

CENTRAL COOPERATIVE BANK AD

ANNUAL SEPARATE REPORT
ON THE ACTIVITIES,
INDEPENDENT AUDITOR'S REPORT,
AND ANNUAL SEPARATE
FINANCIAL STATEMENTS

December 31, 2012

(This document is a translation of the original Bulgarian text,
in case of divergence the Bulgarian original shall prevail)

**ANNUAL SEPARATE REPORT
ON THE ACTIVITIES FOR 2012**

**Annual Management Report
of Central Cooperative Bank /CCB/ Plc for 2012
on an individual basis**

Contents:

1. Review of the development and the results of the activity of CCB Plc (The Bank), as well as its state, together with the description of the main risks, with which the Bank is confronted.
2. All significant events, which have occurred after 31.12.2012.
3. The probable future development of CCB Plc.
4. Activities in the field of research and development activity.
5. The information, required by the procedures of Art. 187e and 247 of the Commerce Act.
6. The presence of CCB Plc branches.
7. The financial instruments used by CCB Plc, as well as the goals and policy of CCB Plc in managing financial risk, including the policy of the Bank to hedge each main type of hedged position, to which hedge accounting is applied, and the CCB Plc exposure regarding the price, credit and liquidity risk and the cash flow risk.

Information:

Point 1:

CCB Plc is a company, registered under Decree № 56 with a resolution of the Sofia City Court (SCC) dated 28.03.1991 as "Central Cooperative Bank" OOD, reorganized into a joint-stock company with a decision of the Sofia City Court dated 15.10.1992.

The bank was registered in the Register of Companies under № 334, volume 4, page 11 under case file № 5227/1991 of the Sofia City Court, BULSTAT 831447150 U, VAT № BG831447150 with decision dated 28.03.1991.

CCB Plc was established for an indefinite term. The head-office of CCB Plc is Sofia, the address of administration: Sofia, 103 G.S.Rakovski Str., Tel: 9266 266, e-mail: office@ccbanc.bg, (web-site): www.ccbanc.bg
Since 04.03.1999 CCB Plc has the statute of a public company, the shares of which are traded on the "Bulgarian Stock Exchange – Sofia" AD /BSE/.

PRESENCE IN THE BANKING SECTOR

In terms of total assets CCB Plc is on the 10th place in the classification of BNB for the Banking system as at 31.12.2012. The Bank has held the same position in 2011.

Ranking of the banks according to total assets as at 31.12.2012 /in thousand BGN /

No	Banks	2011	2012	Change in % 2012/2011	Change in absolute value 2012/2011	Position as at 2011
1	UNICREDIT BULBANK	11,906,377	12,658,532	6.32%	752,155	1
2	DSK BANK	8,559,030	8,727,648	1.97%	168,618	2
3	FIRST INVESTMENT BANK	6,101,669	6,907,337	13.20%	805,668	5
4	UNITED BULGARIAN BANK	6,715,464	6,347,603	-5.48%	-367,861	3
5	RAIFFEISENBANK (BULGARIA)	6,448,320	6,171,745	-4.29%	-276,575	4
6	CORPORATE COMMERCIAL BANK	4,043,060	5,635,893	39.40%	1,592,833	7
7	EUROBANK EFG BULGARIA	5,998,483	5,630,444	-6.14%	-368,039	6
8	ALPHA BANK - SOFIA branch	1,741,936	3,691,775	111.94%	1,949,839	14
9	SOCIETE GENERALE EXPRESSBANK	3,288,653	3,584,364	8.99%	295,711	8
10	CENTRAL COOPERATIVE BANK	3,003,212	3,349,451	11.53%	346,239	10
11	PIRAEUS BANK BULGARIA	3,209,747	3,098,835	-3.46%	-110,912	9
12	CIBANK	2,026,398	2,082,857	2.79%	56,459	11
13	ALLIANZ BANK BULGARIA	1,745,646	1,868,279	7.03%	122,633	13
14	BULGARIAN DEVELOPMENT BANK	1,875,353	1,694,237	-9.66%	-181,116	12
15	CB MKB UNIONBANK	1,711,710	1,646,145	-3.83%	-65,565	15
16	CB INVESTBANK	1,253,657	1,370,565	9.33%	116,908	17
17	PROCREDIT BANK (BULGARIA)	1,259,049	1,329,234	5.57%	70,185	16
18	MUNICIPAL BANK	954,468	1,017,375	6.59%	62,907	18
19	ING BANK N.V. -SOFIA branch	642,601	883,689	37.52%	241,088	21
20	INTERNATIONAL ASSET BANK	716,712	849,103	18.47%	132,391	20
21	BULGARIAN - AMERICAN CREDIT BANK	749,433	828,330	10.53%	78,897	19
22	D COMMERCE BANK	623,393	743,055	19.20%	119,662	22
23	CITY BANK N.A. - SOFIA branch	551,854	542,031	-1.78%	-9,823	24
24	EMPORIKI BANK - BULGARIA	556,574	522,742	-6.08%	-33,832	23
25	TOKUDA BANK	414,104	459,837	11.04%	45,733	26
26	BNP PARIBAS S.A. - SOFIA branch	484,612	403,144	-16.81%	-81,468	25
27	TBI BANK	74,663	189,029	153.18%	114,366	28
28	TEXIMBANK AD	97,852	126,358	29.13%	28,506	27
29	T.C. ZIRAAT BANKASI - SOFIA branch	49,883	46,031	-7.72%	-3,852	29
30	ISBANK GMBH - SOFIA branch	1,756	8,927	4083713	7,171	31
31	REGIONAL INVESTMENT BANK BULGARIA BRANCH	5,371	2,496	-53.53%	-2,875	30
	BANKING SYSTEM	76,811,182	82,417,091	7.30%	5,604,478	

Source: BNB

ASSETS

On 31.12.2012 the book value of the assets of CCB Plc is BGN 3,349,451 thousand. Compared to the same period of last year the book assets increase by BGN 346,239 thousand or 11.53%.

Structure of the assets

The cash and balances with BNB are 26.02% of total assets as at 31.12.2012, compared to 15.32% a year earlier. The funds with banks, correspondent accounts and short-term deposits have a weight of 5.48% of total assets, compared to 13.99% a year earlier. The investments in securities, including government securities, corporate bonds, shares and compensation instruments, which are an instrument for improving the profitability of the Bank, are 13.44% of the assets, compared to 16.02% for 2011. As at 31.12.2012 the amount of the loans and advances is 47.48% of the assets. The provisions are 1.68% of the credits and advances to clients. In 2011 the amount of credit is 47.39% of the total assets, and the provisions are 1.78%. In 2012 the impairment for uncollectibility increase reaching the amount of BGN 27,238 thousand.

According to the type of currency, the granted gross loans and advances to customers as at 31.12.2012 are: 53.45% in BGN, and 46.55% are in foreign currency; according to the type of the client: 85.65% are loans to companies, and 14.35% are loans to individuals.

The quality of the loan portfolio is very good – the regular exposures have a share of 94.51%, and the non-performing exposures have a share of 1.28%.

The non-current assets have a share of 1.84% of total assets.

LIABILITIES

As at 31.12.2012 the total liabilities of CCB Plc are BGN 3,002,217 thousand. They are approximately 89.63% of total liabilities. The increase for the year is 12.42%.

Structure of the liabilities

The Bank maintains a stable structure of the attracted funds, which does not make it dependent on foreign financing.

The main source of attracted funds for CCB Plc are the funds attracted from individuals, companies and other depositors, at the amount of BGN 2,869,113 thousand at the end of 2012. Their share in the total liabilities of the Bank is 95.57%. The funds attracted from financial institutions in the form of deposits, loans and repo deals are 2.42% of the total liabilities.

The shareholders' equity of the Bank is at the amount of BGN 347,234 thousand.

The increase in shareholders' equity compared to 2011 is by 4.34% and is the result of the accumulated during the year profit and reserves.

FINANCIAL REVIEW

As at 31.12.2012 the audited financial result of CCB Plc is a net profit to the amount of BGN 10,086 thousand. In 2011 the Bank realized an audited net profit at the amount of BGN 12,624 thousand.

The net interest income for 2012 amounts to BGN 52,071 thousand, compared to BGN 53,065 thousand for 2011. The net fees and commission income, realized by the Bank in 2012, reached BGN 30,784 thousand, compared to BGN 24,854 thousand a year earlier.

The operating expenses for 2012 increase by 10.25 % compared to their amount at the end of 2011 and have reached BGN 102,365 thousand. The staff expenses are 31.00 % of these expenses and retain their share from a year earlier. The administrative and other

expenses of the Bank reach BGN 60,049 thousand, compared to BGN 51,977 thousand a year earlier.

MAIN RISKS

The risk is associated with the possibility that the actual income from a given investment differs from the expected income. The specifics of banking necessitate the application of adequate systems for timely identification and management of different types of risk. Of special significance are the risk management procedures, the mechanisms for maintaining risk in acceptable limits, via an evaluation of the external and internal environment, the optimum liquidity, the portfolio diversification and the profitability of operations. In its risk management activity CCB Plc applies Basel II with the principally new requirements for managing credit risk and the capital coverage of operational risk.

Credit risk – is the probability of a loss, due to the impossibility of the counterparty to perform on time or not to perform at all its obligations. The Bank manages the credit risk, characteristic of the banking and the commercial portfolio. The Bank applies individual credit policies regard to the distinct business segments.

For the limitation of credit risk of the Bank there is a system of limits according to classes of exposures, business sectors, geographic regions, client profile and groups of clients, bearing general risk. The limits determine the risk appetite and the risk tolerance to credit risk and the planned allocation of the capital, necessary for the risk coverage.

For the reduction of credit risk collateral and guarantees are accepted, appropriate in type and value, according to the Internal rules, the applied approach for the calculation of the capital requirements and the effective banking legislation.

Every month the Bank performs an evaluation of the risk exposure, arising from the loan portfolio, classifying and making provisions for the loans in the portfolio according to the requirements of Ordinance № 9 of the Bulgarian National Bank /BNB /. The big loan exposures according to Ordinance № 7 of BNB are subject to constant supervision and reporting.

Liquidity risk: the probability of difficulties in payments due to a time mismatch between the incoming and outgoing cash flows. The Bank manages its assets and liabilities in a manner, which ensures that it may perform its daily obligations regularly and without any delay, in the normal bank environment and in times of crisis.

Market risk: the probability of the occurrence of a loss for the Bank as a result of the unfavorable change in foreign exchange rates, market prices and interest rates.

Operational risk: the probability of direct or indirect losses as a result of the inadequate functioning or an interruption in internal processes, systems and personnel of the Bank.

Risk management at CCB Plc is subjected to the principle of centralization and has been structured according to the competence levels as follows:

1. Management Board – determines the acceptable levels of risk of the Bank within the adopted strategy for development.
2. Specialized collective authorities – affirm the limits and parameters of the Bank's activity concerning risk management;

- Committee for managing assets and liabilities;
- Credit Council;
- Committee for Supervision, Evaluation, Classification and Reclassification of the Risk Exposures (CSECRRE).

3. The Executive Directors and Procurator – control the process of approving and applying adequate policies and procedures within the strategy for risk management, adopted by the Bank;

4. Risk Analysis and Management Division – carries out in an operative manner the activity associated with measuring, monitoring, management and control of the risks.

INDICATORS OF RISK, SOLVENCY AND PROFITABILITY as at 31.12.2012

- Regular exposures (Ordinance № 9 of BNB) – 96.50%;
- Non-performing exposures (Ordinance № 9 of BNB) – 0.95%;
- Coefficient of liquid assets (Ordinance N 11 of BNB) – 35.66%;
- Share capital – BGN 113,154 thousand

CREDIT RATING

In December 2012 the Bulgarian Credit Rating Agency confirmed the rating, awarded to Central Cooperative Bank Plc, whereas the long-term rating was corrected from **BBB** to **BBB+**, and **the outlook was changed from positive to stable**.

The Bank has a credit rating as specified below:

Long-term credit ratings: **BBB+**

Outlook: **stable**

Short-term rating: **A-2**

Point 2:

After the date of preparation of the annual individual financial statements for 2012, no events have occurred, which have a significant impact on the future development of the Bank.

Point 3:

In 2013 CCB Plc will continue to follow its development plan. The main emphasis will be the offering of bank services to the population – consumer and mortgage loans, bank cards and the associated services, e-banking and payment services. At the same time, the Bank will develop bank services to corporate clients and SMEs and the relevant programs for utilization of funds from the EU structural funds.

Point 4:

CCB Plc does not deploy research and development.

Point 5:

In 2012 CCB Plc has not acquired and/or transferred own shares. As at 31.12.2012, CCB Plc has 11 own shares at a nominal value of BGN 1 each, which is 0,0000097 % of the capital of the Bank.

The remuneration paid in 2012, to the members of the Supervisory Board /SB/ is to the amount of BGN 180,000.

The remuneration, paid in 2011, to the member of the Management Board /MB/, is to the amount of BGN 283,540.

As at 31.12.2012, Sava Marinov Stoynov, Executive Director and a member of the Management Board of CCB Plc has 3,436 shares, which is 0,003% of the capital of the Bank.

The members of the Boards of CCB Plc do not have additional rights for the acquisition of shares and/or bonds of the Bank.

In 2012 there are no concluded contracts between CCB Plc and the members of its boards or persons, related to them, which go beyond the ordinary activity of the Bank or considerably deviate from the market conditions.

Information about the members of the management and control authorities as at 31.12.2012:

Ivo Kamenov Georgiev – Chairman of the Supervisory Board of Central Cooperative Bank Plc

He participates in the management of other commercial companies or cooperatives as a procurator, a manager or a board member: Member of SB of of CCB Plc, UIC 831447150, - Sofia. Member of the MB and Executive Director of: "Chimimport" AD, UIC 000627519 – Sofia; member of the MB of: "CCB Group " EAD, UIC 121749139 – Sofia. member of the BD and Executive Director of: "Chimimport Invest" AD, UIC 831541734. Member of the BD of: "Loviko Suhindol Group" AD, UIC 130629128; member of the BD of "Varna – Plod" AD, UIC 103106697 –Varna; member of the BD of "Chimimport group " EAD, UIC 131568888– Sofia; member of the BD of "Bulgarian Airways Group" EAD, UIC 131085074– Sofia; member of the BD of "Investment Group" AD, UIC 124613710– Dobrich; manager of "Invest Capital Consult " EOOD, UIC 103050543; manager and partner in "Tortuga" OOD, UIC 103536374 – Varna; manager and partner in "TIM Club" OOD, UIC 103045368 – Varna; manager and partner in "Varna Consulting Company" OOD, UIC 103060548 – Varna.

He owns directly more than 25 % of the capital of other commercial companies, as follows: "Varna Consulting Company" OOD, UIC 103060548 – Varna; "TIM Club" OOD, UIC 103045368 - Varna; "Tortuga" OOD, UIC 103536374.

Marin Velikov Mitev – Member of the Supervisory Board of Central Cooperative Bank Plc.

He participates in the management of other commercial companies or cooperatives as a procurator, a manager or a board member: Member of the SB of "CCB Group" EAD, UIC 121749139 - Sofia. Member of the MB and Executive Director of: "Chimimport" AD,

UIC 000627519– Sofia. Member of the BD and Executive Director of: “Chimimport invest” AD, UIC 831541734 – Sofia; “Sports complex Varna” AD, UIC 103941472 – Varna; “Gulf Shabla” AD, UIC 124712625 – Shabla. Member of the BD: “Varna plod” AD, UIC 103106697- Varna; “Investment group” AD, UIC 124613710 – Dobrich; “Ahilea” EAD, UIC 124609740 – Dobrich.

Manager of: “Global Project Management” EOOD, UIC 175463433 – Varna; “Tortuga” OOD, UIC 103536374 – Varna; “Invest Capital Consult” EOOD, UIC 103050543 – Varna; “Alley” OOD, UIC 103624905 – Varna; “Varna Consulting Company” OOD, UIC 103060548 – Varna; “I M G” EOOD, UIC 103131753 – Varna; “TIM Club” OOD, UIC 103045368 – Varna, “Graffiti Gallery” EOOD UIC 103812011; ET “Marin Mitev – Project Management”, UIC 103320073.

Procurator: „TIM” EAD – UIC 202317193

He owns directly more than 25 % of the capital of other commercial companies, as follows: “Varna Consulting Company” OOD, UIC 103060548 – Varna; “Alley” OOD, UIC 103624905 – Varna; “TIM Club” OOD, UIC 103045368- Varna; “Tortuga” OOD, UIC 103536374 – Varna, ET “Marin Mitev – Project Management”, UIC 103320073.

Central Cooperative Union, UIC 000696497, Member of the Supervisory Board of Central Cooperative Bank Plc.

It participates in the management of other commercial companies or cooperatives as a procurator, a manager or a board member: Member of the Board of Directors of “Holding Coop-South” AD, UIC 121659072. Member of the Supervisory Board of Central Cooperative Bank Plc, UIC 831447150.

It owns directly more than 25 % of the capital of other commercial companies, as follows: “Bilkocoop” EOOD, UIC 175120000 – Sofia; “Bulgarcoop” EOOD, UIC 000627914 – Sofia; “Bulgarcoop–import – export” EOOD, UIC 131205196 – Sofia; “Bulminvex GB” EOOD, UIC 000622340 – Sofia; “Bulgarska guba” EOOD, UIC 115637954 /in insolvency/ - the village of Zlati trap; “Intellect coop” EOOD, UIC 160064204 – Plovdiv; “Cooptourist” EOOD, UIC 831506231 – Sofia; “Cooptourist – Kiten” EOOD, UIC 102815549 – the village of Kiten; “Cooptourist – Strandja” EOOD, UIC 103768668 - Varna; “Nectarcoop” EOOD, UIC 175122186 – Sofia; SBR “Zdrave” EAD, UIC 130523915 – Bankia; “Relax – coop” EOOD, UIC 200588961 – the village of Voneshta voda; “Melsa coop” EOOD, UIC 200728388 – Nessebar; “Coop Market” EOOD, UIC: 202278420 - Sofia; „Coop-commerce and tourism” AD, 121837308 – Sofia; “Holding Cooperative Business” AD, UIC 121811740 – Sofia; “National Cooperative Investment Fund” AD, UIC 831286504 – Sofia; “Coop – Zlaten klas” OOD, UIC 116579048 – Kubrat; “Granarycoop ” OOD, UIC 104688774 – Pavlikeni; “Krasen – coop” AD, UIC 121238027 – Sofia; “Galus – impex” AD, UIC 117017044 /in insolvency/ - Ruse; “Sovbulcoop” AD, case file № 6649/1990 of SCC - Sofia; “Varna packing house” AD, UIC 124099892 – Sofia.

Prof. Dr. Aleksander Assenov Vodenicharov – Chairman of the Management Board of Central Cooperative Bank Plc

He does not own directly more than 25 % of the capital of other commercial companies. He does not participate in the management of other commercial companies or cooperatives as a procurator, a manager or a board member.

Tsvetan Tsankov Botev – deputy chairman of the Management Board of Central Cooperative Bank Plc.

He does not own directly more than 25 % of the capital of other commercial companies.

He participates in the management of other commercial companies or cooperatives as a procurator, a manager or a board member: Member of SB of “Assenova Krepost ” OOD, UIC 115012041 – Sofia, Assenovgrad. Member of the Management Board of: “Chimimport” AD, UIC 000627519 – Sofia. Member of the BD and Executive Director of: “Chimimport Pharma” AD, UIC 131181471 – Sofia. Member of the Board of Directors of: “Chimimport Group ” EAD, UIC 131568888 – Sofia. Manager of: “Bulchimtrade” OOD, UIC 200477808 – Sofia; “Dialysis Bulgaria” OOD, UIC 131084129 – Sofia; Procurator of: “Dialysis Sofia 1” OOD, UIC 131180953 – Sofia.

Sava Marinov Stoynov – Executive Director and member of the Management Board of Central Cooperative Bank Plc.

He does not own directly more than 25 % of the capital of other commercial companies.

He participates in the management of other commercial companies or cooperatives as a procurator, a manager or a board member: Member of the MB and Executive Director of: “CCB Sila” pension fund AD, UIC 825240908 – Sofia. Member of the BD and Executive Director of “CCB Assets Management” EAD, UIC 175225001 – Sofia. Member of the BD of “Plovdiv Commodity Exchange” AD, UIC 115223519 – Plovdiv.

George Dimitrov Konstantinov – Executive Director and member of the Management Board of Central Cooperative Bank Plc.

He does not own directly more than 25 % of the capital of other commercial companies.

He participates in the management of other commercial companies or cooperatives as a procurator, a manager or a board member: Member of SB of CCB Plc, Skopje – Macedonia. Member of the BD and Executive Director of “CCB Assets Management” AD, UIC 175225001 – Sofia. Member of the BD of “Borica – Bankservice” AD.

Ivaylo Lazarov Donchev – Executive Director and member of the Management Board of Central Cooperative Bank Plc

He does not own directly more than 25 % of the capital of other commercial companies.

He participates in the management of other commercial companies or cooperatives as a procurator, a manager or a board member: Member of the BD of ZAO AKB “Tatinvestbank”, INN 1653005038, Russian Federation, the Republic of Tatarstan, the city of Kazan. Member of the MB of Public Fund “Youth”, UIC 000069926.

Aleksander Dimitrov Kerezov – Member of the Management Board of Central Cooperative Bank Plc

*He owns directly more than 25 % of the capital of other commercial companies, as follows:*SK “HGH Consult” OOD, UIC 130452457.

He participates in the management of other commercial companies or cooperatives as a procurator, a manager or a board member: Member of SB: of “CCB – Sila” pension fund JSC, UIC 825240908 – Sofia. Member of the MB of: “Chimimport” AD, UIC

000627519 – Sofia; “Armeec” insurance company JSC, UIC 121076907 – Sofia; “Bulgarian River Shipping” AD, UIC 827183719 – Ruse; “CCB Group” EAD, UIC 121749139 – Sofia, “Bulgarian Aviation Group” EAD, UIC 131085074 – Sofia; Manager in SK “HGH Consult” OOD, UIC 130452457 – Sofia.

Prof. Dr. Biser Yordanov Slavkov – Member of the Management Board of Central Cooperative Bank Plc

He owns directly more than 25 % of the capital of other commercial companies, as follows: “Slavkov – audit” EOOD, UIC 175295665 – Sofia, ET “Bisser – Bisser Slavkov”, UIC 121535936.

He participates in the management of other commercial companies or cooperatives as a procurator, a manager or a board member: Member of the MB of “Central Cooperative Union”, UIC 000696497 – Sofia. Member of the BD and Executive Director of: Holding “Cooperative Business” AD, UIC 121811740 – Sofia. Manager of: “Slavkov- audit” EOOD, UIC 175295665 – Sofia, Member of the MB of the Institute of Certified Public Accountants, Audit Committee of “Rila Gas” AD, ET “Biser – Biser Slavkov”;

Tsvetanka Donkova Krumova – Member of the Management Board of Central Cooperative Bank Plc

She does not own directly more than 25 % of the capital of other commercial companies.

She participates in the management of other commercial companies or cooperatives as a procurator, a manager or a board member: Member of the MB and Executive Director of “Armeec” insurance company JSC, UIC 121076907; Member of the MB of “CCB SILVA” pension fund JSC, UIC 825240908; Member of the BD of ZAO AKB “Tatinvestbank”, INN 1653005038, Russian Federation, Republic of Tatarstan, the town of Kazan; Member of the BD of OAO SK “Itil”, INN 1656000493, Russian Federation, Republic of Tatarstan, the town of Kazan;

We are not aware of any contracts, concluded between CCB Plc and members of its boards or any related parties, which go beyond the ordinary activity of the Bank or significantly deviate from the market conditions.

In 2012 a Program for training and development of staff within CCB Plc was adopted, which is evaluated at BGN 200,000.

Point 6:

As at 31.12.2012 the activities of the Bank are performed via a head-office in Sofia, Bulgaria, 49 branches and 218 bank offices in Bulgaria and 1 branch in the Republic of Cyprus.

Point 7:

The financial instruments, possessed by the CCB Plc, are: government securities, corporate bonds, shares, shares in mutual funds and compensatory notes to the total amount of BGN 450,108 thousand and are securities and derivatives for trading, financial assets for sale and financial assets held to maturity.

The Bank has government securities of the Republic of Bulgaria to the amount of BGN 215,925 thousand, corporate bonds of Bulgarian and foreign issuers at BGN 144,377

thousand and 50,538 thousand respectively, as well as capital instruments and shares in mutual funds at BGN 27,016 thousand.

The Bank does not consider that there is a significant credit risk, concerning the bond instruments of the Republic of Bulgaria. The greater part of these instruments has a fixed interest rate and the change in the market interest rates does not reflect the interest income from these instruments.

The corporate bonds of Bulgarian issuers are exposed to credit risk, associated with the ability of the issuers to perform their obligations. The risk amount is up to the total amount of held securities. The greater part of those securities has a fixed interest rate and is exposed to a decrease in value upon an increase in the market interest rates.

The equity instruments, possessed by the Bank, are subject to price risk to the amount of the total value of held securities. The greater part of these securities are traded on the Bulgarian Stock Exchange. As far as the indices of the stock exchanges are volatile, there may be losses as a result of a decrease in the prices of shares traded on the stock exchange and negative evaluations of the equity instruments, possessed by the Bank.

The Group's exposures in derivative financial instruments are presented at fair value transactions for purchase and sale of currency, securities, forward contracts and currency swaps on the open market. The major part of them is positions of the Bank clients, associated with purchase and sale of currency and the associated transactions, effected by the Bank. The traded at own expense speculative positions of the Bank in derivate instruments are below 10% of the total fair value of the derivative financial instruments, are not significant and the Bank is not exposed to significant risks, stemming from those instruments.

From the point of view of the nature of the business of the CCB Plc, other significant factors do not have an impact on the evaluation of assets, liabilities, financial state and the result of the Bank.

Sofia

Date: March 29, 2013

Ivaylo Donchev
Executive Director



Tihomir Atanasov
Procurator



**INDEPENDENT AUDITOR'S REPORT AND
ANNUAL SEPARATE FINANCIAL STATEMENTS
DECEMBER 31, 2012**

*This document is a translation of the original text in Bulgarian,
in case of divergence the Bulgarian text shall prevail.*

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Central Cooperative Bank AD

Report on the separate financial statements

We have audited the accompanying separate financial statements of Central Cooperative Bank AD ("the Bank"), which comprise the separate statement of financial position as of December 31, 2012, and the separate statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the separate financial statements

Management is responsible for the preparation and fair presentation of these separate financial statements in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of 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 separate 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 whether the separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the separate financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the separate 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 separate financial statements present fairly, in all material respects, the financial position of Bank as of December 31, 2012, and of its financial performance and its cash flows for the year then ended in accordance with IFRS, as adopted by the European Union.


Other reports on legal and regulatory requirements - Annual separate report on the activities of the Bank according to article 33 of the Accountancy Act

Pursuant to the requirements of the Bulgarian Accountancy Act, article 38, paragraph 4 we have read the accompanying Annual separate report on the activities of the Bank prepared by the Bank's management. The Annual separate report on the activities of the Bank is not a part of the separate financial statements. The historical financial information presented in the Annual separate report on the activities of the Bank prepared by the management is consistent, in all material aspects with the financial information disclosed in the separate financial statements of the Bank as of December 31, 2012, prepared in accordance with IFRS, as adopted by the European Union. Management is responsible for the preparation of the Annual separate report on the activities of the Bank dated March 29, 2013.


Vasko Raichev
Registered Auditor




Deloitte Audit OOD


Assen Dimov
Statutory Manager

March 29, 2013
Sofia

CENTRAL COOPERATIVE BANK AD

SEPARATE STATEMENT OF FINANCIAL POSITION
AS OF 31 DECEMBER 2012

All amounts are in thousand Bulgarian Levs, unless otherwise stated

	Note	As of 31.12.2012	As of 31.12.2011
ASSETS			
Cash and balances with the Central Bank	4	871,577	459,993
Placements with and advances to banks	5	183,623	420,221
Receivables under repurchase agreements	6	63,976	32,444
Financial assets held for trading	7	96,201	71,777
Loans and advances to customers, net	8	1,590,262	1,423,186
Other assets	9	65,993	75,116
Financial assets available for sale	10	201,408	261,088
Financial assets held to maturity	11	152,499	148,246
Investments in subsidiaries	12	59,693	49,416
Property, plant, and equipment	13	61,665	59,899
Non-current assets held for sale	14	2,554	1,826
TOTAL ASSETS		3,349,451	3,003,212
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Deposits from banks	15	31,605	20,855
Loans from banks	16	40,937	42,018
Liabilities under repurchase agreements	17	-	19,882
Amounts owed to other depositors	18	2,869,113	2,576,830
Funds from other sources	19	1,000	762
Subordinated liabilities	20	45,023	-
Other liabilities	21	14,539	10,084
TOTAL LIABILITIES		3,002,217	2,670,431
SHAREHOLDERS' EQUITY			
Issued capital	22.1	113,154	113,154
Premium reserve		79,444	79,444
Reserves, including retained earnings	22.2	143,257	130,633
Revaluation reserves	22.3	1,293	(3,074)
Current year profit		10,086	12,624
TOTAL SHAREHOLDERS' EQUITY		347,234	332,781
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY		3,349,451	3,003,212
Contingent liabilities	32	148,280	157,728

These separate financial statements have been approved by the Management Board and signed on behalf of Central Cooperative Bank AD on 29 March 2013 by:

Ivaylo Donchev
Executive Director

Vasko Raichev
Registered Auditor
29 March 2013



Khomir Atanasov
Procurement

Assen Dimitrov
Statutory Manager
Deloitte Audit OOD



The accompanying notes are an integral part of these separate financial statements.

CENTRAL COOPERATIVE BANK AD

SEPARATE STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012

All amounts are in thousand Bulgarian Levs unless otherwise stated

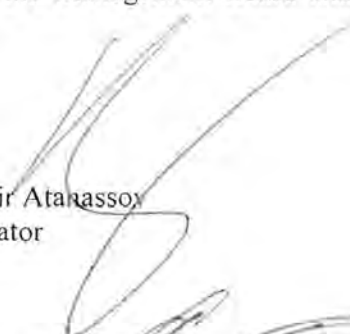
	Note	Year ended 31.12.2012	Year ended 31.12.2011
Interest income	23	165,019	156,121
Interest expenses	23	(112,948)	(103,056)
Net interest income		52,071	53,065
Fees and commissions income	24	35,461	29,071
Net fees and commissions income	24	(4,677)	(4,217)
Fees and commissions income		30,784	24,854
Gains from transactions with securities, net	25	13,094	13,722
Foreign exchange rate gains, net	26	5,890	5,874
Other operating income, net	27	20,844	19,546
Operating expenses	28	(102,365)	(92,852)
Impairment and uncollectibility expense, net	29	(8,650)	(10,028)
Profit for the period before taxes		11,668	14,181
Taxes	30	(1,582)	(1,557)
PROFIT FOR THE PERIOD		10,086	12,624
Earnings per share (in BGN)	31	0.09	0.15
Other comprehensive income after taxes		4,367	1,185
Revaluation of financial assets held for sale		4,367	1,185
TOTAL COMPREHENSIVE INCOME AFTER TAXES		14,453	13,809

These separate financial statements have been approved by the Management Board and signed on behalf of Central Cooperative Bank AD on 29 March 2013 by:

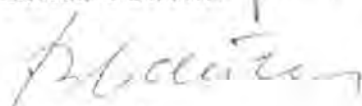
Ivaylo Donchev
Executive Director




Tihomir Atanasov
Procurator



Vasko Raichev
Registered Auditor
29 March 2013



Assen Dimov
Statutory Manager
Deloitte Audit OOD



The accompanying notes are an integral part of these separate financial statements.

CENTRAL COOPERATIVE BANK AD

SEPARATE STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2012

All amounts are in thousand Bulgarian Levs, unless otherwise stated

	Year ended 31.12.2012	Year ended 31.12.2011
Cash flows from operating activities:		
Profit before taxes	11,668	14,181
Depreciation and amortization	7,863	8,765
Income tax paid	(697)	(2,206)
Unrealized (gain) from revaluation of financial assets held for trading	(9,619)	(8,886)
Increase of provisions for liabilities and loans impairment allowances	8,650	10,028
Net cash flows before working capital changes	17,865	21,882
Change in operating assets:		
Decrease in placements with, and advances to, banks with maturities above 90 days	43	12,760
Decrease / (increase) in receivables under repurchase agreements	(31,532)	8,577
(Increase) in financial assets held for trading	(14,805)	(13,764)
(Increase) in loans and advances to customers	(175,726)	(239,122)
Decrease / (increase) in other assets	8,237	(10,501)
(Increase) in non-current assets held for sale	(728)	(792)
	(214,511)	(242,842)
Change in operating liabilities:		
Increase in deposit: from banks	10,750	9,224
Increase/(decrease) in loans from banks	(1,081)	1,956
(Decrease)/increase in liabilities under repurchase agreements	(19,882)	(2,867)
Increase in liabilities to other depositors	292,283	651,938
Increase / (decrease) in funds from other sources	238	(255)
Increase in subordinated liabilities	45,023	-
Increase / (decrease) in other liabilities	4,455	(571)
	331,786	659,425
NET CASH FLOWS FROM OPERATING ACTIVITIES	135,140	438,465
Cash flows from investing activities:		
Acquisitions of property, plant, and equipment, net	(9,628)	(18,372)
Acquisitions of investments in subsidiaries	(10,277)	(3,200)
Acquisitions of financial assets available for sale, net	64,047	(128,078)
Acquisitions of financial assets held to maturity, net	(4,253)	(9,277)
NET CASH FLOWS FROM / (USED IN) INVESTING ACTIVITIES	39,889	(158,927)
Cash flows from financing activities:		
Issue of new paid in equity capital	-	29,999
Premium reserve related to new equity capital issued	-	14,999
NET CASH FLOWS FROM FINANCING ACTIVITIES	-	44,998
INCREASE IN CASH AND CASH EQUIVALENTS, NET	175,029	324,536
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR (Note 33)	877,132	552,596
CASH AND CASH EQUIVALENTS AT THE END OF YEAR (Note 33)	1,052,161	877,132

These separate financial statements have been approved by the Management Board and signed on behalf of Central Cooperative Bank AD on 29 March 2013 by:

Ivaylo Donchev
Executive Director

Vasko Raichev
Registered Auditor
29 March 2013



Tihomir Atanasov
Procurator

Assen Dimov
Statutory Manager
Deloitte Audit OOD



The accompanying notes are an integral part of these separate financial statements.

SEPARATE STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2012

All amounts are in thousand Bulgarian Levs, unless otherwise stated

	Issued paid in capital	Premium reserve	Reserves, including retained earnings	Revaluation reserve	Profit for the year	Total
BALANCE AS OF 31 DECEMBER 2010	83,155	64,445	108,247	(4,259)	22,386	273,974
Transfer of net profit for the year ended 31 December 2010 to retained earnings	-	-	22,386	-	(22,386)	-
Net profit for the year ended 31 December 2011	-	-	-	-	12,624	12,624
Issued and paid in equity capital	29,999	-	-	-	-	29,999
Premium reserve related to new equity capital issued in 2011	-	14,999	-	-	-	14,999
Other comprehensive income for the year ended 31 December 2011	-	-	-	1,185	-	1,185
BALANCE AS OF 31 DECEMBER 2011	113,154	79,444	130,633	(3,074)	12,624	332,781
Transfer of net profit for the year ended 31 December 2011 to retained earnings	-	-	12,624	-	(12,624)	-
Net profit for the year ended 31 December 2012	-	-	-	-	10,086	10,086
Other comprehensive income for the year ended 31 December 2012	-	-	-	4,367	-	4,367
BALANCE AS OF 31 DECEMBER 2012	113,154	79,444	143,257	1,293	10,086	347,234

These separate financial statements have been approved by the Management Board and signed on behalf of Central Cooperative Bank AD on 29 March 2013 by:

Ivaylo Donchev
Executive Director

Vasko Raichev
Registered Auditor
29 March 2013



Tihomir Atanasov
Procurator

Assen Dimov
Statutory Manager
Deloitte Audit OOD



The accompanying notes are an integral part of these separate financial statements.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

All amounts are in thousand Bulgarian Levs, unless otherwise stated

1. OPERATING POLICY

Central Cooperative Bank AD, Sofia (the "Bank") was established in 1991. The Bank's activities and operations are governed by the Law on Banks and the regulations issued by the Bulgarian National Bank ("BNB"). The Bank currently operates under a banking license granted by BNB, pursuant to which it may accept deposits in local and foreign currency, extend loans in local and foreign currency, open and maintain nostro accounts in foreign currency abroad, deal with securities and foreign currency and perform all other banking activities and transactions, permitted by the Law on Credit Institutions.

In December 2005 the Bank obtained a bank license, issued by the Central Bank of Cyprus, under which the Bank is authorized to perform bank activity as a legally licensed bank branch on the territory of the Republic of Cyprus, in compliance with the requirements of the Cyprus Law on Banks. The Bank started its banking activity on the territory of Cyprus in 2007.

The Bank is a public entity and is listed on the Bulgarian Stock Exchange, Sofia. The Bank is a member of the European Association of Cooperative Banks. The Bank has a primary dealer status for transactions with Bulgarian government securities.

As of 31 December 2012 the Bank's operations are conducted through a head-office located in Sofia, Bulgaria, 48 branches and 218 remote offices throughout the country and one branch in the Republic of Cyprus.

2. BASIS FOR THE PREPARATION OF THE SEPARATE FINANCIAL STATEMENTS

General framework for financial reporting

These financial statements are separate financial statements prepared for the year ended 31 December 2012. The amounts in the separate financial statements are stated in thousand Bulgarian levs (BGN'000).

These separate financial statements have been prepared for general purposes under the going concern principle. The separate financial statements have been prepared, in all material respects, in accordance with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB), and the interpretations, issued by the International Financial Reporting Interpretations Committee (IFRIC), approved by the European Union (the "EU") and applicable in the Republic of Bulgaria.

The Bank owns over 50% of the subsidiaries Central Cooperative Bank AD Skopje, the Republic of Macedonia and CCB Assets Management EAD, Sofia, Bulgaria. In accordance with the requirements of IAS 27 „Consolidated and separate financial statements,” the Bank prepares also consolidated financial statements. The consolidated financial statements will be issued in April 2013.

The separate financial statements are prepared under the historical cost convention, modified by the revaluation to fair value of financial assets and liabilities held for trading, available for sale and all derivative contracts. Loans and receivables, and financial assets held to maturity are carried at amortized cost.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2012

All amounts are in thousand Bulgarian Levs, unless otherwise stated

2. BASIS FOR THE PREPARATION OF THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

Changes in IFRS

Standards and Interpretations effective in the current period

The following amendments to the existing standards issued by the International Accounting Standards Board and adopted by the EU are effective for the current period:

- Amendments to IFRS 7 “Financial Instruments: Disclosures” – Transfers of Financial Assets, adopted by the EU on November 22, 2011 (effective for annual periods beginning on or after July 1, 2011).

The adoption of these amendments to the existing standards has not led to any changes in the Bank’s accounting policies.

Standards and Interpretations issued by IASB and adopted by the EU but not yet effective

At the date of authorisation of these separate financial statements the following standards, revisions and interpretations adopted by the EU were in issue but not yet effective:

- IFRS 10 “Consolidated Financial Statements”, adopted by the EU on December 11, 2012 (effective for annual periods beginning on or after January 1, 2014);
- IFRS 11 “Joint Arrangements”, adopted by the EU on December 11, 2012 (effective for annual periods beginning on or after January 1, 2014);
- IFRS 12 “Disclosures of Interests in Other Entities”, adopted by the EU on December 11, 2012 (effective for annual periods beginning on or after January 1, 2014);
- IFRS 13 “Fair Value Measurement”, adopted by the EU on December 11, 2012 (effective for annual periods beginning on or after January 1, 2013);
- IAS 27 (revised in 2011) “Separate Financial Statements”, adopted by the EU on December 11, 2012 (effective for annual periods beginning on or after January 1, 2014);
- IAS 28 (revised in 2011) “Investments in Associates and Joint Ventures”, adopted by the EU on December 11, 2012 (effective for annual periods beginning on or after January 1, 2014);
- Amendments to IFRS 1 “First-time Adoption of IFRS” – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters, adopted by the EU on December 11, 2012 (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IFRS 7 “Financial Instruments: Disclosures” – Offsetting Financial Assets and Financial Liabilities, adopted by the EU on December 13, 2012 (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IAS 1 “Presentation of financial statements” – Presentation of Items of Other Comprehensive Income, adopted by the EU on June 5, 2012 (effective for annual periods beginning on or after July 1, 2012);
- Amendments to IAS 12 “Income Taxes” – Deferred Tax: Recovery of Underlying Assets, adopted by the EU on December 11, 2012 (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IAS 19 “Employee Benefits” – Improvements to the Accounting for Post-employment Benefits, adopted by the EU on June 5, 2012 (effective for annual periods beginning on or after January 1, 2013);

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2012

All amounts are in thousand Bulgarian Levs, unless otherwise stated

2. BASIS FOR THE PREPARATION OF THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

Changes in IFRS

Standards and Interpretations issued by IASB and adopted by the EU but not yet effective (continued)

- Amendments to IAS 32 “Financial instruments: presentation” - Offsetting Financial Assets and Financial Liabilities, adopted by the EU on December 13, 2012 (effective for annual periods beginning on or after January 1, 2014);
- IFRIC 20 “Stripping Costs in the Production Phase of a Surface Mine”, adopted by the EU on December 11, 2012 (effective for annual periods beginning on or after January 1, 2013).

The Bank has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Bank anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the separate financial statements of the Bank in the period of initial application.

Standards and Interpretations issued by IASB but not yet adopted by the EU

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the IASB, except for the following standards, amendments to the existing standards and interpretations, which were not endorsed for use as at the date of publication of separate financial statements:

- IFRS 9 “Financial Instruments” (effective for annual periods beginning on or after January 1, 2015);
- Amendments to IFRS 1 “First-time Adoption of IFRS” - Government Loans (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IFRS 9 “Financial Instruments” and IFRS 7 “Financial Instruments: Disclosures” – Mandatory Effective Date and Transition Disclosures;
- Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 11 “Joint Arrangements” and IFRS 12 “Disclosures of Interests in Other Entities” - Transition Guidance (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosures of Interests in Other Entities” and IAS 27 “Separate Financial Statements” - Investment Entities (effective for annual periods beginning on or after January 1, 2014);
- Amendments to various standards “Improvements to IFRSs (2012)” resulting from the annual improvement project of IFRS published on May 17, 2012 (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after January 1, 2013).

The Bank anticipates that the adoption of these standards, amendments to the existing standards and interpretations will have no material impact on the separate financial statements of the Bank in the period of initial application.

The Bank anticipates that the adoption of these standards, amendments to the existing standards and interpretations will have no material impact on the separate financial statements in the period of initial application, except for the one noted below which might have material effect on the financial statements:

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2012

All amounts are in thousand Bulgarian Levs, unless otherwise stated

2. BASIS FOR THE PREPARATION OF THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

- IFRS 9 Financial Instruments is the first part of the project of the IASB for replacing IAS 39. The project aims to improve the understanding of investors and other users of financial information regarding the presentation of financial assets in the financial statements. IFRS 9 Financial Instruments uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the many different impairment methods in IAS 39.

At the same time, hedge accounting regarding the portfolio of financial assets and liabilities, whose principles have not been adopted by the EU, is still unregulated.

According to the Bank's estimates, application of hedge accounting for the portfolio of financial assets or liabilities pursuant to IAS 39: Financial Instruments: Recognition and Measurement, would not significantly impact the separate financial statements, if applied as at the reporting date.

3. ACCOUNTING POLICY

3.1. Scope and objective

The accounting policy comprises principles and basic assumptions, concepts, rules, practices, bases and procedures, adopted by management for reporting the activity of the Bank, and the preparation and presentation of the financial statements.

The purpose of the accounting policy is to provide the necessary organizational and methodological uniformity in the process of financial reporting of the Bank's activities, aimed at providing a true and fair presentation of the Bank's financial position and result of operations in the annual financial statements.

3.2. Major components of the accounting policy

3.2.1. Interest income and expenses

Interest income and expenses are recognized on a time proportion basis using the effective interest method, as the difference between the amount at initial recognition of the respective asset or liability and the amount at maturity is amortized.

For loans granted by the Bank and amounts owed to depositors, where the interest is calculated on a daily basis by applying the contractual interest rate to the outstanding balance, the effective interest rate is considered to be approximately equal to the contractual interest rate due to the nature of the contractual terms.

Interest earned as a result of holding trading securities or securities available for sale is reported as interest income. Interest income includes the amount of amortization of any discount, premium or other difference between the initial cost of debt securities and their amount at maturity.

Upon acquisition of an interest-bearing investment, the interest accrued as of the acquisition date is accounted for as interest receivable.

3. ACCOUNTING POLICY (CONTINUED)**3.2. Major components of the accounting policy (continued)****3.2.2. Fees and commissions**

Fees and commissions consist mainly of fees for payment transactions in BGN and in foreign currency, fees for granting and management of loans, opening of letters of credit and issuance of guarantees. Fees and commissions are recognized when the service is performed or becomes due.

Commissions arising from foreign currency transactions are reported in the statement of comprehensive income on their receipt. Fees and commissions for granting and management of loans when considered to be part of the effective income are amortized during the loan term and are recognized as current financial income during the period by adjusting the effective interest income.

3.2.3 Foreign currency transactions

Transactions denominated in foreign currency are converted into BGN at rates set by BNB for the transaction date. Receivables and liabilities denominated in foreign currency are converted into BGN as of the date of statement of financial position preparation at the exchange rates of BNB for the same date.

Net foreign exchange rate gains or losses, arising from translation at the rates of BNB as of the transaction date, are included in the statement of comprehensive income for the period, when they arise.

The Bank carries out daily revaluation of all currency assets and liabilities and off-balance sheet positions at the official rate for the respective day. The net gains and losses, arising from revaluation of balance sheet currency positions, are reported in the statement of comprehensive income for the period, in which they arise.

As of 2002 the Bulgarian Lev is fixed to the Euro at the rate of EUR 1 = BGN 1.95583.

The exchange rates of USD and the Bulgarian Lev as of 31 December 2012 and 2011 are as follows:

December 31, 2012	December 31, 2011
USD 1 = BGN 1.4836	USD 1 = BGN 1.51158

3.2.4. Financial assets

Financial assets held for trading are acquired by the Bank with the purpose of generating income from short-term price or dealing margin fluctuations, or they are assets, included in a portfolio, for which a short-term profit realization is probable. These include discount and interest-bearing government securities held for trade, as well as corporate securities of financial and non-financial companies, in which the Bank does not have a controlling interest.

Financial assets available for sale are those financial assets, which are not held for trading, not held to maturity and are not loans and receivables, which have initially originated at the Bank. Financial assets available for sale include acquired interest-bearing government and corporate securities, as well as equity investments in financial and non-financial enterprises, in which the Bank does not have a controlling interest.

3. ACCOUNTING POLICY (CONTINUED)

3.2. Major components of the accounting policy (continued)

3.2.4. Financial assets (continued)

Financial assets held to maturity are assets with fixed payments and maturity, which the Bank has the intention and ability to hold to maturity, irrespective of the possibility to sell them upon arising of favourable conditions in the future. These assets consist of acquired interest-bearing government and corporate securities.

Loans and advances, originated initially by the Bank with a fixed maturity date, are financial assets, incurred by direct granting of funds or services with fixed maturity to certain customers.

Recognition

Financial assets are recognized only when the Bank becomes a party under the contract provisions of the instrument. Their initial recognition is on the contract settlement date /payment date/.

Initial measurement

Financial assets held for trading are recognized initially at fair value. All expenses related directly to the acquisition of the financial asset are reported as current.

Financial assets, other than financial assets held for trading, are recognized initially at fair value, which is equal to the amount of the fair value of the consideration given and the related expenses. The expenses related to the transaction and included in the acquisition cost are fees, commissions and other remuneration paid to agents, brokers, consultants, dealers, and other persons directly involved in the transaction, taxes, charges, permits, etc. paid to stock exchanges and regulatory authorities. All other expenses are reported as current expenses in the period when incurred. Acquisition cost does not include accrued interest on the financial asset, not paid as of the date of acquisition. Such interest is reported as accrued interest receivable.

Subsequent measurement

After initial recognition, financial assets held for trading are stated at fair value. Fair value is determined on the basis of quoted prices on an active market. The difference between the carrying amount of the financial asset and its fair value is reported as a current financial income or current financial expense in the period of occurrence.

After initial recognition, financial assets held for trading are stated at fair value. Fair value is determined on the basis of quoted prices on an active market or other reliable models for measurement, which reflect the specific circumstances of the issuer. The difference between the carrying amount of the financial asset and its fair value is accounted for as an increase or decrease of revaluation reserve. After initial recognition, equity instruments, classified as financial assets available for sale, for which there are no quoted prices on an active market and/or for which no reliable models for measurement can be applied are stated at cost.

After initial recognition, financial assets held to maturity are stated at amortized cost, applying the effective interest method and are not revaluated. Amortized cost is the initial value /acquisition cost/ of the asset, increased by the accumulated amortization for any difference between the initial amount and the amount at maturity, and reduced by repayments of principle, accumulated amortization for any difference between the initial amount and the amount at maturity, and the allowance for impairment and/or uncollectibility. The amortization is calculated by applying the effective interest rate.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2012

All amounts are in thousand Bulgarian Levs, unless otherwise stated

3. ACCOUNTING POLICY (CONTINUED)

3.2. Major components of the accounting policy (continued)

3.2.4. Financial assets (continued)

After initial recognition, loans and advances originated initially by the Bank with fixed maturity are reported at amortized cost, applying the effective interest method and are not subject to revaluation.

The amortized cost is the initial value of the asset, increased by the accumulated amortization for any difference between the initial amount and the amount at maturity, less repayments of the principle and the allowance for impairment and/or uncollectibility. The amortization is calculated by applying the effective interest rate.

Derecognition

Financial assets are derecognized when the Bank loses control over the contractual rights in relation to realizing the rights associated with the asset, waiver of the rights associated with the asset and expiry of the term for realizing of the rights associated with the asset. Net profit or loss as a result of the write off is reported in the statement of comprehensive income in the period of its occurrence. The revaluation reserve accumulated as of the date of derecognition is recognized as current financial expense or financial income.

Impairment for uncollectibility

Financial assets are impaired if any conditions for impairment exist: there is evidence about financial difficulties; there is an actual breach of the contract; the issuer has performed restructuring of the debt; the issuer's securities have been excluded from the stock exchange.

For the purpose of preparation of the financial statements, financial assets available for sale, which are stated at fair value are reviewed for impairment, if impairment is not already provided in the revaluation performed as of the date of annual financial statements. In case of existing condition for impairment, the recoverable amount of financial assets is determined. If the expected recoverable amount of the financial assets is lower than their carrying amount, impairment is provided as follows:

- if at the moment of impairment there is no revaluation reserve – the difference between the carrying amount and the expected recoverable amount is recorded as a current financial expense and a decrease in the value of financial assets;
- if at the moment of impairment there is a revaluation reserve, which is positive and lower than the amount of impairment – the carrying amount of the assets and the amount of the revaluation reserve /which becomes zero/ are decreased by the amount of impairment up to the revaluation reserve balance. The remaining part of the amount of impairment is accounted for as a current financial expense and a decrease in the carrying amount of assets;
- if at the moment of impairment there is a revaluation reserve, which is negative, the difference between the carrying amount and the expected recoverable value is recorded as a current financial expense and a decrease in the value of the financial assets, and the negative value of the revaluation reserve is transferred to and stated in the current financial expenses;
- if at the moment of impairment there is a revaluation reserve, which is positive and is greater than the amount of impairment, the value of the investment and the amount of the revaluation reserve are decreased by the impairment amount.

3. ACCOUNTING POLICY (CONTINUED)

3.2. Major components of the accounting policy (continued)

3.2.4. Financial assets (continued)

Financial assets held to maturity are reviewed for indications of impairment, in relation to preparation of the annual financial statements. Allowances for impairment and uncollectibility of the securities held by the Bank, measured at amortized cost, are determined as the difference between the carrying amount and the present value of the future cash flows, discounted at the original effective interest rate. If the present value of the future cash flows of securities is lower than their carrying amount, then allowance for impairment is provided. The difference is reported as current financial expense and decrease in the value of securities. Decrease of allowances for impairment and uncollectibility is stated in the statement of comprehensive income for the respective period. Recovered amounts, previously written off, are treated as income by releasing the allowances for impairment and uncollectibility for the respective year.

Loans and advances, originated initially by the Bank with a fixed maturity, are reviewed for indications of impairment, in relation to preparation of the annual financial statements. Allowances for impairment and uncollectibility of loans originated by the Bank, measured at amortized cost, are determined as the difference between the carrying amount and the present value of the future cash flows discounted at the loan original effective interest rate, where appropriate. Management determines the expected future cash flows based upon reviews of individual borrowers, loan exposures and other relevant factors. If the present value of the future cash flows of loans is lower than their carrying amount, then allowance for impairment is provided. The difference is reported as a current financial expense and a decrease in the value of loans. Decrease of allowances for impairment and uncollectibility is stated in the statement of comprehensive income for the respective period. Recovered amounts, previously written off, are treated as income by releasing the allowances for impairment and uncollectibility for the respective year. Loans and advances that cannot be recovered are written off and charged against the accumulated allowances for impairment and uncollectibility. Such loans are written off after all necessary legal procedures have been completed and the amount of the loss has been determined.

The Bank has adopted a methodology for the calculation of allowances for impairment of loans based on IFRS and in compliance with the requirements of the banking regulations in Bulgaria. The Bank classifies its loans in several groups. A specified percentage rate for non-regular loans, which are above the minimum required by the regulations, is applied to contractual cash flows as a mean to determine the expected cash flows, which are then to be discounted as stated above. Other specific requirements of the regulations relate to conditions for transfers of non-regular into regular loans and recognition of liquid collaterals with the purpose of assessment of the allowances for impairment and uncollectibility of loans.

The amount of potential losses, which are not exactly identified, but based on previous experience may be expected for a group of loans with similar characteristics, is also charged as provision expense and decrease of the loans' carrying amount. The expected losses are measured based on previous experience, customers' credit rating, and economic environment.

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3. ACCOUNTING POLICY (CONTINUED)

3.2. Major components of the accounting policy (continued)

3.2.5 Investments in subsidiaries

Subsidiaries are those entities in which the Bank's ownership directly or indirectly exceeds 50% of the voting rights or it can exercise control over their operating and financial policy.

In the separate financial statements of the Bank the shares and interests in the subsidiaries are initially recognized at acquisition cost. Subsequently, the Bank performs reviews periodically to determine whether there are indications for impairment. Impairment is recognized in the statement of comprehensive income as impairment losses of investments in subsidiaries.

Dividends in subsidiaries, are recognized and reported in the statement of comprehensive income, when the right of the Bank for receiving dividend is established.

3.2.6. Receivables and liabilities under repurchase agreements

Receivables and liabilities under repurchase agreements are recognized at cost, which is equal to the fair value of the funds placed/obtained by the Bank, secured by the value of the securities. Interest due on the fair value of the funds placed/obtained for the term of the agreement is accounted and recognized as interest income/expense in the period of its occurrence.

Securities pledged as collateral on repurchase agreements are not derecognized in the statement of financial position of the Bank in cases when the risks and rewards of ownership are not transferred.

Securities received as collateral under repurchase agreements are not recorded in the statement of financial position of the Bank in cases when the risks and rewards of ownership are not transferred.

3.2.7. Cash and cash equivalents

Cash and cash equivalents, for the purpose of the cash flows statement preparation, include cash, balances with the Central Bank (BNB) and nostro accounts, which are unrestricted demand deposits at other banks, as well as placements with, loans and advances to other banks with a maturity up to 3 months.

3.2.8. Fair value of financial assets and liabilities

IFRS 7 "Financial Instruments: Disclosure", provides for the disclosure in the notes to the financial statements of information about the fair value of the financial assets and liabilities. For this purpose fair value is defined as the amount, for which an asset can be exchanged, or a liability settled between knowledgeable, willing parties in an arm's length transaction.

It is the policy of the Bank to disclose fair value information on those assets and liabilities, for which published market information is readily available and whose fair value significantly differs from their carrying amounts. The fair value of cash and cash equivalents, deposits and loans, granted by the Bank, other receivables, deposits, borrowings and other current liabilities approximates their carrying amount, in case they mature in a short period of time. Sufficient market experience, as well as stable and liquid market currently do not exist for purchases and sales of loans and equity instruments, for which published market information is not readily available. In the opinion of the management, under these circumstances, the reported recoverable amounts of the financial assets and liabilities are the most reliable and efficient for the purposes of the separate financial statements.

3. ACCOUNTING POLICY (CONTINUED)

3.2. Major components of the accounting policy (continued)

3.2.8. Fair value of financial assets and liabilities (continued)

For the assets and liabilities recognized at fair value in the statement of financial position the Bank discloses for each class financial instruments the hierarchy level of fair value to which the measurements of fair value are categorized in their full scope, each significant transfer between level 1 and 2 of the fair value hierarchy and the respective reasons, as well as reconciliation of opening and closing balances for the level 3 measurements.

Fair value hierarchy

The Bank uses the following hierarchy to measure and disclose the fair value of financial instruments through evaluation technique:

- Level 1: quoted (unadjusted) prices of active markets for identical assets or liabilities;
- Level 2: other techniques for which the whole incoming information that has material effect on the reported fair value is subject to direct or indirect monitoring;
- Level 3: techniques which use incoming information that has material effect on the reported fair value and are not based on monitored market data.

3.2.9. Netting

The financial assets and liabilities are netted, and the net value is presented in the statement of financial position when the Bank is entitled by law to net the recognized values, and the transactions are intended to be settled on a net basis.

3.2.10. Provisions for credit commitments

The amount of provisions for guarantees and other off-balance credit commitments is recognized as an expense and a liability when the Bank has current legal or constructive obligations, which have occurred as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle that obligation and a reasonable estimate of the amount of the liability can be made. Any loss resulting from recognition of provisions for liabilities is reported in the statement of comprehensive income for the respective period.

3.2.11. Derivatives

Derivatives are stated at fair value and recognized in the statement of financial position as derivatives for trading. The fair value of derivatives is based on the market price or relevant valuation models. Derivative assets are presented as part of the financial assets held for trading, while the derivative liabilities are presented as part of other liabilities. Any change in the fair value of derivatives for trade is recognized as a part of the net trading income in the statement of comprehensive income.

3.2.12. Property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets are identifiable non-monetary assets acquired and possessed by the Bank and held for use in the production and/or rendering of services, for renting, administrative and other purposes. They are stated at acquisition cost, less charged depreciation and accumulated losses from impairment.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2012

All amounts are in thousand Bulgarian Levs, unless otherwise stated

3. ACCOUNTING POLICY (CONTINUED)**3.2. Major components of the accounting policy (continued)****3.2.12. Property, plant and equipment and intangible assets (continued)**

Depreciation of property, plant and equipment and amortization of intangible assets are calculated by using the straight-line method designed to write off the assets value over their estimated useful life. The annual depreciation and amortization rates are as follows:

Buildings	4%	(25 years)
Fixtures and fittings	15%	(7 years)
Motor vehicles	15%	(7 years)
Other assets	15%	(7 years)
Special equipment, cable networks and security systems	4%	(25 years)
Equipment, including hardware and software	20%	(5 years)

Land, assets for resale, assets under construction, assets to be disposed and fully depreciated assets are not subject to depreciation.

The management of the Bank has performed a review for impairment of property, plant and equipment and intangible assets as of the date of preparation of these separate financial statements. No evidence of impairment of property, plant and equipment and intangible assets has been identified; therefore they have not been impaired.

3.2.13. Non-current assets held for sale

Real estate property acquired by the Bank as a mortgage creditor on granted and not serviced loans is classified as non-current assets held for trading and is stated initially at cost. After initial recognition, these assets are reported at the lower of the carrying amount or fair value, less expenses for realization. No depreciation is accrued for these assets.

3.2.14. Taxation

Corporate income tax is calculated on the basis of profit for the period and includes current and deferred taxes. Taxes due are calculated in accordance with the Bulgarian tax legislation.

Current income tax is calculated on the basis of the taxable profit, by adjusting the statutory financial result for certain income and expenditure items, not approved for tax purposes, as required under Bulgarian accounting legislation, applicable for banks.

Deferred income taxes are calculated using the balance sheet liability method. Deferred income taxes represent the net tax effect of all temporary differences between the tax basis of assets and liabilities and their carrying amount for financial reporting purposes. Deferred tax assets and liabilities are calculated at the tax rates, which are expected to apply to taxable profit for the period, when the temporary differences are expected to be recovered or settled. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the date of the statement of financial position to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are recognized regardless when the temporary difference is likely to reverse.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2012

All amounts are in thousand Bulgarian Levs, unless otherwise stated

3. ACCOUNTING POLICY (CONTINUED)

3.2. Major components of the accounting policy (continued)

3.2.14. Taxation (continued)

Any tax effect, related to transactions or other events, recognized in the statement of comprehensive income, is also recognized in the statement of comprehensive income and tax effect, related to transactions and events, recognized directly in equity, is also recognized directly in equity.

A deferred tax liability is recognized for all taxable temporary differences unless it arises from the initial recognition of an asset or liability in a transaction, which at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

A deferred tax asset is recognized for all deductible temporary differences to the extent that taxable profit is probable, against which the deductible temporary difference can be utilized, unless the deferred asset arises from the initial recognition of an asset or liability in a transaction, which at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

Current and deferred taxes are recognized as income or expense and are included in the net profit for the period, except to the extent that the tax arises from a transaction or event, which is recognized in the same or different period, directly in equity. Deferred taxes are charged or deducted directly in equity, when the tax relates to items that are charged or deducted in the same or different period, directly in equity.

3.3. Accounting estimates, assumptions and key areas of uncertainty

The presentation of financial statements requires management to apply certain accounting estimates and reasonable assumptions that affect some of the carrying amounts of assets and liabilities, revenues and expenses for the reporting period and disclosures of contingent assets and liabilities. Although these estimates and assumptions are based on the best estimate as of the date of the preparation of the separate financial statements, they may differ from the future actual results.

The most significant areas of uncertainty, which require estimates and assumptions in applying the accounting policies of the Bank are as follows:

- Fair value of the financial instruments;
- Allowances for impairment of loans;
- Useful life of the depreciable assets;
- Impairment of financial assets available for sale.

In the last several years as a result of the global economic crisis different industries and sectors in the Bulgarian economy have marked a decline which causes uncertainty and risks for their development in the foreseeable future. The declining rates of economic development increase the risks of the economic environment in which the Bank operates. Therefore, the amount of impairment losses on loans and advances, financial assets available for sale, other financial instruments, as well as the values of other accounting estimates in subsequent reporting periods may differ from those measured and reported in these separate financial statements. The recoverability of the loans and the adequacy of the recognized impairment losses, as well as the maintaining of the Bank's liquidity ratios depend on the financial position of the borrowers and their ability to settle their obligations at contracted maturity in subsequent reporting periods. Bank's management applies the necessary procedures to manage these risks, as disclosed in note 34.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2012

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3. ACCOUNTING POLICY (CONTINUED)**3.4. Capital management**

The Bank defines its risk-bearing capacity as the amount of financial resources that are available for absorbing losses, which may be incurred due to the risk profile of the Bank. Financial resources are classified into Tiers of risk capital according to their ability to cover losses, ability to defer payments, and permanence.

The Bank calculates, monitors and reports its risk capital for all major risk categories – credit, market and operational risk. In managing its risk capital, the Bank follows the legal framework, as well as its own objectives. Bulgarian banks must maintain Core Tier I Capital Adequacy Ratio of at least 6%, and Total Risk Capital Adequacy Ratio of at least 12%. For 2012 and 2011 the Bank is in compliance with the regulatory requirements for minimum capital adequacy.

4. CASH AND BALANCES WITH THE CENTRAL BANK

	As of 31.12.2012	As of 31.12.2011
Cash in hand:		
In BGN	55,595	57,260
In foreign currency	34,432	42,232
Cash in transit:		
In BGN	1,312	1,968
In foreign currency	1,106	693
Cash in Central Bank:		
Current account in BGN	689,422	268,253
Current account in foreign currency	263	169
Minimum required reserve in foreign currency	88,012	88,012
Reserve guarantee fund RINGS	1,435	1,406
TOTAL CASH AND BALANCES WITH THE CENTRAL BANK	871,577	459,993

The current account with BNB is used for direct participation in the government securities and money market, as well as for the purposes of bank settlement in the country.

Commercial banks in Bulgaria are required to maintain minimum required reserves at BNB. The minimum obligatory reserve, periodically set by BNB, is interest-free and is calculated as a percentage ratio based on the attracted funds in BGN and foreign currency. These reserves are regulated on a monthly basis as any deficit incurs interest penalties. No restrictions are imposed by the Central Bank for using the minimum reserves, as daily fluctuations within the one-month regulation period are allowed.

In compliance with the Ordinances of the Central bank, the Bank allocates reserve guarantee fund to ensure the settlement of payments by means of the Real Time Gross Settlement system RINGS.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)
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5. PLACEMENTS WITH, AND ADVANCES TO BANKS

	As of 31.12.2012	As of 31.12.2011
Term deposits with local banks		
In BGN	15,521	-
In foreign currency	78,946	113,196
Term deposits with foreign banks in foreign currency	53,023	293,379
Nostro accounts with local banks		
In BGN	12,696	11
In foreign currency	2,835	1,678
Nostro accounts with foreign banks in foreign currency	20,602	11,957
TOTAL PLACEMENTS WITH, AND ADVANCES TO BANKS	183,623	420,221

6. RECEIVABLES UNDER REPURCHASE AGREEMENTS

As of 31 December 2012 the Bank has signed repurchase agreements at the total amount of BGN 63,976 thousand, including interest receivables. Part of that is in the amount of BGN 38,456 thousand. The Bank has pledged as collateral Bulgarian government securities having an approximately equal value to secure the receivable. The remaining amount of BGN 25,520 thousand the Bank has pledged as collateral corporate securities having an approximately equal value. The agreements' maturities are between January and June 2012.

As of 31 December 2011 the repurchase agreements amount to BGN 32,444 thousand, including interest receivables.

7. FINANCIAL ASSETS HELD FOR TRADING

Financial assets held for trading consist of trading securities, including the amount of accrued interest, based on their original maturity as well as derivatives, held for trading, as follows:

	As of 31.12.2012	As of 31.12.2011
Medium-term Bulgarian government notes	18,176	8,787
Long-term Bulgarian government notes	723	150
Bulgarian corporate securities	65,050	53,378
Derivatives, held for trading	12,252	9,462
TOTAL FINANCIAL ASSETS HELD FOR TRADING	96,201	71,777

Medium-term Bulgarian government notes

As of 31 December 2012 and 2011 the medium-term Bulgarian government notes amounting to BGN 18,176 thousand and BGN 8,787 thousand, respectively, are stated at fair value and include securities denominated in BGN, issued by the Bulgarian government.

Long-term Bulgarian government bonds

As of 31 December 2012 and 2011 the long-term Bulgarian government bonds amounting to BGN 723 thousand and BGN 150 thousand, respectively, are stated at fair value and include securities in BGN, issued by the Bulgarian government.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)
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7. FINANCIAL ASSETS HELD FOR TRADING (CONTINUED)**Bulgarian corporate securities**

As of 31 December 2012 the Bank owns corporate securities, issued by non-financial companies and financial institutions, amounting to BGN 65,050 thousand as part of that in the amount of BGN 45,836 thousand represent shares of public companies, listed on the Bulgarian Stock Exchange. They are stated in these financial statements at fair value.

As of 31 December 2012 the Bank owns shares in "Texim" Mutual Fund at the amount of BGN 251 thousand.

At 31 December 2011 the Bank owns corporate equity securities of non-financial and financial companies, amounting to BGN 35,582 thousand, as part of them at the amount of BGN 34,840 thousand represents share of equity of the Bulgarian public companies that are traded on the Bulgarian Stock Exchange and are stated in these financial statements at fair value.

Derivatives held for trading

As of 31 December 2012 and 2011 derivatives, held for trading, at the amount of BGN 12,252 thousand and BGN 9,462 thousand respectively, are carried at fair value and include sale-purchase transactions of foreign currency, securities, forward agreements and currency swaps in the open market.

Bulgarian securities pledged as a collateral

As of 31 December 2012 and 2011 government bonds, issued by the Bulgarian government amounting to BGN 6,130 thousand and BGN 148 thousand, respectively, have been pledged as a collateral for servicing of budget accounts.

8. LOANS AND ADVANCES TO CUSTOMERS, NET**(a) Analysis by type of clients**

	As of 31.12.2012	As of 31.12.2011
Individuals:		
In BGN	200,172	229,711
In foreign currency	31,965	36,521
Enterprises:		
In BGN	664,397	549,061
In foreign currency	720,966	633,661
	<u>1,617,500</u>	<u>1,448,954</u>
Allowance for impairment and uncollectibility	(27,238)	(25,768)
TOTAL LOANS AND ADVANCES TO CUSTOMERS, NET	<u>1,590,262</u>	<u>1,423,186</u>

Loans and advances to customers as of 31 December 2012 include deposits with international financial institutions on margin transactions with derivatives amounting to BGN 15,449 thousand (2011: BGN 22,523 thousand), including result of transactions.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

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8. LOANS AND ADVANCES TO CUSTOMERS, NET (CONTINUED)**(b) Analysis by economic sector**

	As of 31.12.2012	As of 31.12.2011
Agriculture and forestry	69,043	54,342
Manufacturing	90,817	107,889
Construction	85,862	77,939
Trade and finance	905,974	748,778
Transport and communications	134,960	111,261
Individuals	232,137	266,232
Other	98,707	82,513
	<u>1,617,500</u>	<u>1,448,954</u>
Allowance for impairment and uncollectibility	(27,238)	(25,768)
TOTAL LOANS AND ADVANCES TO CUSTOMERS, NET	<u>1,590,262</u>	<u>1,423,186</u>

(c) Interest rates

Loans denominated in BGN and foreign currency carry interest at floating rates. Under the terms of these loans, the interest rate is calculated as the Bank base interest rate, plus a margin. The interest rate margin on performing (regular) loans varies from 2% to 5% based on the credit risk associated with the borrower, and a 35% interest is charged as penalty on overdue loans, corresponding to the interest on not allowed overdraft.

9. OTHER ASSETS

	As of 31.12.2012	As of 31.12.2011
Deferred tax assets	183	155
Current tax assets	1,075	1,069
Deferred expenses	6,558	9,184
Established real rights for use of buildings	53,470	60,821
Other assets	4,707	3,887
TOTAL OTHER ASSETS	<u>65,993</u>	<u>75,116</u>

Deferred expenses represent prepaid amounts for advertising, rent, insurance, etc.

The established real rights for use of buildings are received as follows:

- in December 2008 from two Bulgarian commercial companies. The real rights are related to two solid administrative buildings, which are situated in the very centre of Sofia, which will be used for the purposes of the head office of the Bank. The real right of use on the first building is established for a period of 98 months for the amount of EUR 5,372 thousand. The real right of use on the second building is established for a period of 149 months for the amount of EUR 15,598 thousand.

- in June 2010 from a Bulgarian commercial company. The real rights are related to fourteen solid administrative buildings located in several big cities throughout the country, which will be used as Bank's offices. The rights of use on the buildings are established for a period between 115 and 120 months for the total amount of BGN 20,327 thousand.

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9. OTHER ASSETS (CONTINUED)

- in December 2010 the term of the real right of use on one of the administrative buildings situated in the very center of Sofia was extended by three months at the amount of EUR 292 thousand.

- in June 2011 from a Bulgarian commercial company. The real rights are related to eleven solid administrative buildings located in several big cities throughout the country, which will be used as Bank's offices. The rights of use on the buildings are established for a period of 132 months for the total amount of BGN 12,797 thousand.

The carrying amount of established real rights includes also the expenses for taxes and fees related to the establishment. The carrying amount of each real right for use will be amortized on equal parts for the respective period of use of buildings.

10. FINANCIAL ASSETS AVAILABLE FOR SALE

Financial assets available for sale consist of equity and debt securities, including the amount of accrued interest, based on their original maturity and discount, as follows:

	As of 31.12.2012	As of 31.12.2011
Medium-term Bulgarian government bonds	26,108	19,262
Long-term Bulgarian government bonds	39,209	64,869
Foreign government bonds	-	16,179
Equity investments in financial institutions	9	2,918
Equity investments in non-financial institutions	26,927	26,249
Bulgarian corporate securities	79,327	80,694
Foreign corporate securities	29,748	50,836
Other	80	81
TOTAL FINANCIAL ASSETS AVAILABLE FOR SALE	201,408	261,088

Bulgarian securities, pledged as collateral

As of 31 December 2012 government bonds issued by the Bulgarian government amounting to BGN 62,852 thousand are pledged as collateral for servicing of budget accounts.

Equity investments in financial institutions

As of 31 December 2012 equity investments in financial institutions include shares in commercial banks.

Equity investments in non-financial institutions

As of 31 December 2012 equity investments in non-financial institutions comprise shares in commercial companies and in mutual funds.

Bulgarian corporate securities

As at 31 December 2012 the Bulgarian corporate securities available for sale represent bonds. None of these investments are in a subsidiary or in an associated company.

Foreign corporate securities

As at 31 December 2012 foreign corporate securities available for sale represent bonds in two commercial companies.

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11. FINANCIAL ASSETS HELD TO MATURITY

Financial assets held to maturity represent Bulgarian government bonds and bonds of foreign commercial company, including the amount of the accrued interest and discount/premium, based on original maturity, as follows:

	As of 31.12.2012	As of 31.12.2011
Medium-term Bulgarian government bonds	50,143	53,494
Long-term government bonds	81,566	73,849
Corporate securities	20,790	20,903
TOTAL FINANCIAL ASSETS HELD TO MATURITY	152,499	148,246

Bulgarian securities pledged as a collateral

As of 31 December 2012 and 2011 government bonds issued by the Bulgarian government issued at the amount of BGN 80,833 thousand and BGN 94,569 thousand, respectively, are pledged as collateral for servicing budget accounts.

12. INVESTMENTS IN SUBSIDIARIES**12.1. Investment in subsidiary Central Cooperative Bank, Skopje, Republic of Macedonia**

In February 2008 the Bank acquired control on the equity of the subsidiary Central Cooperative Bank, Skopje (in the Republic of Macedonia). In October 2009 22,354 ordinary voting shares owned by the Bank are converted into privileged shares with no voting rights. In December 2009 Central Cooperative Bank AD Skopje withdrew 208 of its own privileged shares.

In 2010 by resolution of the General meeting of the shareholders of the subsidiary all privileged shares with no voting rights were converted into ordinary voting shares as one privileged share with no voting rights for one ordinary voting share. As of 31 December 2010 the Bank owns 263,696 ordinary voting shares representing 82.63% of the subsidiary's equity at the amount of BGN 34,881 thousand.

12.2. Investment in subsidiary Stater Bank, Kumanovo, Republic of Macedonia

In April 2010 the Bank acquired 317,864 ordinary voting shares of the share capital of Stater Bank, Kumanovo, Republic of Macedonia and obtained control of the equity of the subsidiary. Before the acquisition the Bank owned 5,975 privileged shares with no voting rights of the subsidiary. Later, within the year, by resolution of the General meeting of the shareholders of the subsidiary all privileged shares with no voting rights were converted into ordinary voting shares as one privileged share with no voting rights equalled one ordinary voting share. As of 31 December 2010 the Bank owns 323,839 ordinary voting shares representing 93.79% of the subsidiary's equity. As of 31 December 2010 the Bank's investment in the subsidiary amounts to BGN 11,336 thousand.

On 9 December 2010, by resolutions of the General meetings of the shareholders of the subsidiaries Stater Bank AD Kumanovo and Central Cooperative Bank AD Skopje an agreement was reached to merge Stater Bank AD Kumanovo into Central Cooperative Bank AD Skopje. According to this merger agreement Central Cooperative Bank AD Skopje issued 233,944 new ordinary shares with nominal value EUR 41,2069 or 593,795,205 denari each. All new shares were given only to the shareholders of Stater Bank AD Kumanovo and the coefficient of exchange of the existing shares of Stater bank AD Kumanovo with the shares of the new issue was 1:0.6776. As a result of the exchange Central Cooperative Bank AD Sofia acquired 219,425 ordinary shares of the new issue of Central Cooperative Bank AD Skopje in place of the 323,839 ordinary shares in the equity of Stater Bank AD Kumanovo owned as of 31 December 2010.

12. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

12.2. Investment in subsidiary Stater Bank, Kumanovo, Republic of Macedonia (continued)

On 3 January 2011 the merger of Stater Bank AD Kumanovo in Central Cooperative Bank AD Skopje was concluded and all assets of Stater Bank AD Kumanovo were transferred to Central Cooperative Banks AD Skopje. On 3 January 2011, by decision of the Central Register of Republic of Macedonia, Stater Bank AD Kumanovo ceased to exist as legal entity. After the merger conclusion the capital of Central Cooperative Bank AD Skopje consists of 553,087 ordinary shares with nominal value EUR 41,2069 each.

As of 31 December 2011 Central Cooperative Bank AD Sofia owns 483,121 ordinary shares in the equity of Central Cooperative Bank AD Skopje which represents 87.35% of the share capital of the subsidiary. As of 31 December 2011 the Bank's investment in its subsidiary amounts to BGN 46,216 thousand.

In 2012, there is no changes in the shareholding of the Central Cooperative Bank AD, Sofia in Central Cooperative Bank AD, Skopje, and therefore as of 31 December 2012 Central Cooperative Bank AD, Sofia owns 483,121 ordinary shares in the equity of Central Cooperative Bank AD Skopje which represents 87.35% of the share capital of the subsidiary. As of 31 December 2012 the Bank's investment in its subsidiary amounts to BGN 46,216 thousand.

12.3. Investment in subsidiary Management Company CCB Assets Management EAD, Sofia, Bulgaria

In December 2011 the Bank acquired 500,000 non-materialised, ordinary shares by name, with voting rights, and with nominal value of BGN 1.00 each, representing 100% of the capital of the Management Company CCB Assets Management EAD with which the Bank received controlling interest in the capital of the subsidiary. As of 31 December 2011 the Bank's investment in its subsidiary amounts to BGN 3,200 thousand.

In 2012, there is no changes in the shareholding of the Central Cooperative Bank AD, Sofia in Management Company CCB Assets Management EAD, therefore as of the 31 December 2012 Central Cooperative Bank AD, Sofia owns 500,000 ordinary shares of Management Company CCB Assets Management EAD, which represents 100% of the share capital of the subsidiary. As of 31 December 2012 the Bank's investment in its subsidiary amounts to BGN 3,200 thousand.

12.4. Investment in subsidiary ZAO AKB "TatInvestBank", Kazan, the Republic of Tatarstan, Russian Federation

In May 2012 the Bank acquired 15,000,000 ordinary shares with voting rights and a nominal value of RUB 10 each from the share capital increase of ZAO AKB "TatInvestBank", Kazan, the Republic of Tatarstan, Russian Federation by which obtained a controlling interest in the subsidiary's share capital. Before the acquisition the Bank owns 1,422,630 ordinary shares with voting rights of the subsidiary's equity. Later in the year, the Bank acquired additional 3,351 ordinary shares with voting rights of the subsidiary's share capital. As of 31 December 2012 the Bank owns 16,425,981 ordinary shares with voting rights, representing 55,93% of the subsidiary's share capital.

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13. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Equipment	Motor vehicles	Fixtures and fittings	Fixed assets in process of acquisition	Other fixed assets	Total
1 January 2011	26,037	23,291	4,552	19,007	1,528	23,238	97,653
Acquisitions	866	686	25	262	20,629	25	22,493
Disposals	(4,653)	(179)	(163)	(95)	(439)	(240)	(5,769)
31 December 2011	22,250	23,798	4,414	19,174	21,718	23,023	114,377
Acquisitions	9,326	3,485	1,025	1,021	11,171	471	26,499
Disposals	(8,101)	(28)	(317)	(46)	(11,799)	-	(20,291)
31 December 2012	23,475	27,255	5,122	20,149	21,090	23,494	120,585
Depreciation							
1 January 2011	6,213	17,279	3,705	8,715	-	11,448	47,360
Net charge for period	947	2,068	368	2,405	-	2,977	8,765
Depreciation on disposals	(1,094)	(177)	(163)	(87)	-	(126)	(1,647)
31 December 2011	6,066	19,170	3,910	11,033	-	14,299	54,478
Net charge for period	747	1,658	365	2,336	-	2,757	7,863
Depreciation on disposals	(3,036)	(28)	(317)	(40)	-	-	(3,421)
31 December 2012	3,777	20,800	3,958	13,329	-	17,056	58,920
Net book value							
31 December 2011	16,184	4,628	504	8,141	21,718	8,724	59,899
31 December 2012	19,698	6,455	1,164	6,820	21,090	6,438	61,665

The tangible assets in progress include repair works, performed by the Bank, concerning the reconstruction of the leased premises into bank offices, whereas the repair works have not been finished as at the date of preparing the separate statement of financial position.

14. NON-CURRENT ASSETS HELD FOR SALE

Non-current assets held for sale represent property acquired by the Bank at the end of 2010 and during 2011 as mortgage creditor on granted and not serviced loans. These assets will not be used in Bank's activity, hence actions for their sale in 2013 have been commenced.

15. DEPOSITS FROM BANKS

	As of 31.12.2012	As of 31.12.2011
Demand deposits – local banks:		
- in BGN	1,537	4,116
- in foreign currency	793	3,272
Demand deposits – foreign banks in foreign currency	1,013	898
Term deposits – local banks in BGN	17,995	4,040
Term deposits – foreign banks in foreign currency	10,267	8,529
TOTAL DEPOSITS FROM BANKS		
Demand deposits – local banks:	31,605	20,855

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16. LOANS FROM BANKS

As of 31 December 2012 the Bank has received loans from Bulgarian Development Bank as follows:

- under a program for target refinancing of commercial banks at the amount of BGN 35,875 thousand as the funds for the loan are provided to the Bank for mid-term and long-term investment crediting and project financing for technical renovation, implementing of new technologies, know-how, increase of competitiveness and export potential, projects of the structural fund of the EU and short-term pre-export financing of small and middle-sized enterprises registered under the Commercial Act. The deadline for the loan repayment is 30 December 2018 with lump-sum payment. The Bank owes 5% interest on an annual basis over the outstanding portion of the loan. In December 2012 the Bank took a decision for early repayment of the loan and the repayment was made on 2 January 2013. As a result of the repayment, interest expense of the Bank will decrease in 2012.
- under program for granting target credit lines to commercial banks for refinancing agricultural producers at the amount of BGN 5,062 thousand, including interest payables. The deadline for the loan repayment is 30 March 2014 with lump-sum payment. The Bank owes 5% interest on an annual basis over the outstanding portion of the loan.

17. LAIBILITIES UNDER REPURCHASE AGREEMENTS

As of 31 December 2012 the Bank has no concluded securities repurchase agreements.

As of 31 December 2011 the Bank has concluded securities repurchase agreements with Bulgarian companies and a foreign entity at the total amount of BGN 19,882 thousand, including interest payables. The Bank has secured this liability by establishing a pledge on Bulgarian government securities. The maturity of these agreements is between January – March 2012.

18. AMOUNTS OWED TO OTHER DEPOSITORS**(a) Analysis by term and currency**

	As of 31.12.2012	As of 31.12.2011
Demand deposits		
In BGN	512,360	405,480
In foreign currency	133,125	107,313
	645,485	512,793
Term deposits		
In BGN	1,097,826	988,070
In foreign currency	930,208	954,955
	2,028,034	1,943,025
Savings accounts		
In BGN	101,291	69,128
In foreign currency	66,746	38,872
	168,037	108,000
Other deposits		
In BGN	18,439	7,499
In foreign currency	9,118	5,513
	27,557	13,012
TOTAL AMOUNTS OWED TO OTHER DEPOSITORS	2,869,113	2,576,830

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18. AMOUNTS OWED TO OTHER DEPOSITORS (CONTINUED)**(b) Analysis by customer and currency type**

	As of 31.12.2012	As of 31.12.2011
Deposits of individuals		
In BGN	1,091,944	954,963
In foreign currency	766,219	736,770
	<u>1,858,163</u>	<u>1,691,733</u>
Deposits of enterprises		
In BGN	619,533	507,715
In foreign currency	363,860	364,370
	<u>983,393</u>	<u>872,085</u>
Deposits of other institutions		
In BGN	18,439	7,499
In foreign currency	9,118	5,513
	<u>27,557</u>	<u>13,012</u>
TOTAL AMOUNTS OWED TO OTHER DEPOSITORS	<u><u>2,869,113</u></u>	<u><u>2,576,830</u></u>

19. OTHER ATTRACTED FUNDS

As of 31 December 2012 and 2011 other attracted funds include financing from the State Agricultural Fund amounting to BGN 1,000 thousand and BGN 762 thousand (including interest) respectively, for granting loans to the agricultural sector. The credit risk for collectability of these loans shall be assumed by the Bank.

20. SUBORDINATED LIABILITIES

In December 2012 the Bank has concluded a contract for subordinated term debt with CCB Group EAD under requirements of Regulation №8, dated 14.12.2006 of BGN on the Capital Adequacy of Credit Institutions, and as a result the Bank has received a loan at the amount of BGN 45,000 thousand at 4.5% annual interest rate. The loan matures in December 2019, as a one-off repayment at maturity. Under the terms of the contract early repayment of debt is possible only after a preliminary written permission of BNB, while the creditor has no right to declare acceleration of the loan under any circumstances.

21. OTHER LIABILITIES

	As of 31.12.2012	As of 31.12.2011
Liabilities for unused paid leave	1,388	1,054
Derivatives, held for trading	8,264	6,098
Other liabilities	4,538	2,617
Deferred income	349	315
TOTAL OTHER LIABILITIES	<u><u>14,539</u></u>	<u><u>10,084</u></u>

Derivatives held for trading

As of December 31, 2012 and 2011 derivatives held for trading at the amount of BGN 8,264 thousand and BGN 6,098 thousand are presented at fair value and include sale and purchase transactions of foreign currency, securities, forward contracts and foreign currency swaps on open market.

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22. EQUITY**22.1 ISSUED CAPITAL**

As of December 31, 2012 and 2011 the issued, called-up and fully paid-in share capital of the Bank comprises 113,154,291 and 113,154,291 ordinary voting shares with a nominal value of BGN 1.

The Bank's Parent company CCB Group EAD is a subsidiary of Chimimport AD, which is a public company and its shares are traded on the Bulgarian Stock Exchange.

Principal shareholders	2012		2011	
	Share capital	Percentage rate	Share capital	Percentage rate
CCB Group EAD	77,584	68.56	72,522	64.09
Chimimport AD	5,811	5.14	11,202	9.90
Loriyan EOOD	3,917	3.46	-	-
ZAD Armeec AD	3,783	3.34	3,783	3.34
Universal Pension Fund Suglasie	1,685	1.49	5,804	5.13
Other	20,374	18.01	18,567	16.41
Artio International Equity Fund	-	-	1,276	1.13
	<u>113,154</u>	<u>100</u>	<u>113,154</u>	<u>100</u>

22.2 RESERVES, INCLUDING RETAINED EARNINGS

As of December 31, 2012 reserves, including retained earnings include undistributable portion of BGN 7,059 thousand and distributable portion of BGN 136,198 thousand.

22.3 REVALUATION RESERVE

The revaluation reserve is formed by revaluation of financial instruments available for sale.

23. INTEREST INCOME/ INTEREST EXPENSE

	Year ended 31.12.2012	Year ended 31.12.2011
Interest income by source:		
Loans	143,855	132,697
Securities	18,788	18,275
Deposits in banks	2,376	5,149
TOTAL INTEREST INCOME	<u>165,019</u>	<u>156,121</u>
	Year ended 31.12.2012	Year ended 31.12.2011
Interest expenses by recipients:		
Deposits to customers	110,209	100,013
Deposits to banks	465	554
Loans	2,082	2,000
Other	192	489
TOTAL INTEREST EXPENSES	<u>112,948</u>	<u>103,056</u>

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24. INCOME FROM/EXPENSES FOR FEES AND COMMISSIONS

	Year ended 31.12.2012	Year ended 31.12.2011
Granting and repayment of loans	5,680	2,194
Servicing of off-balance sheet commitments	1,276	1,163
Servicing of accounts	2,824	2,507
Bank transfers - domestic and international	17,844	17,598
Other income	7,837	5,609
TOTAL FEES AND COMMISSIONS INCOME	35,461	29,071
	Year ended 31.12.2012	Year ended 31.12.2011
Servicing of accounts	166	164
Bank transfers - domestic and international	3,671	3,596
Securities' transactions	407	70
Clearing valuable consignments	208	158
Other expenses	225	229
TOTAL EXPENSES FOR FEES AND COMMISSIONS	4,677	4,217

25. GAINS FROM DEALING WITH SECURITIES, NET

	Year ended 31.12.2012	Year ended 31.12.2011
Gains on dealing with securities available for sale, net	2,677	3,096
Gains on dealing with securities held for trading, net	798	1,740
Gains on revaluation of securities held for trading, net	9,619	8,886
TOTAL GAINS FROM DEALING WITH SECURITIES, NET	13,094	13,722

26. FOREIGN EXCHANGE GAINS, NET

Net foreign exchange gains arise from:

	Year ended 31.12.2012	Year ended 31.12.2011
Dealing gains, net	7,119	5,105
Revaluation gains/(loss), net	(1,229)	769
TOTAL FOREIGN EXCHANGE GAINS, NET	5,890	5,874

Dealing gains represent net gains arising from purchases and sales of foreign currency. Revaluation loss represent loss in BGN arising from the revaluation of assets and liabilities, denominated in foreign currency.

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27. OTHER OPERATING INCOME, NET

	Year ended 31.12.2012	Year ended 31.12.2011
Income from dividends	802	283
Income from cession contracts	7,181	12,046
Income from sale of property, plant and equipment	12,173	4,383
Other operating income	688	2,834
TOTAL OTHER OPERATING INCOME, NET	20,844	19,546

The income from cession contracts in 2012 originates from cash receivables under loan agreements, which were transferred on the part of the Bank through cession contracts at the amount of BGN ,181 thousand. In 2011 income from cession contracts amounted to BGN 12,046 thousand.

28. OPERATING EXPENSES

	Year ended 31.12.2012	Year ended 31.12.2011
Salaries and other personnel costs	31,731	29,448
Administrative and marketing costs	43,295	38,411
Other expenses	16,754	13,566
Depreciation/amortization	7,862	8,766
Materials and repair works	2,723	2,661
TOTAL OPERATING EXPENSES	102,365	92,852

29. NET EXPENSES FOR IMPAIRMENT AND UNCOLLECTIBILITY

	Loans granted to clients
BALANCE AS OF JANUARY 1, 2011	22,955
Charges for the period	16,815
Recoveries during the period	(6,787)
Written off	(7,215)
BALANCE AS OF DECEMBER 31, 2011	25,768
Charges for the period	17,166
Recoveries during the period	(8,516)
Written off	(7,180)
BALANCE AS OF DECEMBER 31, 2012	27,238

30. TAXES

Tax expenses are presented as follows:

	Year ended 31.12.2012	Year ended 31.12.2011
Current tax expenses	1,610	1,550
Income from deferred taxes, related to the origination and reversal of temporary differences	(28)	7
TOTAL TAX EXPENSES	1,582	1,557

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)
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30. TAXES (CONTINUED)

Current tax expenses represent the amount of the tax due according to Bulgarian legislation and the applicable tax rates of 10% for 2012 and 2011. Deferred tax income and expenses result from the change in the carrying amount of deferred tax assets and liabilities. The deferred tax assets and liabilities as of December 31, 2011 and 2010 are calculated based on the tax rate of 10%, effective for 2013 and 2012.

Deferred tax assets are as follows:

	As of 31.12.2012	As of 31.12.2011
Deferred tax assets:		
Other liabilities (unused annual paid leaves)	157	118
Property, plant and equipment and intangible assets	26	37
DEFERRED TAX ASSET	183	155

Deferred tax liabilities are as follows:

	As of 31.12.2012	As of 31.12.2011
Deferred tax liabilities:		
Merge of entities during 2010	209	209
DEFERRED TAX LIABILITY	209	209

The relationship between tax expense in the statement of comprehensive income and the accounting profit is as follows:

	Year ended 31.12.2012	Year ended 31.12.2011
Profit before taxes	11,668	14,181
Taxes at applicable tax rates: 10% for 2012 and 10% for 2011	1,167	1,418
Tax effect on non-taxable income/non-taxable deductible expenses from transactions with shares on a regulated local exchange, dividends and other	415	139
TAX EXPENSES	1,582	1,557
EFFECTIVE TAX RATE	13,56	10,98%

31. EARNINGS PER SHARE (IN BGN)

	Year ended 31.12.2012	Year ended 31.12.2011
Net profit before tax in BGN thousands	10,086	12,624
Weighted average number of shares	113,154,291	84,548,497
EARNINGS PER SHARE (IN BGN)	0.09	0.15

The basic earnings per share is determined by dividing the net profit for the period, attributable to ordinary shareholders, by the weighted average number of ordinary shares outstanding during the years ended December 31, 2012 and 2011, respectively.

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31. EARNINGS PER SHARE (IN BGN) (CONTINUED)

The weighted average number of shares is calculated as a sum of the number of ordinary shares outstanding at the beginning of the period and the number of ordinary shares issued during the period, as every of the above sums is multiplied by the time-weighting factor in advance.

The Bank does not have potentially dilutive instruments and diluted earnings per share is the same as basic earnings per share.

32. CONTINGENT LIABILITIES

The total amount of contingent liabilities as of the year end is as follows:

	As of 31.12.2012	As of 31.12.2011
Bank guarantees		
In BGN	27,510	22,702
In foreign currency	47,902	46,633
Irrevocable commitments	72,797	88,295
Other contingent liabilities	71	98
TOTAL CONTINGENT LIABILITIES	148,280	157,728

As of December 31, 2012 and 2011 the Bank has signed contracts for granting loans to customers at the total amount of BGN 72,797 thousand and BGN 88,295 thousand, respectively. The future utilization of these amounts depends on the customers' ability to meet certain criteria, including no record of overdue payments on previously granted loans, provided collateral with suitable quality and liquidity, etc.

33. ANALYSIS OF CHANGES IN CASH AND CASH EQUIVALENTS

	Year ended 31.12.2012	Year ended 31.12.2011
Cash	92,445	102,153
Balances with the Central Bank	779,132	357,840
Placements with, and advances to, banks with residual maturity up to 3 months	180,584	417,139
AS OF DECEMBER 31	1,052,161	877,132

34. FINANCIAL RISK MANAGEMENT

The risk inherent to the Bank's operations with financial instruments is the possibility that actual proceeds from owned financial instruments could differ from the estimated ones. The specifics of banking necessitate adequate systems for timely identification and management of different types of risk as emphasis is put on risk management procedures, mechanisms for maintaining risk in reasonable limits, optimal liquidity and portfolio diversification. The main risk management goal is to present and analyse the types of risks, which the Bank is exposed to, in a convincing and comprehensive manner.

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34. **FINANCIAL RISK MANAGEMENT (CONTINUED)**

The risk management system has preventive functions for loss prevention and control of the amount of incurred loss and includes:

- Risk management policy;
- rules, methods and procedures for assessment and risk management;
- risk management organizational structure;
- parameters and limits for transactions and operations;
- procedures for reporting, assessment, notification and subsequent control of risks.

The main underlying principles in the Bank's risk management policy are:

- separation of responsibilities between those taking the risk and those managing risk;
- the principle of caution, which presumes the consideration of the worst case scenario for each of the risk weighted assets;
- the principle of source risk management.

The risk management organizational structure is centralized and structured in terms of competency levels as follows:

- Management Board - determines the acceptable levels of risk for the Bank within the adopted development strategy;
- Special collective bodies – prepare proposals to MB, the Executive directors and the Procurator regarding the Bank's risk management framework and activity parameters;
- Executive directors and Procurator – fulfil the general control, organize and manage the approval process and application of adequate policies and procedures within the frameworks of the risk management strategy, adopted by the Bank;
- Heads of structural units within the Bank - implement the adopted risk management policy in the organization of the activities of the respective organizational units.

The Bank's exposures in derivative financial instruments are presented at fair value transactions for the purchase and sale of foreign currency, securities, forward contracts and foreign currency swaps on the open market. Most of them represent positions of the Bank's clients for foreign currency sale and purchase transactions and the related transactions on behalf of the Bank. The traded on the Bank's account speculative positions in derivative instruments are less than 10% of the total fair value of the derivative financial instruments, with insignificant amount and the Bank is not exposed to the respective risks inherent to such instruments.

The nature and the essence of the risks, inherent to financial instruments of the Bank are as follows:

Credit risk

Credit risk is the risk of loss due to the probability that a counterparty will be unable to pay its obligations when due or at all. The Bank manages the credit risk inherent for banking portfolio and trade portfolio. For the individual business segments the Bank applies individual credit policies.

34. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

For credit risk limitation, the Bank has implemented system of limits by classes, exposures, business sectors, geographical regions, client's profile and credit groups bearing common risk. The limits define the risk appetite and tolerance to credit risk and the capital planned allocation needed for its covering.

To mitigate credit risk, respective collaterals and guarantees are required according to the internal credit rules, the applied approach for calculating the capital requirements and the Bulgarian legislation in effect.

Cash and balances with the Central bank at the amount of BGN 871,577 thousand does not bear credit risk to the Bank due to their nature and the fact that they are at the Bank's disposal.

Placements with, and advances to banks at the amount of BGN 183,623 thousand comprise mostly deposits in first-class international and Bulgarian financial institutions with maturity up to 7 days. Generally, according to the policy of the Bank, these financial assets bear some credit risk as its maximum exposure as per the Bank's policy can be is 20 %, 50% and 100% as the percentage is defined based on the quality characteristics of the financial institution. As of December 31, 2012 the absolute amount of this type of risk is BGN 37,456 thousand.

Receivables under repurchase agreements of securities at the amount of BGN 63,976 thousand bears credit risk for the Bank depending on the provided collateral. Part of the receivables at the amount of BGN 39,860 thousand does not bear credit risk for the Bank due to the fact that they are secured by Bulgarian government securities, guaranteed by the Republic of Bulgaria. The residual part of the receivables at the amount of BGN 24,116 thousand are secured with corporate securities and bears 100% risk.

Financial assets held for trading at the amount of BGN 96,201 thousand bear mainly market risk for the Bank which is discussed in the market risk disclosures.

Equity securities, available for sale at the amount of BGN 27,016 thousand represent shares in financial and non-financial enterprises and mutual funds which bear maximum credit risk exposure of 100% as a percentage or of BGN 27,016 thousand as an absolute amount.

Debt securities available for sale and issued by the Republic of Bulgaria at the amount of BGN 65,317 do not bear credit risk as they are guaranteed by the Bulgarian state.

Debt securities available for sale and issued by local and foreign commercial companies at the amount of BGN 109,075 thousand bear credit risk for the Bank with maximum exposure 100% or BGN 109,075 thousand as an absolute amount.

Debt securities held to maturity and issued by the Republic of Bulgaria at the amount of BGN 131,709 thousand do not bear credit risk for the Bank due to the fact that they are guaranteed by the Bulgarian State.

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34. FINANCIAL RISK MANAGEMENT (CONTINUED)**Credit risk (continued)**

Debt securities held to maturity and issued by foreign commercial companies at the amount of BGN 20,790 thousand bear credit risk for the Bank with maximum exposure 100% or BGN 20,790 thousand as an absolute amount.

The investments in the subsidiaries of the Bank, Central Cooperative Bank AD, Skopje, in the Republic of Macedonia, ZAO AKB "TatInvestBank", city of Kazan, republic Tatarstan, Russian federation and Management company "CCB Assets Management" EAD, Sofia, Republic of Bulgaria amounts to BGN 59,693 thousand bear a credit risk, the maximum exposure of which is 100% or BGN 59,693 thousand as an absolute amount.

Loans and advances to customers with carrying amount of BGN 1,617,500 thousand bear credit risk for the Bank. In order to determine the Bank's exposure to this risk, an analysis of each individual risk for the Bank, arising from each particular exposure is conducted by applying criteria for risk exposures assessment and classification in compliance with the banking legislation of the Republic of Bulgaria. According to these criteria and the conducted analysis, the maximum exposure to credit risk of the Bank is at the amount of BGN 1,345,242 thousand. For credit risk mitigation purposes, detailed procedures for analysis of the economic reasonableness of every project, types of collateral acceptable to the Bank, control over granted funds and the respective administration are applied in the lending process.

The Bank keeps ratio of total capital adequacy above the regulatory requirements, generally as a precaution against the risk from concentrations. The acceptance and control over the limits for credit risk restrains the concentrations of risk exposures by geographical regions, sectors, business segments and credit groups bearing common risk.

The Bank has adopted methodology for calculation of allowances for impairment of loans and advances to customers in compliance with the requirements of the banking legislation in the Republic of Bulgaria and the applicable accounting standards.

As of December 31, 2012 the allocated allowances for impairment loss of loans and advances to customers are at the amount of BGN 27,238 thousand.

Quality of the credit portfolio

Classification groups as of December 31, 2012:

Debt Group	By granted loans			Undrawn commitment Amount	By provided letters of guarantee		
	Amount	%	Allowances		Amount	%	Allowances
Regular	1,528,632	94,51	2,627	72,017	75,412	100	-
Watch	24,368	1,51	913	488	-	-	-
Irregular	20,756	1,28	3,286	167	-	-	-
Non-performing	43,744	2,70	20,412	125	-	-	-
Total	1,617,500	100	27,238	72,797	75,412	100	-

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34. FINANCIAL RISK MANAGEMENT (CONTINUED)

Quality of the credit portfolio (continued)

Classification groups as of December 31, 2011:

Debt Group	By granted loans			Undrawn commitment Amount	By provided letters of guarantee		
	Amount	%	Allowances		Amount	%	Allowances
Regular	1,345,226	92,84	3,044	87,112	69,335	100	-
Watch	32,168	2,22	1,210	525	-	-	-
Irregular	27,533	1,90	2,833	129	-	-	-
Non-performing	44,027	3,04	18,681	529	-	-	-
Total	1,448,954	100	25,768	88,295	69,335	100	-

The loans granted by the Bank can be summarized in the following table:

Groups	31.12.2012				31.12.2011			
	Loans, granted to non-financial customers		Loans, granted to banks and receivables under repurchase agreements		Loans, granted to non-financial customers		Loans, granted to banks and receivables under repurchase agreements	
	BGN' 000	%			BGN' 000	%		
Neither past due nor impaired	1,121,149	69,31		63,976	938,793	64,79		32,444
Past due but not impaired	452,331	27,97		-	465,503	32,13		-
Impaired on individual basis	44,020	2,72		-	44,658	3,08		-
Total	1,617,500	100		63,976	1,448,954	100		32,444
Allowances for impairment provided	(27,238)			-	(25,768)			-
Net loans	1,590,262			63,976	1,423,186			32,444

As of December 31, 2012 and 2011 the prevailing part of the loans classified as past due but not impaired consist of loans overdue within 30 days. The Bank considers that such delays are not an indication for impairment of the respective loans.

Loans and advances, which are neither overdue, nor impaired, are presented in the following table:

	As of 31.12.2012	As of 31.12.2011
Individuals		
Credit cards and overdrafts	21,983	21,188
Consumer loans	107,320	104,473
Mortgage loans	44,591	50,723
Corporate clients	947,255	762,409
Total	1,121,149	938,793

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34. FINANCIAL RISK MANAGEMENT (CONTINUED)

Quality of the credit portfolio (continued)

The carrying amount of loans, which are overdue, but have not been impaired is stated below. These loans are not impaired due to the fact that the nature of the overdue loans is accidental and the overdue period is within 30 days, which dismisses the necessity of their impairment.

	As of 31.12.2012	As of 31.12.2011
Individuals		
Credit cards and overdrafts	10,508	7,579
Consumer loans	17,737	24,385
Mortgage loans	24,420	24,392
Corporate clients	399,666	409,147
Total	<u>452,331</u>	<u>465,503</u>

The carrying amount of the loans, which have been provided allowances for on an individual basis as of December 31, 2012 and 2011 is BGN 44,020 thousand and BGN 44,658 thousand. These amounts exclude cash flows from utilization of collaterals under these loans.

	Carrying amount before impairment	Carrying amount before impairment	Carrying amount before impairment	Total highly liquid collateral
2012				
	Group II	Group III	Group IV	
Credit cards and overdrafts	2,015	739	3,548	-
Consumer loans	6,771	3,895	5,105	5,664
Mortgage loans	42	397	5,074	6,982
Corporate clients	384	350	15,700	22,799
Total	<u>9,212</u>	<u>5,381</u>	<u>29,427</u>	<u>35,445</u>
2011				
	Group II	Group III	Group IV	
Credit cards and overdrafts	1,920	866	2211	-
Consumer loans	9,511	4,572	11,274	5,016
Mortgage loans	27	204	2,342	3,502
Corporate clients	665	551	10,515	11,132
Total	<u>12,123</u>	<u>6,193</u>	<u>26,342</u>	<u>19,650</u>

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34. FINANCIAL RISK MANAGEMENT (CONTINUED)

Quality of the credit portfolio (continued)

The table below presents the net exposure of the ten largest loans and advances to Bank's customers.

Customer	Contractual amount - limit	Net exposure as of 31.12.2012	Customer	Contractual amount - limit	Net exposure as of 31.12.2011
Company 1	73,464	74,894	Company 1	60,000	60,020
Company 2	60,000	60,310	Company 2	56,291	55,848
Company 3	48,636	49,014	Company 3	62,332	46,074
Company 4	55,249	47,294	Company 4	46,212	34,380
Company 5	45,047	45,377	Company 5	33,503	33,325
Company 6	56,197	42,990	Company 6	33,609	32,626
Company 7	37,835	37,974	Company 7	32,084	32,119
Company 8	37,253	36,656	Company 8	30,032	29,049
Company 9	34,412	32,156	Company 9	27,382	27,130
Company 10	33,771	33,907	Company 10	26,722	26,807
Total	481,864	460,572		408,167	377,378

The total amount of the net exposure for 2012 and 2011 is 28.96% and 26.52% ,respectively, from the loans and advances of the Bank's customers.

The following table presents the Bank's portfolio by type of collateral:

	2012	2011
Secured by cash and government securities	114,125	142,090
Secured by mortgage	491,904	496,821
Other collaterals	898,730	699,824
No collateral	112,741	110,219
Allowances for impairment loss	(27,238)	(25,768)
Total	1,590,262	1,423,186

Business sector, classification group and overdues as of December 31, 2012:

Sector	Group	Amount	Number of transactions	Liability	Including overdue on:			Allowances	Unutilized
					principal	interest	Court receivables		
Retail	regular		64,842	185,441	479	222	-	2,627	32,617
	watch		3,548	16,689	520	310	-	874	443
	irregular		1,637	13,597	988	552	-	2,396	149
	non-performing		2,716	16,256	1,962	1,370	4,535	9,631	117
Total			72,743	231,983	3,949	2,454	4,535	15,528	33,326
Corporate	regular		1,123	1,299,479	14,489	3,172	-	-	39,353
	watch		97	7,679	302	93	-	38	45
	irregular		64	7,159	435	267	-	108	18
	non-performing		180	27,488	3,097	1,559	14,206	11,564	8
Total			1,464	1,341,805	18,323	5,091	14,206	11,710	39,424
Budget	regular		7	43,712	-	14	-	-	47
	watch		-	-	-	-	-	-	-
	irregular		-	-	-	-	-	-	-
	non-performing		-	-	-	-	-	-	-
Total			7	43,712	-	14	-	-	47
Total portfolio			74,214	1,617,500	22,272	7,559	18,741	27,238	72,797

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34. FINANCIAL RISK MANAGEMENT (CONTINUED)**Quality of the credit portfolio (continued)**

The table below presents the net exposure of the ten largest loans and advances to Bank's customers.

Customer	Contractual amount - limit	Net exposure as of 31.12.2012	Customer	Contractual amount - limit	Net exposure as of 31.12.2011
Company 1	73,464	74,894	Company 1	60,000	60,020
Company 2	60,000	60,310	Company 2	56,291	55,848
Company 3	48,636	49,014	Company 3	62,332	46,074
Company 4	55,249	47,294	Company 4	46,212	34,380
Company 5	45,047	45,377	Company 5	33,503	33,325
Company 6	56,197	42,990	Company 6	33,609	32,626
Company 7	37,835	37,974	Company 7	32,084	32,119
Company 8	37,253	36,656	Company 8	30,032	29,049
Company 9	34,412	32,156	Company 9	27,382	27,130
Company 10	33,771	33,907	Company 10	26,722	26,807
Total	481,864	460,572		408,167	377,378

The total amount of the net exposure for 2012 and 2011 is 28.96% and 26.52% ,respectively, from the loans and advances of the Bank's customers.

The following table presents the Bank's portfolio by type of collateral:

	2012	2011
Secured by cash and government securities	114,125	142,090
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No collateral	112,741	110,219
Allowances for impairment loss	(27,238)	(25,768)
Total	1,590,262	1,423,186

Business sector, classification group and overdues as of December 31, 2012:

Sector	Group	Amount	Number of transactions	Liability	Including overdue on:			Allowances	Unutilized
					principal	interest	Court receivables		
Retail	regular		64,842	185,441	479	222	-	2,627	32,617
	watch		3,548	16,689	520	310	-	874	443
	irregular		1,637	13,597	988	552	-	2,396	149
	non-performing		2,716	16,256	1,962	1,370	4,535	9,631	117
Total			72,743	231,983	3,949	2,454	4,535	15,528	33,326
Corporate	regular		1,123	1,299,479	14,489	3,172	-	-	39,353
	watch		97	7,679	302	93	-	38	45
	irregular		64	7,159	435	267	-	108	18
	non-performing		180	27,488	3,097	1,559	14,206	11,564	8
Total			1,464	1,341,805	18,323	5,091	14,206	11,710	39,424
Budget	regular		7	43,712	-	14	-	-	47
	watch		-	-	-	-	-	-	-
	irregular		-	-	-	-	-	-	-
	non-performing		-	-	-	-	-	-	-
Total			7	43,712	-	14	-	-	47
Total	Total portfolio		74,214	1,617,500	22,272	7,559	18,741	27,238	72,797

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34. FINANCIAL RISK MANAGEMENT (CONTINUED)

Quality of the credit portfolio (continued)

Business sector, classification group and overdues as of December 31, 2011:

Sector	Amount Group	Number of transactions	Liability	Including overdue on:			Allowances	Unutilized
				principal	interest	Court receivables		
Retail	regular	66,868	209,855	332	230	-	3,044	31,621
	watch	4,205	23,129	714	425	-	1,140	399
	irregular	1,852	12,728	778	573	-	2,610	112
	non-performing	4,700	20,219	1,666	1,508	6,693	13,190	125
Total		77,625	265,931	3,490	2,736	6,693	19,984	32,257
Corporate	regular	1,247	1,086,767	28,772	3,181	-	-	54,114
	watch	146	9,039	258	145	-	70	126
	irregular	33	14,805	5,880	730	-	223	17
	non-performing	129	23,808	2,357	870	11,500	5,491	404
Total		1,555	1,134,419	37,267	4,926	11,500	5,784	54,661
Budget	regular	9	48,604	-	630	-	-	1,377
	watch	-	-	-	-	-	-	-
	irregular	-	-	-	-	-	-	-
	non-performing	-	-	-	-	-	-	-
Total		9	48,604	-	630	-	-	1,377
Total portfolio		79,189	1,448,954	40,757	8,292	18,193	25,768	88,295

Liquidity risk

Liquidity risk arises from the mismatch of the assets' and liabilities' maturity and the lack of sufficient funds the Bank to meet its obligations on its current financial liabilities, as well as to provide funding for the increase in financial assets and the potential claims on off-balance sheet commitments.

Adequate liquidity is achieved if the Bank is able to provide enough funds for the above purposes by increasing liabilities and transforming assets as soon as possible and at relatively low costs through potential sale of liquid assets or attraction of additional funds from cash, capital or currency markets. The preventive function in the liquidity risk management comprises maintaining of reasonable level of liquidity to avoid potential loss at unexpected sale of assets.

The Bank observes its responsibilities and limitations resulting from the Law on Credit Institutions and Ordinance No. 11 of the Bulgarian National Bank on liquidity management and supervision of banks. The special collective body for liquidity management in the Bank is the Assets and Liabilities Management Committee. It applies the adopted by the Bank policy on liquidity risk management.

Quantity measure of the liquidity risk according to the BNB regulations is the liquid assets coefficient being the ratio between the liquid assets (cash in hand and at accounts with the Central bank, unencumbered government securities of the Republic of Bulgaria, deposits at financial institutions with maturity up to 7 days) to the attracted funds by the Bank.

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34. FINANCIAL RISK MANAGEMENT (CONTINUED)**Liquidity risk (continued)**

Traditionally, the Bank maintains high volume of liquid assets – cash in hand and at BNB, which guarantees it to meet easily its liquid needs. As of December 31, 2012 their share is over 25% of the Bank's total assets. As additional instrument to provide high liquidity, the Bank uses placements with and advances to financial institutions. These comprise mostly deposits in first-class international and Bulgarian financial institutions with maturity within 7 days. As of December 31, 2012 such deposits represent approximately 4% of total assets. The government securities of the Republic of Bulgaria owned and not pledged by the Bank comprise over 2% of total assets. By maintaining above 30% of its assets in highly liquid assets the Bank is able to meet all payment needs on matured financial liabilities.

The allocation of the Bank's financial liabilities as of December 31, 2012 according to their time remaining to maturity is as follows:

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
FINANCIAL LIABILITIES						
Deposits from banks	31,112	493	-	-	-	31,605
Loans from banks	-	-	-	5,062	35,875	40,937
Liabilities to other depositors	1,085,061	412,528	770,695	593,153	7,676	2,869,113
Other attracted funds	52	40	240	668	-	1,000
Subordinated liabilities	-	-	-	-	45,023	45,023
Other liabilities	14,539	-	-	-	-	14,539
TOTAL FINANCIAL LIABILITIES	1,130,764	413,061	770,935	598,883	88,574	3,002,217

The financial liabilities of the Bank are mainly formed by attracted funds from other depositors – retail and corporate depositors. More than one third– 38% are with residual term within one month. According to the statistics, in the Republic of Bulgaria the customers prefer to sign a deposit agreement with one month term and its renegotiation for prolonged period of time. On account of this the one month deposits are practically a long-term and relatively permanent resource for the Bank.

The allocation of the Bank's financial liabilities as of December 31, 2011 according to their time remaining to maturity is as follows:

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
FINANCIAL LIABILITIES						
Deposits from banks	16,815	4,040	-	-	-	20,855
Loans from banks	-	-	1,956	5,062	35,000	42,018
Liabilities under repurchase agreements of securities	18,017	1,865	-	-	-	19,882
Liabilities to other depositors	836,762	383,735	847,861	502,025	6,447	2,576,830
Other attracted funds	139	45	241	337	-	762
Other liabilities	10,084	-	-	-	-	10,084
TOTAL FINANCIAL LIABILITIES	881,817	389,685	850,058	507,424	41,447	2,670,431

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34. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market risk

Market risk is the risk, at which it is possible that the changes in the market prices of the financial assets, the interest rates or the currency rates have an unfavorable effect on the result of the Bank activity. Market risk arises on opened exposures on interest, currency and capital products, as all of them are sensitive to general and specific market movements. Exposure to market risk is managed by the Bank in accordance with risk limits, stipulated by management.

Interest rate risk

Interest rate risk is the possibility of potential fluctuation of the net interest income or the net interest rate margin, due to changes in the general market interest rates. The Bank manages its interest rate risk through minimizing the risk of decrease of the net interest income in result of changes in the interest rates.

For measurement and evaluation the interest rate risk the Bank applies the method of the GAP analysis (analysis of mismatch/imbalance). By this analysis the sensitivity of the expected income and expenses toward the interest rate development is identified.

The method of the GAP analysis aims to determine the Bank position, in total and separately by financial assets and liabilities types, regarding expected changes in interest rates and the influence of this change on the net interest income. It helps the management of the assets and liabilities and is an instrument for assurance of sufficient and stable net interest rate profitability.

The mismatch of the Bank between the interest-bearing assets and liabilities as of December 31, 2012 is negative and amounts to BGN 785,812 thousand. GAP coefficient, as a sign of this imbalance, compared to the total earning assets of the Bank (interest-bearing assets, equity securities, derivatives and investments in subsidiaries) is minus 34.35%.

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	Total
INTEREST-BEARING ASSETS						
Placements with, and advances to, banks	177,465	1,931	1,188	3,039	-	183,623
Receivables under repurchase agreements of securities	37,671	12,860	13,445	-	-	63,976
Financial assets held for trading	-	-	12	37,098	5	37,115
Loans and advances to customers, net	217,797	95,975	356,075	596,465	323,950	1,590,262
Financial assets available for sale	-	8,178	697	117,846	47,670	174,391
Financial assets held to maturity	54,539	-	-	70,933	27,027	152,499
TOTAL INTEREST-BEARING ASSETS	487,472	118,944	371,417	825,381	398,652	2,201,866
INTEREST-BEARING LIABILITIES						
Deposits from banks	31,112	493	-	-	-	31,605
Loans from banks	-	-	-	5,062	35,875	40,937
Liabilities to other depositors	1,085,061	412,528	770,695	593,153	7,676	2,869,113
Other attracted funds	52	40	240	668	-	1,000
Subordinated liabilities	-	-	-	-	45,023	45,023
TOTAL INTEREST-BEARING LIABILITIES	1,116,225	413,061	770,935	598,883	88,574	2,987,678
NET INTEREST-BEARING ASSETS AND LIABILITIES IMBALANCE	(628,753)	(294,117)	(399,518)	226,498	310,078	(785,812)

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34. FINANCIAL RISK MANAGEMENT (CONTINUED)**Interest rate risk (continued)**

The maintenance of negative imbalance exposes the Bank to risk of decrease of the net interest income when interest rates increase. The influence of the imbalance, reported as of December 31, 2012 on the net interest income, with forecast for 2% increase in interest rates in a period of one year is decrease of the net interest income by BGN 1,690 thousand (2011: BGN 1,187 thousand).

The mismatch of the Bank between the interest-bearing assets and liabilities as of December 31, 2011 is negative and amounts to BGN 377,929 thousand. GAP coefficient, as a sign of this imbalance, compared to the total earning assets of the Bank (interest-bearing assets, equity securities, derivatives and investments in subsidiaries) is minus 15.71%.

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	Total
INTEREST-BEARING ASSETS						
Placements with, and advances to, banks	416,609	530	-	3,082	-	420,221
Receivables under repurchase agreements of securities	6,033	14,379	12,032	-	-	32,444
Financial assets held for trading	872	-	-	25,471	138	26,481
Loans and advances to customers, net	115,735	77,008	473,796	494,547	262,100	1,423,186
Financial assets available for sale	-	-	-	95,741	136,099	231,840
Financial assets held to maturity	-	-	21,437	109,205	17,604	148,246
TOTAL INTEREST-BEARING ASSETS	539,249	91,917	507,265	728,046	415,941	2,282,418
INTEREST-BEARING LIABILITIES						
Deposits from banks	16,815	4,040	-	-	-	20,855
Loans from banks	-	-	1,956	5,062	35,000	42,018
Liabilities under repurchase agreements of securities	18,017	1,865	-	-	-	19,882
Liabilities to other depositors	836,762	383,735	847,861	502,025	6,447	2,576,830
Other attracted funds	139	45	241	337	-	762
TOTAL INTEREST-BEARING LIABILITIES	871,733	389,685	850,058	507,424	41,447	2,660,347
NET INTEREST-BEARING ASSETS AND LIABILITIES IMBALANCE	(332,484)	(297,768)	(342,793)	220,622	374,494	(377,929)

Foreign currency risk

Foreign currency risk is the risk for the Bank to realize loss as a result of fluctuations in the foreign exchange rates.

In the Republic of Bulgaria the rate of the Bulgarian lev to the Euro is fixed by the Currency Board Act. The Bank's long position in EUR does not bear risk for the Bank. The net currency position as of December 31, 2012 in financial instruments, denominated in other currencies, different from BGN or EUR is under 2% of the financial assets and does not bear a significant currency risk for the Bank.

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34. FINANCIAL RISK MANAGEMENT (CONTINUED)

Foreign currency risk (continued)

The currency structure of the financial assets and liabilities by carrying amount as of December 31, 2012 is as follows:

	BGN	EUR	USD	Other	Total
FINANCIAL ASSETS					
Placements with, and advances to, banks	28,217	125,968	22,071	7,367	183,623
Receivables under repurchase agreements of securities	42,866	21,110	-	-	63,976
Financial assets held for trading	71,943	12,214	8,621	3,423	96,201
Loans and advances to customers, net	841,049	611,730	137,483	-	1,590,262
Financial assets available for sale	48,976	152,385	47	-	201,408
Financial assets held to maturity	58,991	93,508	-	-	152,499
Investments in subsidiaries	3,200	46,216	-	10,277	59,693
TOTAL FINANCIAL ASSETS	1,095,242	1,063,131	168,222	21,067	2,347,662
FINANCIAL LIABILITIES					
Deposits from banks	19,532	11,183	594	296	31,605
Loans from banks	40,937	-	-	-	40,937
Amounts due to other depositors	1,729,916	959,400	160,920	18,877	2,869,113
Other attracted funds	1,000	-	-	-	1,000
Subordinated liabilities	45,023	-	-	-	45,023
TOTAL FINANCIAL LIABILITIES	1,836,408	970,583	161,514	19,173	2,987,678
NET POSITION	(741,166)	92,548	6,708	1,894	(640,016)

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34. FINANCIAL RISK MANAGEMENT (CONTINUED)**Foreign currency risk (continued)**

The currency structure of the financial assets and liabilities by carrying amount as of December 31, 2011 is as follows:

	BGN	EUR	USD	Other	Total
FINANCIAL ASSETS					
Placements with, and advances to, banks	11	395,908	17,699	6,603	420,221
Receivables under repurchase agreements of securities	32,444	-	-	-	32,444
Financial assets held for trading	57,885	4,396	5,931	3,565	71,777
Loans and advances to customers, net	754,854	507,516	160,801	15	1,423,186
Financial assets available for sale	79,772	178,395	48	2,873	261,088
Financial assets held to maturity	71,099	77,147	-	-	148,246
Investments in subsidiaries	3,200	46,216	-	-	49,416
TOTAL FINANCIAL ASSETS	999,265	1,209,578	184,479	13,056	2,406,378
FINANCIAL LIABILITIES					
Deposits from banks	8,156	10,514	1,880	305	20,855
Loans from banks	40,062	1,956	-	-	42,018
Liabilities under repurchase agreements of securities	3,008	16,874	-	-	19,882
Amounts due to other depositors	1,470,177	965,711	126,354	14,588	2,576,830
Other attracted funds	762	-	-	-	762
TOTAL FINANCIAL LIABILITIES	1,522,165	995,055	128,234	14,893	2,660,347
NET POSITION	(522,900)	214,523	56,245	(1,837)	(253,969)

Price risk

Price risk is related to changes in market prices of the financial assets and liabilities, for which the Bank can suffer a loss. The main threat for the Bank is the decrease of the market prices of its equity instruments for trading to lead to slump of the net profit. The Bank does not own material exposures in derivate instruments, based on equity instruments or indexes and therefore the carrying amount of the equity instruments from the portfolio of financial assets held for trading – BGN 65,050 thousand (2011: BGN 35,582 thousand).

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35. INFORMATION REGARDING THE FAIR VALUE OF THE ASSETS AND LIABILITIES

Fair value is defined as the amount for which an asset can be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Sufficient market experience, stability and liquidity do not currently exist for purchases and sales of loans and advances to customers and for some other assets and liabilities, for which published market information is not easily accessible. Accordingly, their fair values cannot be reliably determined. Management considers that their carrying amounts are the most valid and useful reporting amounts under these circumstances.

The fair value of the financial assets and liabilities, distributed in accordance with the hierarchy of the fair values as of December 31, 2012 and 2011 is as follows:

	Carrying amount	Level 1 – quoted market price	Level 2 – Techniques for assessment of observed market levels	Level 3 – Techniques for assessment – non-observed market levels	Fair value is not available
2012					
ASSETS					
Financial assets held for trading	96,201	80,942	12,252	3,007	-
Financial assets available for sale	201,408	102,324	-	97,951	1,133
TOTAL ASSETS	297,609	183,266	12,252	100,958	1,133
LIABILITIES					
Derivative financial instruments	8,264	-	8,264	-	-
TOTAL LIABILITIES	8,264	-	8,264	-	-
2011					
ASSETS					
Financial assets held for trading	71,777	52,325	9,462	9,990	-
Financial assets available for sale	261,088	156,062	-	101,019	4,007
TOTAL ASSETS	332,865	208,387	9,462	111,009	4,007
LIABILITIES					
Derivative financial instruments	6,098	-	6,098	-	-
TOTAL LIABILITIES	6,098	-	6,098	-	-

36. RELATED PARTY TRANSACTIONS

The Bank has conducted a number of transactions with related parties as it has granted loans, issued guarantees, attracted cash, realized repo deals and others. All deals are completed at common trade conditions, in the course of activity of the Bank and do not differ from the market conditions, as loans are granted and guarantees are issued only in the presence of sufficient collateral.

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36. RELATED PARTY TRANSACTIONS (CONTINUED)

As of December 31, 2012 and 2011 the Bank has receivables from, payables and contingent commitments to related parties as follows:

Related parties and balances	As of 31.12.2012	As of 31.12.2011
Parent company		
Deposits received	-	38
Received subordinate debt	45,023	-
Loans granted	1,977	-
Companies under common control		
Loans granted	146,534	162,493
Guarantees issued	23,959	22,850
Receivable under repurchase agreements	20,838	17,356
Other receivables	27,277	25,792
Deposits granted	20,390	-
Deposits received	186,362	129,230
Subsidiaries		
Deposits received	8,681	1,310
Deposits granted	46,078	29394
Key management personnel of the Bank or its main shareholder		
Loans granted	5,466	5,650
Deposits received	1,264	890

Income and expenses realized by the Bank in 2012 and 2011 from transactions with related parties are as follows:

Related parties and transactions	Turnover in 2012	Turnover in 2011
Parent company		
Interest income	56	-
Income from fees and commissions	5	1
Expenses for services	756	-
Companies under common control		
Interest income	10,287	10,743
Income from fees and commissions	1,476	2,042
Income from services	161	852
Interest expense	(4,908)	(4,555)
Expenses for services	(5,663)	(5,249)
Subsidiaries		
Interest expense	(270)	(127)
Interest income	641	48
Income from fees and commissions	12	3
Expense from fees and commissions	-	(1)
Income from services	1	-
Expenses for services	1,047	-
Dividends	510	-
Key management personnel of the Bank or its main shareholder		
Interest income	210	177
Income from fees and commissions	7	3
Interest expense	(19)	(32)
Expenses for services	(192)	-

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2012

All amounts are in thousand Bulgarian Levs, unless otherwise stated

36. RELATED PARTY TRANSACTIONS (CONTINUED)

The remunerations of the members of the Supervisory Board paid in 2012 are BGN 180 thousand (2011: BGN 120 thousand). The remunerations of the members of the Management Board paid in 2011 are BGN 284 thousand (2011: BGN 267 thousand).

37. EVENTS AFTER THE REPORTING PERIOD

No material events have occurred subsequent to the preparation of the separate financial statements for 2012 that may have significant impact on the future development of the Bank.