EUROBANK EFG BULGARIA
FINANCIAL STATEMENTS
31 DECEMBER 2011

CONTENTS

Independent auditor's report

To Shareholders of the 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 2011 and the income statement, statement of comprehensive income, changes in equity and 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, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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.

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Registered with the Sofia City Court under company file number 13424/1997.

This version of our report/the accompanying documents is a translation from the original, which was prepared in Bulgarian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2011, and 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 Report set out on pages 1 to 11, is consistent with the accompanying financial statements of the Bank as of 31 December 2011.

Rositsa Boteva
Registered Auditor

Petko Dimitrov
PricewaterhouseCoopers Audit OOD

Специализирано одиторско предприятие "ПрайсуотърхаусКупърс Одит" ООД
София
Рег. №085

5 April 2012
Sofia, Bulgaria

(All amounts are shown in BGN thousands unless otherwise stated)

DIRECTORS' REPORT

The management presents the annual Directors' report as of 31 December 2011.

BUSINESS DESCRIPTION

Eurobank EFG Bulgaria AD (the Bank or Postbank) 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 holding. The Bank provides a broad range of banking services to local and international customers through its nationwide branch network. The Bank has 206 retail network locations and employs 2,859 people.

Developing innovative products and services and emphasizing on quality, the Bank 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 crisis was still around in 2011 but there were many positive signs that the Bulgarian economy was gradually emerging from it. The real growth was positive throughout the whole year, which confirmed the early signs that the country is recovering from the recession. All other macroeconomic indicators were also encouraging – inflation remained subdued, current account balance was positive, unemployment remained under control and the budget deficit was much better than expected. The forecasts for 2012 estimate that the growth will slow to about 1% for the year, nevertheless the country will not fall into recession.

The Bank will follow its strategy to remain 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. External funding dependency reduction and local deposit market share increase will remain top priorities, as long as the situation on the international markets remains volatile. The Bank will continue to put strong emphasis on controlling expenses, including cost of funds. In terms of the lending portfolio, Postbank will focus on a controlled expansion in the target segments, adhering to strict lending criteria and improving the overall quality of the portfolio.

Despite the difficult environment, the Bank performed relatively well. Total assets of the Bank reached BGN 5,991 million as of 31 December 2011. Operating income of the Bank reached BGN 300 million and the operating expenses excluding impairment charge for the year amounted to BGN 159 million. The net profit of the Bank for the year ended 2011 amounted to BGN 7 million.

As of 31 December 2011 the Bank's net loan portfolio amounts to BGN 4,155 million. The Bank's balance sheet provisions for impairment amount to BGN 245 million.

The Bank finances its operations mainly with funds attracted from its clients. The sound market position of the Bank, its substantial deposit market share as well as the good reputation, confirm that the deposit products offered by the Bank are competitive. As of 31 December 2011 attracted funds from clients amounting to BGN 4,718 million increased by 2% compared to 2010. With regards to preserving normal operating environment in the Bank, it is essential that optimal liquidity levels are to be maintained constantly. As of 31 December 2011 the Bank's ratio of liquid assets is 28.42%.

(All amounts are shown in BGN thousands unless otherwise stated)

The 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 2011 reached BGN 632 million (calculated in accordance to the Capital Adequacy Ordinance 8 of the Bulgarian National Bank). As of 31 December 2011 the Bank's Basel II compliant capital adequacy ratio is 15.44 %, higher than the 12% minimum set by the Bulgarian National Bank. The reinforcement of the capitalization increases the potential of the Bank for further growth and utilization of opportunities.

Important events that have occurred during the financial year

In 2011 the Bank continued to promote its corporate transaction banking services. Corporate Banking Division offered complex financial solutions to the export oriented companies in Bulgaria, which resulted in the following advantages for our clients in the management of the commercial cycle: comprehensive servicing, tailor-made terms, taking into consideration the business specifics and one-stop shop for daily transactions. Capital Markets Division continued to offer FX hedge and IR hedge products for corporate clients and the Bank was among the first on the market to offer new and innovative products for interest risk management.

On the retail side, the Bank launched several new product offers for the retail clients such as a consumer loan with a fixed interest rate, a new home equity loan "Active home", a new debt consolidation loan and on the occasion of the 20th anniversary of the Bank, Deposit Business unit offered a special savings account Mega 20. On the credit card side the Bank successfully launched a new IKEA credit card in partnership with the world famous retailer IKEA. All the product launches were supported by targeted advertising campaigns throughout the year which helped enhance its image as an active, innovative and solid banking institution.

In August 2011, the Bank received a EUR 7.25 million credit line from the Bulgarian Development Bank for on-lending to small and medium-sized enterprises. The funding comes under a Program for Small and Medium-sized enterprises in Bulgaria of KfW, Germany for direct lending to SMEs and for provision of credit lines to commercial banks business financing.

Although 2011 was a year full of challenges and a lot of companies restricted their corporate social responsibility activities, Postbank remained active and demonstrated its commitment and responsible conduct to the benefit of its customers, employees, partners and the society as a whole. The Bank continued its long-term projects and even started new initiatives to improve the well-being of society and the future of the country. Postbank is very active in the area of corporate social responsibility and traditionally implements a number of socially important projects in education, care for the environment, art, sports and corporate donations.

The *High Start with Postbank* programme has been implemented since 2005 in support of Bulgarian education under the auspices of the Ministry of Education, Youth and Science. The initiative is an expression of the Bank's team's belief that knowledge, discipline and love for learning are prerequisites for personal and professional success in modern society.

Eurobank EFG Bulgaria sustained its effort to improve its environmental performance in the framework of the *Green start with Postbank* programme, an internal campaign, which purpose is to foster environment friendly conduct within the company. In 2011, for the fourth year in a row, the lake in Pancharevo has become a more beautiful recreation place thanks to volunteers from the Bank, their friends and families. The initiative for cleaning the area around the lake was organized within the bank's long-term project titled Crystal Purity of Pancharevo.

By the *Cross Safely* campaign launched in 2010, the Bank directs its efforts to the important and socially significant cause of human life protection and road accident prevention. In 2011 the Bank continued to develop its engagement in the field taking part in socially important initiatives. The Bank supported the national campaign of the Traffic Police for putting safety belts at all seats. The Bank also joined the European Road Safety Charter confirming its lasting commitment to continue and to develop the cause for reduction of traffic accidents which was started by the *Cross Safely* initiative.

(All amounts are shown in BGN thousands unless otherwise stated)

The Bank has been awarded several prizes and distinctions for its products and service excellence in 2011, among them:

- Best Financial Product and Best Product of the Year - Innovation & Quality category for the virtual MasterCard by "Banks, Investments, Money" Foundation;
- Best Custody Bank for Foreign and Local Institutional Clients by Global Custodian magazine;
- Best Corporate Social Responsibility Program for "High Start with Postbank" by Bulgarian Donors' Forum;
- Best Bank of Tourism by Bulgarian Hotel and Restaurant Association.

SHARE CAPITAL STRUCTURE

As of 31 December 2011 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%, 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

Until May 5, 2011 the Bank was managed by a Board of Directors which consisted of the following members:

- Emilia Milanova – Chairperson of the BoD
- Theodoros Karakasis – Deputy Chairperson of the BoD
- 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 remuneration of the members of the Board of Directors

Until May 5, 2011 the members of the Board of Directors did not 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 of Directors until May 5, 2011

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

3. The Board of Directors 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 of Directors member's ownership in other commercial enterprises, as:

4.1. Partners with unlimited liability

No member of the Board of Directors has been a partner with unlimited liability in other commercial enterprise.

(All amounts are shown in BGN thousands unless otherwise stated)

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

- **Anthony Hassiotis**

Investments AMK EOOD, Bulgaria – sole owner

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

- **Theodoros Karakasis**

Bancpost S.A., Romania – Member of the BoD

EFG Retail Services IFN S.A., Romania – Member of the BoD

EFG Leasing IFN S.A., Romania – Member of the BoD

EFG Eurobank Property Sevices S.A., Romania – President of the BoD

EFG Property Services d.o.o. Beograd, Serbia – President of the BoD

Eurobank EFG a.d. Beograd, Serbia – President of the BoD

EFG Leasing EAD, Bulgaria – Member of the BoD

EFG Property Services Sofia AD, Bulgaria – Chairman of the BoD

Greek-Serbian Chamber of Commerce – Vice President of the BoD

Hellenic-Romanian Chamber of Commerce and Industry – Secretary General of the BoD

- **Anthony Hassiotis**

EFG Leasing EAD, Bulgaria – Member of the BoD

CEIBG (Confederation of Employers & Industrialists in Bulgaria), Bulgaria – Member of the Managing Board

Investments AMK EOOD, Bulgaria – Manager

Club Manager, Bulgaria – Member of the Managing Board

- **Asen Yagodin**

EFG Securities Bulgaria EAD, Bulgaria – Chairman of the BoD

Bulgarian Banks Association, Bulgaria – Deputy Chairperson of the Managing Board

Bulgarian Stock Exchange Sofia, Bulgaria – Chairman of the BoD

- **Petia Dimitrova**

Bulgarian Retail Services AD, Bulgaria – Chairperson of the BoD and Executive Director

EFG Property Services Sofia AD, Bulgaria - Member of the BoD

IMO Property Investments Sofia EAD, Bulgaria – Member of the BoD and Executive Director

IMO Rila EAD, Bulgaria – Deputy Chairperson of the BoD and Executive Director

IMO Central Office EAD, Bulgaria – Deputy Chairperson of the BoD and Executive Director

IMO 03 EAD, Bulgaria - Member of the BoD and Executive Director

Bulgarian Business Leaders Forum (BBLF), Bulgaria – Member of the BoD

American Chamber of Commerce in Bulgaria, Bulgaria – Member of the BoD

State-owned enterprise Communicative construction and rehabilitation, Bulgaria – Member of the BoD

- **Piergiorgio Pradelli**

Eurobank EFG Private Bank Luxembourg S.A. - Member of the BoD

Bancpost S.A, Romania - Member of the BoD

Eurobank EFG a.d. Beograd, Serbia - Member of the BoD

Eurobank Tekfen A.S., Turkey - Member of the BoD

PJSC "Universal Bank", Ukraine – Member of the Supervisory Board

Eurobank EFG Ergasias SA, Greece – General Manager

- **Georgios Katsaros**

EFG Telesis Finance, Greece – Member of the BoD

SIDMA, Greece – Member of the BoD

JUMBO SA, Greece – Member of the BoD

- **Andreas Chasapis**

EFG Leasing SA, Greece - Member of the BoD

EFG Factors, Greece - President of the BoD

- **Evangelos Kavvalos**

EFG Eurobank Ergasias Leasing SA, Greece – Member of the BoD

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

Eurobank EFG Factors SA, Greece – Member of the BoD

EFG Insurance Services SA, Greece – Member of the BoD

Eurobank EFG Poland branch (Polbank EFG), Poland – Member of the Supervisory Board

Eurobank Tekfen AS, Turkey - Member of the BoD

PJSC "Universal Bank", Ukraine – Member of the Supervisory Board

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

EFG Eurobank Ergasias SA, Greece – General Manager

Unitfinance S.A., Greece - Member of the BoD

5. 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.

On April 20, 2011 the General Meeting of the Shareholders of Eurobank EFG Bulgaria AD approved changes in the corporate governance structure and adopted a two-tier management system comprising two separate bodies – Management Board and Supervisory Board. The change of the management system came into force on May 5, 2011 after due registration with the Commercial Register.

(All amounts are shown in BGN thousands unless otherwise stated)

MANAGEMENT BOARD

As at December 31, 2011 the Management Board consisted of the following members:

- Anthony Hassiotis – Chairman of the MB and CEO
- Petia Dimitrova – Deputy Chairperson and Executive Director
- Iordan Souvandjiev - Member
- Ioannis Vouyioukas – Member
- Ilian Raychev - Member

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

In 2011 the members of the Management Board did not receive remunerations from the Bank in their capacity of Management Board members.

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

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

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

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

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

4.1. Partners with unlimited liability

No member of the Management Board has been a partner with unlimited liability in other commercial enterprise.

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

- **Anthony Hassiotis**

Investments AMK EOOD, Bulgaria – sole owner

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

- **Anthony Hassiotis**

EFG Leasing EAD, Bulgaria – Member of the BoD

Investments AMK EOOD, Bulgaria – Manager

CEIBG (Confederation of Employers & Industrialists in Bulgaria), Bulgaria – Member of the Management Board

Club Manager, Bulgaria – Member of the Management Board (until 13.07.2011)

(All amounts are shown in BGN thousands unless otherwise stated)

- **Petia Dimitrova**

  Bulgarian Retail Services AD, Bulgaria – Chairperson of the BoD and Executive Director

  EFG Property Services Sofia AD, Bulgaria - Member of the BoD

  IMO Property Investments Sofia EAD, Bulgaria – Member of the BoD and Executive Director

  IMO Rila EAD, Bulgaria – Deputy Chairperson of the BoD and Executive Director

  IMO Central Office EAD, Bulgaria – Deputy Chairperson of the BoD and Executive Director

  IMO 03 EAD, Bulgaria - Member of the BoD and Executive Director

  Bulgarian Business Leaders Forum (BBLF), Bulgaria – Member of the BoD

  American Chamber of Commerce in Bulgaria, Bulgaria – Member of the BoD

  State-owned enterprise Communicative construction and rehabilitation, Bulgaria – Member of the BoD

  Municipal Bank AD, Bulgaria – Member of the Supervisory Board

- **Iordan Souvandjiev**

  IMO Property Investments Sofia EAD, Bulgaria – Member of the BoD

  IMO Central Office EAD, Bulgaria – Member of the BoD and Executive Director

  IMO Rila EAD, Bulgaria – Member of the Board and Executive Director

  EFG Property Services Sofia AD, Bulgaria – Member of the BoD

  Vinimpeks 21 AD, Bulgaria – Member of the BoD

- **Ioannis Vouyioukas**

  EFG Leasing EAD, Bulgaria – Chairman of the BoD and Executive Director

  EFG Auto Leasing EOOD, Bulgaria – Manager

5. 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 2011.

SUPERVISORY BOARD

As at December 31, 2011 the Supervisory Board consisted of the following members:

- Piergiorgio Pradelli – Chairman of the SB
- Theodoros Karakasis – Deputy Chairman of the SB
- Evangelos Kavvalos - Member
- Christos Adam – Member
- Nikolaos Aliprantis - Member

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

In 2011 the members of the Supervisory Board did not receive remunerations from the Bank in their capacity of Supervisory Board members.

2. Shares and bonds of the company that are acquired, owned and transferred by the members of the Supervisory Board during 2011

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

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

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

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

4.1. Partners with unlimited liability

No member of the Supervisory Board has been a partner with unlimited liability in other commercial enterprise.

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

No member of the Supervisory Board holds more than 25 per cent of the capital of another company.

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

- **Piergiorgio Pradelli**

Eurobank EFG Private Bank Luxembourg S.A., Luxembourg - Member of the BoD

Bancpost S.A., Romania - Member of the BoD

Eurobank EFG a.d. Beograd, Serbia - Member of the BoD

Eurobank Tekfen A.S., Turkey - Member of the BoD

PJSC "Universal Bank", Ukraine – Member of the Supervisory Board

EFG Eurobank Ergasias S.A., Greece – General Manager, Member of the Executive Committee

Eurobank EFG Asset Management M.F.M.C. S.A. – Member of the BoD (effective as of 18.11.11)

EFG New Europe Funding B.V, The Netherlands – Managing Director A (effective as of 30.09.11)

EFG New Europe Funding II B.V, The Netherlands – Managing Director A (effective as of 30.09.11)

- **Theodoros Karakasis**

Bancpost S.A., Romania – Deputy Chairman of the BoD

EFG Retail Services IFN S.A., Romania – Member of the BoD

EFG Leasing IFN S.A., Romania – Member of the BoD

EFG Eurobank Property Sevices S.A., Romania – Chairman of the BoD

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

Eurobank EFG a.d. Beograd, Serbia – Chairman of the BoD

EFG Leasing EAD, Bulgaria – Member of the BoD

EFG Property Services Sofia AD, Bulgaria – Chairman of the BoD

EFG Eurobank Ergasias S.A., Greece – Deputy General Manager

Greek-Serbian Chamber of Commerce – Deputy Chairman of the BoD

Hellenic-Romanian Chamber of Commerce and Industry – Member and Secretary General of the BoD

- **Evangelos Kavvalos**

EFG Eurobank Ergasias Leasing SA, Greece – Member of the BoD

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

Eurobank EFG Factors SA, Greece – Member of the BoD

EFG Insurance Services SA, Greece – Member of the BoD

Eurobank Tekfen AS, Turkey - Member of the BoD

PJSC "Universal Bank", Ukraine – Member of the Supervisory Board

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

EFG Eurobank Ergasias S.A., Greece – General Manager, Member of the Executive Committee

Unitfinance S.A., Greece - Member of the BoD

Eurobank EFG Poland branch (Polbank EFG), Poland – Member of the Supervisory Board (until 19.09.2011)

- **Christos Adam**

EFG Eurobank Ergasias S.A., Greece – Deputy General Manager

Eurobank EFG Factors S.A., Greece – Member of the BoD

Eurobank EFG Financial Planning Services S.A., Greece – Member of the BoD

Eurobank EFG Property Services S.A., Greece – Member of the BoD

Eurobank EFG Poland branch (Polbank EFG), Poland – Member of the Supervisory Board (until 19.09.2011)

- **Nikolaos Aliprantis**

EFG Eurobank Ergasias S.A., Greece – Assistant General Manager

EFG Eurobank Ergasias Leasing S.A., Greece – Member of the BoD

Eurobank EFG Factors S.A., Greece – Member of the BoD

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

Eurobank EFG Poland branch (Polbank EFG), Poland – Member of the Supervisory Board (until 19.09.2011)

5. 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 2011.

GROUP STRUCTURE

Eurobank EFG Bulgaria does not have any subsidiaries as at 31 December 2011 and therefore no consolidated financial statements are prepared at this entity level.

OBJECTIVES FOR 2012

In 2012 the Bank will concentrate on maintaining strong capital adequacy and liquidity ratios. Concurrently, due to the difficult business environment, it will also focus on new and/or fee revenue generation, while strictly controlling expenses to compensate for any shortfall in revenues.

Focusing on the domestic deposit gathering, while reducing the dependency on external funding, will continue to be a top priority. Properly managing the cost of funds will be a prerequisite to ensure the Bank will be able to price its lending products at attractive rates. The Bank will also seek to explore alternative sources of external funding that might be available, given the current adverse conditions in the international financial markets.

Postbank will aim to increase its loan portfolio to carefully targeted and segmented sectors, adhering to appropriate credit extension criteria while ensuring that the overall quality of the portfolio remains at acceptable levels.

The Management acknowledges that properly motivating and remunerating its employees is a must while it will ensure they are adequately trained and given all resources needed to meet the clients' demands for high quality products and services.

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

(All amounts are shown in BGN thousands unless otherwise stated)

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
Chairman of the Management Board and Chief Executive Officer

ЮРОБАНК И ЕФ ДЖИ БЪЛГАРИЯ
Член на Група
ДУ
Град София

Petia Dimitrova
Deputy Chairperson of the Management Board, Executive Director and Chief Financial Officer

5 April 2012
Sofia, Bulgaria

(All amounts are shown in BGN thousands unless otherwise stated)

Income statement

	Notes	Year ended 31 December 2011	2010
Interest and similar income	1	480,193	528,211
Interest and similar charges	1	(236,469)	(259,417)
Net interest income		**243,724**	**268,794**
Fee and commission income	2	68,605	69,894
Fee and commission expense	2	(14,525)	(14,851)
Net fee and commission income		**54,080**	**55,043**
Dividend income		581	563
Other operating income	3	162	452
Net trading income/(loss)	4	451	(2,992)
Gains less (losses) from trading securities	12	276	(135)
Gains less (losses) and impairment of securities available for sale	14	1,152	4,223
Other operating expenses	5	(142,085)	(146,263)
Deposit Insurance Fund expense		(17,251)	(17,100)
Impairment charge for credit losses	7	(132,797)	(123,941)
Profit before income tax		**8,293**	**38,644**
Income tax expense	8	(845)	(3,702)
Profit for the year		**7,448**	**34,942**

Юробанк и Еф Джи България АД
Член на Юробанк Еф Джи Груп
ПУ
Град София

Anthony C. Hassiotis
Chairman of the Management Board and Chief Executive Officer

Petia Dimitrova
Deputy Chairperson of the Management Board, Executive Director and Chief Financial Officer

The Financial statements were authorized by the management on 5 April 2012.

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

Специализирано одиторско предприятие
София
Рег. №085
"ПрайсуотърхаусКупърс Одит" ООД

Rositsa Boteva
Registered Auditor

Petko Dimitrov
PricewaterhouseCoopers Audit OOD

5 April 2012

The following notes set out on pages 18 to 74 form an integral part of these financial statements

(All amounts are shown in BGN thousands unless otherwise stated)

Statement of comprehensive income

	Notes	Year ended 31 December			
			2011		2010
Profit for the year			**7,448**		**34,942**
Other comprehensive income for the year, after tax:					
Available for sale securities					
-net changes in fair value, net of tax	9	1,954		8,338	
-transfer of (profit)/loss to net profit on sale	9	(4,724)		(5,825)	
Other comprehensive (loss)/income for the year	**9**		**(2,770)**		**2,513**
Total comprehensive income for the year			**4,678**		**37,455**

Anthony C. Hassiotis
Chairman of the Management
Board and Chief Executive Officer

Petia Dimitrova
Deputy Chairperson of the
Management Board, Executive
Director and Chief Financial Officer

The Financial statements were authorized by the management on 5 April 2012.

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

Rositsa Boteva
Registered Auditor

5 April 2012

Petko Dimitrov
PricewaterhouseCoopers Audit OOD

(All amounts are shown in BGN thousands unless otherwise stated)

Balance sheet	**Notes**	**As at 31 December**	
		2011	**2010**
Assets			
Cash and balances with the Central Bank	10	698,943	646,368
Loans and advances to banks	11	848,003	983,662
Financial assets held for trading	12	1,450	41,216
Loans and advances to customers	13	4,154,651	4,156,004
Investment securities available-for-sale	14	155,733	340,263
Derivative financial instruments	20	16,087	22,442
Investment property	15	876	876
Property, plant and equipment	16	67,868	79,319
Intangible assets	17	30,730	23,903
Current income tax recoverable		3,647	2,899
Other assets	18	12,899	12,304
Total assets		**5,990,887**	**6,309,256**
Liabilities			
Deposits from banks	19	92,005	438,369
Derivative financial instruments	20	23,152	76,513
Due to customers	21	4,717,748	4,641,511
Debt issued and other borrowed funds	22	339,265	335,111
Deferred income tax liabilities	23	3,870	3,332
Provisions for other liabilities and charges	24	1,669	1,637
Retirement benefit obligations	25	2,642	2,226
Other liabilities	26	23,435	28,134
Total liabilities		**5,203,786**	**5,526,833**
Shareholders' equity			
Share capital	27	452,753	452,753
Other reserves, net		334,348	329,670
Total shareholders' equity		**787,101**	**782,423**
Total shareholders' equity and liabilities		**5,990,887**	**6,309,256**

Anthony C. Hassiotis
Chairman of the Management Board and Chief Executive Officer

ЮРОБАНК И ЕФ ДЖИ БЪЛГАРИЯ АД
Postbank
Член на Eurobank EFG Груп
ЦУ
Град София

Petia Dimitrova
Deputy Chairperson of the Management Board, Executive Director and Chief Financial Officer

The Financial statements were authorized by the management on 5 April 2012.

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

Rositsa Boteva
Registered Auditor

СПЕЦИАЛИЗИРАНО ОДИТОРСКО ПРЕДПРИЯТИЕ
София
Рег. №085
"ПрайсуотърхаусКупърс Одит" ООД

Petko Dimitrov
PricewaterhouseCoopers Audit OOD

5 April 2012

The following notes set out on pages 18 to 74 form an integral part of these financial statements

(All amounts are shown in BGN thousands unless otherwise stated)

Statement of changes in shareholders' equity

	Share capital	Property revaluation reserve	Available-for-sale investments revaluation reserve (deficit)	Retained earnings and other reserves	Total
Balance at 1 January 2010	**452,753**	**7,003**	**(9,617)**	**294,829**	**744,968**
Other comprehensive income for the year	-	-	2,513	-	**2,513**
Profit for the year	-	-	-	34,942	**34,942**
Total comprehensive income for the year 2010	**-**	**-**	**2,513**	**34,942**	**37,455**
Transfer to retained earnings	-	(4,627)	-	4,627	-
Balance at 31 December 2010	**452,753**	**2,376**	**(7,104)**	**334,398**	**782,423**
Balance at 1 January 2011	**452,753**	**2,376**	**(7,104)**	**334,398**	**782,423**
Other comprehensive income for the year	-	-	(2,770)	-	**(2,770)**
Profit for the year	-	-	-	7,448	**7,448**
Total comprehensive income for the year 2011	**-**	**-**	**(2,770)**	**7,448**	**4,678**
Balance at 31 December 2011	**452,753**	**2,376**	**(9,874)**	**341,846**	**787,101**

Anthony C. Hassiotis
Chairman of the Management Board
and Chief Executive Officer

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Management Board, Executive
Director and Chief Financial Officer

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Rositsa Boteva
Registered Auditor

5 April 2012

Petko Dimitrov
PricewaterhouseCoopers Audit OOD

(All amounts are shown in BGN thousands unless otherwise stated)

Statement of cash flows

	Year ended 31 December	
	2011	**2010**
Cash flow from operating activities		
Interest received	506,872	531,210
Interest paid	(264,040)	(274,962)
Dividends received	581	563
Fees and commission received	68,746	68,562
Fees and commission paid	(13,419)	(13,128)
Amounts paid to and on behalf of employees	(66,072)	(62,443)
Net trading and other income received	2,323	(213)
Other expenses paid	(81,632)	(85,717)
Tax paid	(748)	(2,967)
Cash from operating activities before changes in operating assets and liabilities	**152,611**	**160,905**
Changes in operating assets and liabilities		
Net decrease/(increase) in reserve with the Central Bank	1,600	(11,736)
Net decrease/ (increase) in trading securities	39,025	(23,875)
Net (increase)/decrease in loans and advances to customers	(137,891)	31,919
Net (increase)/decrease in other assets	(1,033)	1,490
Net (decrease) in derivatives liabilities	(34,209)	-
Net (decrease)/increase in due to other banks	(345,046)	66,561
Net increase in amounts due to customers	79,934	319,514
Net (decrease) in other liabilities	(2,529)	(5,929)
Net cash flow from operating activities	**(247,538)**	**538,849**
Cash flow from investing activities		
Purchase of property, plant and equipment and intangible assets (Notes 16, 17)	(12,283)	(13,694)
Purchase of investment securities (Note 14)	(35)	(21,367)
Proceeds from disposal of property and equipment	8	7
Proceeds from disposal of investment securities (Note 14)	163,016	108,316
Net cash flow from investing activities	**150,706**	**73,262**

(Continued on the next page)

(All amounts are shown in BGN thousands unless otherwise stated)

Statement of cash flows (continued)

	Year ended 31 December	
	2011	**2010**
Cash flow from financing activities		
Long-term financing received	29,827	156,326
Long-term debt repaid	(14,925)	(300,126)
Net cash used in financing activities	**14,902**	**(143,800)**
Effect of exchange rate changes on cash and cash equivalents	446	(264)
Net change in cash and cash equivalents	**(81,484)**	**468,047**
Cash and cash equivalents at beginning of year	1,419,032	950,985
Cash and cash equivalents at end of year (Note 28)	**1,337,548**	**1,419,032**

Anthony C. Hassiotis
Chairman of the Management
Board and Chief Executive Officer

ЮРОБАНК И ЕФ ДЖИ БЪЛГАРИЯ АД
Член на Група
ПУ
Град София

Petia Dimitrova
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Management Board, Executive
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Rositsa Boteva
Registered Auditor

5 April 2012

СПЕЦИАЛИЗИРАНО ОДИТОРСКО ПРЕДПРИЯТИЕ
София
Рег. №085
"ПрайсуотърхаусКупърс Одит" ООД

Petko Dimitrov
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(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 206 network locations (2010: 214 network locations and 2,023 customer service desks in post offices throughout the country). The address of its registered office is as follows: 14 Tsar Osvoboditel Blvd, 1048 Sofia, Bulgaria. The Bank employs 2,859 people (2010: 2,998).

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 issued by the IASB as adopted by the European Union and in particular with those IFRS 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 2010 and 2011. Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

The Bank's financial statements have been prepared on a going concern basis, which assumes that the Bank will continue in operational existence for the foreseeable future.

Impact of the economic crisis and situation in Greece

Since late 2009, fears of a European sovereign debt crisis developed among investors as a result of the rising government debt levels, together with a wave of downgrading of government debt in some European states. Concerns intensified in early 2010 making it difficult for some countries in the euro area to re-finance their government debt without external assistance. The three countries most affected by this were Greece, Ireland and Portugal.

On the Greek debt front, a new funding program was agreed with the European Commission, the ECB and the Eurozone member-states, in the Eurogroup meeting held on 21 February 2012. The new program aims to bring the country's public debt-to-GDP ratio to 120.5% by 2020, close to the 120.0% target envisioned in the European Council session held on 26 and 27 October 2011.

The new funding program is expected to have a significant beneficial effect on the country's solvency outlook. This is due, not only to the reduction of public debt, but also to the expected decline of interest expenditure from 2012 onwards. The funding program constitutes a credible opportunity for the Greek economy to remove uncertainty surrounding it from the middle of 2010 onwards, regarding both sustainability of fiscal position as well as preservation of the country's Eurozone participation.

In addition, the Eurogroup confirmed that the necessary elements have been put in place for Member States to carry out the relevant national procedures to allow for the support by EFSF, including the necessary financing for recapitalisation of Greek banks (including EFG Eurobank Ergasias) following their participation in the recent sovereign debt restructuring (PSI).In February 2012, the Greek parliament adopted the necessary legal framework to enable the necessary financing for the recapitalization of Greek banks.

Position of the Group

EFG Eurobank Ergasias, although significantly affected by the impairment charge on Greek Government bonds (due to its participation in the PSI), continues to closely monitor these constructive developments and has taken necessary steps and continues adjusting to the new requirements. The shift towards a greater level of collateralized lending, growth in self-funding and the more promising market situation has been in place for some time. Additionally, the Group

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

A. Basis of preparation (continued)

continues to reduce its cost base in order to increase the efficiency of operations. It also strengthens its collection efforts to maximize loan recoveries by redeploying resources where necessary and implements conservative provisioning policies. Finally and notwithstanding the required recapitalisation of the Parent, the Group is improving continuously the effectiveness of balance sheet management and is undertaking significant strategic initiatives in respect of its capital and liquidity positions.

Position of the Bank

As at 31 December 2011, Eurobank EFG Bulgaria does not rely on funding from the Parent bank but predominantly on locally collected deposits, its own capital base and international financial institutions. Within Q1 2012 the Bank continues its initiative to strengthen and ring-fence its balance sheet from specific risk concentrations by significantly reducing its 31 December 2011 exposure to the Parent bank (note 29 and 1.5), through re-directing relevant placements to other Group companies, that are not dependent and exposed to the Parent bank. As at the date of approval of these financial statements the Bank's exposure to the Parent Bank was less than 7% of its own equity.

(a) Amended and new standards and interpretations effective in 2011

- IAS 24, Amendment - Related Party Disclosures
- IAS 32, Amendment - Classification of Rights Issues
- IFRIC 14, Amendment - Prepayments of a Minimum Funding Requirement
- IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments
- Amendments to various Standards that form part of IASB's 2010 Annual Improvement Project

(b) Standards and Interpretations issued but not yet effective

- IAS 1, Amendment - Presentation of Items of Other Comprehensive Income (effective 1 January 2013, not yet endorsed by EU)
- IAS 12, Amendment - Deferred tax: Recovery of Underlying Assets (effective 1 January 2012, not yet endorsed by EU)
- IAS 19, Amendment - Employee Benefits (effective 1 January 2013, not yet endorsed by EU)
- IAS 27, Amendment - Separate Financial Statements (effective 1 January 2013, not yet endorsed by EU)
- IAS 28, Amendment - Investments in Associates and Joint Ventures (effective 1 January 2013, not yet endorsed by EU)
- IAS 32, Amendment - Offsetting Financial Assets and Financial Liabilities (effective 1 January 2014, not yet endorsed by EU)
- IFRS 7, Amendment - Disclosures, Offsetting Financial Assets and Financial Liabilities (effective 1 January 2013, not yet endorsed by EU)
- IFRS 7, Amendment -Disclosures, Transfers of Financial Assets (effective 1 January 2012)
- IFRS 9, Financial Instruments (effective 1 January 2015, not yet endorsed by EU)
- IFRS 9 and IFRS 7, Amendment - Mandatory Effective Date and Transition Disclosures (effective 1 January 2015, not yet endorsed by EU)
- IFRS 10, Consolidated Financial Statements (effective 1 January 2013, not yet endorsed by EU)
- IFRS 11, Joint Arrangements (effective 1 January 2013, not yet endorsed by EU)
- IFRS 12, Disclosure of Interests in Other Entities (effective 1 January 2013, not yet endorsed by EU)

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

A. Basis of preparation (continued)

- IFRS 13, Fair Value Measurement (effective 1 January 2013, not yet endorsed by EU)

IFRS 9 is part of IASB's project to replace IAS 39 Financial Instruments which has not been finalised yet and as a result, it is not practicable to quantify its impact. The application of the other 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.

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 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 Bank'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 recognised 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 analysed 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 2011, monetary assets and liabilities are translated at the reference Central Bank exchange rate – BGN 1 for EUR 0.5113 (2010: BGN 1 for EUR 0.5113) and BGN 1 for USD 0.6616 (2010: BGN 1 for USD 0.6789).

C. Interest income and expense

Interest income and expense are recognised 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.

Notes to the financial statements (continued)

C. Interest income and expense (continued)

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.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

D. Fees and commissions income and expense

Fees and commissions, except for those, which form part of the effective interest rate of the instruments, are generally recognised on an accrual basis.

Commissions and fees relating to foreign exchange transactions, imports-exports, remittances, bank charges and brokerage activities are recognised on the completion of the underlying transaction.

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 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 unless they are designated and effective as hedging instruments.

Financial assets held for trading are initially recognised 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 recognised 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 recognised directly in other comprehensive income, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income is recognised in profit or loss. Interest calculated using the effective interest method is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the Bank's right to receive payment is established.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

E. Financial assets (continued)

(b) Available-for-sale (continued)

Purchases and sales of financial assets at fair value through profit or loss, held to maturity and available for sale are recognised at settlement date – which is the date that the asset is delivered to or by the Bank.

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, option pricing models and other valuation techniques consistent with the specific features of the securities market in Bulgaria.

Financial assets are derecognised 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 derecognised 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 Bank intends to sell immediately or in the short term, which are classified as held for trading, and those that the Bank upon initial recognition designates as at fair value through profit or loss; (b) those that the Bank 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 to maturity its held-to-maturity investments not only when those financial assets are initially recognised, but also at each subsequent balance sheet date.

F. Sale and repurchase agreements and securities lending

Securities sold subject to repurchase agreement ('repos') are retained in the financial statements as trading securities while the counterparty liability is included in deposits due to other banks, or deposits due to customers, as appropriate.

The funds granted 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 is accrued over the life of repo agreements using the effective interest method.

Notes to the financial statements (continued)

G. Derivative financial instruments and hedge accounting

Derivatives are financial instruments :

(a) which 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, forward rate agreements, options and futures are usually not recognised initially on the face of the balance sheet as they are often entered into at no cost (i.e. the net fair value of the receivables and payables is zero). When the net investment is not zero derivatives are initially recognised as financial instruments at fair value. The fair value is determined by quoted prices, discounted cash flows models and other valuation techniques. The positive net fair value is recognised as asset while the negative is recognised as liability. The changes in the fair value of derivatives are included in the income statement.

Fair value hedge:

Hedge accounting is used for derivatives designated as hedges of the fair value of recognised 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 item for which the effective interest method is not used remains in other comprehensive income until the disposal of the equity security.

(All amounts are shown in BGN thousands unless otherwise stated)

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.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

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 group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions 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 group 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 recognised in profit or loss – is removed from other comprehensive income and recognised in the income statement. Impairment losses recognised 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 recognised in profit or loss, the impairment loss is reversed through the income statement.

I. Property, plant 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 or cash equivalent paid or the fair value of other consideration given to acquire the assets.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

I. Property, plant and equipment (continued)

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.

After initial recognition the Bank measures the land and building at fair value. The fair value of land and buildings is determined from market-based evidence by appraisal that is undertaken by professionally qualified valuers. The main valuation methods include:
-market prices analogues (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.

If an asset's carrying amount is increased as a result of a revaluation, the increase is recognised in other comprehensive income and accumulated as Revaluations surplus. However the increase shall be recognised in profit and loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit and loss. If an asset's carrying amount is decreased as a result of revaluation, the decrease is recognised firstly in other comprehensive income by reducing the revaluation surplus and subsequently in profit and loss if credit balances in revaluation surplus are not sufficient.

With the exception of the land, the Bank depreciates all property, plant and equipment. The depreciation charge is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

- Buildings -50 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.

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

The gain or loss from derecognition of an item of property, plant and equipment is included in profit or loss when the item is derecognised. The Bank does not classify the gains as revenue. The gain or loss from 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.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. 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 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.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

I. Property, plant and equipment (continued)

In 2011 the Bank extended the useful life of the group Own buildings and the effect of the change in profit and loss amounted to BGN 411 thousand decreased expenses for depreciation. The review performed shows that these are high quality assets and the Bank expects to use them for its own needs for a long period of time.

In 2011 the Bank extended the useful life of the group Leasehold improvements and the effect of the change in profit and loss amounted to BGN 1,095 thousand decreased expenses for depreciation. The Bank has renegotiated all rental contracts. As a result of the renegotiation the new term of the contracts is 15 years instead of 10 years.

In 2011 the Bank extended the useful life of other tangible assets and the effect of the change in profit and loss amounted to BGN 522 thousand decreased expenses for depreciation.

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 recognised as intangible assets. Expenditure which enhances or extends the performance of intangible assets beyond their original specifications is recognised as a capital improvement and added to the original costs of the asset. Costs associated with maintaining intangible assets are recognised as an expense as incurred.

Intangible assets are amortized using the straight-line method over their useful lives (between 4 and 10 years as stated above).

Following the Group practice, in 2011 the Bank changed the treatment of Microsoft licenses and extended their useful life. The effect of the change in profit and loss amounted to BGN 646 thousand decreased expenses for amortization. The Bank recognized these licenses as software instead of hardware. The transfer between these two categories amounted to BGN 2,498 thousand net of depreciation. This revision was based on the fact that they are transferable and are not permanently attached to a specific asset.

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 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 recognised initially at fair value, being their issue proceeds net of transaction costs incurred. Borrowings are subsequently stated at amortised cost and any difference between net proceeds and the redemption value is recognised in 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 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/expense.

(All amounts are shown in BGN thousands unless otherwise stated)

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 to the income statement on a straight-line basis 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 recognised 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 substantively enacted by the end of the reporting period 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 recognised where it is probable that future taxable profit will be available against which the deductible 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 recognised 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. All changes in the retirement provisions are recognised in the profit and loss.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

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.

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 and are deducted from equity. No dividends have been distributed for the last years 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 recognised 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 cumulative amortization recognised already in the income statement on a straight line basis over the life of the guarantee and the best estimate of the expenditure required settling any financial obligation arising at the balance sheet date in accordance with IAS 37. 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.

U. Comparatives

The Bank has not performed any reclassifications on balance sheet and income statement positions for 2010.

(All amounts are shown in BGN thousands unless otherwise stated)

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 minimize 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 the markets and economic conditions.

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 the international best practices 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. Risk functions are managed by the Bank's Risk Division. The Bank's aim is to ensure independence and compliance through different levels of audit by its Internal Auditors and EFG Group's Internal Auditors and by regulatory authorities in Bulgaria, Greece and Switzerland.

The four general areas of risk management 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 Chief Risk Officer 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 Supervisory Board 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 all the quantitative and qualitative aspects of credit, market, liquidity and operational risks. In addition, internal audit is responsible for the independent review of risk management and the control environment.

The impact of the financial crisis is still affecting the activity of the Bank. Management believes it is taking all the necessary measures to support the sustainability and growth of the Bank's business in the current circumstances.

The borrowers of the Bank affected in previous year by the lower liquidity situation are now improving their creditworthiness and their ability to repay the amounts owed. The respective impact on management's cash flow forecasts and assessment of the impairment of financial assets is decreasing. To the extent that information is available, management has 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 collateral's sale .

Notes to the financial statements (continued)

V. Financial risk management (continued)

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 exposures 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, and counterparty risk in over-the-counter derivative transactions.

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 rating systems and slotting methodology to assess the creditworthiness of its corporate borrowers. The rating systems aggregate quantitative and qualitative information on individual obligors to perform the assessment of their creditworthiness and determine the credit rating for the obligor. It takes into account the following criteria:

- the company's past and forecasted financial performance
- its cash flows
- industry sector trends
- qualitative assessment of management
- the company's status, market and industry structural factors

The Bank assesses the credit quality of the wholesale loans on a case-by-case basis using the borrower's credit rating and based on a profound analysis of a set of qualitative and quantitative factors. The borrower's rating could be within a rating scale from 1 to 11. The Bank categorized as neither past due nor impaired wholesale loans which borrower's credit rating is from 1 to 6 and with zero days past due as loans bearing satisfactory risk and these with rating 7 under watch list. The overdue loans, which borrower's ratings are from 1 to 6 are presented as past due but not impaired loans. The wholesale loans to customers with credit ratings from 8 to 11 are considered individually impaired loans (loans to borrowers with rating 8 and 9 are categorized as potentially problematic and those in10 and 11 as loss making).

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 (e.g. profitability, leverage, liquidity) emerging from the borrower's financial statements (balance sheet, income statement, notes to FS).

(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)

1.1. Credit risk measurement (continued)

(a) Loans and advances (continued)

The classification of retail clients is based on the full delinquency analysis by group according to which loans with zero overdue days are presented in category satisfactory risk and the rest in category past due but not impaired or impaired. 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 ratings from credit rating agencies such as Standard & Poor's, Moody's and Fitch are used by the Bank for managing the credit risk exposures, supplemented with proprietary credit analysis where external ratings are unavailable. 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 non-banking financial institutions 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 any borrower is restricted by limits covering on- and/or off- balance sheet. Off-balance sheet facilities to customers include foreign exchange and interest rate derivatives, letters of credit, letter of guarantee 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 regulations and 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. Exposures to credit risk are 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.

Some other specific control and mitigation measures are outlined below:

(a) Collaterals

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 main collateral types for loans and advances that the Bank accepts are:

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

Notes to the financial statements (continued)

V. Financial risk management (continued)

1. Credit risk (continued)

1.2 Risk limit control and mitigation policies (continued)

Long-term financing 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 usually unsecured, with the exception of some corporate bonds, asset-backed securities, or similar instruments, 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 favorable 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. In most cases collateral or other security is obtained for credit risk exposures arising from derivative deals with non-bank (corporate or other) counterparties. Further details of the Bank'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 long-term commitments generally have higher level of credit risk than short-term commitments.

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 2011 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 96% of the total maximum exposure is derived from loans and advances to banks and customers as well as loan commitments (2010: 92%); 3% represents investments in debt securities (2010: 6%)

(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)

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

Maximum exposure

	As at 31 December	
	2011	**2010**
Credit risk exposures relating to on-balance sheet assets are as follows:		
Loans and advances to banks	848,003	983,662
Loans and advances to customers:		
- Mortgages	987,443	983,483
- Consumer lending (including credit cards)	742,475	835,117
- Small Business lending	792,466	841,534
- Corporate lending	1,632,267	1,495,870
Trading assets - debt securities	469	40,072
Derivative financial instruments	16,087	22,442
Investment securities- available-for-sale-debt securities	145,943	329,679
Other assets	7,126	6,272
Credit risk exposures relating to off-balance sheet items are as follows:		
Financial guarantees	72,207	89,742
Letters of credit	20,502	23,023
Loan commitments and other credit related liabilities	567,404	539,685
Total	**5,832,392**	**6,190,581**

1.4 Loans and advances

Loans and advances are summarized as follows:

	As at 31 December	
Loans and advances to customers	**2011**	**2010**
Neither past due nor impaired	2,897,924	2,938,466
Past due but not impaired	870,033	766,264
Impaired	631,556	637,473
Gross	**4,399,513**	**4,342,203**
Less: allowance for impairment	(244,862)	(186,199)
Net	**4,154,651**	**4,156,004**

(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)

The total impairment provision for loans and advances is BGN 244,862 thousand (2010: BGN 186,199 thousand) of which BGN 106,258 thousand (2010: BGN 97,373 thousand) represents the individually impaired loans and the remaining amount of BGN 138,604 thousand (2010: BGN 88,826 thousand) represents the portfolio provision. Further information of the impairment allowance for loans and advances to customers is provided in Note 13.

During 2011, the Bank's total net loans and advances decreased by 0.03%. 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.

In 2011 net loans and advances figure was affected by BGN 159,002 thousand (2010: BGN 40,158 thousand) recoveries received on realized loan collaterals (related IMO companies included).

(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 2011 can be assessed by reference to the internal standard grading system (see 1.1.a). The following information is based on that system:

Satisfactory risk	**As at 31 December 2011**	**As at 31 December 2010**
Mortgage Lending	815,965	835,326
Wholesale	950,161	776,771
Consumer Lending	602,945	691,026
SBB	474,909	594,884
Total Satisfactory risk	**2,843,980**	**2,898,007**
Watch list (wholesale)	53,944	40,459

(b) Loans past due but not impaired

31 December 2011	**Consumer Lending**	**Mortgages**	**Small Business Lending**	**Corporate Lending**	**Total**
Past due up to 29 days	90,524	68,028	123,223	203,987	**485,762**
Past due 30 - 89 days	28,568	49,897	49,605	147,093	**275,163**
Past due 90 - 179 days	-	11,096	-	96,763	**107,859**
Past due less than 1 year	-	-	-	1,249	**1,249**
Total	**119,092**	**129,021**	**172,828**	**449,092**	**870,033**

31 December 2010	**Consumer Lending**	**Mortgages**	**Small Business Lending**	**Corporate Lending**	**Total**
Past due up to 29 days	75,895	58,199	50,519	157,147	**341,760**
Past due 30 - 89 days	50,950	34,054	60,487	167,242	**312,733**
Past due 90 - 179 days	-	16,464	-	80,782	**97,246**
Past due less than 1 year	-	-	-	14,525	**14,525**
Total	**126,845**	**108,717**	**111,006**	**419,696**	**766,264**

(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)

(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 having impairment indicators and are collectively assessed for impairment.

31 December 2011	**Consumer lending**	**Mortgages**	**SBB**	**Total**
Collectively assessed for impairment	82,002	62,568	64,530	209,100

31 December 2010	**Consumer lending**	**Mortgages**	**SBB**	**Total**
Collectively assessed for impairment	71,571	54,286	40,614	166,471

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;
- 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 2011	**Small Business Lending**	**Corporate Lending**	**Total**
Individually impaired loans	148,744	273,712	422,456
31 December 2010	**Small Business Lending**	**Corporate Lending**	**Total**
Individually impaired loans	133,786	337,216	471,002

(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 corporate and small business loans as at 31 December 2011 are covered with collaterals at 58% and 81% respectively (2010: 59% and 80% respectively). Consumer loans are not collateralized, except for car loans where the Bank retains ownership until full loan repayment. Mortgage loans are fully collateralized.

The fair value of collaterals used in collateral coverage ratio 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.

1.5. Debt securities and Loans and advances to banks

The table below presents an analysis of debt securities and banks placements by rating agency designation, based on the credit assessments of nominated External Credit Assessment Institutions:

				31 December 2011
Rating	**Trading securities**	**Investment securities, available for sale**	**Loans and advances to banks**	**Total**
AAA	-	-	-	-
AA- to AA+	-	-	66	**66**
A- to A+	-	-	8,001	**8,001**
BBB- to BBB+	469	101,433	9,249	**111,151**
BB- to BB+	-	-	-	-
Lower than BB-	-	3,237	821,898	**825,135**
Unrated	-	41,273	8,789	**50,062**
Total	**469**	**145,943**	**848,003**	**994,415**

Investment securities available for sale include impaired corporate bonds with carrying amount of BGN 14,778 thousand (2010: BGN 14,778 thousand). The impairment provisions as of end of 2011 amounted to BGN 2,798 thousand (2010: BGN 2,798 thousand).

(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 and Loans and advances to banks (continued)

			31 December 2010	
Rating	**Trading securities**	**Investment securities, available for sale**	**Loans and advances to banks**	**Total**
AAA	-	-	-	-
AA- to AA+	-	-	288	**288**
A- to A+	-	-	16,511	**16,511**
BBB- to BBB+	28,627	245,960	42,049	**316,636**
BB- to BB+	11,445	27,051	851,832	**890,328**
Lower than BB-	-	3,661	14,650	**18,311**
Unrated	-	53,007	58,332	**111,339**
Total	**40,072**	**329,679**	**983,662**	**1,353,413**

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	**2011**	**2010**
Commercial property	695	695
Equipment	-	237
Residential property	2,062	2,062
Land	154	154
Total	**2,911**	**3,148**

(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 2011. For this table, the Bank has allocated exposures to regions based on the country of domicile of its counterparties.

	Bulgaria	Europe	Other countries	Total
Loans and advances to banks	22,084	825,895	24	848,003
Trading assets – debt securities	469	-	-	469
Loans and advances to customers:				
- Mortgages	985,950	1,017	476	987,443
- Consumer lending incl. credit cards	741,959	381	135	742,475
-Small business lending	792,466	-	-	792,466
-Corporate lending	1,622,274	9,993	-	1,632,267
Investment debt securities – AFS	138,540	7,403	-	145,943
Derivative financial instruments	4,666	11,176	245	16,087
Other assets	7,126	-	-	7,126
31 December 2011	**4,315,534**	**855,865**	**880**	**5,172,279**
31 December 2010	**4,668,150**	**869,705**	**276**	**5,538,131**

(b) 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	Manufac-turing	Construc-tion	Public sector	Financial institutions	Other	Total
Loans and advances to banks	-	-	-	-	-	848,003	-	**848,003**
Trading assets-debt securities	-	-	-	-	469	-	-	**469**
Loans and advances to customers:								
- Mortgages	-	987,443	-	-	-	-	-	**987,443**
-Consumer lending incl. credit cards	-	742,475	-	-	-	-	-	**742,475**
-Small business lending	479,861	5,096	138,496	87,445	-	-	81,568	**792,466**
-Corporate lending	722,763	-	292,497	213,378	3,386	31,825	368,418	**1,632,267**
Investment debt securities – AFS	10,607	-	23,438	1,005	104,670	4,639	1,584	**145,943**
Derivative financial instruments	999	-	397	-	-	11,876	2,815	**16,087**
Other assets	-	-	-	-	-	7,126	-	**7,126**
31 December 2011	**1,214,230**	**1,735,014**	**454,828**	**301,828**	**108,525**	**903,469**	**454,385**	**5,172,279**
31 December 2010	**1,228,616**	**1,823,855**	**460,911**	**342,801**	**309,415**	**1,041,634**	**330,899**	**5,538,131**

Notes to the financial statements (continued)

V. Financial risk management (continued)

2. Market risk

The Bank takes on exposures to market risk, which is the risk of potential financial loss due to adverse changes in market variables such as interest rates, equity prices or foreign exchange rates. The fair value or future cash flows of a financial instrument may fluctuate because of changes in market variables.

The Bank is exposed to the following main types of market risks:

- interest rate risk;
- foreign exchange risk;
- equity price risk;

Interest rate risk is the risk of potential loss from adverse changes in interest rates and includes re-pricing risk, yield curve risk, basis risk, spread risk, volatility risk.

Foreign exchange risk is the risk of loss due to an adverse change in foreign currency exchange rates against the base currency.

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

Within each type of market risk, there are a number of specific sources of risk (risk factors), to which the Bank may or may not be exposed at any point in time.

The corporate governance with respect to market risk control and supervision is defined in the Bank's Market Risk Policy, developed in line with the Group Market Risk Guidelines. The objectives of the Bank's Market Risk Policy are to:

- set the framework and minimum standard for market risk control and management throughout the Bank;
- enable compliance with local rules;
- be duly compliant with EFG Group Guidelines;
- enable compliance with the requirements of local and foreign regulators;
- establish a framework that will eventually allow the Bank to gain competitive advantage through risk-based decision-making;

The Market Risk Policy is further supported by Market Risk Procedures which set out the detailed standards and requirements necessary to implement the Policy. The Policy and Procedures apply to the control of market risks, arising on all of the Bank's assets, liabilities and off-balance sheet positions, therefore covering both Treasury and non-Treasury activities that run market risk.

The Bank's Market Risk Policy is approved by the Board of Directors of Eurobank EFG Bulgaria AD and maintained by Market Risk Department. The Market Risk Department reviews the policy at least annually and submits changes to the Board for approval. The Market Risk Policy is in compliance with the Group's Risk Guidelines pertaining to market risk.

The market risk control and supervision framework set by the Bank aims to:

- protect the Bank against unforeseen market losses and contribute to earnings stability through the independent identification, assessment and understanding of the market risks inherent in the business;

(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)

- help align the Bank's organizational structure and management processes with best international banking practice and set minimum standards for controlling market risks;
- develop transparent, objective and consistent market risk information as a basis for sound decision making;
- establish a structure that will allow the Bank to link business strategy and operations with the objectives for risk control and supervision;

The Bank's market risk appetite is the size of the potential unexpected loss that it is willing to absorb because of adverse changes in market variables. It is related to its ability to absorb those losses, which depends on the Bank's capital and reserves; the potential losses arising from other, non-market, risks; and the regulatory capital, which is required to support the business. The Bank's market risk appetite is expressed in terms of nominal limits set on the exposures to market risks. The market risk appetite is determined by the Bank's Risk Committee, which approves all risk limits at Bank level. These limits are also part of the global limit structure of EFG Bank Group and are ratified at Group level. The Bank's market risk appetite 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 ensures that all material positions that are exposed to market risks are included within the market risk measurement system. At a minimum, the market risk measurement system should measure risk arising from exposure to the following specific market risk factors, i.e. the specific market prices or rates that affect the value of positions:

- foreign exchange rates
- interest rates and
- equity prices.

Currently market risk measurement is done using notional exposure data and notional level limits, supported by regular stress testing. The Bank is not using VaR-based limits. Upon senior management decision in the future the Bank may introduce additional value-at-risk analysis.

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 major part of the Bank's FX position is against EUR, while the BGN/EUR currency rate remains pegged at 1.95583 as part of the Currency Board arrangements. The Management sets limits on the open positions in individual currencies as well as on the aggregate open positions for both overnight and intra-day positions, and these limits are monitored on a daily basis.

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 also reduce or create losses in the event that unexpected movements arise. The Management reviews the interest rate gaps and the interest rate mismatch and the necessary reprising that may be undertaken on a monthly basis.

(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)

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, based on the market and economic environments that have been observed during the reporting period.

				31 December 2011
	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	**22,429**	(4,842)	(699)	27,970
-250 bps parallel shift local currency -50 bps parallel shift other currencies	**(16,748)**	1,467	175	(18,390)
Equities / Equity Indices / Mutual Funds				
-25% equity price drop across the board	**(666)**	(245)	(421)	-
+25% equity price increase across the board	**666**	245	421	-
Foreign exchange				
-25% depreciation of local currency	**45,088**	45,088	-	-
20% appreciation of local currency	**(36,071)**	(36,071)	-	-

				31 December 2010
	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	**17,938**	(6,987)	(1,890)	26,815
-250 bps parallel shift local currency -50 bps parallel shift other currencies	**(11,508)**	4,767	473	(16,748)
Equities / Equity Indices / Mutual Funds				
-25% equity price drop across the board	**(906)**	(286)	(620)	-
+25% equity price increase across the board	**906**	286	620	-
Foreign exchange				
-25% depreciation of local currency	**17,955**	17,955	-	-
20% appreciation of local currency	**(14,364)**	(14,364)	-	-

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 observed during 2011 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 a 25% depreciation / 20% appreciation of the local currency against all foreign currencies which mainly include EUR, USD and CHF.

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 income statement (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 all other currencies: +200 bps / -50 bps;

3. 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 not measured at fair value

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 commonly accepted valuation methodologies.

(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 not measured at fair value (continued)

The following table summarizes the carrying amounts and fair values of financial assets and liabilities of the Bank not measured at FV. Market prices are used to estimate fair values of assets and liabilities.

	Carrying value		Fair value	
	2011	2010	2011	2010
Financial assets				
Loans and advances to banks	848,003	983,662	848,003	983,662
Loans and advances to customers, including:				
-Mortgage loans	987,443	983,483	987,443	983,483
-Consumer loans, including credit cards	742,475	835,117	742,475	835,117
-Small business lending	792,466	841,534	792,466	841,534
-Corporate loans	1,632,267	1,495,870	1,632,267	1,495,870
Total loans and advances to customers	**4,154,651**	**4,156,004**	**4,154,651**	**4,156,004**
Financial liabilities				
Deposits from banks	92,005	438,369	92,005	438,369
Due to customers, including:				
– Retail customers	3,385,498	3,176,003	3,385,498	3,176,003
– Large corporate customers	1,204,949	1,368,445	1,204,949	1,368,445
– Medium corporate customers	127,301	97,063	127,301	97,063
Total due to customers	**4,717,748**	**4,641,511**	**4,717,748**	**4,641,511**
Debt issued and other borrowed funds	339,265	335,111	339,265	335,143

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 entitled to change interest rates, as a contractual repricing date. Therefore the fair value of loans and advances to customers approximates their carrying amount.

(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 not measured at fair value (continued)

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 entitled 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.

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 2011, the Bank did not have any level 3 financial assets or liabilities.

	31 December 2011			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value:				
Financial assets held for trading				
-Debt securities	469	-	-	469
-Equity securities	981	-	-	981
-Derivative financial instruments	-	16,087	-	16,087
Available-for-sale investment securities				
-Investment securities - debt	104,670	41,273	-	145,943
-Investment securities - equity	1,628	8,162	-	9,790
Total financial assets	**107,748**	**65,522**	-	**173,270**
Financial liabilities measured at fair value:				
Derivative financial instruments	-	23,152	-	23,152
Total financial liabilities	-	**23,152**	-	**23,152**

(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 (continued)

	31 December 2010			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value:				
Financial assets held for trading				
-Debt securities	28,627	11,445	-	40,072
-Equity securities	1,144	-	-	1,144
-Derivative financial instruments	-	22,442	-	22,442
Available-for-sale investment securities				
-Investment securities - debt	276,672	53,007	-	329,679
-Investment securities - equity	2,480	8,104	-	10,584
Total financial assets	**308,923**	**94,998**	**-**	**403,921**
Financial liabilities measured at fair value:				
Derivative financial instruments	-	76,513	-	76,513
Total financial liabilities	**-**	**76,513**	**-**	**76,513**

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 repay depositors and fulfill commitments to lend.

3.1. Liquidity risk management process

The Bank maintains appropriate liquidity policies which have to ensure prudent liquidity management practices are in place.

The Management Board (MB) of The Bank assigns the Assets and Liabilities Committee as the primary responsible body to advise the MB for the strategic management of assets and liabilities with aim to manage the interest rate and liquidity risks of the Bank.

Regarding Assets and Liabilities management, ALCO shall regularly review the following:

- Structure, current state and trends of the assets and liabilities of the Bank;
- Interest income margin generated on assets and cost of funding base (deposit base and external funding);
- Interest rates offered by main competitors and market shares;
- Capital Adequacy.

(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)

3.1. Liquidity risk management process (continued)

Regarding Liquidity management, ALCO shall regularly review the following:

- Liquidity Ratios and liquidity buffers as defined by BNB;
- Internal Liquidity ratios;
- Liquid buffers;
- Sources and uses of Liquidity and Liquidity Projections.
- Liquidity Stress tests, reflecting the changes on the asset-liability maturity tables in different stress scenarios.

On a strategic level ALCO shall manage the Bank's assets and liabilities to ensure regular and timely meeting of current and future obligations.

The operational management of the Bank's liquidity and the execution of ALCO decisions regarding liquidity is assigned to the Head of Capital Markets Division. If necessary, ALCO can be directly engaged in the liquidity management via activating all resources of the Bank to meet all payment obligations.

Market Risk Department holds an important position in monitoring the market risks and in producing reports to the senior management for observation of risks. Market Risk Department directly reports the utilization of limits/target ratios to the senior management.

3.2 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 for the year 2011 and 2010. Liabilities without contractual maturities (sight and saving deposits) are presented in "less than 1 month" time bucket.

As at 31 December 2011	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	***5,267,009***	***2,037,956***	***589,488***	***2,184,495***	***306,041***	***149,029***
Due to other banks	92,574	77,008	173	15,393	-	-
Due to customers	4,778,036	1,925,795	547,879	2,136,520	167,842	-
Debt issued and other borrowed funds	373,143	11,897	41,436	32,582	138,199	149,029
Other liabilities	23,256	23,256	-	-	-	-
Derivative financial instruments	***1,977,370***	***1,711,172***	***85,339***	***116,530***	***64,111***	***218***
Outflows from gross and net settled	1,977,370	1,711,172	85,339	116,530	64,111	218
Total liabilities (contractual maturity)	**7,244,379**	**3,749,128**	**674,827**	**2,301,025**	**370,152**	**149,247**
Total assets (contractual maturity)	**9,354,978**	**4,348,805**	**222,472**	**635,906**	**2,137,092**	**2,010,703**

(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)

3.2 Cash flows (continued)

As at 31 December 2010	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	*5,559,167*	*2,069,393*	*1,136,366*	*1,805,329*	*338,722*	*209,357*
Due to other banks	442,408	164,833	261,256	-	16,319	-
Due to customers	4,701,588	1,876,505	875,110	1,805,329	144,644	-
Debt issued and other borrowed funds	387,116	-	-	-	177,759	209,357
Other liabilities	28,055	28,055	-	-	-	-
Derivative financial instruments	*1,841,182*	*463,011*	*272,564*	*831,680*	*273,674*	*253*
Outflows from gross and net settled	1,841,182	463,011	272,564	831,680	273,674	253
Total liabilities (contractual maturity)	**7,400,349**	**2,532,404**	**1,408,930**	**2,637,009**	**612,396**	**209,610**
Total assets (contractual maturity)	**9,577,852**	**3,320,539**	**699,731**	**1,220,148**	**2,312,465**	**2,024,969**

3.3 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-cancellable 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.

(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)

3.3 Off-balance sheet items (continued)

At 31 December 2011	No later than 1 year	1-5 years	Over 5 years	Total
Guarantees:				
- guarantees and standby letters of credit	45,669	27,295	19,745	**92,709**
Commitments:				
- Undrawn loan commitments	473,515	28,677	65,212	**567,404**
- Capital expenditure	554	-	-	**554**
- Operating lease commitments	13,590	10,691	2,090	**26,371**

At 31 December 2010	No later than 1 year	1-5 years	Over 5 years	Total
Guarantees:				
- guarantees and standby letters of credit	61,079	5,173	46,513	**112,765**
Commitments:				
- Undrawn loan commitments	431,095	37,984	70,606	**539,685**
- Capital expenditure	449	-	-	**449**
- Operating lease commitments	12,081	16,736	1,067	**29,884**

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%.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

V. Financial risk management (continued)

4. Capital management (continued)

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 amount of the specific provisions under the Bulgarian National bank' Regulation No. 9 on the evaluation and classification of risk exposures of banks and the allocation of provisions to cover credit risk is reduced at 50% from Tier I and 50% at Tier II capital.

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.

The table below summarizes the composition of regulatory capital and the Capital adequacy ratio 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.

	2011	2010
Tier 1 capital		
Share capital	452,753	452,753
Reserves	326,117	291,175
Revaluation reserve of financial assets available for sale	(10,145)	(8,895)
Less:		
Intangible assets	(30,730)	(23,903)
Specific provisions under Reg.9	(115,752)	(185,136)
Total qualifying Tier 1 capital	**622,243**	**525,994**
Tier 2 capital		
Long term debt	122,792	122,792
Revaluation reserve of property owned by the Bank	2,376	2,376
Less:		
Specific provisions under Reg.9	(115,752)	(125,168)
Total qualifying Tier 2 capital	**9,416**	**-**
Risk-weighted assets		
On-balance sheet	3,924,636	3,793,885
Off-balance sheet	165,420	146,819
Total risk-weighted assets	**4,090,056**	**3,940,704**
Basel ratio	**15.44%**	**13.35%**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

W. Business segments

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 their 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 2011				
	Capital Markets	**Corporate**	**Retail**	**Other**	**Total**
Net interest income	5,716	95,149	166,403	(23,544)	**243,724**
Net commission income	8,665	8,029	37,386	-	**54,080**
Other net revenues	2,687	-	-	(65)	**2,622**
Total External Revenue	**17,068**	**103,178**	**203,789**	**(23,609)**	**300,426**
Inter-segment revenue	21,273	(49,485)	13,389	14,823	**0**
Net operating income before impairment	**38,341**	**53,693**	**217,178**	**(8,786)**	**300,426**
Impairment charge for credit losses	-	(54,790)	(78,007)	-	**(132,797)**
Deposits Insurance Fund expense	-	(1,964)	(15,287)	-	**(17,251)**
OPEX	(5,896)	(14,460)	(121,728)	-	**(142,084)**
PBT	**32,445**	**(17,521)**	**2,155**	**(8,786)**	**8,293**
Tax	(3,307)	1,786	(220)	896	**(845)**
PAT	**29,138**	**(15,735)**	**1,935**	**(7,890)**	**7,448**
Segment assets	**1,752,017**	**1,665,938**	**2,572,932**	**-**	**5,990,887**
Segment liabilities	**435,857**	**1,346,421**	**3,421,508**	**-**	**5,203,786**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

W. Business segments (continued)

	31 December 2010				
	Capital Markets	**Corporate**	**Retail**	**Other**	**Total**
Net interest income	11,789	87,687	192,580	(23,262)	**268,794**
Net commission income	8,341	4,434	42,305	-	**55,080**
Other net revenues	(2,670)	-	-	577	**(2,093)**
Other income realized with respect to non cash transaction	-	-	-	4,167	**4,167**
Total External Revenue	**17,460**	**92,121**	**234,885**	**(18,518)**	**325,948**
Inter-segment revenue	28,094	(41,147)	(6,633)	19,686	-
Net operating income before impairment	**45,554**	**50,974**	**228,252**	**1,168**	**325,948**
Impairment charge for credit losses	-	(38,532)	(85,409)	-	**(123,941)**
Deposits Insurance Fund expense	-	(2,252)	(14,848)	-	**(17,100)**
OPEX	(5,864)	(14,850)	(125,549)	-	**(146,263)**
PBT	**39,690**	**(4,660)**	**2,446**	**1,168**	**38,644**
Tax	(3,802)	446	(234)	(112)	**(3,702)**
PAT	**35,888**	**(4,214)**	**2,212**	**1,056**	**34,942**
Segment assets	**2,073,625**	**1,526,252**	**2,709,379**	**-**	**6,309,256**
Segment liabilities	**789,455**	**1,495,777**	**3,241,601**	**-**	**5,526,833**

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.

Notes to the financial statements (continued)

X. Critical accounting estimates and judgments in applying accounting policy (continued)

Impairment of available- for-sale equity investments

The Bank determines that available-for-sale equity investments are impaired when there has been a significant (drop down of the average market price below 60%-70% of the cost price) or prolonged decline (continuing decline of the market price for the last 12 months) 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.

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.

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 in 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 2011 and represent reasonable possible shifts in the market variables.

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.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

X. Critical accounting estimates and judgments in applying accounting policy (continued)

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 analogues (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).

De-recognition of financial assets

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

1 Net interest income

Interest income	2011	2010
Loans and advances to customers	403,474	450,469
Derivative instruments	31,451	35,095
Loans and advances to banks	30,145	14,741
Investment securities	9,586	17,219
Hedging instruments	4,786	9,526
Trading securities	751	1,161
Total	**480,193**	**528,211**

Interest income accrued on impaired financial assets is BGN 15,367 thousand (2010: BGN 16,998 thousand).

Interest expense	2011	2010
Deposits from customers	184,718	193,893
Derivative instruments	25,839	28,036
Long term debt	10,029	6,929
Hedging instruments	9,211	18,020
Deposits from Banks	4,773	10,493
Debt securities issued	1,899	2,046
Total	**236,469**	**259,417**

2 Net fee and commission income

Fees and commission income	2011	2010
Transfers	18,682	18,667
Loans' fees and commissions	16,080	17,390
Account maintenance	10,660	10,200
Foreign exchange operations	8,915	8,401
Receipts from sales of services	5,340	5,033
Cash operations	4,627	5,125
Documentary business	2,098	2,254
Operations with derivatives	1,177	2,074
Management, brokerage and securities trading	824	570
Other fees	202	180
Total	**68,605**	**69,894**

(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	2011	2010
Loans related fees	7,484	7,301
Transactions processing	4,431	4,377
Operations related to derivatives	842	1444
Fees related to long term funding	653	358
Cash transactions and correspondent accounts	611	868
Other fees	309	329
Management, brokerage and securities trading	195	174
Total	**14,525**	**14,851**

3 Other operating income

	2011	2010
Rental income	156	198
Net gain/(loss) from sales of non-current fixed assets	6	(40)
Other	-	294
Total	**162**	**452**

4 Net trading income/(loss)

	2011	2010
Translation gains less (losses)	62	(226)
Net results from derivative instruments and FX transactions	389	(2,766)
Net trading income/(loss)	**451**	**(2,992)**

5 Other operating expenses

	2011	2010
Staff costs (Note 6)	67,376	65,292
Operating lease rentals	25,292	25,878
Depreciation of property, plant and equipment (Note 16)	10,663	14,799
Advertising and marketing	6,069	6,219
Repairs and maintenance	7,133	5,856
Security	4,754	4,649
Materials and utilities	2,883	3,365
Software costs	3,905	4,049
Communication	2,811	3,403
Amortisation of intangible assets (Note 17)	3,645	2,007
External services	4,784	6,138
Other operating costs	1,231	2,922
Travel and accommodation	958	850
Levies and taxes	309	379
Insurance	272	457
Total	**142,085**	**146,263**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

6 Staff costs

	2011	2010
Wages and salaries	55,219	54,161
Pension insurance	5,025	4,270
Social security costs	3,800	3,855
Other	3,332	3,006
Total staff cost	**67,376**	**65,292**

The Bank estimated that the pension obligation provision as at year end is BGN 2,642 thousand (2010: BGN 2,226 thousand). See note 25.

7 Impairment charge for credit losses

	2011	2010
Loans and advances to customers (Note 13)	(132,786)	(123,934)
Credit commitments	(11)	(7)
Total	**(132,797)**	**(123,941)**

8 Income tax expense

	2011	2010
Deferred income tax (Note 23)	538	663
Current income tax	307	3,039
Total	**845**	**3,702**

Tax is payable at an actual rate of 10% (2010: 10%) on adjusted profits under Corporate Tax Act.

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

	2011	2010
Profit before income tax	**8,293**	**38,644**
Tax calculated at a tax rate of 10% (2010: 10%)	829	3,864
Tax effect of:		
Income and expenses not subject to tax, net	16	(162)
Income tax expense	**845**	**3,702**

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)

Notes to the financial statements (continued)

9 Income tax effects relating to comprehensive income

	Year ended 31 December					
	2011			2010		
	Before tax amount	Tax (expense)/ benefit	Net of tax amount	Before tax amount	Tax (expense)/ benefit	Net of tax amount
Available for sale investments	(3,078)	308	(2,770)	2,792	(279)	2,513
Total	**(3,078)**	**308**	**(2,770)**	**2,792**	**(279)**	**2,513**

10 Cash and balances with the Central Bank

	2011	2010
Cash in hand	93,666	99,606
Balances with Central bank	605,277	546,762
Total	**698,943**	**646,368**
of which:		
Mandatory reserve with Central Bank	418,796	421,996

Mandatory reserves with Central bank represent the minimum level of average monthly deposits which the Bank is required to maintain. Balances with Central bank can be withdrawn provided the average monthly minimum deposits are maintained.

11 Loans and advances to banks

	2011	2010
Deposits in other banks	835,168	935,654
Reverse repurchase agreements	12,835	48,008
Total	**848,003**	**983,662**

Included in the amount of loans and advances to banks is accrued interest of BGN 607 thousand (2010: BGN 1,148 thousand).

Approximately 97 % (2010: 82 %) 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 (Note 29).

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

12 Financial assets held for trading

	2011	2010
Bulgarian government bonds	469	28,627
Corporate bonds	-	11,445
Shares	981	1,144
	1,450	**41,216**
Equity securities:		
- Listed	981	1,144
Bonds:		
- Listed	31	11,476
- Unlisted	438	28,596

Included in the amount of the bonds is accrued interest in the amount of BGN 4 thousand (2010: BGN 746 thousand).

Gains less losses from trading securities	2011	2010
Debt securities	674	172
Equity securities	(398)	(307)
Total	**276**	**(135)**

13 Loans and advances to customers

	2011	2010
Consumer lending (including credit cards)	804,039	889,441
Small Business lending	861,011	880,290
Mortgages	1,007,554	998,329
Corporate lending	1,726,909	1,574,143
Gross loans and advances	**4,399,513**	**4,342,203**
Less allowance for impairment losses on loans and advances	(244,862)	(186,199)
Net outstanding balance of loans and advances to customers	**4,154,651**	**4,156,004**

Included in the amount of loans and advances to customers is accrued interest of BGN 47,508 thousand (2010: BGN 51,019 thousand). In 2011 Eurobank EFG Bulgaria AD purchased loans from BRS in the amount of BGN 14,092 thousand (2010: BGN 43,669 thousand) and loans from Eurobank EFG Private Bank LUX amounting to BGN 300,079 thousand. Another BGN 89,369 thousand loans were sub participated to EFG New Europe Funding II BV and accordingly derecognised. All of the companies are related parties of the EFG Group.

	2011	2010
The ten largest exposures to customers	409,706	328,096
Percentage of gross loans	9.33%	7.54%

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

13 Loans and advances to customers (continued)

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

	Consumer lending	Mortgages	Small Business Lending	Corporate Lending	Total
At 1 January 2010	**101,296**	**7,420**	**20,887**	**39,210**	**168,813**
Acquisition of loan portfolio	1,194	2,542	198	128	**4,062**
Charge for the year	54,035	4,372	27,031	38,496	**123,934**
Recoveries and legal and collection fees	(4,377)	193	269	1,295	**(2,620)**
Amounts written off	(97,829)	(13)	(9,708)	(969)	**(108,519)**
Foreign exchange differences	5	333	78	113	**529**
At 31 December 2010	**54,324**	**14,847**	**38,755**	**78,273**	**186,199**

	Consumer lending	Mortgages	Small Business Lending	Corporate Lending	Total
At 1 January 2011	**54,324**	**14,847**	**38,755**	**78,273**	**186,199**
Acquisition of loan portfolio	-	1,879	-	-	**1,879**
Disposal of loan portfolio	-	-	-	(27,421)	**(27,421)**
Charge for the year	35,597	13,030	29,380	54,779	**132,786**
Recoveries and legal and collection fees	441	(263)	291	(252)	**217**
Amounts written off	(28,770)	(9,140)	(116)	(10,580)	**(48,606)**
Foreign exchange differences	(28)	(242)	235	(157)	**(192)**
At 31 December 2011	**61,564**	**20,111**	**68,545**	**94,642**	**244,862**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

14	**Investment securities, available for sale**	**2011**	**2010**
	Bulgarian government bonds	97,435	245,960
	Corporate unsecured bonds	41,273	53,008
	Foreign government bonds	7,235	30,711
	Shares and participations	9,790	10,584
	Total	**155,733**	**340,263**
	Equity securities		
	Listed	1,682	2,975
	Unlisted	8,108	7,609
	Debt securities		
	Listed	123,698	289,999
	Unlisted	22,245	39,680
		155,733	**340,263**

Included in the amount of the investment securities is accrued interest in the amount of BGN 4,421 thousand (2010: BGN 12,739 thousand).

Foreign government bonds consist of exposures to the following countries: Romania BGN 3,998 thousand (maturing 2018) and Ukraine BGN 3,237 thousand (maturing 2015) (2010: Romania BGN 25,927, Ukraine BGN 3,661, Turkey BGN 1,123)

Movement in available for sale securities is reconciled as follows:

Book value as at 31 December 2009	**436,382**
Additions	26,965
Disposals	(110,396)
Change in accrued interest	(6,150)
Amortization of discounts or premium	(7,393)
Net fair value gain	2,383
Impairment of corporate bonds	(1,528)
Book value as at 31 December 2010	**340,263**
Additions	35
Disposals	(163,016)
Change in accrued interest	(8,318)
Amortization of discounts or premium	(8,311)
Net fair value (loss)	(4,920)
Impairment of corporate bonds	-
Book value as at 31 December 2011	**155,733**

Gains less (losses) and impairment of securities available for sale	**2011**	**2010**
Transfer the revaluation reserve (deficit) from equity to income statement	5,446	6,760
Gains less (losses) recognized on sale of AFS securities directly through income statement	(4,097)	(4,889)
Impairment of investment security recognised directly in income statement	(197)	(1,815)
Gain recognised on exchange of shares	-	4,167
	1,152	**4,223**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

15 Investment property

Investment property is held for capital appreciation and is not occupied by the Bank. Investment property is carried at fair value, representing open market value determined by external valuers. The changes in the fair values are recorded in the income statement as part of other income.

Investment property	2011	2010
Beginning of the year	876	876
Net gains or losses from fair value adjustments	-	-
End of the year	**876**	**876**

16 Property, plant and equipment

	Land and buildings	Leasehold improvements	Plant and equipment	Total tangible fixed assets
At 31 December 2009				
Gross amount	24,322	33,137	93,254	150,713
Accumulated depreciation	(2,722)	(9,133)	(50,498)	(62,353)
Net book amount	**21,600**	**24,004**	**42,756**	**88,360**
Year ended 31 December 2010				
Opening net book amount	21,600	24,004	42,756	88,360
Additions	252	607	5,195	6,054
Disposals and write offs	-	(176)	(120)	(296)
Depreciation charge (Note 5)	(1,020)	(3,309)	(10,470)	(14,799)
Closing net book amount	**20,832**	**21,126**	**37,361**	**79,319**
At 31 December 2010				
Gross amount	24,372	33,412	97,250	155,034
Accumulated depreciation	(3,540)	(12,286)	(59,889)	(75,715)
Net book amount	**20,832**	**21,126**	**37,361**	**79,319**
Year ended 31 December 2011				
Opening net book amount	20,832	21,126	37,361	79,319
Additions	128	246	1,436	1,810
Disposals and write offs	-	(63)	(37)	(100)
Transfers	-	-	(2,498)	(2,498)
Depreciation charge (Note 5)	(412)	(2,195)	(8,056)	(10,663)
Closing net book amount	**20,548**	**19,114**	**28,206**	**67,868**
At 31 December 2011				
Gross amount	24,500	33,546	91,645	149,691
Accumulated depreciation	(3,952)	(14,432)	(63,439)	(81,823)
Net book amount	**20,548**	**19,114**	**28,206**	**67,868**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

17 Intangible assets

At 31 December 2009	
Gross book amount	35,835
Accumulated amortisation	(17,565)
Net book amount	**18,270**
Year ended 31 December 2010	
Opening net book amount	18,270
Additions	7,640
Disposals and write offs	-
Amortisation charge (Note 5)	(2,007)
Closing net book amount	**23,903**
At 31 December 2010	
Gross book amount	43,476
Accumulated amortisation	(19,573)
Net book amount	**23,903**
Year ended 31 December 2011	
Opening net book amount	23,903
Additions	7,974
Disposals and write offs	-
Transfers	2,498
Amortisation charge (Note 5)	(3,645)
Closing net book amount	**30,730**
At 31 December 2011	
Gross book amount	57,379
Accumulated amortisation	(26,649)
Net book amount	**30,730**

18 Other assets

	2011	**2010**
Amounts in transit	3,895	3,157
Other debtors	3,624	3,024
Repossessed collaterals	2,911	3,148
Prepaid expenses	2,738	2,760
Other assets	836	1,117
Materials	123	124
Less: provision against other assets	(1,228)	(1,026)
	12,899	**12,304**

The financial assets contained in the Other assets note amounted to BGN 7,126 thousand (2010: BGN 6,272 thousand) of which BGN 1,228 thousand (2010: BGN 1,026 thousand) represents impaired financial assets and the rest are neither past due nor impaired.

Provision against other financial assets	**2011**	**2010**
Opening balance at 1st of January	1,026	1,271
Charged to the income statement	702	430
Reversed to the income statement	(43)	(42)
Used during year	(457)	(633)
Closing balance	**1,228**	**1,026**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

19 Deposits from Banks	**2011**	**2010**
Items in course of collection	38,703	7,001
Deposits from other banks	53,302	295,103
Repurchase agreements	-	136,265
	92,005	**438,369**

Included within due to other banks is accrued interest payable of BGN 66 thousand (2010: BGN 1,383 thousand).

20 Derivative financial instruments

The Bank enters into the following derivative contracts for either hedging or non-hedging (business) purposes: currency forwards, currency swaps, interest rate swaps, cross currency interest rate swaps, forward rate agreements, interest rate futures, currency options and interest rate options.

Currency forward contracts are obligations to trade one currency for another at a specified exchange rate on a specific future delivery date. Being OTC contracts, currency forwards can be designed to exactly fit the clients' requirements as to the principal amount in the trade, its exact delivery date and which currencies are involved.

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 and 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. Since currency swaps may call for a final exchange of principal (increased importance of the diffusion effect), the potential credit exposure profile tends to be upward sloping. This risk is monitored on an ongoing and forward looking basis with reference to the current fair value, a proportion of the notional amount of the contracts and the potential future exposure. 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. The expected and maximum potential exposure profiles for an interest rate swap are estimated by a modeling exercise at inception. These depend on the "diffusion effect" (volatility of the underlying as well as other stochastic properties) and "amortization effect" (the passage of time). The peak exposure occurs at an intermediate point during the swap's life. Since the notional amounts themselves are not exchanged, the percentage of notional amount at risk is relatively low in normal market conditions.

A forward rate agreement (FRA) is an agreement between two parties in which one party, the buyer or the long, agrees to make a known interest payment to the other party, the seller or the short, at a future date, with the seller agreeing to make an interest payment to the buyer based on an unknown rate that will be determined when the contract expires. Most FRAs are based on well-established interest rates such as dollar LIBOR or EURIBOR.

Interest rate futures are exchange traded contracts on fixed income securities such as U.S. Treasury issues, or based on the levels of specified interest rates such as LIBOR. The associated credit risk is small, as futures contracts are collateralized by cash or marketable securities, and changes in the futures' contract value are settled daily with the exchange.

Options are financial instruments that give one party the right, but not the obligation, to buy or sell an underlying asset from or to another party at a fixed price over a specific period of time (also referred to as contingent claims). Options do not generally have periodic payments but are characterized by an up-front payment of the option premium and a final option payoff payment. The amortization effect is limited and is outweighed by the diffusion effect – a longer time period translates into a greater scope for movements in the underlying variable, which can generate a large exposure on the option payoff.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

20 Derivative financial instruments (continued)

The notional amounts of certain types of financial instrument provide a basis for comparison with instruments recognised 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 market 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 favorable 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.

	Contract / notional amount	Assets	Liabilities
Year ended 31 December 2011			
Derivatives held for trading			
Foreign exchange derivatives			
OTC currency forwards	2,547	66	61
OTC currency swaps	1,708,165	5,536	2,748
Total OTC currency derivatives	**1,710,712**	**5,602**	**2,809**
Interest rate derivatives			
OTC interest rate swaps	754,607	4,567	2,611
OTC cross-currency interest rate swaps	242,233	4,532	4,779
OTC forward rate agreement	39,117	-	70
OTC IR options bought and sold	441,644	1,386	1,386
Total OTC interest rate derivatives	**1,477,601**	**10,485**	**8,846**
Derivatives held for hedging			
OTC interest rate swaps	92,169	-	11,497
Total recognised derivative assets / liabilities		**16,087**	**23,152**
Year ended 31 December 2010			
Derivatives held for trading			
Foreign exchange derivatives			
OTC currency forwards	3,069	24	22
OTC currency swaps	1,256,970	3,952	35,053
Total OTC currency derivatives	**1,260,039**	**3,976**	**35,075**
Interest rate derivatives			
OTC interest rate swaps	667,616	4,781	3,849
OTC cross-currency interest rate swaps	488,712	11,310	12,325
OTC forward rate agreement	-	-	-
OTC IR options bought and sold	430,087	1,147	1,147
Total OTC interest rate derivatives	**1,586,415**	**17,238**	**17,321**
Derivatives held for hedging			
OTC interest rate swaps	217,545	1,228	24,117
Total recognised derivative assets / liabilities		**22,442**	**76,513**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

20 Derivative financial instruments (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 2011 was negative BGN 11,497 thousand (2010: negative BGN 24,117 thousand and positive BGN 1,228 thousand).

The gain on the hedging instruments was BGN 5,395 thousand (2010: gains BGN 1,298 thousand). The loss on the hedged item attributable to the hedged risk was BGN 5,091 thousand (2010: loss BGN 1,302 thousand). In 2011 the fair value hedges were highly effective (2010: highly effective), and the net effect recognised in income statements is gain of BGN 304 thousand (2010: loss BGN 4 thousand).

21 Due to customers

	2011	2010
Large corporate customers	1,204,949	1,368,445
Medium corporate customers	127,301	97,063
Total due to corporate customers	**1,332,250**	**1,465,508**
Retail customers	3,385,498	3,176,003
Total due to customers	**4,717,748**	**4,641,511**

Included within due to customers is related accrued interest payable of BGN 38,174 thousand (2010: BGN 41,871 thousand).

22 Debt issued and other borrowed funds

	2011	2010
Subordinated debt	123,050	135,448
Long term loan from EBRD	122,168	120,050
Debt securities in issue	40,049	40,021
Long term debt from Bulgarian Development Bank	34,397	20,003
European Investment Bank Loan	19,601	19,589
Total	**339,265**	**335,111**

a) Subordinated debt instruments

In March 2005, DZI Bank signed a subordinated debt agreement for total amount of BGN 25,000 thousand. In November 2006, all rights and obligations /including the receivables/, held by the legal entities (lenders) under agreements concluded by DZI Bank have been transferred to Eurobank EFG Holding /Luxembourg/ S.A., whereas all contractual terms remain unchanged. In 2010 an annex for maturity extension of the debt till March 2018 was signed. In March 2011 a new annex was signed, amending the interest rate terms, the interest became payable on the roll-over date following the expiry of the respective interest period. The accrued interest up to that date was paid to Eurobank EFG Holding /Luxembourg/ S.A. As of 31 December 2011 the total liability amounted to BGN 25,072 (2010: BGN 30,595 thousand).

In June 2007, Eurobank EFG Bulgaria a signed subordinated debt agreement with EFG Eurobank Ergasias in the amount of EUR 30,000 thousand (BGN 58,675 thousands). In 2010 an annex for maturity extension of the debt till June 2017 was signed. In March 2011 a new annex was signed, amending the interest rate terms, the interest became payable on the roll-over date following the expiry of the respective interest period. The accrued interest up to that date was paid to EFG Eurobank Ergasias. As of 31 December 2011 the total liability amounted to BGN 58,744 (2010: BGN 65,643 thousand).

In August 2010, Eurobank EFG Bulgaria signed a subordinated debt agreement with EFG Eurobank Ergasias for EUR 20,000 thousand (BGN 39,117 thousand) with maturity 2017. As of 31 December 2011 the total liability amounted to BGN 39,234 thousand (2010: BGN 39,210 thousand).

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

22 Debt issued and other borrowed funds (continued)

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

In October 2010 Eurobank EFG Bulgaria and the European Bank for Reconstruction and Development signed a Loan Agreement for a credit limit of EUR 75,000 thousand (BGN 146,687 thousand) divided in two tranches , the first of which for EUR 37,500 thousand (BGN 73,344 thousand) was fully disbursed as of end of 2010. The granted funds are used for financing private enterprises, firms, businesses, sole proprietors or other legal entities. As at 31 December 2011 the total liability amounted to BGN 73,644 thousands (2010: BGN 72,856).

In July 2008, Eurobank EFG Bulgaria and the European Bank for Reconstruction and Development executed a 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. As of 31 December 2011 the total liability amounted to BGN 34,503 thousand (2010: BGN 38,190 thousand).

In December 2006, Eurobank EFG Bulgaria and the European Bank for Reconstruction and Development amended and restated an existing Loan Agreement contract as of 2004 whereby the Bank can borrow up to EUR 15,000 thousand (BGN 29,337 thousand) for the purposes of granting loans to corporate customers for improving rational energy utilization and renewable energy projects. As of 31 December 2011 the total liability amounted to BGN 14,021 thousand (2010: BGN 9,004 thousand).

c) Debt securities in issue

In April 2007 corporate bonds with nominal amount of BGN 40,000 thousand were issued. The bonds are maturing in March 2012. The outstanding balance as of 31 December 2011 is BGN 40,049 thousand (2010: BGN 40,021 thousand).

d) Loans received from the Bulgarian Development Bank

In February 2009, Eurobank EFG Bulgaria and the Bulgarian Development Bank signed a Loan Agreement for BGN 20,000 thousand for a period of 10 years. The financing was part of the government measures package, aiming to minimize the global financial crisis impact over the Bulgarian economy. The purpose of the granted funds is medium to long term financing of small and medium enterprises. As of 31 December 2011 the total liability amounted to BGN 20,003 thousand (2010: BGN 20,003 thousand).

In August 2011, Eurobank EFG Bulgaria signed a Loan Agreement with Bulgarian Development Bank under a Program for Small and Medium-sized enterprises in Bulgaria of KfW, Germany, for EUR 7,250 thousand. The loan was disbursed in August 2011, with a final repayment date in September 2020. The outstanding balance at 31 December 2011 is BGN 14,394 thousand.

e) Loan received from the European Investment Bank

In October 2009, Eurobank EFG Bulgaria and the European Investment Bank signed a Loan Agreement for a total amount of EUR 50,000 thousand (BGN 97,792 thousand) for financing of investment projects of small and medium sized enterprises in Bulgaria as well as for working capital. The contract has repayment schedule with final repayment date in 2018. As of 31 December 2011 the total liability amounted to BGN 19,601 thousand (2010: BGN 19,589 thousand).

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

22 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 2011
	Within 1 year	**1-5 years**	**Over 5 years**	**Total**
Corporate Bonds				
Floating rate	39,995	-	-	**39,995**
Accrued interest	54	-	-	**54**
Subordinated debt				
Floating rate	-	-	122,792	**122,792**
Accrued interest	258	-	-	**258**
EBRD Credit lines				
Floating rate	36,020	84,389	-	**120,409**
Accrued interest	1,759	-	-	**1,759**
Loan from Bulgarian Development Bank				
Fixed rate	-	12,000	8,000	**20,000**
Accrued interest	3	-	-	**3**
Loan from Bulgarian Development Bank				
Floating rate	834	6,673	6,673	**14,180**
Accrued interest	214	-	-	**214**
Loan from the European Investment Bank				
Floating rate	-	11,735	7,810	**19,545**
Accrued interest	56	-	-	**56**
Total Debt issued and other borrowed funds	**79,193**	**114,797**	**145,275**	**339,265**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

22 Debt issued and other borrowed funds (continued)

				31 December 2010
	Within 1 year	1-5 years	Over 5 years	Total
Corporate Bonds				
Floating rate	-	39,963	-	39,963
Accrued interest	58	-	-	58
Subordinated debt				
Floating rate	-	-	97,792	97,792
Accrued interest	94	-	6,967	7,061
Fixed rate	-	-	25,000	25,000
Accrued interest	-	-	5,595	5,595
EBRD Credit lines				
Floating rate	-	119,435	-	119,435
Accrued interest	615	-	-	615
Loan from Bulgarian Development Bank				
Fixed rate	-	8,000	12,000	20,000
Accrued interest	3	-	-	3
Loan from the European Investment Bank				
Floating rate	-	-	19,545	19,545
Accrued interest	44	-	-	44
Total Debt issued and other borrowed funds	814	167,398	166,899	335,111

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

23 Deferred income taxes

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 10% (2010: 10%). The movement on the deferred income tax account is as follows:

	2011	2010
Deferred tax liability at the beginning of year	3,332	2,669
Income statement charge (Note 8)	538	663
Deferred tax liability at end of year	**3,870**	**3,332**

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

	2011	2010
Deferred income tax liabilities		
Accelerated tax depreciation	3,928	3,488
Property revaluation	264	264
Gain on share exchange	416	416
	4,608	**4,168**
Deferred income tax assets		
Unused holidays	123	135
Provision for court claims	167	164
Provision for retirement obligations	264	222
Deferred tax assets on taxable loss	27	-
Other temporary differences	157	315
	738	**836**

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

	2011	2010
Depreciation	440	436
Gain on share exchange	-	416
Unused holidays	11	28
Provision for court claims and off balances	(3)	(116)
Deferred tax assets on taxable loss	(27)	-
Other temporary differences	159	(68)
Provision for retirement obligations	(42)	(33)
Net deferred tax charge	**538**	**663**

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 precisely 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	**2011**	**2010**
Opening balance at 1st of January	1,637	473
Charged to the income statement	174	1,420
Used during year	(142)	(256)
Closing balance	**1,669**	**1,637**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

24 Provisions for other liabilities and charges (continued)

(a) Assets pledged

Assets are pledged as collateral under repurchase agreement with other banks, as security for government budget accounts and under long term debt agreement signed with Bulgarian Development Bank. Mandatory reserves calculated as a percentage of the deposit base are held with the Central Bank in accordance with statutory requirements for securing liquidity.

	Asset		Related liability	
	2011	**2010**	**2011**	**2010**
Mandatory reserves with BNB	418,796	421,996	4,863,620	5,059,175
Trading and investment securities (pledged under repurchase agreement and government accounts)	97,446	222,766	44,721	191,914
Loans pledged under long term debt agreement	31,090	17,316	34,397	20,003
Total	**547,332**	**662,078**	**4,942,738**	**5,271,092**

The total financial assets that have been pledged as collateral for liabilities (including amounts reflected above) as of 31 December 2011 was BGN 547,332 thousand (2010: BGN 662,078 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 13,422 thousand (2010: BGN 49,312 thousand). The Bank has accepted bonds and shares at fair value 14,192 thousand (2010: 52,308 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

	2011	2010
Retirement benefit obligation at start of period	2,226	1,899
Service cost	337	307
Interest cost	131	126
Benefits paid	(156)	(93)
Actuarial (gain)	104	(13)
Retirement benefit obligation at end of period	**2,642**	**2,226**

Expenses recognised in profit or loss		
Service cost	337	307
Interest cost	131	126
Actuarial (gain)	104	(13)
Total expense included in staff costs	**572**	**420**

Actuarial assumptions	**2011**	**2010**
Discount rate	5%	6%
Future salary increase	3.0%	3.5%
Inflation rate	2.5%	2.5%

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

26 Other liabilities

	2011	2010
Accrued expenses	15,996	20,694
Other creditors	5,929	5,267
Unused paid leave accrual	1,232	1,347
Other	278	826
Total	**23,435**	**28,134**

27 Share capital

As of 31 December, 2011 the total authorized number of ordinary shares of Eurobank EFG Bulgaria AD was 452,752,652 (2010: 452,752,652) with a nominal value of BGN 1 per share. All issued shares are fully paid.

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:

	2011	2010
Cash in hand (Note 10)	93,666	99,606
Balances with Central bank excluding the minimum level of mandatory reserves	395,879	335,764
Loans and advances to banks (Note11)	848,003	983,662
Total amount of cash and cash equivalent	**1,337,548**	**1,419,032**

29 Related party transactions

Eurobank EFG Bulgaria is a subsidiary of EFG Eurobank Ergasias which is listed on the Athens Stock Exchange. EFG Eurobank Ergasias is a member of the worldwide EFG Group, which consists of credit institutions, financial services and financial holding companies. The operating parent company of the EFG Group is European Financial Group EFG (Luxembourg) S.A., whilst its ultimate parent company is Private Financial Holdings Limited (PFH), which is owned and controlled indirectly by members of the Latsis family. As at 31 December 2011, the EFG Group held 44.7% of the ordinary shares and voting rights of the Bank through wholly owned subsidiaries of the ultimate parent company, the remaining ordinary shares and voting rights being held by institutional and retail investors, none of which, to the knowledge of the Bank, holds 5% or more.

As at 31 December 2011 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)

Notes to the financial statements (continued)

29 Related party transactions (continued)

	31 December 2011			31 December 2010		
	Parent company	Other Group companies	Key management personnel	Parent company	Other Group companies	Key management personnel
Loans and advances to banks	809,064	22	-	789,050	8	-
Loans and advances to customers	-	12	1	-	-	113
Financial assets held for trading	-	-	-	-	11,445	-
Derivative financial instruments assets	11,175	2,138	-	12,682	3,637	-
Due to other banks	51,680	604	-	337,749	344	-
Due to Customers	-	764,635	10	-	684,974	162
Debt issued and other borrowed funds	97,978	25,072	-	104,853	30,595	-
Derivative financial instruments liabilities	17,171	-	-	65,123		-
Other liabilites	-	180	-	-	373	-
Interest income	57,867	4,080	5	46,511	3,779	3
Interest (expense)	(28,360)	(16,408)	(5)	(35,429)	(12,158)	-
Fee and commission income	356	898	-	15	1,164	-
Fee and commission (expense)	(1,733)	(5)	-	(2,352)	(3)	-
Net trading income	9,059	(245)	-	13,822	(269)	-
Salaries and other short-term benefits	-	-	1,504	-	-	1,526
(Loss)/gain from AFS securities	(3,823)	-	-	(7,156)	-	-
Valuation expenses related to NPL property	-	(307)	-	-	(229)	-
Letters of guarantee issued	3,912	11,199	-	4,498	2,642	-
Letters of guarantee received	1,714	-	-	2,084	-	-

All loans lent to related parties in 2011 (and 2010) are categorized as neither past due, nor impaired according to Group provision policy, thus no provisions have been booked in 2011 (and 2010) related to them.

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 the possibility of any significant loss is remote.

There is a litigation case between Road Infrastructure Agency and participants in Consortium DZI Trans (DZI Bank AD, DZI General Insurance and Insurance and Reinsurance Company DZI AD).The case is under review and is a part of the legal process in Bulgaria.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

30 Contingent liabilities and commitments (continued)

(b) Loan commitments, guarantee and other financial facilities

As at 31 December 2011, 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:

	2011	2010
Financial guarantees	72,207	89,742
Letters of credit	20,502	23,023
Loan commitments and other credit related liabilities	567,404	539,685
Total	**660,113**	**652,450**

31 Operating leases

(a) 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 under non-cancellable operating leases are as follows:

Future minimum lease payments	**2011**	**2010**
No later than one year	13,590	12,081
Later than one year and no later than five years	10,691	16,736
Later than five years	2,090	1,067
Total	**26,371**	**29,884**

(b) 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-cancellable operating leases as of 31 December 2011 is BGN 23 thousand (2010: BGN 28 thousand).

32 Events after the balance sheet date

There are no significant post balance sheet events with effect on the financial statements as of 31 December 2011.