Due to other customers	–	–	–	–	4,716,532	–	4,716,532	4,716,532
Liabilities evidenced by paper	–	–	–	–	137,226	–	137,226	137,226
Subordinated term debt	–	–	–	–	47,539	–	47,539	47,539
Perpetual debt	–	–	–	–	100,184	–	100,184	101,339
Hybrid debt	–	–	–	–	40,254	–	40,254	40,254
Other financial liabilities	–	–	–	–	–	107	107	107
Total	**–**	**–**	**–**	**–**	**5,077,704**	**107**	**5,077,811**	**5,078,966**

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

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 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	–	–	434,148	–	–	122,713	556,861	556,861
Financial assets held for trading	16,641	–	–	–	–	–	16,641	16,641
Available for sale investments	–	–	–	715,405	–	–	715,405	715,405
Financial assets held to maturity	–	57,102	–	–	–	–	57,102	56,949
Loans and advances to banks and financial institutions	–	–	21,736	–	–	–	21,736	21,736
Loans and advances to customers	–	–	3,417,094	–	–	–	3,417,094	3,417,094
Total	**16,641**	**57,102**	**3,872,978**	**715,405**	**–**	**122,713**	**4,784,839**	**4,784,686**
LIABILITIES								
Due to credit institutions	–	–	–	–	8,826	–	8,826	8,826
Due to other customers	–	–	–	–	4,285,693	–	4,285,693	4,285,693
Liabilities evidenced by paper	–	–	–	–	116,725	–	116,725	116,725
Subordinated term debt	–	–	–	–	47,169	–	47,169	47,169
Perpetual debt	–	–	–	–	99,201	–	99,201	96,800
Other financial liabilities	–	–	–	–	–	247	247	247
Total	**–**	**–**	**–**	**–**	**4,557,614**	**247**	**4,557,861**	**4,555,460**

6. Net interest income

In thousands of BGN	Six months ended 30 June 2011	Six months ended 30 June 2010
Interest income		
Accounts with and placements to banks and financial institutions	1,538	874
Retail customers	45,833	43,928
Loans to corporate clients	147,535	123,185
Loans to small and medium enterprises	13,569	13,954
Microlending	1,734	2,016
Debt instruments	5,195	4,084
	215,404	**188,041**
Interest expense		
Deposits from banks	(206)	(8)
Deposits from other customers	(118,375)	(114,632)
Liabilities evidenced by paper	(2,249)	(2,114)
Subordinated term debt	(2,871)	(3,077)
Perpetual debt	(5,759)	(5,875)
Hybrid debt	(1,467)	–
Lease agreements and other	(16)	(20)
	(130,943)	**(125,726)**
Net interest income	**84,461**	**62,315**

For the six months ended 30 June 2011 and 30 June 2010 the recognised interest income on individually impaired financial assets (loans and advances to customers) amounts to BGN 27,056 thousand and BGN 14,919 thousand respectively.

7. Net fee and commission income

In thousands of BGN	Six months ended 30 June 2011	Six months ended 30 June 2010
Fee and commission income		
Letters of credit and guarantees	4,198	3,182
Payments transactions	4,326	3,762
Customer accounts	7,748	5,954
Cards business	9,605	8,992
Other	9,278	6,200
	35,155	**28,090**
Fee and commission expense		
Letters of credit and guarantees	(509)	(203)
Correspondent accounts	(326)	(394)
Cards business	(3,090)	(3,031)
Other	(95)	(329)
	(4,020)	**(3,957)**
Net fee and commission income	**31,135**	**24,133**

8. Net trading income

In thousands of BGN	Six months ended 30 June 2011	Six months ended 0 June 2010
Net trading gains/(losses) arise from:		
– Debt instruments	3,802	631
– Equity instruments	179	(188)
– Foreign exchange	3,822	3,628
Net trading income	**7,803**	**4,071**

9. Other operating income/(expenses)

In thousands of BGN	Six months ended 30 June 2011	Six months ended 30 June 2010
Other operating income/(expenses) arise from:		
– Debt instruments	(3,381)	233
– Equity instruments	–	679
– Other	102	6
Other operating income/(expenses)	**(3,279)**	**918**

10. General administrative expenses

In thousands of BGN	Six months ended 30 June 2011	Six months ended 30 June 2010
General and administrative expenses comprise:		
– Personnel cost	25,501	21,657
– Depreciation and amortisation	11,098	10,343
– Advertising	2,720	2,268
– Building rent expense	13,335	13,314
– Telecommunication, software and other computer maintenance	5,530	5,670
– Unclaimable VAT	4,819	4,817
– Administration, consultancy, audit and other costs	13,213	11,968
General administrative expenses	**76,216**	**70,037**

Personnel costs include salaries, social and health security contributions under the provisions of the local legislation. At 30 June 2011 the total number of employees of the Group is 2,754 (30 June 2010: 2,610).

11. Impairment losses

In thousands of BGN	Six months ended 30 June 2011	Six months ended 30 June 2010
Write-downs		
Loans and advances to customers	(21,457)	(15,668)
Reversal of write-downs		
Loans and advances to customers	6,627	7,365
Net impairment losses	**(14,830)**	**(8,303)**

12. Income tax expense

In thousands of BGN	Six months ended 30 June 2011	Six months ended 30 June 2010
Current taxes	(1,983)	(1,141)
Deferred taxes (see note 22)	(195)	(539)
Income tax expense	**(2,178)**	**(1,680)**

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

In thousands of BGN	Six months ended 30 June 2011	Six months ended 30 June 2010
Accounting profit before taxation	**22,254**	**14,096**
Corporate tax at applicable tax rate (10% for 2011 and 10% for 2010)	2,225	1,410
Effect of tax rates of foreign subsidiaries and branches	37	266
Tax effect of permanent tax differences	(279)	(535)
Tax effect of temporary differences	195	539
Income tax expense	**2,178**	**1,680**
Effective tax rate	9.79%	11.92%

13. Earnings per share

	Six months ended 30 June 2011	Six months ended 30 June 2010
Net profit attributable to shareholders (in thousands of BGN)	20,054	12,463
Weighted average number of ordinary shares (in thousands)	110,000	110,000
Earnings per share (in BGN)	**0.18**	**0.11**

The basic earnings per share, calculated in accordance with IAS 33, are based on the profit attributable to ordinary equity holders of the Bank. During the first half of 2011 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 2011	31 December 2010
Cash on hand		
– In Bulgarian leva	75,830	85,366
– In foreign currencies	38,609	37,347
Balances with central banks	416,868	383,064
Current accounts and amounts with resident banks	4,025	7,000
Current accounts and amounts with foreign banks	170,461	44,084
Total	**705,793**	**556,861**

15. Financial assets held for trading

In thousands of BGN	30 June 2011	31 December 2010
Bonds, notes and other instruments issued by:		
Bulgarian government, assessed with BBB rating :		
– denominated in Bulgarian leva	4,945	3,898
– denominated in foreign currencies	7,857	7,574
Bulgarian banks, assessed with BBB- rating	1,956	1,956
Other issuers – equity instruments (unrated)	3,593	3,213
Total	**18,351**	**16,641**

16. Available for sale investments

In thousands of BGN	30 June 2011	31 December 2010
Bonds, notes and other instruments issued by:		
Bulgarian government		
– denominated in Bulgarian leva	37,332	31,839
– denominated in foreign currencies	9,220	8,797
Foreign governments		
– treasury bills	445,601	631,198
Foreign banks	24,015	37,552
Other issuers – equity instruments	6,459	6,019
Total	**522,627**	**715,405**

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 2011	31 December 2010
Securities held to maturity issued by:		
Bulgarian government	21,457	29,371
Foreign governments	13,170	18,895
Foreign banks	17,904	8,836
Total	**52,531**	**57,102**

18. Loans and advances to banks and financial institutions

(a) Analysis by type

In thousands of BGN	30 June 2011	31 December 2010
Placements and other amounts due from banks	55,806	13,316
Receivables under resale agreements (see note 31)	26,402	5,910
Other	4,197	2,510
Total	**86,405**	**21,736**

(b) Geographical analysis

In thousands of BGN	30 June 2011	31 December 2010
Resident banks and financial institutions	26,496	6,298
Foreign banks and financial institutions	59,909	15,438
Total	**86,405**	**21,736**

19. Loans and advances to customers

In thousands of BGN	30 June 2011	31 December 2010
Retail customers		
– Consumer loans	212,820	199,671
– Mortgage loans	355,281	355,737
– Credit cards	199,873	187,266
Small and medium enterprises	247,073	240,128
Microlending	26,375	27,017
Corporate customers	3,004,315	2,505,101
Less allowance for impairment	(112,603)	(97,826)
Total	**3,933,134**	**3,417,094**

(a) Movement in impairment allowances

In thousands of BGN

Balance at 1 January 2011	**97,826**
Additional allowances	21,457
Amounts released	(6,627)
Write – offs	(51)
Effects of changes in foreign currencies rates	(2)
Balance at 30 June 2011	**112,603**

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 2010	10,829	105,640	5,959	35,331	48,136	205,895
Additions	–	56	31	16,982	168	17,237
Foreign exchange differences	–	(17)	(2)	(1)	(9)	(29)
Acquired through business combination	–	3	–	–	–	3
Disposals	(448)	(3,478)	(79)	(463)	(365)	(4,833)
Transfers	2,258	14,128	274	(26,440)	9,502	(278)
At 31 December 2010	**12,639**	**116,332**	**6,183**	**25,409**	**57,432**	**217,995**
Additions	–	107	–	5,915	62	6,084
Foreign exchange differences	–	(58)	(5)	(1)	(29)	(93)
Acquired through business combination	–	17	–	–	–	17
Disposals	–	(263)	(98)	(53)	–	(414)
Transfers	4	2,658	100	(4,402)	1,590	(50)
At 30 June 2011	**12,643**	**118,793**	**6,180**	**26,868**	**59,055**	**223,539**
Depreciation						
At 1 January 2010	3,410	53,485	4,243	–	12,964	74,102
Foreign exchange differences	–	(9)	–	–	(3)	(12)
Acquired through business combination	–	2	–	–	–	2
Charge for the year	378	14,596	769	–	3,500	19,243
On disposals	(209)	(3,352)	(79)	–	(263)	(3,903)
At 31 December 2010	**3,579**	**64,722**	**4,933**	**–**	**16,198**	**89,432**
Foreign exchange differences	–	(20)	(1)	–	(19)	(40)
Acquired through business combination	–	9	–	–	–	9
Charge for the period	218	7,471	328	–	1,983	10,000
On disposals	–	(256)	(98)	–	–	(354)
At 30 June 2011	**3,797**	**71,926**	**5,162**	**–**	**18,162**	**99,047**
Net book value						
At 1 January 2010	**7,419**	**52,155**	**1,716**	**35,331**	**35,172**	**131,793**
At 31 December 2010	**9,060**	**51,610**	**1,250**	**25,409**	**41,234**	**128,563**
At 30 June 2011	**8,846**	**46,867**	**1,018**	**26,868**	**40,893**	**124,492**

21. Intangible assets

In thousands of BGN	Software and licences	Greenhouse allowances	Goodwill	Total
Cost				
At 1 January 2010	22,687	–	107	22,794
Additions	36	–	–	36
Exchange differences on translating foreign operations	(1)	–	–	(1)
Acquired through business combinations	100	3,820	480	4,400
Disposals	(745)	–	–	(745)
Transfers	278	–	–	278
At 31 December 2010	**22,355**	**3,820**	**587**	**26,762**
Additions	9	–	–	9
Exchange differences on translating foreign operations	(11)	–	–	(11)
Acquired through business combinations	–	–	134	134
Disposals	(3)	–	–	(3)
Transfers	50	–	–	50
At 30 June 2011	**22,400**	**3,820**	**721**	**26,941**
Amortisation				
At 1 January 2010	4,251	–	–	4,251
Acquired through business combination	81	–	–	81
Charge for the year	2,178	–	–	2,178
On disposals	(745)	–	–	(745)
At 31 December 2010	**5,765**	**–**	**–**	**5,765**
Exchange differences on translating foreign operations	(7)	–	–	(7)
Acquired through business combination		–	–	–
Charge for the period	1,098	–	–	1,098
On disposals	(2)	–	–	(2)
At 30 June 2011	**6,854**	**–**	**–**	**6,854**
Net book value				
At 1 January 2010	**18,436**	**–**	**107**	**18,543**
At 31 December 2010	**16,590**	**3,820**	**587**	**20,997**
At 30 June 2011	**15,546**	**3,820**	**721**	**20,087**

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 2011	31 December 2010	30 June 2011	31 December 2010	30 June 2011	31 December 2010
Property, equipment and intangibles	–	–	3,317	3,017	3,317	3,017
Other items	(208)	(208)	334	439	126	231
Net tax (assets)/liabilities	**(208)**	**(208)**	**3,651**	**3,456**	**3,443**	**3,248**

Movements in temporary differences for the six months ended 30 June 2011 at the amount of BGN 195 thousand are recognised in the net profit for the period.

23. Other assets

In thousands of BGN	30 June 2011	31 December 2010
Deferred expense	21,867	10,288
Gold bullion	8,248	6,723
Other assets	45,088	40,853
Total	**75,203**	**57,864**

24. Due to credit institutions

In thousands of BGN	30 June 2011	31 December 2010
Term deposits	33,538	7,000
Payable on demand	2,431	1,826
Total	**35,969**	**8,826**

25. Due to other customers

In thousands of BGN	30 June 2011	31 December 2010
Retail customers		
– current accounts	389,719	353,540
– term and savings deposits	3,539,841	3,268,087
Corporate, state-owned and public institutions		
– current accounts	284,061	263,415
– term and savings deposits	502,911	400,651
Total	**4,716,532**	**4,285,693**

26. Liabilities evidenced by paper

In thousands of BGN	30 June 2011	31 December 2010
Acceptances under letters of credit	9,167	15,375
Liabilities under repurchase agreements (see note 31)	53,192	21,208
Other term liabilities	74,867	80,142
Total	**137,226**	**116,725**

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

27. Subordinated term debt

As at 30 June 2011 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**	**Orirginal maturity**	**Maturity date**	**Amortised cost as at 30 June 2011**
Growth Management Limited	5,867	10 years	27.08.2014	14,347
Growth Management Limited	3,912	10 years	24.02.2015	7,159
Hillside Apex Fund Limited	9,779	10 years	01.03.2015	9,791
Growth Management Limited	1,956	10 years	17.03.2015	3,542
ING Bank NV/ Deutsche Forfait AG	9,779	10 years	22.04.2015	8,789
Hypo – Alpe – Adria Bank	3,912	10 years	14.04.2015	3,911
Total	**35,205**			**47,539**

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 2011**
Step-up guaranteed perpetual subordinated bonds EUR 27 mio	52,807	58,201
Step-up guaranteed perpetual subordinated bonds EUR 21 mio	41,073	41,983
Total	**93,880**	**100,184**

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

29. Hybrid debt

In thousands of BGN	**Principal amount**	**Amortised cost as at 30 June 2011**
Hybrid debt with original principal EUR 20 mio	39,117	40,254
Total	**39,117**	**40,254**

In March 2011 the Bank issued a hybrid instrument (bond issue) and, after obtaining permission from the Bulgarian National Bank, included it as Tier 1 capital pursuant to Art. 3a of Ordinance 8 on Capital Adequacy of Credit Institutions. The Bank placed the bond issue under private subscription with a total nominal and issue value of EUR 20,000 thousand, constituting the first tranche of a bond issue for up to EUR 40,000 thousand. The bonds are registered, dematerialized, interest-bearing, perpetual, unsecured, freely transferable, non-convertible, deeply subordinated and without incentive to redeem.

30. Other liabilities

In thousands of BGN	30 June 2011	31 December 2010
Liabilities to personnel	1,928	1,822
Other payables	4,186	1,590
Total	**6,114**	**3,412**

31. Repurchase and resale agreements

The Group raises funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate. Repurchase agreements are commonly used as a tool for short-term financing of interest-earning assets, depending on the prevailing interest rates. At 30 June 2011 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	36,663	35,945
Other government securities	17,840	17,247
Total	**54,503**	**53,192**

At 31 December 2010 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	1,938	1,970
Other government securities	22,107	19,238
Total	**24,045**	**21,208**

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 2011 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	26,735	26,402
Total	**26,735**	**26,402**

At 31 December 2010 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	5,863	5,910
Total	**5,863**	**5,910**

32. Capital and reserves

(a) Number and face value of registered shares as at 30 June 2011

As at 30 June 2011 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 2011 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 2011, as in the previous year, the Bank has not distributed dividends.

33. Commitments and contingent liabilities

(a) Memorandum items

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

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

In thousands of BGN	30 June 2011	31 December 2010
Bank guarantees		
– in BGN	140,072	102,650
– in foreign currency	200,178	221,186
Total guarantees	340,250	323,836
Unused credit lines	336,758	303,400
Promissory notes	6,520	8,093
Letters of credit	68,073	77,805
Total	**751,601**	**713,134**

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 2011 the extent of collateral held for guarantees and letters of credit is 100 percent.

34. Cash and cash equivalents

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

In thousands of BGN	30 June 2011	30 June 2010
Cash and balances with central banks	705,793	620,528
Loans and advances to banks and financial institutions with maturity less than 90 days	17,155	4,743
Total	**722,948**	**625,271**

35. Average balances

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

In thousands of BGN	Six months ended 30 June 2011	Six months ended 30 June 2010
FINANCIAL ASSETS		
Cash and balances with central banks	638,197	589,208
Financial assets held for trading	24,022	13,284
Available for sale investments	672,886	454,605
Financial assets held to maturity	50,537	35,337
Loans and advances to banks and financial institutions	54,855	25,805
Loans and advances to customers	3,629,386	3,025,719
FINANCIAL LIABILITIES		
Due to credit institutions	23,015	2,876
Due to other customers	4,517,824	3,620,664
Liabilities evidenced by paper	135,795	137,793
Subordinated term debt	47,499	58,671
Perpetual debt	98,889	99,100
Hybrid debt	17,070	–

36. Related party transactions

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

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

Type of related party	**Parties that control or manage the Bank**		**Enterprises under common control**	
In thousands of BGN	**Six months ended 30 June 2011**	**2010**	**Six monts ended 30 June 2011**	**2010**
Loans				
Loans outstanding at beginning of the period	2,997	2,130	19,055	21,721
Loans issued/(repaid) during the period	(901)	867	477	(2,666)
Loans outstanding at end of the period	**2,096**	**2,997**	**19,532**	**19,055**
Deposits and other financing received				
Deposits at beginning of the period	7,994	8,306	14,197	25,075
Deposits received/(repaid) during the period	1,779	(312)	30,894	(10,878)
Deposits at end of the period	**9,773**	**7,994**	**45,091**	**14,197**
Deposits placed				
Deposits at beginning of the period	–	–	3,922	3,912
Deposits placed/(matured) during the period	–	–	29,559	10
Deposits at end of the period	**–**	**–**	**33,481**	**3,922**
Off-balance sheet commitments issued by the Group				
At beginning of the period	1,204	2,280	1,289	1,322
Granted/(expired)	269	(1,076)	975	(33)
At the end of the period	**1,473**	**1,204**	**2,264**	**1,289**

The key management personnel of the Bank received remuneration of BGN 2,801 thousand in the first half of 2011.

37. Subsidiary undertakings

(a) First Investment Finance B.V.

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

(b) Diners Club Bulgaria AD

In May 2005 the Bank acquired 80% of the share capital of Diners Club Bulgaria AD. The company was incorporated in 1996 as a franchise and processing agent of Diners Club International. As at 30 June 2011 the registered share capital of the company is BGN 610 thousand, and the Bank's shareholding is 94.79%. The Bank consolidates its investment in the company.

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

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

As at 30 June 2011 the share capital of First Investment Bank – Albania Sh.a. is EUR 10,975 thousand, fully paid in and the Bank's shareholding is 100%. The Bank consolidates its investment in the company.

(d) Debita OOD and Realtor OOD

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

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

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

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

(e) Health Insurance Fund FI Health AD

In the second half of 2010 the Bank acquired a majority stake capital of Health Insurance Fund FI Health AD (formerly Health Insurance Fund Prime Health AD), a company engaged in voluntary health insurance as well as acquisition, management and sale of investments in other companies. As at 30 June 2011 the share capital of Health Insurance Fund FI Health AD is BGN 5,000 thousand and the Bank's shareholding is 59.10%. The Bank consolidates its investment in the company.

(f) Framas Enterprises Limited

In November 2010 the Bank acquired 10,000 shares, representing 100% of the issued share capital of Framas Enterprises Limited, British Virgin Islands, with the view of providing auxiliary services pursuant to Article 2 (4) of the Law on Credit Institutions. The Bank consolidates its investment in the company.

(g) Balkan Financial Services EOOD

In February 2011 the Bank acquired 100 shares representing 100% of the capital of Balkan Financial Services OOD. The company is engaged in consultancy services related to implementation of financial information systems and software development.

Contacts

Head Office

Sofia 1797, 37, Dragan Tsankov Blvd.
(registered address)
phones: (+359 2) 817 1100, 817 1101,
fax: (+359 2) 02/970 9597
SWIFT CODE: FINVBGSF
REUTERS DEALING CODE: BFIB
e-mail: fib@fibank.bg, www.fibank.bg

Contact Center: 0800 11 011

Sofia 1404, 81G, Bulgaria Blvd.
phone: (+359 2) 910 0100
fax: (+359 2) 988 8748

Departments

Corporate Banking
phone: (+359 2) 817 1222, fax: (+359 2) 817 1652

Retail Banking
phone: (+359 2) 817 1637, fax: (+359 2) 817 1302

SME Lending
phone: (+359 2) 817 1723, fax: (+359 2) 817 1458

Card Payments
phone: (+359 2) 817 1130, fax: (+359 2) 970 9594

Asset Management
phone: (+359 2) 9100 138, fax: (+359 2) 981 0269

Dealing
phone: (+359 2) 910 0122, fax: (+359 2) 981 0269

Alternative channels
phone: (+359 2) 817 1170, fax: (+359 2) 988 8748

Branch Network
phone: (+359 2) 817 1606, fax: (+359 2) 817 1608

Marketing and Advertising
phone: (+359 2) 817 1740, fax: (+359 2) 988 8748

Sales
phone: (+359 2) 817 1685, fax: (+359 2) 817 1689

Operations
phone: (+359 2) 817 1707, fax: (+359 2) 910 0161

Gold and Commemorative Coins
phone: (+359 2) 817 1567, fax: (+359 2) 800 2715

Human Capital Management
phone: (+359 2) 817 1739, fax: (+359 2) 988 8748

Internal Audit
phone: (+359 2) 817 1252, fax: (+359 2) 970 9597

Investor Relations
phone.: (+359 2) 817 1430, fax: (+359 2) 988 8748

Subsidiaries

First Investment Bank – Albania Sh.a.
Tirana, Albania, Dëshmorët e kombit Blvd.
Twin Towers, Tower II, 15th floor
phone: (+355 4) 276 702, fax: (+355 4) 280 210

Diners Club Bulgaria AD
Sofia 1404, 81G, Bulgaria Blvd.
phone: (+359 2) 817 1122, fax: (+359 2) 970 9556

Health Insurance Fund FI Health AD
Sofia 1113, 16, Frederic Joliot Curie Str.
phone: (+359 2) 971 2772, fax: (+359 2) 971 94 94

Branches outside Bulgaria

Cyprus International Banking Unit
39, Demofontos St., suite 401, CY-1075 Nicosia
P.O.Box 16023, CY-2085 Nicosia, Cyprus
phone: (+357 22) 760 150, fax: (+357 22) 376 560
SWIFT CODE: FINVCY2N

Branches in Sofia

Aleksandar Nevski
Sofia 1000, 95, Vasil Levski Blvd.
phone: (+359 2) 817 1694, fax: (+359 2) 981 6717

Aleksandar Stamboliyski
Sofia 1301, 20, Aleksandar Stamboliyski Blvd.
phone: (+359 2) 817 1493, fax: (+359 2) 935 0085

Bulgaria
Sofia 1404, 81G Bulgaria Blvd.
phone: (+359 2) 800 2501, fax: (+359 2) 800 2500

City Center
Sofia 1421, 2, Arsenalski Blvd.
phone: (+359 2) 817 1666, fax: (+359 2) 817 1668

Denitsa
Sofia 1712, Mladost 3, Al. Malinov Blvd.
phone: (+359 2) 800 2759, 817 1469
fax: (+359 2) 976 6050

Diners Club Bulgaria
Sofia 1142, 35, Vasil Levski Blvd.
phone: (+359 2) 800 2921, fax: (+359 2) 800 2928

Dondukov
Sofia 1000, 18, Dondukov Blvd.
phone: (+359 2) 800 2856, fax: (+359 2) 800 2863

Dragalevtsi
Sofia 1415, 20A, Krushova gradina St.
phone: (+359 2) 800 2601, fax: (+359 2) 800 2619

Dragan Tsankov
Sofia 1797, 37, Dragan Tsankov Blvd.
phone: (+359 2) 800 2020, 817 1161
fax: (+359 2) 970 9597

Elemag
Sofia 1407, 21a, Kozyak St.
phone: (+359 2) 800 2776, fax: (+359 2) 800 2779

Enos
Sofia 1408, 2, Enos St.
phone: (+359 2) 942 6685, fax: (+359 2) 942 6690

Evropa
Sofia 1528, 7, Iskarsko shose Blvd.
phone: (+359 2) 817 1454, fax: (+359 2) 817 1457

Flavia
Sofia 1303, 125, Aleksandar Stamboliyski Blvd.
phone: (+359 2) 800 2864, fax: (+359 2) 800 2873

Generali
Sofia 1000, 79-81, Dondukov Blvd.
phone: (+359 2) 817 1437, fax: (+359 2) 817 1440

Georgi Sofiyski
Sofia 1606, 4, Georgi Sofiyski St.
phone: (+359 2) 800 2977, fax: (+359 2) 942 6670

Glavproekt
Sofia 1113, 6, Aleksandar Zhendov St.
phone: (+359 2) 817 1376, fax: (+359 2) 817 1396

Gorublyane
Sofia 1138, 361, Tsarigradsko shose Blvd.
phone: (+359 2) 817 1338, fax: (+359 2) 817 1340

Hadzhi Dimitar
Sofia 1510, 28-30, Doncho Vatah St.
phone: (+359 2) 817 1576, fax: (+359 2) 817 1583

Hladilnika
Sofia 1407, 1, Kishinev St.
phone: (+359 2) 817 1534, fax: (+359 2) 817 1538

Hristo Botev
Sofia 1000, 28 Hristo Botev Blvd.
phone: (+359 2) 800 2645, fax: (+359 2) 800 2646

Iliyantsi
Sofia 1268, 31, Rozhen Blvd.
phone: (+359 2) 800 2973, fax: (+359 2) 800 2992

Ivan Vazov
Sofia 1408, 184, Vitosha Blvd.
phone: (+359 2) 817 1553, fax: (+359 2) 951 6154

Zhurnalist
Sofia 1164, 44, Hristo Smirnenski Blvd.
phone: (+359 2) 800 2939, fax: (+359 2) 800 2949

Krasna Polyana
Sofia 1330, Nikola Mushanov Blvd., bl. 31A, floor 1
phone: (+359 2) 800 2665, fax: (+359 2) 800 2666

Lagera
Sofia 1612, 32, Tsar Boris III Blvd.
phone: (+359 2) 800 2901, fax: (+359 2) 800 2907

Lozenets
Sofia 1164, 38A, Zlatovrah St.
phone: (+359 2) 817 1543, fax: (+359 2) 817 1549

Lyulin
Sofia 1324, 70, Tsaritsa Yoanna Blvd.
phone: (+359 2) 817 1483, fax: (+359 2) 817 1499

Mall – Sofia
Sofia 1303, 101, Aleksandar Stamboliyski Blvd.
phone: (+359 2) 817 1672, fax: (+359 2) 817 1678

Mall – Serdika
Sofia 1505, 48, Sitnyakovo Blvd.
phone: (+359 2) 800 2550, fax: (+359 2) 800 2555

Maria Luisa
Sofia 1202, 67, Maria Luisa Blvd.
phone: (+359 2) 817 1463, fax: (+359 2) 817 1467

Mladost
Sofia 1784, 11, Andrey Saharov Blvd.
phone: (+359 2) 817 1641, fax: (+359 2) 817 1647

Nadezhda
Sofia 1220, 112, Lomsko shose Blvd.
phone: (+359 2) 817 1522, fax: (+359 2) 817 1528

Narodno sabranie 1
Sofia 1000, 12, Narodno sabranie Sq.
phone: (+359 2) 817 1559, fax: (+359 2) 817 1571

Narodno sabranie 2
Sofia 1000, 3, Narodno sabranie Sq.
phone: (+359 2) 817 1359, fax: (+359 2) 930 6940

National Theatre
Sofia 1000, 7, Dyakon Ignatiy St.
phone: (+359 2) 817 1421, fax: (+359 2) 817 1429

NDK (National Palace of Culture)
Sofia 1000, 110, Vitosha Blvd.
phone: (+359 2) 817 1514, fax: (+359 2) 817 1518

Obelya
Sofia 1387, 58, Akademik Dimitri Lihachov Blvd.
phone: (+359 2) 800 2091, fax: (+359 2) 800 2092

Opalchenska
Sofia 1233, 117, Opalchenska St.
phone: (+359 2) 800 2683, fax: (+359 2) 800 2696

Orion
Sofia 1324, 2, Orion St.
phone: (+359 2) 800 2659, fax: (+359 2) 800 2674

Patriarch Evtimiy
Sofia 1000, 36, Patriarch Evtimiy Blvd.
phone: (+359 2) 800 2622, fax: (+359 2) 800 2630

Rakovska
Sofia 1000, 135, G. S. Rakovski St.
phone: (+359 2) 800 2641, fax: (+359 2) 800 2651

Shipchenski prohod
Sofia 1111, 49, Shipchenski prohod Blvd.
phone: (+359 2) 800 2958, fax: (+359 2) 800 2968

Slatina
Sofia 1574, Slatinska St., bl. 20
phone: (+359 2) 800 2839, fax: (+359 2) 800 2844

Sofia Outlet Centre
Sofia 1784, 92A, Tsarigradsko Shose Blvd
phone: (+359 2) 800 2060, fax: (+359 2) 800 2062

Sofia Theatre
Sofia 1527, Yanko Sakazov Blvd.
phone: (+359 2) 800 2825, fax: (+359 2) 800 2833

Stefan Karadzha
Sofia 1000, 10, Stefan Karadzha St.
phone: (+359 2) 817 1756, fax: (+359 2) 486 3185

Technomarket – Lyulin
Sofia 1331, 189, Europe Blvd.
phone: (+359 2) 817 1596, fax: (+359 2) 925 1777

Technomarket – Gorublyane
Sofia 1784, 92, Tsarigradsko shose Blvd.
Europe Technomarket - Gorublyane
phone: (+359 2) 817 1593, fax: (+359 2) 817 1595

Tsentralni Hali
Sofia 1000, 25, Maria Luisa Blvd.
phone: (+359 2) 817 1385, fax: (+359 2) 817 1397

Vitosha
Sofia 1408, 4, Mayor Parvan Toshev St.
phone: (+359 2) 942 6666, fax: (+359 2) 942 6644

Yuzhen park (South Park)
Sofia 1404, Gotse Delchev Blvd., bl. 1
phone: (+359 2) 800 2975, fax: (+359 2) 942 6613

Zaharna Fabrika
Sofia 1309, 127, Slivnitsa Blvd.
phone: (+359 2) 817 1586, fax: (+359 2) 817 1591

Branches

Aksakovo
Aksakovo 9154, 2B, Kapitan Petko Voyvoda St.
phone: (+359 52) 662 777, fax: (+359 52) 762 053

Asenovgrad
Asenovgrad 4230, 3, Nikolay Haytov Sq.
phone: (+359 32) 270 683, fax: (+359 331) 62 636

Ivan Asen – Asenovgrad
Asenovgrad 4230, 46, Tsar Ivan Asen St.
phone: (+359 32) 270 688, fax: (+359 331) 24 545

Balchik
Balchik 9600, 25, Primorska St.
phone: (+359 579) 78 183, fax: (+359 579) 78 180

Bansko
Bansko 2770, 68, Tsar Simeon St.
phone: (+359 749) 86 183, fax: (+359 749) 88 112

Bansko Municipality
Bansko 2770, 12, Demokratsia Sq.
phone: (+359 749) 86 189, fax: (+359 749) 83 090

Strazhite – Bansko
Bansko 2770, 7, Glazne St.
phone: (+359 749) 86 986, fax: (+359 749) 86 400

Belene
Belene 5930, Bulgaria Sq.
phone: (+359 658) 31 103, fax: (+359 658) 31 303

Blagoevgrad
Blagoevgrad 2700, 11, Kiril i Metodiy Blvd.
phone: (+359 73) 827 709, fax: (+359 73) 882 298

GUM – Blagoevgrad
Blagoevgrad 2700, 6, Trakia St.
phone: (+359 73) 827 768, fax: (+359 73) 882 295

Sadebna Palata – Blagoevgrad
Blagoevgrad 2700, 1, Vasil Levski Sq.
phone: (+359 73) 827 776

Technomarket – Blagoevgrad
Blagoevgrad 2700
Zh. k. (Quarter) Strumsko, Yane Sandanski St.
phone: (+359 73) 827 770, fax: (+359 73) 840 890

Rila Hotel – Borovets
Borovets 2010, Rila Hotel
phone: (+359 750) 32 500, fax: (+359 750) 32 428

Botevgrad
Botevgrad 2140, 5, Osvobozhdenie Sq.
phone: (+359 723) 69 045, fax: (+359 723) 66 547

Bratya Miladinovi – Burgas
Burgas 8000
Zh. k. (Quarter) Bratya Miladinovi, bl. 117, entr. 5
phone: (+359 56) 804 463, fax: (+359 56) 830 502

Burgas
Burgas 8000, 58, Aleksandrovska St.
phone: (+359 56) 800 138, fax: (+359 56) 804 488

Kiril i Metodiy – Burgas
Burgas 8000, 71, Slavyanska St.
phone: (+359 56) 804 482, fax: (+359 56) 825 208

Meden rudnik – Burgas
Burgas 8011
Zh. k. (Quarter) Meden rudnik, zone B, bl. 192
phone: (+359 56) 804 441, fax: (+359 56) 508 318

Slaveykov – Burgas
Burgas 8005
Zh. k. (Quarter) Slaveykov, bl. 107, entr. 2
phone: (+359 56) 880 580, fax: (+359 56) 880 110

Slavyanka – Burgas
Burgas 8002, 3, Industrialna St.
phone: (+359 56) 804 451, fax: (+359 56) 826 446

Technomarket – Burgas
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phone: (+359 56) 804 511, fax: (+359 56) 860 017

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phone: (+359 58) 838 596, fax: (+359 58) 838 581

Dulovo
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phone: (+359 864) 21 180, fax: (+359 864) 22 800

Dupnitsa
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phone: (+359 701) 59 153, fax: (+359 701) 42 200

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phone: (+359 76) 688 613, fax: (+359 76) 608 600

Petrich
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phone: (+359 64) 893 141, fax: (+359 64) 893 148

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phone: (+359 747) 89 345, fax: (+359 747) 80 068

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Silistra
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Simitli 2730, 27, Hristo Botev St.
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Slanchev bryag (Sunny Beach)
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Targovishte 7700, 9, Stefan Karadzha St.
phone: (+359 601) 69 530, fax: (+359 601) 62 110

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Sveta Petka – Varna
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Varna 9000, 2, Dunav St.
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phone: (+359 52) 662 608, fax: (+359 52) 662 626

Vinitsa – Varna
Varna 9022,
zh.k. (quarter) Vinitsa, 35, Tsar Boris III St.
phone: (+359 52) 662 682, fax: (+359 52) 341 808

Bacho Kiro – Veliko Tarnovo
Veliko Tarnovo 5000, 5, Bacho Kiro St.
phone: (+359 62) 682 436, fax: (+359 62) 601 125

Etar – Veliko Tarnovo
Veliko Tarnovo 5000, 21, Vasil Levski St.
phone: (+359 62) 610 651, fax: (+359 62) 650 299

Veliko Tarnovo
Veliko Tarnovo 5005, 18, Oborishte St.
phone: (+359 62) 614 464, fax: (+359 62) 670 034

Vidin
Vidin 3700, 17, Gradinska St.
phone: (+359 94) 605 522, fax: (+359 94) 605 533

Vratsa
Vratsa 3000, 1, Nikola Voyvodov St.
phone: (+359 92) 665 575, fax: (+359 92) 665 580

Yambol
Yambol 8600, 10, Osvobozhdenie Sq.
phone: (+359 46) 682 362, fax: (+359 46) 682 374