ANNUAL REPORT 2009

Postbank

Eurobank EFG
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Polbank EFG
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CONTENTS

The Year in Review

Letter To The Shareholders

Dear Shareholders,

In 2009, the deterioration of fiscal and market conditions, whose early signs were already evident in the second half of 2008, gained further momentum resulting in year of unprecedented challenges. At Postbank, we identified these signs early on, and prepared for what we expected to be a deep but not necessarily a prolonged recession.

In the previous years, the Bulgarian economy achieved some spectacular growth rates, but the growth was mainly concentrated in sectors known to be vulnerable in the event of an economic downturn. Unfortunately, the reality turned out to be more severe and harsh than what was anticipated. The overall global growth rate turned negative for the first time since the 1930s. In Bulgaria, real GDP fell for the last 5 quarters, unemployment increased to about 10% and commercial activity all but stopped. Nevertheless, the Currency Board prevailed, while the Bulgarian authorities successfully and decisively managed to control, contain and protect the Bulgarian citizens, the institutions and the country as a whole from the worst.

We are still trying to find the equilibrium where things will normalize. It is obvious that a new norm will set in and that, by definition, has made us all more prudent and cautious. It is noteworthy that the main priority of the new Government was to maintain strict financial discipline. This helped the country on its path to meet all of the Maastricht criteria and manage the downturn in the best possible way, without having to resort to outside sources of funds other than the anti-crisis programs of the supranational organizations.

Although the severe macro and market conditions have affected us all, I am pleased to report that Postbank solidified its systemic presence in the banking sector. We evaluated the situation on time and took the appropriate actions to control and remedy the consequences of the economic adversity. Certainly, this environment has affected the ability of our clients to realize their plans and projects. However, at Postbank we are standing by our clients, households and businesses, to help them meet, restructure or renegotiate their obligations. At the same time we are constantly looking out for new opportunities for good business, such as business growth plans and project financing needs in promising sectors..

In the past year our main emphasis and priority was the strength of our balance sheet. We have more than adequate liquidity in place to meet all demands and withstand the challenges of the market. Postbank managed to retain its positions as one of the top deposit banks in the country, especially on the local deposit market, in addition to our ability to fund ourselves through the market or through supranational institutions, if needed.

The strong competition on the deposit front has substantially increased the local funding costs across the board, putting pressure on the pre-provision income. Nevertheless, the efficient re-pricing of exposures, in cooperation with our customers, led to an increase of our pre-provision income by 5.6% in 2009. At the same time we reduced operating expenses by 17% on a yearly basis and aim for further cost reduction in 2010.

The management of the loan portfolio also faced challenges – both on the retail and the corporate front. Throughout the year we were able to develop strategies, take actions and establish the appropriate new internal functions and processes through which we could vigilantly monitor the progress on this front. These efforts were done in close cooperation with the Head Office at Eurobank EFG Group and with the assistance of IT systems and external third parties as appropriate.

In view of the turbulent local and international market conditions that prevailed in 2009, and to safeguard the quality of our loan portfolio, we tightened our risk policies even further, resulting in a sharp increase in provisions. This had an impact on profitability, which stood at BGN 55m for the year. In line with the practice followed in previous years, we are going to propose to our shareholders to approve the retention of the net profit for 2009. This will further enhance our already strong capital position, which , with a Total Capital Adequacy Ratio of 13.2% demonstrates that we have adequate capital not only as required by the regulators, but also by our company's criteria which exceed the regulatory thresholds.

The robustness of our parent banking group, the Eurobank EFG Group and the close ties we have established with our colleagues in the Head Office play a key role in the strength of Postbank. In the challenging environment of today's reality, the Eurobank EFG Group displayed remarkable adaptability and flexibility, further strengthening its capital base and liquidity, reducing substantially its expenses and expanding its pre provision earnings. The Group continued to support the countries of New Europe and in particular Bulgaria in providing adequate funding, strategic directions and guidance. The stability and the strength of our parent Group helped us weather the storm and continue to stand by our clients and assist them overcome the difficulties associated with the crisis.

I should certainly mention that our employees were tested throughout 2009 on all fronts, assuming a variety of roles – not always familiar to them because of the new conditions. Throughout the organization their jobs became much more challenging and much more multitasked. I would like to state, however, that they came through the challenges very well. They performed their duties with commitment, dedication, discipline and in an effort to truly meet the challenges that have been placed upon them, always also providing the excellent service that our customers are accustomed to. We are proud of them and on behalf of the management team I want to thank them for their achievements. We are confident that they will continue to perform to high standards while we commit to provide to them training, incentives and other tools so as best to enable them to succeed.

In 2009 we certainly did not neglect our commitment to our community. Yet, in these turbulent times of uncertainty and apprehension, the Bank acknowledged the paramount importance of not only being a reliable lifelong financial partner and counselor to our clients, but also of making a healthy impact on society as a whole. Thus, even in the face of the ongoing economic crisis, we continued to invest in valuable social projects, primarily in the fields of education, environmental protection and charities.

In 2009, our long-term programme High Start with Postbank celebrated its fifth anniversary, acknowledging the most outstanding eighth-graders from foreign-language classes from all over the country. Postbank also remained true to its commitment to environmental protection. In 2009, we continued to care for the purity and preservation of the lake of Pancharevo and its surroundings. Additionally, Postbank sustained its support for socially vulnerable groups by the means of purchasing all its martenitsas and Christmas cards from various social institutions in the country.

In 2009 our efforts for social contribution were recognized with a number of prestigious accolades Postbank was designated for Top Investor in Environment in the framework of the Bulgarian Business Leaders Forum Responsible Business Awards. We also won the award for Ethical and Responsible Conduct towards Stakeholders at the Socially Responsible Company of the Year competition, organized by Pari Daily newspaper with the cooperation of Deloitte Bulgaria. Finally, the Bulgarian Donors' Forum distinguished us with the Biggest Corporate Time Donor award for our volunteering activities.

In the end I would like to share with you my cautious optimism about the current year. We hope that the country will resume its normal activities together with the progress in our neighboring countries and main trading partners with which the Bulgarian economy is more or less interlinked. In the meantime, we are trying to do our part and have already embarked on a quest to normality in an effort to activate the market to resume its normal activities. We are already actively promoting mortgage financing, small business banking and corporate lending and related services. We are confident that our improved operational mechanisms and policies, our flexibility and resilience in the face of adversity, and our strategy and actions for future growth will create further value to the benefit of our shareholders, customers and employees.

Anthony C. Hassiotis
CEO

Financial Highlights

	2009	2008
Balance Sheet		
Loans and Advances to customers	5 457 333	5 995 495
Client Deposits	5 181 042	4 822 134
Shareholders` Equity	845 104	537 370
Total Assets	7 820 727	7 744 443
Profit and Loss Statement		
Net Interest Income	321 883	318 768
Net Fee and Commissions Income	55 595	77 491
Net trading Gains	-1 014	-4 151
Other operating income	3 963	4 091
Total Operating Income	380 427	396 198
Total Operating Expense	148 145	178 940
Deposit Insurance Fund	-16 903	-13 342
Provisions for impairement	-153 716	-68 955
Profit Before Tax	61 663	134 961
Income tax	6 452	14 959
Profit After Tax	55 211	120 002
Key Financial Ratios		
Net Interest Margin	4.12%	4.12%
Cost/Income Ratio	38.94%	45.16%
Total Capital Adequacy Ratio	13.17%	13.80%
Loans/Deposits ratio	1 05	1 24

All figures are in ’000 BGN

Financial Review

The unprecedented crisis that struck the international financial markets, and the global recession that followed, had a direct effect on banking operations during the past year. Unsurprisingly, the results of all banks worldwide were adversely affected by a series of factors, such as the drop of economic growth rates, the slowdown of credit expansion, the increase of deposit costs and credit risk spreads, difficulties on the money markets and the prolonged fall of stock markets.

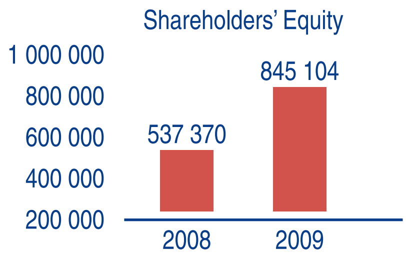
Postbank & its affiliates responded adequately to the emerging unfavourable conditions, with the aim of safeguarding its balance sheet, strengthening relations also through helping its customers, and contributing to the Bulgarian economy. More specifically, even greater emphasis was placed on maintaining the quality of the lending portfolio and forming increased provisions in order to deal with future contingencies; on the more efficient use of own equity and efficient liquidity management; on attracting liquidity, and on optimizing operating costs.

Postbank & its affiliates enjoyed increased liquidity thanks to a substantial funding base, a widespread network of branches and customer service points, as well as its ability to draw liquidity from supranational institutions (such as European Investment Bank, European Bank for Reconstruction and Development), Bulgarian Development bank, syndicated loans and EFG Hellas EMTN program. The funding base increased by 7% in 2009 to BGN 5.2 billion, and the loans-to-deposit ratio improved throughout 2009 from 124 to 105.

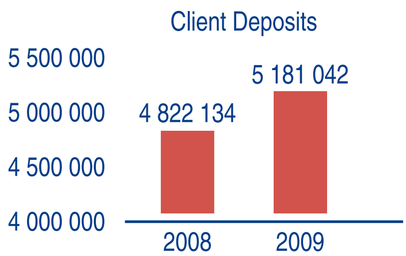
Despite the global recession and its major impact on credit demand in Bulgaria, in 2009 Postbank & its affiliates focused on offering customer-oriented services, financial solutions and a variety of loan products covering the wide range of client needs. At the same time to improve the overall quality of the loan portfolio, the Bank focused on lending new mortgage loans.

Taking into account the adverse conditions prevailing worldwide, Postbank & its affiliates followed a conservative provisioning approach and increased provisions in 2009, with the aim of safeguarding themselves from future contingencies. Additionally Postbank & its affiliates actively supported their corporate and individual clients to overcome the consequences of the crisis, by adopting flexible policies for managing their debts and providing integrated services and products.

Postbank commands a strong capital adequacy ratio. At the end of 2009, the Total Capital Adequacy Ratio stood at 13.2%. Additionally Eurobank EFG Group evidenced its trust in Postbank by increasing its capital investment with BGN 205 million in 2009.

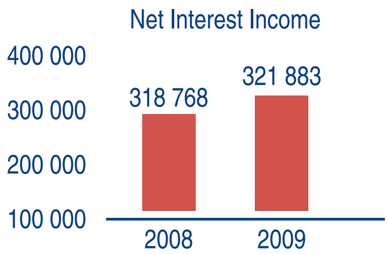


Figures are in '000 BGN



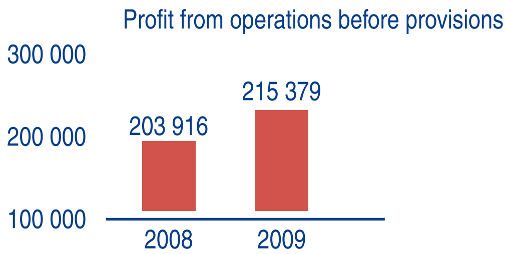
Figures are in '000 BGN

In an environment of global financial crisis and an increasing cost of funding, Postbank & its affiliates successfully managed the pricing of all products portfolios and succeeded to sustain the Net Interest Income.



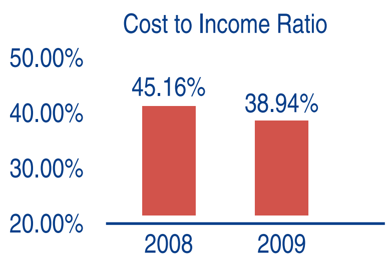
Figures are in '000 BGN

Despite the global recession and its negative implications on the Bulgarian economy, the pre-provision profit from operations exceeded 2008 levels and reached BGN 215 million in 2009.



Figures are in '000 BGN

Anticipating the potential difficulties that a recession can cause to the banking business, Postbank & its affiliates were one of the leaders on the Bulgarian market to introduce cost optimization initiatives. Efforts to decrease operating expenses in 2009 led to an important decrease of BGN 31 million (or 17% on year-on-year basis), resulting in a significant improvement in the Cost to Income Ratio.



Figures are in '000 BGN

In 2009 Postbank & its affiliates responded to the new adverse conditions with a number of initiatives aimed to strengthen the balance sheet and enhance the relationships with their customers. A special priority was given to the quality of the loan portfolio and the more efficient utilization of shareholders funds and liquidity management.

Liquidity management and flexible funding policy of Capital Markets were crucial throughout 2009. Supranational institutions gained importance as strategic partners in terms of funding - EUR 50 million loan contract for SME was signed with EIB in October 2009. EUR 25 million BGN-denominated bonds under the group's EFG Hellas EMTN program were sold to banks and institutional clients. The Bank's bond portfolios were managed to yield high net interest income. The Bank maintained its market making position and expanded product participation. Treasury Sales Unit continued to be a highly-valued partner to corporate and institutional clients offering sophisticated financial solutions, bond trading agency and hedging products.

2009 can be described as a challenging year with regards to the Consumer and Cards Lending market in Bulgaria. Due to the tough economic environment Consumer Lending Division reorganized its objectives and priorities. Flexible solutions were offered to customers experiencing difficulties to repay their monthly installments. Different programs were developed through which Postbank & its affiliates stayed opened and determined to help customers and offer borrowers protection in case of unemployment or health problems. In 2009 Postbank & its affiliates maintained the position as one of the biggest players on the market and sustained its market share. Merchant business was traditionally strong and managed to increase its POS turnovers by 10% year-on-year.

In 2009, Mortgage Lending Division maintained a high-quality earnings and low-risk portfolio. A new complementary source of income was introduced through the Life and Unemployment Insurance initiative, which at the same time was developed to protect clients' property in adverse situations. As a socially responsible lender the Mortgage division of Postbank & its affiliates were the first in the market to undertake restructuring initiatives to help households to cope with their financial difficulties. Professional and efficient attitude towards customers' concerns resulted in a substantial increase in customers' loyalty and improved Mortgage Lending Division profitability.

In an adverse economic environment, during 2009 Small Business Banking Division managed to sustain good portfolio quality with a stable interest margin via successful utilization of reasonably priced EBRD and EIB credit lines. Additionally SBB Division focus throughout 2009 fell on their customers' specific needs for financing. The pro-active approach for renegotiating customers' debt was one of the key factors for stable SBB earnings in an economic recession.

Corporate Banking Division successfully managed to retain a good portfolio quality in a very challenging year. In 2009 CBD sustained the profitability from corporate customers providing flexible and carefully designed banking solutions and services. Postbank & its affiliates were the first in Bulgaria to establish Corporate Transaction Banking Department to facilitate the banking transactions of their customers. The department is responsible for trade services, payments and cash services and factoring sales. Corporate Banking Division priority in 2009 was the continuation and strengthening of relations with public entities, health care institutions and utility companies.

In 2009 EFG Leasing retained its market share of 9% by size of the outstanding portfolio, which ranks the company third among the leasing companies in Bulgaria. After becoming a market leader in real estate leasing in 2008, in 2009 EFG Leasing managed to retain its position as a leader in this segment in terms of outstanding portfolio, holding a 21.5% market share of the real estate leasing in the country.

EFG Securities Bulgaria continued to build on its image of a leading brokerage house and an advisor of choice in Mergers & Acquisitions and capital market transactions over the course of 2009. The company retained its leading positions in the BSE-Sofia and answered private and institutional clients' needs by enabling trading access to 34 markets in 26 countries across Europe, Australia, Asia and North America.

EFG Property Services Sofia continued its successful activities, providing real estate appraisal and agency services. The Valuation Department of the company with its extensive network of appraisers, including more than 60 partners throughout the country, offered reliable and timely valuation services, covering the full range of assets. The company aims to provide a full range of services to corporate clients, trying to meet their needs by not only offering brokerage and valuation services but also by providing a wider consultancy support related to real estate selection, acquisition and management.

In 2009 Eurobank EFG Factors Branch Bulgaria continued to be the market leader in international factoring with a market share of 65 % of the export factoring market and 62 % of import factoring, according to Factors Chain International (FCI) data. The Branch doubled the turnover of purchased receivables in 2009 and occupied an estimated 18 % of the total factoring market in Bulgaria. Eurobank EFG Factors was awarded the “Best Export & Import Factor of the Year Award 2009”, the highest international distinction that a factor can be awarded, at the 41st Annual Meeting of FCI.

Members of the Board of Directors

Emilia Milanova
Chairperson

Theodoros Karakasis
Deputy Chairperson

Anthony Hassiotis
Chief Executive Officer

Asen Yagodin
Executive Director

Petia Dimitrova
Executive Director

Evangelos Kavvalos
Member

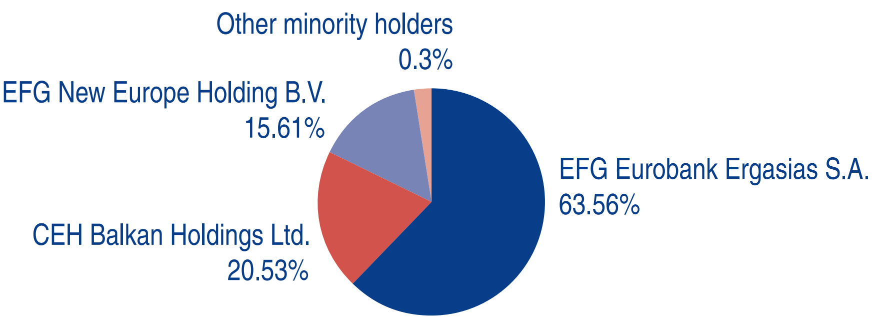
Andreas Chasapis
Member

Georgios Katsaros
Member

Piergiorgio Pradelli
Member

**As of 31 December 2009*

Shareholders' Structure



Retail Banking

Branch Network

Postbank possesses a very well developed, positioned and accessible branch network. With coverage in 107 towns the Bank reaches 75% of the Bulgarian population. In 2009 Postbank continued with the further rationalization of its branch network. Two new branches were opened in Sofia and over 10 locations were refurbished or reconstructed.

Deposits

In a deteriorating environment the Bank further strengthened its liquidity attracting new funds on from both individuals and companies while rationalizing its product mix and reducing interest expenses.

The Bank sustained its leading position on the Bulgarian market retaining its second position in attracted funds in BGN and USD. In line with market conditions and trends Postbank rationalized the pricing of its deposit products.

Parallel with this the Bank kept its competitive position among peer banks by offering the full range of deposit products covering all customers' savings needs at reasonable pricing. The Bank's leading offer in 2009 was the 12-month term deposit with step-up interest "Active Money", which was supported by strong ATL and BTL campaigns. This product was successfully relaunched in June 2009 and quickly became a hit on the market, as it responded directly to customers' needs for flexibility and good returns.

Group Sales

In 2009 the Group Sales Department signed "Premia Program" agreements with over 2,000 companies. The new payroll personal current accounts opened in 2009 are 23,442 with 23,357 debit cards. 28% of the Bank's active payroll customers were attracted in 2009. Additionally the percentage of new debit cards is 23% of the Bank's total debit cards portfolio. Term deposit accounts from payroll clients increased last year with € 4,6 million. At the end of last year Group Sales' market share in Bulgaria was 3.75%.

Among the Group Sales Department's two main administrative achievements in 2009 were that all new "Premia Program" agreements and "Premia Program" loan contracts for individuals and corporate clients were updated with clauses which are enabling the bank to reprice loans. The Department also began to actively monitor active payroll customers – both individuals and companies. In 2009 the Bank attracted several large corporate clients and held numerous presentations and "Eurobank Days" in the offices of existing and new customers.

Consumer Lending and Cards

Consumer Loans

2009 was a challenging year and this fully applies to the Consumer Lending market in Bulgaria. In the context of the tough economic environment which began in the middle of 2008 and marked 2009, Postbank reorganized its objectives and priorities. In 2009 we were closer to our customers, than ever before, helping them to pass through this tough period. Postbank offered flexible solutions to all those customers, who were experiencing difficulties to repay their monthly obligations. Different programs were developed, through which Postbank stayed open and determined to help those in need.

Despite of the unfavorable market situation, Postbank again recognized its best customers and proposed tailor-made offers, to extend their credit facilities, proving to be the loyal partner our customers can rely on in the adverse economic situation. Thus the bank maintained its market share and closed the year with above 11% share from the consumer retail market, reasserting its position of the 3rd biggest player on consumer lending market in Bulgaria.

Credit Cards

Postbank dedicated a lot of efforts in improving customer satisfaction by adding new credit card functionalities and services in 2009. New card features such as SMS and e-mail notification and PIN change on ATM were introduced in the first quarter of the year and drastically increased the security level of our card products by providing a transaction monitoring tool to our cardholders upon subscription. In addition to transaction notifications, cardholders can subscribe to receive information on the available credit limit, minimal monthly installment, as well as on payments due and terms of payment.

In August 2009 Postbank offered an eco-friendly alternative to paper-based monthly credit card statements – the e-statement. The new service enabled cardholders to replace their paper monthly statements with e-mail messages that are sent to an e-mail address of their choice. Thus Postbank provided additional flexibility to clients as well as improved control over their personal details, minimizing the risk of unauthorized third party access to personal client data. The new service also helped avoid delays of monthly payments caused by late delivery of the paper statement.

In September Postbank and American Express signed a new five year partnership agreement for the issuance of American Express credit cards in Bulgaria. Postbank has established a strong presence of the leading world credit card brand among customers and trade partners in Bulgaria. The Bank has successfully continued developing and strengthening the network of merchants accepting the exclusive American Express and EuroLine American Express credit cards cards reaching more than 10,000 merchant locations by the end of 2009 while optimizing network performance. In 2009 the number of issued credit cards bearing the American

Express logo marked an 18% increase compared to the previous year thus amounting to 217,272. In 2009 the Bank also managed to double the most profitable Visa Classic portfolio.

Despite the deteriorating economic environment Postbank managed to sustain its results from 2008 and achieve respectively 27% growth in terms of transactions' number and 10% in acquiring turnovers through the POS network in 2009.

Together with Corporate and SBB Divisions of the Bank the Consumer Lending Divison established the basis for a more focused approach and joint efforts in attracting key merchants as Bank clients which will be one of the main challenges in 2010 in order to further increase the cross-sales ratio and profitability streams of the Bank.

Loan Protection Insurance Program

In mid 2009, Postbank launched a new service aiming to protect borrowers in case of unemployment or health problems. The Payment Protection Program allows clients to insure their consumer loan and credit installments against unforeseen circumstances such as unemployment or health problems. The program protects not only customers' monthly obligations, but also the full loan amount under special circumstances connected to the occurrence of a temporary or permanent disability. Postbank is among the first banks on the Bulgarian market to offer this kind of insurance program – an innovative and comprehensive service designed for all new and existing customers (individuals) who possess a standard annuity consumer loan or credit card with Postbank. In view of the current economic environment, this program gives additional security to our customers and adds significant value to Bank's retail products.

Mortgage Lending

In 2009 Postbank's Mortgage Lending Division placed all its efforts on the preservation of the good quality portfolio and its existing customer base. As a socially responsible lender and keeping our clients always in mind, we were the first Bank on the market to develop restructuring schemes to help households cope with their financial needs.

At the same time we continued working closely with our clients and trained our staff to be efficient and sensitive when handling customers' concerns and providing them with the solutions that best fit their individual needs. The end result of the Bank's efforts was an increase of loyal customers and an increase in the profitability of the Mortgage Lending Division.

In the 4th quarter the Bank re-launched an existing product that provides extra cash to our existing mortgage customers and launched a new fixed rate product "Safe Home" that provides customers with more stability to budget their financial needs and a safety net in case of loss of income. The trend of innovative products will continue in 2010 as they are well perceived by our valuable customers.

Small Business Banking

In 2009 and since the spread of the global financial crisis in Bulgaria the main goal of Postbank's Small Business Banking Divison was to offer best-value, extensive support to our lending customers.

Our market strategy is to focus strongly on relationship lending that rests on close collaboration with our customers. At the same time, we paid close attention to portfolio quality, trying to detect early signs and to take preventive measures for improvement led by the understanding that service quality is put to the test namely in hard times. To prove our strength in such a fragile business environment, we applied our specific expertise and channelled our efforts into in-depth market observation, better recognition of customer needs and status, regular consulting and advisory, persistent collection activity, and business process re-examination. In doing so, the Unit was fully committed to this mission.

In 2009 we dedicated a lot of resources to operational efficiency. Stemming from our re-thinking of the main processes, we have been able not only to register deficiencies, but also to refine our annual lending review flow, to excel in portfolio reporting, to set-up a centralized call centre for management of early collection accounts, to launch a system-based application for skip-tracing and accounts assignment, and many others. As a result, customers received a more efficient service.

SBB has been always devoted to its employees. The Division continued to organize training sessions and get back in touch seminars on particular topics throughout the branches. Following this, we manage not only to establish a solid base of more than 12,000 borrowers, but to be surrounded by loyal employees that recognize the Bank's values as theirs.

Following the successful negotiations with the European Bank for Reconstruction and Development (EBRD), and Bulgarian Development Bank (BBR), in 2009 the SBB Division launched the start of new lending products for financing of small business enterprises. So far, they have been well-received by market.

For 2010 the Division's goal is to continue its strategy of being close to customers, to better understand their needs and offer them the right solutions, staying in tune with the lending environment and exploring emerging opportunities.

Wholesale Banking

Corporate Banking

The aim of Postbank's Corporate Banking Division is to service corporate customers through a dedicated and pro-active approach and thus achieve a significant market share.

CBD relationship managers provide integrated solutions to corporate customers through innovative and tailor-made banking products and services and help corporate customers to manage their assets, liabilities and financial risk in the most efficient manner, to raise their capital through modern methods and realize their strategic visions.

This is achieved via several channels of distribution: Large Corporate Department, a unique Business Centers Network, Trade Finance Department and a specialized Greek Desk. The Division works in close collaboration with the other units of the Bank and EFG affiliates in the country and abroad, such as: Treasury Division of the Bank, EFG Leasing, EFG Factors; EFG Securities, the affiliates of Eurobank EFG Group in Europe etc. Collaboration is set as well with EXIM Bank, USAID, EBRD and EIB.

The Corporate Banking Divison successfully closed 2009 – a very challenging year marked by the world economic crisis. In 2009 CBD managed to sustain the profitability from corporate customers providing flexible and carefully designed banking services. First in Bulgaria, the Division structured a Corporate Transaction Banking Department to facilitate daily banking transactions of its customers. The department is responsible for trade services, payments and cash services and factoring sales. The new relations with public entities, health care institutions and utility companies established in 2008 were strengthened and developed in all fields of banking.

The priorities of Corporate Banking Division for 2010 will be to continue closely monitoring customers' performance, to further increase the client base, the deposits portfolio and revenues. This will be achieved through keeping the pro-active and dedicated cross-selling approach to corporate customers, intensive personnel training and improving the efficiency of the Division's structure by creating new units focused on servicing CBD customers.

Capital Markets

Treasury

2009 was another challenging year for the Capital Markets Team, as the financial markets continued to suffer from the severe financial crisis and remained stagnated compared to pre-crisis levels.

The main focuses during the year were securing strong liquidity, providing interest income and strengthening positions in treasury products and services to business. The largest income contributors in 2009 were FX sales to clients and Bonds net interest income.

Trading Desk

The Trading Desk is responsible for all trading operations of Treasury, including Fixed Income (Corporate and Government Bond), Money Market and Foreign Exchange.
The Bank's fixed income portfolio, which is the 3rd largest in the system as of the end of the year, just slightly increased its volume to EUR 225 million. Trading/ Investment separation of the portfolio remained the same. Bonds' net interest income was boosted during the year as a result of the cheap repo-financing provided from ECB.

MM operations remained an important income source, while FX proprietary trades were in scanty scale.

Treasury Sales

In 2009, the proactive approach in marketing Treasury Sales products and services was focused on all of three of the Bank's major client groups – corporate clients, institutional clients and retail clients. The emphasis was put on proactively communicating a wide range of derivative products for FX and interest rate risk management for corporate clients, as well as Asset management structures for institutional clients. Institutional clients deposit gathering was a major liquidity support for the bank.

Assets and Liabilities Management

The Assets and Liabilities Management Unit monitored and managed the Bank's overall risk exposure associated with its balance sheet structure, IR mismatches and liquidity position.

Prudent liquidity management and appropriate supervision were crucial for the Bank development throughout 2009, a year that brought big challenges for commercial banks and the banking system.

Maintenance of a continuous balance among alternative long-term and short-term funding sources and implementation of funding strategy with focus on retail deposits were the key accomplishments in the field of liquidity. Supranational institutions gained importance as strategic partners in terms of funding. A EUR 50 million loan contract was signed with EIB in October 2009.

EUR 25 milion BGN bonds under the group's EFG Hellas EMTN program were sold to local banks and institutional clients.

Other businesses

The Custody Department provides custody services to local and foreign clients on the Bulgarian market and for local clients on foreign markets. Postbank is the leader on the Bulgarian market being a depository bank of 45 local investment schemes with a market share of 51%. In 2009 Clearstream Banking Luxembourg appointed the bank for providing custody services for financial instruments on the Bulgarian market and some 43 new local institutional clients were attracted.

The EU Structured Funds Department which was established in 2007 to facilitate financing of EU structured fund projects achieved its goal and the Bank started to finance projects with granted EU funding. The unit has negotiated a new credit line from EIB for EUR 50 million for SME financing and meanwhile is utilizing resources from the EBRD line, which is for the amount of EUR 25 million and aiming SME financing as well.

Postbank offers a large part of the investment schemes managed internationally by Eurobank EFG Mutual Funds. Last year the unit successfully introduced a new bundle product – “SpestInvest”. The product combines a deposit with mutual funds yield and was well-received by the market. New institutional investors have been attracted to the investment schemes in 2009 and put Eurobank EFG Mutual Funds among the foreign Mutual Funds players on the market.

The newly structured Insurance Section in the department combines two main streams of the insurance business in the bank – Insurance Brokerage and Bankassurance. The revenue from insurance brokerage business increased significantly to reach EUR 0.845 million in 2009 and offers a wide range of insurance products to the Bank’s clients. Bank assurance proved to be an important generator of risk-free additional revenue for the Bank that adds extra value and protection.

Subsidiaries

EFG Leasing

EFG Leasing and EFG Auto Leasing provide the full range of leasing products for passenger and commercial vehicles, equipment and real estate to both retail and corporate clients. Commercial and passenger vehicles have the largest share in the lease portfolio with 45%, followed by industrial equipment 31% and real estates – 24%. In 2009, the leasing companies focused primarily on managing the existing portfolio and preserving its quality and profitability by primarily targeting its key partners – vehicles dealers and corporate clients. In a stagnating leasing market the leasing company managed to preserve its position among the market leaders, due to the strong cooperation and support from Postbank and EFG Eurobank Ergasias Leasing and the efficiency and competency of its personnel.

Following the unfavorable economic situation but anticipating a certain stabilization of the economy, in 2010 EFG Leasing will continue to focus on preserving the quality and profitability of its portfolio by targeting primarily its key partners – corporate clients and key vendors, as well as on maintaining its positions among the market leaders.

EFG Factors Branch Bulgaria

In 2009 Eurobank EFG Factors, the factoring company of Eurobank EFG Group, maintained its leading position in offering corporate clients the full range of factoring services - recourse and non-recourse domestic and international factoring, collection services, reverse factoring, back-to-back factoring, invoice discounting, forfeiting. Despite an unfavourable economic environment, increased competition and tough conditions in the credit risk market, Eurobank EFG Factors, via its Bulgarian branch, continued to be the market leader in international factoring with market share of 65% of the export factoring market and 62% of import factoring, according to FCI statistics for Bulgaria. The Branch doubled the turnover of purchased receivables to EUR 60 million in 2009 and occupied an estimated 18% of the total factoring market in Bulgaria. Working in close collaboration with the Corporate Transaction Banking division of Postbank and other subsidiaries of Eurobank EFG Group, the Branch continued supporting corporate clients based in Bulgaria by offering high quality and innovative factoring services.

Eurobank EFG Factors was also awarded the "Best Export & Import Factor of the Year Award 2009" – the highest international distinction that a factor can be awarded, at the 41st Annual Meeting of Factors Chain International (FCI) held in Istanbul. Eurobank EFG Factors was ranked first among 247 factoring companies – members of FCI – from 66 countries worldwide.

Eurobank EFG Factors will further strengthen its presence on the Bulgarian market by providing short-term financing and risk mitigation services to corporate clients. As part of the Eurobank EFG Group, the company will continue launching new and innovative factoring services to meet the specific needs of clients, as well as the growing demand on the domestic market and the region.

EFG Property Services Sofia

The company continued its successful activities, providing real estate appraisal and agency services. The Valuation Department of the company with its own network of appraisers including more than 60 partners throughout the country, continued offering reliable and timely services, and providing for the needs of Postbank. The company performed more than 7,000 valuations in 2009, covering the full range of assets.

Regarding real estate agency services, the company provides services to Postbank such as finding new premises and locations for bank branches, and related consultancy services. The company also focuses mainly on third party corporate clients, trying to meet their needs by not only offering brokerage services but also by providing a wider consultancy support related to real estate selection, acquisition and management.

Main services of EFG Property Services Sofia:

• Real estate agency services: sales and leases;
• Full range of valuation services;
• Real estate investment and technical consulting.

EFG Securities Bulgaria

EFG Securities Bulgaria is a licensed investment intermediary with two main lines of business: Investment Banking and Stock Exchange Brokerage & Trading. Its team and management have long-term experience on the Bulgarian and international financial markets.

The Investment Banking Department offers three main types of services:

• Mergers & Acquisitions (incl. buy-side and sell-side mandates, divestitures/spin-offs, etc.);
• Equity Capital Markets (incl. initial and secondary public offerings, capital increase procedures, tender offers, listing/delisting, etc.);
• Consulting (incl. corporate restructuring, leveraged recapitalizations, valuations/fairness opinions, EU funds consulting, etc.).

EFG Securities Bulgaria has built a strong track record in M&A and equity capital markets transactions:

• M&A / Consulting: Several transactions completed or in the process of completion in 2009. Advisor to a Bulgarian insurance group for the sale to a private equity fund of a significant minority stake, a financial restructuring advisory, a sell-side M&A mandate, and a company valuation;

• ECM: Investment intermediary services offered with regard to a tender offer by the majority owners of a hotel operator in Sofia, and an initial public offering of shares of a real estate investment company.

The Stock Exchange Brokerage & Trading Department provides institutional, corporate, and private clients with investment and brokerage services linked to the Stock Exchange. The brokers introduced the remote Internet-based COBOS system for clients of the bank who now have closer access to the trading floor. The Brokerage Department also offers short-term financing to the clients through repo deals.

In 2009, the Brokerage & Trading Department ranked 8th among investment intermediaries on the Bulgarian market with a total turnover of BGN 41.3 million and a 4.65% market share.

Information Technologies

In 2009 IT efforts were forwarded in several main directions specified by EFG Group Top Management:

• **Group Initiatives**

• **Strategic initiatives including:**
√ Credit Quality
√ Collections
√ Collateral Management
√ Deposit Gathering
√ Fraud Prevention
√ Cost Containment
√ Logistic Improvements
√ Repricing
√ Customer Service Improvement

• **Audit Recommendation Projects**

The new implementations and enhancements were focused on different areas to meet the increased business requirements as well as Group initiatives, Bulgarian National Bank requirements concerning the implementation of international standards and Basel II.

In 2009 IT received business requirements for 207 projects. During the year the following initiatives were completed:

	Number
Rolled over 2008	4
2009	149
Total	153

58 projects were rolled to 2010 by business units' request.

Group initiatives

The highest priority Group initiatives for the Bank were Basel II Projects:

• **Basel II Collaterals** is an implementation of the EFG Group requirements about the collaterals in the Bank Core application. New objects with detail information for real estate, guarantees and securities were established in order to cover the Basel II data model needs. New data flow for collaterals management was designed and developed. The data migration of the existing collaterals information was applied.

• **Basel II Default Events for Credit Cards** covers the implementation of additional requirements for buckets calculation in the credit card system and enhancement of the daily interface to the Core banking system. It also affects data included in Basel II Historical extractions. The extended information helps establish better monitoring and reporting for the bank loans portfolio.

• **Basel II IRB Models – Historical extractions 2008 – 2009**. The project is a stage of Basel II Internal Ratings Models implementation for capital accord calculation. After the extracts for 2006 and 2007 the historical information loaded in the Experian modeler was extended with the data for 2008 and 2009. The information about the retail portfolio from different business applications – the core banking system VCSoftBank, Loan workflow system I-Apply, Credit cards processing system, Prime and Collection system Quaclo – is extracted. Basel II data for all bank customers and their exposures was loaded to ProbeSM Modeling System where the model of portfolio is built.

Strategic Initiatives

Strategic initiatives for the bank were several projects connected with EFG Provisioning and BNB Regulations, Call center establishment, E-Banking activities, Insurances and Collections:

• A set of projects was implemented which aimed to improve the quality of the loans portfolio, the repayment of the loans and their collections:
√ The **implementation of new release of collection system Qualco** ensures additional functionalities for credit cards and loans in order to increase the collection efficiency, provide better performance of the application and more sophisticated reporting for collections agents' performance
√ The **loans and lines restructuring/renegotiation project** covers new flexible repayment functionality by introducing a rescue period for all loan products. It helps the bank customers to contract repayments based on their cash flows

• **E- banking redesign and extension includes a lot of new functions like:**
√ Redesign of the real time interface with the core banking application to improve the performance and to extend the exchange data
√ Extension of the Credit cards information and services in e-banking application;
√ Municipalities functionality
√ Implementation of new flow for registration of e-banking customers using scratch cards

• **Life Insurance products for loans and credit cards** were developed to protect bank customers in case of life contingencies, including unemployment and to ensure loans repayment

• **ERP system e- by Epicor was implemented in EFG Leasing Company** in order to improve the automation of GL accounting and company reporting, fixed assets processing and monitoring

• **BNB Regulation 8 -** Implementation of new automations, data set extension and validation rules to cover the National Bank requirements for reporting of the financial collaterals, letters of credit and provisioning data

• **Implementation of IP Contact center (outbound)** for:
√ Consumer Lending – Collections
√ Call Center of the Bank

Other important Initiatives

A lot of implementations in 2009 were done to satisfy business' requests connected with the extension of the business activities and improvement of customer service effectiveness:

• **SMS Notifications project** covers credit cards SMS messaging. The project helped the Bank's activities for fraud prevention and customer notification. The establishment of SMS Gateway was done in 2009. In 2010 the services will be extended to include different types of bank services.

• **Electronic Statements by e-mail for credit cards.** The project increased customer service by sending credit cards monthly statements to cardholders' e-mails.

• **PIN Change functionality –** New functionality of PIN change for credit cards on ATMs of the Bank was implemented for better customer service and fraud prevention.

• **Scorecard redevelopment for consumer loans and credit cards, Automations of loan application scoring -** Enhancement of the loan workflow system I-Apply for faster and more precise evaluation of the loan applications.

• **Cash Management Reporting and Monitoring** – Ensure online tracking and monitoring of the cash availability in the branches compared to the assigned limits in order to improve the operational cash management.

• **Implementation of Mobile payment services (SEP Bulgaria)** – The new services allow payments in stores, at online sites, bill or invoice payments, person-to-person payments and balance statements via mobile phone. Currently the project is in pilot stage. The introduction of mobile money transfers and payments extends the bank customer services and the Bank's image as a modern financial institution.

• **Reorganization of User Access Rights and Products Management** – New modules in core banking system were developed according to the Group Organizational Model. The segregation of duties between IT and Central Operations Division was formalized and implemented.

• **Automation of VAT registers, invoicing and reporting** – New functionality in Core banking and ERP systems facilitates bank branches and head office to comply with the VAT regulations and to prepare complete and accurate reporting.

• **64 bit platform of Core banking application CSoftBank -** migrate of the Database server to Microsoft SQL Server 2008 64 bit and the application servers to 64 bit. The 64-bit solution allows CSoftBank application to handle large and complex query workloads and improve the system scalability. The transferring of the application to this platform was a necessary prerequisite for the further development of the system, ensuring the possibility to comply with all constantly growing business requirements and responding to the increasing processing and performance demands for the future.

• **Common Primary Site facilities - BRS/Postbank -** Transfer of BRS primary site to Postbank Data centre and location of the primary sites in a common data centre was performed.

• **Common BCP/DRP** – Establishment of common BCP/DRP site for all subsidiaries; relocation of existing Disaster Recovery site from Tzar Osvoboditel blvd.

• **Provisioning of virtualized ("cloud") computing environment –** Establishment of virtualized computing environment based on Microsoft Hyper-V R2 for production, test and development and UAT. It is designed and implemented for flexibility, availability, manageability and rapid deployment of business applications. This virtualized environment will be further expanded by adding/migrating more business systems as well as with additional features and capabilities.

Risk Management

Risk Division

Postbank responded to the new adverse conditions with a number of initiatives aiming to strengthen the balance sheet of the Bank and enhance the relationships with its customers. Special priority was given to the quality of the loan portfolio and to the creation of pre-emptive provisions to protect against potential future risks, the more efficient utilization of shareholders funds and liquidity management.

The Risk Division is subordinated to the Chief Executive Officer of the Bank, and is headed by a Chief Risk Officer (CRO), directly reporting to the Group Chief Risk Officer. The CRO is responsible for the supervision and coordination of the development of policies related to the risk management, development and implementation of adequate measures and procedures in the area of credit risk, market risk, operational risk and other types of risk, resulting from the activities of the Bank.

Credit Risk

Credit risk is the most significant risk to which the Bank is exposed. The credit process within Postbank is based on a division of responsibility between the business origination and credit risk management functions, with the business origination function performing preliminary selection to filter out poor credit risks as part of its quest for sustainable revenues. The credit risk management function concentrates its evaluation on the question of whether a given credit risk could prove damaging to the bank, while bearing the risk/reward relationship in mind.

To manage and control credit risk, different structures and bodies are established with specific responsibilities:
√ Risk Committee – for strategic decisions and country risk management
√ Country Credit Committee and Regional Credit Committee – for Credit Approval Process decisions
√ Credit Committee – for provisioning management and deteriorated loans management decisions
√ Loans and Product Committee – for approval of products' risk parameters

The credit activity of the Bank is governed by the Policies and Procedures, based on EFG Group Guidelines, ensuring that all aspects of credit risk are adequately covered, monitored and controlled.

Market Risk

The Market Risk Deptartment deals with the measurement, monitoring and management of the Bank's exposure to market risks, aiming to keep the potential financial losses from adverse changes in market variables such as interest or foreign exchange rates and equity prices within acceptable levels. The Bank's Market Risk Policy and the related procedures apply to the control of market risk related to all the Bank's assets, liabilities and off-balance sheet positions; it covers both Treasury and non-Treasury activities that are subject to market risk. In 2009, the process of monitoring, measuring, analyzing, reporting and managing the Bank's exposure to market risks was further improved by the introduction of additional reports and analyses and the automation of some of the existing ones.

Currently, the Bank does not take material open positions in foreign currencies other than the Euro, which keeps the exposure to currency risk at low levels. The Bank's overall exposure to interest rate risk also remained relatively low, mainly due to the floating rate nature of most of its assets and liabilities and the short re-pricing periods. The interest rate risk of a significant part of the bond portfolio is hedged through asset swaps. The Bank's proprietary equity portfolio consists entirely of equities listed on the Bulgarian Stock Exchange. Equity price risk monitoring and management is performed on a daily basis, further supported by daily portfolio VaR calculations. Counterparty risk monitoring and management is also performed on a daily basis, together with daily PFE limit monitoring for corporate customer exposures.

Liquidity risk

Liquidity risk is the risk that the Bank would not be able to fund assets to meet obligations at a reasonable cost or at all; for financial assets the risk is that an instrument cannot be sold or otherwise exchanged for its full market value. The ultimate responsibility for liquidity management within the Bank lies with the Assets and Liabilities Committee (ALCO). In 2009, despite the difficult economic situation and the unfavourable market developments, the Bank maintained a very strong and stable liquidity position. The main liquidity ratios – cash mismatch up to 8 days and cash mismatch up to 1 month, calculated and monitored on a weekly basis, remained above the target levels, set by the ALCO. The Liquid assets ratio as per BNB Ordinance No 11 was at 20.65% at the end of the year, well above the BNB required minimum of 15%.

Operational Risk

During the last year further steps were taken by the Bank in order to support effective and proactive management of operational risk, i.e. the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, incl. legal risk. Operational risk awareness has been enhanced within the organization through trainings, and an Operational Risk Committee is now established to adhere to the operational risk framework of the Group. The Bank continues to develop and implement techniques used for the reduction of operational risk and for limiting losses. No operational losses that could expose the bank to significant for its size risk were registered in 2009.

Basel II

Basel II activities, as part of the Group programme for Basel II standards implementation, included central as well as local implementation of instruments to ensure efficient preparation for the Basel II requirements, Group-wide consistent Basel II implementation and uniform application of risk management. In accordance with the approved roll-out plan, implementation of internal models for the risk assessment of Postbank's loan portfolios is intended to take place by January 1, 2012 (Foundation IRB for Corporate portfolio and Advanced IRB for Retail portfolio).

Corporate Governance

Corporate Governance

The Bank attaches great importance to good corporate governance acknowledging its contribution both to business and to accountability. Performing its business activities in an environment of continuously changing economic, industry, regulatory and operating conditions, the Bank is committed to adhere to the best corporate governance practices, legal and ethical principles.

Belonging to a strong international financial group, Postbank is in compliance with the EFG Group standards and guidelines and sets policies and controls designed to ensure that the requirements of the relevant regulatory authorities, laws and regulations are complied with at all times. The Bank actively promotes compliance as part of the culture of the organization and continues successfully to manage and minimize the compliance risk and to prevent from stepping outside ethical and legal boundaries.

Through its internal control system, based on international best practice, the Bank provides reasonable assurance of achieving its objectives related to efficient and effective operations, reliability and completeness of financial and management information, and compliance with applicable laws and regulations.

The Bank acknowledges that corporate governance is essential to achieving and maintaining public trust and confidence, and therefore implements an appropriate organizational structure that includes an adequate system of "checks and balances" and clear lines of responsibility and authority of the management, which creates mutual confidence among the shareholders, customers, and employees and ensures that their interest is always met.

Good corporate governance contributes to the protection of the shareholders and depositors and is an essential element in the safe and sound functioning of the Bank. The established system for disclosure of information guarantees equal access to information to the shareholders and other stakeholders. By means of the accurate public disclosure we aim at providing correct, comprehensive and timely information to allow for objective and informed decision-making.

Human Resources

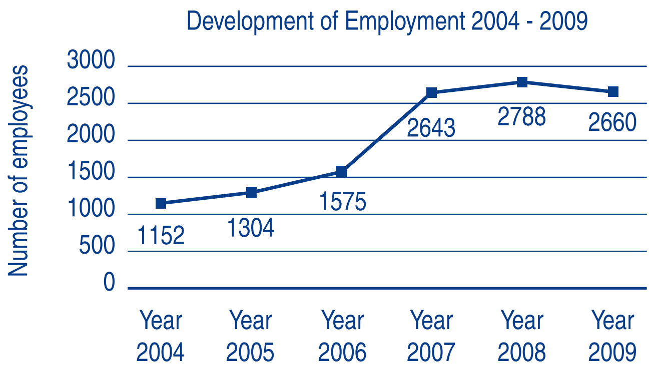
Human Resources

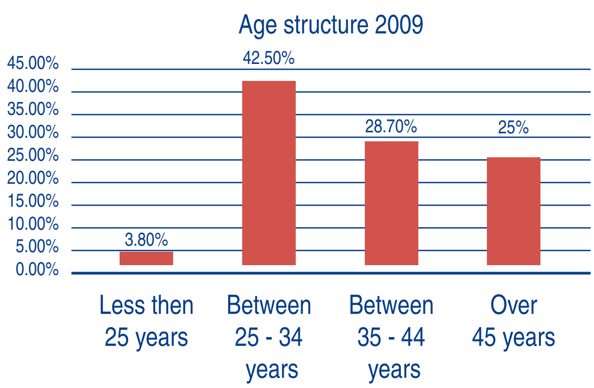
The constant aspiration for excellence of the Human Resources Division made it an integral part in the achievement of the company's goals in 2009. In order to contribute to the Bank's business development HR stayed committed to creating and sustaining an open environment of skills improvement and rewarding performance. The results of the company in 2009 were mainly due to the highly-motivated and devoted workforce. That is why HR Division fosters initiative and change, providing proper training and equal career advancement opportunities.

Recruitment

The recruitment process in Postbank has always been based on principles of high value, such as accuracy, transparency and objectivity in the selection. 2009 was not an exception from following high standards in recruitment. According to the changed situation on the labour market there were 270 newcomers numbered at the end of the year and 123 internal transfers within the Bank structure.
At the end of 2009, the total number of Bank employees amounted to 2660 people and the total headcount of local subsidiaries – 92. The distribution of the employees in the company for 2009 is as follows:

• Head Office: 956
• Corporate Network: 67
• Branch Network: 1637

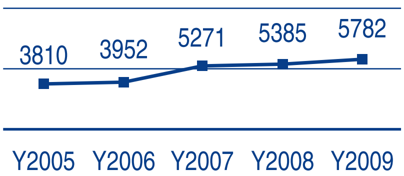




Training

The Bank supports an environment where employees can continuously learn and gain professional growth through its training programs and initiatives. Training and Development Department is committed to the continuous development of people through providing systematic training, recognition of performance and equal career advancement opportunities, thus optimizing the employees' motivation and retaining potential. Main initiatives are dedicated to improving customer service and consultancy selling skills, sustaining product and technical knowledge and fostering management skills.

Number of participations



New Employee Training Program – Eurobank EFG Start

In 2009 our efforts were focused on expanding and enriching the induction program for newcomers in the branches with the aim to provide them with a timely and integral training for smooth adaptation to their new roles. The enriched program, Eurobank EFG Start, consists of six modules and is designed to blend theoretical training with practical experience by combining a variety of training methods, such as group activities, role plays, case studies, technical simulations, practical exercises, video and audio-taping, debates, etc. In 2009 97% of all new employees in the branches were successfully certified in the program.
Eurobank EFG Start gained national recognition in December 2009, winning the award in the Training and Development category of the Bulgarian Human Resource Management and Development Association (BHRMDA) – the professional organization of HR specialists in Bulgaria.

Long-term Qualification

In 2009 Eurobank EFG Bulgaria continued its policy to offer outstanding performers enrollment in internationally acclaimed qualification programs, such as ACCA, CFA, CIA, CISA, CIM and Master's Degrees.

Harvard Business School

Supporting sophisticated training methods, Eurobank EFG Bulgaria successfully completed the first cycle of an e-learning program for middle management development in cooperation with Harvard Business Publishing, an affiliate of the graduate business school of Harvard University. The program is designed to equip managers with the essential skills that would turn them into efficient leaders by significantly reinforcing their interpersonal communication skills, empowering their capabilities of problem solving and motivating their direct reports. The training comprised of 9 modules, offering interactive online case-studies, summaries of best people management practices, in-class workshops and Harvard Business Publishing articles. In 2009, 25 middle managers from the Bank were certified.

Corporate Banking School

After the successful graduation of 17 Corporate Banking Relationship Managers in Corporate Banking School Level 1, in October 2009, the second level of the program was launched, designed especially for Corporate Banking executives. Corporate Banking School has been developed internally in collaboration with Group Corporate Banking Division, taking into consideration the changing needs of today's Corporate Banking professionals. The program content focuses on the interpretation of Financial Statements and provides a solid background on valuation techniques through highly practical real-life case studies, delivered by well-known educational institutions and internal experienced trainers.
With the aim to advance the knowledge and skills on market practices of Corporate Banking, we organized a 4-day specially tailored credit analysis training for a group of 18 professionals, conducted by IFF (London-based International Faculty of Finance, which runs top-rated training programs for finance executives).

Our Contribution to Society

Mission, Vision And Values

Our Mission

Our mission is to meet the constantly evolving expectations of our customers, to create value for them and our shareholders, and to promote an internal operating environment where individual skills are stimulated, knowledge is efficiently applied and the development of our personnel is systematically encouraged. Through this effort we strive to be the frontrunners in providing the most innovative and best quality products and services.

Our Vision

Postbank is a well established, dynamically growing, customer driven universal bank, which belongs to a strong international financial group, and aims to achieve a leading position within the Bulgarian market.

Our Core Values

• *Meritocracy*
Equal opportunities for distinction

• *Respect for People*
...to the colleague, to the customer, to our fellow citizen.

• *Quality*
We aim at excellence in everything we do.

• *Teamwork*
Success comes easier when we work as a team.

• *Trust*
When it exists, we achieve the impossible.

• *Social Contribution*
Our social contribution goes hand in hand with our business activity.

• *Effectiveness*
We always strive to accomplish the goals we set.

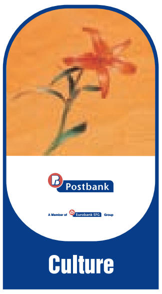
• *Creativity*
We innovate continuously, in an effort to always improve our business and ourselves.

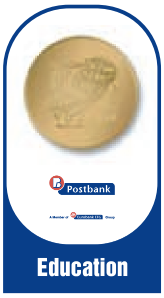
Our Contribution to Society

Corporate Social Responsibility

As a progressive and socially engaged financial institution Postbank is deeply convinced that long-term business growth and sustainability are ultimately contingent upon the overall welfare of the communities in which they operate. Thus, the bank is committed to complement its primary banking activity with consistent socially responsible conduct in all spheres of its operation.

Our corporate social responsibility strategy reflects the vision and values of our institution. Therefore, we support a wide variety of projects in the area of education, culture, sport and environmental protection. Additionally Postbank champions various charity initiatives. In 2009, the Bank's efforts to make a tangible social contribution to each of these domains included the following projects:





• *Education*

High Start with Postbank

For a fifth consecutive year the High Start with Postbank program rewarded outstanding students from the specialized foreign language schools and classes who achieved excellent results at the compulsory centralized external foreign language examination at the end of eighth grade. In 2009 108 outstanding students from 17 Bulgarian cities were awarded scholarships to a total amount of BGN 54,000. Since the launch of the program which aims is to promote secondary education in Bulgaria and reward some of the most diligent and responsible students, Postbank has awarded over BGN 300, 000 in scholarships more than 700 children.

Traditional Partner of the Manager for a Day Initiative

For eight consecutive years Postbank took part in Junior Achievement Bulgaria's "Manager for a Day" initiative which aims to forge the future business leaders of the country. In the framework of the program students join the Bank's team to become acquainted with the work of key business units within its structure and participate in the execution of various tasks, similar to the daily activities of the banking experts.

• *Environmental Protection*

Green Start with Postbank

In 2009 the Bank launched its program for enviromental protection titled "Green Start With Postbank". The program is an internal initiative that is part of the sustainable development strategy of the financial institution. Environmental protection is among the key priorities of Postbank.

The Crystal Purity of the Pancharevo Lake

Postbank sustained its long-term program of corporate social responsibility Crystal Purity of the Pancharevo Lake. With this initiative, the bank made a lasting commitment to care for the cleanliness and maintenance of the area around the lake of Pancharevo. In 2009, the Bulgarian Business Leaders Forum awarded first place in the category "Investor in Environment" to Postbank for the project.

• *Culture*

Lighting of the Sofia Library

Postbank partnered with the Municipality of Sofia in a project to illuminate the facade of the Sofia City Library in its project "Enlighten Yourself". The facade of one of the most widely admired architectural landmarks in Sofia was illuminated by 98 floodlights in the presence of intellectuals, representatives of the state institutions and the local authorities, citizens and guests of Sofia.

Sponsorship of the European Philatelic Exhibition

Held under the auspices of the President of the Republic of Bulgaria, the European Philatelic Exhibition was held in Bulgaria in 2009 with the support of Postbank.

• *Sports*

Sponsorship of the Sportsman of the Year Awards

Postbank supported the annual Sportsman of the Year Awards. The awards have been handed out since 1942 to the best Bulgarian athletes as voted by accredited press representatives.

Open Workers' Festival Balkans Invite for Peace

For several years in a row, Postbank has lent a hand to the organizers of the Open Workers' Festival Balkans Invite for Peace - Bulgarian Workers' Sports Federation and Balkan Association for Workers' sport, Confederation of Independent Trade Unions in Bulgaria and International Labor Sports Confederation (CSIT).

• *Charity*

AmCham Volunteer Days

Employees of the Bank took part in several volunteer days organized by the American Chamber of Commerce in Bulgaria. Activities included planting trees and painting fences and benches in parks, homes for orphaned children and others.

Volunatary Blood Donation

In 2009 Bank supported the efforts of the National Center for Transfusion and Hematology for voluntary blood donation. Dozens of employees from Sofia took part in the Bank's initiative titled “I Donate With Love”.

Partnership with Socially Vulnerable Groups

Postbank traditionally partners with disadvantaged people as part of the Bank's socially responsible policy and a testament to its conviction that they are an important and integral part of our society. In 2009 the Bank supported several social institutions in the country through the purchase of traditional Bulgarian martenitsi gifts for the 1st of March as well as Christmas cards from them. For its collaboration with the “Social Advisory Center” Foundation in Samokov, Postbank was named the “Socially Responsible Bank” for 2009.

Financial Statements

CONTENTS

All amounts are shown in BGN thousands unless otherwise stated.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Eurobank EFG Bulgaria AD

Report on the Financial Statements

We have audited the accompanying financial statements of Eurobank EFG Bulgaria AD (the "Bank") which comprise the balance sheet as of 31 December 2009 and the income statement, 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 notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 entity'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 financial statements.

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

PRICEWATERHOUSECOOPERS

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as of 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

Management is also responsible for preparing the Annual Report in accordance with the Accounting Act.

We are required by the Accounting Act to express an opinion whether the Annual Report is consistent with the annual financial statements of the Bank.

In our opinion, the Annual Directors' Report set out on pages 1 to 7 is consistent with the accompanying financial statements of the Bank as of 31 December 2009.

Rositsa Boteva
Registered Auditor

Petko Dimitrov
PricewaterhouseCoopers Audit OOD

March 15, 2010
Sofia, Bulgaria

DIRECORS' REPORT

The management presents the annual Directors' report as of 31 December 2009.

BUSINESS DESCRIPTION

Eurobank EFG Bulgaria AD (the Bank) provides retail, corporate banking and investment banking services in Bulgaria. Its Head Office is located in Sofia. The address of its registered office is as follows: 14 Tsar Osvoboditel Blvd, 1048 Sofia, Bulgaria.

BUSINESS OVERVIEW

Development and results from the business activity

Eurobank EFG Bulgaria is a leading universal bank in Bulgaria, part of EFG Group international financial group. The Bank provides a broad range of banking services to local and international customers through its nationwide branch network and customer service desks within post offices throughout the country.

Developing innovative products and services and emphasizing on quality, the Bank constantly holds stable market position and builds long-term relations of cooperation and trust with its customers. The good image and the visibility of the offices all over the country allowed the Bank to attract new customers and to gain the confidence of the existing clients. The Bank continues to meet the challenges related to the increased competition in the banking sector and financial culture of the clients.

The global financial crisis, which began in 2007, led to a lack of liquidity on the capital markets, lower liquidity positions in the banking sector, higher interest rates for the granted loans and extreme volatility of the financial markets. The banking system in Bulgaria started to feel the effects of the global financial crisis in the last months of 2008. In view of the difficult conditions, the main strategic priorities of the Bank for 2009 were focused on capital adequacy management, maintaining solid liquidity position, deposit base growth, and cost optimization. The Bank's strategy emphasizes on efficient operating cost management, prudent risk management and solid capitalization, and aims at achieving sustainable asset and profit growth.

Total assets of the Bank reached BGN 6,020 million as of 31 December 2009, increased by 11% compared to 2008. The solid brand image and the well-developed branch network contributed to the strong relationship between the bank and its existing and new clients. The bank plans to develop its product range further, in view of the evolving, dynamic and changing needs of its customers. Taking into consideration the current difficult economic environment, the bank will consider new opportunities for attracting new funding, in order to provide adequate financing to households and businesses.

The operating income of the Bank reached BGN 284 million in 2009 and the operating expenses excluding impairment charge for the year amounted to BGN 155 million. The net profit of the Bank for the year ended 2009 amounted to BGN 16 million.

Share Capital

The share capital of the Bank is sufficient to maintain capital adequacy cover for its risk-weighted assets. The capital base of the Bank as of 31 December 2009 reached BGN 620 million (calculated in accordance to the Capital Adequacy Ordinance 8 of the Bulgarian National Bank).

In February 2009, on the Extraordinary Shareholders' meeting a decision was taken to increase the capital of the Bank by BGN 206,575 thousand, which was registered in July 2009 through the issue of new 206,574,765 ordinary shares with nominal value of 1 BGN.

The Bank has 209 retail network locations and 2,023 customer service desks in post offices throughout the country and employs 2,902 people.

The Bank finances its operations mainly with funds attracted from its clients. The sound market position of the Bank and its substantial deposit market share in particular, confirm that the deposit products offered by the Bank are competitive. As of 31 December 2009 attracted funds from clients amounting to BGN 4,333 million increased by 13% compared to 2008. With regards to preserving normal operating environment in the Bank, it is essential that optimal liquidity levels be maintained constantly. As of 31 December, the Bank's ratio of liquid assets is 18.8%.

As of 31 December 2009 the Bank's net loan portfolio amounts to BGN 4,276 million, which represents a 15.1% increase compared to 2008. The Bank's balance sheet provisions for impairment amount to BGN 169 million.

As at 31 December 2009 the Bank's Basel II compliant capital adequacy ratio is 13.2%, much higher than the 12% minimum set by the Bulgarian National Bank. The reinforcement of our capitalization increases our potential for further growth and utilization of opportunities.

Important events that have occurred during the financial year

Eurobank EFG Bulgaria enriched its product portfolio with the launch of a number of new products and services it offered for retail, small business and wholesale clients. The Bank developed several new long and short term savings products in answer to the diverse financial needs in the market, among which was the launch of 12-month deposit account with growing interest, incremented every three months – called Active Money.

In March 2009 as part of its ongoing effort to support its clients and Bulgarian society the Bank has introduced several new measures designed to meet individuals' and businesses' needs in the prevailing economic conditions in the country. The measures provided for small and medium enterprises new loans, amounting up to BGN 20 million in coordination with the Bulgarian Development Bank.

In June 2009 the Bank has launched a new service aiming to protect borrowers in case of unemployment or health problems. The Payment Protection Program allows clients to insure their consumer loan installments against unforeseen circumstances. The program protects not only the monthly obligations, but the full loan amount as well under special circumstances connected to the occurrence of a temporary or permanent disability.

In October 2009 the Bank launches a new Safe Home mortgage loan with a fixed interest rate for the first two years for loans in euro. The Safe Home loan comes with a large set of additional benefits. The Bank is the first bank on the Bulgarian market that offers an Unemployment and Life insurance package with house loans.

All amounts are shown in BGN thousands unless otherwise stated.

The Bank managed to secure major deal attracting considerable financing from European Investment bank (EIB). The Bank and the European Investment bank signed in October 2009 BGN 97.8 million credit line for financing investment projects and working capital of small and medium sized enterprises in Bulgaria. This was the first credit line agreement between the Bank and the EIB and serves as a testament to both financial institutions' commitment to strengthening the development of SMEs in Bulgaria. Loans under this credit line will offer SMEs competitive pricing and a tenor of minimum 2 years.

The Bank started offering credit products for the small and medium sized enterprises. The financing comes from a credit line from the European Bank for Reconstruction and Development (EBRD) for the amount of BGN 48.9 million. The funds will be granted as working capitals and investment loans. The financing, which will be allocated for medium term credits for maximum value of BGN 244 thousand. The primary purpose is to fund investment projects of SMEs with at least 2 years of market experience, which have to be new clients for the bank in order to fulfill EBRD's criteria. The Bank's existing clients can be also eligible for funding from this credit line on the condition that they have not taken any loans from the bank over the past 2 years.

The Bank has been awarded numerous prizes and distinctions in 2009. Among these, the more prominent awards were the prestigious Best Financial Product award for its Mega Savings Account at the specialist financial exhibition "Banks, Investment, Money", the prize in category "Ethical and responsible conduct towards stakeholders" in the competition for socially responsible company of the year, organized by "Pari Daily" newspaper with the assistance of Deloitte Bulgaria, the first prize in the category "Investor in Environment" at the Sixth Responsible Business Awards of the Bulgarian Business Leaders Forum (BBLF). The Bank was also announced as Top Rated in offering custody services to local institutional clients in Bulgaria by Global Custodian Magazine. At the end of 2009 the Bank won HR recognition. The Bank's induction training project for new employees "Eurobank EFG Start" was awarded in the framework of the annual HR awards of the Bulgarian Human Resource Management and Development Association (BHRMDA).

SHARE CAPITAL STRUCTURE

In February 2009, on the Extraordinary Shareholders' meeting a decision was taken to increase the capital of the Bank by BGN 206,575 thousand, which was registered in July 2009 through the issue of new 206,574,765 ordinary shares with nominal value of 1 BGN.

As of 31 December 2009 the total authorized number of ordinary shares of EFG Eurobank, Bulgaria was 452,752,652 with a nominal value of BGN 1 per share. EFG Eurobank Ergasias owns directly 34.56% of, another 54.27% of the share capital is owned by EFG New Europe Holding B.V, 11.16% by CEH Balkan Holdings Limited and 0.01% by minority shareholders.

BOARD OF DIRECTORS

As at 31 December 2009 the Board of Directors consisted of the following members:

- Emilia Milanova – Chairman of the BD
- Theodoros Karakasis – Deputy Chairman of the BD
- Anthony Hassiotis - CEO
- Asen Yagodin – Executive Director
- Petia Dimitrova– Executive Director
- Evangelos Kavvalos - Member
- Andreas Chasapis - Member
- Georgios Katsaros - Member
- Piergiorgio Pradelli – Member.

1. The total annual remuneration of the members of the Board

In 2009 the members of the Board of Directors didn't receive remunerations from the Bank in their capacity of Board of Directors members.

2. Shares and bonds of the company that are acquired, owned and transferred by the members of the Board during the year

No member of the Board of Directors has owned or transferred shares or bonds of the Bank.

3. The Board member's rights to acquire shares and bonds of the company

No member of the Board of Directors holds special rights of acquisition of shares or bonds of the Bank.

4. The Board member's ownership in other commercial enterprises, as:

4.1 Partners with unlimited liability

o **Theodoros Karakasis**

EFG Property Services d.o.o. Beograd, Serbia – Chairman of the Board

4.2. Partners/shareholders holding more than 25 per cent of the capital of another company

o **Anthony Hassiotis**

Investments AMK EOOD – sole owner

o **Asen Yagodin**

Daik Imoti EOOD, Bulgaria– sole owner

4.3. Participants in the management of other companies or cooperatives as procurators, managers or board members

o **Theodoros Karakasis**

Bancpost S.A., Romania – Member of the Board
EFG Retail Services IFN S.A., Romania – Member of the Board
EFG Eurobank Leasing IFN S.A., Romania – Member of the Board
EFG Eurobank Property Sevices S.A., Romania – President of the Board
EFG Retail Services a.d. Beograd, Serbia – Member of the Board
EFG Property Services d.o.o. Beograd, Serbia – President of the Board
Eurobank EFG Bulgaria AD, Bulgaria – Vice President of the Board
EFG Leasing EAD, Bulgaria – Member of the Board
EFG Property Services Sofia AD, Bulgaria – President of the Board

o **Anthony Hassiotis**

EFG Leasing EAD, Bulgaria – Member of the Board
AmCham Bulgaria (American Chamber of Commerce in Bulgaria) – Vice President of the Board
HBCB (Hellenic Business Council in Bulgaria) – Deputy-chairman of the Board
CEIBG (Confederation of Employers & Industrialists in Bulgaria) – Member of the Managing Board
Investments AMK EOOD – sole owner

o **Asen Yagodin**

EFG Securities Bulgaria EAD - Member of the Board
Bulgarian Banks Association – Member of the MB
Bulgarian Stock Exchange Sofia – Member of the Managing Board
Daik Imoti EOOD, Bulgaria– sole owner

o **Petia Dimitrova**

EFG Property Services Sofia AD, Bulgaria – Member of the Board
Bulgarian Retails Services AD – Chairman of the Board and Executive Director
EFG Business Services Bulgaria EAD –Member of the Board and Executive Director
Bulgarian Business Leaders Forum (BBLF) – Member of the Managing Board
State Enterprise “Air Traffic Services Authority” – Member of the Managing Board

o **Piergiorgio Pradelli**

Eurobank EFG Private Bank (Luxembourg) S.A. - Member of the Board

Bancpost S.A, Romania - Member of the Board

Eurobank EFG Stedionica a.d. Beograd - Member of the Board

EFG Internet Services S.A., Greece - Member of the Board

Eurobank Tekfenbank A.S., Turkey - Member of the Board

OJSC "Universal Bank", Ukraine - Supervisory Board Member

o **Georgios Katsaros**

EFG Telesis Finance, Greece – Member of the board

o **Andreas Chasapis**

EFG Leasing SA, Greece - Member of the Board

EFG Factors, Greece - President of the Board

o **Evangelos Kavvalos**

EFG Eurolife Life Insurance S.A., Greece - Member of the Board

EFG Leasing SA, Greece - Member of the Board

EFG Istanbul Holding A.S., Turkey - Member of the Board

EFG Factors, Greece - Member of the Board

EFG Insurance Services SA, Greece - Member of the Board

Eurobank EFG Poland branch (Polbank EFG), Poland - Supervisory Board Member

Eurobank Tekfen, AS, Turkey - Member of the Board
PJS Company "Universal Bank", Ukraine-Supervisory Board Member
Unitfinance S.A., Greece - Member of the Board

Eurobank EFG a.d. Beograd, Serbia– Member of the Board

3. The Contracts under Article 240b of the Commerce Act

The Bank has not entered into contracts specified in Article 240b, paragraph 1 of the Commerce Act during 2009.

Group structure

Eurobank EFG Bulgaria does not have any subsidiaries as at 31 December 2009 and therefore no consolidated financial statements are prepared at this entity level.

OBJECTIVES FOR 2010

The Bank's strategic priorities for 2010 are focused on increasing the profitability and maintaining the market position of the Bank while closely monitoring the lending portfolio quality and strengthening the liquidity position.

In 2010 the Bank will place emphasis on deposit gathering and liquidity management as prerequisites for controlled expansion of the lending portfolio. The cost of funding will be under constant attention as being the most important factor for the pricing of the existing and the new loans.

The general strategy of the bank remains to be the bank of first choice, providing the most innovative and best quality products and services while meeting the constantly evolving expectations of the customers thus creating value for them and its shareholders.

MANAGEMENT RESPONSIBILITIES

The Directors are required by Bulgarian law to prepare financial statements each financial year that give a true and fair view of the financial position of the company/the group as at the year end and its financial results. The management has prepared the enclosed financial statements in accordance with IFRS.

The Directors confirm that suitable accounting policies have been used.

The Directors also confirm that the legislation applicable for banks in Bulgaria has been followed and that the financial statements have been prepared on a going concern basis.

The Directors are responsible for keeping proper accounting records, for safeguarding the assets and for taking reasonable steps for the prevention and detection of potential fraud and other irregularities.

Anthony C. Hassiotis
Chief Executive Officer and
Member of the Board of Directors

Petia Dimitrova
Executive Director,
Member of the Board of Directors and
Chief Financial Officer

1 March 2010

Income statement

	Notes	Year ended 31 December 2009	2008
Interest and similar income	1	543,167	513,068
Interest and similar charges	1	(308,452)	(260,132)
Net interest income		**234,715**	**252,936**
Fee and commission income	2	62,298	78,659
Fee and commission expense	2	(17,273)	(16,361)
Net fee and commission income		**45,025**	**62,298**
Dividend income		22	768
Other operating income	14	5,280	165
Net trading (expense)/income	3	(474)	6,379
Gains less losses from trading securities	11	944	(3,057)
Gains less losses from investment securities	13	(1,368)	(7,713)
Other operating expenses	4	(138,421)	(164,268)
Deposit Insurance Fund expense		(16,903)	(13,342)
Impairment charge for credit losses	6	(110,645)	(32,099)
Profit before income tax		**18,175**	**102,067**
Income tax expense	7	(2,068)	(11,596)
Profit for the year		**16,107**	**90,471**

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The Financial statements were authorized by the management on 1 March 2010.

Initialled for identification purposes in reference to the auditor's report

Rositsa Boteva
Registered Auditor
15 March 2010

Petko Dimitrov
PricewaterhouseCoopers Audit OOD

All amounts are shown in BGN thousands unless otherwise stated.

Statement of comprehensive income

	Notes		2009		2008
			Year ended 31 December		
Profit for the year			**16,107**		**90,471**
Other comprehensive income for the year, after tax:					
Available for sale securities					
-net changes in fair value, net of tax	8	45,495		(65,609)	
-transfer of loss to net profit	8	168	**45,663**	8,763	**(56,846)**
Gain on property revaluation, net of tax	8		**96**		**1,392**
Other comprehensive income for the year	**8**		**45,759**		**(55,454)**
Total comprehensive income for the year			**61,866**		**35,017**

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Balance sheet	Notes	As at 31 December	
		2009	2008
Assets			
Cash and balances with the Central Bank	9	562,927	449,384
Loans and advances to banks	10	587,730	633,485
Financial assets held for trading	11	16,801	20,914
Loans and advances to customers	12	4,276,043	3,716,392
Investment securities, available-for-sale	13	436,382	425,447
Investment securities, held-to-maturity	15	-	1,365
Derivative financial instruments	20	16,304	46,649
Current income tax recoverable		3,248	-
Other assets	16	13,005	16,067
Investment property	17	876	876
Property and equipment	18	106,630	117,573
Total assets		**6,019,946**	**5,428,152**
Liabilities			
Deposits from banks	19	372,042	279,645
Derivative financial instruments	20	54,758	66,371
Due to customers	21	4,332,669	3,848,243
Debt issued and other borrowed funds	22	476,331	694,246
Current income tax liabilities		-	2,157
Deferred income tax liabilities	23	2,669	816
Provisions for other liabilities and charges	24	473	4,294
Retirement benefit obligations	25	1,899	1,793
Other liabilities	26	34,137	54,060
Total liabilities		**5,274,978**	**4,951,625**
Shareholders' equity			
Share capital	27	452,753	246,178
Other reserves		292,215	230,349
Total shareholders' equity		**744,968**	**476,527**
Total shareholders' equity and liabilities		**6,019,946**	**5,428,152**

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Statement of changes in shareholders' equity

	Share capital	Property and equipment revaluation reserve	Available-for-sale investments revaluation reserve (deficit)	Retained earnings and other reserves	Total
Balance at 1 January 2008	**246,178**	**6,348**	**1,566**	**187,418**	**441,510**
Net income (expense) recognized directly in equity, net of tax	-	1,392	(56,846)	-	**(55,454)**
Profit for the year	-	-	-	90,471	**90,471**
Total comprehensive income for the year 2008	-	1,392	(56,846)	90,471	**35,017**
Issue of share capital	-	-	-	-	**-**
Transfer to retained earnings	-	(4)	-	4	**-**
Balance at 31 December 2008	**246,178**	**7,736**	**(55,280)**	**277,893**	**476,527**
Balance at 1 January 2009	**246,178**	**7,736**	**(55,280)**	**277,893**	**476,527**
Net income (expense) recognized directly in equity, net of tax	**-**	96	45,663	-	**45,759**
Profit for the year	-	-	-	16,107	**16,107**
Total comprehensive income for the year 2009	**-**	**96**	**45,663**	**16,107**	**61,866**
Issue of share capital	206,575	-	-	-	**206,575**
Transfer to retained earnings	-	(829)	-	829	**-**
Balance at 31 December 2009	**452,753**	**7,003**	**(9,617)**	**294,829**	**744,968**

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Statement of cash flows

	Year ended 31 December	
	2009	**2008**
Cash used in operating activities		
Interest received	514,703	487,748
Interest paid	(277,094)	(236,210)
Dividends received	22	768
Fees and commission received	51,044	78,659
Fees and commission paid	(17,273)	(16,361)
Amounts paid to and on behalf of employees	(51,923)	(60,468)
Net trading and other income received	3,595	4
Other expenses paid	(79,055)	(77,054)
Tax paid	(10,594)	(5,515)
Cash from operating activities before changes in operating assets and liabilities	**133,425**	**171,571**
Changes in operating assets and liabilities		
Net (increase) / decrease in reserve with the Central Bank	(36,584)	43,030
Net (increase) / decrease in trading securities	3,897	32,181
Net (increase) / decrease in loans and advances to customers	(641,690)	(970,570)
Net (increase) / decrease in other assets	(186)	(17,817)
Net increase/(decrease) in due to other banks	94,796	(34,842)
Net increase/(decrease) in amounts due to customers	446,848	514,747
Net increase/(decrease) in other liabilities	8,342	(28,190)
Net cash used in operating activities	**8,848**	**(289,890)**
Cash used in investing activities		
Purchase of property and equipment (Note 18)	(11,203)	(32,100)
Purchase of investment securities	(2,504)	(289,146)
Proceeds on disposal of property and equipment	4,858	314
Proceeds from sale of investment securities	34,966	159,688
Net cash used in investing activities	**26,117**	**(161,244)**

(Continued on the next page)

All amounts are shown in BGN thousands unless otherwise stated.

Statement of cash flows (continued)

	Year ended 31 December	
	2009	**2008**
Cash flows (used in) from financing activities		
Issue of ordinary shares	206,575	-
Repayments from issued debt securities	(33,750)	(60,221)
Long-term financing received	22,270	301,658
Long term debt	(206,583)	195,583
Net cash (used in)/ from financing activities	**(11,488)**	**437,020**
Effect of exchange rate changes on cash and cash equivalents	3,622	4,529
Net change in cash and cash equivalents	**27,099**	**(9,585)**
Cash and cash equivalents at beginning of year	923,886	933,471
Cash and cash equivalents at end of year (Note 28)	**950,985**	**923,886**

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Initialled for identification purposes in reference to the auditor's report

Rositsa Boteva
Registered Auditor
15 March 2010

Petko Dimitrov
PricewaterhouseCoopers Audit OOD

All amounts are shown in BGN thousands unless otherwise stated.

Notes to the financial statements

General information

Eurobank EFG Bulgaria AD (the Bank) provides retail, corporate banking and investment banking services in Bulgaria. Its Head Office is located in Sofia and it has 209 network locations (2008: 223) and 2,023 customer service desks in post offices throughout the country (2008: 2,023). The address of its registered office is as follows: 14 Tsar Osvoboditel Blvd, 1048 Sofia, Bulgaria. The Bank employs 2,902 people (2008: 2,889).

Accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below.

A. Basis of preparation

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and International Financial Reporting Standards issued by the IASB and in particular with those IFRS standards and IFRIC interpretations issued and effective or issued and early adopted as at the time of preparing these statements.

The policies set out below have been consistently applied to the years 2008 and 2009. Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

(a) Amended and new standards and interpretations effective in 2009

- IAS 1, Revised - Presentation of Financial Statements
- IAS 23, Amendment - Borrowing Costs
- IFRS 1 & IAS 27, Amendments - Cost of an Investment in a Subsidiary, Jointly controlled Entity or Associate
- IAS 32 and IAS 1, Amendment - Puttable Financial Instruments and Obligations Arising on Liquidation
- IAS 39 and IFRIC 9, Amendments to Embedded derivatives
- IFRS 2, Amendment - Vesting Conditions and Cancellations
- IFRS 7, Amendment - Financial Instruments: Disclosures
- IFRS 8, Operating segments
- IFRIC 13, Customer Loyalty Programmes
- Amendments to various Standards that form part of IASB's Annual Improvement Project (issued May 2008)

(b) Standards and Interpretations issued but not yet effective

- IAS 24, Amendment - Related Party disclosures (not yet endorsed by EU)
- IAS 27, Revised - Consolidated and Separate Financial Statements (effective 01 January 2010)
- IAS 32, Amendment - Classification of Rights Issues (effective 01 January 2011)

A. Basis of preparation (continued)

- IAS 39, Amendment - Eligible Hedged Items (effective 01 January 2010)
- IFRS 2, Amendments - Group Cash settled Share based payment transactions (not yet endorsed by EU)
- IFRS 3, Revised - Business Combinations (effective 01 January 2010)
- IFRS 9, Financial Instruments (not yet endorsed by EU)
- IFRIC 14, Amendment - Prepayments of a Minimum Funding Requirement (not yet endorsed by EU)
- - IFRIC 15, Agreements for the Construction of Real Estate (effective 01 January 2010)
- IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective 01 January 2010)
- IFRIC 17, Distributions of Non-cash Assets to Owners (effective 01 January 2010)
- IFRIC 19, Extinguishing Financial Liabilities (not yet endorsed by EU)
- Amendments to various Standards that form part of IASB's Annual Improvement Project (issued April 2009, not yet endorsed by EU)

The application of the above mentioned standards and interpretations is not expected to have a material impact on the Bank's financial statements in the period of the initial application. IAS 1 affects the presentation of owner changes in equity and of comprehensive income. It does not change the recognition, measurement or disclosure of specific transactions and other events required by other IFRSs.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and building, investment property, available-for-sale investment securities, financial assets and financial liabilities held at fair value through profit or loss, and all derivative contracts.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on Management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

B. Foreign currencies transactions

Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Bank operates ('the functional currency'). The financial statements are presented in the national currency of Bulgaria, Leva (BGN), which is the Company's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the Central Bank's exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement. Such balances are translated at the Central bank's year-end exchange rates.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortized cost are recognised in profit or loss, and other changes in the carrying amount are recognised in equity.

At 31 December 2009, monetary assets and liabilities are translated at the reference Central Bank exchange rate – BGN 1 for EUR 0.5113 (2008: BGN 1 for EUR 0.5113) and BGN 1 for USD 0.7331 (2008: BGN 1 for USD 0.72081).

C. Interest income and expense

Interest income and expense are recognized in the income statement for all interest bearing instruments on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period using effective interest rate. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount. When appropriate the Bank uses a shorter amortization period. This is the period to the next reprising date when the market rates are changed before the expected maturity of the instrument. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument, but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest income includes coupons earned on fixed income investment and trading securities.
When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognized based on the interest rate that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

D. Fees and commissions income and expense

Fees and commissions, except for those, which form part of the effective interest rate of the instrument, are generally recognized on an accrual basis when the service has been provided.

Loan commitment fees that are likely to be drawn down are deferred and recognized as an adjustment to the effective interest rate on loans. Credit card fees are recognised in commission income.

E. Financial assets

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss; available-for-sale, loans and receivables and held-to-maturity investments financial assets. Management determines the classification of its investments at initial recognition.

(a) Financial assets at fair value through profit or loss

This category includes financial assets held for trading.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorized as held for trading.

Financial assets held for trading are initially recognized at fair value excluding transaction costs and subsequently re-measured at fair value based on current bid prices at the reporting date. All related realized and unrealized gains and losses are included in net trading income in the period in which they arise. Interest earned whilst holding financial assets held for trading is reported
as interest income.

(b) Available-for-sale

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Available-for-sale investments are initially recognized at fair value plus transaction costs and are subsequently re-measured at fair value based on current bid prices or amounts derived from cash flow models. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognized directly in equity. When an available-for-sale financial asset is derecognized or impaired, the cumulative gain or loss previously recognized in equity is recognized in profit or loss. Interest calculated using the effective interest method is recognized in the income statement. Dividends on available-for-sale equity instruments are recognized in the income statement when the Bank's right to receive payment is established.

Purchases and sales of financial assets at fair value through profit or loss, held to maturity and

Available for sale are recognized at settlement date – which is the date the Bank actually trades the relevant assets.

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Bank establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and other valuation techniques consistent with the specific features of the securities market in Bulgaria.

Notes to the financial statements (continued)

E. Financial assets (continued)

(b) Available-for-sale (continued)

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when they are extinguished – that is, when the obligation is discharged, cancelled or expires.

(c) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the entity intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss; (b) those that the entity upon initial recognition designates as available for sale; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

(d) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. If the Bank sells other than an insignificant amount of held-to-maturity assets, the entire category is tainted and reclassified as available for sale.

Held-to-maturity investments are carried at amortized cost using the effective interest method, less any provision for impairment. Interest earned whilst holding investment securities is reported as interest income. The Bank assesses its intention and ability to hold its held-to-maturity investments to maturity not only when those financial assets are initially recognized, but also at each subsequent balance sheet date.

F. Sale and repurchase agreements

Securities sold subject to repurchase agreement ('repos') are retained in the financial statements as trading securities and are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in amounts due to other banks, or deposits due to customers, as appropriate.

Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective interest method.

Securities lent to counterparties are also retained in the financial statements. Securities borrowed are not recognized in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income. The obligation to return them is recorded at fair value as a trading liability.

G. Derivative financial instruments and hedge accounting

Derivatives are financial instruments :

(a) whose value is changed in response to the change in specified interest rate, financial instrument price, foreign exchange rate , index of prices and rates, credit rates or credit index or other variable;

(b) that requires no initial net investment or an initial net investment is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors;

(c) that are settled at a future date.

Derivative financial instruments including currency swaps, interest rate swaps, currency forwards, options and futures are initially recognized 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 pricing models as appropriate. The positive fair value of the derivatives is carried as asset and the negative fair value is carried as liability. The changes in the fair value of derivatives are included in the income statement.

The Bank has not entered into transactions where the fair value was different from the transaction price. The best evidence of fair value at initial recognition is the transaction price (i.e., the fair value of the consideration given or received), unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

Fair value hedge:

Hedge accounting is used for derivatives designated as hedges of the fair value of recognized assets (fair value hedges) provided certain criteria are met.

The Bank documents, at the inception of the transaction, the relationship between hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking various hedge transactions. The Bank also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. Effective changes in fair value of interest rate swaps and related hedged items are reflected in ‘net trading income’. Interest expense and interest income from hedging derivatives and hedged assets are recognised within ‘interest income’ and ‘interest expense’ in the income statement. Any ineffectiveness is recorded in ‘net trading income’.

If hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortized to profit or loss over the period to maturity. The adjustment to the carrying amount of a hedged equity security remains in retained earnings until the disposal of the equity security.

Notes to the financial statements (continued)

H. Impairment of financial assets

(a) Assets carried at amortized cost

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of assets is impaired includes observable data about the following loss events:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (for example, equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral and
- Downgrading below investment grade level.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

H. Impairment of financial assets (continued)

(a) Assets carried at amortized cost (continued)

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Bank and historical loss experience for assets with credit risk characteristics similar to those in the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Bank and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement in impairment charge for credit losses.

The loan loss identification period is between three and twelve months.

(b) Assets classified as available for sale

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the financial asset below its cost is considered in determining whether the assets are impaired.

If any such evidence exists for available for-sale-financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments, classified as available-for-sale, are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the income statement.

Notes to the financial statements (continued)

I. Property and equipment

The Bank recognizes the cost of an item of property, plant and equipment as an asset if it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The cost of the property, plant and equipment comprises purchase price, including import duties and non-refundable purchase taxes and any cost directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The cost is the cash price equivalent at the recognition date. The fair value of land and buildings is determined from market-based evidence by appraisal that is undertaken by professionally qualified valuers.

After initial recognition the Bank measures the land and building at fair value. The last revaluation of land and buildings has been performed by a qualified independent valuer at the end of 2008. The main valuation methods used to determine the fair value were:
-market prices analogs (where assets are compared to those similar of nature offered on the market)
-present value of future income for rent generating assets (DCF)

-method of reduced cost (taking into account the price that the asset would cost at present if acquired or built and reduced on the basis of economic and physical depreciation factors).

The accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset. The fair value of plant and equipment is their market value determined by appraisal. The Bank recognizes the increase as a result of revaluation of property, plant and equipment in equity as revaluation surplus. The Bank recognizes the increase as a result of revaluation of property, plant and equipment in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit or loss. The Bank recognizes the decrease as a result of revaluation of property, plant and equipment in profit or loss. The Bank recognizes the decrease directly in equity to the extent of revaluation surplus previously accrued in respect of that asset.

The Bank includes the subsequent costs in the asset's carrying amount or recognizes as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably.

All other repairs, maintenance and renewals are charged to the income statement during the financial period in which they are incurred.

The carrying amount of an item of property and equipment is derecognized:
(a) on disposal
(b) when no future economic benefits are expected from its use or disposal.

The gain or loss from the derecognition of an item of property, plant and equipment is included in profit or loss when the item is derecognized. The Bank does not classify the gains as revenue. The gain or loss from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds and the carrying amount of the asset. Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

- Buildings -25 years
- Leasehold improvements - the life of the lease, or useful life if shorter
- Computer hardware and software- 4-10 years
- Other furniture and equipment - 4-20 years
- Motor vehicles- 5 years.

Notes to the financial statements (continued)

I. Property and equipment (continued)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. In 2008 the Bank revised the useful life of some hardware and software. This revision is based on the fact that some systems which primarily support strategic banking functions cannot be replaced immediately, but instead their functionality is gradually expanded and upgraded without altering the initial system structure. Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

J. Intangible assets

Costs that are directly associated with identifiable non-monetary asset without physical substance controlled by the Bank and which will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Expenditure which enhances or extends the performance of intangible assets beyond their original specifications is recognized as a capital improvement and added to the original costs of the asset.

Costs associated with maintaining intangible assets are recognized as an expense as incurred.

Intangible assets are amortized using the straight-line method over their useful lives.

Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An intangible asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

K. Borrowings, including debt securities in issue

Borrowings are recognized initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost and any difference between net proceeds and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

L. Investment property

Investment property is defined as property (land or a building – or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for: (a) use in the production of supply of goods or services or for administrative purposes; or (b) sale in the ordinary course of business.

Investment property is held for long-term rental yields and is not occupied by the bank. Investment property is carried at fair value, representing open market value determined annually by external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the bank uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Changes in fair values are recorded in the income statement as part of other income.

Notes to the financial statements (continued)

M. Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with less than 90 days to maturity from the date of acquisition including: cash and non-restricted balances with central banks, amounts due from other banks and short-term government securities.
Investments are treated or qualify as cash equivalents only when they have a short maturity of 90 days or less from the date of acquisition.

N. Operating leases

Payments made under operating leases are charged against income in equal installments over the period of the lease.

O. Current tax and deferred income tax

Taxation has been provided for in the financial statements in accordance with Bulgarian legislation currently in force. The charge for taxation in the income statement for the year comprises current tax and changes in deferred tax. Current tax is calculated on the basis of the taxable profit for the year, using the tax rates enacted at the balance sheet date. Income tax payable on profits, based on the applicable tax law is recognized as an expense in the period in which profits arise. Taxes other than on income are recorded within operating expenses.
Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. The principal temporary differences arise from depreciation of property, plant and equipment, revaluation reserve of financial instruments, provisions for court cases, the difference on balance sheet provision expenses according to the local and IFRS requirements and provisions for untaken annual leaves.

Deferred tax assets are recognized where it is probable that future taxable profit will be available against which the temporary differences can be utilized.

P. Employee benefits

(a) Social, pension and health funds

The Bank is obliged by the current Bulgarian legislation to make fixed contribution on behalf of the employees to a social fund operated by the Government. All those payments/liabilities are recognized as an expense in the period to which those relate.

(b) Retirement benefit obligations

In accordance with article 222, Para. 3 of the Bulgarian Labour Code, in the event of termination of a labour contract after the employee has reached the lawfully required retirement age, regardless of the reason for the termination, the employee is entitled to compensation as follows: 2 gross monthly salaries in all cases and 6 gross monthly salaries if the employee has been engaged with the Bank for at least 10 years.

At the end of every reporting period the Bank estimates and recognizes provisions for its retirement benefit obligations. In calculating the provision the Bank estimates the present value of its future retirement benefit obligations considering future salary increases and the probability of the employees retiring while employed in the Bank.

Q. Provisions

Provisions for restructuring costs and legal claims are recognised when: the bank has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination of rent and other contracts, consultancy and audit fees, employees' payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

R. Dividends

Dividends are recognised as a liability when authorized by the General Assembly of the Shareholders. Subsequently they are deducted from equity when distributed.
Dividends will not be declared according to the long-term strategy of the Bank.

S. Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

T. Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the bank's liabilities under such guarantees are measured at the higher of the initial measurement, less amortization calculated to recognize in the income statement the fee income earned on a straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of Management.

Any increase in the liability relating to guarantees is taken to the income statement under other operating expenses.

U. Comparatives

The Bank has not performed any reclassifications on balance sheet and income statement positions for 2008.

Notes to the financial statements (continued)

V. Financial risk management

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance.

The Bank's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Risk management policy of the Bank is formulated by the Risk Committee and the Risk Manager. The practice of the Parent Company, as well as international best practice is followed through well-defined internal processes and functions, as well as independent reviews.

The risk management policy reflects the Bank's objectives. It is therefore not intended that large risk positions are maintained solely to increase short-term profitability. The objective is to achieve a leading position on the Bulgarian market and to provide customers and counterparties of the Bank with a first class service, and in the same time to increase the profit for the shareholders, through minimizing undertaken risks and effectively controlling the Bank's expansion.

The adequacy of internal control systems is evaluated by Internal Audit functions, and by the External Auditors. Risk functions are managed by the Bank's Risk Management Division. The Bank's aim is to ensure independence and compliance through different levels of audit by its Internal Auditors, the EFG Group's Internal Auditors, the EFG Group's and the Bank's External Auditors and by regulatory authorities both in Bulgaria, Greece and Switzerland.

The four general areas of risk monitoring by the Bank are credit risk, market risk, operational risk and liquidity risk. The activity of Risk division and all risk related policies and procedures are in the process of full alignment with EFG Group risk guidelines and are controlled and guided by the Risk unit of the Parent-company. The Risk Manager of the Bank, heading Risk Division has a direct reporting line to the Risk Executive of the Parent company and a dotted reporting line to the CEO of the Bank. The Board of Directors of the Bank has delegated to the Risk Committee the role of approving all strategic risk management decisions. The Risk Committee is in charge of monitoring the quantitative and qualitative aspects of all credit, market, liquidity and operational risks. In addition, internal audit is responsible for the independent review of risk management and the control environment.

The ongoing global liquidity crisis which commenced in the middle of 2007 has resulted in a lower level of capital market funding, lower liquidity levels across the banking sector, and higher inter-bank lending rates and very high volatility in stock markets. The uncertainties in the global financial markets reflect the banks and companies in Bulgaria since 2008.

Management is unable to reliably estimate the effects on the Bank's financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and growth of the Bank's business in the current circumstances.

V. Financial risk management (continued)

The borrowers of the Bank may be affected by the lower liquidity situation which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for borrowers may also have an impact on management's cash flow forecasts and assessment of the impairment of financial assets. To the extent that information is available, management have properly reflected revised estimates of expected future cash flows in their impairment assessments.
The amount of provision for impaired loans is based on management's appraisals of these assets at the balance sheet date after taking into consideration the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

1. Credit risk

The Bank takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss for the Bank by failing to discharge an obligation. Credit risk is the most important risk for the Bank's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities and other bills into the Bank's asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments.

To address credit risk the Bank has established a complex organization structure allocating responsibilities for sales, administration, approval and control of credit activities to various specialist divisions and committees. Credit operations are governed by a comprehensive set of policies and procedures to ensure that all aspects of credit risk are adequately covered.

1.1 Credit risk measurement

(a) Loans and advances

In measuring credit risk of loan and advances to customers and to banks at a counterparty level, the Bank reflects three components:

(a) 'probability of default' by the client or counterparty on its contractual obligations;
(b) current exposures to the counterparty and its likely future development, from which the Bank derives the 'exposure at default' and
(c) likely recovery ratio on the defaulted obligations (the 'loss given default').

The Bank manages the credit risk of loans and advances to customers and to banks through a comprehensive set of policies and procedures to ensure that all aspects of credit risk are adequately covered.

The Bank uses a credit rating system according to which wholesale borrowers are assigned to a risk category: satisfactory credit performance, potentially problematic entities, watch listed and loss making cases that are fully provided for. The criteria used to assess the credit rate include:

- Financial data for the client, the sector and the market;
- Information on the client's management;
- The clients past credit history either with the Bank or with other banks;
- Existence of detrimental information;
- Type and size of collateral offered;
- History of changes in ownership and
- History of changes in assets.

Notes to the financial statements (continued)

V. Financial risk management (continued)

1. Credit risk (continued)

1.1. Credit risk measurement (continued)

The Bank assesses the credit quality of the wholesale loans on a case-by-case basis using standard grading system and based on a profound analysis of a set of qualitative and quantitative factors.

The wholesale loans are rated in 11 categories. The bank groups the wholesale loans categorized from 1 to 6 category in the grade satisfactory risk and these categorized with 7 category in the grade watch list. The Bank presents the wholesale loans in the category from 8 to 11 as individually impaired loans.

Qualitative factors are those that deal with the borrower's management, industry, operating conditions, the market sector in which the borrower operates, securities, loan servicing etc. Quantitative factors are those that refer to a set of ratios (main ratios: profitability, leverage, liquidity) emerging from the borrower's financial statements (balance sheet, income statement, notes to the financial statements etc.)

The classification of retail clients is based on the full delinquency analysis by groups. The grouping is based on the common characteristics of the respective products, the similar risks they bear and the type of collateral that secures them. In case that a borrower is client to more than one of the above mentioned groups, the classification of each single retail loan of one and the same retail client should be done independently from the other loans of the same customer.

(b) Debt securities

For debt securities, external rating such as Standard & Poor's, Moody's and Fitch rating are used by the Bank for managing of the credit risk exposures. The investments in those securities are viewed as a way to gain a better credit quality mapping and maintain a readily available source to meet the funding requirement at the same time.

1.2 Risk limit control and mitigation policies

The Bank manages limits and controls concentrations of credit risk wherever they are identified in particular, to individual counterparties and groups, and to industries.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and are subject to an annual or more frequent review. The exposure to any one borrower including banks and brokers is further restricted by sub limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored on a daily basis.

The exposure to anyone borrower is restricted by limits covering on- or off- balance sheet. Off-balance sheet facilities to customers include foreign exchange transactions, letters of credit, letters of guarantee, reverse repos and other financial instruments. The credit equivalent amounts for off-balance sheet facilities are determined in accordance with Bulgarian National Bank, EFG Group and Market Risk Unit guidelines. Overall customer exposure arising from all transactions and facilities is aggregated for monitoring utilization of the credit facility limit.

The Bank is active in the corporate and retail lending markets. Credit risk is well spread over a diversity of personal and commercial customers. Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing the lending limits where appropriate

V. Financial risk management (continued)

1.Credit risk (continued)

1.2 Risk limit control and mitigation policies (continued)

Some other specific control and mitigation measures are outlined below

(a) Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Charges over business assets such as premises, inventory and accounts receivable;
- Charges over financial instruments such as debt securities and equities and
- Issued guarantees.

Longer-term finance and lending to corporate entities are generally secured. In order to minimize the credit loss the Bank will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

(b) Derivatives

The Bank maintains strict control limits on net open derivative positions (i.e. the difference between purchase and sale contracts), by both amount and term. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Bank (i.e., assets where their fair value is positive), which in relation to derivatives is only a small fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments. Further details of the 'Group's derivative instruments are provided in note 20.

Settlement risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities.

(c) Credit related commitments

Guarantees and standby letters of credit, which represent irrevocable assurance that the Bank will make the payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralized with cash deposits or other collateral pledged to the Bank, and accordingly the Bank normally assumes minimal risk.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of the loan. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Notes to the financial statements (continued)

V. Financial risk management (continued)

1.Credit risk (continued)

1.3. Maximum exposure to credit risk before collateral held or other credit enhancements

The table below represents worst case scenario of credit risk exposure to the Bank as at 31 December 2009 without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out below are based on net carrying amounts as reported in the balance sheet.

As shown below 91% of the total maximum exposure is derived from loans and advances to banks and customers (2008: 90%); 8% represents investments in debt securities (2008: 9%)

Maximum exposure

		31 December
	2009	**2008**
Credit risk exposures relating to on-balance sheet assets are as follows:		
Loans and advances to banks	587,730	633,485
Loans and advances to customers:		
- Mortgages	890,353	529,760
- Consumer lending (including credit cards)	957,483	610,414
- Small Business lending	866,903	847,158
- Corporate lending	1,561,304	1,729,060
Trading assets - debt securities	15,527	19,713
Derivative financial instruments	16,304	46,649
Investment securities- available-for-sale-debt securities	429,715	418,834
Investment securities, held-to-maturity	-	1,365
Other assets	10,646	14,037
Credit risk exposures relating to off-balance sheet items are as follows:		
Financial guarantees	119,102	176,182
Letters of credit	10,210	25,304
Loan commitments and other credit related liabilities	510,132	704,608
Total	**5,975,409**	**5,756,569**

1.4 Loans and advances

Loans and advances are summarized as follows:

Balance at31 December 2009	**Loans and advances to customers**
Neither past due nor impaired	3,531,417
Past due but not impaired	522,922
Impaired	390,517
Gross	**4,444,856**
Less: allowance for impairment	(168,813)
Net	**4,276,043**

All amounts are shown in BGN thousands unless otherwise stated.

V. Financial risk management (continued)

1. Credit risk (continued)

1.4. Loans and advances (continued)

Balance at31 December 2008	Loans and advances to customers
Neither past due nor impaired	3,164,694
Past due but not impaired	515,263
Impaired	94,983
Gross	**3,774,940**
Less: allowance for impairment	(58,548)
Net	**3,716,392**

The total impairment provision for loans and advances is BGN 168,813 thousand (2008: BGN 58,548 thousand) of which BGN 56,058 thousand represents the individually impaired loans and the remaining amount of BGN 112,755 thousand represents the portfolio provision. Further information of the impairment allowance for loans and advances to banks and to customers is provided in Note 12.
During the year ended 31 December 2009, the Bank's total loans and advances increased by 18%. In order to minimize the potential increase of credit risk exposure, the Bank has focused more on the business with large corporate enterprises with good credit rating or retail customers providing sufficient collateral.

(a) Loans and advances neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired at 31 December 2009 can be assessed by reference to the internal standard grading system (see 1.1. a). The following information is based on that system:

Balance at31 December 2009	Loans and advances to customers
Satisfactory risk	3,531,417

Balance at31 December 2008	Loans and advances to customers
Satisfactory risk	3,164,694

All amounts are shown in BGN thousands unless otherwise stated.

Notes to the financial statements (continued)

V. Financial risk management (continued)

1. Credit risk (continued)

1.4. Loans and advances (continued)

(b) Loans past due but not impaired

31 December 2009	Consumer lending	Mortgages	Small Business Lending	Corporate Lending	Total
Past due up to 29 days	90,004	38,026	36,927	144,200	**309,157**
Past due 30 - 89 days	70,510	23,924	34,173	38,392	**166,999**
Past due 90 days - 179 days	-	12,728	-	34,038	**46,766**
Total	**160,514**	**74,678**	**71,100**	**216,630**	**522,922**
Fair value of collateral	956	80,587	62,440	151,186	**295,169**

31 December 2008	Consumer lending	Mortgages	Small Business Lending	Corporate Lending	Total
Past due up to 29 days	62,647	54,720	38,270	145,687	**301,324**
Past due 30 - 89 days	28,011	20,332	31,025	65,487	**144,855**
Past due 90 days - 179 days	-	9,430	-	59,654	**69,084**
Total	**90,658**	**84,482**	**69,295**	**270,828**	**515,263**
Fair value of collateral	1,070	83,949	58,105	144,153	**287,277**

(c) Impaired Loans and advances collectively assessed

For collectively assessed accounts, loans are treated as impaired based on historical loss data for groups of loans with similar characteristics. The criteria used by the Bank to determine that there is objective evidence of impairment are provided in point 1.1. Not all loans collectively assessed for impairment are considered impaired. Based on past experience, consumer loans less than 90 days past due and mortgage loans less than 180 days past due are not considered impaired, unless specific information indicates to the contrary. Consumer loans over 90 days past due and mortgage loans over 180 days past due are considered as impaired loans collectively assessed.

All amounts are shown in BGN thousands unless otherwise stated.

Notes to the financial statements (continued)

V. Financial risk management (continued)

1. Credit risk (continued)

1.4. Loans and advances (continued)

31 December 2009	Consumer lending	Mortgages	Total
Collectively assessed for impairment	110,267	28,174	138,441
Fair value of collateral	772	26,992	27,763

31 December 2008	Consumer lending	Mortgages	Total
Collectively assessed for impairment	19,165	8,956	28,121
Fair value of collateral	500	8,706	9,206

Classification of retail clients is based on the full delinquency analysis by groups. The grouping is based on common characteristics of the respective products, similar risks they bear and the type of collateral that secures them.

(d) Loans and advances individually impaired

For individually assessed accounts, loans are treated as impaired as soon as there is objective evidence that an impairment loss has been incurred. The criteria used by the Bank to determine that there is objective evidence of impairment include:

– known cash flow difficulties experienced by the borrower
– overdue contractual payments of either principal or interest
– breach of loan covenants or conditions;
– the probability that the borrower will enter bankruptcy or other financial reorganization; and
– a downgrading in credit rating by an external credit rating agency

Further information on impaired loans is provided below in “Impairment assessment”.

The criteria used by the Bank to determine that there is objective evidence of impairment are provided in point 1.1 .

31 December 2009	Small Business Lending	Corporate Lending	Total
Individually impaired loans	85,531	166,545	252,076
Fair value of collateral	70,902	147,773	218,675

31 December 2008	Small Business Lending	Corporate Lending	Total
Individually impaired loans	32,219	34,643	66,862
Fair value of collateral	24,184	28,753	52,937

All amounts are shown in BGN thousands unless otherwise stated.

Notes to the financial statements (continued)

V. Financial risk management (continued)

1. Credit risk (continued)

1.4. Loans and advances (continued)

Wholesale borrowers are rated on a case-by-case basis following the Internal Credit Rating System. The credit rating is based on a profound analysis of qualitative and quantitative factors. Qualitative factors are those that deal with the borrower's management, industry, operating conditions, the market sector in which the borrower operates, securities, loan servicing etc. Quantitative factors are those that refer to a set of ratios (main ratios: profitability, leverage, liquidity) emerging from the borrower's financial statements (balance sheet, income statement, notes to the financial statements etc.)
Small business lending loans over 90 days overdue are assessed on a case by case basis, following the bank's provisioning policy.

The disclosed fair value of collateral is determined by local certified valuers and represents value realizable by the legal owners of the assets. The impairment provisions reflect the probability that management will not be able to enforce its rights and repossess collateral on defaulted loans. Despite difficulties in enforcing repossession of collateral, the Bank's management will vigorously pursue the outstanding debts with all possible means at their disposal

(e) Loans and advances renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of the management, indicate that the payment will most likely continue. These policies are kept under continuous review. Loans that have been renegotiated are considered by the Bank as cured if they fully perform over probation period following the renegotiation. Within the probation period the renegotiated loans are closely monitored by the Management and are presented as past due but not impaired or impaired ones. In this regard as of end of December 2009 the respective amount of renegotiated loans that would otherwise be past due or impaired is BGN 17,310 thousands (2008: BGN 4,943 thousands).

	2009	**2008**
Loans and advances to customers :		
– Small business lending	8,139	-
– Mortgages lending	6,522	68
– Consumer lending	2,649	-
– Corporate lending	-	4,875
Total	**17,310**	**4,943**

All amounts are shown in BGN thousands unless otherwise stated.

Notes to the financial statements (continued)

V. Financial risk management (continued)

1. Credit risk (continued)

1.5. Debt securities

The table below presents an analysis of debt securities by rating agency designation, based on the credit assessments of nominated External Credit Assessment Institutions. In the table below is shown Standard and Poor's ratings or their equivalent:

31 December 2009

Rating	Trading securities	Investment securities, available for sale	Investment securities, held to maturity	Total
AAA	-	2,035	-	**2,035**
AA- to AA+	-	2,851	-	**2,851**
A- to A+	8,845	-	-	**8,845**
Lower than A-	1,827	358,493	-	**360,320**
Unrated	4,855	66,336	-	**71,191**
Total	**15,527**	**429,715**	**-**	**445,242**

31 December 2008

Rating	Trading securities	Investment securities, available for sale	Investment securities, held to maturity	Total
AAA	-	1,717	-	**1,717**
AA- to AA+	4,830	2,308	-	**7,138**
A- to A+	-	-	-	**-**
Lower than A-	14,883	329,724	1,365	**345,972**
Unrated	-	85,085	-	**85,085**
Total	**19,713**	**418,834**	**1,365**	**439,912**

The unrated debt securities represent bonds of local companies. The investments in those securities are viewed as a way to gain a better credit quality mapping based on the internal rating system and maintain a readily available source to meet the funding requirement at the same time.

1.6. Repossessed collateral

Repossessed properties are sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness. Repossessed property is classified in the balance sheet within other assets.

The balances of the repossessed collaterals as at year-end are as follows

Nature of assets	2009	2008
Commercial property	480	315
Equipment	237	237
Residential property	1,537	1,176
Land	105	52
Total	**2,359**	**1,780**

All amounts are shown in BGN thousands unless otherwise stated.

Notes to the financial statements (continued)

V. Financial risk management (continued)

1. Credit risk (continued)

1.7 Concentration of risks of financial assets with credit risk

(a) Geographical sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by geographical region as of 31 December 2009. For this table, the Bank has allocated exposures to regions based on the country of domicile of its counterparties.

	Bulgaria	Europe	Canada and US	Other countries	Total
Loans and advances to banks	101,759	485,968	3	-	**587,730**
Trading assets – debt securities	6,682	8,845	-	-	**15,527**
Loans and advances to customers:					
- Mortgages	889,295	1,058	-	-	**890,353**
-Consumer lending incl. credit cards	956,799	450	-	234	**957,483**
-Small business lending	866,903	-	-	-	**866,903**
-Corporate lending	1,555,631	5,673	-	-	**1,561,304**
Investment debt securities – AFS	393,247	33,617	2,851	-	**429,715**
Derivative financial instruments	6,338	9,966	-	-	**16,304**
Other assets	10,646				**10,646**
31 December 2009	**4,787,300**	**545,577**	**2,854**	**234**	**5,335,965**
31 December 2008	**4,180,271**	**667,317**	**2,430**	**457**	**4,850,475**

(a) Industry sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by the industry sectors of our counterparties.

	Commerce and services	Private individuals	Manufacturing	Construction	Public sector	Financial institutions	Other	Total
Loans and advances to banks	-	-	-	-	-	587,730		**587,730**
Trading assets-debt securities	4,855	-	-	-	1,827	8,845	-	**15,527**
Loans and advances to customers:								
- Mortgages	-	890,353	-	-	-	-	-	**890,353**
-Consumer lending incl. credit cards	-	957,483	-	-	-	-	-	**957,483**
-Small business lending	526,930	5,188	149,399	96,149	-	-	89,237	**866,903**
-Corporate lending	701,941	-	312,177	266,151	-	23,046	257,989	**1,561,304**
Investment debt securities – AFS	9,918	-	33,799	2,021	358,492	23,107	2,378	**429,715**
Derivative financial instruments	878	-	698	732	-	10,552	3,444	**16,304**
Other assets	-	-	-	-	-	10,646	-	**10,646**
31 December 2009	**1,244,522**	**1,853,024**	**496,073**	**365,053**	**360,319**	**663,926**	**353,048**	**5,335,965**
31 December 2008	**1,206,666**	**1,145,892**	**501,015**	**366,006**	**336,339**	**757,636**	**536,921**	**4,850,475**

All amounts are shown in BGN thousands unless otherwise stated.

V. Financial risk management (continued)

2. Market risk

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices.

The factors that generate market risk are the interest rate risk, foreign exchange risk and the equity price risk.

The interest rate risk is the risk of potential loss from adverse changes in interest rates. These include reprising risk, yield curve risk, basis risk, spread risk, volatility risk.

The foreign exchange risk is the risk of potential loss from adverse changes in foreign currency exchange rates, against the base currency. It includes outright risk, volatility risk and conversion risk.

The equity price risk is the risk of potential loss from adverse changes in equity prices. It includes outright risk, volatility risk, spread risk, dividend risk and other risks.

The Bank's Market Risk Policy is maintained by Risk Division and approved by the Board of Directors of the Bank. The Market Risk policy is reviewed at least annually and submits changes to the Board. The Market Risk Policy applies to the control of market risk arising on all Bank's assets, liabilities and off-balance sheet positions; it therefore covers Treasury and non-Treasury activities that are subject to market risk. The Market Risk Policy is in compliance with the Parent company Risk Guidelines, which pertain to market risk.

The objectives of market risk control and supervision are to:

- Protect the bank against unforeseen market losses;
- Contribute to more stable and predictable earnings and
- Develop transparent, objective and consistent market risk information as the basis for sound decision making.

Market risk threshold is the size of the potential unexpected loss that the Bank is willing to absorb because of adverse changes in market variables. The market risk threshold must not exceed the Bank's ability to absorb those losses, with a certain degree of confidence. The ability to absorb losses arising from the market risks depends on:

- The Bank's total capital and reserves and
- Potential losses arising from other, non-market risks.

The Bank's market risk threshold is determined by the Risk Committee. It is expressed both in terms of quantity (limits) and quality (characteristics). The Bank uses a system of limits introduced by Parent company which monitors the Bank's aggregate exposure to market risks.

The Bank's market risk threshold is also expressed through characteristics such as different types of allowed markets, products, countries, counterparties and currencies.

2.1 Market risk measurement techniques

The Bank has to include all positions that are exposed to market risk in the measurement system.

The risk factors that generate market risk and have to be included in the market risk measurement system consist of, but are not limited to:

- Foreign Exchange rates
- Interest Rates and
- Equity prices

Notes to the financial statements (continued)

V. Financial risk management (continued)

2. Market risk (continued)

2.1 Market risk measurement techniques

Currently market risk measurement is done using notional exposure data and notional level limits.

Upon senior management decision, in the future the Bank may introduce value – at- risk analysis(the maximum amount that the portfolio is expected to lose over a specified period with a given probability) in order to quantify the expected maximum loss that can affect the Income statement.

Upon introduction of VAR the following have to be carried out:

1. Document the assumptions and methodologies used for market risk measurement and periodically assess and check their validity and accuracy;

2. Measure the Income statement impact of breakdown of one or more of the underlying assumptions (that is a “stress test”).

2.2 Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Management sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily.

2.3 Sensitivity of assets and liabilities

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Management reviews the level of mismatch of interest rate and the necessary reprising that may be undertaken on a monthly basis.

The Bank is exposed to the fluctuations of the different types of market risk. The sensitivity analysis below illustrates the potential impact on the income statement and equity for “reasonable possible shifts”. In the table below, the Bank is presenting reasonable possible shifts, chosen based on the market and economic environments that have been observed during the reporting period.

2.3 Sensitivity of assets and liabilities (continued)

				31 December 2009
	Total Effect on Economic Value	**Direct P&L Effect**	**Direct Equity Effect**	**Banking Book Effect**
Interest Rate				
+250 bps parallel shift local currency				
+200 bps parallel shift other currencies	**16,992**	(737)	(2,030)	19,759
-250 bps parallel shift local currency				
-50 bps parallel shift EUR	**(11,622)**	728	546	(12,896)
-25 bps parallel shift other currencies				
Equities / Equity Indices / Mutual Funds				
-25% equity price drop across the board	**(1,010)**	(318)	(692)	-
+25% equity price increase across the board	**1,010**	318	692	-
Foreign exchange				
-25% depreciation of local currency	**19,486**	19,486	-	-
20% appreciation of local currency	**(15,589)**	(15,589)	-	-

				31 December 2008
	Total Effect on Economic Value	**Direct P&L Effect**	**Direct Equity Effect**	**Banking Book Effect**
Interest Rate				
+250 bps parallel shift local currency				
+200 bps parallel shift other currencies	**29,226**	19,360	(2,541)	12,407
-250 bps parallel shift local currency				
-50 bps parallel shift EUR	**(29,980)**	(22,871)	807	(7,916)
-25 bps parallel shift other currencies				
Equities / Equity Indices / Mutual Funds				
-25% equity price drop across the board	**(992)**	(300)	(692)	-
+25% equity price increase across the board	**992**	300	692	-
Foreign exchange				
-25% depreciation of local currency	**141,698**	141,698	-	-
20% appreciation of local currency	**(113,358)**	(113,358)	-	-

All amounts are shown in BGN thousands unless otherwise stated.

Notes to the financial statements (continued)

V. Financial risk management (continued)

2. Market risk (continued)

2.3 Sensitivity of assets and liabilities (continued)

Sensitivity to changes to the three major market risk factors – foreign exchange, interest rate and equity price risk, has been calculated and presented in the above table. The calculation parameters used have been determined based on the market environment and the dynamics during 2008 and 2009 and represent reasonable possible shifts in the market variables.

1. Foreign exchange risk sensitivity has been calculated directly on the total net open position of the Bank as 25% depreciation / 20% appreciation of the local currency against all foreign currencies.

2. Interest rate risk sensitivity has been estimated by applying a parallel yield curve shift to all of the Bank's relevant on- and off-balance sheet positions and calculating the changes in their present value. The results have been allocated to three columns depending on the accounting treatment of each position:

- Direct P&L effect - for items with revaluation reflected in the P&L (trading portfolio securities and derivatives);
- Direct equity effect - for items with revaluation that affects the equity reserves (AFS securities);
- Banking book effect - for items with no accounting revaluation, the effect is through changes in the economic value of capital.

The sum of the three columns gives the total effect on the economic value of the Bank.

The following parallel yield curve shifts have been applied:

For BGN +250 bps / -250 bps;
For EUR +200 bps / -50 bps;
For USD & CHF +200 bps / -25 bps.

3. Equity price risk. Equity price risk sensitivity has been calculated by applying a 25% drop / 25% increase in equity prices across the board.

2.4 Fair values of financial assets and liabilities

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation and is best evidenced by a quoted market price. The estimated fair values of financial instruments have been determined by the Bank using available market information, where it exists, and appropriate valuation methodologies.

Notes to the financial statements (continued)

V. Financial risk management (continued)

2. Market risk (continued)

2.4 Fair values of financial assets and liabilities (continued)

The following table summarizes the carrying amounts and fair values of financial assets and liabilities of the Bank. Market prices are used to estimate fair values of assets and liabilities.

	Carrying value		Fair value	
	2009	**2008**	**2009**	**2008**
Financial assets				
Loans and advances to banks	587,730	633,485	587,730	633,485
Loans and advances to customers, including:				
- Mortgage loans	890,353	529,760	890,353	529,760
- Consumer loans, including credit cards	957,483	610,414	957,483	610,414
- Small business lending	866,903	847,158	866,903	847,158
- Corporate loans	1,561,304	1,729,060	1,561,304	1,729,060
Total loans and advances to customers	**4,276,043**	**3,716,392**	**4,276,043**	**3,716,392**
Investment securities, held –to-maturity	-	1,365	-	1,079
Financial liabilities				
Deposits from banks	372,042	279,645	372,042	279,645
Due to customers , including:				
– Retail customers	2,880,869	2,768,352	2,880,869	2,768,352
– Large corporate customers	1,346,766	945,207	1,346,766	945,207
– Medium corporate customers	105,034	134,684	105,034	134,684
Total due to customers	**4,332,669**	**3,848,243**	**4,332,669**	**3,848,243**
Debt issued and other borrowed funds	476,331	694,246	476,391	694,354

All amounts are shown in BGN thousands unless otherwise stated.

Notes to the financial statements (continued)

V. Financial risk management (continued)

2. Market risk (continued)

2.4 Fair values of financial assets and liabilities (continued)

	Notional amount		Fair value	
Off Balance Sheet Items	**2009**	**2008**	**2009**	**2008**
Guarantees and Letters of credits				
- Corporate lending	124,400	192,979	2,263	2,370
- Small business and retail lending	4,912	8,507	151	193
Undrawn loan commitments				
- Corporate lending	134,095	410,212	-	-
- Small business and retail lending	376,037	294,396	-	-

a) Due from other banks

Due from other banks includes repurchase agreements, inter-bank placements and items in the course of collection. The funds are short term and the fair value approximates their carrying amount.

b) *Loans and advances to customers*

Loans and advances are carried at amortized cost and are net of provisions for impairment. The Bank has the contractual right to change interest rates on loans and advances contracts after a certain period from the origination date of the contract. For these contracts the Bank considered the date, when it is entitle to change interest rates, as a contractual reprising date. Therefore the fair value of loans and advances to customers approximates their carrying amount.

c) Due to customers

The Bank has the contractual right to change interest rates on deposits contracts after a certain period from the origination date of the contract. For these contracts the Bank considered the date, when it is entitle to change interest rates, as a contractual reprising date. Therefore the fair value of due to customers approximates their carrying amount.

d) Other borrowed funds

The fair value of corporate bonds issued by the Bank and the long term debts is estimated based on the interest rates as at the end of the year. Borrowed funds carry predominantly floating rates and due to the interest rate reprising carrying value is not materially different from their fair value.

e) Guarantees and Letters of credits

The Bank does not expect payments to be made regarding the guarantees and letters of credits. The undrawn loan commitments relate to the floating rate loans and therefore their fair value is nil.

All amounts are shown in BGN thousands unless otherwise stated.

Notes to the financial statements (continued)

V. Financial risk management (continued)

2. Market risk (continued)

2.5 Financial instruments measured at fair value

All financial instruments that are measured at fair value are categorised into one of the three fair value hierarchy levels at year-end based on whether the inputs to their fair values are observable or non observable.

Level 1 - Quoted prices in active markets for identical assets or liabilities. Quoted prices must be readily and regularly available from an exchange or active index/market location and prices must represent actual and regularly occurring market transactions on an arm's length basis. This level includes listed equity securities, debt instruments and exchange traded derivatives.

Level 2 – Financial instruments measured using valuation techniques where all significant inputs are market observable. This level includes OTC derivative contracts and structured assets and liabilities.

Level 3 - Financial instruments measured using valuation techniques with significant non observable inputs.

As of 31 December 2009 , the Bank did not have any level 3 financial assets or liabilities.

	31 December 2009			
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value:				
Financial assets held for trading				
-Debt securities	10,672	4,855	-	**15,527**
-Equity securities	1,274	-	-	**1,274**
-Derivatives	-	16,304	-	**16,304**
Available-for-sale investment securities				
-Investment securities - debt	363,546	-	-	**363,546**
-Investment securities - equity	2,768	-	-	**2,768**
Total financial assets	**378,260**	**21,159**	**-**	**399,419**
Financial liabilities measured at fair value:				
Derivative financial instruments	-	54,758	-	**54,758**
Total financial liabilities	**-**	**54,758**	**-**	**54,758**

The financial instruments that are held at amortised cost are excluded from the table above. The balance sheet amount is as follows:

Available-for-sale investment securities	**Amortised cost**
-Investment securities - debt	66,169
-Investment securities - equity	3,899

All amounts are shown in BGN thousands unless otherwise stated.

Notes to the financial statements (continued)

V. Financial risk management (continued)

3. Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to replay depositors and fulfill commitments to lend.

3.1. Liquidity risk management process

The Bank designates appropriate liquidity policies which have to ensure that:

- Sufficient liquid assets are maintained to meet liabilities as they arise;
- A prudent proportion of medium term assets are funded by medium term liabilities and
- The liquidity position is monitored closely on a daily basis and continuously throughout the dealing operations.

The Board of Directors of the Bank assigns the Assets and Liabilities Committee as the primary responsible body to advise the Board for the strategy for the liquidity management.

Assets and Liabilities Committee manages:

- The Bank's assets and liabilities to ensure regular and timely meeting of current and future obligations.
- The Bank's cash inflows and outflows /liquidity sources and uses/ and the ratios between assets and liabilities.
- The target liquidity ratios set by Parent company and
- The liquidity ratios recommended by the Regulator

The operational management of the Bank's Assets and Liabilities and the execution of Assets and Liabilities Committee decisions regarding Liquidity is assigned to the Head of Treasury.

3.2 Funding approach

Sources of liquidity are regularly reviewed by Assets and Liabilities Committee to maintain a wide diversification by currency, geography, provider, product and term.

3.3 Cash flows

The table below presents the cash flows receivables and payable by the Bank under financial assets/ liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows calculated on spot rates.

Notes to the financial statements (continued)

V. Financial risk management (continued)

3. Liquidity risk (continued)

3.3 Cash flows (continued)

As at 31 December 2009	Gross nominal inflow/ outflow	Less than 1 month	1-3 months	3 -12 months	1-5 years	More than 5 years
Financial liabilities						
Non-derivative liabilities	***5,306,121***	***2,511,166***	***608,872***	***1,956,879***	***126,965***	***102,239***
Due to other banks	374,575	137,975	115,670	120,930	-	-
Due to customers	4,392,476	2,339,125	493,202	1,541,194	18,955	-
Debt issued and other borrowed funds	505,004	-	-	294,755	108,010	102,239
Other liabilities	34,066	34,066	-	-	-	-
Derivative financial instruments	***1,773,907***	***450,781***	***18,438***	***805,675***	***497,541***	***1,472***
Outflows from gross and net settled	1,773,907	450,781	18,438	805,675	497,541	1,472
Total liabilities (contractual maturity)	**7,080,028**	**2,961,947**	**627,310**	**2,762,554**	**624,506**	**103,711**
Total assets (contractual maturity)	**9,459,738**	**3,207,109**	**140,130**	**1,263,129**	**2,581,693**	**2,267,677**

As at 31 December 2008	Gross nominal inflow/ outflow	Less than 1 month	1-3 months	3 -12 months	1-5 years	More than 5 years
Financial liabilities						
Non-derivative liabilities	***5,299,440***	***2,703,585***	***965,354***	***528,478***	***434,492***	***667,531***
Due to other banks	281,345	111,053	170,292	-	-	-
Due to customers	3,878,575	2,538,916	795,062	493,532	50,770	295
Debt issued and other borrowed funds	1,085,904	-	-	34,946	383,722	667,236
Other liabilities	53,616	53,616	-	-	-	-
Derivative financial instruments	***2,746,832***	***1,813,376***	***18,789***	***139,097***	***770,674***	***4,896***
Outflows from gross and net settled	2,746,832	1,813,376	18,789	139,097	770,674	4,896
Total liabilities (contractual maturity)	**8,046,272**	**4,516,961**	**984,143**	**667,575**	**1,205,166**	**672,427**
Total assets (contractual maturity)	**9,261,602**	**4,704,631**	**114,092**	**491,968**	**2,295,435**	**1,655,476**

All amounts are shown in BGN thousands unless otherwise stated.

Notes to the financial statements (continued)

V. Financial risk management (continued)

3. Liquidity risk (continued)

3.4 Off-balance sheet items

a) *Loan commitments*

The dates of the contractual amounts of the Bank's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities, are summarised in the table below:

(b) *Financial guarantees and other financial facilities.*

Financial guarantees are included below, based on the earliest contractual maturity date.

(c) *Operating lease commitments*

Where the Bank is the lessee, the future minimum lease payments under non-cancelable operating leases are summarized in the table below.

(d) *Capital commitments*

Capital commitments for the acquisition of buildings and equipment are summarized in the table below.

At 31 December 2009	**No later than 1 year**	**1-5 years**	**Over 5 years**	**Total**
Guarantees:				
- guarantees and standby letters of credit	38,919	44,811	45,582	**129,312**
Commitments:				
- Undrawn loan commitments	399,518	34,759	75,855	**510,132**
- Capital expenditure	718	-	-	**718**
- Operating lease commitments	6,547	-	-	**6,547**

At 31 December 2008	**No later than 1 year**	**1-5 years**	**Over 5 years**	**Total**
Guarantees:				
- guarantees and standby letters of credit	66,629	78,061	56,796	**201,486**
Commitments:				
- Undrawn loan commitments	526,800	62,072	115,736	**704,608**
- Capital expenditure	373	-	-	**373**
Operating lease commitments	7,801	-	-	**7,801**

All amounts are shown in BGN thousands unless otherwise stated.

Notes to the financial statements (continued)

V. Financial risk management (continued)

4. Capital management

The Bank's Management objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheets, are:

- to comply with the capital requirements set by the regulators of the banking markets where the Bank operates;
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee and the European Community Directives, as implemented by the Bulgarian National Bank (Authority), for supervisory purposes. The required information is filed with the Authority on a quarterly basis.

The Authority requires each bank or banking group to: (a) hold the minimum level of the regulatory capital of BGN 10 000 thousand and (b) maintain a ratio of total regulatory capital to the risk-weighted asset of 12%.

Regulatory capital consists of Tier I capital, which includes shareholders' ordinary equity, „Reserve" fund, retained earnings from previous year. Deductions of Tier I capital include intangible assets and unrealized loss from available for sale financial instruments. Tier II capital includes subordinated debt and revaluation reserves for the real estate, occupied by the Bank.

The following amounts are reduced at 50% from Tier I and 50% at Tier II capital: specific provisions under the Bulgarian National bank' Ordinance No. 9 on the evaluation and classification of risk exposures of banks and the allocation of provisions to cover credit risk and investments in shares amounting to more than 10% of the paid in capital of credit or financial institutions.

Tier-two capital cannot exceed 50% of tier-one capital.

The risk-weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

Notes to the financial statements (continued)

V. Financial risk management (continued)

4. Capital management (continued)

The table below summarizes the composition of regulatory capital and the ratios of the Bank for the years ended 31 December. During those two years, the Bank complied with all of the externally imposed capital requirements to which they are subject.

	2009	2008
Tier 1 capital		
Share capital	452,753	246,178
General bank Reserves	-	-
Reserves	275,067	183,565
Audited current profit	-	42,092
Revaluation–reserve - available for sale investments	(11,115)	(56,048)
Less:		
Intangible assets	18,270	14,668
Specific Provisions under Reg.9	78,905	42,705
50% of the paid-in capital of a unconsolidated undertakings	-	125
Total qualifying Tier 1 capital	**619,530**	**358,289**
Tier 2 capital		
Long term debt	71,940	290,258
Revaluation reserve of property owned by the Bank	2,376	3,310
Less:		
Specific Provisions	74,316	42,705
50% of the paid-in capital of a unconsolidated undertakings	-	125
Total qualifying Tier 2 capital	**-**	**250,738**
Risk-weighted assets		
On-balance sheet	4,518,814	4,101,905
Off-balance sheet	185,662	323,146
Total risk-weighted assets	**4,704,476**	**4,425,051**
Basel ratio	**13.17%**	**13.76%**

The increase of the risk-weighted assets reflects the expansion of the business of the Bank.

All amounts are shown in BGN thousands unless otherwise stated.

Notes to the financial statements (continued)

W. Business segments

In the financial year 2009 segment analysis was prepared for the first time in accordance with IFRS 8, "Operating segments".

Segment information for 2008 that is presented as comparative information for 2009 has been reported to conform to the requirements of IFRS 8.

Following the management approach of IFRS 8, operating segments are reported in accordance with the internal reporting provided by the Executive Board (the chief operating decision-maker), which is responsible for allocating resources to the reportable segments and assesses its performance. All operating segments used by the Bank meet the definition of a reportable segment under IFRS 8.

The Bank has three main business segments, based on product and services as follows:

- Retail banking – incorporating customer current accounts, savings, deposits and investment savings products, credit and debit cards, consumer and car loans, small business and mortgage lending
- Corporate banking - incorporating direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products to corporate entities
- Capital Markets - incorporating investment banking services including corporate finance, custody, equity brokerage, financial instruments trading and institutional finance to corporate and institutional entities

Other operations of the Bank comprise mainly activities related to the management of unallocated capital and represent earnings on capital not used in the activities performed by business segments in the reporting year.

	31 December 2009				
	Capital Markets	**Corporate**	**Retail**	**Other**	**Total**
Net operating income before impairment	12,406	55,810	188,462	10,563	**267,241**
Impairment charge for credit losses	-	(23,081)	(87,564)	-	**(110,645)**
OPEX	(4,398)	(18,249)	(115,774)	-	**(138,421)**
PBT	8,008	14,480	(14,876)	10,563	**18,175**
Tax	(889)	(1,608)	1,595	(1,166)	**(2,068)**
PAT	**7,119**	**12,872**	**(13,281)**	**9,397**	**16,107**
Segment assets	1,642,285	1,600,965	2,776,696	-	**6,019,946**
Segment liabilities	1,182,533	1,159,345	2,933,100	-	**5,274,978**

All amounts are shown in BGN thousands unless otherwise stated.

Notes to the financial statements (continued)

W. Business segments (continued)

	31 December 2008				
	Capital Markets	Corporate	Retail	Other	Total
Net operating income before impairment	42,106	65,131	188,940	2,257	**298,434**
Impairment charge for credit losses	-	(2,476)	(29,623)	-	**(32,099)**
OPEX	(5,218)	(13,196)	(145,854)	-	**(164,268)**
PBT	36,888	49,459	13,463	2,257	**102,067**
Tax	(4,191)	(5,619)	(1,530)	(256)	**(11,596)**
PAT	**32,697**	**43,840**	**11,933**	**2,001**	**90,471**
Segment assets	1,612,552	1,773,693	2,041,907	-	**5,428,152**
Segment liabilities	1,294,478	848,806	2,808,341	-	**4,951,625**

X. Critical accounting estimates and judgments in applying accounting policy

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Impairment losses on loans and advances

The Bank reviews its loan portfolio to assess impairment on a monthly basis. The impairment review is in compliance with the approved management policy for assessment of risk exposures. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Impairment of available- for-sale equity investments

The Bank determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Bank evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

All amounts are shown in BGN thousands unless otherwise stated.

X. Critical accounting estimates and judgments in applying accounting policy

Fair value of derivatives

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data. Therefore areas such as credit risk volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

Application of the effective interest rate method

The application of the effective interest rate method for loan related fees requires the use of estimates about the expected life and other patterns and characteristics of the loan portfolio. In building up these estimates the bank utilizes the experience of other entities in EFG Eurobank Ergasias Group and Bulgarian market conditions. The bank has applied effective interest method regarding the loans related fees prospectively, because it cannot provide evidence of circumstances that existed on the dates as at which the transactions occurred in order to determine the cumulative effect on the comparative information.

Sensitivity analysis of assets and liabilities

The sensitivity analysis illustrates the potential impact on the income statement and equity for “reasonable possible shifts. Sensitivity to changes to the three major market risk factors – foreign exchange, interest rate and equity price risk, has been calculated The parameters of calculations used have been determined based on the current market environment and the dynamics during 2009 and represent reasonable possible shifts in the market variables. The 2008 figures have been recalculated with the same parameters.

The Foreign exchange risk sensitivity has been calculated directly on the total net open position of the Bank as 25% depreciation / 20% appreciation of the local currency against all foreign currencies.

The Interest rate risk sensitivity has been estimated by applying a parallel yield curve shift to all of the Bank’s relevant on- and off-balance sheet positions and calculating the changes in their present value.

The Equity price risk sensitivity has been calculated by applying a 25% drop / 25% increase in equity prices across the board.

Fair value of land and buildings

The Bank determines the fair value of land and building from market-based evidence by appraisal that is undertaken by professionally qualified valuers. The bank follows its accounting policy to revalue the land and building every five years. Based on the accounting policy of the Bank the revaluation of land and buildings has been performed by a qualified independent valuer at the end of 2008.

The main valuation methods used to determine the fair value were:

-market prices analogs (where assets are compared to those similar of nature offered on the market)
-present value of future income for rent generating assets (DCF)

-method of reduced cost (taking into account the price that the asset would cost at present if acquired or built and reduced on the basis of economic and physical depreciation factors).

Notes to the financial statements (continued)

1 Net interest income

Interest income	2009	2008
Loans and advances to customers	424,557	376,026
Derivative instruments	57,996	69,529
Due from other banks	22,318	25,675
Investment securities	23,385	21,914
Hedging instruments	14,088	17,874
Trading securities	798	2,036
Investment securities, held-to-maturity	25	14
	543,167	**513,068**

Interest income accrued on impaired financial assets is BGN 22,832 thousand (2008: BGN 5,606 thousand).

Interest expense	2009	2008
Deposits from customers	196,334	134,639
Derivative instruments	58,211	63,950
Hedging instruments	22,311	18,907
Long term debt	9,757	14,475
Deposits from Banks	11,782	13,230
Syndicated loan	5,501	6,915
Debt securities issued	3,745	6,863
Other borrowed funds	811	1,148
Other	-	5
	308,452	**260,132**

2 Net fee and commission income

Fees and commission income	2009	2008
Loan’s fees and commissions	18,235	15,766
Transfers	15,547	17,130
Account maintenance	8,630	7,266
Foreign exchange operations	6,901	23,509
Cash operations	5,466	8,866
Receipts from sales of services	3,856	2,364
Off-balance commitments and letters of guarantee	1,699	1,829
Other fees	1,579	810
Commission securities	254	720
Operations with derivatives	131	352
Investment banking	-	47
	62,298	**78,659**

All amounts are shown in BGN thousands unless otherwise stated.

Notes to the financial statements (continued)

2 Net fee and commission income (continued)

Fee and commission expense	2009	2008
Services from BRS	5,155	7,337
Credit cards, cheques and other	4,598	646
Transactions processing	3,531	3,822
Expenses for Post offices	2,032	2,212
Cash transactions an correspondent accounts	886	921
Others	857	531
Securities	147	531
Bonds issued	54	105
Operations related to derivatives	13	256
	17,273	**16,361**

Post Offices' commissions represent amounts paid to Bulgarian Posts for services performed on behalf of and at the expense of the Bank for the Bank's network of service desks throughout the country.

3 Net trading (expense) / income

	2009	2008
Foreign exchange:		
Translation gains less losses	(3,622)	(4,529)
Transaction gains less losses	493	(199)
Net results from derivative instruments	2,655	11,107
Net trading income	**(474)**	**6,379**

4 Other operating expenses

	2009	2008
Staff costs (Note 5)	54,733	73,162
Operating lease rentals	26,133	23,994
Depreciation (Note 18)	19,378	17,223
Advertising and marketing	7,463	11,085
Communication	5,756	7,996
External services	5,040	7,425
Repairs and maintenance	6,156	6,719
Security	4,897	5,400
Materials and utilities	3,399	4,440
Software costs	3,092	3,361
Other operating costs	4,855	1,072
Travel and accommodation	646	1,038
Levies and taxes	499	724
Insurance	436	436
Tax loss	-	975
Restructuring provisions write back	(4,062)	(782)
Total other operating expense	**138,421**	**164,268**

All amounts are shown in BGN thousands unless otherwise stated.

Notes to the financial statements (continued)

5 Staff costs

	2009	2008
Wages and salaries	42,593	58,739
Pension insurance	4,853	5,842
Social security costs	3,671	4,200
Other	3,616	4,381
Total staff cost	**54,733**	**73,162**

The Bank estimated that the pension obligation provision as at year end is BGN 1,899 thousand (2008: BGN 1,793 thousand). See note 25.

6 Provision (expense) write back for loans and advances to customers

	2009	2008
Loans and advances to customers (Note 12)	(110,849)	(20,450)
Credit commitments	204	(11,649)
	(110,645)	**(32,099)**

7 Income tax expense

	2009	2008
Deferred tax (Note 23)	1,949	469
Current tax	119	10,449
Prior year tax expense	-	678
	2,068	**11,596**

Tax is payable at an actual rate of 10% (2008: 10%) on adjusted profits under Bulgarian tax law.

The tax on the operating profit differs from the theoretical amount that would arise using the basic tax rate as follows:

	2009	2008
Profit before tax	**18,175**	**102,067**
Tax calculated at a tax rate of 10% (2008: 10%)	1,817	10,207
Tax effect of permanent differences	251	711
Prior year tax expense	-	678
Income tax expense	**2,068**	**11,596**

Additional information about deferred tax is presented in Note 23.

The tax authorities may at any time inspect the books and records within 5 years subsequent to the reported tax year, and may impose additional taxes and penalties. The Bank's management is not aware of any circumstances which may give rise to a potential material liability in this respect. The last full-scope tax audit of the Bank has been carried out in 2008, covering the periods to 31 December 2007.

All amounts are shown in BGN thousands unless otherwise stated.

8 Income tax effects relating to comprehensive income

	Year ended 31 December					
	2009			2008		
	Before tax amount	Tax (expense) benefit	Net of tax amount	Before tax amount	Tax (expense) benefit	Net of tax amount
Available for sale investments	50,736	(5,073)	45,663	(63,162)	6,316	(56,846)
Gain on property revaluation	107	(11)	96	1,547	(155)	1,392
Total	**50,843**	**(5,084)**	**45,759**	**(61,615)**	**6,161**	**(55,454)**

9 Cash and balances with the Central Bank

	2009	2008
Cash in hand	95,100	162,319
Balances with Central bank other than mandatory reserve	268,565	124,386
Included in cash and cash equivalents (Note 28)	**363,665**	**286,705**
Mandatory reserve with Central Bank	199,262	162,679
	562,927	**449,384**

The Bank's balance with the Central Bank is allowed to decrease to 50% from the mandatory reserve calculated per Central Bank's regulations. The Bank is obliged to accumulate a balance with the Central Bank that equals or exceeds the mandatory reserve required by the 4th day of the month following the reporting month.

10 Loans and advances to banks

	2009	2008
Deposits in other banks up to 90 days from the date of acquisition	518,449	633,312
Reverse repurchase agreements up to 90 days from the date of acquisition	68,871	-
Included in cash and cash equivalents (Note 28)	**587,320**	**633,312**
Interest receivable	410	173
	587,730	**633,485**

Approximately 83 % (2008: 94%) of the amounts due from other banks represent funds placed in banks domiciled in OECD countries, with the remainder held with banks in Bulgaria and Romania.

All amounts are shown in BGN thousands unless otherwise stated.

Notes to the financial statements (continued)

11 Financial assets held for trading

	2009	2008
Bonds issued by companies	13,701	4,830
Bulgarian government bonds	1,826	13,562
Shares	1,274	1,201
Foreign government bonds	-	1,321
	16,801	**20,914**
Equity securities:		
- Listed	1,274	1,201
Bonds:		
- Listed	10,672	19,713
- Unlisted	4,855	-

Included in the amount of the bonds is accrued interest in the amount of BGN 206 thousand (2008: BGN 423 thousand).

Gains less losses from trading securities

	2009	2008
Equity securities	(67)	(1,481)
Debt securities	1,011	(1,576)
	944	**(3,057)**

12 Loans and advances to customers

	2009	2008
Retail customers:		
Consumer lending (including credit cards)	1,058,780	631,674
Small Business Lending	887,789	861,023
Mortgages	897,773	532,984
Corporate Lending	1,600,514	1,749,259
Gross loans and advances	**4,444,856**	**3,774,940**
Less allowance for impairment losses on loans and advances	(168,813)	(58,548)
	4,276,043	**3,716,392**

All amounts are shown in BGN thousands unless otherwise stated.

12 Loans and advances to customers (continued)

Reconciliation of allowance account for losses on loans and advances by class is as follows:

	Retail customers			Wholesale	
	Consumer lending	Mortgages	Small Business Lending	Corporate Lending	Total
At 1 January 2008	**19,636**	**1,479**	**6,436**	**28,331**	**55,882**
Charge for the year	15,753	1,820	7,401	(4,524)	**20,450**
Recoveries	2,360	-	-	261	**2,621**
Amounts written off	(16,379)	-	-	(3,768)	**(20,147)**
Foreign Exchange differences	(110)	(75)	28	(101)	**(258)**
At 31 December 2008	**21,260**	**3,224**	**13,865**	**20,199**	**58,548**

	Retail customers			Wholesale	
	Consumer lending	Mortgages	Small Business Lending	Corporate Lending	Total
At 1 January 2009	**21,260**	**3,224**	**13,865**	**20,199**	**58,548**
Arising from acquisitions	28,634	2,031	436	-	**31,101**
Charge for the year	67,491	2,184	18,028	23,146	**110,849**
Recoveries	(1,221)	-	3	(13)	**(1,231)**
Amounts written off	(14,910)	(4)	(11,533)	(4,163)	**(30,610)**
Foreign Exchange differences	42	(15)	88	41	**156**
At 31 December 2009	**101,296**	**7,420**	**20,887**	**39,210**	**168,813**

	2009	2008
The ten largest loans and advances to customers	295,226	296,040
Percentage of gross loans	6.64%	7.84%

Included in the amount of loans and advances to customers is accrued interest of BGN 46,942 thousand (2008: BGN 19,367 thousand). Eurobank EFG Bulgaria has transferred loans from BRS, a company that is part of the EFG Group amounting to BGN 737,078 thousand as at 31 December 2009 (In 2008 Eurobank has transferred loans to companies that are part of EFG Group amounting to BGN 1,742,875 thousand).

All amounts are shown in BGN thousands unless otherwise stated.

Notes to the financial statements (continued)
13 Investment securities, available for sale

	2009	2008
Bulgarian government bonds	327,078	295,024
Bonds issued by banks	2,035	11,349
Corporate bonds issued by companies of which:		
measured at amortised cost	64,045	77,491
measured at fair value	3,020	7,071
Foreign government bonds	31,414	25,069
Corporate mortgage bonds measured at amortised cost	2,123	2,830
Shares and participations of which:		
measured at amortised cost	3,899	3,845
measured at fair value	2,768	2,768
	436,382	**425,447**
Equity securities		
Listed	2,768	2,768
Unlisted	3,899	3,845
Debt securities		
Listed	405,686	392,181
Unlisted	24,029	26,653
	436,382	**425,447**

Included in the amount of the investment securities is accrued interest in the amount of BGN 18,889 thousand (2008: BGN 19,668 thousand).

Movement in available for sale securities is reconciled as follows:

Book value as at 31 December 2007	**353,735**
Additions	289,147
Disposals	(159,689)
Reclassified to held to maturity	(1,331)
Accrued interest	6,418
Amortization of discounts or premium	329
Net fair value loss	(63,162)
Book value as at 31 December 2008	**425,447**
Additions	2,504
Disposals	(34,966)
Accrued interest	(779)
Amortization of discounts or premium	(6,560)
Net fair value gain	50,736
Book value as at 31 December 2009	**436,382**

Gains less losses from investment securities

	2009	2008
Transfer of revaluation reserve (deficit) from equity to income statement	(168)	(6,852)
Impairment of investment securities recognized directly in income statement	(636)	(545)
Gain less losses on sale of AFS securities recognized in income statement	(564)	(316)
	(1,368)	**(7,713)**

All amounts are shown in BGN thousands unless otherwise stated.

14 Other operating income

	2009	2008
Net gain from sales of non-current fixed assets	5,134	165
Other income	146	-
	5,280	**165**

15 Investment securities, held-to-maturity

	2009	2008
Foreign government bonds	-	1,365
Listed	-	1,365

The bond has matured in 2009. Included in the amount of the investment securities for 2008, held to maturity is accrued interest in the amount of BGN 37 thousand.

16 Other assets

	2009	2008
Amounts in transit	4,931	4,093
Other debtors	3,010	6,956
Deferred expenses	2,683	3,098
Repossessed collaterals	2,359	1,780
Other	961	1,597
Materials	258	268
Prepayments	74	83
Less provision against other assets	(1,271)	(1,808)
	13,005	**16,067**

Provision against other assets

	2009	2008
Opening balance at 1st of January	1,808	1,432
Charged to the income statement	270	1,212
Reversed to the income statement	(127)	(212)
Used during year	(680)	(624)
Closing balance	**1,271**	**1,808**

17 Investment property

Investment property is held for long-term rental yields and is not occupied by the Bank. Investment property is carried at fair value, representing open market value determined by external valuers. The fair value of the investment properties is based on market prices, adjusted, for any difference in the nature, location or condition of the specific asset.

The last assessment of the investment property was performed by EFG Properties Bulgaria in 2008. Changes in fair values are recorded in the income statement as part of other income. The Bank has not recognized the amounts in income statement as at 31 December 2009.

Investment property

	2009	2008
Beginning of the year	*876*	*876*
Net gains or losses from fair value adjustments	-	-
End of the year	**876**	**876**

All amounts are shown in BGN thousands unless otherwise stated.

Notes to the financial statements (continued)

18 Property and equipment

	Property	Equipment and other fixed assets	Total
At 31 December 2007			
Gross amount	51,093	102,115	153,208
Accumulated depreciation	(6,911)	(44,457)	(51,368)
Net book amount	**44,182**	**57,658**	**101,840**
Year ended 31 December 2008			
Opening net book amount	**44,182**	**57,658**	**101,840**
Additions	10,017	22,083	32,100
Disposals	(157)	(534)	(691)
Revaluation of properties	1,547	-	1,547
Depreciation charge (Note 4)	(3,396)	(13,827)	(17,223)
Closing net book amount	**52,193**	**65,380**	**117,573**
At 31 December 2008			
Gross amount	61,134	120,217	181,351
Accumulated depreciation	(8,941)	(54,837)	(63,778)
Net book amount	**52,193**	**65,380**	**117,573**
Year ended 31 December 2009			
Opening net book amount	**52,193**	**65,380**	**117,573**
Additions	624	10,579	11,203
Disposals	(2,476)	(292)	(2,768)
Depreciation charge (Note 4)	(4,737)	(14,641)	(19,378)
Closing net book amount	**45,604**	**61,026**	**106,630**
At 31 December 2009			
Gross amount	**57,459**	**129,090**	**186,549**
Accumulated depreciation	(11,855)	(68,064)	(79,919)
Net book amount	**45,604**	**61,026**	**106,630**

The Bank's land and buildings were last revalued on 31 December 2008 by independent valuers. Valuations were made on the basis of recent market transactions on arm's length terms. The revaluation surplus net of applicable deferred income taxes was credited to property and equipment revaluation reserve in shareholders' equity.

All amounts are shown in BGN thousands unless otherwise stated.

19 Deposits from Banks

	2009	2008
Items in course of collection	14,145	23,681
Deposits from other banks	155,192	103,193
Repurchase agreements	202,705	152,771
	372,042	**279,645**

Included within due to other banks is related accrued interest payable of BGN 1,694 thousand (2008: BGN 996 thousand).

20 Derivative financial instruments

The Bank utilizes currency forwards, currency swaps, interest rate swaps, cross currency interest rate swaps and interest rate futures, which are negotiated between the Bank and counterparties for both hedging and non-hedging purposes.

Currency forwards represent commitments to purchase foreign and domestic currency, including undelivered spot transactions.

Currency swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or a combination of currencies or interest rates (i.e., cross-currency interest rate swaps). The Bank's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfill their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities.

Interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of interest rates. No exchange of principal takes place; therefore the credit risk is negligible.

Interest rate futures are contractual obligations to receive or pay a net amount based on changes in interest rates. The credit risk is negligible, as futures contracts are collateralized by cash or marketable securities, and changes in the futures' contact value are settled daily with the exchange. Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.

The notional amounts of certain types of financial instrument provide a basis for comparison with instruments recognized on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit or price risks. The derivative instruments become favorable (assets) or unfavorable (liabilities) as a result of fluctuations in market interest or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which, instruments are favourable or unfavorable, and thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The fair values of derivative instruments held are set out below.

All amounts are shown in BGN thousands unless otherwise stated.

Notes to the financial statements (continued)

20 Derivative financial instruments and hedging activities (continued)

Year ended 31 December 2009	Contract / notional amount	Assets	Liabilities
Derivatives held for trading			
Foreign exchange derivatives			
OTC currency forwards	100,869	656	1,349
OTC currency swaps	1,632,643	746	6,573
Total OTC currency derivatives	**1,733,512**	**1,402**	**7,922**
Interest rate derivatives			
OTC interest rate swaps	207,024	4,561	7,251
OTC cross-currency interest rate swaps	676,283	9,483	9,599
OTC IR options bought and sold	289,898	771	771
Total OTC interest rate derivatives	**1,173,205**	**14,815**	**17,621**
Derivatives held for hedging			
OTC interest rate swaps	**285,152**	**87**	**29,215**
Total recognised derivative assets / liabilities	**3,191,869**	**16,304**	**54,758**

Year ended 31 December 2008			
Derivatives held for trading	**3,059,671**	**46,465**	**46,432**
Foreign exchange derivatives			
OTC currency forwards	131,237	1,129	899
OTC currency swaps	1,687,220	13,301	13,480
OTC currency options bought and sold	9,989	325	329
Total OTC currency derivatives	**1,828,446**	**14,755**	**14,708**
Interest rate derivatives			
OTC interest rate swaps	229,466	3,381	17,603
OTC cross-currency interest rate swaps	694,141	27,688	13,480
OTC IR options bought and sold	307,618	641	641
Total OTC interest rate derivatives	**1,231,225**	**31,710**	**31,724**
Derivatives held for hedging			
OTC interest rate swaps	287,010	184	19,939
Total recognised derivative assets / liabilities	**3,346,681**	**46,649**	**66,371**

All amounts are shown in BGN thousands unless otherwise stated.

20 Notes to the financial statements (continued)

Derivative financial instruments and hedging activities (continued)

The Bank hedges part of its existing interest rate risk resulting from any potential decrease in the fair value of fixed rate assets denominated in foreign currencies using interest rate swaps. The fair value of these swaps at 31 December 2009 was positive BGN 87 thousand (2008: 184 thousand) and negative BGN 29,215 thousand (2008: 19,939 thousand).

The loss on the hedging instruments were BGN 2,611 thousand (2008: loss 21,542 thousand). The gains on the hedged item attributable to the hedged risk were BGN 3,483 thousand (2008: gains 21,362 thousand). In 2009 the effectiveness arising from fair value hedges, recognized in income statements is BGN 872 thousand (2008: loss 180 thousand).

21 Due to customers

	2009	2008
Large corporate customers	1,346,766	945,207
Medium corporate customers	105,034	134,684
Total due to corporate customers	**1,451,800**	**1,079,891**
Retail customers	2,880,869	2,768,352
Total due to customers	**4,332,669**	**3,848,243**

Included within due to customers is related accrued interest payable of BGN 52,544 thousand (2008: BGN 20,477 thousand).

22 Debt issued and other borrowed funds

	2009	2008
Debt securities in issue	39,992	74,371
Subordinated debt	93,864	189,487
Debt equity (hybrid) financial instruments	-	110,496
Long term loan from EBRD	29,384	27,297
Syndicated loan	293,088	292,595
Long term debt from Bulgarian Development Bank	20,003	-
Total debt issued and Other borrowed funds	**476,331**	**694,246**

a) Debt securities in issue

In April 2007 corporate bonds with nominal amount of BGN 40,000 thousand were issued. The bonds carry floating rate coupon based on 3 month SOFIBOR rate plus 0.8%. The outstanding balance as at 31 December 2009 is BGN 39,992 thousand (2008: BGN 40,337 thousand).

In July 2009 Eurobank EFG Bulgaria redeemed corporate bonds with nominal amount BGN 33,750 thousand, issued in July 2006.

b) Subordinated debt and Debt equity (hybrid) financial instruments

In March 2005, DZI Bank signed subordinated debt agreement for total amount of BGN 25,000 thousand. The long term debt has ten years maturity and a fixed interest rate of 6,5%. As at 31 December 2009 the total liability amounted to BGN 29,132 thousand (2008: BGN 27,731 thousand).

All amounts are shown in BGN thousands unless otherwise stated.

Notes to the financial statements (continued)

Debt issued and Other borrowed funds (continued)

In November 2006, all rights and obligations /including the receivables/, held by the legal entities under agreements concluded by DZI Bank have been transferred to Eurobank EFG Holding /Luxembourg/ S.A., whereas all contractual terms remain unchanged.

In June 2007, Eurobank EFG Bulgaria signed subordinated term debt agreement with EFG Eurobank Ergasias. The agreement is for BGN 58,674 thousands at floating rate of 3 month Euribor plus 0.5%. As at 31 December 2009 the total liability amounted to BGN 64,732 thousand (2008: BGN 60,658 thousand).

In July 2009 Eurobank EFG Bulgaria redeemed debt-capital (hybrid) notes with principal amount of BGN 11,000 thousand contracted in March 2005.

In July 2009 Eurobank EFG Bulgaria redeemed debt-capital (hybrid) notes with principal amount of BGN 97,792 thousand and subordinated debt term facility with principal amount of BGN 97,792 thousand, contracted in June 2008.

c) Loans received from The European Bank for Reconstruction and Development

In August 2006, Eurobank EFG Bulgaria and the European Bank for Reconstruction and Development executed Loan Agreement whereby the Bank can borrow EUR 5,000 thousand (BGN 9,779 thousand) for the purposes of granting loans for improving rational energy utilization in Republic of Bulgaria. In December 2006, the amount of the loan was increased by EUR 15,000 thousand (BGN 29,337 thousand). As at 31 December 2009 the total liability amounted to BGN 12,043 thousand. (2008: BGN 14,542 thousand).

In February 2006 Eurobank EFG Bulgaria and the European Bank for Reconstruction and Development executed Loan Agreement whereby the Bank can borrow up to EUR 5,000 thousand (BGN 9,779 thousand). The granted funds are used for funding residential energy efficiency and small renewable energy investments of individual households in the Republic of Bulgaria. As at 31 December 2009 the total liability amounted to BGN 3,725 thousands. (2008: BGN 7,072 thousand).

In July 2008, Eurobank EFG Bulgaria and the European Bank for Reconstruction and Development executed Loan Agreement whereby the Bank can borrow up to EUR 25,000 thousand (BGN 48,896 thousand) for the purpose of granting funds to small and medium-sized enterprises in the form of Small and Micro Loans. As at 31 December 2009 the total liability amounted to BGN 13,616 thousand. (2008: 5,683 thousand) According to the loan agreements with the European Bank for Reconstruction and Development, the Bank is required to comply with certain financial and non-financial covenants.

d) Syndicated loan

In June 2008, Eurobank EFG Bulgaria signed Syndicated Loan Agreement for the total amount of BGN 293,375 thousands. The long term debt has a two years maturity at floating rate of 1 month Euribor plus 0.65%. As at 31 December 2009 the total liability amounted to BGN 293,088 thousand (2008: BGN 292,595 thousand).

e) Loans received from the Bulgarian Development Bank

In February 2009, Eurobank EFG Bulgaria and the Bulgarian Development Bank executed Loan Agreement whereby the Bank can borrow BGN 20,000 thousand. This loan is part of the government measures package, aiming to minimise the global financial crisis impact over the Bulgarian economy. The purpose of the granted funds is long term financing of small and medium enterprises registered by the Trade Law. The long term debt has ten years maturity and a fixed interest rate of 5.0 %. As at 31 December 2009 the total liability amounted to BGN 20,003 thousand (2008: nil).

22 Notes to the financial statements (continued)

Debt issued and other borrowed funds (continued)

The following tables analyses the debt issued and other borrowed funds by contractual maturity and also into fixed and floating rate

				31 December 2009
	Within 1 year	1-5 years	Over 5 years	Total
Corporate Bonds				
Floating rate	-	39,931	-	**39,931**
Accrued interest	61	-	-	**61**
Subordinated debt				
Floating rate	-	58,675	-	**58,675**
Accrued interest	6,057	-	-	**6,057**
Fixed rate	-	-	25,000	**25,000**
Accrued interest	-	-	4,132	**4,132**
EBRD Credit lines	15,597	13,516	-	**29,113**
Floating rate	271	-	-	**271**
Accrued interest				
Syndicated Loans	293,070	-	-	**293,070**
Floating rate	18	-	-	**18**
Accrued interest				
Loan from Bulgarian Development Bank				
Fixed rate	-	-	20,000	**20,000**
Accrued interest	-	-	3	**3**
Total Debt issued and other borrowed funds	**315,074**	**112,122**	**49,135**	**476,331**

All amounts are shown in BGN thousands unless otherwise stated.

22 Notes to the financial statements (continued)

Debt issued and other borrowed funds (continued)

				31 December 2008
	Within 1 year	1-5 years	Over 5 years	Total
Corporate Bonds				
Fixed rate	-	33,694	-	**33,694**
Accrued interest	340	-	-	**340**
Floating rate	-	39,934	-	**39,934**
Accrued interest	403	-	-	**403**
Subordinated debt				
Floating rate	-	-	156,466	**156,466**
Accrued interest	-	-	5,290	**5,290**
Fixed rate	-	-	25,000	**25,000**
Accrued interest	-	-	2,731	**2,731**
Debt equity (hybrid) financial instruments				
Floating rate	-	-	97,792	**97,792**
Accrued interest	-	-	574	**574**
Fixed rate	-	-	11,000	**11,000**
Accrued interest	-	-	1,130	**1,130**
EBRD Credit lines				
Floating rate	-	26,694	-	**26,694**
Accrued interest	-	603	-	**603**
Syndicated Loans				
Floating rate	-	292,484	-	**292,484**
Accrued interest	-	111	-	**111**
Total Debt issued and other borrowed funds	**743**	**393,520**	**299,983**	**694,246**

All amounts are shown in BGN thousands unless otherwise stated.

23 Deferred income taxes

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 10% (2008: 10%). The movement on the deferred income tax account is as follows:

	2009	2008
Income statement charge (Note 7)	1,949	469
Deferred tax liability at beginning of year	816	3,937
(Credit)/debit to revaluation reserves in equity	(96)	(19)
Reclassification from deferred tax liability to current tax	-	(3,571)
Deferred tax liability at end of year	**2,669**	**816**

Deferred income tax assets and liabilities are attributable to the following items

	2009	2008
Deferred income tax liabilities		
Accelerated tax depreciation	3,052	2,413
Property revaluation	266	363
	3,318	**2,776**
Deferred income tax assets		
Unused holidays	163	126
Provision for court claims	47	23
Provision for retirement obligations	190	179
Restructuring provisions	-	406
Other temporary differences	249	1,226
	649	**1,960**

The deferred tax charge/(credit) in the income statement comprises the following temporary differences:

	2009	2008
Depreciation	640	716
Unused holidays	(37)	(16)
Provision for court claims and off balances	(24)	60
Provision for retirement obligations	(11)	43
Restructuring provisions	406	104
Other Temporary Differences	975	(438)
Net deferred tax charge	**1,949**	**469**

All amounts are shown in BGN thousands unless otherwise stated.

Notes to the financial statements (continued)

24 Provisions for other liabilities and charges

(a) Legal proceedings

The Bank is subject to a number of legal proceedings arising in the normal course of business.
The timing of the expected cash outflow of the court cases provided for could not be reliably estimated. Based on management's estimation it is expected that in two years time the outflow may be realized.

The table below represents the movement in provisions for legal claims:

Legal provisions	**2009**	**2008**
Opening balance at 1st of January	232	282
Charged to the income statement	301	(31)
Used during year	(60)	(19)
Closing balance	**473**	**232**

(b) Provisions for restructuring

In pursuance of EFG Group's goal for achievements of internal optimization of its subsidiaries, in 2007 Postbank and DZI bank started procedure for transformation by way of merger of DZI bank into Postbank. Based on restructuring plan, developed and announced by the management, it was decided provisions for restructuring to be set up. The provisions were booked in accordance with the requirements of IAS 37 "Provisions, Contingent liabilities and Contingent assets" and reflect the best estimate of the management for the expenditures needed to be settled.

The table below represents the movement in restructuring provisions:

Restructuring provisions	**2009**	**2008**
Opening balance at 1st of January	4,062	5,103
Reversed to the income statement	(4,062)	(782)
Used during year	-	(259)
Closing balance	**-**	**4,062**

Provisions used during the year	**2009**	**2008**
Audit and consultancy expenses	-	199
Other expenses	-	60
Total	**-**	**259**

All amounts are shown in BGN thousands unless otherwise stated.

24 Provisions for other liabilities and charges (continued)

(c) Assets pledged

Mandatory reserve deposits are held with the Central Bank in accordance with statutory requirements.

	Asset		Related liability	
	2009	**2008**	**2009**	**2008**
Mandatory reserves with BNB	398,525	324,684	4,902,466	4,058,434
Trading and Investment Securities	350,347	315,171	291,009	287,884
	748,872	**639,855**	**5,193,475**	**4,346,318**

The total financial assets that have been pledged as collateral for liabilities (including amounts reflected above) at 31 December 2009 was BGN 748,872 thousand (2008: BGN 639,855 thousand). These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities, as well as requirements determined by exchanges where the Bank acts as an intermediary.

The Bank has entered into reverse repurchase agreements with financial institutions and other clients for the total amount of BGN 73,686 thousand (2008: BGN 9,385 thousand). The Bank has accepted bonds and shares at fair value 81,696 thousand (2008: 11,172 thousand) as collateral, which it is permitted to sell or repledge. The collaterals accepted have not been repledged or lent to third parties.

25 Retirement benefits obligations

	2009	2008
Liability for staff retirement indemnity obligations at 1 January	1,793	2,226
Cost for the year (see below)	122	(349)
Benefits paid	(16)	(84)
Liability for staff retirement indemnity obligations at 31 December	**1,899**	**1,793**
Expenses recognised in profit or loss		
Current service cost	122	(349)
Total included in staff costs	**122**	**(349)**

Actuarial assumptions	**2009**	**2008**
Discount rate	6.75%	5.70%
Future salary increase	4.00%	4.00%
Inflation rate	3.00%	3.00%

All amounts are shown in BGN thousands unless otherwise stated.

Notes to the financial statements (continued)

26 Other liabilities

	2009	2008
Accrued expenses	17,836	30,575
Other creditors	13,208	20,312
Deferred income	1,678	1,674
Unused pay leave accrual	1,325	1,000
Off balance sheet item provisions	71	350
Withholding tax obligations	19	97
Other	-	52
	34,137	**54,060**

27 Share capital

As at 31 December, 2009 the total authorized number of ordinary shares of Eurobank EFG Bulgaria AD was 452,752,652 (2008: 246,177,887) with a nominal value of BGN 1 per share.

28 Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following balances with less than 90 days maturity from the date of acquisition:

	2009	2008
Cash in hand (Note 9)	95,100	162,319
Balances with Central bank (Note 9)	268,565	124,386
Loans and advances to banks (Note 10)	587,320	633,312
Trading securities up to 90 days	-	3,869
	950,985	**923,886**

29 Related party transactions

Eurobank EFG Bulgaria is subsidiary of EFG Eurobank Ergasias listed in the Athens Stock Exchange. EFG Eurobank Ergasias is a member of the EFG Group, the ultimate parent company of which is Private Financial Holding Limited, which owns 44.09% of the ordinary shares. The remaining 55.91% of the shares are widely held.

All the voting rights in Private Financial Holding Limited are held (directly or indirectly) by the Latsis family, the ultimate controlling party of the Group.

As at 31 December 2009 EFG Eurobank Ergasias owns directly 34.56% of Eurobank EFG, Bulgaria, another 54.27% through its 100% subsidiary EFG New Europe Holding B.V and 11.16% through its 100% subsidiary CEH Balkan Holdings Limited.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions. The volumes of related-party transactions, outstanding balances at the year end, and relating expense and income for the year are as follows:

All amounts are shown in BGN thousands unless otherwise stated.

29 Related party transactions (continued)

	31 December 2009		31 December 2008	
	EFG Group	Key management personnel	EFG Group	Key management personnel
Loans and advances to banks	470,715	-	593,863	-
Loans and advances to customers	-	119	-	241
Financial assets held for trading	8,845	-	4,829	-
Derivative financial instruments assets	6,534	-	24,274	-
Due to other banks	321,042	-	213,979	-
Due to Customers	630,132	147	48,619	90
Debt issued and other borrowed funds	152,542	-	358,658	-
Derivative financial instruments liabilities	47,155	-	49,575	-
Net interest income	1,468	4	12,537	8
Net banking fee and commission income/(expense)	(3,363)	-	(3,897)	-
Net trading income	5,669	-	22,394	-
Salaries and other short-term benefits	-	1,300	-	1,404
Letters of guarantee issued	4,579	-	785	-
Letters of guarantee received	1,757	-	138	-

No provisions have been recognised in respect of loans given to related parties (2008: nil).

30 Contingent liabilities and commitments

(a) Legal proceedings

The Bank is subject to a number of legal proceedings arising in the normal course of business.
Besides of the provision made (note 24) no contingent liabilities associated with legal actions have been disclosed as professional advice indicates that it is unlikely any significant loss will arise.

(b) Capital commitments

As of 31 December 2009, the Bank had capital commitments of BGN 718 thousand (2008: BGN 373 thousand) in respect of building/ leasehold improvements and equipment purchases.
The Bank's management is confident that future net revenue and funding will be sufficient to cover these commitments.

(c) Operating lease commitments-Bank as a lessee

The Bank has entered into commercial leases on premises and vehicles. Where the Bank is the lessee, the future minimum lease payments are as follows:

	2009	2008
No later than one year	6,547	7,800

All amounts are shown in BGN thousands unless otherwise stated.

30 Notes to the financial statements (continued)

Contingent liabilities and commitments (continued)

(d) Operating lease commitments-Bank as a lessor

The Bank has entered into commercial leases on premises. Where the Bank is the lessor, the amount of the future minimum rentals under non-cancelable operating leases as of 31 December 2009 is BGN 30 thousand (2008: BGN 19 thousand)

(e) Loan commitments, guarantee and other financial facilities

As at 31 December 2009, the Bank had the contractual amounts of its off-balance sheet financial instruments that commit it to extend credit to customers, guarantee and other facilities as follows:

	2009	**2008**
Financial guarantees	119,102	176,182
Letters of credit	10,210	25,304
Loan commitments and other credit related liabilities	510,132	704,608
Total	**639,444**	**906,094**

31 Events after the balance sheet date

There are no significant post balance sheet events with effect on the financial statements as at 31 December 2009.

All amounts are shown in BGN thousands unless otherwise stated.

Този отчет е отпечатан на рециклирана хартия.

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Postbank

A Member of Eurobank EFG Group