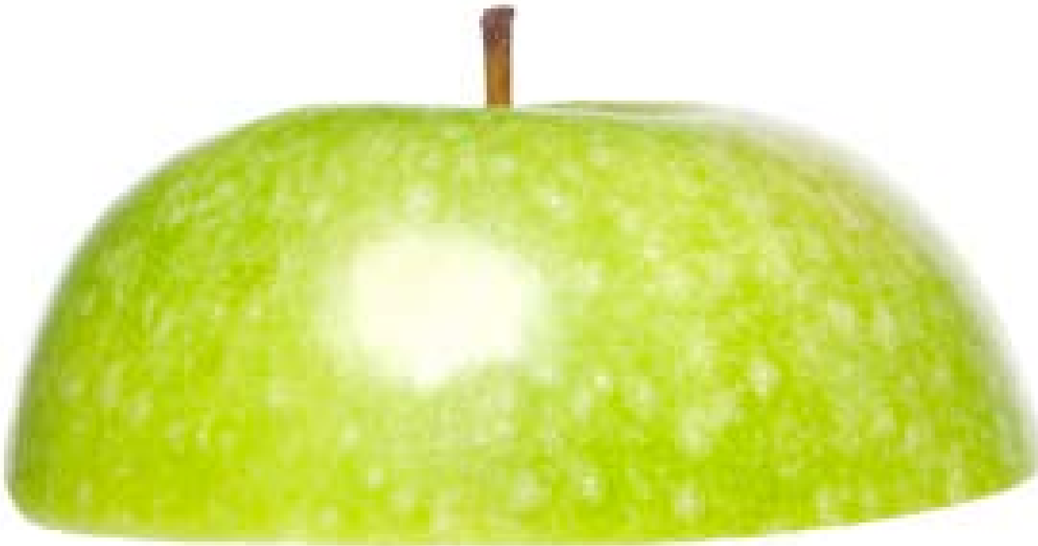


Half Year Report 2012

Fibank
First Investment Bank

Table of contents:

Message from the Managing Board 2

Macroeconomic Development 4

The Banking System 8

Bank Activities 11

Financial Results 12

Balance Sheet 13

Capital 16

Retail Banking 19

Corporate Banking 20

Card Payments 21

International Payments 22

Subsidiaries 23

Consolidated Financial Statements as at 30 June 2012 with Independent Auditor’s Report Thereon 25

Contacts 71

Message from the Managing Board

Dear shareholders, customers and colleagues,

During the first half of 2012 First Investment Bank AD (Fibank) successfully followed its planned business goals, registering growth and good financial results. We have always believed that we can overcome obstacles with joint efforts and develop our standards to the best bank practices.

We surmounted the challenges from the external environment with flexible, prompt and innovative decisions. We devoted our efforts and full capabilities to the realization of new projects and to offering products and services in line with the new requirements and needs of our customers. The results achieved give us confidence that we are on the right track.

In the first six months of the year Fibank grew its assets by nearly half a billion leva to BGN 6,659 million, expanding its market share to 8.27% and becoming the fourth largest bank in Bulgaria (2011 – fifth).

Fibank supports the development of the Bulgarian economy. Its total loan portfolio increased by 6.5% to BGN 4,454 million, thus expanding its market share to 8.1% and its market position to fifth place (from sixth as at December 2011). Compared to end-2011 all loan portfolios registered growth: corporate customers by 6.4% to BGN 3,431 million, placing Fibank as the second largest in the country with a market share of 10% in terms of corporate lending; small enterprises increased by 10.2% to BGN 296 million, and micro enterprises by 7% to BGN 28 million. Thanks to our competitive conditions on loan products and the promptness and professionalism of our loan officers, the Bank's portfolio of loans to individuals grew by 5.9% with consumer loans growing by 14.8% to BGN 35 million; mortgage loans grew by 1.4% to BGN 360 million; credit cards grew by 3.4% to BGN 209 million.

We always strive to offer the highest quality of customer service, modern and flexible banking products and services with an individual approach to everyone. Traditionally strong in corporate banking, Fibank with its over one million customers increasingly affirms its position among the leading banks in servicing individuals and households. Card services continue to develop actively by offering innovative technological solutions in the Bulgarian market. An important contribution has also been made by international payments, the inclusion of Fibank to the payment systems of the Euro Area, as well by electronic banking and the increasingly popular remote services offered through My Fibank.

The most important indicator for customer satisfaction of Fibank's products and services development is the growth in attracted funds. An increase was registered in the funds from individuals by 7.7% to BGN 4,802 million (second place in the banking system), and from corporates by 12.3% to BGN 1,044 million. Thus, as of end-June 2012 our market share in terms of deposits rose to 10.5%, and in retail deposits to 13.9%. The relative share of fee and commission income reached 29.9% of total income from banking operations, supporting the increase in income from low-risk operations.

Considering the economic environment on a global scale, we set aside resources in response to the different types of risk. Tier 1 capital ratio was increased to 10.75%, total capital adequacy ratio to 12.89%, while high liquidity was maintained at 27.21%. A growth in high-liquid but low-profit assets such as cash and first-class government securities, which ensure higher levels of liquidity against the unfavorable external environment, give us grounds to expect lower profit for 2012. As at 30 June 2012 it amounted to BGN 15.2 million, compared to BGN 20.1 million for the same period last year. This was when markets indicated signs of recovery prior to the debt crisis in parts of the Euro Area, which reversed the trends downwards again.

Fibank continues to be responsible and socially engaged. At the beginning of 2012 it donated BGN 300,000 to the people who suffered from the floods in Harmanli and Svilengrad municipalities. We undertook initiatives in support of Bulgarian sport for popularizing and developing skiing for children. In cooperation with the Workshop for Civic Initiatives Foundation we provided funds for the support of people in an unequal condition. Thus, clothes, sanitary materials, food and toys were bought for children from four social houses in Plovdiv, patients from the psychiatric hospital in Iskar town, large families in Varna and Targovishte, as well as people in an unequal condition who have an interest in art and attend the events of the "Flower Theater" Association. In future, social responsibility will remain an important part of our model for corporate governance.

We have confidence in our strength and capabilities to follow our strategy. We thank our shareholders for their support, our customers for their loyalty and our employees for their high level of professionalism. In the second half of 2012 we will strive to achieve even better results, provide even better banking services and support our customers in a way that meets the challenges of time in a spirit of optimism for the new opportunities ahead.

The Managing Board of First Investment Bank AD

Sofia, August 2012

Macroeconomic Development

During the first half of 2012 the Bulgarian economy marked differing signals for the recovery of domestic consumption and investment activity, at a different pace in each sector of industry. Macroeconomic stability in the country was sustained as a result of a balanced fiscal policy, the existing system of a currency board, and the stable banking system.

MACROECONOMIC INDICATORS	Jun-12	2011	2010	2009	2008	2007
GDP real growth (%)	0.5	1.7	0.4	(5.5)	6.2	6.4
Average annual inflation (%)	2.7	4.2	2.4	2.8	12.3	8.4
Unemployment (%)	10.8	10.4	9.2	9.1	6.3	6.9
Long-term interest rates (%)	5.2	5.4	6.0	7.2	5.4	4.5
Current account (% of GDP)	(1.2)	0.9	(1.0)	(8.9)	(23.1)	(25.2)
Foreign direct investments (% of GDP)	0.6	3.5	3.4	7.0	19.0	29.4
Public external debt (% of GDP)	10.3	11.0	12.0	12.0	11.1	13.3
Gross external debt (% of GDP)	90.1	91.9	102.8	108.3	105.1	94.3
Cash balance (% of GDP)	0.1	(2.0)	(4.0)	(0.9)	2.9	3.3
BGN/EUR exchange rate (in BGN)	Currency board: fixed rate BGN 1.95583 for EUR 1					
BGN/USD exchange rate (in BGN)	1.55	1.51	1.47	1.36	1.39	1.33

Source: BNB, NSI, MF

During the first and second quarter of the year the Bulgarian economy registered a real annual growth rate of 0.5% on a chain basis (2011: 1.7%) and continued its slow recovery, as a result of the unstable global environment and its negative influence on Bulgarian exports. The volume of exports, which was the major driver of the economy during the last two years, decreased by 0.1% in the first and grew by 3.9% in the second quarter year-on-year (2011: 12.8%). The volume of imports decreased its growth pace to 0% in the first but moved to 8.6% in the second quarter of 2012, compared to 8.5% in 2011.

Chart 1: Gross domestic product

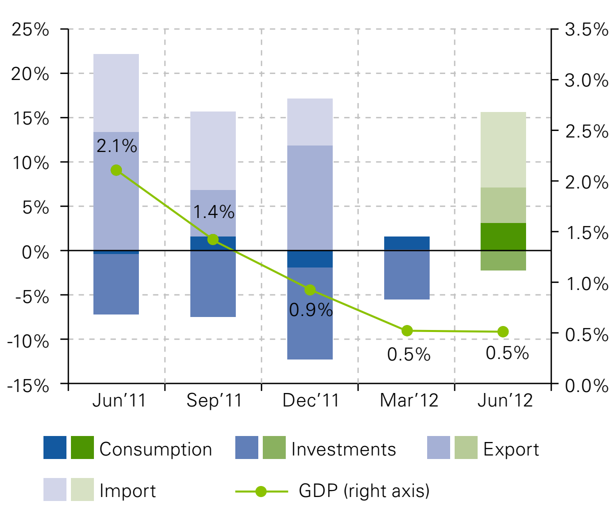
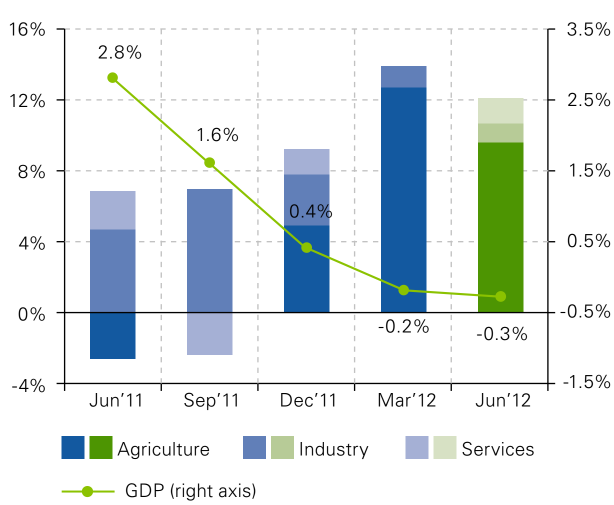


Chart 2: Gross value added



The negative influence on net export was offset by a growth in final consumption, including households, which grew by 3.2% on a chain basis in the second quarter of the year (2011: -0.3%) but remained under the influence of labour market dynamics and continuing caution in terms of spending. Investment activity slowed its negative trend from 5.4% to 2.1% year-on-year in the first two quarters (2011: -9.7%), reflecting the inflow of foreign direct investments to the country and higher government capital expenditures.

During the period the gross value added in the economy decreased by 0.2% in the first and by 0.3% in the second quarter of 2012 (2011: 1.8%), the main contributor being the services sector (Jun'12: 1.4%; Mar'12: -0.1%; 2011: -0.2%), which formed 61.2% of the value added. A growth was registered in the industry sector (Jun'12: 1.1%; Mar'12: 1.2%; 2011: 6.8%; 2010: -5.9%) and in agriculture (Jun'12: 9.6%; Mar'12: 12.7%; 2011: -1.1%), which formed 33.4% and 5.4% of the value added respectively.

The labour market remained unstable in accordance with current economic activity and companies' behavior, which continued to optimize their labour costs. As a result unemployment increased and remained high at 10.8% as at June 2012 (2011: 10.4%; 2010: 9.2%), but comparable to EU and Euro Area averages.

Chart 3: Foreign direct investments in Bulgaria

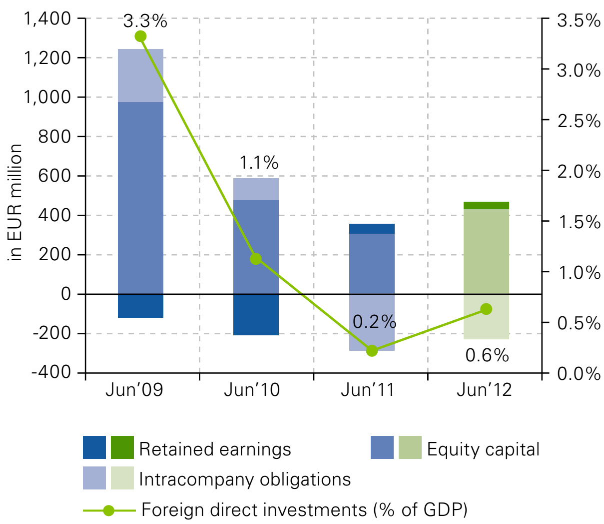
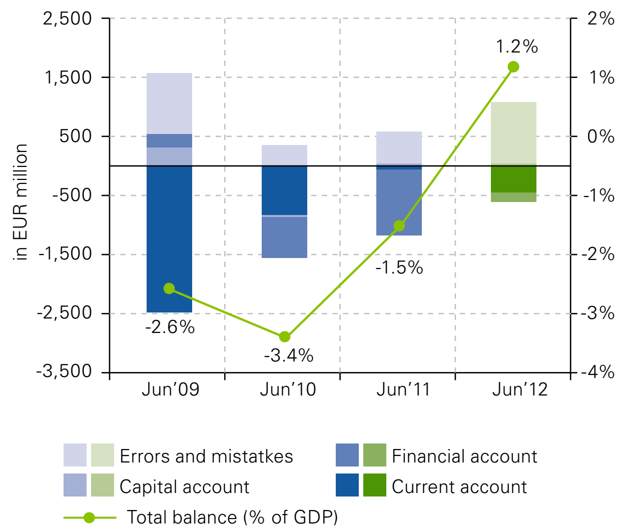


Chart 4: Balance of payments



In the first six months of 2012 foreign direct investments in the country increased over threefold to EUR 221 million (0.6% of GDP), compared to EUR 63 million (0.2% of GDP) a year earlier. The inflow in the form of equity capital grew by 37.9% to EUR 422 million (Jun'11: EUR 306 million), while net payments of EUR -235 million were registered in intra-company loans, against EUR -290 million year-on-year. By sectors, the largest inflow of investments were in electricity (EUR 136 million), trade (EUR 122 million) and transport (EUR 119 million), while negative flows were registered in manufacturing (EUR -260 million) and real estate operations (EUR -131 million). An outflow of capital from the country was observed in portfolio investments and other investments, which included 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 2012 was negative by EUR 154 million, compared to negative by EUR 1,074 million a year earlier.

The current account balance during the period was negative by EUR 460 million (1.2% of GDP), compared to negative by EUR 79 million (0.2% of GDP) for the same period a year earlier. A major contributor was the increase in trade deficit by EUR 1,091 million to EUR 1,990 million or 5% of GDP (Jun'11: EUR -899 million or -2.3% of GDP). Imports grew faster than exports, reaching EUR 11,912 million or 12.9% more than the previous year, due mainly to recovering domestic demand. Exports increased by 2.8% to EUR 9,922 million, against EUR 9,650 million year-on-year, in accordance with the current global environment and the weaker external demand. In the first six months of 2012, the European Union remained the major trading partner, accounting for 59.9% of exports (Jun'11: 61.5%) and 46.9% of imports (Jun'11: 48.4%).

Chart 5: Gross external debt

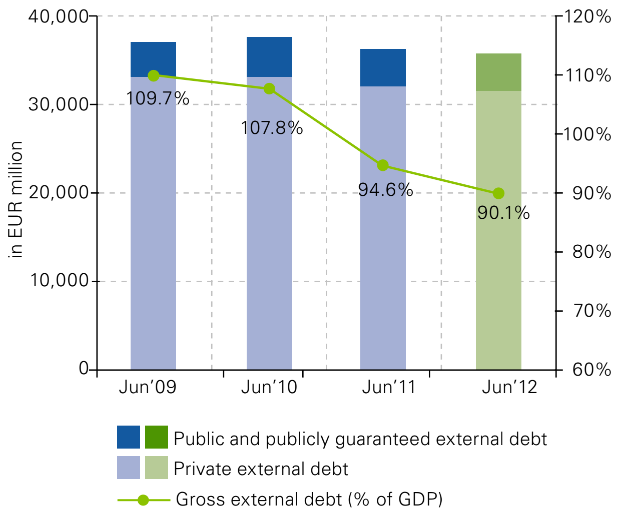
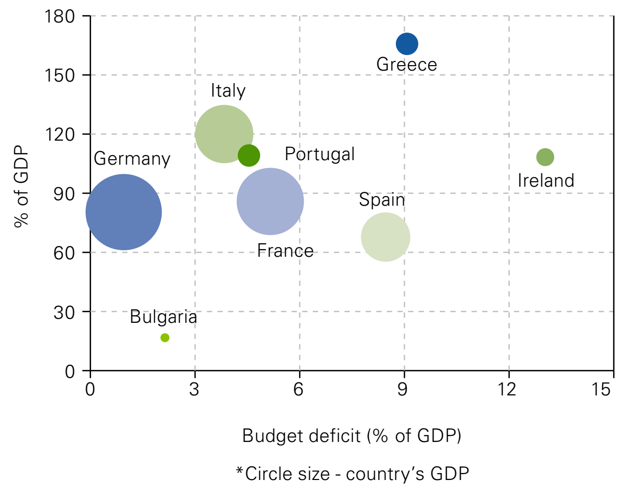


Chart 6: Public financing of EU countries



Gross external debt decreased by 1.8% to EUR 35,778 million or 90.1% of GDP as at end-Jun 2012. (Jun'11: EUR 36,421 million or 94.6% of GDP). The decrease was mainly at the expense of short-term external debt and private unguaranteed debt, in particular bank deposits by non-residents and company loans. The public and publicly guaranteed external debt also decreased by 3.0% to EUR 4,072 million at the end of the period (Jun'11: EUR 4,197 million) and remained low as a percentage of GDP at 10.3% (Jun'11: 10.9%) as compared to most EU countries. Foreign exchange reserves covered 140.2% of the country's short-term external obligations (Jun'11: 114.6%).

At the beginning of July 2012 Bulgaria successfully issued EUR 950 million five-year benchmark Eurobonds on global markets at an attractive return of 4.436% and spread above the average interest rate swaps of 320 bps. The issue was oversubscribed six times and the investor base reached was well diversified by geographical footprint and type of investor. The successful results achieved from the issue reflected foreign investors' trust and their positive assessment of sustainable development, as well as stable indicators and the balanced fiscal policy maintained by the country.

In the first half of 2012 the consolidated budget balance was positive by BGN 62 million (0.1% of GDP), against negative by BGN 650 million (0.9% of GDP) a year earlier. Major contributors were increased revenues from indirect taxes and non-tax revenues, including government fees. In the period VAT revenues grew by 17.4% to BGN 3,419 million (Jun'11: BGN 2,912 million) resulting from heightened collection control, including remote real-time connection of merchants' fiscal devices to the National Revenue Agency, and the growth in imports to the country. Revenues from excise duties reached BGN 1,830 million, compared to BGN 1,707 million year-on-year, boosted by growth in all major groups of excise goods, including fuel, tobacco products, alcoholic beverages, electricity and coals. Indirect tax on insurance premiums generated additional revenues to the budget of BGN 13 million, against BGN 9 million for the same period of the previous year. Corporate tax revenues amounted to BGN 920 million in H1 12 or 2.7% more than a year earlier (Jun'11: BGN 896 million), due mainly to higher revenues from financial institutions. Revenues from income tax from individuals grew by 6.7% to BGN 1,148 million (Jun'11: BGN 1,076 million), influenced mainly by the increased minimum social security thresholds by business activities and the increased level of average salary. Social security contributions decreased by 0.1% to BGN 2,678 million, against BGN 2,682 million a year earlier.

Chart 7: Consolidated fiscal program

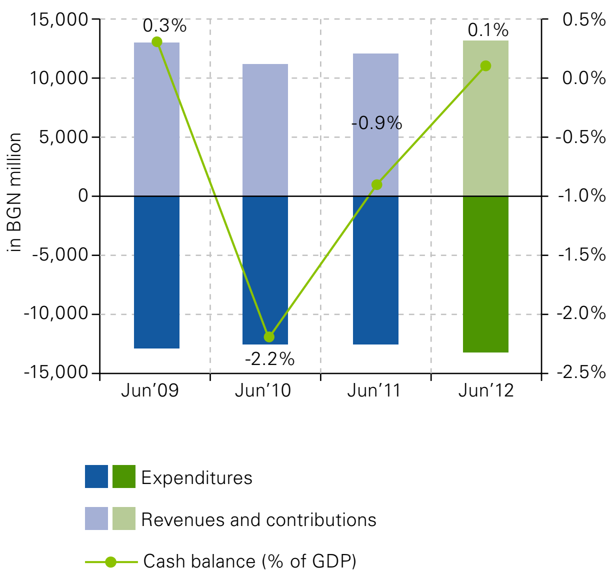
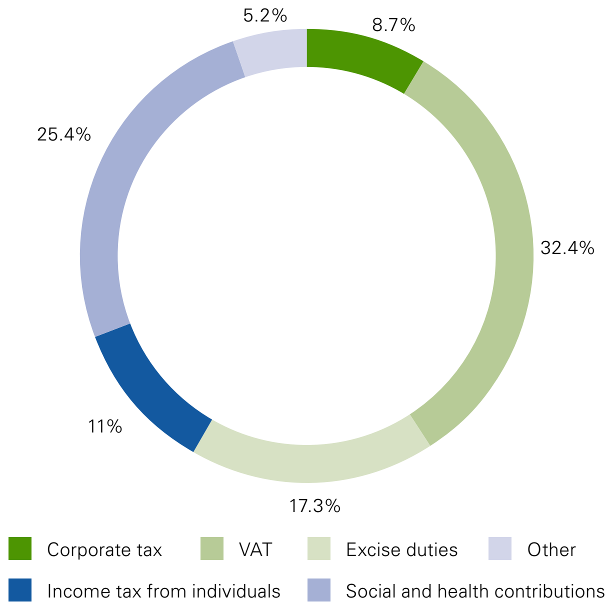


Chart 8: Revenue structure of consolidated budget



Total expenditures on the consolidated budget grew to reach BGN 13,162 million (Jun'11: BGN 12,691 million), due mainly to an increase in capital expenditures and social security and health insurance payments.

Average annual inflation in the country was 2.7% for the period, compared to 4.2% in 2011 (2010: 2.4%). Accumulated inflation (since the beginning of the year) amounted to 0.5%, major contributors being the rise in food prices (by 0.2%), overheads and utilities (by 2.1%) and transport (by 3.4%), which had the largest relative shares of 37.2%, 17.1% and 7.5% in the consumer price index formation. Harmonised inflation, which is a comparable measure for inflation in the EU countries and one of the price stability criteria for joining the Euro Area, was 2.3% for the period on average annual basis (2011: 3.4%; 2010: 3.0%).

Successful financial consolidation, and a stable fiscal policy and re-balancing economy, warranted the international rating agency Fitch Ratings to confirm the country's long-term credit rating in foreign currency to "BBB-" and the long-term rating in local currency to "BBB" with a stable outlook.

Bulgaria fulfilled all the financial criteria for joining the Euro Area, according to the European Central Bank's last convergence report from May 2012. The criteria for price stability, stability and resilience of public finances, convergence and exchange rate stability were within the reference benchmarks calculated for the reference periods. This reflected the positive direction in policy that ensures overall macroeconomical stability, financial convergence and price sustainability. In regard to this in June 2012 the ECOFIN Council terminated the excessive deficit procedure against Bulgaria in reponse to corrected and fulfilled reference criteria.

Maastricht's convergence criteria		**Bulgaria**	**Reference value**	**Reference period**
Price stability	HICP (average growth)	2.7%	3.1%	Apr'11 – Mar'12
Stability of public finance	Budget deficit – ESA'95 (% of GDP)	-2.1%	-3.0%	2011
Resilience of public finance	Gross government debt (% of GDP)	16.3%	60.0%	2011
Convergence stability	Long-term interest rates	5.3%	5.8%	Apr'11 – Mar'12
Exchange rate stability	Exchange rate deviation	Fixed rate	No serious deviations	Apr'10 – Mar'12

Source: ECB, Convergence report, May 2012

The main challenges for further development and recovery of economic activity in Bulgaria till the end of 2012 remain surmounting the negative trend in net exports, and the unfavourable conditions continuing in the labour market, as well as enhancing the signals for accelerating domestic consumption and investment activity. The effective absorption of EU funds and the 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 2012, the banking system in Bulgaria preserved its resilience, registering stable results, favourable liquidity and capital position, and growing balance-sheet indicators in accordance with the external environment and market conditions. Banks continued to develop their systems for the identification, assessment and management of risks, while maintaining existing buffers. The regulatory and supervisory framework continued to evolve in accordance with EU regulations and standards, and BNB's anticyclic policy.

in %	Jun-12	Dec-11	Jun-11	%	%
Capital adequacy ratio	16.74	17.53	17.73	(0.79)	(0.20)
Tier 1 capital ratio	15.19	15.74	15.54	(0.55)	0.20
Ratio of liquid assets	26.21	25.57	25.07	0.64	0.50
Gross loans / deposits	103.83	106.13	110.17	(2.30)	(4.04)
Return-on-equity	6.96*	6.10	6.68	0.86	(0.58)
Return-on-assets	0.83	0.78	0.85	0.05	(0.07)
Problem loans (90 days past due)	16.86	14.93	13.53	1.93	1.40

*as at March 2012

Source: BNB

The capital position of the banking system remained at good levels, reflecting its capacity for assuming pressure in respect of capital and absorbing potential shocks. Total capital adequacy ratio decreased by 0.79 percentage points to 16.74% as at end-June 2012 (2011: 17.53%; Jun'11: 17.73%), while tier 1 capital ratio dropped by 0.55 percentage points to 15.19% (2011: 15.74%; Jun'11: 15.54%). The decrease reflected growing risk-weighted assets. The capital above the regulatory minimum of 12% was BGN 2,559 million, against BGN 2,907 million six months earlier (Jun'11: BGN 2,945 million).

The liquidity of the banking system continued to increase, in accordance with the structure and volume of cash flows. The ratio of liquid assets, measuring the extent of coverage of borrowed funds with highly liquid instruments, reached 26.21%, compared to 25.57% as at end-2011 (Jun'11: 25.07%). The increase reflected growing liquid assets by 6.5% to BGN 17,924 million (2011: BGN 16,835 million; Jun'11: BGN 16,165 million), including tradable debt securities. The steady growth of customer deposits together with the balanced growth of the loan portfolio improved gross loans/deposits ratio to 103.83% at the of June 2012 (2011: 106.13%; Jun'11: 110.17%), which increased the system's capacity for assuming liquidity risk.

in %	Jun-12	Jun-11	Jun-10	%	%
Net interest income	1,315	1,458	1,423	(9.8)	2.5
Net fee and commission income	372	377	362	(1.3)	4.1
Administrative expenses	848	850	820	(0.2)	3.7
Impairment	542	625	566	(13.3)	10.4
Net profit	323	315	352	2.5	(10.5)

Source: BNB

The profitability of the banking system was improved, as net profit rose by 2.5% year-on-year and reached BGN 323 million (Jun'11: BGN 315 million; Jun'10: BGN 352 million), due to the continuing high discipline in respect of costs and measures undertaken for the servicing of loans. Households continued to save and there was a related increase in interest expenses placing pressure on profitability. Net interest income amounted to BGN 1,315 million (Jun'11: BGN 1,458 million; Jun'10: BGN 1,423 million), while net fee and commission income stood at BGN 372 million (Jun'11: BGN 377 million; Jun'10: BGN 362 million), in accordance with current business activity. The reported results ensured a return-on-assets (ROA) of 0.83% as at end-June 2012 (Jun'11: 0.78%; Jun'10: 0.85%) and return-on-equity of 6.96% for the first quarter of the year (Jun'11: 6.10%; Jun'10: 6.68%).

In BGN million	Jun-12	Dec-11	Jun-11	%	%
Assets	79,414	76,811	74,979	3.4	2.4
Loans to corporates	37,132	36,104	34,654	2.8	4.2
Loans to individuals	18,436	18,513	18,596	(0.4)	(0.4)
Deposits from corporates	20,945	20,907	20,240	0.2	3.3
Deposits from individuals	33,780	31,902	29,293	5.9	8.9

Source: BNB

Total balance-sheet assets of the system increased by 3.4% to BGN 79,414 million (2011: BGN 76,811 million; Jun'11: BGN 74,979 million), with loans retaining their determining share of 77.3% (2011: 78.6%; Jun'11: 79.4%). The total gross loan portfolio (excluding credit institutions) grew by 1.4% to BGN 56,823 million, mainly due to an increase in loans to corporates, which reached BGN 37,132 million or 2.8% more than end-2011 (Jun'12/Jun'11: 7.2%). Loans to individuals dropped by 0.4% to BGN 18,436 million, due to a decrease in consumer loans by 0.7% to BGN 9,082 million and in mortgage loans by 0.2% to BGN 9,354 million. The behavior of individuals was determined by continuing uncertainty with regard to future incomes and labour market conditions

Chart 9: Quality of loan portfolio

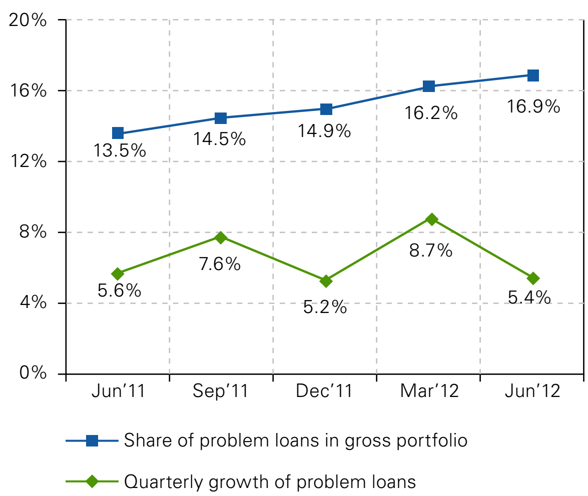
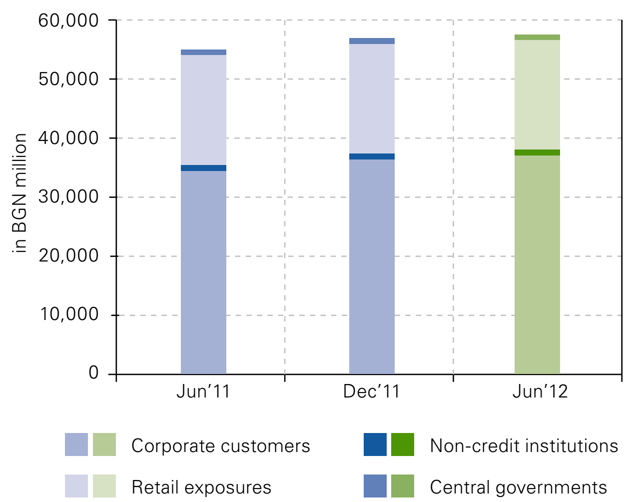


Chart 10: Gross loans, excluding credit institutions



During the period problem loans (those classified as nonperforming and loss) increased by 1.9 percentage points to 16.86% of the gross loan portfolio (excluding credit institutions), against 14.93% six months earlier (Jun'11: 13.53%), with the status of loans to individuals remaining better than that of corporate loans. The amount of provisions held remained at an adequate level of BGN 4,345 million (2011: BGN 3,983 million; Jun'11: BGN 3,594 million), in accordance with the negative impact of the economic cycle.

Chart 11: Attracted deposits

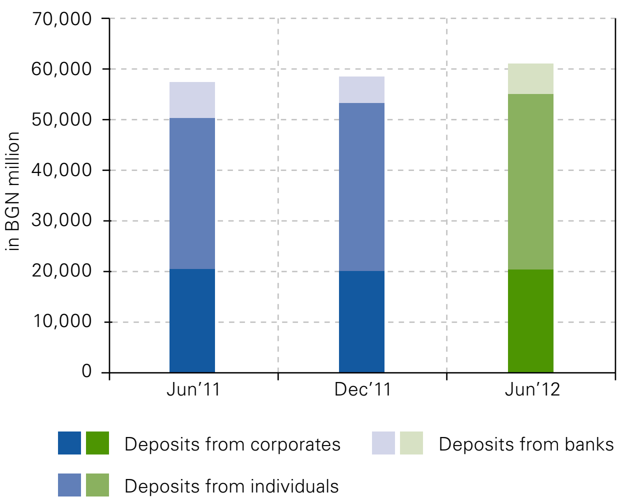
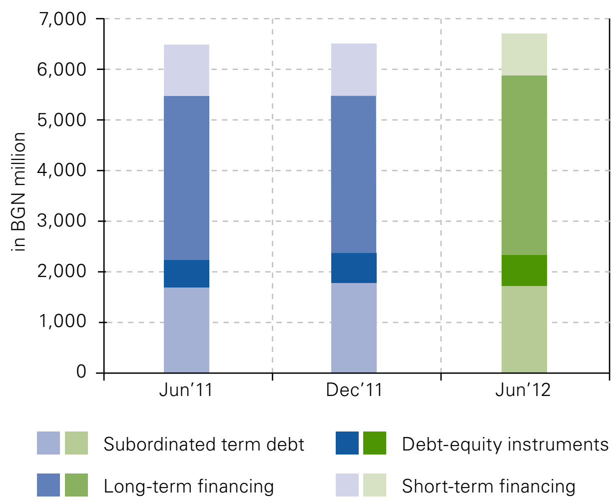


Chart 12: Other attracted funds



Attracted funds in the banking system grew by 3.9% reaching BGN 68,155 million (2011: BGN 65,607 million; Jun'11: BGN 64,304 million), due to a steady growth in deposits from individuals by 5.9% (BGN 1,878 million) to BGN 33,780 million (2011: BGN 31,902 million; Jun'11: BGN 29,293 million) and an increase in deposits from corporates by 0.2% (BGN 39 million) to BGN 20,945 million (2011: BGN 20,907 million; Jun'11: BGN 20,240 million). The currency structure of attracted funds marked an increase in the BGN portion to 45.8% (2011: 45.2%; Jun'11: 43.1%) and in other currencies to 7.2% (2011: 6.8%; Jun'11: 6.6%), at the expense of those in EUR to 47.0% (2011: 48.0%; Jun'11: 50.3%).

During the first six months of the year the banking system continued its functioning in compliance with national and EU regulatory changes.

A new Regulation (EU) № 260/2012 of the European Parliament and of the Council establishing technical and business requirements for credit transfers and direct debits in Euro was adopted during the period, which implemented the regulatory framework of SEPA credit transfers and direct debits, with no difference between national and cross-border payments within the European community. The new regulation also amended Regulation (EC) № 924/2009, which equalized fees for national and cross-border transfers to one and the same level and currency, irrespective of the payment services amount. In addition, national requirements for balance of payments statistical reporting, was terminated effective from 1 February 2016.

With regard to payment services, amendments were made in Ordinance № 3 of the BNB on the terms and procedure for the execution of payment transactions and use of payment instruments. They implemented EU requirements regarding electronic money, aiming at the facilitation of payment service providers and merchants when accepting pre-paid cards, including operations on POS terminals at merchant locations and the related processing and settlement requirements.

In April 2012 amendments were made to Ordinance № 22 of the BNB on the Central credit register, which extended the register's scope by including payment institutions and electronic money institutions, and the credit granted by them with connection to payment services provision. The amendment aimed at increasing the level of information provided to users of the data register and creating better conditions for the analysis and assessment of credit risk.

A new Ordinance № 46 of the FSC on the procedure for paying compensations by the investor compensation fund was adopted, which summarized and further developed the requirements towards investment intermediaries and management companies, stated in the Law on Public Offering of Securities regarding paying compensations by the fund.

In June 2012 a Decree № 100 of the Council of Ministers on determining the legal interest on overdue obligations in BGN and in foreign currency came into effect, which transposed Directive 2011/7/EU of the European Parliament and of the Council on combating late payment in commercial transactions. The amendments introduced a new way of determining the legal interest, as well as requirements for its actualization twice a year.

As at 30 June 2012, 31 credit institutions operated in the country, including 7 branches of foreign banks. The balance sheet capital of the banking system amounted to BGN 10,549 million, with predominantly foreign participation of investors from the European Economic Area.

Bank Activities

During the first half of 2012 First Investment Bank AD (Fibank, the Bank) registered sustainable development and increased competitiveness. Fibank remained focused on risk management with a balanced and consistent approach in respect of profit, growth and efficiency. The Bank continued to develop its capital base with an accent on tier 1 capital, as well as maintaining high liquidity and high standards of customer service.

in %	Jun-12	Dec-11	Jun-11
Capital adequacy ratio	12.89	12.57	12.74
Tier 1 capital adequacy ratio	10.75	10.18	10.22
Liquidity ratio	27.21	26.17	22.56
Loans / deposits ratio	78.66	80.08	85.78
Cost / income ratio	69.12	64.86	63.45
Net interest income / total income from banking operations	65.93	66.53	70.31
Return-on-equity (after tax)	6.42	7.95	9.14
Return-on-assets (after tax)	0.48	0.64	0.77
Loan provisioning ratio	3.35	3.29	2.90
Earnings per share (in BGN)	0.14	0.33	0.18
In numbers			
Branches and offices	171	173	173
Staff	2,871	2,838	2,754

Source: Fibank

During the reporting period the Bank expanded its position in the banking market in the country, by offering new flexible loan facilities at competitive conditions, adapted to market needs, as well as innovative products and services in the card business and new market opportunities in the trade of investment gold and other precious metals.

	Market position			Market share (%)		
	Jun-12	Dec-11	Jun-11	Jun-12	Dec-11	Jun-11
Assets	4	5	6	8.27	7.94	7.31
Loans, including:	5	6	6	8.12	7.71	7.44
- corporate loans	2	3	4	10.01	9.66	9.39
- consumer loans	7	7	7	5.14	4.66	4.33
- mortgage loans	8	8	8	3.72	3.68	3.69
Deposits, including:	3	3	3	10.49	10.01	9.34
- retail deposits	2	2	2	13.91	13.68	13.13
	Jun-12	Jun-11	Jun-10	Jun-12	Jun-11	Jun-10
Net profit	6	7	8	4.72	6.35	4.20

Source: Fibank

There was evidence of the Bank's good performance in the prestigious awards received during the period. In June 2012 Fibank was awarded "Bank of the Year 2011" in the annual ranking of "Bank of the Year" Association, with the best complex performance in terms of market share, efficiency and development dynamics. For a second consecutive year the Bank won the prize for market share, by attracting the largest number of deposits from households and companies in Bulgaria, and returning the majority of this money to the Bulgarian economy. In March 2012 Fibank received the "Golden Martenitsa" 2011 award for financial institutions. The award was received for the most favourable credit policy towards SMEs in Bulgaria and the support of

Bulgarian companies in EU program financing. For a second consecutive year, in April 2012 Fibank became "Favourite Brand for 2011" of the Bulgarian consumer in the category "Financial Institutions" at the annual "My Love Marks" competition, organized by "Business Lady" magazine.

First Investment Bank's credit ratings, rated by Fitch Ratings as at end-June 2012, were as follow: long-term rating "BB-" with a stable outlook, short-term rating "B", viability rating "b", support rating "3" and support rating floor "BB-".

Financial Results

For the first half of 2012 the Group of First Investment Bank reported group profit after tax of BGN 15,241 thousand, or 24.1% less than the same period of the previous year. The decrease was due to a lower operating income, including net interest income, generated under the conditions of the ongoing instability of the external environment and the increased propensity for saving of individuals. A contributor was also the increased high-liquid but low-profit assets such as cash and first-class government securities, which ensure higher levels of liquidity. During the period Fibank improved its market position to sixth place in terms of profit amongst banks in the country (Jun'11: seventh; Jun'10: eight). The Bank's market share reached 4.72% on an unconsolidated basis (Jun'11: 6.35%; Jun'10: 4.20%). Return-on-equity (after tax) was 6.42% (Jun'11: 9.14%; Jun'10: 6.12%), return-on-assets (after tax) was 0.48% (Jun'11: 0.77%; Jun'10: 0.58%), while earnings per share stood at BGN 0.14 (Jun'11: BGN 0.18; Jun'10: BGN 0.11).

In BGN thousand	**Jun-12**	**Dec-11**	**Jun-11**	**%**	%
Net interest income	74,708	84,461	62,315	(11.5)	35.5
Net fee and commission income	33,890	31,135	24,133	8.8	29.0
Net trading income	3,754	7,803	4,071	(51.9)	91.7
Total income from banking operations	113,310	120,120	91,437	(5.7)	31.4
Administrative expenses	(78,324)	(76,216)	(70,037)	2.8	8.8
Impairment	(11,650)	(14,830)	(8,303)	(21.4)	78.6
Group profit after tax	15,241	20,076	12,416	(24.1)	61.7

Source: Fibank

The net interest income of the Group amounted to BGN 74,708 thousand or 11.5% less than a year earlier (Jun'11: BGN 84,461 thousand; Jun'10: BGN 62,315 thousand). The decrease reflected the higher interest expenses (by 17.1% or BGN 22,343 thousand), resulting from the growing deposit base and new hybrid debt issued throughout the period. Interest income increased by 5.8% or BGN 12,590 thousand, including income arising from corporate clients, retail banking and debt instruments. Net interest income remained structure-determining, forming 65.9% (Jun'11: 70.3%; Jun'10: 68.2%) of total income from banking operations, which amounted to BGN 113,310 thousand for the first six months of the year (Jun'11: BGN 120,120 thousand; Jun'10: BGN 91,437 thousand).

Net fee and commission income grew by 8.8% or BGN 2,755 thousand and reached BGN 33,890 thousand (Jun'11: BGN 31,135 thousand; Jun'10: BGN 24,133 thousand). The increase was due mainly to higher fee and commission income related to card business (by 10.2% to BGN 11,357 thousand), customer accounts (by 10.7% to BGN 7,797 thousand) and payment transactions (by 9.9% to BGN 4,755 thousand). Net fee and commission income increased its relative share to 29.9% (Jun'11: 25.9%; Jun'10: 26.4%) of total income from banking operations, as a result of the Bank's consistent policy for operating income diversification.

Net trading income amounted to BGN 3,754 thousand for the period, against BGN 7,803 thousand a year earlier (Jun'10: BGN 4,071 thousand). A decrease was registered in gains from debt and equity instruments to BGN BGN 61 thousand and BGN -237 thousand respectively, at the expense of foreign exchange operations, which increased to BGN 3,930 thousand.

Chart 13: Income from banking operations

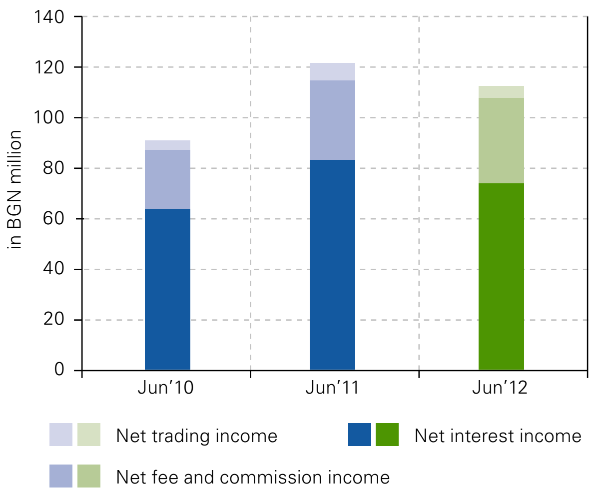
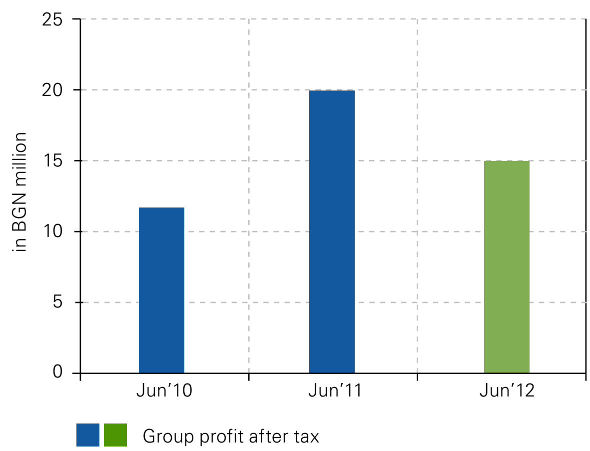


Chart 14: Group profit after tax



Administrative expenses grew by 2.8% to reach BGN 78,324 thousand (Jun'11: BGN 76,216 thousand; Jun'10: BGN 70,037 thousand), which reflected mainly the increased number of staff and the related costs for salaries, social security and health insurance contributions (by 3.5% to BGN 26,404 thousand), as well as the growth in administration, consultancy, audit and other costs (by 7.4% to BGN 15,407 thousand). Cost/income ratio was 69.12% for the period, compared to 63.45% a year earlier (Jun'10: 76.60%), due mainly to lower operating income.

Impairment decreased by 21.4% to BGN 11,650 thousand (Jun'11: BGN 14,830 thousand; Jun'10: BGN 8,303 thousand), as the additional write-downs during the period amounted to BGN 16,709 thousand, while the reversal of write-downs were BGN 5,059 thousand. The criteria for assessing the potential risk of loss applied by Fibank are in accordance with the regulations set by the BNB (Ordinance No 9).

Balance Sheet

As at the end of June 2012, total assets of the Group of First Investment Bank reached BGN 6,659,262 thousand (2011: BGN 6,174,452 thousand; Jun'11: BGN 5,542,885 thousand), an increase of 7.9% (BGN 484,810 thousand). Fibank's market share rose to 8.27% of banking system assets (2011: 7.94%; Jun'11: 7.31%), while its competitive market position was improved to fourth place in terms of assets amongst banks in the country on an unconsolidated basis (2011: fifth; Jun'11: sixth).

In BGN thousand	Jun-12	Dec-11	Jun-11	%	%
Total assets	6,659,262	6,174,452	5,542,885	7.9	11.4
Portfolio of financial instruments	951,728	738,470	593,509	28.9	24.4
Loan portfolio	4,454,278	4,182,236	3,933,134	6.5	6.3
Customer deposits	5,846,298	5,388,310	4,716,532	8.5	14.2
Liabilities evidenced by paper	76,829	112,306	137,226	(31.6)	(18.2)
Total Group equity	486,029	470,002	452,915	3.4	3.8

Source: Fibank

Cash and balances with central banks increased by 0.3% (BGN 2,527 thousand) to BGN 928,921 thousand (2011: BGN 926,394 thousand; Jun'11: BGN 705,793 thousand) resulting mainly from a growth in the balances with central banks, which reached BGN 687,222 thousand (2011: BGN 655,739 thousand; Jun'11: BGN 416,868 thousand) and reflected the growing deposit base and related minimum required reserves.

Available for sale investments rose by 27.5% to BGN 846,372 thousand (2011: BGN 663,925 thousand; Jun'11: BGN 522,627 thousand), due to Bulgarian government bonds and foreign government treasury bills acquired during the period. Financial assets held to maturity increased by 47.0% to BGN 96,849 thousand (2011: BGN 65,886 thousand; Jun'11: BGN 52,531 thousand), while financial assets held for trading decreased by 1.8% to BGN 8,507 thousand (2011: BGN 8,659 thousand; Jun'11: BGN 18,351 thousand). As at end-June 2012 the Group's portfolio of government debt exposures amounted to BGN 896,036 thousand (2011: BGN 682,955 thousand; Jun'11: BGN 539,582 thousand).

Chart 15: Portfolio of financial instruments

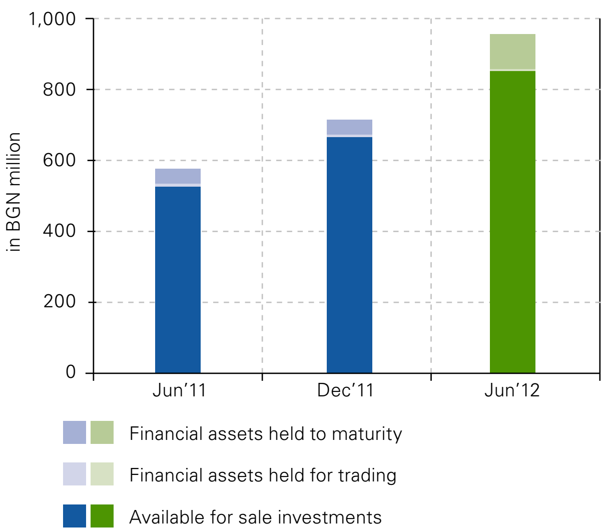
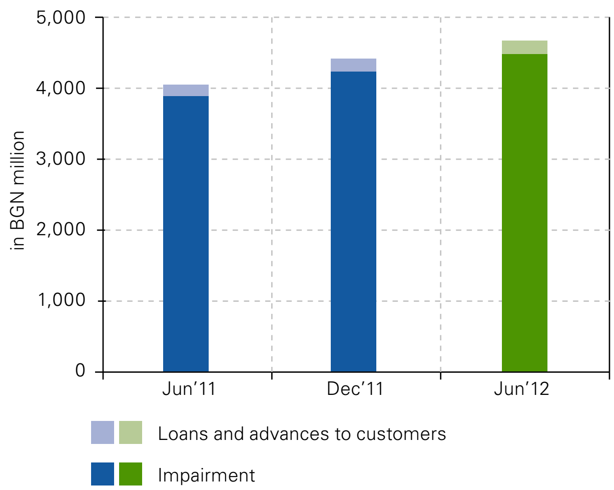


Chart 16: Loan portfolio and impairment



The Bank seeks at all times to maintain optimal levels of liquidity. At the end of the period the liquidity ratio was 27.21% (2011: 26.17%; Jun'11: 22.56%), while the loans/deposits ratio was 78.66% (2011: 80.08%; Jun'11: 85.78%). Loans and advances to banks and financial institutions amounted to BGN 33,398 thousand, against BGN 100,427 thousand at end-2011 (Jun'11: BGN 86,405 thousand), due to a decrease in the deposits placed in banks. An increase was reported in receivables under resale agreements by 23.7% to BGN 15,685 thousand (2011: BGN 12,683 thousand; Jun'11: BGN 26,402 thousand), as part of liquidity management.

Loans and advances to customers grew by 6.5% (BGN 272,042 thousand) during the first half of 2012 and reached BGN 4,454,278 thousand (2011: BGN 4,182,236 thousand; Jun'11: BGN 3,933,134 thousand), due to increase in all business lines – corporate customers (by 6.4% or BGN 206,981 thousand), retail customers (by 5.9% or BGN 47,291 thousand), small and medium enterprises (by 10.2% or BGN 27,364 thousand) and microlending (by 7,0% or BGN 1,855 thousand). Fibank improved its market position as compared to end-2011 and ranked fifth in terms of lending in the banking system on an unconsolidated basis (2011: sixth; Jun'11: sixth). The Bank's market share rose to 8.12% (2011: 7.71%; Jun'11: 7.44%).

Allowances for impairment increased and reached BGN 144,272 thousand (2011: BGN 132,823 thousand; Jun'11: BGN 112,603 thousand), resulting from the hightened credit risk and the negative impact of the economic cycle. During the period loans and advances to customers amounting to BGN 216 thousand were recorded off balance sheet, against BGN 51 thousand a year earlier. The loan provisioning ratio was 3.35% (2011: 3.29%; Jun'11: 2.90%).

Chart 17: Customer deposits

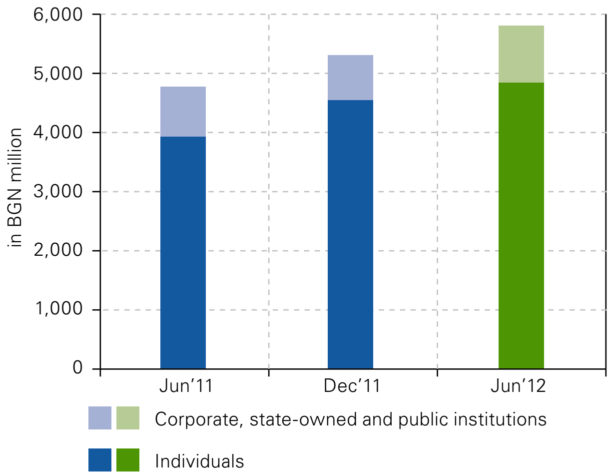
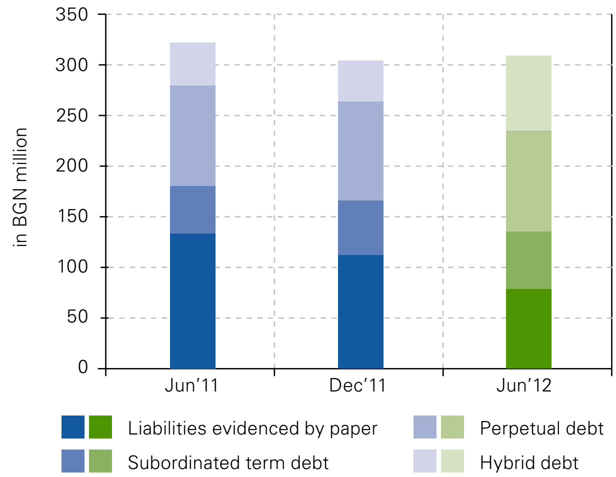


Chart 18: Other attracted funds



Attracted funds from customers increased by 8.5% (BGN 457,988 thousand) to BGN 5,846,298 thousand (2011: BGN 5,388,310 thousand; Jun'11: BGN 4,716,532 thousand), with growth registered in retail customers and in corporate, state-owned and public institutions. The structure of attracted funds remained relatively unchanged, with the composition between individuals and corporates amounting to 82.1%/17.9% (2011: 82.7%/17.3%; Jun'11: 83.3%/16.7%). As at end-June 2012 Fibank's market share rose to 10.49% on an unconsolidated basis (2011: 10.01%; Jun'11: 9.34%), as the Bank retained its market position in third place in terms of deposits amongst banks in the country (2011: third; Jun'11: third). First Investment Bank regularly sets aside the required annual premiums in accordance with the Bank Deposit Guarantee Act, which additionally increases the safety of the Bank's depositors.

Liabilities evidenced by paper decreased by 31.6% to BGN 76,829 thousand (2011: BGN 112,306 thousand; Jun'11: BGN 137,226 thousand), resulting mainly from repaid on maturity EUR 20 million loan facility.

At the end of the period subordinated term debt amounted to BGN 51,362 thousand, against BGN 50,596 thousand six months earlier (Jun'11: BGN 47,539 thousand). In June 2012 Hillside Apex Fund Limited transferred its receivable under the subordinated debt agreement with Fibank on the amount of EUR 5 million to Estrado Holdings Limited. The perpetual debt amounted to BGN 100,393 thousand, compared to BGN 99,376 thousand for the previous period (Jun'11: BGN 100,184 thousand).

In June 2012 the Bank successfully issued the second tranche of the hybrid instrument (bond issue), whose first tranche on the amount of EUR 20,000 thousand was placed in March 2011 under private subscription. The second tranche with the same amount of EUR 20,000 thousand was placed under identical conditions as previously, thus successfully reaching the total expected amount of the bond issue of EUR 40,000 thousand. The bonds were registered, dematerialized, interest-bearing, perpetual, unsecured, freely transferable, non-convertible, deeply subordinated and without incentive to redeem. The new hybrid debt was included in the Bank's tier 1 capital, after obtaining permission from the Bulgarian National Bank. The amortised cost of the debt as at the end of June 2012 amounted to BGN 79,196 thousand (2011: BGN 42,800 thousand; Jun'11: BGN 40,254 thousand).

Capital

The total capital base of the Group increased and reached BGN 629,189 thousand or 9.1% (BGN 52,268 thousand) more than end-2011. Tier 1 capital grew by 12.3% (BGN 57,258 thousand) to BGN 524,561 thousand, resulting from capitalization of the Bank's annual profit for 2011 and the issuance of new hybrid debt.

Chart 19: Capital base

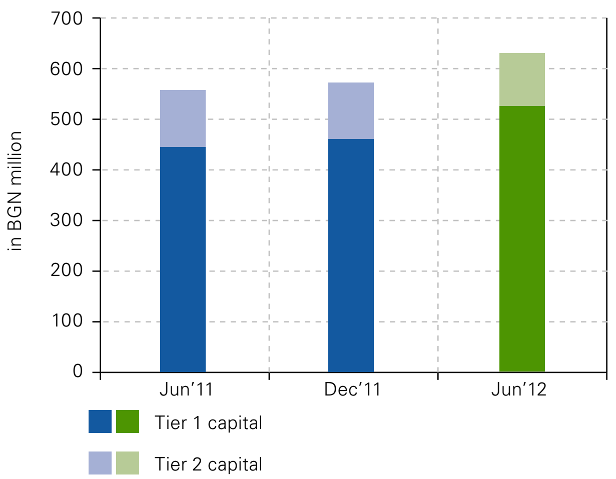
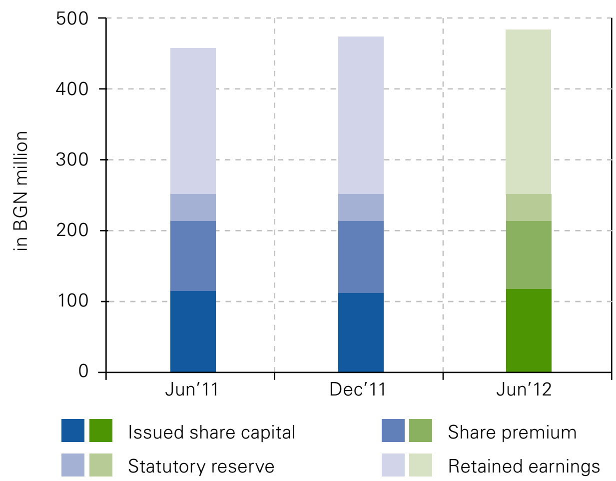


Chart 20: Equity structure



As at 30 June 2012 Fibank's capital indicators were above the established regulatory requirements, with total capital adequacy ratio increasing to 12.89% (2011: 12.57%; Jun'11: 12.74%), while tier 1 capital adequacy ratio rose to 10.75% (2011: 10.18%; Jun'11: 10.22%). In calculating its capital adequacy, the Bank applies the Basel II Capital Accord, as adopted in the EU Directives and Ordinance №8 of the BNB, setting aside capital for credit, market and operational risk.

Total Group equity grew by 3.4% to BGN 486,029 thousand (2011: BGN 470,002 thousand; Jun'11: BGN 452,915 thousand). As at the end of June 2012 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 1.41 to BGN 2.13, in accordance with the leading market indices of the Bulgarian Stock Exchange. The last share price of the Bank for the reporting period was BGN 1.85 (Dec'11: BGN 1.89; Jun'11: BGN 3.08). A total of 650 transactions were concluded with shares of the Bank, amounting to a turnover of BGN 1,897 thousand, compared to 2,794 transactions and BGN 11,716 thousand turnover a year earlier. The Bank's shares are traded on the Main market, Premium Equities Segment of the Bulgarian Stock Exchange and are included in three stock indices – SOFIX, BG40 and BGTR30, which bring together the largest, most traded and most liquid companies on the stock market in the country.

Chart 21: Fibank share price for the period Jan-Jun 2012

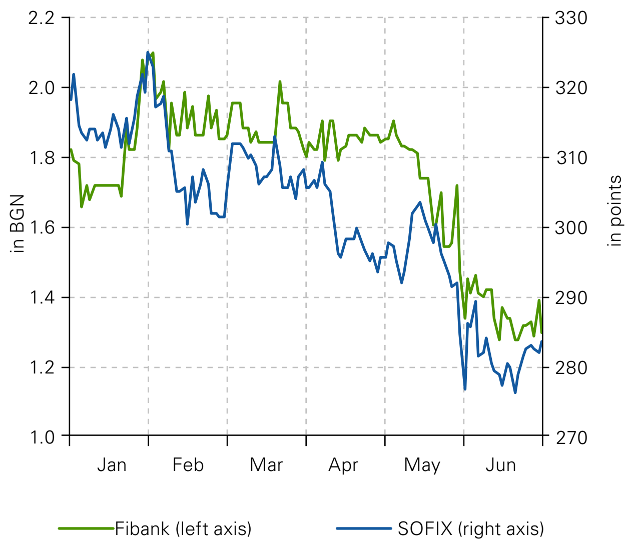
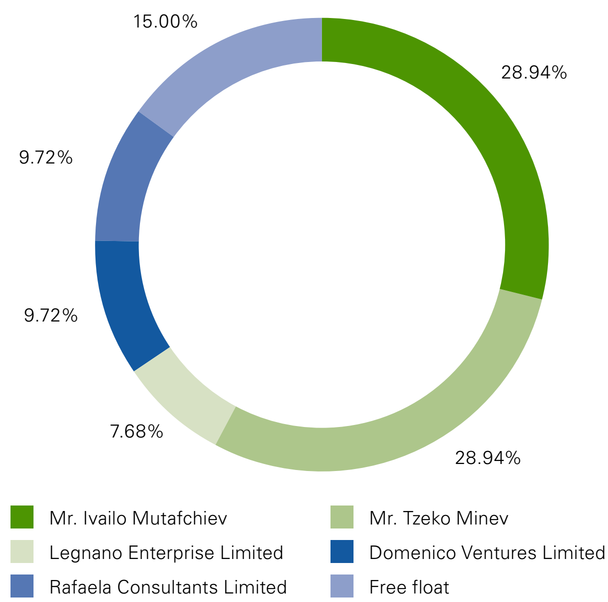


Chart 22: Shareholder structure



As at 30 June 2012 the Bank's shareholding structure remained unchanged.

First Investment Bank AD develops its internal system of risk management to ensure the timely identification, evaluation and management of risks inherent to 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 2012 Fibank continued to work towards developing systems for the forecasting, assessment and management of risks according to external conditions and good banking practices, while preserving the flexibility and adaptability of the Bank to the needs of the market. The Bank continued to develop its infrastructure towards maintaining sufficient capital buffers in accordance with the surrounding risks and the regulatory requirements.

In BGN thousand	Jun-12	Dec-11	Jun-11	%	%
For credit risk	4,503,274	4,224,125	3,994,846	6.6	5.7
For market risk	6,398	6,100	5,463	4.9	11.7
For operational risk	371,240	358,364	358,363	3.6	0.0
Total risk-weighted assets	4,880,912	4,588,589	4,358,672	6.4	5.3

Source: Fibank

At the end of the reporting period the Group of First Investment Bank operated with 171 branches and offices (2011: 173, Jun'11: 173), of which 53 were in Sofia, 107 in the rest of Bulgaria, one foreign branch in Cyprus, as well as a head office and 9 branches of the subsidiary bank in Albania. Fibank remained focused on optimizing and increasing the efficiency of the branch network. In the six months of 2012 one new office was opened in Blagoevgrad and three offices were closed in Sofia, Varna and Razgrad. The office in Yambol was converted into a branch with the aim of expanding the scope of products and services, offered and ensuring deeper market penetration.

As at 30 June 2012 the number of staff increased and reached 2,871 employees on a consolidated basis (2011: 2,838; Jun'11: 2,754).

During the first six months of 2012 First Investment Bank continued to work on applying the highest standards in corporate governance, in compliance with the effective regulation and best practices.

During the reporting period, the three committees to the Supervisory Board (Presiding Committee, Risk Committee and Remuneration Committee), established in February 2012, started functioning. In this respect, efforts and resources were allocated for the development and elaboration of the rules and procedures for their effective communication and interaction with the Managing Board, the Supervisory Board and all other structures, in compliance with the new EU requirements and best practices in this sphere. Ms. Maya Georgieva (Deputy Chairperson of the Supervisory Board) was elected as Chairperson of the Presiding Committee, Mr. Evgeni Lukanov (Chairman of the Supervisory Board) as Chairman of the Risk Committee, and Mr. Jordan Skortchev (Member of the Supervisory Board) as Chairman of the Remuneration Committee.

In May 2012 a regular annual general meeting of shareholders was held, at which a decision was taken that the entire net profit of the Bank for 2011 shall be capitalized and that no dividends shall be paid, or any other deductions made from the profit for 2012. KPMG Bulgaria OOD was selected as a specialized auditing company, which will verify the annual financial statements for 2012. Amendments were made to the structure of the Audit Committee of Fibank, as new members were elected: Ms. Maya Georgieva and Mr. Jordan Skortchev, who replaced the former members Mr. Todor Breshkov and Mr. Nedelcho Nedelchev. Ms. Stefana Tsenova (Chairperson of the Audit Committee) was re-elected for a new three-year mandate.

The structure of the Supervisory Board of the Bank as at 30 June 2012 was as follows: Chairman – Mr. Evgeni Lukanov, Deputy Chairperson: Mrs. Maya Georgieva, Members: Mr. Georgi Mutafchiev, Mrs. Radka Mineva and Mr. Jordan Skortchev.

The structure of the Managing Board of the Bank as at 30 June 2012 was as follows: Chairman – Mr. Dimitar Kostov, Members: Mr. Vassil Christov, Mr. Svetoslav Moldovanski, Mr. Stanislav Bozhkov and Ms. Maya Oyfalosh.

During the first half of 2012 First Investment Bank continued to support socially important projects and initiatives, as part of its corporate social responsibility program and active participation in the country's social life. In this respect, the Bank donated BGN 300,000 to the people that suffered from the floods in Harmanli and Svilengrad municipalities in February 2012. Fibank continued its successful cooperation with the Workshop for Civic Initiatives Foundation, as funds were collected for the support of people in an unequal condition.

As a general sponsor of the Bulgarian Ski Federation the Bank supported the World Ski Championship in Bansko, where a charity event was organized and therefore collected BGN 20,000 in support of children's skiing in Bulgaria. During the reporting period Fibank awarded the European 100-meters-sprint champion Ivet Lalova with BGN 10,000, in its capacity as a general sponsor of the Bulgarian Athletics Federation.

Retail Banking

During the first six months of 2012 attracted funds from individuals increased by 7.7% or BGN 343,738 thousand (significantly above the 5.9% growth for the banking sector) and reached BGN 4,802,250 thousand (2011: BGN 4,458,512 thousand; Jun'11: BGN 3,929,560 thousand). The increase resulted mainly from the growth in term deposits (by 7.9% or BGN 317,588 thousand), which reached BGN 4,345,775 thousand, thus increasing their determining share to 90.5% of attracted funds from individuals (2011: 90.3%; Jun'11: 90.1%). 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 456,475 thousand or by 6.1% (BGN 26,150 thousand) more than at the end of 2011. Fibank offers a variety of accounts with competitive conditions such as: the current account "Optima" with debit card, joint accounts and specialized accounts tailored to the specific needs of certain customers such as condominium ownerships, notaries, insurance brokers, and others. At the beginning of 2012 the Bank started a new service through My Fibank electronic system for payments of utility bills and of other obligations on accounts and cards, kept with Fibank.

The Bank increased its market share in terms of attracted funds from individuals to 13.91% on an unconsolidated basis (2011: 13.68%; Jun'11: 13.13%) and retained its second place among banks in the country.

Chart 23: Attracted funds from individuals

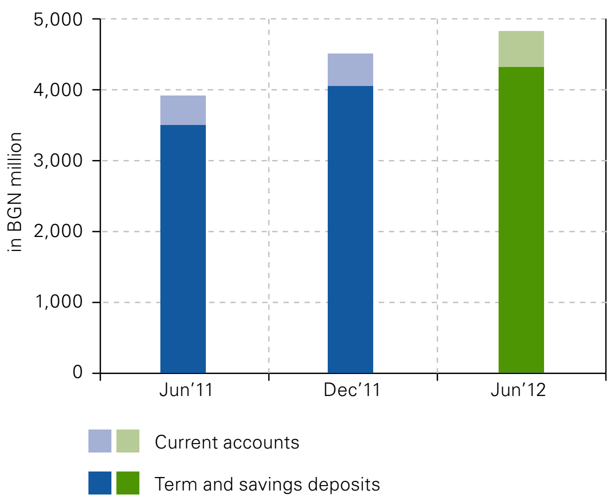
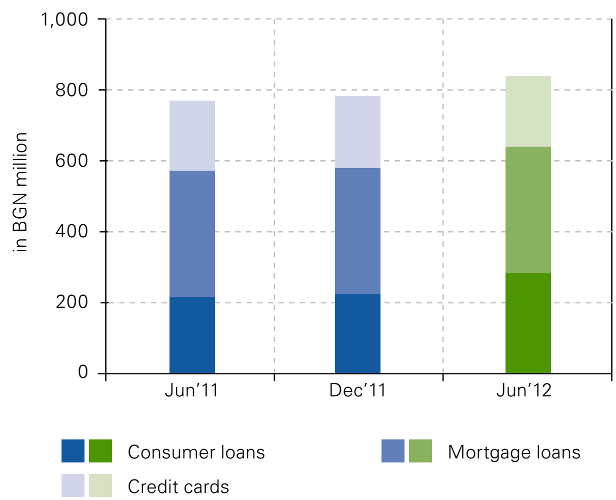


Chart 24: Loans to individuals



The retail loan portfolio grew by 5.9% (0.4% drop for the banking sector) to BGN 843,121 thousand on a consolidated basis (2011: BGN 795,830 thousand; Jun'11: BGN 767,974 thousand), due to an increase in all business lines, with the main contributor being consumer loans.

Consumer loans rose by 14.8% to BGN 273,964 thousand, against BGN 238,603 thousand six months earlier (Jun'11: BGN 212,820 thousand), which was facilitated by the competitive conditions offered by the Bank, the simplified procedure for loan application and the development of new products tailored to consumer needs and the market. In March 2012 Fibank started offering a new consumer loan "Easter Loan" with a maximum amount of BGN 50,000, fixed interest rate for the first two years of the loan's term and no application and prepayment fees and commissions. Fibank's market share increased to 5.14% in this segment (2011: 4.66%; Jun'11: 4.33%), as the Bank retained its market position at seventh place in terms of consumer loans among banks in the country on an unconsolidated basis.

Utilized limits on credit cards grew by 3.4% and reached BGN 209,324 thousand (2011: BGN 202,495 thousand; Jun'11: BGN 199,873 thousand). There are various and innovative card products and services offered by Fibank, as well as a consistent and active policy for stimulating this type of non-cash payment. The relative share of loans, utilized by means of credit cards amounted to 24.8% of total retail loan portfolio as at end-June 2012 (2011: 25.4%; Jun'11: 26.0%).

Mortgage loans increased to BGN 359,833 thousand as at 30 June 2012 or 1.4% more than end-2011 levels: BGN 354,732 thousand (Jun'11: BGN 355,281 thousand). The increase resulted from the flexible mortgage products offered by the Bank, adapted to market conditions. Mortgage loans retained their predominant share in the retail loan portfolio at 42.7% (2011: 44.6%; Jun'11: 46.3%). In April 2012 a new "Free Mortgage Loan" was offered with fixed interest rate for the first seven years, financing of up to 100% of the purchased real estate and option for currency selection. The loan gives conforming customers the opportunity to receive a bonus from the Bank (in the form of cashback) on the amount of 1% of the remaining loan principal per year. As at 30 June 2012 Fibank's market position was maintained at eighth place in terms of mortgage loans with a market share of 3.72% on an unconsolidated basis (2011: 3.68%; Jun'11: 3.69%).

During the period Fibank continued to actively develop its business of investment gold and other precious metals. In March 2012 the Bank started offering a new service for the redemption of investment gold and silver in the form of bars and coins with the cooperation of the Italian refinery "Italpreziosi". The product range was expanded by a new collection of gold and silver medallion-shaped bars icOns WINGS, a new collection series of five silver coins "Google ZOOM" of the Swiss mint PAMP with partial overgild, a new silver wedding coin "Love Forever" of the New Zealand mint and three commemorative coins of the BNB.

Corporate Banking

As at end-June 2012 the corporate loan portfolio grew by 6.7% or BGN 236,200 thousand (2.9% growth for the banking sector) and reached BGN 3,755,429 thousand (2011: BGN 3,519,229 thousand; Jun'11: BGN 3,277,763 thousand), due to an increase in all business lines, with loans to large corporates being the main contributor. The Bank's market share rose to 10.01% of banking system's corporate loans (2011: 9.66%; Jun'11: 9.39%), as Fibank improved its competitive market position at second place amongst banks in the country in terms of this indicator on an unconsolidated basis (2011: third; Jun'11: fourth).

Loans to large corporates increased by 6.4% (BGN 206,981 thousand) to BGN 3,431,436 thousand (2011: BGN 3,224,455 thousand; Jun'11: BGN 3,004,315 thousand), as the highest growth during the period was recorded in loans in the sectors of trade (BGN 109,169 thousand), industry (BGN 67,395 thousand), services (BGN 15,402 thousand) and agriculture (BGN 14,904 thousand). The portfolio of loans to large corporates retained their determining share of 91.4% of all corporate loans (2011: 91.6%; Jun'11: 91.7%).

Chart 25: Attracted funds from corporates

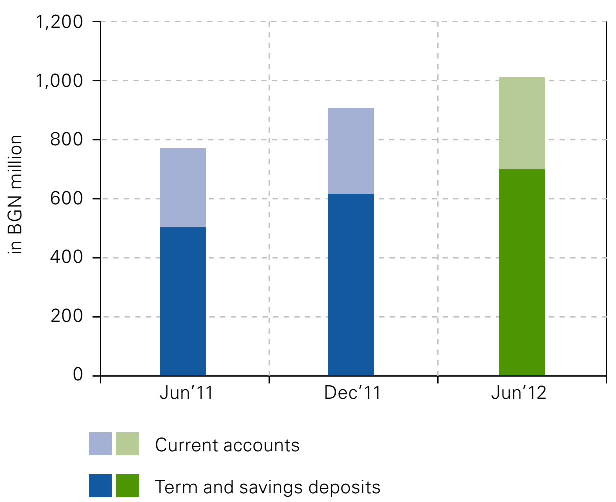
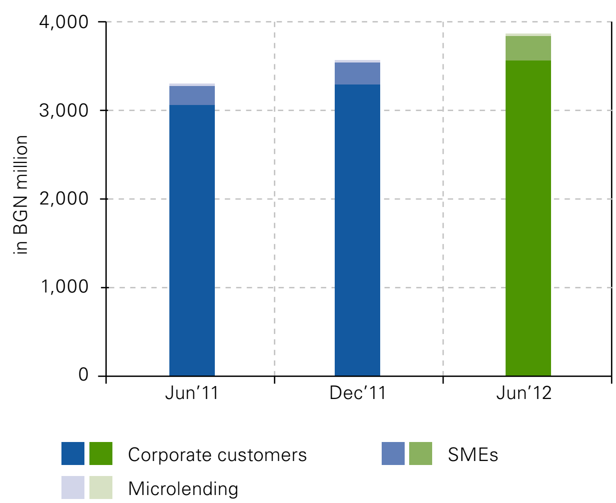


Chart 26: Loans to corporates



Loans to SMEs grew by 10.2% and reached BGN 295,526 thousand as at 30 June 2012, against BGN 268,162 thousand six months earlier (Jun'11: BGN 247,073 thousand). With the aim at facilitating borrowers, the Bank further developed its terms on lending to agricultural producers, by offering to those who have received subsidies under the 2011 Single Payment per Area Scheme (SPAS) the opportunity for applying and receiving loans before having received a certificate for 2012 from the "Agriculture" State Fund. In June 2012 Fibank joined the agreement between the "Agriculture" State Fund and 11 commercial banks in the country for introducing a more simple mechanism for bank guarantee confirmation, in order to expediate subsidy payments to beneficiaries.

As at 30 June 2012 the microlending portfolio amounted to BGN 28,467 thousand or 7.0% more than previous year-end levels: BGN 26,612 thousand (Jun'11: BGN 26,375 thousand). During the reporting period the Bank expanded its product range, while maintaining the heightened requirements regarding credit risk and creditworthiness specific to this segment. As part of its microlending program, in February 2012, the Bank started offering a new mortgage loan to foreigners with a company registered in the country and financing of up to 60% of the market value of purchased real estate and a loan term of up to 15 years.

Attracted funds from corporates, traders and non-credit institutions increased by 12.3% or BGN 114,250 thousand (0.2% growth for the banking sector) to BGN 1,044,048 thousand, compared to BGN 929,798 thousand at end-2011 (Jun'11: BGN 786,972 thousand). The structure of funds attracted from corporates remained relatively unchanged, with composition between term deposits and current accounts at 64.8%/35.2% (2011: 66.0%/34.0%; Jun'11: 63.9%/36.1%). As at 30 June 2012 the funds attracted from the thirty largest non-bank depositors represented 6.05% of the total liabilities due to other customers (2011: 5.62%; Jun'11: 5.63%).

Card Payments

During the first half of 2012 First Investment Bank affirmed its leading position in the sphere of card business in the country, by expanding the products and services offered and further developing and promoting contactless payments.

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

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

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

During the first six months of the year the structure of bank cards was maintained, with the composition for credit cards being 59.1%/40.9% for VISA/MasterCard respectively, while for debit cards it was 59.4%/40.6% for Maestro/VISA Electron, VPAY respectively. The Bank's market share in terms of credit cards amounted to 15.63% as at June 2012 on an unconsolidated basis (2011: 16.49%), and of debit cards to 7.94% (2011: 8.34%).

Chart 27: Credit cards

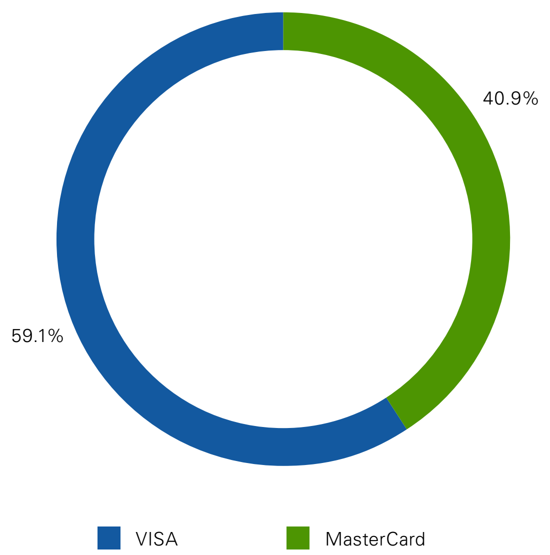
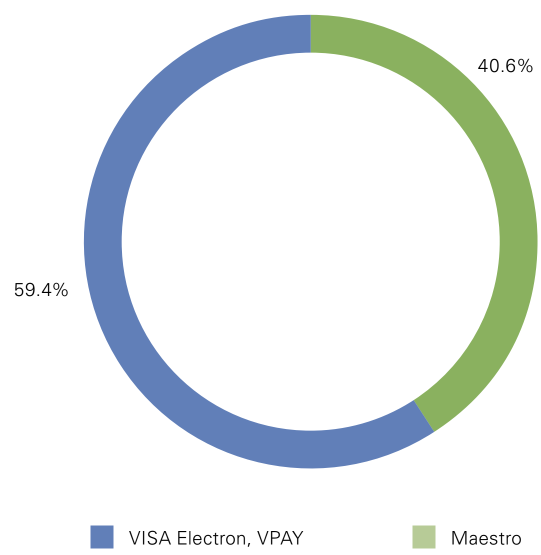


Chart 28: Debit cards



The Group of First Investment Bank continued to develop its network of POS terminals, increasing their number by 184 to 9740 devices during the H112 and further focused on optimizing the network of ATM terminal devices, which amounted to 671 units on a consolidated basis as at 30 June 2012 (2011: 678 units).

International Payments

During the first six months of 2012 First Investment Bank AD remained among the leading banks in Bulgaria in terms of international operations and trade finance, as a popular, reliable and correct business partner.

The Bank reported a better market share in terms of international payments in foreign currency (as per SWIFT's data) at 6.56% of outgoing transfers (Jun'11: 5.88%; Jun'10: 5.65%) and 8.58% of incoming transfers (Jun'11: 7.98%; Jun'10: 7.27%). There was a growth in incoming and outgoing transfers in foreign currency both in numbers and amount. As recognition for the good performance and results in this sphere, in May 2012, Fibank was awarded by Deutsche Bank for exceptional quality and meeting global standards in international payments (for a third year in a row).

Chart 29: Bank guarantees and letters of credit

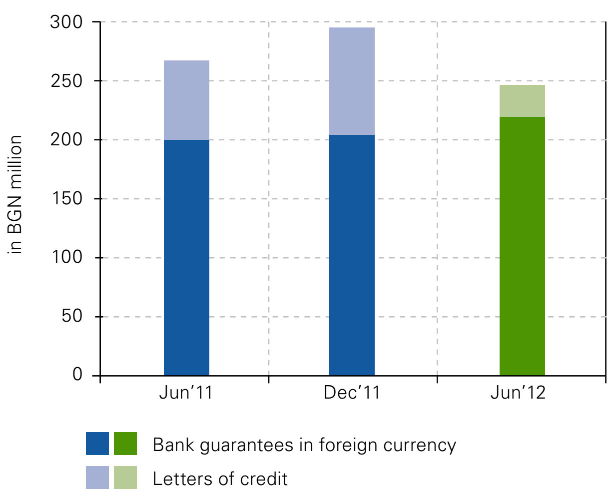
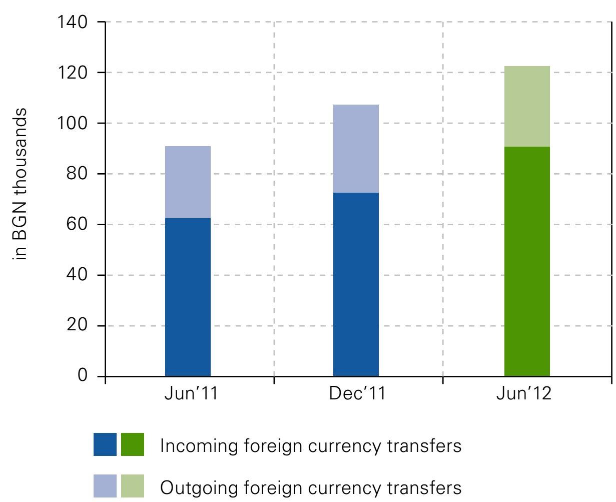


Chart 30: Number of foreign currency transfers



In trade finance Fibank executed 5.58% of the number of the outgoing (Jun'11: 7.77%; Jun'10: 10.12%) and 7.08% of the number of the incoming (Jun'11: 9.23%; Jun'10: 9.69%) operations as at end-June 2012 (as per SWIFT's data). The decrease was due to slower business activity resulting from the negative influence of the economic cycle. During the period the letters of credit and bank guarantees issued by Fibank to guarantee the performance of customers to third parties amounted to BGN 388,625 thousand (2011: BGN 442,575 thousand; Jun'11: BGN 408,323 thousand), forming 53.4% (2011: 53.1%; Jun'11: 54.3%) of the Group's off-balance sheet commitments. Fibank maintains a wide network of correspondent banks and services international bank guarantees and letters of credit in almost every part of the world.

Subsidiaries

As at the end of June 2012 First Investment Bank AD had eight subsidiaries – First Investment Bank Albania Sh.a. (100%), Diners Club Bulgaria AD (94.79%), First Investment Finance B.V. (100% of capital), Debita OOD (70%), Realtor OOD (51%), Health Insurance Fund Fi Health AD (59.10%), Framas Enterprises Limited (100%) and Balkan Financial Services EOOD (100%).

First Investment Bank – Albania Sh.a.

During the first half of 2012 First Investment Bank – Albania Sh.a. (Fibank–Albania) developed its business in accordance with the market environment, by reporting positive financial results, while maintaining high standards of risk management and customer-oriented approach. The bank aspires to be one of the fastest growing small banks in Albania, acknowledged as an innovative bank, offering first-class customer service, outstanding products and services, ensuring excellent careers for its employees and social responsibility.

The bank reported net profit on the amount of BGN 313 thousand, against a negative financial result of BGN 89 thousand a year earlier. There was an increase in net interest income by 33.0% to BGN 2,695 thousand (Jun'11: BGN 2,027 thousand) and in net fee and commission income, which reached BGN 477 thousand for H112 (Jun'11: BGN 237 thousand). The bank maintained strict discipline in respect of costs, as administrative expenses decreased to BGN 2,468 thousand, compared to BGN 2,671 thousand as at end-June 2011.

During the period, the total assets of the bank increased by 6.7% and reached BGN 139,190 thousand (2011: BGN 130,442 thousand), resulting mainly from the growth in the portfolio of loans and of financial instruments. Loans to customers grew by 23.3% to BGN 71,478 thousand (2011: BGN 57,974 thousand), as the Bank remained focused on SME and retail lending. To its retail customers a new consumer loan "Spring Offer" was offered with a term of up to seven years and financing of up to ALL 1 million, with no application, prepayment and renegotiation fees. In the mortgage segment a new mortgage loan "Spring Offer" was introduced with a term of up to 30 years and financing of up to 70% of the market value of purchased real estate, with a fixed interest rate for the first year of the loan term and no application, prepayment and renegotiation fees.

Attracted funds from customers registered a growth of 3.9%, reaching BGN 111,854 thousand by end-June 2012 (2011: BGN 107,636 thousand). The increase was facilitated by the flexible savings products and current accounts offered by the bank, as well as the increased customer base.

Shareholders' equity increased and reached BGN 16,824 thousand, against BGN 16,413 thousand at the end of the previous year.

During the period First Investment Bank – Albania continued to develop its card business, reporting a 43% growth in credit cards issued and 3% increase in debit cards. The bank is certified by Visa and offers EMV compliant debit and credit cards to retail and corporate customers.

At the end of June 2012 the branch network of First Investment Bank – Albania Sh.a. included a head office in Tirana and nine branches in Albania, including in the bigger cities: Durres, Vlora, Elbasan, Fier, Shkodar, Korca and Berat.

Fibank–Albania allocated resources for the development of its corporate social responsibility and contributed to the community, by supporting social initiatives in Albania – the bank granted funds for supporting orphan-children and families of killed policemen.

Diners Club Bulgaria AD

During the first half of 2012 Diners Club Bulgaria AD continued its successful development in a still unstable economic environment.

The company reported net profit of BGN 5 thousand, against BGN 82 thousand a year earlier. The decrease reflected the increased operating expenses by 8.3% to BGN 765 thousand (Jun'11: BGN 706 thousand) and higher financial costs, which reached BGN 382 thousand (Jun'11: BGN 337 thousand). Operating revenues increased as well, but at a slower pace by 2.5% to BGN 1,153 thousand (Jun'11: BGN 1,125 thousand).

Company assets grew by 13.4% to BGN 10,895 thousand (2011: BGN 9,612 thousand), resulting mainly from the increase in loans to customers, which reached BGN 9,404 thousand or 13.7% more compared to end-2011 levels at BGN 8,273 thousand.

Borrowed funds rose, as bank overdrafts reached BGN 8,650 thousand, against BGN 7,382 thousand six months earlier. Company's shareholder equity amounted to BGN 1,579 thousand at the end of the period (2011: BGN 1,574 thousand).

During the reporting period Diners Club Bulgaria AD started issuing credit cards, based on EMV compliant chip technology for ensuring greater safety to cardholders and better protection against the risk of fraud.

The company successfully finalized its project for expanding the network of POS terminals in the country which accept payments with Diners Club cards, as effective work was started for gradually increasing the network by around 5000 terminals by the end of 2012.

Diners Club Bulgaria AD continued to allocate resources for corporate donorship with the aim ofsupporting socially important projects. In May 2012 the company organized a charity auction, at which BGN 11,000 was donated to the "Arte Viva" foundation for establishing a puppet-theatre show for children, based on Bulgarian folklore.

For further information regarding subsidiary companies see note 37 "Subsidiary undertakings" of the Consolidated Financial Statements as at 30 June 2012 together with the Independent Auditor's Report thereon.

Consolidated Financial Statements

as at 30 June 2012

with Independent Auditor's Report Thereon

KPMG

Independent Auditors' Report

To the shareholders of First Investment Bank AD

We have audited the accompanying consolidated financial statements of First Investment Bank AD ("the Bank"), which comprise the consolidated statement of financial position as at 30 June 2012, the consolidated statements of comprehensive income, changes in equity and cash flows for the six months 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 as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the 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 principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Bank as at 30 June 2012, and of its consolidated financial performance and its consolidated cash flows for the six months period then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Tzvetelinka Koleva

Authorized representative

KPMG Bulgaria OOD

Sofia, 24 August 2012

Специализирано одиторско предприятие

София

Рег. №045

"КПМГ - България" ООД

Krassimir Hadjidinev

Registered auditor

Consolidated statement of comprehensive income for the six months ended 30 June 2012

In thousands of BGN

	Note	Six months ended 30 June 2012	Six months ended 30 June 2011
Interest income		227,994	215,404
Interest expense		(153,286)	(130,943)
Net interest income	**6**	**74,708**	**84,461**
Fee and commission income		38,542	35,155
Fee and commission expense		(4,652)	(4,020)
Net fee and commission income	**7**	**33,890**	**31,135**
Net trading income	**8**	**3,754**	**7,803**
Other operating income/(expenses)	**9**	**958**	**(3,279)**
TOTAL INCOME FROM BANKING OPERATIONS		**113,310**	**120,120**
General administrative expenses	10	(78,324)	(76,216)
Impairment losses	11	(11,650)	(14,830)
Other expenses, net		(6,322)	(6,820)
PROFIT BEFORE TAX		**17,014**	**22,254**
Income tax expense	**12**	**(1,773)**	**(2,178)**
GROUP PROFIT AFTER TAX		**15,241**	**20,076**
Other comprehensive income			
Exchange differences on translating foreign operations		90	(287)
Available for sale financial assets		696	(39)
Other comprehensive income for the period		**786**	**(326)**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**16,027**	**19,750**
Profit attributable to:			
Owners of the Bank		15,257	20,054
Non-controlling interests		(16)	22
Total comprehensive income attributable to:			
Owners of the Bank		16,043	19,728
Non-controlling interests		(16)	22
Basic and diluted earnings per share (in BGN)	**13**	**0.14**	**0.18**

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 32 to 70.

Dimitar Kostov
Executive Director
Chairman of the Managing Board

Svetoslav Moldovansky
Executive Director

Ianko Karakolev
Chief Financial Officer

Tzvetelinka Koleva
Authorized representative
KPMG Bulgaria OOD

Krassimir Hadjidinev
Registered auditor

Consolidated statement of financial position as at 30 June 2012

In thousands of BGN

	Note	30 June 2012	31 December 2011
ASSETS			
Cash and balances with central banks	14	928,921	926,394
Financial assets held for trading	15	8,507	8,659
Available for sale investments	16	846,372	663,925
Financial assets held to maturity	17	96,849	65,886
Loans and advances to banks and financial institutions	18	33,398	100,427
Loans and advances to customers	19	4,454,278	4,182,236
Property and equipment	20	121,088	119,242
Intangible assets	21	18,518	19,074
Derivative assets held for risk management		761	–
Current tax assets		2,938	1,265
Other assets	23	147,632	87,344
TOTAL ASSETS		**6,659,262**	**6,174,452**
LIABILITIES AND CAPITAL			
Due to credit institutions	24	8,780	1,782
Due to other customers	25	5,846,298	5,388,310
Liabilities evidenced by paper	26	76,829	112,306
Subordinated term debt	27	51,362	50,596
Perpetual debt	28	100,393	99,376
Hybrid debt	29	79,196	42,800
Deferred tax liability	22	3,440	3,636
Derivative liabilities held for risk management		-	358
Current tax liabilities		946	49
Other liabilities	30	5,989	5,237
TOTAL LIABILITIES		**6,173,233**	**5,704,450**
Issued share capital	32	110,000	110,000
Share premium	32	97,000	97,000
Statutory reserve	32	39,861	39,861
Revaluation reserve on available for sale investments		1,510	814
Reserve from translation of foreign operations		(2,610)	(2,700)
Retained earnings		238,056	222,751
SHAREHOLDERS' EQUITY		**483,817**	**467,726**
Non-controlling interests		2,212	2,276
TOTAL GROUP EQUITY		**486,029**	**470,002**
TOTAL LIABILITIES AND GROUP EQUITY		**6,659,262**	**6,174,452**

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 32 to 70.

Dimitar Kostov
Executive Director
Chairman of the Managing Board

Svetoslav Moldovansky
Executive Director

Ianko Karakolev
Chief Financial Officer

Tzvetelinka Koleva
Authorized representative
KPMG Bulgaria OOD

Krassimir Hadjidinev
Registered auditor

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

Consolidated statement of cash flows for the six months ended 30 June 2012

In thousands of BGN

	Six months ended 30 June 2012	Six months ended 30 June 2011
Net cash flow from operating activities		
Profit for the period	15,241	20,076
Adjustment for non-cash items		
Impairment losses	11,650	14,830
Depreciation and amortisation	10,464	11,098
Income tax expense	1,773	2,178
(Profit) from sale and derecognition of tangible and intangible fixed assets, net	(10)	(27)
(Profit) from sale of other assets, net	(132)	(27)
	38,986	**48,128**
Change in operating assets		
(Increase)/decrease in financial instruments held for trading	152	(1,710)
(Increase)/decrease in available for sale investments	(181,751)	192,739
(Increase) /decrease in loans and advances to banks and financial institutions	10,960	(50,934)
(Increase) in loans to customers	(283,692)	(530,870)
Net (Increase) in other assets	(63,731)	(20,151)
	(518,062)	**(410,926)**
Change in operating liabilities		
Increase in deposits from banks	6,998	27,143
Increase in amounts owed to other depositors	457,988	430,839
Net increase in other liabilities	1,184	1,975
	466,170	**459,957**
Income tax paid	(1,772)	(161)
NET CASH FLOW FROM OPERATING ACTIVITIES	**(14,678)**	**96,998**
Cash flow from investing activities		
(Purchase) of tangible and intangible fixed assets	(11,751)	(6,093)
Sale of tangible and intangible fixed assets	7	3
Sale of other assets	1,141	5,090
(Increase)/decrease of investments	(30,963)	4,561
NET CASH FLOW FROM INVESTING ACTIVITIES	**(41,566)**	**3,561**
Financing activities		
Increase in borrowings	2,702	62,108
NET CASH FLOW FROM FINANCING ACTIVITIES	**2,702**	**62,108**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**(53,542)**	**162,667**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	**988,073**	**560,281**
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD (see note 34)	**934,531**	**722,948**

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 32 to 70.

Dimitar Kostov
Executive Director
Chairman of the Managing Board

Svetoslav Moldovansky
Executive Director

Ianko Karakolev
Chief Financial Officer

Tzvetelinka Koleva
Authorized representative
KPMG Bulgaria OOD

Krassimir Hadjidinev
Registered auditor

ПЪРВА ИНВЕСТИЦИОННА БАНКА АД • СОФИЯ •

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

Consolidated statement of changes in equity for the six months ended 30 June 2012

In thousands of BGN

	Share capital	Share premium	Retained earnings	Revaluation reserve on available for sale investments	Reserve from translation of foreign operations	Statutory reserve	Non-controlling interests	Total
Balance as at 1 January 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**
Balance as at 1 January 2012	**110,000**	**97,000**	**222,751**	**814**	**(2,700)**	**39,861**	**2,276**	**470,002**
Total comprehensive income								
Profit for the six months ended 30 June 2012	–	–	15,257	–	–	–	(16)	15,241
Other comprehensive income								
Revaluation reserve on available for sale investments	–	–	–	696	–	–	–	696
Reserve from translation of foreign operations	–	–	–	–	90	–	–	90
Transaction with owners recognised directly in equity								
Acquisition of non-controlling interest's shareholding	–	–	48	–	–	–	(48)	–
Balance as at 30 June 2011	**110,000**	**97,000**	**238,056**	**1,510**	**(2,610)**	**39,861**	**2,212**	**486,029**

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 32 to 70.

The financial statements have been approved by the Managing Board on 24 August 2012 and signed on its behalf by:

Dimitar Kostov
Executive Director
Chairman of the Managing Board

Svetoslav Moldovansky
Executive Director

Ianko Karakolev
Chief Financial Officer

Tzvetelinka Koleva
Authorized representative
KPMG Bulgaria OOD

Krassimir Hadjidinev
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 2012 comprise the Bank and its subsidiaries (see note 37), together referred to as the "Group".

The Group has foreign operations in Cyprus and Albania.

(b) Statement of compliance

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

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

(c) Basis of preparation

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

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

2. Significant accounting policies

(a) Income recognition

(i) Interest income

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

Transactions in foreign currencies are translated into the respective functional currencies of the operations at the spot exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date. Foreign currency differences arising on translation are difference between amortised cost in functional currency in the beginning of period, adjusted with effective interest and received payments during the period, and amortised cost in foreign currency at the spot exchange rate at the reporting date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined.

(iii) Foreign operations

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

(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 impairedat 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 2012	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets held for trading	8,507	–	–	8,507
Available for sale investments	812,675	27,210	6,487	846,372
Derivatives held for risk management	728	33	–	761
Total	**821,910**	**27,243**	**6,487**	**855,640**

in thousands of BGN

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

(viii) Derecognition

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

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

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

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is removed from equity and recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

If, in a subsequent period, the fair value of a financial instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. Any subsequent increase in the fair value of impaired equity security, available for sale, is recognized directly in the comprehensive income.

(k) Property, plant and equipment

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

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

Assets	%
• Buildings	3 – 4
• Equipment	10 – 33
• Fixtures and fittings	10 – 15
• Vehicles	10 – 20
• Leasehold improvements	2 – 50

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

(l) Intangible assets

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

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

Assets	%
• Licences, trademarks	15 – 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 not yet effective for reporting periods ending on 30 June 2012, and have not been early applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Company.

Standards, Interpretations and amendments to published Standards that are not yet effective and have not been early adopted – endorsed by the European Commission

- Amendments to IAS 1 *Presentation of Items of Other Comprehensive Income* – to be applied at latest, as from the commencement date of the first financial year starting on or after 1 July 2012.
- Revised IAS 19 *Employee Benefits* – to be applied at latest, as from the commencement date of the first financial year starting on or after 1 January 2013.

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

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

- IFRS 9 *Financial Instruments* (issued November 2009) and Additions to IFRS 9 (issued October 2010) has an effective date 1 January 2015 and could change the classification and measurement of financial instruments.
- In May 2011 the IASB issued IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint arrangements*, IFRS 12 *Disclosures of Interests in Other Entities* and IFRS 13 *Fair Value Measurement*, which all have an effective date of 1 January 2013. The IASB also issued IAS 27 *Separate Financial Statements* (2011) which supersedes IAS 27 (2008) and IAS 28 *Investments in Associates and Joint Ventures* (2011) which supersedes IAS 28 (2008). All of these standards have an effective date of 1 January 2013.
- Amendments to IAS 12 *Deferred Tax: Recovery of Underlying Assets* (issued December 2010) has an effective date 1 January 2012.

- Amendments to IFRS 1 *Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* (issued December 2010) has an effective date 1 July 2012.
- In December 2011 the IASB issued amendments to IFRS 7 *Disclosures – Offsetting Financial Assets and Financial Liabilities* with an effective date of 1 January 2013.
- In December 2011 the IASB issued amendments to IAS 32 *Offsetting Financial Assets and Financial Liabilities* with an effective date of 1 January 2014.
- Amendments to IFRS 1 *Government Loans* (Issued March 2012) with an effective date of 1 January 2013.
- Improvements to IFRSs (2009–2011) (issued May 2012) with an effective date of 1 January 2013.
- Amendments to IFRS 10, IFRS 11 and IFRS 12 *Transition Guidance* (issued June 2012) with an effective date of 1 January 2013.
- IFRIC Interpretation 20: *Stripping Costs in the Production Phase of a Surface Mine* with an effective date of 1 January 2013.

3. Risk management disclosures

A. Trading activities

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

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

(i) Credit risk

Default risk is the risk that 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.

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 six months of 2012:

in thousands of BGN	30 June 2012	Six months ended 30 June 2012			31 December 2011
		average	low	high	
VaR	463	360	224	511	243

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 2012

In thousands of BGN	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	Over 1 year	Maturity not defined	Total
Assets						
Cash and balances with central banks	928,921	–	–	–	–	**928,921**
Financial assets held for trading	8,507	–	–	–	–	**8,507**
Available for sale investments	819,500	–	20,385	–	6,487	**846,372**
Financial assets held to maturity	–	19,516	49,073	28,260	–	**96,849**
Loans and advances to banks and financial institutions	21,192	–	3,996	8,210	–	**33,398**
Loans and advances to customers	385,207	333,086	1,011,413	2,724,572	–	**4,454,278**
Other financial assets	761	–	–	–	–	**761**
Total financial assets	**2,164,088**	**352,602**	**1,084,867**	**2,761,042**	**6,487**	**6,369,086**
Liabilities						
Due to credit institutions	8,780	–	–	–	–	**8,780**
Due to other customers	1,463,608	1,120,997	2,575,350	686,343	–	**5,846,298**
Liabilities evidenced by paper	32,173	3,255	7,380	34,021	–	**76,829**
Subordinated term debt	–	–	–	51,362	–	**51,362**
Perpetual debt	–	–	–	–	100,393	**100,393**
Hybrid debt	–	–	–	–	79,196	**79,196**
Total financial liabilities	**1,504,561**	**1,124,252**	**2,582,730**	**771,726**	**179,589**	**6,162,858**
Net liquidity gap	**659,527**	**(771,650)**	**(1,497,863)**	**1,989,316**	**(173,102)**	**206,228**

Maturity table as at 31 December 2011

In thousands of BGN	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	Over 1 year	Maturity not defined	Total
Assets						
Cash and balances with central banks	926,394	–	–	–	–	**926,394**
Financial assets held for trading	8,659	–	–	–	–	**8,659**
Available for sale investments	647,548	3,975	5,864	–	6,538	**663,925**
Financial assets held to maturity	–	–	1,796	64,090	–	**65,886**
Loans and advances to banks and financial institutions	74,362	–	17,404	8,661	–	**100,427**
Loans and advances to customers	293,894	297,741	1,011,165	2,579,436	–	**4,182,236**
Total financial assets	**1,950,857**	**301,716**	**1,036,229**	**2,652,187**	**6,538**	**5,947,527**
Liabilities						
Due to credit institutions	1,782	–	–	–	–	**1,782**
Due to other customers	1,336,818	1,028,593	2,536,795	486,104	–	**5,388,310**
Liabilities evidenced by paper	24,094	51,835	4,261	32,116	–	**112,306**
Subordinated term debt	–	–	–	50,596	–	**50,596**
Perpetual debt	–	–	–	–	99,376	**99,376**
Hybrid debt	–	–	–	–	42,800	**42,800**
Other financial liabilities	358	–	–	–	–	**358**
Total financial liabilities	**1,363,052**	**1,080,428**	**2,541,056**	**568,816**	**142,176**	**5,695,528**
Net liquidity gap	**587,805**	**(778,712)**	**(1,504,827)**	**2,083,371**	**(135,638)**	**251,999**

As at 30 June 2012 the funds by the thirty largest non-bank depositors represent 6.05% of total deposits from other customers (2011: 5.62%).

The following table provides a remaining maturities analysis of the financial liabilities of the Group as at 30 June 2012 based on the contractual undiscounted cash flows.

in thousands of BGN	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	Over 1 year	Total
Due to credit institutions	8,780	–	–	–	**8,780**
Due to other customers	1,465,117	1,131,762	2,667,788	765,218	**6,029,885**
Liabilities evidenced by paper	32,215	3,272	7,525	37,239	**80,251**
Subordinated term debt	334	–	3,031	69,910	**73,275**
Perpetual debt	–	6,601	4,775	128,007	**139,383**
Hybrid debt	–	–	9,510	108,158	**117,668**
Total financial liabilities	**1,506,446**	**1,141,635**	**2,692,629**	**1,108,532**	**6,449,242**

(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 2012 is BGN -4.4/+4.4 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 2012 is BGN +0.8/-0.8 Mio.

The following table indicates the effective interest rates at 30 June 2012 and the periods in which financial liabilities and assets reprice.

in thousands of BGN	Total	Floating rate instruments	Fixed rate instruments			
			Less than 1 month	Between 1 month and 3 months	Between 3 months and 1 year	More than 1 year
Assets						
Cash and balances with central banks	**124,482**	53,768	70,714	–	–	–
Financial assets held for trading	**5,724**	–	5,724	–	–	–
Available for sale investments	**839,885**	32,515	786,985	–	20,385	–
Financial assets held to maturity	**96,849**	–	–	19,516	49,073	28,260
Loans and advances to banks and financial institutions	**30,526**	1,042	17,382	–	3,996	8,106
Loans and advances to customers	**4,096,377**	3,456,845	59,717	30,947	168,142	380,726
Non-interest earning assets	**1,465,419**	–	–	–	–	–
Total assets	**6,659,262**	**3,544,170**	**940,522**	**50,463**	**241,596**	**417,092**
Liabilities						
Due to credit institutions	**8,780**	2,113	6,667	–	–	–
Due to other customers	**5,840,910**	789,131	669,181	1,120,997	2,575,350	686,251
Liabilities evidenced by paper	**76,829**	7,607	32,173	224	4,723	32,102
Subordinated term debt	**51,362**	–	–	–	–	51,362
Perpetual debt	**100,393**	–	–	–	–	100,393
Hybrid debt	**79,196**	–	–	–	–	79,196
Non-interest bearing liabilities	**15,763**	–	–	–	–	–
Total liabilities	**6,173,233**	**798,851**	**708,021**	**1,121,221**	**2,580,073**	**949,304**

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

in thousands of BGN	Total	Floating rate instruments	Fixed rate instruments			
			Less than 1 month	Between 1 month and 3 months	Between 3 months and 1 year	More than 1 year
Assets						
Cash and balances with central banks	**155,920**	75,318	80,602	–	–	–
Financial assets held for trading	**5,523**	–	5,523	–	–	–
Available for sale investments	**657,387**	32,828	614,720	3,975	5,864	–
Financial assets held to maturity	**65,886**	–	–	–	1,796	64,090
Loans and advances to banks and financial institutions	**97,802**	374	71,363	–	17,404	8,661
Loans and advances to customers	**3,979,089**	3,439,308	74,695	20,847	124,267	319,972
Non-interest earning assets	**1,212,845**	–	–	–	–	–
Total assets	**6,174,452**	**3,547,828**	**846,903**	**24,822**	**149,331**	**392,723**
Liabilities						
Due to credit institutions	**1,782**	1,740	42	–	–	–
Due to other customers	**5,385,493**	750,243	583,758	1,028,593	2,536,795	486,104
Liabilities evidenced by paper	**112,306**	55,237	22,739	5,212	–	29,118
Subordinated term debt	**50,596**	–	–	–	–	50,596
Perpetual debt	**99,376**	–	–	–	–	99,376
Hybrid debt	**42,800**	–	–	–	–	42,800
Non-interest bearing liabilities	**12,097**	–	–	–	–	–
Total liabilities	**5,704,450**	**807,220**	**606,539**	**1,033,805**	**2,536,795**	**707,994**

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 2012**	**31 December 2011**
Monetary assets		
Euro	4,781,685	4,360,034
US dollar	480,115	423,633
Other currencies	151,459	114,867
Gold	9,920	7,983
Monetary liabilities		
Euro	2,995,144	2,930,874
US dollar	479,805	424,823
Other currencies	154,847	122,575
Gold	–	–
Net position		
Euro	1,786,541	1,429,160
US dollar	310	(1,190)
Other currencies	(3,388)	(7,708)
Gold	9,920	7,983

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

(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 2012		in thousands of BGN
Class of exposure	**Gross amount of loans and advances to customers**	**Carrying amount of loans and advances to customers**
Collectively impaired		
Standard	3,890,246	3,882,693
Individually impaired		
Watch	340,489	327,524
Nonperforming	104,648	97,233
Loss	263,167	146,828
Total	**4,598,550**	**4,454,278**
31 December 2011		in thousands of BGN
Class of exposure	**Gross amount of loans and advances to customers**	**Carrying amount of loans and advances to customers**
Collectively impaired		
Standard	3,656,207	3,651,517
Individually impaired		
Watch	409,356	393,524
Nonperforming	30,538	21,749
Loss	218,958	115,446
Total	**4,315,059**	**4,182,236**

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

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

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

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

in thousands of BGN	30 June 2012	31 December 2011
Trade	1,062,768	953,599
Industry	1,198,046	1,130,651
Services	457,726	442,324
Finance	84,241	82,315
Transport, logistics	282,663	272,403
Communications	65,847	56,632
Construction	191,354	183,957
Agriculture	100,407	85,503
Tourist services	131,395	121,215
Infrastructure	151,861	161,993
Private individuals	856,483	811,133
Other	15,759	13,334
Less allowance for impairment	(144,272)	(132,823)
Total	**4,454,278**	**4,182,236**

The Group has extended loans to enterprises involved in different types of activities but within the same economic sector - industry. As such the exposures share a similar industry risk. There are three such groups of enterprises at 30 June 2012 with total exposures amounting to BGN 137,786 thousand (2011: BGN 116,335 thousand) - ferrous and non-ferrous metallurgy, BGN 80,699 thousand (2011: BGN 61,015 thousand) – mining industry and BGN 98,114 thousand (2011: BGN 104,836 thousand) - power engineering.

The Group has extended loans and issued contingent liabilities to 16 individual clients or groups (2011:21) with each individual exposure exceeding 10% of the capital base of the Group. The total amount of these exposures is BGN 1,451,294 thousand which represents 230.66% of the Group's capital base (2011: BGN 1,668,778 thousand which represented 289.26% of capital base) of which BGN 1,309,687 thousand (2011: BGN 1,498,781 thousand) represent loans and BGN 141,607 thousand (2011: BGN 169,997 thousand) represent guarantees, letters of credit and other commitments.

The loans extended by the Cyprus branch amount to BGN 397,685 thousand amortized cost before allowance (2011: BGN 290,861 thousand) and in Albania – BGN 74,007 thousand (2011: BGN 60,148 thousand).

The amounts reflected in the tables represent the maximum accounting loss that would be recognised at the end of the reporting period if 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 209,324 thousand (2011: BGN 202,495 thousand):

In thousands of BGN	30 June 2012	31 December 2011
Mortgage	1,707,768	1,692,112
Pledge of receivables	228,879	197,134
Pledge of commercial enterprise	872,319	789,238
Securities	69,562	80,069
Bank guarantee	8,646	13,759
Other guarantees	497,784	466,166
Pledge of goods	201,008	185,501
Pledge of machines	213,249	203,484
Money deposit	61,696	48,566
Stake in capital	217,618	144,694
Gold	18	18
Other collateral	252,702	243,628
Unsecured	57,977	48,195
Total	**4,389,226**	**4,112,564**

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

(iv) Government debt exposures

During 2011, concerns became apparent of the credit risk related to government debt issued by member states of the Eurozone. The Group closely manages this risk throughout the year and as a result the overall quality of the government debt portfolio is very high.

The table below shows the carrying amount of the government debt portfolio by country issuer. The assets are presented without any allowance for impairment. The Group does not recognise allowance for impairment against the exposures which are measured at amortised cost as at 30 June 2012 and 31 December 2011 as well as those classified as available for sale.

30 June 2012						in thousands of BGN
Portfolio	**Bulgaria**	**Belgium**	**Albania**	**Italy**	**Spain**	**European Financial Stability Facility**
Financial assets held for trading	5,724	–	–	–	–	–
Available for sale investments	256,775	458,241	19,427	–	–	78,232
Financial assets held to maturity	34,139	–	14,289	19,455	9,754	–
Total	**296,638**	**458,241**	**33,716**	**19,455**	**9,754**	**78,232**

31 December 2011				in thousands of BGN
Portfolio	**Bulgaria**	**France**	**Belgium**	**Albania**
Financial assets held for trading	5,523	–	–	–
Available for sale investments	103,649	371,465	136,894	18,445
Financial assets held to maturity	36,054	–	–	10,925
Total	**145,226**	**371,465**	**136,894**	**29,370**

Maturity table of government debt securities by country issuer as at 30 June 2012

in thousands of BGN

Country issuer	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Bulgaria	–	986	207,169	59,744	28,739	**296,638**
Belgium	29,334	–	428,907	–	–	**458,241**
Albania	28	1,142	22,748	9,798	–	**33,716**
Italy	–	9,762	9,693	–	–	**19,455**
Spain	–	9,754	–	–	–	**9,754**
European Financial Stability Facility	–	–	78,232	–	–	**78,232**
Total	**29,362**	**21,644**	**746,749**	**69,542**	**28,739**	**896,036**

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

in thousands of BGN

Country issuer	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Bulgaria	78	–	–	120,767	24,381	**145,226**
France	97,782	195,552	78,131	–	–	**371,465**
Belgium	136,894	–	–	–	–	**136,894**
Albania	21	5,892	12,817	10,640	–	**29,370**
Total	**234,775**	**201,444**	**90,948**	**131,407**	**24,381**	**682,955**

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 2012	31 December 2011	30 June 2012	31 December 2011
Risk weighted assets for credit risk				
Assets				
Exposure class				
Central governments and central banks	1,580,811	1,334,276	50,389	42,841
Institutions	192,906	291,315	56,361	78,284
Corporates	3,239,480	3,124,169	3,177,241	3,068,530
Retail	564,644	521,031	411,100	378,162
Claims secured by residential property	410,776	402,106	143,772	140,737
Past due exposures	232,712	126,510	232,712	126,510
Collective investment undertaking	1,946	1,936	1,946	1,936
Other items	385,143	335,410	247,389	199,892
Total	**6,608,418**	**6,136,753**	**4,320,910**	**4,036,892**
Off-balance sheet items				
Exposure class				
Central governments and central banks	–	97	–	–
Institutions	14,609	15,266	4,213	3,458
Corporates	450,259	552,625	173,456	179,903
Retail	258,533	261,614	1,633	2,834
Claims secured by residential property	3,939	3,468	678	601
Other items	–	–	162	13
Total	**727,340**	**833,070**	**180,142**	**186,809**
Derivatives				
Exposure class				
Central governments and central banks	–	1,760	–	–
Institutions	331	171	66	34
Corporates	1,414	390	1,414	390
Other items	742	–	742	–
Total	**2,487**	**2,321**	**2,222**	**424**
Total risk-weighted assets for credit risk			**4,503,274**	**4,224,125**
Risk-weighted assets for market risk			**6,398**	**6,100**
Risk-weighted assets for operational risk			**371,240**	**358,364**
Total risk-weighted assets			**4,880,912**	**4,588,589**

Capital adequacy ratios	Capital		Capital ratios %	
	30 June 2012	31 December 2011	30 June 2012	31 December 2011
Tier 1 Capital	**524,561**	**467,303**	**10.75%**	**10.18%**
Total capital base	**629,189**	**576,921**	**12.89%**	**12.57%**

4. Segment reporting

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

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

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

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

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

in thousands of BGN	Bulgarian operations		Foreign operations		Total	
	Six months ended 30 June 2012	Six months ended 30 June 2011	Six months ended 30 June 2012	Six months ended 30 June 2011	Six months ended 30 June 2012	Six months ended 30 June 2011
Interest income	210,509	200,675	17,485	14,729	227,994	215,404
Interest expense	(150,474)	(128,549)	(2,812)	(2,394)	(153,286)	(130,943)
Net interest income	**60,035**	**72,126**	**14,673**	**12,335**	**74,708**	**84,461**
Fee and commission income	37,344	34,696	1,198	459	38,542	35,155
Fee and commission expense	(4,559)	(3,939)	(93)	(81)	(4,652)	(4,020)
Net fee and commission income	**32,785**	**30,757**	**1,105**	**378**	**33,890**	**31,135**
General administrative expenses	**(75,488)**	**(73,340)**	**(2,836)**	**(2,876)**	**(78,324)**	**(76,216)**
	30 June 2012	**31 December 2011**	**30 June 2012**	**31 December 2011**	**30 June 2012**	**31 December 2011**
Segment assets	**6,129,652**	**5,773,283**	**529,610**	**401,169**	**6,659,262**	**6,174,452**
Segment liabilities	**6,021,594**	**5,568,094**	**151,639**	**136,356**	**6,173,233**	**5,704,450**

The following table presents the allocation of assets and liabilities, income and expenses based on business segments as at 30 June 2012 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 expenses
Commercial banking	3,637,497	1,320,191	170,144	(33,340)	19,799	–	–
Retail banking	816,781	4,802,250	49,757	(119,528)	6,205	–	–
Cards business	–	–	–	–	7,735	–	–
Treasury	1,914,808	40,417	8,093	(407)	(128)	3,754	955
Other	290,176	10,375	–	(11)	279	–	3
Total	**6,659,262**	**6,173,233**	**227,994**	**(153,286)**	**33,890**	**3,754**	**958**

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 2012.

in thousands of BGN	Trading	Held-to-maturity	Loans and receivables	Available for sale	Other amortised cost	Other	Total carrying amount	Fair value
ASSETS								
Cash and balances with central banks	–	–	797,954	–	–	130,967	928,921	928,921
Financial assets held for trading	8,507	–	–	–	–	–	8,507	8,507
Available for sale investments	–	–	–	846,372	–	–	846,372	846,372
Financial assets held to maturity	–	96,849	–	–	–	–	96,849	97,206
Loans and advances to banks and financial institutions	–	–	33,398	–	–	–	33,398	33,398
Loans and advances to customers	–	–	4,454,278	–	–	–	4,454,278	4,454,278
Other financial assets	–	–	–	–	–	761	761	761
Total	**8,507**	**96,849**	**5,285,630**	**846,372**	**–**	**131,728**	**6,369,086**	**6,369,443**
LIABILITIES								
Due to credit institutions	–	–	–	–	8,780	–	8,780	8,780
Due to other customers	–	–	–	–	5,846,298	–	5,846,298	5,846,298
Liabilities evidenced by paper	–	–	–	–	76,829	–	76,829	76,829
Subordinated term debt	–	–	–	–	51,362	–	51,362	51,362
Perpetual debt	–	–	–	–	100,393	–	100,393	100,393
Hybrid debt	–	–	–	–	79,196	–	79,196	79,196
Total	**–**	**–**	**–**	**–**	**6,162,858**	**–**	**6,162,858**	**6,162,858**

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 2011.

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

6. Net interest income

in thousands of BGN	Six months ended 30 June 2012	Six months ended 30 June 2011
Interest income		
Accounts with and placements to banks and financial institutions	1,166	1,538
Retail customers	48,232	45,833
Loans to corporate clients	156,488	147,535
Loans to small and medium enterprises	13,656	13,569
Microlending	1,525	1,734
Debt instruments	6,927	5,195
	227,994	**215,404**
Interest expense		
Deposits from banks	(73)	(206)
Deposits from other customers	(138,689)	(118,375)
Liabilities evidenced by paper	(1,769)	(2,249)
Subordinated term debt	(4,073)	(2,871)
Perpetual debt	(5,791)	(5,759)
Hybrid debt	(2,880)	(1,467)
Lease agreements and other	(11)	(16)
	(153,286)	**(130,943)**
Net interest income	**74,708**	**84,461**

For the six months ended 30 June 2012 and 30 June 2011 the recognised interest income on individually impaired financial assets (loans and advances to customers) amounts to BGN 24,395 thousand and BGN 27,056 thousand respectively.

7. Net fee and commission income

in thousands of BGN	Six months ended 30 June 2012	Six months ended 30 June 2011
Fee and commission income		
Letters of credit and guarantees	4,040	4,198
Payments transactions	4,755	4,326
Customer accounts	7,797	7,045
Cards business	11,357	10,308
Other	10,593	9,278
	38,542	**35,155**
Fee and commission expense		
Letters of credit and guarantees	(464)	(509)
Correspondent accounts	(360)	(326)
Cards business	(3,622)	(3,090)
Other	(206)	(95)
	(4,652)	**(4,020)**
Net fee and commission income	**33,890**	**31,135**

8. Net trading income

in thousands of BGN	Six months ended 30 June 2012	Six months ended 30 June 2011
Net trading gains/(losses) arise from:		
– Debt instruments	61	3,802
– Equity instruments	(237)	179
– Foreign exchange	3,930	3,822
Net trading income	**3,754**	**7,803**

9. Other operating income/(expenses)

in thousands of BGN	Six months ended 30 June 2012	Six months ended 30 June 2011
Other operating income/(expenses) arise from:		
– Debt instruments	940	(3,381)
– Equity instruments	15	–
– Other	3	102
Other operating income/(expenses)	**958**	**(3,279)**

10. General administrative expenses

in thousands of BGN	Six months ended 30 June 2012	Six months ended 30 June 2011
General and administrative expenses comprise:		
– Personnel cost	26,404	25,501
– Depreciation and amortisation	10,464	11,098
– Advertising	3,690	3,444
– Building rent expense	15,682	15,420
– Telecommunication, software and other computer maintenance	6,677	6,405
– Administration, consultancy, audit and other costs	15,407	14,348
General administrative expenses	**78,324**	**76,216**

Personnel costs include salaries, social and health security contributions under the provisions of the respective local legislation. At 30 June 2012 the total number of employees of the Group is 2,871 (30 June 2011: 2,754).

11. Impairment losses

in thousands of BGN	Six months ended 30 June 2012	Six months ended 30 June 2011
Write-downs		
Loans and advances to customers	(16,709)	(21,457)
Reversal of write-downs		
Loans and advances to customers	5,059	6,627
Net impairment losses	**(11,650)**	**(14,830)**

12. Income tax expense

in thousands of BGN	Six months ended 30 June 2012	Six months ended 30 June 2011
Current taxes	(1,969)	(1,983)
Deferred taxes (see note 22)	196	(195)
Income tax expense	**(1,773)**	**(2,178)**

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

in thousands of BGN	Six months ended 30 June 2012	Six months ended 30 June 2011
Accounting profit before taxation	**17,014**	**22,254**
Corporate tax at applicable tax rate (10% for 2012 and 10% for 2011)	1,701	2,225
Effect of tax rates of foreign subsidiaries and branches	30	37
Tax effect of permanent tax differences	238	(279)
Tax effect of temporary differences	(196)	195
Income tax expense	**1,773**	**2,178**
Effective tax rate	10.42%	9.79%

13. Earnings per share

	Six months ended 30 June 2012	Six months ended 30 June 2011
Net profit attributable to shareholders (in thousands of BGN)	15,257	20,054
Weighted average number of ordinary shares (in thousands)	110,000	110,000
Earnings per share (in BGN)	**0.14**	**0.18**

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 2012 as in the previous year, no conversion or option rights were outstanding. The diluted earnings per share, therefore, correspond to the basic earnings per share.

14. Cash and balances with central banks

In thousands of BGN	30 June 2012	31 December 2011
Cash on hand		
– In Bulgarian leva	84,369	91,555
– In foreign currencies	46,598	38,350
Balances with central banks	687,222	655,739
Current accounts and amounts with resident banks	103	103
Current accounts and amounts with foreign banks	110,629	140,647
Total	**928,921**	**926,394**

15. Financial assets held for trading

in thousands of BGN	30 June 2012	31 December 2011
Bonds, notes and other instruments issued by:		
Bulgarian government, assessed with BBB rating :		
– denominated in Bulgarian leva	3,516	3,518
– denominated in foreign currencies	2,208	2,005
Other issuers – equity instruments (unrated)	2,783	3,136
Total	**8,507**	**8,659**

16. Available for sale investments

in thousands of BGN	30 June 2012	31 December 2011
Bonds, notes and other instruments issued by:		
Bulgarian government		
– denominated in Bulgarian leva	51,102	18,115
– denominated in foreign currencies	205,673	85,534
Foreign governments		
– treasury bills and bonds	555,900	526,804
Foreign banks	27,210	26,934
Other issuers – equity instruments	6,487	6,538
Total	**846,372**	**663,925**

17. Financial assets held to maturity

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

in thousands of BGN	30 June 2012	31 December 2011
Securities held to maturity issued by:		
Bulgarian government	34,139	36,054
Foreign governments	43,498	10,925
Foreign banks	19,212	18,907
Total	**96,849**	**65,886**

18. Loans and advances to banks and financial institutions

(a) Analysis by type

in thousands of BGN	30 June 2012	31 December 2011
Placements and other amounts due from banks	14,838	85,512
Receivables under resale agreements (see note 31)	15,685	12,683
Other	2,875	2,232
Total	**33,398**	**100,427**

(b) Geographical analysis

in thousands of BGN	30 June 2012	31 December 2011
Resident banks and financial institutions	16,443	13,093
Foreign banks and financial institutions	16,955	87,334
Total	**33,398**	**100,427**

19. Loans and advances to customers

in thousands of BGN	30 June 2012	31 December 2011
Retail customers		
– Consumer loans	273,964	238,603
– Mortgage loans	359,833	354,732
– Credit cards	209,324	202,495
Small and medium enterprises	295,526	268,162
Microlending	28,467	26,612
Corporate customers	3,431,436	3,224,455
Less allowance for impairment	(144,272)	(132,823)
Total	**4,454,278**	**4,182,236**

(a) Movement in impairment allowances

In thousands of BGN

Balance at 1 January 2012	**132,823**
Additional allowances	16,709
Amounts released	(5,059)
Write – offs	(216)
Effects of changes in foreign currencies rates	15
Balance at 30 June 2012	**144,272**

20. Property and equipment

in thousands of BGN	Land and buildings	Fixtures and fittings	Motor vehicles	Assets under construction	Leasehold improvements	Total
Cost						
At 1 January 2011	**12,639**	**116,332**	**6,183**	**25,409**	**57,432**	**217,995**
Additions	–	215	–	10,415	78	10,708
Foreign exchange differences	–	(2)	–	–	(2)	(4)
Acquired through business combination	–	17	–	–	–	17
Disposals	–	(833)	(298)	(58)	(88)	(1,277)
Transfers	276	4,909	228	(8,497)	2,985	(99)
At 31 December 2011	**12,915**	**120,638**	**6,113**	**27,269**	**60,405**	**227,340**
Additions	–	22	64	11,645	1	11,732
Foreign exchange differences	–	21	2	1	10	34
Disposals	–	(983)	(40)	(7)	(1)	(1,031)
Transfers	–	1,962	398	(4,116)	1,194	(562)
At 30 June 2012	**12,915**	**121,660**	**6,537**	**34,792**	**61,609**	**237,513**
Depreciation						
At 1 January 2011	**3,579**	**64,722**	**4,933**	**–**	**16,198**	**89,432**
Foreign exchange differences	–	7	1	–	1	9
Acquired through business combination	–	9	–	–	–	9
Charge for the year	438	14,792	628	–	3,991	19,849
On disposals	–	(825)	(298)	–	(78)	(1,201)
At 31 December 2011	**4,017**	**78,705**	**5,264**	**–**	**20,112**	**108,098**
Foreign exchange differences	–	10	1	–	7	18
Charge for the period	224	6,960	208	–	1,941	9,333
On disposals	–	(983)	(40)	–	(1)	(1,024)
At 30 June 2012	**4,241**	**84,692**	**5,433**	**–**	**22,059**	**116,425**
Net book value						
At 1 January 2011	**9,060**	**51,610**	**1,250**	**25,409**	**41,234**	**128,563**
At 31 December 2011	**8,898**	**41,933**	**849**	**27,269**	**40,293**	**119,242**
At 30 June 2012	**8,674**	**36,968**	**1,104**	**34,792**	**39,550**	**121,088**

21. Intangible assets

in thousands of BGN	Software and licences	Greenhouse allowances	Goodwill	Total
Cost				
At 1 January 2011	**22,355**	**3,820**	**587**	**26,762**
Additions	40	–	–	40
Exchange differences on translating foreign operations	(3)	–	–	(3)
Acquired through business combinations	–	–	134	134
Disposals	(4)	–	–	(4)
Transfers	99	–	–	99
At 31 December 2011	**22,487**	**3,820**	**721**	**27,028**
Additions	19	–	–	19
Exchange differences on translating foreign operations	1	–	–	1
Disposals	(2)	–	–	(2)
Transfers	562	–	–	562
At 30 June 2012	**23,067**	**3,820**	**721**	**27,608**
Amortisation				
At 1 January 2011	**5,765**	**–**	**–**	**5,765**
Acquired through business combination	(1)	–	–	(1)
Charge for the year	2,194	–	–	2,194
On disposals	(4)	–	–	(4)
At 31 December 2011	**7,954**	**–**	**–**	**7,954**
Exchange differences on translating foreign operations	7	–	–	7
Charge for the period	1,131	–	–	1,131
On disposals	(2)	–	–	(2)
At 30 June 2012	**9,090**	**–**	**–**	**9,090**
Net book value				
At 1 January 2011	**16,590**	**3,820**	**587**	**20,997**
At 31 December 2011	**14,533**	**3,820**	**721**	**19,074**
At 30 June 2012	**13,977**	**3,820**	**721**	**18,518**

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 2012	31 December 2011	30 June 2012	31 December 2011	30 June 2012	31 December 2011
Property, equipment and intangibles	–	–	3,306	3,502	3,306	3,502
Other items	(208)	(208)	342	342	134	134
Net tax (assets)/liabilities	**(208)**	**(208)**	**3,648**	**3,844**	**3,440**	**3,636**

Movements in temporary differences for the six months ended 30 June 2012 at the amount of BGN 196 thousand are recognised in the net profit for the period.

23. Other assets

in thousands of BGN	30 June 2012	31 December 2011
Deferred expense	25,069	10,614
Gold bullion	9,920	7,983
Other assets	112,643	68,747
Total	**147,632**	**87,344**

24. Due to credit institutions

in thousands of BGN	30 June 2012	31 December 2011
Term deposits	6,908	42
Payable on demand	1,872	1,740
Total	**8,780**	**1,782**

25. Due to other customers

in thousands of BGN	30 June 2012	31 December 2011
Retail customers		
– current accounts	456,475	430,325
– term and savings deposits	4,345,775	4,028,187
Corporate, state-owned and public institutions		
– current accounts	367,961	316,016
– term deposits	676,087	613,782
Total	**5,846,298**	**5,388,310**

26. Liabilities evidenced by paper

in thousands of BGN	30 June 2012	31 December 2011
Acceptances under letters of credit	3,201	9,217
Liabilities under repurchase agreements (see note 31)	31,637	27,951
Other term liabilities	41,991	75,138
Total	**76,829**	**112,306**

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

27. Subordinated term debt

As at 30 June 2012 the Bank has entered into six separate subordinated loan agreements. All these subordinated loan agreements are governed by English Law with funds raised outside the Republic of Bulgaria.

Subordinated liabilities can be analysed as follows:

In thousands of BGN

Lender	Original principal amount	Orirginal maturity	Maturity date	Amortised cost as at 30 June 2012
Growth Management Limited	5,867	10 years	27.08.2014	16,031
Growth Management Limited	3,912	10 years	24.02.2015	8,524
Estrado Holding Ltd	9,779	10 years	01.03.2015	9,553
Growth Management Limited	1,956	10 years	17.03.2015	4,187
ING Bank NV/ Atlantic Forfaitierungs AG	9,779	10 years	22.04.2015	9,126
Hypo-Alpe-Adria Bank	3,912	10 years	14.04.2015	3,941
Total	**35,205**			**51,362**

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 2012
Step-up guaranteed perpetual subordinated bonds EUR 27 mio	52,807	58,344
Step-up guaranteed perpetual subordinated bonds EUR 21 mio	41,073	42,049
Total	**93,880**	**100,393**

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 2012
Hybrid debt with original principal EUR 40 mio	78,233	79,196
Total	**78,233**	**79,196**

in thousands of BGN	Principal amount	Amortised cost as at 30 June 2012
Hybrid debt with original principal EUR 20 mio	39,117	42,800
Total	**39,117**	**42,800**

In March 2011 the Bank issued a hybrid instrument (bond issue) and, after obtaining permission from the Bulgarian National Bank, included it as Tier 1 capital pursuant to Art. 3a of Ordinance 8 on Capital Adequacy of Credit Institutions. The Bank placed the bond issue under private subscription with a total nominal and issue value of EUR 20,000 thousand, constituting the first tranche of a bond issue for up to EUR 40,000 thousand. The bonds are registered, dematerialized, interest-bearing, perpetual, unsecured, freely transferable, non-convertible, deeply subordinated and without incentive to redeem. In June 2012 the Bank issed the second tranche of the instrument with nominal value of EUR 20,000 thousand, which after obtaining permission from the Bulgarian National Bank was included as Tier 1 capital.

30. Other liabilities

in thousands of BGN	30 June 2012	31 December 2011
Liabilities to personnel	1,955	1,892
Other payables	4,034	3,345
Total	**5,989**	**5,237**

31. Repurchase and resale agreements

The Group raises funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate. Repurchase agreements are commonly used as a tool for short-term financing of interest-earning assets, depending on the prevailing interest rates. At 30 June 2012 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	28,834	28,671
Other government securities	3,355	2,966
Total	**32,189**	**31,637**

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

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

The Group also purchases financial instrument under agreements to resell them at future dates ("reverse repurchase agreements"). The seller commits to repurchase the same instruments at an agreed future date. Reverse repurchases are entered into as a facility to provide funds of customers. At 30 June 2012 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	16,185	15,685
Total	**16,185**	**15,685**

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

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

32. Capital and reserves

(a) Number and face value of registered shares as at 30 June 2012

As at 30 June 2012 the registered share capital of the Bank is BGN 110,000,000 divided into 110,000,000 ordinary dematerialized shares with voting rights of BGN 1 par value each. All the shares have been fully paid-up.

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

(b) Shareholders

The table below shows those shareholders of the Bank holding shares as at 30 June 2012 together with the number and percentage of total issued shares.

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

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

(c) Statutory reserve

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

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

33. Commitments and contingent liabilities

(a) Memorandum items

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

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

in thousands of BGN	30 June 2012	31 December 2011
Bank guarantees		
– in BGN	145,102	148,694
– in foreign currency	214,968	202,611
Total guarantees	**360,070**	**351,305**
Unused credit lines	334,293	385,569
Promissory notes	4,422	4,926
Letters of credit	28,555	91,270
Total	**727,340**	**833,070**

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

34. Cash and cash equivalents

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

in thousands of BGN	Six months ended 30 June 2012	Six months ended 30 June 2011
Cash and balances with central banks	928,921	705,793
Loans and advances to banks and financial institutions with maturity less than 90 days	5,610	17,155
Total	**934,531**	**722,948**

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 2012	Six months ended 30 June 2011
FINANCIAL ASSETS		
Cash and balances with central banks	918,594	638,197
Financial assets held for trading	8,645	24,022
Available for sale investments	781,624	672,886
Financial assets held to maturity	76,079	50,537
Loans and advances to banks and financial institutions	78,241	54,855
Loans and advances to customers	4,274,890	3,629,386
FINANCIAL LIABILITIES		
Due to credit institutions	6,292	23,015
Due to other customers	5,606,418	4,517,824
Liabilities evidenced by paper	85,979	135,795
Subordinated term debt	51,134	47,499
Perpetual debt	99,089	98,889
Hybrid debt	48,097	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 2012	2011	Six months ended 30 June 2012	2011
Loans				
Loans outstanding at beginning of the period	1,674	2,997	23,161	19,055
Loans issued/(repaid) during the period	8	(1,323)	219	4,106
Loans outstanding at end of the period	1,682	1,674	23,380	23,161
Deposits and other financing received				
Deposits at beginning of the period	11,466	7,994	12,795	14,197
Deposits received/(repaid) during the period	(188)	3,472	20,476	(1,402)
Deposits at end of the period	11,278	11,466	33,271	12,795
Deposits placed				
Deposits at beginning of the period	–	–	3,916	3,922
Deposits placed/(matured) during the period	–	–	80	(6)
Deposits at end of the period	–	–	3,996	3,916
Off-balance sheet commitments issued by the Group				
At beginning of the period	1,843	1,204	2,116	1,289
Granted/(expired)	(128)	639	(415)	827
At the end of the period	1,715	1,843	1,701	2,116

The key management personnel of the Bank received remuneration of BGN 2,452 thousand in the first half of 2012.

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

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

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

As at 30 June 2012 the share capital of First Investment Bank – Albania Sh.a. is EUR 11,975 thousand, fully paid in and the Bank's shareholding is 100%. The Bank consolidates its investment in the company.

(d) Debita OOD and Realtor OOD

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

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

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

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

(e) Health Insurance Fund FI Health AD

In the second half of 2010 the Bank acquired a majority stake capital of Health Insurance Fund FI Health AD (formerly Health Insurance Fund Prime Health AD), a company engaged in voluntary health insurance as well as acquisition, management and sale of investments in other companies. As at 30 June 2012 the share capital of Health Insurance Fund FI Health AD is BGN 5,000 thousand and the Bank's shareholding is 59.10%. The Bank consolidates its investment in the company.

(f) Framas Enterprises Limited

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

(g) Balkan Financial Services EAD

In February 2011 the Bank acquired 100 shares representing 100% of the capital of Balkan Financial Services OOD. The company is engaged in consultancy services related to implementation of financial information systems and software development. In January 2012 the company was transformed in single member joint stock company. As at 30 June 2012 the registered share capital of the company is BGN 50 thousand, and the Bank's shareholding is 100%.

38. Subsequent events

There are no events after the reporting period that required additional disclosures or adjustments to the Group's financial statements.

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

Treasury
phone: (+359 2) 910 0106, fax: (+359 2) 981 0269

E-banking
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) 970 9597

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
130 Limassol Ave., CY-2015 Nicosia, Cyprus
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
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City Center
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phone: (+359 2) 800 2921, fax: (+359 2) 800 2928

Dragalevtsi
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20A, Krushova gradina St.
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Dragan Tsankov
Sofia 1797, 37, Dragan Tsankov Blvd.
phone: (+359 2) 800 2020, 817 1161,
fax: (+359 2) 970 9597

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Evropa
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Generali
Sofia 1000, 79-81, Dondukov Blvd.
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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

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Hladilnika
Sofia 1407, 1, Kishinev St.
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phone: (+359 2) 800 2645, fax: (+359 2) 800 2646

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Ivan Vazov
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Krasna Polyana
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phone: (+359 2) 800 2665, fax: (+359 2) 800 2666

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Sofia 1612, 32, Tsar Boris III Blvd., bl. 50
phone: (+359 2) 800 2901, fax: (+359 2) 800 2907

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

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

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

Nadezhda 2
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phone: (+359 2) 800 2521, fax: (+359 2) 800 2520

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
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phone: (+359 2) 817 1421, fax: (+359 2) 817 1429

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Sofia 1000, 110, Vitosha Blvd.
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Orion
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phone: (+359 2) 800 2622, fax: (+359 2) 800 2630

Rakovska
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Sofia Outlet Centre
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Sofia Theatre
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Stefan Karadzha
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Technomarket – Lyulin
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Sofia 1408, 4, Mayor Parvan Toshev St.
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Yuzhen park (South Park)
Sofia 1404, Zh.k. (Quarter) Motopista
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Sofia 1309, 127, Slivnitsa Blvd.
phone: (+359 2) 817 1586, fax: (+359 2) 817 1591

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

Asenovgrad
Asenovgrad 4230, 3, Nikolay Haytov Sq.
phone: (+359 331) 62 737, fax: (+359 331) 62 737

Ivan Asen – Asenovgrad
Asenovgrad 4230, 46, Tsar Ivan Asen II 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, 2, Ivan Vazov St.
phone: (+359 658) 38 411, fax: (+359 658) 38 421

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

GUM – Blagoevgrad
Blagoevgrad 2700, 6, Trakia St.
phone: (+359 73) 827 756, fax: (+359 73) 882 295

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
Burgas 8000, Transportna St.
phone: (+359 56) 804 511, fax: (+359 56) 860 017

Technomarket – Damyanitsa
Damyanitsa 2813, Sandanski Municipality
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Devnya
Devnya 9160, 78, Saedinenie Blvd.
phone: (+359 52) 679 646, fax: (+359 519) 92 012

Dimitrovgrad
Dimitrovgrad 6400, 6, Tsar Simeon St.
phone/fax: (+359 391) 67 008

Dobrich
Dobrich 9300, 1, Nezavisimost Sq.
phone: (+359 58) 838 590, fax: (+359 58) 838 581

Dulovo
Dulovo 7650, 6, Vasil Levski St.
phone: (+359 864) 21 180, fax: (+359 864) 22 800

Dupnitsa
Dupnitsa 2600, 19, Hristo Botev St.
phone: (+359 701) 59 153, fax: (+359 701) 42 200

Gabrovo
Gabrovo 5300, 5, Vazrazhdane Sq.
phone: (+359 66) 819 444, fax: (+359 66) 819 450

Yantra – Gabrovo
Gabrovo 5300, 2, Aprilovska St.
phone: (+359 66) 840 011, fax: (+359 66) 840 020

Gorna Oryahovitsa
Gorna Oryahovitsa 5100, 1, St. Knyaz Boris I St.
phone: (+359 618) 61 766, fax: (+359 618) 61 767

Gotse Delchev
Gotse Delchev 2900, 41, Targovska St.
phone: (+359 751) 69 642, fax: (+359 751) 60 208

Harmanli
Harmanli 6450, 2, Bulgaria Blvd.
phone: (+359 373) 80 180, fax: (+359 373) 80 190

Haskovo
Haskovo 6300, 3, Svoboda Sq.
phone/fax: (+359 38) 662 839, 661 848

Kardzhali
Kardzhali 6600, 52, Bulgaria Blvd.
phone: (+359 361) 67 603
phone/fax: (+359 361) 65 428

Vazrozhdentsi – Kardzhali
Kardzhali 6600, Hristo Botev Blvd., Capri Complex
phone: (+359 361) 21 632, fax: (+359 361) 21 639

Karlovo
Karlovo 4300, 6, General Kartsov St.
phone: (+359 335) 90 799, fax: (+359 335) 90 781

Kazanlak
Kazanlak 6100, 11, Sevtopolis Sq.
phone: (+359 431) 67 078, fax: (+359 431) 67 079

AER – Kozloduy
Kozloduy 3321, Nuclear Power Station,
Administrative building Atomenergoremont
phone/fax: (+359 973) 82 573

Kozloduy
Kozloduy 3320, 1, Vasil Kolarov St.
phone: (+359 973) 85 020, fax: (+359 973) 85 021

Kyustendil
Kyustendil 2500, 31, Tsar Osvoboditel Blvd.
phone: (+359 78) 553 350, fax: (+359 78) 553 351

Lovech
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phone: (+359 68) 689 612, fax: (+359 68) 601 478

Presidium Palace – Lovech
Lovech 5500, 51, Targovska St.
phone: (+359 68) 689 301, fax: (+359 68) 600 233

Mezdra
Mezdra 3100, 30, Hristo Botev St.
phone: (+359 910) 91 784, fax: (+359 910) 93 125

Montana
Montana 3400, 74, 3-ti Mart Blvd.
phone: (+359 96) 399 516, fax: (+359 96) 305 673

Nesebar
Nesebar 8230, 25, Ivan Vazov St.
phone: (+359 554) 46 055, fax: (+359 554) 46 044

Novi pazar
Novi pazar 9900, 4, Rakovski Sq.
phone/fax: (+359 537) 25 222

Pazardzhik
Pazardzhik 4400, 7, Bulgaria Blvd.
phone: (+359 34) 403 644, fax: (+359 34) 444 855

Trakia Papir – Pazardzhik
Pazardzhik 4400, zh.k. (Quarter) Glavinitsa,
Trakia Papir AD
phone: (+359 34) 401 217, fax: (+359 34) 401 320

Pernik
Pernik 2300, 4, Krakra St.
phone: (+359 76) 688 613, fax: (+359 76) 608 600

Petrich
Petrich 2850, 11A, Tsar Boris III St.
phone: (+359 745) 69 577, fax: (+359 745) 60 796

Pleven
Pleven 5800, 138, Doyran St.
phone: (+359 64) 893 101, fax: (+359 64) 893 109

Vasil Levski – Pleven
Pleven 5800, 126, Vasil Levski St.
phone: (+359 64) 893 141, fax: (+359 64) 893 148

Knyaz Batenberg – Plovdiv
Plovdiv 4000, 26, Knyaz Batenberg St.
phone: (+359 32) 270 570, fax: (+359 32) 636 358

Mall Trakia – Plovdiv
Plovdiv 4023, 34, Saedinenie Blvd.
phone: (+359 32) 270 580, fax: (+359 32) 682 221

MOL – Plovdiv
Plovdiv 4002, 8, Perushtitsa St.
phone: (+359 32) 270 630, fax: (+359 32) 270 625

Plovdiv
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Plovdiv 4004, Skopie St., bl. 1519
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Sveti Mina – Plovdiv
Plovdiv 4000, 56, Kapitan Raycho St.
phone: (+359 32) 270 560, fax: (+359 32) 206 856

Technomarket – Plovdiv
Plovdiv 4004, 4-th km., Bulgaria Str.
phone: (+359 32) 270 611

Trakia – Plovdiv
Plovdiv 4023, Zh. k. (Quarter) Trakia, bl. 142
phone: (+359 32) 270 610, fax: (+359 32) 270 626

Primorsko
Primorsko 8180, 82A, Treti mart St.
phone: (+359 550) 31 000, fax: (+359 550) 31 004

Provadia
Provadia 9200, 20, Aleksandar Stamboliyski St.
phone: (+359 52) 662 693, fax: (+359 518) 44 453

Radnevo
Radnevo 6260, 3, Georgi Dimitrov St.
phone: (+359 417) 82 301, fax: (+359 417) 83 419

Razgrad
Razgrad 7200, 3, Vasil Levski St.
phone: (+359 84) 631 065, fax: (+359 84) 661 883

Razlog
Razlog 2760, 2, Stefan Stambolov St.
phone: (+359 747) 89 345, fax: (+359 747) 80 068

Aleksandrovska – Ruse
Ruse 7000, 10, Aleksandrovska St.
phone: (+359 82) 889 534, fax: (+359 82) 889 540

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Sevlievo 5400, 6, Stefan Peshev St.
phone: (+359 675) 30 674

Sevlievo
Sevlievo 5400, Svoboda Sq.
phone: (+359 675) 31 053, fax: (+359 675) 34 482

Shumen
Shumen 9700, 67, Simeon Veliki Blvd.
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Shumen 9700, 62, Slavyanski Blvd.
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Dobrudzha – Silistra
Silistra 7500, 9, Dobrudzha St.
phone: (+359 86) 817 220, fax: (+359 86) 820 330

Silistra
Silistra 7500, 3, Geno Cholakov St.
phone: (+359 86) 871 320, fax: (+359 86) 824 091

Simitli
Simitli 2730, 27, Hristo Botev St.
phone: (+359 748) 71 408, fax: (+359 748) 71 319

Slanchev bryag (Sunny Beach)
Slanchev bryag (Sunny Beach) 8240, Central Alley
phone: (+359 554) 23 334, fax: (+359 554) 23 335

Sliven
Sliven 8800, 50, Tsar Osvoboditel Blvd.
phone: (+359 44) 610 954, fax: (+359 44) 610 967

Smolyan
Smolyan 4700, 80V, Bulgaria Blvd.
phone: (+359 301) 67 020, fax: (+359 301) 67 022

Sozopol
Sozopol 8130, 7, Republikanska St.
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Stara Zagora
Stara Zagora 6000, 104, Tsar Simeon Veliki Blvd.
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Stara Zagora 6000, 52, Nikola Petkov Blvd.
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Technomarket – Stara Zagora
Stara Zagora 6000, Zheleznik Quarter
phone: (+359 42) 698 820

Trayana – Stara Zagora
Stara Zagora 6000, 69, Tsar Simeon Veliki Blvd.
phone: (+359 42) 698 771, fax: (+359 42) 602 520

Tsar Simeon – Stara Zagora
Stara Zagora 6000, 141, Tsar Simeon Veliki Blvd.
phone: (+359 42) 698 752, fax: (+359 42) 266 021

Vereya – Stara Zagora
Stara Zagora 6000
20, Mitropolit Metodi Kusev Blvd.
phone: (+359 42) 698 818, fax: (+359 42) 601 678

Svilengrad
Svilengrad 6500, 58, Bulgaria Blvd.
phone/fax: (+359 379) 72 377

Svishtov
Svishtov 5250, 1, Nikola Petkov St.
phone: (+359 631) 61 171, fax: (+359 631) 61 180

Targovishte
Targovishte 7700, 9, Stefan Karadzha St.
phone: (+359 601) 69 530, fax: (+359 601) 62 110

Troyan
Troyan 5600, 108, Vasil Levski St.
phone: (+359 670) 60 040, fax: (+359 670) 62 043

8-mi Primorski polk – Varna
Varna 9000, 128, 8-mi Primorski polk Blvd.
phone: (+359 52) 662 624, fax: (+359 52) 305 608

Asparuhovo – Varna
Varna 9003
zh.k. (quarter) Asparuhovo, 15, St.St.Kiril i Metodiy St.
phone: (+359 52) 662 671, fax: (+359 52) 370 533

Briz – Varna
Varna 9000, 80-82, 8-mi Primorski polk Blvd.
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Picadilly-Center – Varna
Varna 9000, 76A, Tsar Osvoboditel Blvd.
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Rayonen sad (Regional Court) – Varna
Varna 9000, 57, Vladislav Varnenchik Blvd.
phone: (+359 52) 662 666, fax: (+359 52) 602 731

Sveta Petka – Varna
Varna 9000, 68, Bratya Miladinovi St.
phone: (+359 52) 662 635, fax: (+359 52) 662 646

Technomarket – Varna
Varna 9000, Tsar Osvoboditel Blvd.
phone: (+359 52) 662 655

Tsaribrod – Varna
Varna 9000, 2, Dunav St.
phone: (+359 52) 679 621, fax: (+359 52) 603 767

Varna
Varna 9000, 47, Bratya Miladinovi St.
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