BACB
Sofia

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of June 30, 2009

/unaudited/

Accounting policy

The Bank's accounting policy has been developed in compliance with the Bulgarian legislation regulating the accounting and banking activity, including the Accounting Act, the Law on Credit Institutions, BNB regulations and instructions.

During 2009, no changes have been made to the main accounting policies applied by BACB and its fully owned subsidiary Kapital Direkt EAD (KD). BACB applies consistently the accounting policy, disclosed in the 2008 audited consolidated financial statements. The principles of consolidation are consistently applied in preparing the interim unaudited financial statements as of June 30 2009.

Selected Notes

Derivative financial instruments

In the normal course of its business, the Bank enters into agreements whose value varies according to changes in the value of certain market variables and that require a very low or zero initial investment relative to the nominal value of the contract. Such agreements are financial instruments called derivatives. The Bank uses contracts such as interest rate and currency swaps and forwards for hedging market risks, related to its operations.

When by entering into a derivative agreement, the Bank designates a specific position as hedged and meets all requirements of the accounting standards, the derivative is recognized as hedging. Derivatives which do not meet the criteria for hedging are designated as held-for-trading.

Derivative financial instruments are initially recognised in the balance sheet at cost (including transaction costs) and subsequently are re-measured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models and other valuation models, depending on the type of derivative instrument. All derivatives are carried as assets when fair value is positive and as liabilities when the fair value is negative.

In the normal course of its business, the Bank enters into short-term currency swaps with the purpose of managing its operational currency flows and as an instrument for reducing the cost of borrowing in certain currencies by taking advantage of the differences in the interest rates. As of 30.06.2009 BACB has open currency swaps with nominal value of EUR 22,970 thousand, which are not part of hedge transaction. The fair value of these derivatives is EUR 145 thousand and is presented as *Financial assets held for trading* in the balance sheet.

As at 30.06.2009, BACB has a two-year, cross currency interest rate swap with nominal value of USD 31 million, which has been entered into with the purpose of hedging the short currency position, resulting from the issuing of an unsecured corporate bond with the nominal value of USD 31 million. The funds received from the USD unsecured corporate bond were exchanged into EUR in order to finance EUR loans. The fair value of the hedging derivative at 30 June 2009 is positive and recognized as an asset amounting to EUR 1,913, included in the "Hedging derivatives" position on the balance sheet. The loss on the hedging instrument for the reporting period is EUR 70 thousand and the currency revaluation gain on the hedged item is EUR 56 thousand.

Financial assets available-for-sale

Investments in securities, which will be held for an indefinite period of time and which could be sold for liquidity purposes or as a result of changes in the market conditions are classified as available-for-sale. Investment securities available for sale are initially recognized at cost (including transaction costs) and are subsequently re-measured at fair value based on quoted bid prices or valuation techniques if appropriate. Unrealized gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognized in equity, net of future tax effect. When the securities are disposed of or impaired, the related accumulated fair value adjustments are included in the income statement as gains and losses from financial assets available-for-sale.

During the reporting period, BACB has not traded with assets classified in this category as of 31 December 2008.

As at the date of the report, the fair value of BACB's investments in financial assets, classified as available-for-sale is EUR 3,469 including accrued interest.

As of 30.06.2009 the subsidiary Kapital Direkt EAD does not have any investments in financial assets, classified as available-for-sale.

Loans and advances to customers

Loans and advances to customers are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and advances to customers are carried at amortized cost, reflecting provisions for impairment. All loans and advances are recorded on the balance sheet when cash is disbursed to borrowers. The Bank records the unutilized loan commitments off the balance sheet.

When calculating the provisions for impairment, the Bank applies the IAS 39 requirements for impairment of financial assets, carried at amortized cost and the regulatory requirements of BNB. During the reporting period, legislative changes have been made to some of the criteria for risk classification and calculating the specific provisions for credit risk. As a result, BACB has revised its internal methodology for classification of risk exposures and determining the amount of impairment for accounting purposes.

At the end of June BACB acquired from its subsidiary Kapital Direkt EAD loans to customers for their balance sheet value in the amount of EUR 4,485 thousand. The transaction is eliminated for consolidation purposes.

As of 30 June 2009 the loans and advances to customers amount to EUR 377,866 thousand before impairment. The amount of provisions for impairment is EUR 28,206 thousand.

Investments in subsidiaries - consolidation

As of 30 June 2009 the only subsidiary of BACB subject to consolidation is Kapital Direkt EAD – a non-bank financial institution fully owned by the Bank.

BACB prepares its consolidated financial statements in accordance with IAS 27 "Consolidated and Separate Financial Statements" and IFRS 3 "Business combinations". At acquisition the subsidiary was accounted for by applying the purchase method and goodwill of EUR 80 thousand was recognized. Goodwill acquired in a business combination is presented in the consolidated balance sheet as an asset which is not amortized. Goodwill is tested for impairment annually in accordance with IAS 36 *Impairment of assets*.

All inter-company transactions, balances and unrealized gains on inter-company transactions are eliminated in consolidation process.

Tangible and intangible assets

During the reporting period, no changes have been made to the expected terms and methods of depreciation. As a result of the 2008 stock-taking, completed in the beginning of 2009, the Bank's management has decided to write off tangible assets which as at the write-off date are fully depreciated. The cost of the assets written off is EUR 599 thousand.

As of 30 June 2009 the balance sheet value of the tangible and intangible assets is EUR 2,104 thousand and EUR 62 thousand respectively.

Other borrowed funds

Borrowed funds are initially recognized at "cost", i.e. fair value of consideration received at the time the liability has been incurred, net of transaction costs. Borrowings are subsequently stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the income statement over the period of the borrowing using the effective interest method.

As of 30 June 2009, the Bank has short-term and long-term borrowed funds under agreements with international banks and other financial institutions, amounting to EUR 63,993 thousand. During the reporting period, the Bank has received EUR 12,500 thousand and paid back EUR 30,089 thousand under these lending agreements.

In 2008 BACB provided to KD a short-term line of credit up to 1.1 million EUR for financing its operations. The transaction is eliminated for the purpose of consolidation. As of 30 June 2009 the loan was fully repaid.

Debt Securities in Issue

During the reporting period, BACB has not issued new corporate or mortgage bonds. In April 2009 matured and was fully repaid one of the issued mortgaged bonds with a nominal value of EUR 10 million.

As of 30 June 2009, the Bank's obligations related to debt securities in issue are EUR 95,260 thousand, including accrued interest.

As of 30 June 2009 the subsidiary KD has not issued any debt securities.

Share Capital and reserves

During the reporting period, there are no changes to the BACB registered share capital. After the Bank's shares have been listed on the Bulgarian Stock Exchange – Sofia, the ownership structure has been diversified among local and international investors. As of 30 June 2009, Allied Irish Banks, p.l.c., Ireland (AIB) is the majority shareholder owning 49.99% of the registered share capital.

The General Meeting of the Shareholders of BACB held on 29 April 2009 approved the audited financial statement for 2008 and decided the profit for 2008 in the amount EUR 50,913 thousand to be allocated to the reserves.

The dividend declared and paid for 2007 is BGN 1.5 per share.

The profit of KD for 2008 has been allocated to reserves as well.

Related parties transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The Group enters into transactions with related parties in the normal course of business. These transactions are carried out at market rates and include loans and deposits.

During the reporting period the main transactions with related parties are these with the America for Bulgaria Foundation and the Bulgarian-American Enterprise Fund, from which the Bank attracts funds. As of 30 June 2009 the balance of attracted deposits from this parties amounts to EUR 52,350 thousand and are included in the item *Deposits from customers* on the balance sheet. The *Debt security in issue item* includes EUR 12,031 thousand held by related party. The reported interest expense for the six month on these transactions is EUR 1,828 thousand.

Since the beginning of 2009 BACB enters into interbank transactions with its main shareholder Allied Irish Banks p.l.c.. BACB places and attracts short-term interbank deposits with AIB in the normal course of business. The amount of funds placed and received from AIB as of 30 June 2009 are respectively EUR 7,405 and EUR 1,011 thousand. The General Meeting of the Shareholders of BACB approved financing from AIB in the form of interbank credit line with maximum size of EUR 50 million. As of 30 June 2009 BACB has used 15 million of this credit line for financing its operations, included in the *Deposits from banks* item on the balance sheet. Interest expense and income related to transactions with AIB are EUR 163 thousand and EUR 6 thousand, respectively.

Taxation

Income tax expense is based on taxable profit for the year for any of the consolidated entities and includes deferred taxation. The corporate tax rate for 2009 is 10%. Other taxes that are not directly attributable to the income for the period are recognized as operating expense.

Executive Director

Chief Accountant