Half Year Report 2013

20 years Fibank
My bank

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Message from the Managing Board

Dear shareholders, customers and colleagues,

In the first half of 2013 First Investment Bank AD /Fibank/ reported an increase in profit of 57.7%, to BGN 24 million after taxes on a consolidated basis (30.06.2012: BGN 15 million), which brought Fibank to fourth position among banks in Bulgaria by this indicator. This good financial result, achieved under the conditions of a challenging external environment, was largely due to the net increase in fee and commission income, by 35.8% to BGN 46 million (30.06.2012: BGN 33.9 million).

Product development, technology and focusing on the needs of our customers were also important drivers. Card payments remained among the priority services of Fibank and a major contributor to the increase of fee and commission income. A new card product was launched during the period: Debit MasterCard, featuring innovative functionality for contactless payments, and an option for payments over the Internet. Fibank continued to be the only bank in Bulgaria to issue MasterCard PayPass and Visa payWave contactless cards. The increased volumes of international payments and electronic services were another factor in the improvement of financial results and satisfying customer demands.

New lending products and programs were introduced, with an emphasis on the absorption of EU funds: loans under the JEREMIE initiative; under the Rural Development Operational Program, loans for farmers based on SAPS subsidies for 2013. New credit products were also offered to citizens: Green Loan for Home, aimed at energy saving home improvements with the opportunity to receive up to 50% financial assistance under the Energy renovation of Bulgarian Homes program; a new Six and a Half housing loan; a campaign Bring a Friend, Win 0.5%. The extension of credit products improved the market position of Fibank to fourth place (from fifth at the end of 2012). The loans to deposits ratio at 78.42% is in line with the Bank's policy of prudent risk management (the ratio for the banking system is 97.23%).

The awards received by Fibank – Bank of the Client 2012, Mystery Client, Market Share – are recognition of the high quality of products and service, and of the confidence of our customers for whom Fibank remains a preferred bank for savings – ranking third in terms of deposits, and second in terms of deposits from individuals.

Another factor in the improved financial results was the reduction of administrative costs by 10.4%, the ratio of operating expenses to income from banking operations decreasing to 54.57% (from 66.70% in December 2012). The levels of capital adequacy and adequacy of Tier I capital are above the regulatory requirements: 12.74% and 11.13% respectively, while maintaining a good level of liquidity at 24.40%. Systematic risk management, the maintenance of capital and liquidity buffers and of high financial discipline are the constant pillars of our management policy.

These results are evidence that our business model is well structured and can generate a solid foundation for long-term development. We are responsible to the society in which we live and work: we have undertaken a number of initiatives to help sick children and disadvantaged people, to support educational activities and development of sports in Bulgaria.

For the purpose of developing and offering insurance products, Fibank's subsidiary company Health Insurance Fund Fi Health was renamed and relicensed as Fi Health Insurance AD.

Along with the development of banking services, Fibank prepared and realized the purchase of 100% of MKB Unionbank AD from the Hungarian MKB Bank Zrt, a subsidiary of the German Bayerische Landesbank AG. The deal received approval not only from the regulatory authorities, but also from the general public. This was not just another business deal. It was the most important transaction of such a kind in the Bulgarian banking market in the last years. With this acquisition, Fibank aims at consolidating its leading position in the Bulgarian financial market, and increasing its efficiency. The integration and development of the best practices and know-how of the two institutions will make it possible to offer even more competitive services for businesses and individuals, as well as benefits for society. New banking opportunities will open up before customers, with even wider access to various banking products. This is another example of First Investment Bank AD being able, in these times of an unstable market environment, to create added value for its shareholders and customers.

2013 has been an important year in the history of the First Investment Bank AD, going under the motto of the bank's 20th anniversary. 20 years of creation, of success, of overcoming obstacles and growth. Years in which Fibank managed to build its own corporate image and reputation in the financial markets, proving that a Bulgarian brand can compete with the best in the industry.

We thank our shareholders for their constant support, our customers and partners for their loyalty, and employees for their professionalism and dedication. Today we have every reason to be satisfied that our business is going in the right direction and will continue to attract new customers and increase confidence in our bank, creating new horizons for its development.

The Managing Board of First Investment Bank AD

Sofia, October 2013

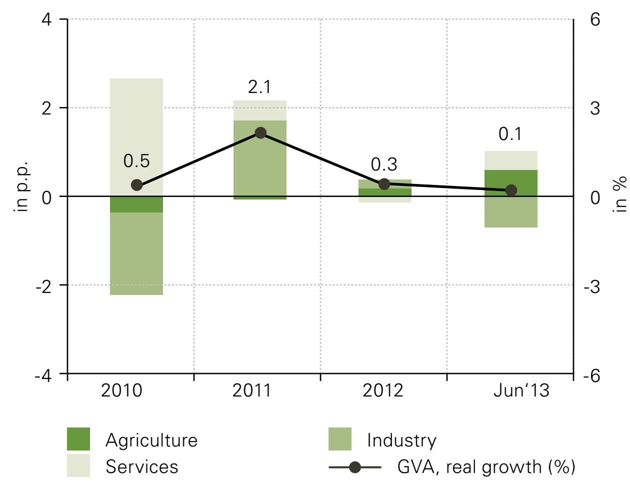
Macroeconomic development

In the first half of 2013 the Bulgarian economy remained under the influence of the external environment, showing diverse dynamics in the main structural indicators, including higher net exports and public consumption, but the recovery was still slow in the areas of investment activity, private consumption and the labor market. The balanced fiscal policy, the existing currency board system and the stability of the banking system continued to contribute towards preserving the macroeconomic stability of the country.

MACROECONOMIC INDICATORS	June-13	2012	2011	2010	2009	2008
GDP real growth (%)	**0.2**	0.8	1.8	0.4	(5.5)	6.2
Average annual inflation (%)	**3.5**	3.0	4.2	2.4	2.8	12.3
Unemployment (%)	**10.7**	11.4	10.4	9.2	9.1	6.3
Long-term interest rates (%)	**3.40**	4.50	5.36	6.01	7.21	5.38
Current account (% of GDP)	**0.6**	(1.3)	0.1	(1.5)	(8.9)	(23.1)
Foreign direct investments (% of GDP)	**1.7**	3.7	3.4	3.2	7.0	19.0
Public external debt, (% of GDP)	**10.4**	11.7	11.0	12.0	12.0	11.1
Gross external debt, (% of GDP)	**91.4**	94.8	94.1	102.7	108.3	105.1
Cash balance, (% of GDP)	**(0.0)**	(0.5)	(2.0)	(4.0)	(0.9)	2.9
EUR/BGN exchange rate (in BGN)	Currency board: fixed rate BGN 1.95583 for EUR 1					
USD/BGN exchange rate (in BGN)	**1.50**	1.48	1.51	1.47	1.36	1.39

Source: BNB, NSI, MF

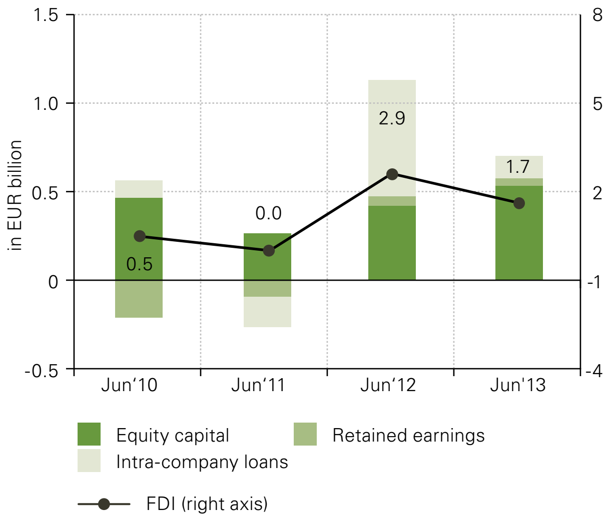
In the first half of the year the real growth of the economy amounted to 0.2% year-on-year, continuing the slowdown of the last two years (Mar'13: 0.8%, 2012: 0.8%, 2011: 1.8%). The main growth contributor was the physical volume of exports, which increased by 8.0% in the first six months. This was in line with international conditions, including the signals of recovery from recession in the Eurozone countries. The volume of imports also increased, by 3.3% year-on-year, a result of the dynamics in domestic demand (2012: 3.7%).

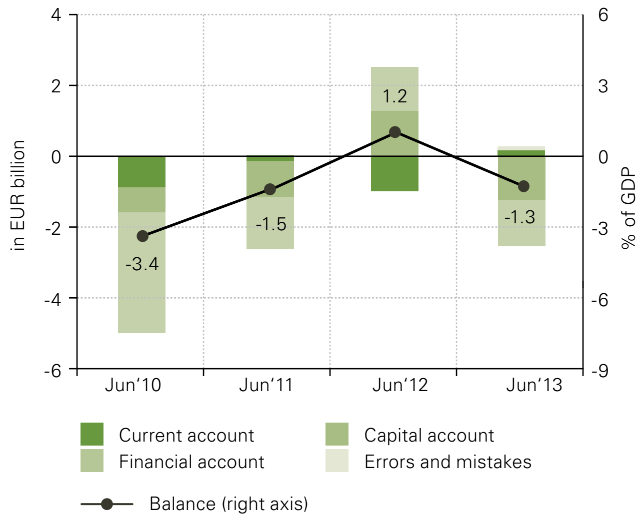


Final consumption increased by 0.7% during the period (2012: 1.8%), mainly due to higher public consumption. Household consumption remained under the constraints of the dynamics in the labor market and the associated conservativeness in expenditures. Investment activity marked a decline by 0.9% in the first half of 2013 (2012: 0.8%), reflecting the caution of companies to invest in fixed assets.

In the first six months of 2013 the gross value added in the economy increased by 0.1% year-on-year (2012: 0.3%), mainly due to the contribution of the services sector (Jun'13: 0.6%, 2012: -0.2%), forming 62.6% of the value added. An increase was also registered in agriculture (Jun'13: 12.2%, 2012: 3.5%), at the expense of the industrial sector (Jun'13: -2.2%, 2012: 0.7%), forming respectively 5.5% and 31.9% of value added in the economy.

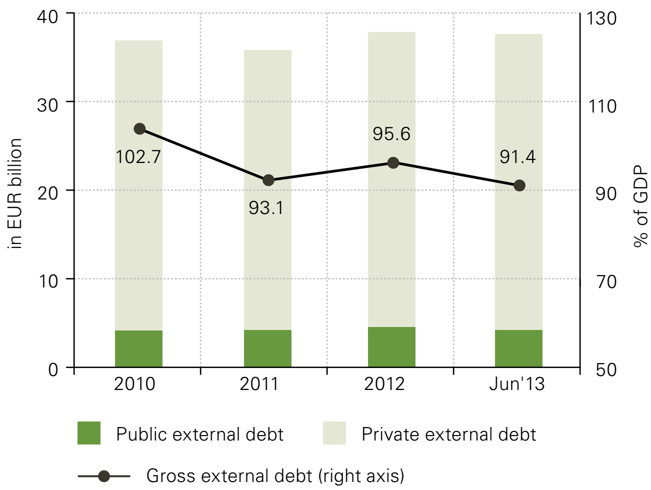
The labor market showed individual signals of recovery, but remained unstable, in line with current economic activity. The unemployment rate decreased to 10.7% as at June 2013 (2012: 11.4%, 2011: 10.4%) mainly due to higher seasonal employment in the second quarter. The levels remained comparable to the average for the EU and the Eurozone.

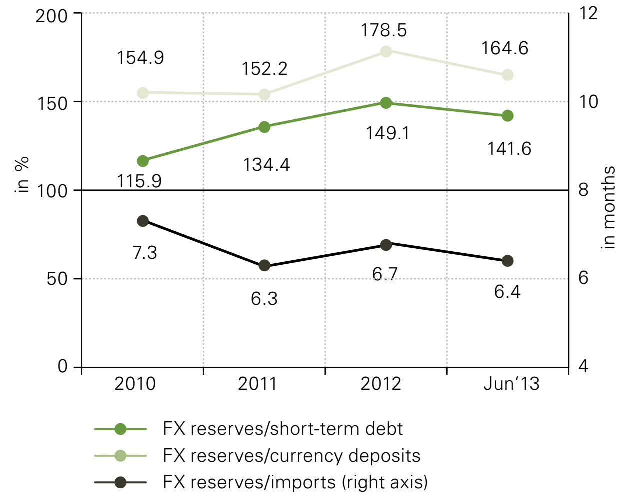




In the first six months of 2013 foreign direct investment in the country amounted to EUR 711 million (1.7% of GDP), compared to 1,134 million (2.9% of GDP) a year before. A decrease was registered primarily in intragroup company liabilities (other capital), which reached EUR 125 million (Jun'12: EUR 656 million). Proceeds for the period in the form of equity capital and retained earnings amounted respectively to EUR 537 million and EUR 49 million (Jun'12: EUR 427 million and EUR 52 million). By industry, the majority of investment was directed towards the transport sector (EUR 167 million), financial intermediation (EUR 138 million) and commerce (EUR 95 million). At the end of June 2013, the financial account of the balance of payments was negative at EUR -1,213 million (Jun'12: EUR 1,285 million), largely driven by the transactions of banks and payments on global government bonds maturing early in the year.

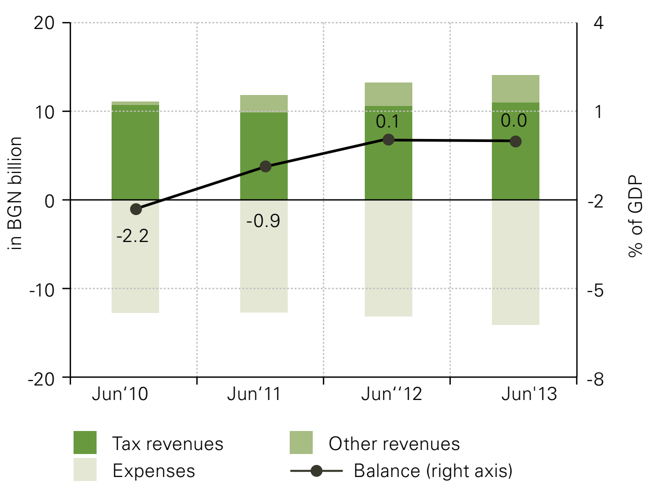
The current account balance for the period January-June 2013 was positive by EUR 231 million (0.6% of GDP), compared to a deficit of EUR 945 million (2.4% of GDP) in the same period a year earlier. The main contributor was the reduction of the trade deficit by EUR 905 million, to EUR 1,317 or 3.2% of GDP (Jun'12: EUR -2222 million, or -5.6% of GDP). This was the result of higher exports which grew by 7.8% to EUR 10,643 million compared to EUR 9,876 million a year earlier. Imports remained at similar levels to those of the previous year, amounting to EUR 11,960 million (Jun'12: EUR 12,098 million), mainly due to lower private consumption and the continuing high level of savings of the population. In the first six months of 2013, the European Union remained the main trading partner of the country, accounting for 58.8% of exports (Jun'12: 59.5%) and 53.8% of imports (Jun'12: 46.6%). An increase was also registered in trade with third countries, including Turkey, Ukraine, and the USA.

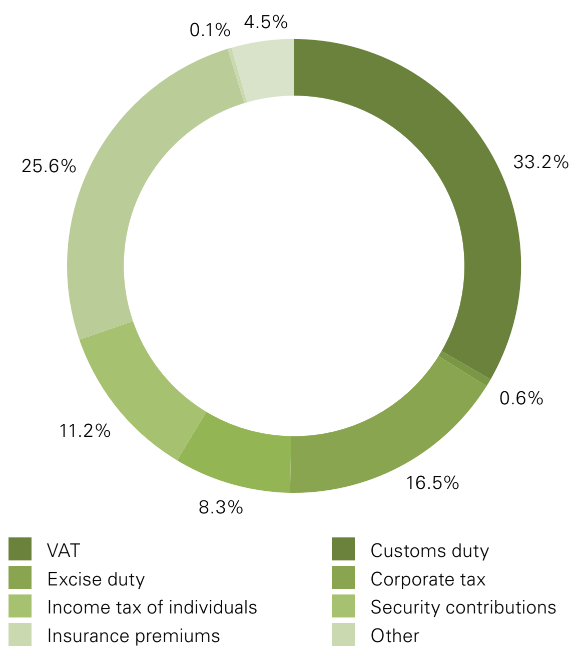




The gross external debt decreased by 0.3% to EUR 37,462 million, or 91.4% of GDP at the end of June 2013 (2012: EUR 37,592 million or 94.8% of GDP). This reduction mainly came from public sector external debt, which decreased by 8.3% to EUR 4,255 million at the end of the period (2012: EUR 4,640 million), the result of Bulgarian global bonds being repaid early in the year. Public debt remained low as a percentage of GDP at 10.4% (2012: 11.7%) compared to most EU countries. BNB reserve assets covered 141.6% of short-term external liabilities (2012: 149.1%).

In the first half of 2013 the consolidated budget showed a deficit of BGN 8 million (0.0% of GDP), compared to a surplus of BGN 62 million (0.1% of GDP) a year earlier. This was mainly due to higher expenditures (Jun'13: BGN 14,173 million; Jun'12: BGN 13,162 million), including social expenditures and health insurance payments.





The revenues under the consolidated fiscal program also increased, with the contribution of EU funds, income from indirect tax and non-tax revenues. VAT revenues for the period grew by 6.4% to BGN 3,639 million (Jun'12: BGN 3,419 million), mainly reflecting the increased revenue from transactions in the country. Revenues from excise duties amounted to BGN 1,806 million, compared to BGN 1,860 million a year earlier. Indirect tax on insurance premiums generated budget revenue of BGN 10 million, compared to BGN 13 million for the same period in the previous year. Corporate tax revenues in the first half of 2013 amounted to BGN 906 million, or 1.5% less than the previous year, in line with the current business environment. Revenues from income tax on individuals grew by 5.9 %, to BGN 1,215 million (Jun'12: BGN 1,148 million), influenced by the introduction of a new tax on interest income on deposit accounts, which generated additional revenue of BGN 40 million. Proceeds from contributions increased by 4.7% to BGN 2,805 million, including social security contributions (BGN 1,974 million) and health insurance contributions (BGN 831 million). Non-tax revenues and funds from the EU (including national co-financing) increased to BGN 2,133 and BGN 1,088 million respectively, compared to BGN 2,001 million and BGN 661 million a year earlier.

The annual consumer price index (CPI) of the country declined to 2.6% in June 2013 compared to 3.0% at the end of 2012, and cumulative inflation from the beginning of the year amounted to -1.1%. The main contributors to the decrease in prices were overhead costs (4.9%) and transportation (0.7%), forming respectively 17.8% and 8.1% of the CPI. This was determined by the decline in the international prices of energy products, including crude oil, and by the reduction in the price of electricity for households in the country. Food prices remained almost unchanged with 0.1% growth in the first six months of the year, making up 35.1% of the consumer basket. Harmonized inflation, which is the comparable measure of inflation across the EU and one of the criteria for price stability for joining the Eurozone, was 2.3% on average for the period (2012: 2.4%).

At the end of June 2013, the long-term credit ratings of Bulgaria remained unchanged.

Credit rating agencies	**Long-term credit rating**		
	Foreign currency	**Local currency**	**Outlook**
Standard & Poor's	BBB	BBB	Stable
Moody's	Baa2	Baa2	Stable
Fitch Ratings	BBB-	BBB	Stable

Source: MF

The main challenges to the further development and recovery of economic activity in Bulgaria by the end of 2013 remain the ongoing adverse conditions in the labor market and the slow resurgence of domestic consumption. The effective absorption of EU funds, political stability, and the enhancing of structural reforms remain among the factors for sustainable and long-term economic development.

The banking system

In the first half of 2013 the banking system in Bulgaria was characterized by stability and sustainable results, due in particular to accumulated capital and liquidity buffers and the countercyclical policy systematically pursued by the Bulgarian National Bank.

in %	Jun-13	Dec-12	Jun-12	%	%
Capital adequacy ratio	16.96	16.66	16.74	0.30	(0.08)
Tier 1 capital ratio	15.60	15.16	15.19	0.44	(0.03)
Liquid assets ratio	25.90	26.00	26.21	(0.10)	(0.21)
Gross loans / deposits	98.27	101.02	103.83	(2.75)	(2.81)
Leverage ratio (equity / assets)	13.22	13.17	13.28	0.05	(0.11)
Return on equity	6.20	5.71	6.49	0.69	(0.78)
Return on assets	0.77	0.71	0.83	0.06	(0.12)
Problem loans (over 90 days)	17.09	16.62	16.86	0.47	(0.24)

Source: BNB

The capital position of the banking system remained solid, with the total capital adequacy ratio rising by 0.30 percentage points and amounting to 16.96% at the end of June 2013 (2012: 16.66%; Jun'12: 16.74%) and that of Tier 1 capital by 0.44 percentage points, to 15.60% (2012: 15.16%; Jun'12: 15.19%). The increase was a result of the growth in the capital base and particularly in Tier I capital as a result of the capitalization of profits and issuance of new equity. The capital exceeding the minimum requirement of 12% increased, reaching BGN 2,739 million compared to BGN 2,559 million six months earlier (Jun'12: BGN 2,559 million). The leverage ratio reached 13.22% (2012: 13.17%; Jun'12: 13.28%), reflecting the higher growth of balance sheet capital compared to assets.

The banking system continued to show high liquidity, determined by the dynamics of household deposits and lending in the economy. At the end of the period, the ratio of liquid assets amounted to 25.90% (2012: 26.00%; Jun'12: 26.21%), reflecting the balanced growth of liquid assets and attracted funds. The gross loans/deposits ratio decreased to 98.27% at the end of June 2013 (2012: 101.02%; Jun'12: 103.83%), which increased the capacity to meet liquidity risk.

in BGN million	Jun-13	Jun-12	Jun-11	%	%
Net interest income	1,237	1,315	1,458	(5.9)	(9.8)
Net fee and commission income	402	372	377	8.1	(1.3)
Administrative expenses	855	848	850	0.8	(0.2)
Impairment	499	542	625	(7.9)	(13.3)
Net profit	318	323	315	(1.5)	2.5

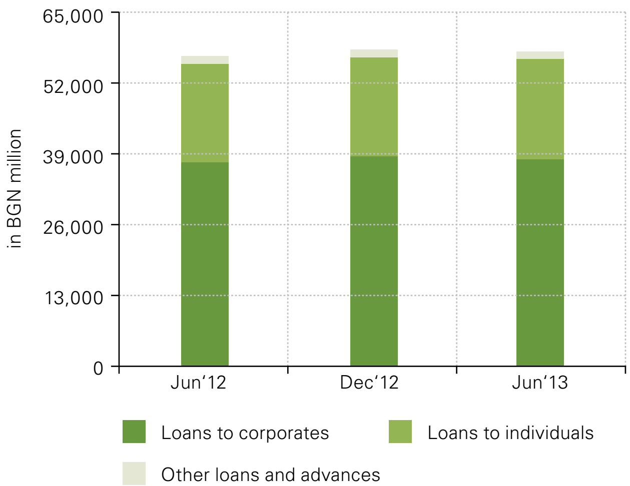
Source: BNB

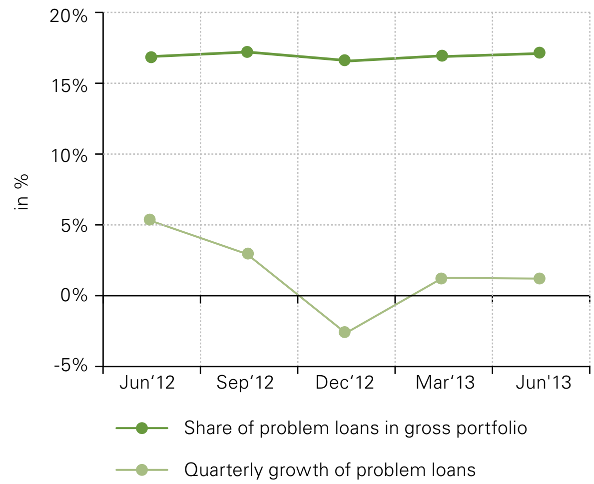
For the first half of the year the system reported positive financial results, with net profit amounting to BGN 318 million compared to BGN 323 million a year earlier (Jun'11: BGN 315 million). Some pressure on profitability was felt due to lower interest income, which reflected external conditions, and the high level of liquidity. Net interest income amounted to BGN 1,237 million (Jun'12: 1,315 million; Jun'11: 1,458 million) and that from fees and commissions to BGN 402 million (Jun'12: BGN 372 million; Jun'11: BGN 377 million), in line with current business activity. The reported results ensured a return on assets for the system of 0.77% as at June 2013 (2012: 0.71%; Jun'11: 0.83%) and return on equity of 6.20% (2012: 5.71%; Jun'12: 6.49%).

in BGN million	Jun-13	Dec-12	Jun-12	%	%
Assets	83,170	82,416	79,414	0.9	3.8
Loans to corporates	38,046	38,166	37,132	(0.3)	2.8
Loans to individuals	18,378	18,415	18,436	(0.2)	(0.1)
Deposits from corporates	21,572	21,387	20,945	0.9	2.1
Deposits from individuals	37,084	35,869	33,780	3.4	6.2

Source: BNB

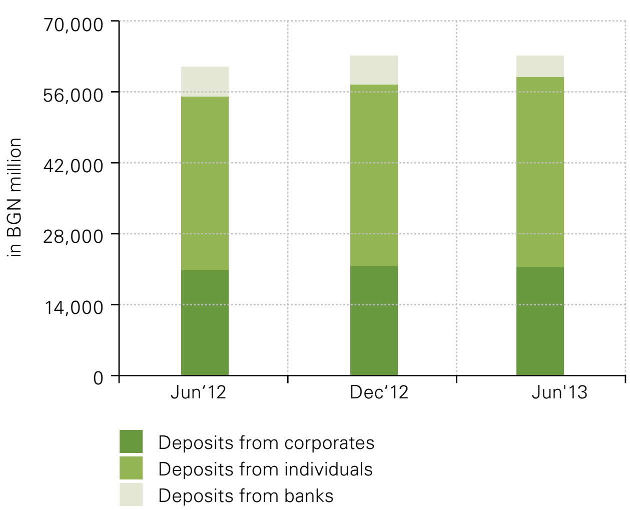
The total balance-sheet assets of the system increased by 0.9% to BGN 83,170 million (2012: BGN 82,416 million; Jun'12: BGN 79,414 million), with growth being reported in the portfolios of securities and loans to banks. The loan portfolio (excluding credit institutions) decreased by 0.3% to BGN 57,641 million, but retained its determining share of 72.9% (2012: 73.0%; Jun'12: 77.3%). This decrease was mainly due to corporate loans which amounted to BGN 38,046 million, or 0.3% less compared to the end of 2012 (Jun'13/Jun'12: 2.5%). Loans to individuals decreased by 0.2% to BGN 18,378 million, with a drop being reported in mortgage loans (0.8% to BGN 9,367 million), as opposed to an increase in consumer loans (by 0.4% to BGN 9,011 million).

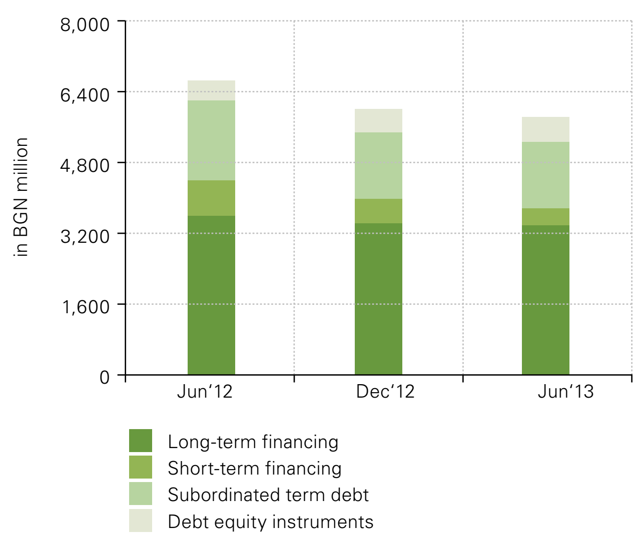




Problem loans (those classified as non-performing or loss) increased during the period by 0.47 percentage points to 17.09% of the gross loan portfolio (excluding credit institutions), compared to 16.62% six months earlier (Jun'12: 16.86%), while the trend of slower growth was preserved. The degree of credit risk coverage remained adequate, with allowances for impairment amounting to BGN 4,823 million (2012: BGN 4,578 million; Jun'12: BGN 4,345 million), in line with the impact of the economic cycle.

The attracted funds in the banking system increased by 0.8% to BGN 71,240 million (2012: BGN 70,702 million; Jun'12: BGN 68,155 million). Deposits from individuals slowed in growth, increasing by 3.4% (BGN 1,214 million) to BGN 37,084 million (2012: BGN 35,869 million; Jun'12: BGN 33,780 million). An increase was also reported in deposits from corporate customers of 0.9% (BGN 185 million) to BGN 21,572 million at the end of June 2013 (2012: BGN 21,387 million; Jun'12: BGN 20,945 million). The currency structure of attracted funds marked an increase those denominated in BGN, which increased to 48.3% (2012: 48.1%; Jun'12: 45.8%) and in other currencies, up to 7.0% (2012: 6.9%; Jun'12: 7.2%). This was at the expense of those in EUR, which were down to 44.7% (2012: 44.9%; Jun'12: 47.0%).





In the first six months of the year some regulatory changes took place in nationally and at the European level.

In February 2013 a new Law on Public Finance was adopted, effective from January 1, 2014, which establishes a single framework of public finance, introduces certain fiscal rules and limitations, and also regulates bank servicing of governmental organizations and the system of the single account.

In May 2013 Decree № 127 of 27.05.2013 of the Council of Ministers was adopted for amending the Regulation on the procedure for exercising the rights of the state in companies with state participation. The amendments introduced new rules for the selection of a contractor for the provision of financial services by credit or financial institutions, which include limiting the net exposure (the difference between cash amounts and outstanding loans) in a credit institution to 25% of the cash funds of the state owned company.

At the beginning of the period a new Ordinance (№ 28) of the Ministry of Finance and the BNB was adopted on the information and documents submitted to payment service providers when making cross-border transfers and payments to a third country. It confirmed the existing regime for cross-border transfers to third countries, specifying the necessary documents that customers should provide for such payments when they equal or exceed BGN 30 000 or the equivalent in another currency.

In March 2013 amendments and supplements were adopted to the Law on Consumer Protection, harmonizing it with the European legal regulations on distance contracts and protecting the rights of consumers, including in the areas of the conclusion of distance contracts by telephone, the extension of term contracts, and terminating permanent contracts by notice.

In May 2013 a new Regulation (EU) № 462/2013 of the European Parliament and of the Council was adopted, amending Regulation (EC) № 1060/2009 on credit rating agencies, which aims at gradually removing references to credit ratings for regulatory purposes under EU law when appropriate alternatives for credit risk assessment are identified and applied. The regulation also establishes a Unified European rating platform, on which credit ratings assigned to issuers or issues by the credit rating agencies registered under this regulation will be published.

In June 2013 a new Regulation (EU) № 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms was adopted, amending Regulation (EC) № 648/2012, which has direct effect and enters into force from 1 January 2014, as well as a new Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC. These acts introduce the requirements of the Basel Committee on Banking Supervision, known as the Basel III framework, which establish uniform rules regarding capital requirements, limiting large exposures, liquidity risk management and public disclosure.

As at 30 June 2013, 30 credit institutions operated in the country, including 6 branches of foreign banks. The balance sheet capital of the banking system amounted to BGN 10,994 million, mainly foreign participation of investors from the European Economic Area.

Business overview

In the first half of 2013 First Investment Bank AD (Fibank) registered sustainable development, increased performance and competitiveness. Fibank continued to maintain liquidity and capital adequacy in accordance with the market environment, as well as high standards of customer service.

in %	Jun-13	Dec-12	Jun-12
Capital adequacy ratio	**12.74**	13.10	12.89
Tier 1 capital adequacy ratio	**11.13**	11.39	10.75
Liquidity ratio	**24.40**	27.64	27.21
Loans / deposits ratio	**78.42**	76.09	78.66
Cost / income ratio	**54.57**	66.70	69.12
Net interest income / total income from banking operations	**59.46**	64.29	65.93
Return on equity (after tax)	**9.39**	6.29	6.42
Return on assets (after tax)	**0.68**	0.46	0.48
Loan provisioning ratio	**4.24**	3.99	3.35
Earnings per share (in BGN)	**0.22**	0.28	0.14
in numbers			
Branches and offices	**163**	162	171
Staff	**2,922**	2,859	2,871

Source: Fibank

During the reporting period Fibank strengthened its leading position among the banks in the country, offering new credit facilities adapted to the needs of the market, innovative market solutions in the card business, and new products of gold and other precious metals. Fibank continued to finance competitive projects with an emphasis on programs related to the absorption of EU funds, including under the JEREMIE initiative, as well as to develop its electronic banking in accordance with the needs and requirements of its customers.

	Market position			Market share (%)		
	Jun-13	**Dec-12**	**Jun-12**	**Jun-13**	**Dec-12**	**Jun-12**
Assets	**3**	3	4	**8.38**	8.38	8.27
Loans, including:	**4**	5	5	**8.46**	8.14	8.12
- corporate loans	**3**	2	2	**10.31**	9.89	10.01
- consumer loans	**7**	7	7	**5.70**	5.48	5.14
- mortgage loans	**7**	8	8	**3.83**	3.83	3.72
Deposits, including:	**3**	3	3	**10.33**	10.52	10.49
- retail deposits	**2**	2	2	**13.14**	13.66	13.91
- corporate deposits	**6**	6	7	**5.52**	5.26	4.97
	Jun-13	**Jun-12**	**Jun-11**	**Jun-13**	**Jun-12**	**Jun-11**
Net profit	**4**	6	7	**7.03**	4.72	6.35

Source: Fibank

The prestigious awards received during the period are a reflection of the good performance of Fibank. It was selected as Bank of the Customer for 2012 at the annual ranking of the Bank of the Year Association for the sixth time in its history as well as given, for a third consecutive year, the Market Share award for attracting the highest number of deposits from households and businesses in the country and returning the largest amount of money to the country's economy. Fibank was also honored with the Secret Customer award which is a result of a marketing survey on the quality of work at the front offices of more than 500 bank branches and offices in Sofia and the country and reflects the high quality of service offered by Fibank.

The ratings of First Investment Bank at the end of June 2013, assigned by the international credit rating agency Fitch Ratings, are as follows: long-term rating „BB-" with a stable outlook, short-term rating „B", viability rating „b-", support rating „3" and support rating floor „BB-". In September 2013 Fibank's ratings were fully affirmed.

After the reporting period, on 15 August 2013, First Investment Bank AD signed an agreement with the Hungarian MKB Bank Zrt. for the acquisition of 100% of the shares of MKB Unionbank EAD. On 18 September 2013 the deal was allowed as the necessary approvals from the competent authorities were obtained.

With this acquisition, First Investment Bank aims to consolidate its leading position in the Bulgarian banking market by offering a wider range of advanced products to customers with a focus on small and medium enterprises and retail banking, as well as to achieve synergies and risk diversification. The acquisition will increase efficiency and result in offering even better and more competitive services to individuals, businesses and society, thus continuing and strengthening the line of best practices of First Investment Bank as a socially responsible Bulgarian financial institution.

Financial results

For the first half of 2013 the Group of First Investment Bank reported profit after taxes in the amount of BGN 24,031 thousand, which is 57.7% more than the same period the previous year. This increase was due to the higher operating income, incl. net fee and commission income, realized under the conditions of continuing challenges in the market environment. Lower administrative costs, resulting from the policy of optimizing operating expenses and increasing efficiency, also had their impact. Over the period Fibank improved its market position, ranking fourth in terms of earnings among the banks in the country (Jun'12: sixth; Jun'11: seventh). Fibank's market share increased to 7.03% on an unconsolidated basis (Jun'12: 4.72%; Jun'11: 6.35%). The return on equity (after tax) was 9.39% (Jun'12: 6.42%; Jun'11: 9.14%), the return on assets (after tax) was 0.68% (Jun'12: 0.48%; Jun'11: 0.77%), and the earnings per share reached BGN 0.22 (Jun'12: BGN 0.14 ; Jun'11: BGN 0.18).

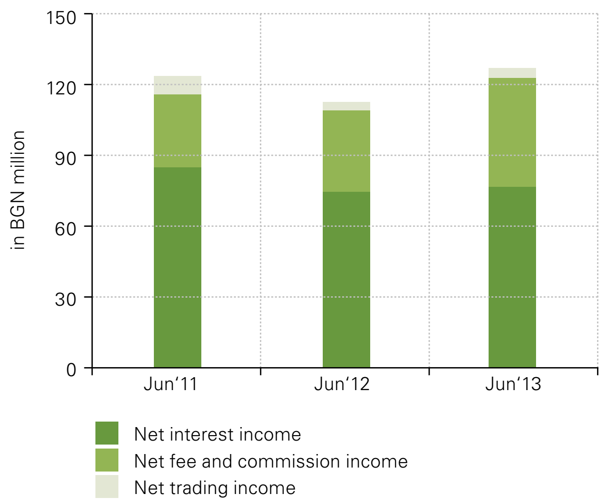
in BGN thousands	**Jun-13**	**Jun-12**	**Jun-11**	**%**	**%**
Net interest income	**76,499**	74,708	84,461	**2.4**	(11.5)
Net fee and commission income	**46,037**	33,890	31,135	**35.8**	8.8
Net trading income	**4,448**	3,754	7,803	**18.5**	(51.9)
Total income from banking operations	**128,656**	113,310	120,120	**13.5**	(5.7)
Administrative expenses	**(70,213)**	(78,324)	(76 216)	**(10.4)**	2.8
Impairment	**(22,684)**	(11,650)	(14,830)	**94.7**	(21.4)
Group profit after tax	**24,031**	15,241	20,076	**57.7**	(24.1)

Source: Fibank

The net interest income of the Group amounted to BGN 76,499 thousand, or 2.4% higher than the year before (Jun'12: BGN 74,708 thousand; Jun'11: BGN 84,461 thousand). This increase reflected lower interest expenses (by 3.8% or BGN 5,896 thousand), resulting from consistent actions to adapt to the market. Interest income remained at levels close to those of the previous year (Jun'13: BGN 223,889 thousand; Jun'12: BGN 227,994 thousand; Jun'11: BGN 215,404 thousand), reflecting the external environment and customer behavior. Net interest income decreased its still predominant share, forming 59.5% (Jun'12: 65.9%; Jun'11: 70.3%) of the total income from banking operations which in turn increased and reached 128,656 thousand for the first six months (Jun'12: BGN 113,310 thousand; Jun'11: BGN 120,120 thousand).

Net fee and commission income grew by 35.8% or BGN 12,147 thousand, reaching BGN 46,037 thousand (Jun'12: BGN 33,890 thousand; Jun'11: BGN 31,135 thousand). The increase was mainly due to the higher income from fees and commissions related to customer accounts, the card business, payment transactions and other operations. Net fee and commission income increased its relative share, forming 35.8% (Jun'12: 29.9%; Jun'11: 25.9%) of the total income from banking operations as a result of Fibank's policy for the diversification of operating income.

Net trading income rose to BGN 4,448 thousand for the period, compared to BGN 3,754 thousand the year before (Jun'11: BGN 7,803 thousand). An increase was registered in net trading gains arising from debt and equity instruments (up to BGN 212 thousand and BGN 135 thousand respectively), as well as from foreign exchange (up to BGN 4,101 thousand).



Administrative expenses decreased by 10.4% to BGN 70,213 thousand (Jun'12: BGN 78,324 thousand; Jun'11: BGN 76,216 thousand), with a decrease being recorded in almost all types of costs. For the period the cost-to-income ratio improved to 54.57% compared to 66.70% six months earlier (Jun'12: 69.12%).

For the first six months of 2013, impairment increased and reached BGN 22,684 thousand (Jun'12: BGN 11,650 thousand; Jun'11: BGN 14,830 thousand) in line with the conditions of the environment. During the period, the additional write-downs were in the amount of BGN 35,180 thousand and the reversals of write-downs were in the amount of BGN 12,496 thousand. The criteria for assessing the potential risk of loss applied by Fibank are consistent with the ones defined by the BNB regulations (Ordinance № 9).

Balance sheet

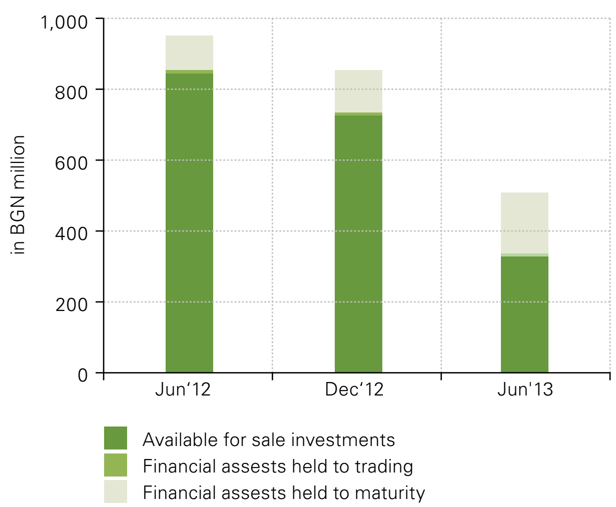
At the end of June 2013 the total assets of the Group of First Investment Bank reached BGN 7,114,520 thousand (2012: BGN 7,050,448 thousand; Jun'12: BGN 6,659,262 thousand), increasing by BGN 64,072 thousand. The market share of Fibank amounted to 8.38% of the total banking system assets (2012: 8.38%; Jun'12: 8.27%), with Fibank retaining its competitive market position - third place in terms of assets among the banks in the country on an unconsolidated basis (2012: third; Jun'12: fourth).

in BGN thousands	Jun-13	Dec-12	Jun-12	%	%
Total assets	**7,114,520**	7,050,448	6,659,262	**0.9**	5.9
Portfolio of financial instruments	**504,788**	851,942	951,728	**(40.7)**	(10.5)
Loan portfolio	**4,689,302**	4,540,389	4,454,278	**3.3**	1.9
Customer deposits	**6,220,617**	6,189,721	5,846,298	**0.5**	5.9
Liabilities evidenced by paper	**67,902**	62,420	76,829	**8.8**	(18.8)
Total Group equity	**529,385**	505,267	486,029	**4.8**	4.0

Source: Fibank

Cash and balances with central banks increased by 12.9% (BGN 147,580 thousand) to BGN 1,288,469 thousand (2012: BGN 1,140,889 thousand; Jun'12: BGN 928,921 thousand) mainly due to the increase in balances with central banks, which reached BGN 1,014,478 thousand (2012: BGN 917,022 thousand; Jun'12: BGN 687,222 thousand) and reflect the dynamics of the deposit base and the allocation of minimum required reserves. Another influencing factor was the increase in current accounts and amounts with foreign banks, up to BGN 147,775 thousand (2012: BGN 96,353 thousand; Jun'12: BGN 110,629 thousand).

Available for sale investments decreased to BGN 329,865 thousand (2012: BGN 726,619 thousand; Jun'12: BGN 846,372 thousand) mainly due to the decrease in treasury bills of foreign governments and Bulgarian government bonds. The financial assets that Fibank has the intent and ability to hold to maturity rose to BGN 167,873 thousand (2012: BGN 118,770 thousand; Jun'12: BGN 96,849 thousand) reflecting the increase in securities issued by foreign governments. The financial assets held for trading reached BGN 7,050 thousand, compared to BGN 6,553 thousand at the end of 2012 (Jun'12: BGN 8,507 thousand). At the end of June 2013 the Group's portfolio of government debt exposures amounted to BGN 450,889 thousand (2012: BGN 798,096 thousand; Jun'12: BGN 896,036 thousand).

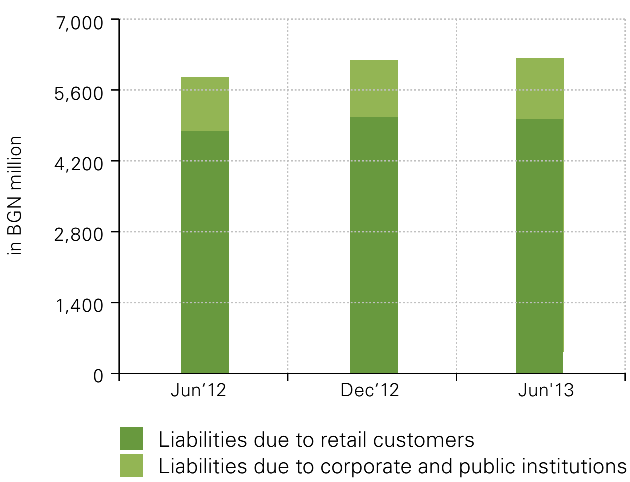


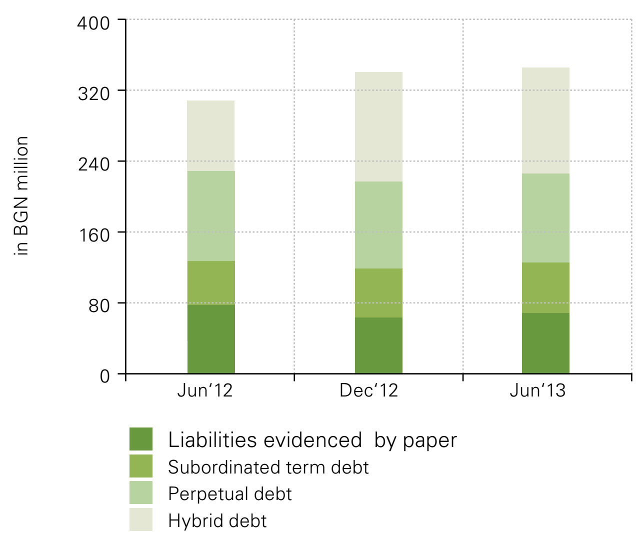
Fibank aims at any moment to maintain optimum levels of liquidity according to external conditions and the market environment. At the end of the period the liquidity ratio was 24.40% (2012: 27.64%; Jun'12: 27.21%), and the loans/deposits ratio was 78.42% (2012: 76.09%; Jun'12: 78.66%). Loans and advances to banks and financial institutions amounted to BGN 24,195 thousand, compared to BGN 45,939 thousand at the end of 2012 (Jun'12: BGN 33,398 thousand) due to the decrease in placements and other amounts due from foreign banks. An increase was recorded in receivables under resale agreements, up to BGN 5,075 thousand as part of the liquidity management.

Loans and advances to customers grew by 3.3% (BGN 148,913 thousand) in the first half of 2013, reaching BGN 4,689,302 thousand (2012: BGN 4,540,389 thousand; Jun'12: BGN 4,454,278 thousand), marking an increase in all business lines: corporate customers (3.9% or BGN 134,728 thousand), retail banking (2.3% or BGN 20,272 thousand), small and medium-sized enterprises (3.8% or BGN 11,967 thousand) and microlending (BGN 5.9% or 1,784 thousand). In terms of loans, Fibank ranked fourth in the banking system on an unconsolidated basis, improving its market position compared to the end of 2012 (2012: fifth; Jun'12: fifth). The market share of Fibank increased to 8.46% (2012: 8.14%; Jun'12: 8.12%).

At the end of June 2013, allowances for impairment amounted to BGN 188,917 thousand, compared to BGN 169,079 thousand six months earlier (Jun'12: 144,272 thousand), a result of the dynamics of credit risk and the impact of the economic cycle. During the period, loans and advances to customers to the amount of BGN 2,817 thousand were recorded off balance sheet, compared to BGN 216 thousand the year before. The loan provisioning ratio amounted to 4.24% (2012: 3.99%; Jun'12: 3.35%).

Other assets amounted to BGN 472,482 thousand (2012: BGN 328,902 thousand; Jun'12: BGN 147,632 thousand). These included acquired collaterals measured at the lower of cost or net realizable value.





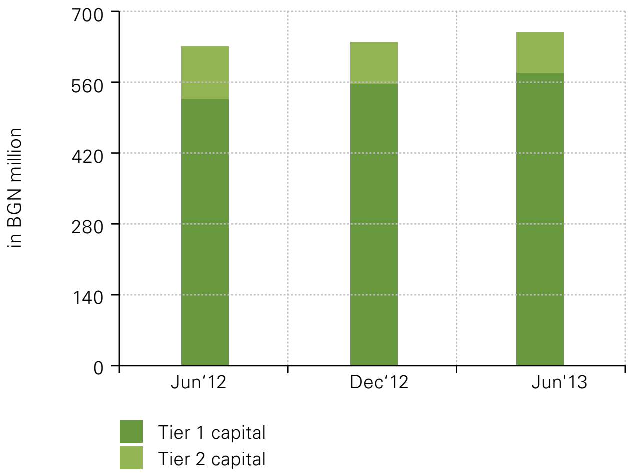
Attracted funds from customers increased by BGN 30,896 thousand to BGN 6,220,617 thousand (2012: BGN 6,189,721 thousand; Jun'12: BGN 5,846,298 thousand) with growth registered in corporate, state-owned and public institutions. The structure of attracted funds remained relatively unchanged, the division between individuals and corporates amounting to 80.6%/19.4% (2012: 81.2%/18.8%; Jun'12: 82.1%/17.9%). At the end of June 2013 the market share of the bank was 10.33% on an unconsolidated basis (2012: 10.52%; Jun'12: 10.49%), with Fibank remaining a preferred bank for the savings of individuals and companies, remaining third in terms of attracted deposits among the banks in the country (2012: third; Jun'12: third). First Investment Bank regularly allocates the required annual premiums under the Law on Bank Deposit Guarantee, according to which a person's deposits in one bank are guaranteed up to BGN 196,000.

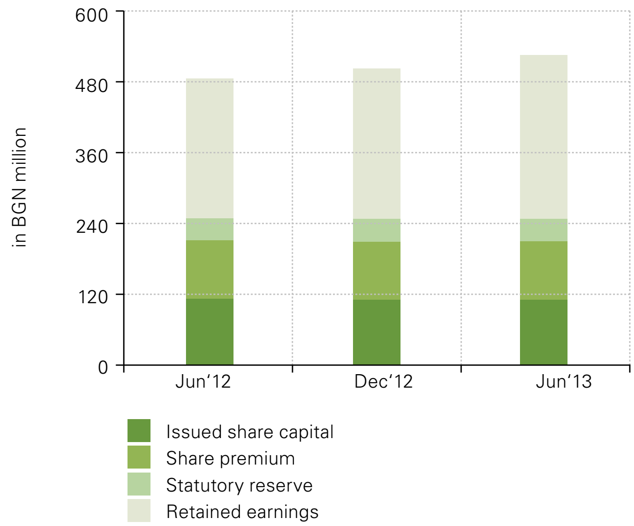
Liabilities evidenced by paper increased to BGN 67,902 thousand (2012: BGN 62,420 thousand; Jun'12: BGN 76,829 thousand) mainly as a result of the increase in funding received from financial institutions under loan facilities.

At the end of the period the subordinated term debt amounted to BGN 56,323 thousand compared to BGN 54,988 thousand six months earlier (Jun'12: 51,362 thousand). The sum of perpetual debt amounted to BGN 100,600 thousand, compared to 99,584 thousand for the previous period (Jun'12: BGN 100,393 thousand). The amortised cost of the hybrid debt at the end of June 2013 amounted to BGN 121,413 thousand (2012: BGN 123,901 thousand; Jun'12: BGN 79,196 thousand).

Capital

The total capital base of the Group increased, reaching BGN 657,620 thousand, or by 3.0% (BGN 18,907 thousand) more compared to the end of 2012. Tier 1 capital increased by 3.5% (BGN 19,271 thousand) to BGN 574,430 thousand as a result of the capitalization of profits.

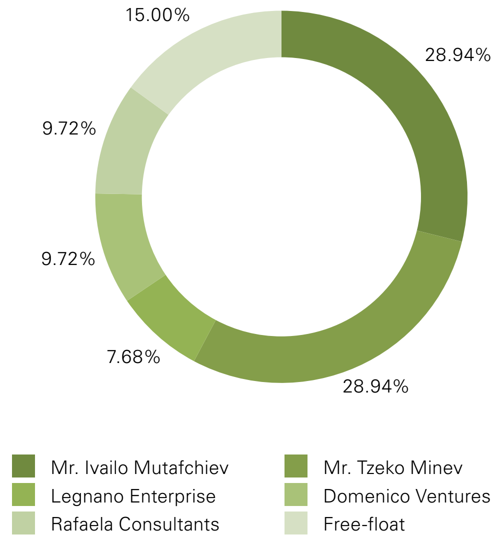




As of 30 June 2013 the capital indicators of Fibank exceeded the regulatory requirements. The total capital adequacy ratio was 12.74% (2012: 13,10%; Jun'12: 12,89%), while that of Tier 1 capital was 11.13% (2012: 11,39%; Jun'12: 10,75%). In calculating capital adequacy Fibank applies the Basel capital standards as adopted in the EU Directives and in Ordinance № 8 of BNB, by allocating capital for credit, market and operational risk. First Investment Bank has developed systems for assessing and managing the risks associated with capital adequacy and liquidity according to Regulation (EU) № 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms (Regulation № 575/2013), which has direct effect and enters into force from 1 January 2014.

Total Group equity increased by 4.8% to BGN 529,385 thousand (2012: BGN 505,267 thousand; Jun'12: BGN 486,029 thousand). At the end of June 2013 the issued share capital of Fibank 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 Fibank shares fluctuated in the range between BGN 1.34 and BGN 2.09, in accordance with the leading market indices of the Bulgarian Stock Exchange. The last price of Fibank shares for the period was BGN 1.93 (Dec'12: BGN 1.40; Jun'12: BGN 1.85). A total of 1,057 transactions were concluded with shares of Fibank, and the total turnover amounted to BGN 2,550 thousand, compared to 680 transactions and a turnover of BGN 1,897 thousand the year before. Fibank shares are traded on the Main market, the Premium Equities Segment of the Bulgarian Stock Exchange and are included in the four indices - SOFIX, BG40, BGTR30 and CGIX which bring together the largest, most traded and most liquid companies on the stock market in the country, as well as those with the best corporate governance.



As at 30 June 2013, Fibank'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 the risks inherent to its activity. Fibank 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 2013 Fibank continued to work towards improving the existing systems of forecasting, assessment and the management of risks according to the external conditions and best banking practices, while maintaining flexibility and adaptability to the needs of the market. Fibank allocated resources and efforts for the development of collateral management systems, and continued to improve its infrastructure to maintain sufficient capital buffers according to the risks the environment and the regulatory requirements, including those of Regulation (EU) № 575/2013, which sets out the framework of the Basel Committee on Banking Supervision, known as Basel III.

in BGN thousands	**Jun-13**	**Dec-12**	**Jun-12**	**%**	**%**
For credit risk	**4,760,737**	4,491,397	4,503,274	**6.0**	(0.3)
For market risk	**8,163**	12,400	6,398	**(34.2)**	93.8
For operational risk	**393,660**	371,240	371,240	**6.0**	0.0
Total risk-weighted assets	**5,162,560**	4 875,037	4 880,912	**5.9**	(0.1)

Source: Fibank

At the end of the reporting period, the Group of First Investment Bank operated with 163 branches and offices (2012: 162, Jun'12: 171), of which 52 were in Sofia, 100 in the rest of Bulgaria, one foreign branch in Cyprus, as well as a head office and 9 branches and offices of the subsidiary bank in Albania. Fibank remained focused on optimizing and increasing the efficiency of the branch network. In the six months of 2013 two new offices were opened and one closed in Sofia.

As at 30 June 2013 the number of staff increased, reaching 2,922 employees on a consolidated basis (2012: 2859; Jun'12: 2,871).

During the first six months of 2013, First Investment Bank continued to work on applying the highest standards in corporate governance, in compliance with the effective regulations and best practices.

During the period, by decision of the National Committee on Corporate Governance, Fibank was included in the CGIX (Corporate Governance Index) of the Bulgarian Stock Exchange, comprising the seven companies with the best corporate governance admitted to trading on the exchange. Fibank was the only credit institution included in the index and the only bank appearing in it for a second consecutive year. The bank was included in the index after covering the minimum operational requirements and liquidity criteria, and following an independent assessment by the National Committee on Corporate Governance on application of the principles of the National Corporate Governance Code.

In May 2013 a regular annual general meeting of shareholders was held, at which a decision was taken that the entire net profit of the Bank for 2012 should be capitalized and that no dividends should be paid, or any other deductions made from the profit for 2013. KPMG Bulgaria OOD was selected as the specialized auditing company which would verify the annual financial statements of Fibank for 2013. Amendments were made to the Statute of Fibank authorizing the Managing Board, subject to approval by the Supervisory Board, to decide on the issuance of mortgage bonds with a total nominal value of up to BGN 100 million, as well as envisaging the option for the issuing of electronic money, should this activity be included in the license of Fibank.

The composition of the Supervisory Board of Fibank remained unchanged, and as at 30 June 2013 was as follows – Chair: Mr. Evgeni Lukanov, Deputy Chair: Ms. Maya Georgieva, Members: Mr. Georgi Mutafchiev, Ms. Radka Mineva and Mr. Jordan Skortchev.

In April 2013 Ms. Maya Oyfalosh was entered in the commercial register as Executive Director, authorized to manage and represent First Investment Bank AD.

The composition of the Managing Board of Fibank as at 30 June 2013 was as follows – Chair: Mr. Dimitar Kostov, members: Mr. Vassil Christov, Mr. Svetoslav Moldovansky and Ms. Maya Oyfalosh.

In the first half of 2013 the Group of First Investment Bank continued to support socially significant projects and initiatives, implementing its program for corporate social responsibility and aiming at active participation in the country's social life. In this context, Fibank and its subsidiary Fi Health Insurance AD supported a charity initiative for the creation of a puppet theater in the village of Bardarski Geran, for joint activities between disadvantaged children from the Center for family-type accommodation and other children from the village. During the period, Fibank purchased 1500 tickets for a charity football match, the proceeds from which went to support children suffering from leukemia. The successful cooperation with the *Workshop for Civic Initiatives Foundation* was continued with the donation of vaccines for disadvantaged people early in the year.

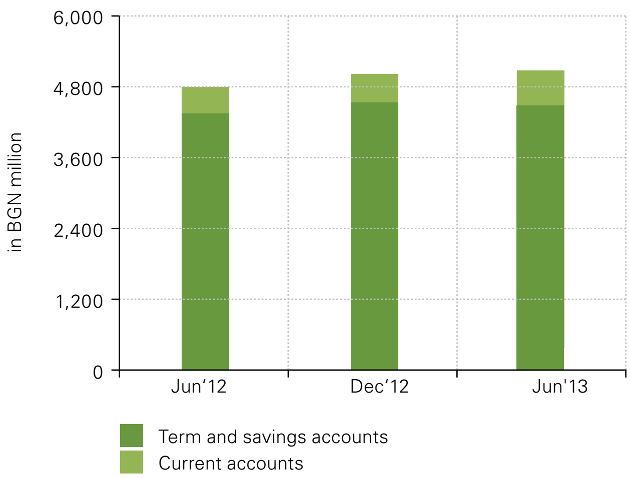
During the period Fibank supported activities of educational importance. It joined the initiative of the Ministry of Labor and Social Policy "OpenEDU 2013 – School of Life" by inviting students from the Commercial banking high school in Sofia to acquaint themselves first hand with the work of the institution. Together with its subsidiary Diners Club Bulgaria AD, Fibank also supported the launch of a book on business etiquette.

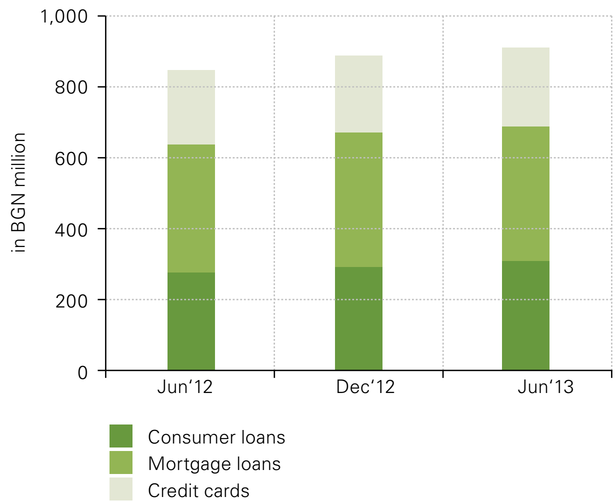
First Investment Bank continued to support the development of sports in Bulgaria as a socially responsible cause. In January 2013 Fibank renewed its contract for partnership with the Bulgarian Athletics Federation (BAF), including through support for the federation in major competitions and sports events throughout the year. In March 2013 Fibank and Diners Club Bulgaria awarded several Bulgarian athletes, including the European champion in 60 m running, with a red Diners Club First Lady credit card.

Retail banking

By the end of the first half of 2013 attracted funds from individuals amounted to BGN 5,016,375 thousand, close to levels at the end of 2012 at 5,027,005 thousand (Jun'12: BGN 4,802,250 thousand). The dynamics reflected the market environment and the level of savings of the population. Term and savings accounts amounted to BGN 4,480,855 thousand, retaining their predominant share in funds attracted from individuals with 89.3% (2012: 90.0%; Jun'12: 90.5%). Fibank continued to adapt its diverse and flexible deposit products to market conditions and customer needs, while maintaining high standards of customer service.

At the end of 30 June 2013 current accounts amounted to BGN 535,520 thousand, compared to BGN 504,682 thousand at the end of 2012 (Jun'12: BGN 456,475 thousand). Fibank offers various current accounts with competitive conditions such as: the "Optima" current account with international debit card, a current account with a minimum balance, a free current account with various interest periods, joint accounts, specialized accounts tailored to the specific needs of certain customers like condominium ownerships, notaries, insurance brokers and agents, and others. During the period Fibank began servicing bookmakers and paying out winnings from Eurobet games at its branches and offices.





Fibank retained second place in terms of funds attracted from individuals among banks in the country, with a market share of 13.14% on an unconsolidated basis (2012: 13.66%; Jun'12: 13.91%).

The portfolio of loans to individuals on a consolidated basis increased by 2.3% to BGN 904,743 thousand (2012: BGN 884,471 thousand; Jun'12: BGN 843,121 thousand) due primarily to the increase in consumer loans.

Consumer loans grew by 5.5% to BGN 311,774 thousand compared to BGN 295,486 thousand six months earlier (Jun'12: BGN 273,964 thousand). This was determined by the competitive conditions offered by Fibank, the simplified application procedure, the promotional campaigns and the development of new products tailored to the market and consumer needs. In April 2013 Fibank launched a new consumer loan "Easter loan" with a maximum amount of BGN 50,000, a fixed interest rate for the first three years of the term and no application fee. Fibank increased its market share in this segment to 5.70% (2012: 5.48%; Jun'12: 5.14%), while preserving its market position - seventh in terms of consumer loans among banks in the country on an unconsolidated basis.

Utilized limits on credit cards increased by 2.6% and reached BGN 218,426 thousand (2012: BGN 212,811 thousand; Jun'12: BGN 209,324 thousand), which was facilitated by the variety of innovative card products and services offered by Fibank, as well as by its consistent and active policy for stimulating this type of non-cash payment. The share of loans utilized by means of credit cards in the total retail loan portfolio amounted to 24.1% at the end of June 2013 (2012: 24.1%; Jun'12: 24.8%).

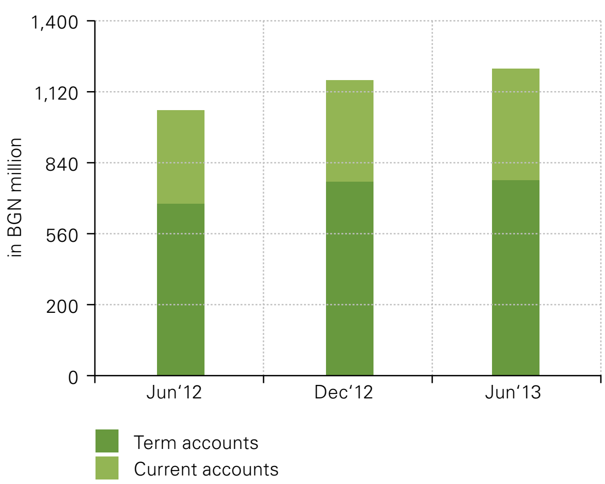
Mortgage loans amounted to BGN 374,543 thousand at 30 June 2013 compared to BGN 376,174 thousand at the end of 2012 (Jun'12: BGN 359,833 thousand), retaining a major share in the portfolio of loans to individuals at 41.4% (2012: 42.5%; Jun'12: 42.7%). In February 2013 Fibank began offering a new credit product "Green Loan for Home", designed for energy-saving home improvements with the possibility of receiving financial assistance of up to 50% under the "Energy Renovation of Bulgarian Homes" program. In May 2013, a new "Six and a Half" mortgage loan was launched with a fixed interest rate for the first three years, no fee for early repayment with own funds, and financing up to 90% of the purchased property. At the end of the period a new campaign "Bring a friend, win 0.5%" began, whereby anyone bringing a borrower for a mortgage loan to an office of Fibank would receive a commission of 0.5% of the loan amount following disbursement. As of 30 June 2013, Fibank's market position in the segment of mortgage loans improved to seventh, with a market share of 3.83% on an unconsolidated basis (2012: 3.83%; Jun'12: 3.72%).

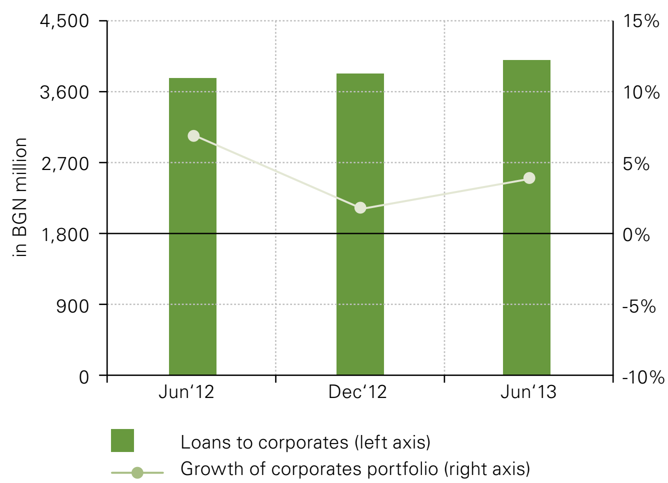
Over the period Fibank continued to develop its business with products of gold and other precious metals by offering a new assortment and conducting promotional campaigns. The product range was extended with a new collection of gold and silver medallion-shaped bars "icOns Wave", a new silver medallion-shaped bar "Glagolic Alphabet" and a new collection series of silver coins "Dogs and Cats" by the Swiss refinery PAMP, as well as a new gold coin "St. Constantine and Helen" from BNB.

Corporate banking

At the end of June 2013 the portfolio of loans to corporates increased by 3.9% or BGN 148,479 thousand reaching BGN 3,973,476 thousand (2012: BGN 3,824,997 thousand; Jun'12: BGN 3,755,429 thousand), a result of growth in all business segments. Fibank's market share increased to 10.31% of the corporate loans in the banking system (2012: 9.89%; Jun'12: 10.01%), with Fibank ranking third among banks in the country by this indicator on an unconsolidated basis (2012: second; Jun'12: second).

Loans to large corporates increased by 3.9% (BGN 134,728 thousand) to BGN 3,612,862 thousand (2012: BGN 3,478,134 thousand; Jun'12: BGN 3,431,436 thousand) during the period, with the highest growth registered in loans extended to the sectors of infrastructure (BGN 145,524 thousand), trade (BGN 33,817 thousand), tourism (BGN 24,108 thousand) and transport (BGN 9,991 thousand).





During the period Fibank started providing investment and working capital loans in BGN and EUR for the financing of business customers under the Joint European Resources for Micro to Medium Enterprises, or JEREMIE initiative, at twice lower interest rates and with reduced collateral requirements and management fees, including the new working capital "Super J-loan" with a maximum amount of up to BGN 200 thousand and a term of 1 year.

Loans to SMEs increased by 3.8% and reached BGN 328,755 thousand at 30 June 2013 compared to BGN 316,788 thousand six months earlier (Jun'12: BGN 295,526 thousand). At the beginning of the year Fibank offered preferential terms on loans to beneficiaries under the Rural Development Operational Program, Fisheries Sector, guaranteed by the National Guarantee Fund, with a fixed interest rate for the entire loan term, a lower management fee and no application fee. In February 2013 a new loan for farmers was launched on the basis of SPAS subsidies for 2013, with a simplified procedure for granting loans up to BGN 500 thousand. In order to facilitate business customers, new terms of the "Super Loan" product were developed during the period, allowing both working capital and investment loans to be utilized as overdraft for up to 36 months.

At 30 June 2013 the microlending portfolio amounted to BGN 31,859 thousand, an increase of 5.9% compared to the end of the previous year - BGN 30,075 thousand (Jun'12: BGN 28,467 thousand). During the reporting period Fibank continued to adapt its products in accordance with the external environment and the needs of businesses, while maintaining the increased risk and creditworthiness requirements specific to this segment.

Attracted funds from corporate, state-owned and public institutions during the period increased by 3.6% or BGN 41,526 thousand to BGN 1,204,242 thousand, against BGN 1,162,716 thousand at the end of 2012 (Jun'12 : BGN 1,044,048 thousand). The structure of funds attracted from corporate customers showed an increase in current accounts at the expense of deposit accounts, the ratio reaching 36.1%/63.9% respectively (2012: 34.1%/65.9%; Jun'12: 34.0%/66.0%). At 30 June 2013 funds attracted from the thirty largest non-bank depositors represented 5.84% of the total liabilities due to other customers (2012: 5.40%; Jun'12: 6.05%). Fibank increased its market share in the area of funds attracted from non-credit institutions to 5.52% on an unconsolidated basis (2012: 5.26%; Jun'12: 4.97%), retaining sixth place among banks in the country by this indicator (Dec'12: sixth; Jun'12: seventh).

Card payments

In the first half of 2013 First Investment Bank expanded its scope of products and services offered in the sphere of card business, while continuing to develop and promote contactless payments.

During the period Fibank started offering a new card product - the MasterCard Debit card, with an innovative functionality for contactless payments and the possibility for making payments over the Internet. The card is included in the YES Loyalty Program of Fibank and features no withdrawal fees for ATMs in the country, and no fees for payment at POS terminals in the country and abroad.

First Investment Bank is the only bank in Bulgaria to issue and service the contactless MasterCard PayPass and Visa payWave cards.

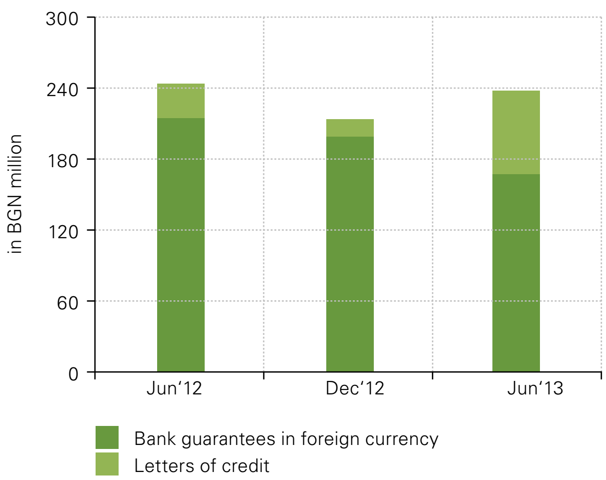
In the first six months of the year the structure of bank cards remained unchanged, with the division in credit cards being 55.8%/44.2% for VISA/MasterCard respectively, and in debit cards 53.0%/47.0% for Maestro/VISA Electron, VPAY.

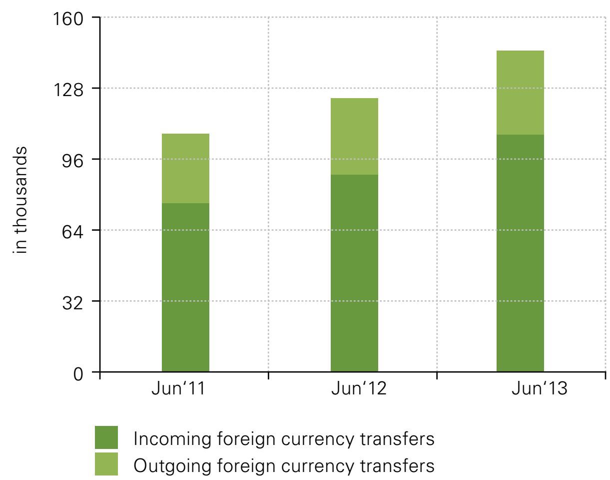
The Group of First Investment Bank continued to grow its network of POS terminal devices, to reach 9,822 units at the end of the first half of the year (2012: 9,498). Fibank continued to work towards optimizing its ATM network, which at 30 June 2013 comprised 639 units (2012: 641). The subsidiary bank of Fibank in Albania maintains its own network of ATM terminals.

International payments

In the first six months of 2013 First Investment Bank AD remained among the leading institutions in Bulgaria in the area of international payments and trade finance, reinforcing its status as a reliable and trusted partner.

Fibank showed improved market shares in international transfers in foreign currency (according to data from SWIFT) with 6.74% of the outgoing (Jun'12: 6.56%) and 9.21% of those incoming (Jun'12: 8.58%). In trade finance, as at the end of June 2013 Fibank performed 4.05% of the total number of outgoing transactions (Jun'12: 5.58%) and 5.48% of the incoming transactions (Jun'12: 7.08%) (according to data from SWIFT).





The letters of credit and bank guarantees in foreign currencies issued by Fibank during the period to guarantee the performance of its customers before third parties amounted to BGN 237,318 thousand (2012: BGN 213,045 thousand; Jun'12: BGN 243,523 thousand), forming 31.5% (2012: 27,4%; Jun'12: 33,5%) of the off-balance sheet commitments of the Group. Fibank has established a wide network of correspondent banks and provides service in the area of international bank guarantees and LC operations in almost every part of the world.

Subsidiary companies

In the first half of 2013 the subsidiary company of Fibank, Health Insurance Fund Fi Health AD, was renamed Fi Health Insurance AD and relicensed by the Financial Supervision Commission to carry out insurance against accidents and illness under the Insurance Code.

As at the end of June 2013 First Investment Bank AD had eleven subsidiary companies: First Investment Bank – Albania Sh.a. (100%), Diners Club Bulgaria AD (94.79%), First Investment Finance B.V. (100%), Debita OOD (70%), Realtor OOD (51%), Fi Health Insurance AD (59.10%), Framas Enterprises Limited (100%), Balkan Financial Services EAD (100%), as well as three companies newly established during the reporting period: Creative Investment EOOD (100%), Turnaround Management EOOD (100%) and Lega Solutions EOOD (100%).

For more information on the subsidiary companies, see note 37 "Subsidiary companies" of the Consolidated Financial Statements as at 30 June 2013, with Independent Auditor's Report thereon.

Consolidated Financial Statements

as at 30 June 2013

with independent auditor’s report thereon

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 2013, 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 2013, 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.

Dobrina Kaloyanova
Authorized representative
KPMG Bulgaria OOD
Sofia, 27 september 2013

Специализирано одиторско предприятие
София
Рег. №045
"КПМГ - България" ООД

Margarita Goleva
Registered auditor

Consolidated statement of comprehensive income for the six months ended 30 June 2013

In thousands of BGN	Note	Six months ended 30 June 2013	Six months ended 30 June 2012
Interest income		223,889	227,994
Interest expense		(147,390)	(153,286)
Net interest income	6	**76,499**	**74,708**
Fee and commission income		51,363	38,542
Fee and commission expense		(5,326)	(4,652)
Net fee and commission income	7	**46,037**	**33,890**
Net trading income	8	4,448	3,754
Other operating income	9	1,672	958
TOTAL INCOME FROM BANKING OPERATIONS		**128,656**	**113,310**
General administrative expenses	10	(70,213)	(78,324)
Impairment losses	11	(22,684)	(11,650)
Other expenses, net		(9,131)	(6,322)
PROFIT BEFORE TAX		**26,628**	**17,014**
Income tax expense	12	(2,597)	(1,773)
GROUP PROFIT AFTER TAX		**24,031**	**15,241**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		(172)	90
Available for sale financial assets, net of taxes		259	696
Other comprehensive income for the period		**87**	**786**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**24,118**	**16,027**
Profit attributable to:			
Owners of the Bank		24,056	15,305
Non-controlling interests		(25)	(64)
Total comprehensive income attributable to:			
Owners of the Bank		24,143	16,091
Non-controlling interests		(25)	(64)
Basic and diluted earnings per share (in BGN)	13	**0.22**	**0. 14**

The consolidated 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 33 to 80.

Dimitar Kostov
Executive Director
Chairman of the Managing Board

Vassil Christov
Executive Director

Ianko Karakolev
Chief Financial Officer

Dobrina Kaloyanova
Authorized representative
KPMG Bulgaria OOD

Margarita Goleva
Registered auditor

FIRST INVESTMENT BANK

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

Consolidated statement of financial position as at 30 June 2013

In thousands of BGN	Note	30 June 2013	31 Dec 2012
ASSETS			
Cash and balances with central banks	14	1,288,469	1,140,889
Financial assets held for trading	15	7,050	6,553
Available for sale investments	16	329,865	726,619
Financial assets held to maturity	17	167,873	118,770
Loans and advances to banks and financial institutions	18	24,195	45,939
Loans and advances to customers	19	4,689,302	4,540,389
Property and equipment	20	114,349	120,840
Intangible assets	21	17,292	18,339
Derivative assets held for risk management		2,460	1,088
Current tax assets		1,183	2,120
Other assets	23	472,482	328,902
TOTAL ASSETS		**7,114,520**	**7,050,448**
LIABILITIES AND CAPITAL			
Due to credit institutions	24	3,020	2,580
Due to other customers	25	6,220,617	6,189,721
Liabilities evidenced by paper	26	67,902	62,420
Subordinated term debt	27	56,323	54,988
Perpetual debt	28	100,600	99,584
Hybrid debt	29	121,413	123,901
Deferred tax liabilities	22	3,322	3,565
Derivative liabilities held for risk management		167	1,309
Current tax liabilities		510	255
Other liabilities	30	11,261	6,858
TOTAL LIABILITIES		**6,585,135**	**6,545,181**
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		1,342	1,083
Revaluation reserve on land and buildings		4,500	4,500
Reserve from translation of foreign operations		(2,949)	(2,777)
Retained earnings	32	277,311	253,255
SHAREHOLDERS' EQUITY		**527,065**	**502,922**
Non-controlling interests		2,320	2,345
TOTAL GROUP EQUITY		**529,385**	**505,267**
TOTAL LIABILITIES AND GROUP EQUITY		**7,114,520**	**7,050,448**

The consolidated 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 33 to 80.

Dimitar Kostov
Executive Director
Chairman of the Managing Board

Vassil Christov
Executive Director

Ianko Karakolev
Chief Financial Officer

Dobrina Kaloyanova
Authorized representative
KPMG Bulgaria OOD

Margarita Goleva
Registered auditor

СПЕЦИАЛИЗИРАНО ОДИТОРСКО ПРЕДПРИЯТИЕ
София
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"КПМГ - България" ООД

Consolidated statement of cash flows for the six months ended 30 June 2013

In thousands of BGN	Six months ended 30 June 2013	Six months ended 30 June 2012
Cash flows from operating activities		
Profit for the period	24,031	15,241
Adjustment for non-cash items		
Impairment losses	22,684	11,650
Depreciation and amortisation	10,256	10,464
Income tax expense	2,597	1,773
(Profit) from sale and derecognition of tangible and intangible fixed assets, net	(5)	(10)
(Profit) from sale of other assets, net	(32)	(132)
	59,531	**38,986**
Change in operating assets		
(Increase)/decrease in financial instruments held for trading	(497)	152
(Increase)/decrease in available for sale investments	396,997	(181,751)
Decrease in loans and advances to banks and financial institutions	7,575	10,960
(Increase) in loans to customers	(171,597)	(283,692)
Net (increase) in other assets	(145,231)	(63,731)
	87,247	**(518,062)**
Change in operating liabilities		
Increase in deposits from banks	440	6,998
Increase in amounts owed to other depositors	30,896	457,988
Net increase in other liabilities	3,051	1,184
	34,387	**466,170**
Income tax paid	(1,594)	(1,772)
NET CASH FLOWS FROM OPERATING ACTIVITIES	**179,571**	**(14,678)**
Cash flows from investing activities		
(Purchase) of tangible and intangible fixed assets	(2,737)	(11,751)
Sale of tangible and intangible fixed assets	24	7
Sale of other assets	311	1,141
(Increase) of investments	(49,103)	(30,963)
NET CASH FLOWS FROM INVESTING ACTIVITIES	**(51,505)**	**(41,566)**
Cash flows from financing activities		
Increase in borrowings	5,345	2,702
NET CASH FLOWS FROM FINANCING ACTIVITIES	**5,345**	**2,702**
NET INCREASE/DECREASE) IN CASH AND CASH EQUIVALENTS	**133,411**	**(53,542)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	**1,174,178**	**988,073**
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD (see note 34)	**1,307,589**	**934,531**

The consolidated cash flow statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 33 to 80.

Dimitar Kostov
Executive Director
Chairman of the Managing Board

Vassil Christov
Executive Director

Ianko Karakolev
Chief Financial Officer

FIRST INVESTMENT BANK

Dobrina Kaloyanova
Authorized representative
KPMG Bulgaria OOD

СПЕЦИАЛИЗИРАНО ОДИТОРСКО ПРЕДПРИЯТИЕ
София
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Margarita Goleva
Registered auditor

Consolidated statement of changes in equity for the six months ended 30 June 2013

In thousands of BGN	Share capital	Share pre-mium	Retained earnings	Revaluation reserve on available for sale investments	Revaluation reserve on land and buildings	Reserve from translation of foreign operations	Statutory reserve	Non-controlling interests	Total
Balance as at 1 January 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	-	-	15,305	-	-	-	-	(64)	15,241
Other comprehensive income									
Revaluation reserve on available for sale investments	-	-	-	696	-	-	-	-	696
Reserve from translation of foreign operations	-	-	-	-	-	90	-	-	90
Balance as at 30 June 2012	**110,000**	**97,000**	**238,056**	**1,510**	**-**	**(2,610)**	**39,861**	**2,212**	**486,029**
Balance as at 1 January 2013	**110,000**	**97,000**	**253,255**	**1,083**	**4,500**	**(2,777)**	**39,861**	**2,345**	**505,267**
Total comprehensive income									
Profit for the six months ended 30 June 2013	-	-	24,056	-	-	-	-	(25)	24,031
Other comprehensive income									
Revaluation reserve on available for sale investments, net of taxes	-	-	-	259	-	-	-	-	259
Reserve from translation of foreign operations	-	-	-	-	-	(172)	-	-	(172)
Balance as at 30 June 2013	**110,000**	**97,000**	**277,311**	**1,342**	**4,500**	**(2,949)**	**39,861**	**2,320**	**529,385**

The consolidated 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 33 to 80.

The consolidated financial statements have been approved by the Managing Board on 27 September 2013 and signed on its behalf by:

Dimitar Kostov
Executive Director
Chairman of the Managing Board

Vassil Christov
Executive Director

Ianko Karakolev
Chief Financial Officer

Dobrina Kaloyanova
Authorized representative
KPMG Bulgaria OOD

Margarita Goleva
Registered auditor

FIRST INVESTMENT BANK LTD
СПЕЦИАЛИЗИРАНО ОДИТОРСКО ПРЕДПРИЯТИЕ
София
Рег. №045
"КПМГ - България" ООД

1. Basis of preparation

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 2013 comprise the Bank and its subsidiaries (see note 37), together referred to as the "Group".

The Group has foreign operatios in Cyprus and Albania.

(b) Statement of compliance

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

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

(c) Basis of preparation

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

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

(d) Changes in the accounting policy

The Bank has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2013:

- IAS 1 Presentation of Items of Other Comprehensive Income
- IFRS 13 Fair value measurement

The nature and the effect of the changes are further explained below:

- IAS 1 Presentation of Items of Other Comprehensive Income

As a result of the amendments to IAS 1, the Bank has modified the presentation of items of other comprehensive income in its statement of comprehensive income, to present separately items that would be reclassified to profit or loss in the future from those that would never be. Comparative information has also been re-presented accordingly.

The adoption of the amendment to IAS 1 has no impact on the recognised assets, liabilities and comprehensive income of the Bank.

- IFRS 13 Fair value measurement

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other IFRSs. In particular, it unifies the definition of fair value as the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date. It also replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7 Financial Instruments: Disclosures. Some of these disclosures are specifically required in interim financial statements for financial instruments; accordingly, the Bank has included additional disclosures in this regard (see Note 5)

In accordance with the transitional provisions of IFRS 13, the Bank has applied the new fair value measurement guidance prospectively, and has not provided any comparative information for new disclosures. Notwithstanding the above, the change had no significant impact on the measurements of the Bank's assets and liabilities.

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 rising 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

(i) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date – i.e. when control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to past and/or future service.

(ii) Non-controlling interests

For each business combination, the Group elects to measure any non-controlling interests in the acquiree either:

- at fair value; or
- at their proportionate share of the acquiree's identifiable net assets, which are generally at fair value.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as transactions with owners in their capacity as owners. Adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary. No adjustments are made to goodwill and no gain or loss is recognised in profit or loss.

(iii) Subsidiaries

Subsidiaries are entities 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.

(iv) Special purpose entities

Special purpose entities (SPEs) are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or lending transaction. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group concludes that it controls the SPE. The following circumstances may indicate a relationship in which, in substance, the Group controls and consequently consolidates an SPE:

- The activities of the SPE are being conducted on behalf of the Group according to its specific business needs so that the Group obtains benefits from the SPE's operation.
- The Group has the decision-making powers to obtain the majority of the benefits of the activities of the SPE or, by setting up an 'autopilot' mechanism, the Group has delegated these decision-making powers.
- The Group has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incident to the activities of the SPE.
- The Group retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

The assessment of whether the Group has control over an SPE is carried out at inception and normally no further reassessment of control is carried out in the absence of changes in the structure or terms of the SPE, or additional transactions between the Group and the SPE. Day-to-day changes in market conditions normally do not lead to a reassessment of control. However, sometimes changes in market conditions may alter the substance of the relationship between the Group and the SPE and in such instances the Group determines whether the change warrants a reassessment of control based on the specific facts and circumstances.

Where the Group's voluntary actions, such as lending amounts in excess of existing liquidity facilities or extending terms beyond those established originally, change the relationship between the Group and an SPE, the Group performs a reassessment of control over the SPE.

(v) Loss of control

On the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently that retained interest is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for financial instruments depending on the level of influence retained.

(vi) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(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 impaired at which time the cumulative gain or loss previously recognised in other comprehensive income is reclassified in profit or loss.

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

(vii) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When applicable, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk, are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

(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 (expense).

(h) Borrowings

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

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

(i) Offsetting

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

(j) Impairment

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

(i) Loans and advances

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

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

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

(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

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

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

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

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

(l) Intangible assets

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

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

Assets	**%**
Licences, trademarks	10 - 20
Computer software	8 – 50

(m) Provisions

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

(n) Acceptances

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

(o) Taxation

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

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

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

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

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

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

(i) Impairment losses on loans and advances

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

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

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

A number of new standards, amendments to standards and interpretations, endorsed by the EC, are available for early adoption in the annual period ended 30 June 2013, although they are not yet mandatory until a later period. These changes to IFRS have not been applied in preparing these financial statements. The Group does not plan to adopt these standards early.

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

- IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosures of Interests in Other Entities, IAS 27 Separate Financial Statements (2011) which supersedes IAS 27 (2008) and IAS 28 Investments in Associates and Joint Ventures (2011) which supersedes IAS 28 (2008) shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2014. The Group does not expect IAS 27 (2011) to have any material impact on the financial statements, since the new standard is not expected to result in a change in the accounting policy.
- Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2014. The Group is currently assessing the amendments, but does not expect them to have any material impact on the financial statements
- Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2014. The Group is currently assessing the amendments, but does not expect them to have any material impact on the financial statements.
- Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2014. The Group is currently assessing the amendments, but does not expect them to have any material impact on the financial statements.

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

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

- IFRS 9 Financial Instruments (issued November 2009 and Additions to IFRS 9 issued October 2010) has an effective date 1 January 2015 and could change the classification and measurement of financial instruments.
- Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities with an effective date of 1 January 2014

3. Risk management disclosures

A. Trading activities

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

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

(i) Credit risk

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

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

(ii) Market risk

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

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

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

The Value at Risk is calculated and monitored on a daily basis as part of the Group's ongoing risk management. The following table summarises the range of interest rate VaR for all positions carried at fair value that was experienced in the first six months of 2013:

in thousands of BGN	**30 June 2013**	**Six months ended 30 June 2013**			**31 December 2012**
		average	**low**	**high**	
VaR	2,399	1,534	1,060	2,423	1,103

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 2013

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	748,294	-	-	-	540,175	1,288,469
Financial assets held for trading	7,050	-	-	-	-	7,050
Available for sale investments	254,412	1,836	58,755	9,153	5,709	329,865
Financial assets held to maturity	12,247	717	109,442	45,467	-	167,873
Loans and advances to banks and financial institutions	24,088	107	-	-	-	24,195
Loans and advances to customers	432,952	198,186	1,108,744	2,949,420	-	4,689,302
Other financial assets	2,460	-	-	-	-	2,460
Total financial assets	**1,481,503**	**200,846**	**1,276,941**	**3,004,040**	**545,884**	**6,509,214**
Liabilities						
Due to credit institutions	3,020	-	-	-	-	3,020
Due to other customers	568,067	859,631	2,582,072	1,240,243	970,604	6,220,617
Liabilities evidenced by paper	22,301	1,213	7,511	36,877	-	67,902
Subordinated term debt	-	-	-	56,323	-	56,323
Perpetual debt	-	-	-	-	100,600	100,600
Hybrid debt	-	-	-	-	121,413	121,413
Other financial liabilities	167	-	-	-	-	167
Total financial liabilities	**593,555**	**860,844**	**2,589,583**	**1,333,443**	**1,192,617**	**6,570,042**
Net liquidity gap	**887,948**	**(659,998)**	**(1,312,642)**	**1,670,597**	**(646,733)**	**(60,828)**

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

Maturity table as at 31 December 2012

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

As at 30 June 2013 the funds by the thirty largest non-bank depositors represent 5.84% of total deposits from other customers (31 December 2012: 5.40%).

The following table provides remaining maturities analysis of the financial liabilities of the Group as at 30 June 2013 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	3,020	-	-	-	3,020
Due to other customers	1,539,896	867,173	2,666,739	1,370,451	6,444,259
Liabilities evidenced by paper	22,321	1,217	7,612	39,266	70,416
Subordinated term debt	334	337	2,698	66,541	69,910
Perpetual debt	-	6,601	4,775	116,631	128,007
Hybrid debt	-	4,303	9,975	154,511	168,789
Total financial liabilities	**1,565,571**	**879,631**	**2,691,799**	**1,747,400**	**6,884,401**

(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 2013 is BGN -2.6/+2.6 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 2013 is BGN +4.7/-4.7 Mio.

The following table indicates the periods in which financial liabilities and assets reprice at 30 June 2013.

			Fixed rate instruments			
In thousands of BGN	**Total**	**Floating rate instruments**	**Less than 1 month**	**Between 1 month and 3 months**	**Between 3 months and 1 year**	**More than 1 year**
Assets						
Cash and balances with central banks	167,191	78,148	89,043	-		-
Financial assets held for trading	3,996	-	3,996	-	-	-
Available for sale investments	324,156	30,694	223,718	1,836	58,755	9,153
Financial assets held to maturity	167,873	-	12,247	717	109,442	45,467
Loans and advances to banks and financial institutions	21,792	896	20,896	-	-	-
Loans and advances to customers	4,252,214	3,427,584	138,959	38,833	200,497	446,341
Total interest-earning assets	**4,937,222**	**3,537,322**	**488,859**	**41,386**	**368,694**	**500,961**
Liabilities						
Due to credit institutions	3,020	2,449	571	-	-	-
Due to other customers	6,210,137	960,124	568,067	859,631	2,582,072	1,240,243
Liabilities evidenced by paper	56,082	2,834	21,714	256	5,590	25,688
Subordinated term debt	56,323	-	-	-	-	56,323
Perpetual debt	100,600	-	-	-	-	100,600
Hybrid debt	121,413	-	-	-	-	121,413
Total interest-bearing liabilities	**6,547,575**	**965,407**	**590,352**	**859,887**	**2,587,662**	**1,544,267**

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

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

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 2013	31 December 2012
Monetary assets		
Euro	4,575,110	4,898,203
US dollar	553,762	490,105
Other currencies	222,822	186,581
Gold	12,168	10,847
Monetary liabilities		
Euro	3,073,885	3,080,119
US dollar	555,332	492,057
Other currencies	224,433	189,614
Gold	4,921	-
Net position		
Euro	1,501,225	1,818,084
US dollar	(1,570)	(1,952)
Other currencies	(1,611)	(3,033)
Gold	7,247	10,847

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.

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 2013 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	4,059,437	4,048,547
Individually impaired		
Watch	223,968	206,565
Nonperforming	282,370	262,335
Loss	312,444	171,855
Total	**4,878,219**	**4,689,302**

31 December 2012 In thousands of BGN

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

At 30 June 2013 the total gross amount of past due loans and advances to customers, measured as exposures overdue more than 90 days, is BGN 533,218 thousand (31 December 2012: BGN 442,294 thousand).

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

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

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

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

In thousands of BGN	**30 June 2013**	**31 December 2012**
Trade	1,221,962	1,188,145
Industry	1,164,264	1,179,216
Services	404,228	462,063
Finance	84,467	83,651
Transport, logistics	262,018	252,027
Communications	71,181	70,490
Construction	192,499	185,347
Agriculture	91,117	85,537
Tourist services	172,398	148,290
Infrastructure	296,006	150,482
Private individuals	905,110	888,863
Other	12,969	15,357
Less allowance for impairment	(188,917)	(169,079)
Total	**4,689,302**	**4,540,389**

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 2013 with total exposures amounting to BGN 93,923 thousand (2012: BGN 95,634 thousand) - ferrous and non-ferrous metallurgy, BGN 61,015 thousand (2012: BGN 61,015 thousand) – mining industry and BGN 135,288 thousand (2012: BGN 135,510 thousand) - power engineering.

The Group has extended loans and issued contingent liabilities to 18 individual clients or groups (2012:19) with each individual exposure exceeding 10% of the capital base of the Group. The total amount of these exposures is BGN 1,882,709 thousand which represents 286.29% of the Group's capital base (2012: BGN 1,761,619 thousand which represented 275.81%of capital base) of which BGN 1,780,350 thousand (2012: BGN 1,633,700 thousand) represent loans and BGN 102,359 thousand (2012: BGN 127,919 thousand) represent guarantees, letters of credit and other commitments.

The loans extended by the Cyprus branch amount to BGN 411,754 thousand amortised cost before allowance (2012: BGN 483,331 thousand) and in Albania – BGN 91,486 thousand (2012: BGN 85,357 thousand).

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

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

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

The table below shows a breakdown of total gross loans and advances extended to customers by the Group by type of collateral, excluding credit cards in the amount of BGN 218,426 thousand (31 December 2012: BGN 212,811 thousand):

In thousands of BGN	**30 June 2013**	**31 December 2012**
Mortgage	1,343,023	1,612,010
Pledge of receivables	766,769	592,400
Pledge of commercial enterprise	566,293	581,575
Securities	112,445	158,282
Bank guarantee	7,404	6,308
Other guaranties	446,307	270,977
Pledge of goods	164,921	167,701
Pledge of machines	383,369	261,300
Money deposit	171,767	171,518
Stake in capital	349,214	374,096
Gold	18	97
Other collateral	262,106	247,952
Unsecured	86,157	52,441
Total	**4,659,793**	**4,496,657**

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

Residential mortgage lending

The table below represents credit exposures from housing and mortgage loans to individual customers by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan to the value of the collateral. The gross amount excludes any impairment allowances. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is based on the collateral value at origination updated based on changes in house price indices.

In thousands of BGN	**30 June 2013**	**31 December 2012**
Loan to value (LTV) ratio		
Less than 50%	172,805	176,494
From 50% to 70%	84,982	83,606
From 70% to 90%	80,785	84,023
From 90% to 100%	16,559	16,098
More than 100%	19,412	15,953
Total	**374,543**	**376,174**

Loans and advances to corporate customers

The Group's loans and advances to corporate customers, small and medium enterprises and microlending are subject to individual credit appraisal and impairment testing. The general creditworthiness of a corporate customer tends to be the most relevant indicator of credit quality of a loan extended to it. However, collateral provides additional security and the Group requests corporate borrowers to provide it. The Group may take collateral in the form of a first charge over real estate, floating charges over all corporate assets and other liens and guarantees.

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

At 30 June 2013 the net carrying amount of individually impaired loans and advances to corporate customers, small and medium enterprises and microlending amounts to BGN 429,802 thousand (31 December 2012: BGN 431,477 thousand) and the value of identifiable collateral held against those loans and advances amounts to BGN 841,228 thousand (31 December 2012: BGN 938,070 thousand).

(iv) Government debt exposures

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

The table below shows the carrying amount of the government debt portfolio by country issuer. The assets are presented without any allowance for impairment. The Group does not recognise allowance for impairment against the exposures which are measured at amortised cost as at 30 June 2013 and 31 December 2012 as well as those classified as available for sale.

In thousands of BGN

30 June 2013							
Portfolio	**Bulgaria**	**Belgium**	**Albania**	**Italy**	**Spain**	**Portugal**	**European Financial Stability Facility**
Financial assets held for trading	3,996	-	-	-	-	-	-
Available for sale investments	190,339	48,803	15,649	9,755	-	-	33,329
Financial assets held to maturity	-	-	36,164	77,784	25,294	9,776	-
Total	**194,335**	**48,803**	**51,813**	**87,539**	**25,294**	**9,776**	**33,329**

In thousands of BGN

31 December 2012						
Portfolio	**Bulgaria**	**Belgium**	**Albania**	**Italy**	**Spain**	**European Financial Stability Facility**
Financial assets held for trading	3,627	-	-	-	-	-
Available for sale investments	304,026	289,156	14,955	-	-	86,293
Financial assets held to maturity	34,652	-	26,419	23,409	15,559	-
Total	**342,305**	**289,156**	**41,374**	**23,409**	**15,559**	**86,293**

Maturity table of government debt securities by country issuer as at 30 June 2013

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	-	-	8,833	66,276	119,226	194,335
Belgium	-	-	48,803	-	-	48,803
Albania	3,308	2,553	10,187	35,765		51,813
Italy	-	-	87,539	-	-	87,539
Spain	-	-	25,294	-	-	25,294
Portugal	9,776	-	-	-	-	9,776
European Financial Stability Facility	-	-	7,829	25,500	-	33,329
Total	**13,084**	**2,553**	**188,485**	**127,541**	**119,226**	**450,889**

Maturity table of government debt securities by country issuer as at 31 December 2012

In thousands of BGN

Country issuer	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Bulgaria	192,038	-	-	72,764	77,503	342,305
Belgium	-	113,375	175,781	-	-	289,156
Albania	3,353	5,114	14,098	18,809	-	41,374
Italy	-	13,666	9,743	-	-	23,409
Spain	-	-	15,559	-	-	15,559
European Financial Stability Facility	-	58,894	7,816	19,583	-	86,293
Total	**195,391**	**191,049**	**222,997**	**111,156**	**77,503**	**798,096**

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, which at 30 June 2013 amount to BGN 44,461 thousand (2012: BGN 55,468 thousand).

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 2013	**31 December 2012**	**30 June 2013**	**31 December 2012**
Risk weighted assets for credit risk				
Assets				
Exposure class				
Central governments and central banks	1,466,127	1,711,419	69,384	59,644
Institutions	216,301	191,216	60,630	58,030
Corporates	3,194,304	3,078,881	2,989,284	2,886,798
Retail	568,220	547,232	406,843	395,121
Claims secured by residential property	534,687	588,697	187,140	206,044
Past due exposures	347,631	270,026	347,631	270,026
Collective investment undertaking	2,055	1,933	2,055	1,933
Other items	678,110	574,898	540,832	436,145
TOTAL	**7,007,435**	**6,964,302**	**4,603,799**	**4,313,741**
Off-balance sheet items				
Exposure class				
Central governments and central banks	-	-	-	-
Institutions	10,746	11,406	3,121	3,271
Corporates	460,644	494,451	147,333	170,046
Retail	269,158	262,430	541	802
Claims secured by residential property	13,303	8,753	2,303	1,523
Other items	-	-	121	24
TOTAL	**753,851**	**777,040**	**153,419**	**175,666**
Derivatives				
Exposure class				
Central governments and central banks	-	-	-	-
Institutions	3,192	1,669	638	334
Corporates	371	547	371	547
Other items	2,510	1,109	2,510	1,109
TOTAL	**6,073**	**3,325**	**3,519**	**1,990**
Total risk-weighted assets for credit risk			4,760,737	4,491,397
Risk-weighted assets for market risk			8,163	12,400
Risk-weighted assets for operational risk			393,660	371,240
Total risk-weighted assets			5,162,560	4,875,037
Capital adequacy ratios	**Capital**		**Capital ratios %**	
	30 June 2013	**31 December 2012**	**30 June 2013**	**31 December 2012**
Tier 1 Capital	**574,430**	**555,159**	**11.13%**	**11.39%**
Total capital base	**657,620**	**638,713**	**12.74%**	**13.10%**

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 2013	**Six months ended 30 June 2012**	**Six months ended 30 June 2013**	**Six months ended 30 June 2012**	**Six months ended 30 June 2013**	**Six months ended 30 June 2012**
Interest income	198,658	210,509	25,231	17,485	223,889	227,994
Interest expense	(143,298)	(150,474)	(4,092)	(2,812)	(147,390)	(153,286)
Net interest income	**55,360**	**60,035**	**21,139**	**14,673**	**76,499**	**74,708**
Fee and commission income	49,940	37,344	1,423	1,198	51,363	38,542
Fee and commission expense	(5,185)	(4,559)	(141)	(93)	(5,326)	(4,652)
Net fee and commission income	**44,755**	**32,785**	**1,282**	**1,105**	**46,037**	**33,890**
General administrative expenses	(67,005)	(75,488)	(3,208)	(2,836)	(70,213)	(78,324)
	30 June 2013	**31 Dec 2012**	**30 June 2013**	**31 Dec 2012**	**30 June 2013**	**31 Dec 2012**
Segment assets	**6,521,183**	**6,384,181**	**593,337**	**666,267**	**7,114,520**	**7,050,448**
Segment liabilities	**6,397,606**	**6,341,254**	**187,529**	**203,927**	**6,585,135**	**6,545,181**

The following table presents the allocation of assets and liabilities, income and expenses based on business segments as at 30 June 2013 and for the six months then ended:

In thousands of BGN

Business segment	**Assets**	**Liabilities**	**Interest income**	**Interest expense**	**Net fee and commission income**	**Net trading income**	**Other operating income**
Commercial banking	3,820,838	1,204,242	163,430	(20,505)	32,237	-	-
Retail banking	868,464	5,016,375	52,774	(108,366)	4,612	-	-
Cards business	-	-	-	-	8,035	-	-
Treasury	1,819,912	24,847	7,685	(337)	893	4,448	1,672
Other	605,306	339,671	-	(18,182)	260	-	-
Total	**7,114,520**	**6,585,135**	**223,889**	**(147,390)**	**46,037**	**4,448**	**1,672**

5. Financial assets and liabilities

The Bank's accounting policy on fair value measurements is set out in Note 2(d)(vii).

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Bank determines fair values using other valuation techniques.

Other valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Bank uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

However, where the Bank measures portfolios of financial assets and financial liabilities on the basis of net exposures, it applies judgement in determining appropriate portfolio level adjustments such as bid-ask spread. Such adjustments are derived from observable bid-ask spreads for similar instruments and adjusted for factors specific to the portfolio.

For more complex instruments, the Bank uses proprietary valuation models, which usually are developed from recognised valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Example of instruments involving significant unobservable inputs include certain over the counter derivatives, certain loans and securities for which there is no active market and retained interests in securitisations. Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in the determination of fair value. Management judgement and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of probability of counterparty default and prepayments and selection of appropriate discount rates.

The Bank has an established control framework with respect to the measurement of fair values. This framework includes an Risk Management function, which is independent of Treasury division and reports to management, and which has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements. Specific controls include:

- verification of observable pricing;
- a review and approval process for new models and changes to models involving Risk Management division and Management Board;
- calibration of models against observed market transactions;

• analysis and investigation of significant daily valuation movements;

• review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3 instruments compared to previous month, by Risk Management division.

Where third-party information, such as broker quotes or pricing services, are used to measure fair value, Risk Management division assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS. This includes:

• verifying that the broker or pricing service is approved by the Bank for use in pricing the relevant type of financial instrument;

• understanding how the fair value has been arrived at and the extent to which it represents actual market transactions;

• when prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement;

• where a number of quotes for the same financial instrument have been obtained, how fair value has been determined using those quotes.

Accounting classification and fair values

The tables below set out analysis of financial instruments measured at fair value at the end of the reporting period classified by fair value hierarchy level framework categorising fair value measurement.

In thousands of BGN

30 June 2013	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets held for trading	7,050	-	-	7,050
Available for sale investments	297,875	26,281	5,709	329,865
Derivatives held for risk management	2,460	(167)	-	2,293
Total	**307,385**	**26,114**	**5,709**	**339,208**

In thousands of BGN

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

The tables below analyse the fair values of financial instruments not measured at fair value by fair value hierarchy level framework categorising fair value measurement.

In thousands of BGN

30 June 2013	Level 1	Level 2	Level 3	Fair value	Total carrying amount
Assets					
Cash and balances with central banks	-	1,288,469	-	1,288,469	1,288,469
Financial assets held to maturity	164,571	-	-	164,571	167,873
Loans and advances to banks and financial institutions	-	24,195	-	24,195	24,195
Loans and advances to customers	-	4,689,302	-	4,689,302	4,689,302
Total	**164,571**	**6,001,966**	**-**	**6,166,537**	**6,169,839**

Liabilities					
Due to credit institutions	-	3,020	-	3,020	3,020
Due to other customers	-	6,220,617	-	6,220,617	6,220,617
Liabilities evidenced by paper	-	67,902	-	67,902	67,902
Subordinated term debt	-	56,323	-	56,323	56,323
Perpetual debt	-	100,600	-	100,600	100,600
Hybrid debt	-	121,413	-	121,413	121,413
Total	**-**	**6,569,875**	**-**	**6,569,875**	**6,569,875**

In thousands of BGN

31 December 2012	Level 1	Level 2	Level 3	Fair value	Total carrying amount
Assets					
Cash and balances with central banks	-	1,140,889	-	1,140,889	1,140,889
Financial assets held to maturity	118,764	-	-	118,764	118,770
Loans and advances to banks and financial institutions	-	45,939	-	45,939	45,939
Loans and advances to customers	-	4,540,389	-	4,540,389	4,540,389
Total	**118,764**	**5,727,217**	**-**	**5,845,981**	**5,845,987**

Liabilities					
Due to credit institutions	-	2,580	-	2,580	2,580
Due to other customers	-	6,189,721	-	6,189,721	6,189,721
Liabilities evidenced by paper	-	62,420	-	62,420	62,420
Subordinated term debt	-	54,988	-	54,988	54,988
Perpetual debt	-	99,584	-	99,584	99,584
Hybrid debt	-	123,901	-	123,901	123,901
Total	**-**	**6,533,194**	**-**	**6,533,194**	**6,533,194**

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.

6. Net interest income

in thousands of BGN	Six months ended 30 June 2013	Six months ended 30 June 2012
Interest income		
Accounts with and placements to banks and financial institutions	1,041	1,166
Retail customers	51,327	48,232
Loans to corporate clients	149,342	156,488
Loans to small and medium enterprises	14,088	13,656
Microlending	1,447	1,525
Debt instruments	6,644	6,927
	223,889	**227,994**
Interest expense		
Deposits from banks	(78)	(73)
Deposits from other customers	(128,871)	(138,689)
Liabilities evidenced by paper	(1,178)	(1,769)
Subordinated term debt	(4,333)	(4,073)
Perpetual debt	(5,789)	(5,791)
Hybrid debt	(7,122)	(2,880)
Lease agreements and other	(19)	(11)
	(147,390)	**(153,286)**
Net interest income	**76,499**	**74,708**

For the six months ended 30 June 2013 the recognised interest income on individually impaired financial assets (loans and advances to customers) amounts to BGN 27,817 thousand (six months ended 30 June 2012: BGN 24,395 thousand).

7. Net fee and commission income

In thousands of BGN	Six months ended 30 June 2013	Six months ended 30 June 2012
Fee and commission income		
Letters of credit and guarantees	4,003	4,040
Payments transactions	4,852	4,755
Customer accounts	8,964	7,797
Cards business	12,459	11,357
Other	21,085	10,593
	51,363	**38,542**
Fee and commission expense		
Letters of credit and guarantees	(216)	(464)
Correspondent accounts	(348)	(360)
Cards business	(4,424)	(3,622)
Other	(338)	(206)
	(5,326)	(4,652)
Net fee and commission income	**46,037**	**33,890**

8. Net trading income

In thousands of BGN	Six months ended 30 June 2013	Six months ended 30 June 2012
Net trading gains/(losses) arise from:		
- Debt instruments	212	61
- Equity instruments	135	(237)
- Foreign exchange	4,101	3,930
Net trading income	**4,448**	**3,754**

9. Other operating income

In thousands of BGN	Six months ended 30 June 2013	Six months ended 30 June 2012
Other operating income arise from:		
- Debt instruments	1,669	940
- Equity instruments	-	15
- Other	3	3
Other operating income	**1,672**	**958**

10. General administrative expenses

In thousands of BGN	Six months ended 30 June 2013	Six months ended 30 June 2012
General and administrative expenses comprise:		
- Personnel cost	25,887	26,404
- Depreciation and amortisation	10,256	10,464
- Advertising	3,144	3,690
- Building rent expense	8,522	15,682
- Telecommunication, software and other computer maintenance	7,213	6,677
- Administration, consultancy, audit and other costs	15,191	15,407
General administrative expenses	**70,213**	**78,324**

Personnel costs include salaries, social and health security contributions under the provisions of the respective local legislation. At 30 June 2013 the total number of employees of the Group is 2,922 (30 June 2012: 2,871).

11. Impairment losses

In thousands of BGN	Six months ended 30 June 2013	Six months ended 30 June 2012
Write-downs		
Loans and advances to customers	(35,180)	(16,709)
Reversal of write-downs		
Loans and advances to customers	12,496	5,059
Net impairment losses	**(22,684)**	**(11,650)**

12. Income tax expense

In thousands of BGN	Six months ended 30 June 2013	Six months ended 30 June 2012
Current taxes	(2,824)	(1,969)
Deferred taxes (see note 22)	227	196
Income tax expense	**(2,597)**	**(1,773)**

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

In thousands of BGN	Six months ended 30 June 2013	Six months ended 30 June 2012
Accounting profit before taxation	**26,628**	**17,014**
Corporate tax at applicable tax rate (10% for 2013 and 10% for 2012)	2,663	1,701
Effect of tax rates of foreign subsidiaries and branches	(44)	30
Tax effect of permanent tax differences	8	42
Other	(30)	-
Income tax expense	**2,597**	**1,773**
Effective tax rate	9,75%	10,42%

13. Earnings per share

	Six months ended 30 June 2013	Six months ended 30 June 2012
Net profit attributable to shareholders (in thousands of BGN)	24,056	15,305
Weighted average number of ordinary shares (in thousands)	110,000	110,000
Earnings per share (in BGN)	**0,22**	**0,14**

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 2013 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 2013	31 December 2012
Cash on hand		
- In Bulgarian leva	85,011	87,631
- In foreign currencies	41,196	39,774
Balances with central banks	1,014,478	917,022
Current accounts and amounts with resident banks	9	109
Current accounts and amounts with foreign banks	147,775	96,353
Total	**1,288,469**	**1,140,889**

15. Financial assets held for trading

In thousands of BGN	30 June 2013	31 December 2012
Bonds, notes and other instruments issued by:		
Bulgarian government, assessed with BBB rating:		
- denominated in Bulgarian leva	3,996	3,517
- denominated in foreign currencies	-	110
Other issuers – equity instruments (unrated)	3,054	2,926
Total	**7,050**	**6,553**

16. Available for sale investments

In thousands of BGN	30 June 2013	31 December 2012
Bonds, notes and other instruments issued by:		
Bulgarian government		
- denominated in Bulgarian leva	105,486	82,794
- denominated in foreign currencies	84,853	221,232
Foreign governments		
- treasury bills	82,036	370,822
- government bonds	25,500	19,582
Foreign banks	26,281	26,480
Other issuers – equity instruments	5,709	5,709
Total	**329,865**	**726,619**

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 2013	31 December 2012
Securities held to maturity issued by:		
Bulgarian government	-	34,652
Foreign governments	149,018	65,387
Foreign banks	18,855	18,731
Total	**167,873**	**118,770**

18. Loans and advances to banks and financial institutions

(a) Analysis by type

In thousands of BGN	30 June 2013	31 December 2012
Placements and other amounts due from banks	16,717	41,136
Receivables under resale agreements (see note 31)	5,075	-
Other	2,403	4,803
Total	**24,195**	**45,939**

(b) Geographical analysis

In thousands of BGN	30 June 2013	31 December 2012
Resident banks and financial institutions	5,369	2,197
Foreign banks and financial institutions	18,826	43,742
Total	**24,195**	**45,939**

19. Loans and advances to customers

In thousands of BGN	30 June 2013	31 December 2012
Retail customers		
- Consumer loans	311,774	295,486
- Mortgage loans	374,543	376,174
- Credit cards	218,426	212,811
Small and medium enterprises	328,755	316,788
Microlending	31,859	30,075
Corporate customers	3,612,862	3,478,134
Less allowance for impairment	(188,917)	(169,079)
Total	**4,689,302**	**4,540,389**

(a) Movement in impairment allowances

In thousands of BGN

Balance at 1 January 2013	**169,079**
Additional allowances	35,180
Amounts released	(12,496)
Write – offs	(2,817)
Effects of changes in foreign currencies rates	(29)
Balance at 30 June 2013	**188,917**

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 2012	**12,915**	**120,638**	**6,113**	**27,269**	**60,405**	**227,340**
Additions	-	65	64	16,872	5	17,006
Depreciation elimination before revaluation	(3,360)	-	-	-	-	(3,360)
Revaluation	5,000	-	-	-	-	5,000
Foreign exchange differences	-	(4)	(2)	-	(6)	(12)
Disposals	-	(2,193)	(358)	(7)	(83)	(2,641)
Transfers	-	9,057	536	(13,484)	2,236	(1,655)
At 31 December 2012	**14,555**	**127,563**	**6,353**	**30,650**	**62,557**	**241,678**
Additions	-	48	-	2,611	32	2,691
Foreign exchange differences	-	(30)	(3)	-	(16)	(49)
Disposals	-	(2,042)	(304)	-	(1,649)	(3,995)
Transfers	-	8,256	-	(8,890)	496	(138)
At 30 June 2013	**14,555**	**133,795**	**6,046**	**24,371**	**61,420**	**240,187**
Depreciation						
At 1 January 2012	**4,017**	**78,705**	**5,264**	**-**	**20,112**	**108,098**
Foreign exchange differences	-	(8)	(1)	-	(5)	(14)
Charge for the year	448	13,940	404	-	3,931	18,723
Depreciation elimination before revaluation	(3,360)	-	-	-	-	(3,360)
On disposals	-	(2,169)	(358)	-	(82)	(2,609)
At 31 December 2012	**1,105**	**90,468**	**5,309**	**-**	**23,956**	**120,838**
Foreign exchange differences	-	(18)	(2)	-	(13)	(33)
Charge for the year	255	6,644	192	-	1,935	9,026
On disposals	-	(2,040)	(304)	-	(1,649)	(3,993)
At 30 June 2013	**1,360**	**95,054**	**5,195**	**-**	**24,229**	**125,838**
Net book value						
At 1 January 2012	**8,898**	**41,933**	**849**	**27,269**	**40,293**	**119,242**
At 31 December 2012	**13,450**	**37,095**	**1,044**	**30,650**	**38,601**	**120,840**
At 30 June 2013	**13,195**	**38,741**	**851**	**24,371**	**37,191**	**114,349**

21. Intangible assets

In thousands of BGN	Software and licences	Greenhouse allowances	Goodwill	Total
Cost				
At 1 January 2012	**22,487**	**3,820**	**721**	**27,028**
Additions	19	-	-	19
Exchange differences on translating foreign operations	(4)	-	-	(4)
Disposals	(168)	-	-	(168)
Transfers	1,655	-	-	1,655
At 31 December 2012	**23,989**	**3,820**	**721**	**28,530**
Additions	46	-	-	46
Exchange differences on translating foreign operations	(6)	-	-	(6)
Transfers	138	-	-	138
At 30 June 2013	**24,167**	**3,820**	**721**	**28,708**
Depreciation				
At 1 January 2012	**7,954**	**-**	**-**	**7,954**
Exchange differences on translating foreign operations	3	-	-	3
Charge for the year	2,402	-	-	2,402
On disposals	(168)	-	-	(168)
At 31 December 2012	**10,191**	**-**	**-**	**10,191**
Exchange differences on translating foreign operations	(5)	-	-	(5)
Charge for the year	1,230	-	-	1,230
At 30 June 2013	**11,416**	**-**	**-**	**11,416**
Net book value				
At 1 January 2012	**14,533**	**3,820**	**721**	**19,074**
At 31 December 2012	**13,798**	**3,820**	**721**	**18,339**
At 30 June 2013	**12,751**	**3,820**	**721**	**17,292**

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 2013	**31 Dec 2012**	**30 June 2013**	**31 Dec 2012**	**30 June 2013**	**31 Dec 2012**
Property, equipment and intangibles	-	-	3,255	3,482	3,255	3,482
Other items	(264)	(258)	331	341	67	83
Net tax (assets)/liabilities	**(264)**	**(258)**	**3,586**	**3,823**	**3,322**	**3,565**

Movements in temporary differences for the six months ended 30 June 2013 are recognised, as follows:

In thousands of BGN	31 December 2012	Recognised in profit or loss for the period	Recognised in capital for the period	30 June 2013
Property, equipment and intangibles	3,482	(227)	-	3,255
Other	83	-	(16)	67
Net tax (assets)/liabilities	**3,565**	**(227)**	**(16)**	**3,322**

23. Other assets

In thousands of BGN	30 June 2013	31 December 2012
Deferred expense	28,078	11,298
Gold bullion	12,168	10,847
Other assets	432,236	306,757
Total	**472,482**	**328,902**

As at 30 June 2013 under Other assets position there are assets obtained by taking possession of collateral, representing mainly real estate, for the amount of BGN 416,109 thousand (31 December 2012: BGN 286,274 thousand), measured at the lower of cost and net realisable value.

24. Due to credit institutions

In thousands of BGN	30 June 2013	31 December 2012
Term deposits	571	564
Payable on demand	2,449	2,016
Total	**3,020**	**2,580**

25. Due to other customers

In thousands of BGN	30 June 2013	31 December 2012
Retail customers		
- current accounts	535,520	504,682
- term and savings deposits	4,480,855	4,522,323
Corporate, state-owned and public institutions		
- current accounts	435,084	396,066
- term deposits	769,158	766,650
Total	**6,220,617**	**6,189,721**

26. Liabilities evidenced by paper

In thousands of BGN	30 June 2013	31 December 2012
Acceptances under letters of credit	1,932	2,564
Liabilities under repurchase agreements (see note 31)	21,660	20,352
Other term liabilities	44,310	39,504
Total	**67,902**	**62,420**

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

27. Subordinated term debt

As at 30 June 2013 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	Original maturity	Maturity date	Amortised cost as at 30 June 2013
Growth Management Limited	5,867	10 years	27.08.2014	17,983
Growth Management Limited	3,912	10 years	24.02.2015	10,037
Estrado Holding Ltd	9,779	10 years	01.03.2015	9,967
Growth Management Limited	1,956	10 years	17.03.2015	4,902
ING Bank NV/ Atlantic Forfaitierungs AG	9,779	10 years	22.04.2015	9,462
Hypo-Alpe-Adria Bank	3,912	10 years	14.04.2015	3,972
Total	**35,205**			**56,323**

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 2013
Step-up guaranteed perpetual subordinated bonds EUR 27 mio	52,807	58,486
Step-up guaranteed perpetual subordinated bonds EUR 21 mio	41,073	42,114
Total	**93,880**	**100,600**

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

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

29. Hybrid debt

In thousands of BGN	Principal amount	Amortised cost as at 30 June 2013
Hybrid debt with original principal EUR 40 mio	78,233	79,667
Hybrid debt with original principal EUR 20 mio	39,117	41,746
Total	**117,350**	**121,413**

In thousands of BGN	Principal amount	Amortised cost as at 31 December 2012
Hybrid debt with original principal EUR 40 mio	78,233	84,244
Hybrid debt with original principal EUR 20 mio	39,117	39,657
Total	**117,350**	**123,901**

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

In November 2012 the Bank issued a hybrid instrument (bond issue) and, after obtaining permission from the Bulgarian National Bank, included it as Tier 1 capital pursuant to Art. 3a of Ordinance 8 on Capital Adequacy of Credit Institutions. The Bank placed the bond issue under private subscription with a total nominal and issue value of EUR 20,000 thousand, constituting the first tranche of a bond issue for up to EUR 60,000 thousand.

30. Other liabilities

In thousands of BGN	30 June 2013	31 December 2012
Liabilities to personnel	2,254	2,277
Other payables	9,007	4,581
Total	**11,261**	**6,858**

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 2013 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	22,106	21,660
Total	**22,106**	**21,660**

At 31 December 2012 assets sold under repurchase agreements were as follows:

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

The Group also purchases financial instruments 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 2013 assets purchased subject to agreements to resell were as follows:

In thousands of BGN	Fair value of assets held as collateral	Carrying amount of corresponding receivables
Bulgarian government securities	5,175	5,075
Total	**5,175**	**5,075**

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

32. Capital and reserves

Number and face value of registered shares as at 30 June 2013

As at 30 June 2013 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 2013 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 at least 1/10 of its annual profit as statutory reserves until their aggregate amount reaches 1/10 of the Banks' share capital.

In 2013, as in the previous year, the Bank has not distributed dividends.

33. Commitments and contingent liabilities

(a) Memorandum items

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

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

In thousands of BGN	30 June 2013	31 December 2012
Bank guarantees		
- in BGN	147,904	178,464
- in foreign currency	166,145	198,306
Total guarantees	**314,049**	**376,770**
Unused credit lines	366,997	383,083
Promissory notes	1,632	2,448
Letters of credit	71,173	14,739
Total	**753,851**	**777,040**

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 2013 the extent of collateral held for guarantees and letters of credit is 100 percent.

34. Cash and cash equivalents

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

In thousands of BGN	30 June 2013	30 June 2012
Cash and balances with central banks	1,288,469	928,921
Loans and advances to banks and financial institutions with maturity less than 90 days	19,120	5,610
Total	**1,307,589**	**934,531**

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 2013	Six months ended 30 June 2012
FINANCIAL ASSETS		
Cash and balances with central banks	1,319,100	918,594
Financial assets held for trading	6,760	8,645
Available for sale investments	503,334	781,624
Financial assets held to maturity	135,438	76,079
Loans and advances to banks and financial institutions	36,170	78,241
Loans and advances to customers	4,584,840	4,274,890
FINANCIAL LIABILITIES		
Due to credit institutions	3,885	6,292
Due to other customers	6,227,134	5,606,418
Liabilities evidenced by paper	66,323	85,979
Subordinated term debt	55,687	51,134
Perpetual debt	99,296	99,089
Hybrid debt	124,657	48,097

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 2013**	**2012**	**Six months ended 30 June 2013**	**2012**
Loans				
Loans outstanding at beginning of the period	1,349	1,674	24,456	23,161
Loans issued/(repaid) during the period	(53)	(325)	(7,341)	1,295
Loans outstanding at end of the period	1,296	1,349	17,115	24,456
Deposits and other financing received				
Deposits at beginning of the period	12,369	11,466	24,456	12,795
Deposits received/(repaid) during the period	2,791	903	(22,395)	9,009
Deposits at end of the period	15,160	12,369	2,061	21,804
Deposits placed				
Deposits at beginning of the period	-	-	3,989	3,916
Deposits placed/(matured) during the period	-	-	(3,989)	73
Deposits at end of the period	-	-	-	3,989
Off-balance sheet commitments issued by the Group				
At beginning of the period	1,841	1,843	252	2,116
Granted/(expired)	24	(2)	138	(1,864)
At the end of the period	1,865	1,841	390	252

The key management personnel of the Bank received remuneration of BGN 1,959 thousand for the first half of 2013.

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 2013 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 2013 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 is 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) Fi Health Insurance 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). In June 2013 following a decision by Financial Supervision Commission the company was given a licence to perform insurance activities. The name of the company was changed to Fi Health Insurance AD. It is engaged in insurance business – offering "Illness" and "Accident" insurance policies. As at 30 June 2013 the registered share capital of the company 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 a single member joint stock company. As at 30 June 2013 the registered share capital of the company is BGN 50 thousand, and the Bank's shareholding is 100%. The Bank consolidates its investment in the company.

(h) Turnaround Management EOOD, Creative Investment EOOD and Lega Solutions EOOD

In the first half of 2013 the Bank established the companies Turnaround Management EOOD, Creative Investment EOOD and Lega Solutions EOOD as 100% owned by the Bank. The registered capital of each of the companies is the minimum required by law (BGN 2) and they are engaged in production and trade of commodities and services in Bulgaria and abroad (Turnaround Management EOOD, Creative Investment EOOD), acquisition, management and sale of assets, processing of information, financial advisory services (Lega Solutions EOOD) and other activities.

38. Subsequent events

On 15 August 2013 the Bank has signed with the Hungarian MKB Bank Zrt a share purchase agreement to acquire 100% of shares of MKB Unionbank EAD. The transaction will be closed after the customary regulatory approval process. On 18 September 2013 the Bulgarian National Bank and the Commission for Protection of Competition issued respective approvals for the deal.

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