ANNUAL REPORT 2008

Postbank

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1. The Year in Review

The Year in Review

Letter to the Shareholders

Dear Shareholders,

The year 2008 was an eventful year if not for us, certainly for the financial world. That having been said, this is also probably the understatement of the year as well. The financial crisis which is now finding its way into the real economy has shaped most of the news in the second half of 2008 and certainly will be the dominant factor for everything that happens in 2009.

One of the strongest advantages on our side is that the Bulgarian economy, especially compared to those of neighbouring countries, fared well in 2008. The state of the banking system is dependent on the state of the economy and the good news is that both are in good shape. The currency board and the strong fiscal stance have protected us from the worst of the crisis so far and have given us valuable time to prepare ourselves for what is coming. There was a slowdown of GDP growth in the last quarter of 2008 but nevertheless, with 6% real growth for the whole year, the Bulgarian economy was one of the fastest growing in Europe.

Preliminary data shows that in the first quarter of 2009 Bulgaria's GDP turned negative and most probably the country will enter into recession by the middle of the year. Nevertheless, indications are that the Government will try to make the necessary adjustments in order to balance the budget and will continue with the necessary reforms that should help offset the negative effect of the crisis to the extent that this is possible.

From a results point of view, Postbank had another record year in terms of financial performance. We realized early on that the crisis was coming to Bulgaria and started rethinking our objectives and priorities. Whereas we have not stopped extending credit, we certainly have become more cautious and risk-averse when reviewing loan applications to the benefit of both our clients and ourselves. Nevertheless, total loans grew by 35% to 3.78 billion BGN, while the quality of the portfolio remained very good. The bank maintained its position in terms of total lending, with both Retail and Wholesale banking launching a wide range of new innovative products and offering more value to our customers. Furthermore, we continued to develop our card business, offering cards branded with American Express, Visa and MasterCards logos. At the end of the year we had over 380,000 credit cards, besides nearly 400,000 debit cards, which are accepted in more than 9,500 merchant locations in Bulgaria alone.

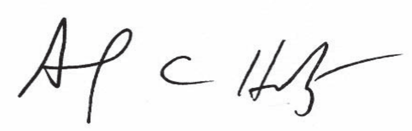
We also concentrated our efforts on deposits gathering with very positive results – deposits of clients grew by 15%, twice the average for the market, to 3.85 billion BGN which provided us with valuable funds to maintain our good liquidity position. Both wholesale and retail clients were offered attractive products and competitive rates that gave us an edge over our competitors. For our Mega Saving account we received the “Product of the year” award at the annual “Banks, Investments, Money” fair in Plovdiv in March 2009.

It should also be mentioned that from an operational point of view, we have been taking the appropriate actions across the board within the organization, and the results are encouraging. The organization is becoming more efficient in terms of operations and further progress is expected. Exercising strict control over expenses and certainly scrutinizing income, we managed to increase our profit for the year by 17% to 90.47 million BGN that will be fully retained in order to boost our capital adequacy.

As always, we work in close cooperation with our sister companies in Bulgaria and the Head Office in Greece. This enables us to provide a full range of products and services to our clients and to leverage our position to being a fully integrated financial services provider.

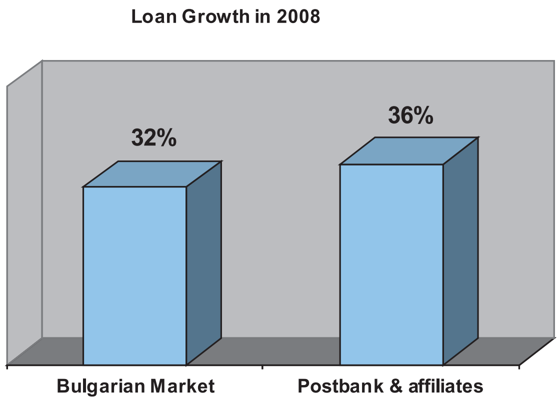
I would also like to personally thank our employees for their support and understanding throughout these challenging times. I expect they will show the same commitment and determination this year too, and with their help, we intend to remain one of the best banks in the market. Of course, we will continue to provide the appropriate training and incentives, to ensure they are able to do their job to the optimum and to provide the quality of service to which our customers are accustomed.

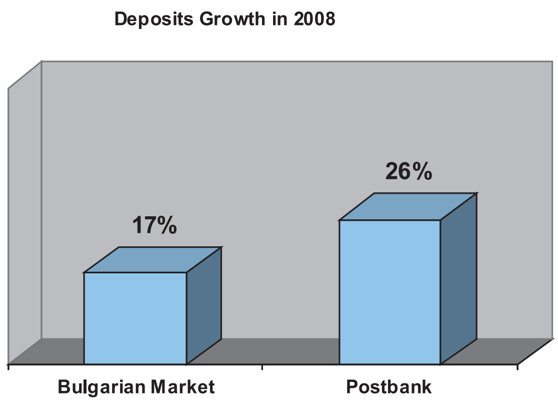
The year 2009 will be full of challenges and we are looking forward to overcoming them. We are all in the same boat and we intend to continue to work with our clients and partners, to help them overcome difficulties they may be facing, through a variety of actions (new extension of credit and products, restructurings, renegotiations, careful collections, etc.). We are indeed living history in the making and we intend to steer the bank carefully and responsibly through these admittedly turbulent times. So far we are managing well and I remain confident that our operations in Bulgaria will emerge from the crisis stronger and certainly more efficient than ever before.



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

Financial Highlights



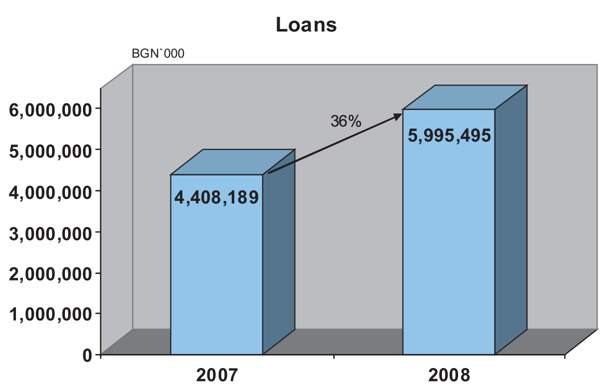


BGN`000	As at 31 December 2008	2007
Balance Sheet		
Loans and Advances to customers	5,995,495	4,408,189
Deposits	7,057,694	5,589,371
Shareholders` Equity	537,370	473,186
Total Assets	**7,744,443**	**6,143,483**
Profit and Loss Statement		
Net Interest Income	320,782	233,689
Net Fee and Commissions Income	75,476	52,592
Net trading Gains	-4,151	14,346
Other operating income	4,091	4,731
Total Operating Income	**396,198**	**305,357**
Total Operating Expense	**178,940**	**166,425**
Deposit Insurance Fund expense	-13,342	-12,714
Provisions for impairement	-68,955	-17,963
Profit Before Tax	**134,961**	**108,256**
Income tax	14,959	9,118
Profit After Tax	**120,002**	**99,138**
Key Financial Ratios		
ROA (after tax)	1.81%	1.86%
ROE (after tax)	23.75%	23.18%
Cost/Income Ratio *	45.16%	51.81%
Total Capital Adequacy Ratio	13.80%	12.93%
Rating by FITCH Ratings		
Long-term	A -	A -
Short-term	F2	F2

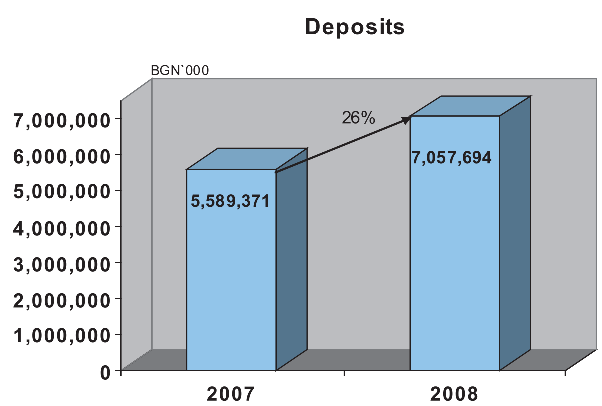
** Excl. one-off restructuring costs due to merger with DZI in 2007 figure*

FINANCIAL REVIEW

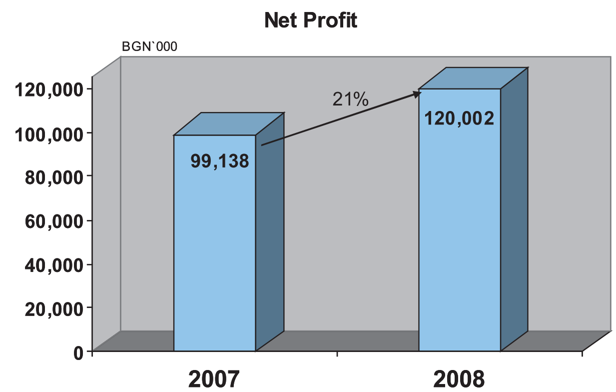
In 2008, Postbank achieved very strong results and healthy growth rates. The total assets of the bank and its affiliates grew by 26% on a year-on-year basis. Loans increased by 36% while deposits increased by 26%. Postbank's loans growth outperformed the market due to a well-defined package of products, competitive pricing, and service excellence.



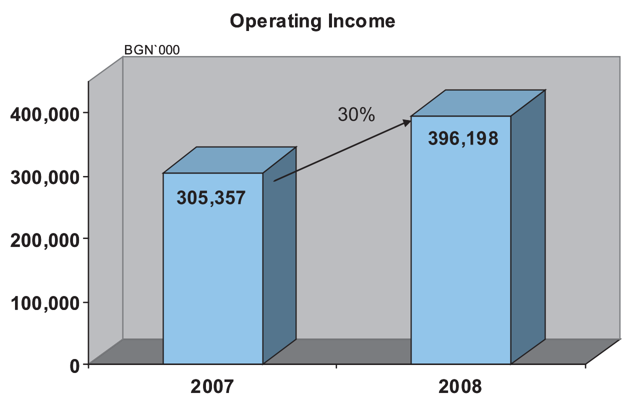
In 2008 Postbank concentrated its efforts on resource gathering by offering a wide variety of deposit products, standard or tailor-made for the specific needs of each customer.



In 2008 Postbank achieved 21% growth of net profits.

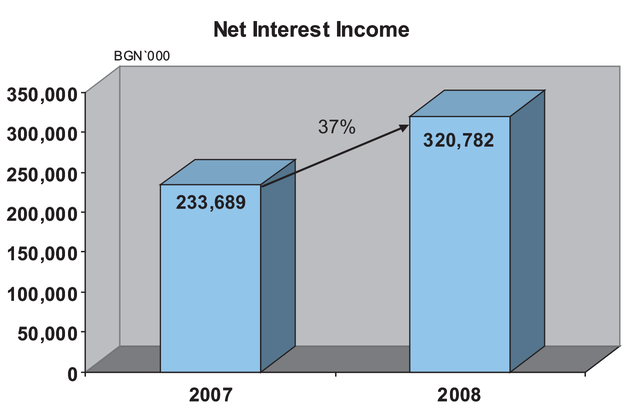


The biggest contributors to net profit increase were: the strong growth of net fee and commission income (the latter by 44%) and net interest income (by 37%) and a moderate increase in operating expenses (by 8%).

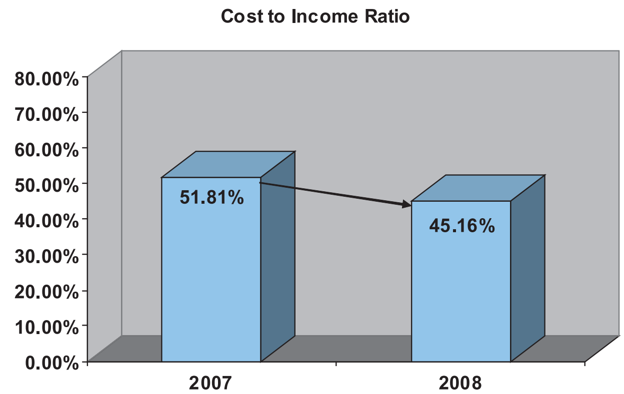


Following the remarkable increase of net interest income (37%) and net fee and commissions income (44%), operating income grew by 30%, reaching BGN 396m.

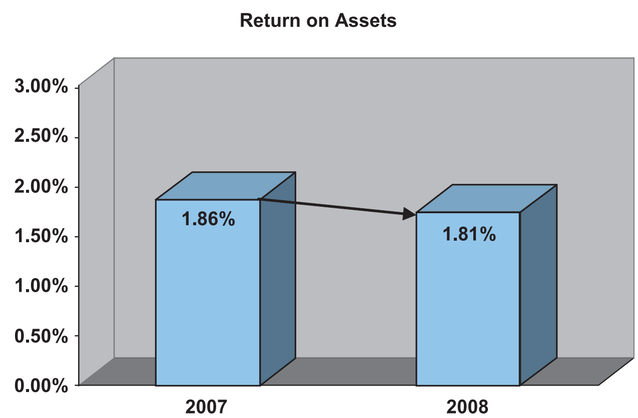
In an environment of a global financial crisis and increasing costs of funding, Postbank succeeded in managing the prices of all products, which resulted in an increase in net interest income by 37%.



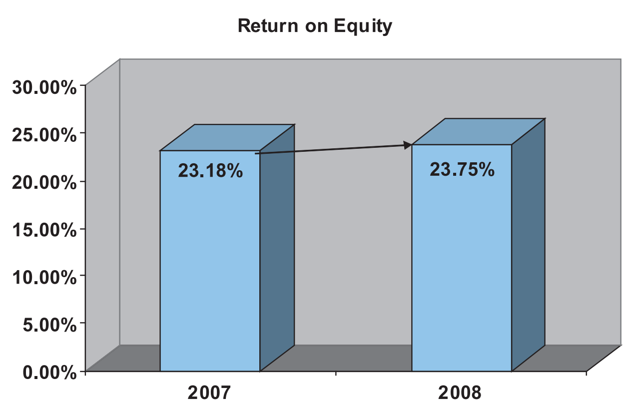
The positive effect of synergy from the merger with DZI Bank helped Postbank and its affiliates to keep operating expenses at a relatively low level and to improve significantly its cost-to-income Ratio.



Despite the deteriorating business environment and increasing cost of financing, Postbank kept the after-tax Return on Assets (ROA) close to the levels of 2007.



The after-tax Return on Equity (ROE) increased to 23.75% in 2008. This is well above the average ratio for the market, which decreased from 18.42% in 2007 to 17.49% in 2008.



During 2008, the overall process of optimization of the branch network after the merger of Postbank and the former DZI Bank reached its final stage. Eight new branches were opened, four of them in Sofia; fifty two locations were refurbished and renovated according to Eurobank's corporate image requirements. In 2008, Postbank outperformed the market by 3.2% and increased its market share in Individual deposits by 30 bp, reaching 11.3%.

Despite the economic slowdown and the unfavorable situation on global financial markets in the second half of 2008, the bank continued extending lending facilities in the form both of consumer loans and credit cards, and remained focused on the quality of the portfolio and excellence of service to its loyal customers. Consumer lending continued expanding in 2008, reaching almost 12% market share at the end of 2008. In 2008, Postbank confirmed its leading position as one of the biggest issuers and acquirers of credit cards on the Bulgarian market with more than 380 000 credit cards issued by the American Express Gold, American Express Green, Euroline American Express, and Visa brands.

Total group mortgage loan exposure exceeded EUR 800 million, growing by 50% on an annual base. The bank maintained its second position on the market with a 17% market share as a result of a further strong expansion of its customer base and pursuing of cross-selling opportunities and with a rising contribution from its network of external agents. Postbank continued to launch new innovative mortgage products on the domestic market designed to live up to clients' needs to the highest possible degree.

During 2008, the Small Business Banking (SBB) Division continued to pursue its main goal – to position the bank as the first-choice partner of small enterprises. New innovative loan and deposit products have helped the business development of our clients. In the second half of the year, the bank put an emphasis on supporting the business expansion of the small business segment in the context of a world-wide financial and economic crisis. Despite the complex international market conditions, the bank continued its support for small businesses, in cooperation with the European Bank for Reconstruction and Development (EBRD) and the Bulgarian Bank for Development.

The Corporate Banking Division of Postbank concluded 2008 successfully. It was a challenging year, of dynamic business development targets focused on lending and deposit growth. The Division successfully covered all performance areas by close monitoring of the market and of its customers' portfolios. The dynamic situation in the fourth quarter of 2008 showed the ability of the Division to change targets swiftly and to adapt to the new reality.

In 2008, EFG Leasing continued to build up a stable market presence and progressive development, providing the full range of leasing products for passenger and commercial vehicles, equipment and real estate to retail and corporate clients. Despite strong competition and new serious players that entered the market in 2008, EFG Leasing managed to maintain its position among the market leaders due to strong cooperation and support from Postbank and EFG Eurobank Ergasias Leasing and the efficiency and competence of its personnel. At the end of 2008, outstanding balances increased by 50% compared to 2007.

EFG Factors strengthened its presence on the Bulgarian market in 2008 via its local branch by launching new and innovative domestic factoring services to meet the specific needs of its clients, as well as growing demand on the domestic market. The branch provides a full range of factoring services to corporate clients based in the country. The branch achieved substantial growth of both domestic and international factoring turnover in 2008 and seized the largest share of international factoring deals in the country.

In 2008 EFG Properties Bulgaria continued its successful activities, providing real estate appraisal and agency services for Postbank and third parties. The company performed more than 16 000 valuations in 2008, covering the full range of assets.

EFG Securities Bulgaria is a licensed investment intermediary with two main lines of business: Investment Banking and Stock Exchange Brokerage & Trading. The team and its management have long-term experience on the Bulgarian and international financial markets. EFG Securities Bulgaria has built a strong track record in M&A and equity capital markets transactions. In 2008, the Brokerage and Trading Department ranked No. 6 among investment intermediaries on the Bulgarian market with a 5.3% market share.

2008 was a successful year for Postbank's Group Sales Department as it achieved 7.21 % market share, compared to 5.46% at the end of 2007. Through its efforts and attractive offers, Group Sales managed to increase the percent of cross sales in the business activities of the branch network, as well as to increase the client base of the Bank. During 2008 the Outsourcing section /OPM/ has continued to develop its product according to Bulgarian law.

Members of the Board of Directors

Mrs. Emilia Milanova,
Chairperson of the Board of Directors

Mr. Theodoros Karakasis,
Deputy Chairman of the Board of Directors

Mr. Anthony Hassiotis, Chief Executive Officer

Mr. Asen Yagodin, Executive Director

Mrs. Petia Dimitrova, Executive Director

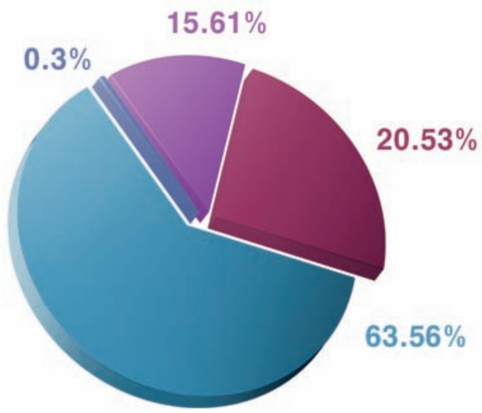
Mr. Georgios Katsaros

Mr. Evangelos Kavvalos

Mr. Andreas Chasapis

Mr. Piergiorgio Pradelli

Shareholders' Structure

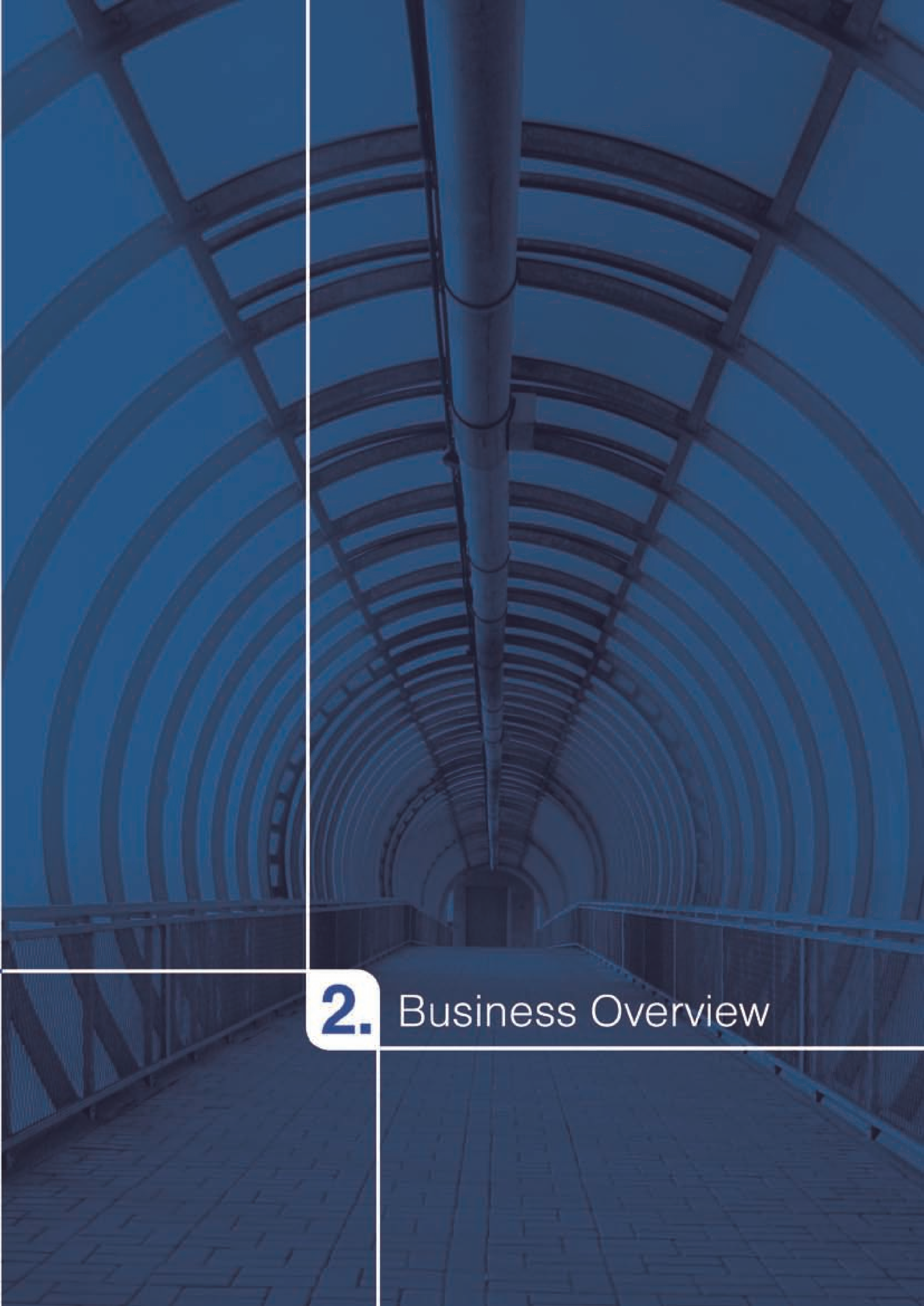


EFG Eurobank Ergasias S.A. – 63,56%

CEH Balkan Holdings Ltd. – 20,53%

EFG New Europe Holding B.V. – 15,61%

Other minority holders – 0,3%



2. Business Overview

Retail Banking

Branch Network

During 2008, the processes of branch network expansion, rationalization and renovation of existing branches continued. Eight new branches were opened, four of them in Sofia; fifty-two locations were refurbished and rebuilt according to Eurobank's corporate image requirements. The overall process of optimization after the merger of Postbank and the former DZI Bank, including the large project of refurbishment of former DZI Bank branches, reached its final stage.

Deposits

In an environment of very intense competition, increasing costs of funding and in an effort to meet changing customer demand throughout the year, the Bank managed to maintain a consistently competitive deposits product range, supported by strong ATL and internal commercial campaigns.

During 2008, Postbank outperformed the market by 3.2% and increased its market share in individual deposits by 30 bp reaching 11.3%.

The main drivers of this growth were saving accounts, with the successful launch of MEGA Saving Account early in 2008 and the Time Deposits in the last quarter of the year. The MEGA saving account responded directly to customers' needs for flexibility and high return and resulted in an increase of market share from 5.12% to 16.4%, whereas the launch of very attractive 3Month Time deposits in BGN and EUR led to market share gain from 11.7% to 20.3% for this product.

Consumer Lending and Card Business

Consumer Loans

Consumer lending, as one of the fastest growing businesses on the financial market, continued its expansion in 2008. Postbank's retail banking ended the year with almost 12% market share.

Despite the economic slowdown and unfavorable situation on the global financial markets in the second half of 2008, the bank continued extending lending facilities in the form of both consumer loans and credit cards and remained focused on the quality of its portfolio and excellence of service to its loyal customers.

Over the course of 2008, the Consumer Lending division launched three new products – a consumer loan in EUR currency with an interest rate lower than that of the standard consumer loan in local currency. The WISH loan was another new product for the bank. The loan has revolving features, featuring some of the basic credit card features. It gives customers the opportunity to utilize the available amount up to the assigned credit limit, pay minimum monthly installments and withdraw cash when needed. The MOMENTO loan is a credit offered at merchant locations. It enables financing of purchases through a convenient, fast and simple procedure, without any initial fees and is not linked to a credit card. It is repaid through annuity installments. The newly launched products contribute to the bank being able to maintain competitive leadership on the retail banking market.

Cooperation with third parties during 2008 was very successful for the bank. External agencies selling our products outside the branch network produced results 280% higher than those of 2007, which makes up 4.65% of the total amount of loans disbursed during the period.

Consumer lending offered several campaigns under loyalty programs during 2008. Cross selling opportunities were developed by different campaigns such as pre-approved Euroline cardholders for consumer loans, with a success rate of 20% among targeted customers.

Credit Cards

In 2008 Postbank confirmed its leading position as one of the biggest issuers and acquirers of credit cards in the Bulgarian market with more than 380,000 credit cards: American Express Gold, American Express Green, Euroline American Express, and Visa.

The Bank's main focus in the credit cards category in 2008 was on improving customer service and the card delivery process, which reduced the number of undelivered cards and improved customer satisfaction and preference.

Complete re-engineering of the route to the customer and the call center was implemented throughout the year. As a result, service level quality improved significantly

In addition, the bank considerably enlarged the universe of merchant partners, accepting the debit and credit cards issued by Postbank. The bank is proud to have more than 9500 Merchant locations accepting payments with our cards, which adds up to 57% of all merchant locations accepting payments with credit cards. Our POS terminals, Host and systems are EMV certified and we use three different types of POS communication, namely DIAL UP, GSM/GPRS and LAN.

As the partner of American Express for Bulgaria, Postbank invested effort and money in supporting the brand and providing various promotions, offers and benefits to American Express card members in the country. A completely new customer-driven philosophy guided the efforts of the team to bring to life the full cycle of customer engagement from the very first moment the card has been issued. The focal points in that lifecycle are the welcome package, including a complete set of educational information, early engagement offer (10% off the first purchase with the card) and gift. All of the above serves as evidence that American Express credit cards give outstanding benefits, quality of service and premium treatment to card holders.

The year 2008 saw the continuation of the conversion of Euroline credit cards to Euroline American Express. The main issuing channel – the merchant network, continued to bring a steady flow of new cards and customers to the bank, offering to them the combined benefits of convenient financing at point of purchase and the possession of international credit cards with the strongest brand – American Express.

Consumer Lending Telemarketing Unit

Telemarketing activities throughout 2008 were focused mainly on sales of American Express Green credit cards to pre-approved bank customers with consumer loans. The channel succeeded in attaining the full year target even though it started the sales campaign in April 2008. A total of 42% of all new production of American Express Green credit cards for 2008 were issued by Telemarketing. Several telemarketing follow-up campaigns to marketing initiatives were also performed simultaneously with the pre-approved sales, achieving sufficient success rate.

Mortgage Lending

During 2008, Postbank continued its remarkable performance in a very dynamic and competitive environment, focusing on expansion. Total group mortgage loans exposure exceeded EUR 800 million, growing by 50% on an annual basis.

The bank maintained its second position on the market with 17% market share, a result of further strong expansion of its customer base and by pursuing cross-selling opportunities, and through an increasing contribution by the network of external third parties.

Postbank continued to launch new innovative mortgage products on the domestic market designed to meet customer needs to the highest extent. The bank achieved impressive results in cross-selling activities, making the best use of both existing and external customer bases.

During the fourth quarter of the year, the bank changed its antecedence, responding to the new challenges of the environment, and directed its efforts to the preservation of the good quality of its portfolio and focusing on maintaining the satisfaction of its existing loyal customers.

Small Business Banking

Postbank's SBB Team strives to support the development of SB customers by offering excellent customer service and a wide range of banking products.

During 2008 the Small Business Banking (SBB) Division continued to pursue its main goal – to situate the bank as the first-choice partner of the small enterprises.

The bank services more than 70 000 small companies, and in 2008 alone disbursed more than 7 000 new loans, with SBB portfolio growth of more than 60%. New innovative loan and deposit products helped customers in their business development. At the same time, the bank increased the speed and effectiveness of the whole lending process.

As always, the focus has also been put on constant training of staff in order to create an enjoyable and efficient working atmosphere and by so doing, to stimulate highly competent service for customers.

In the second half of the year, the bank placed a strong emphasis on support for business development of the small business segment in the context of the world-wide financial and economic crisis. Despite the complex international market conditions, the bank has continued its support to small businesses in cooperation with the European Bank for Reconstruction and Development (EBRD) and Bulgarian Bank for Development.

Additionally, new deposit products and services were launched, designed to optimize the monthly costs of customers and to maintain a higher standard of quality of banking services. Various restructuring schemes were developed with the aim of helping customers who were undergoing temporary liquidity problems or difficulties in their business.

In 2009 the bank will continue its policy of developing long-term relationships and partnerships with the Small Business segment in the country.

Wholesale Banking

Wholesale Banking

Corporate Banking

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

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

This is achieved via several channels of distribution: Large Corporate Department, a unique network of Business Centers, Trade Finance Department and specialized Greek Desk. The Division works in close collaboration with the other units of the bank and EFG affiliates in the country and abroad, including the Treasury Division of the bank, EFG Leasing, EFG Factors; EFG Securities, EFG Business Services Sofia, the affiliates of Eurobank EFG Group in Europe etc. There is also collaboration with EXIM Bank, USAID, SAPARD and EBRD.

Corporate Banking of Postbank successfully closed year 2008. It was a challenging year with dynamic business development targets focused on lending and deposit growth. The Division successfully covered all performance areas by closely monitoring the market and its customers' portfolio. Moreover, CBD managed to enlarge its client base, sustain and increase the profitability from corporate customers providing flexible and carefully designed banking services. A significant number of new relations were established with public entities, health care institutions and utility companies. The dynamic situation in the fourth quarter of 2008 showed the ability of the Division to change targets swiftly and to adapt to the new reality.

The priorities of Corporate Banking Division for 2009 will be to closely continue monitoring of customers' performance, to increase further the client base, deposits portfolio and revenues. This shall be achieved through maintaining our pro-active and dedicated cross-selling approach to corporate customers, intensive personnel training and improving the efficiency of our structure by the setting up of a Transactional Banking Unit to develop new products, coordinate and improve further servicing of Postbank's corporates. Effective relationship management shall be emphasized aiming to stream additional business through the bank.

Capital Markets

Operating in conditions of international financial markets turmoil during the whole 2008 year, achieving the targets set in late 2007 was a real challenge for Capital Markets Division.

The focus in 2008 was on three main directions:

- Attracting funds in order to assure liquidity;

- Strengthening the bank's positions as prime provider of treasury products and services to business;
- Restructuring of bonds and equities portfolios.

New businesses were established in order to improve the commission-related income.

The actual financials exceeded the target numbers and the results from previous years – EUR 17.6 M net income compared to EUR 15.5 M 2008 budget and EUR 11.8 M 2007 result. The main contributors to this satisfying result were revenues from Money Market operations and Treasury Sales.

Bond Desk

Bonds portfolio was increased in Dec`08 to EUR 220 M (EUR 183 M in Dec`07). Trading portfolio was decreased by EUR 17 M to EUR 10 M by sales of BGN denominated securities. Available-For-Sale portfolio was increased by EUR 54 M to EUR 116 M mainly by additions of Bulgarian Eurobonds, fully hedged on assets swap base.

Equities Desk

After a year of massive equity sell-offs, between 75 and 80% of the values of stock exchange indices was erased on a global basis.

Postbank's proprietary equities portfolio, consisting only of local names, sustained the significant market drop. The appropriate bank policy regarding equities limit, which is tied to SOFIX movements since Oct 2007, prevented more harmful losses from this activity.

Simultaneously with the active management of proprietary portfolio, Equities Desk developed two additional businesses – reverse repo deals with clients and market-maker services. On the repo market the bank was in third place by volume in Dec`08, while regarding market-making it was the only institution with active contract and the pioneer among banks in Bulgaria.

Treasury Sales

Sales of treasury products and services are targeted to three separate client groups – Corporate Clients, Institutional Clients, and Retail Clients. The main source for profit generating in 2008 were FX fees. Institutional clients deposit gathering was a major liquidity support for the bank.

Assets and Liabilities Management

Liquidity was the main objective for the Treasury Department in 2008. An aggressive funding strategy was followed with the aim to tighten the gap between lending and deposits.

In the middle of the year, Postbank organized a EUR 150 M syndicated loan facility with international banks. This is the largest external funding deal for the bank and confirms its strong reputation on the debt markets. In addition, BGN 46.6 M bonds under the group's EFG Hellas EMTN program were successfully marketed.

Active assets and liabilities management was applied to cover the bank's exposures to interest rate and FX risks.

New Businesses

The sales-oriented Custody Department was structured in the beginning of 2007 and its clients` base has grown to 143 in Dec`08 with EUR 230 M assets under custody.

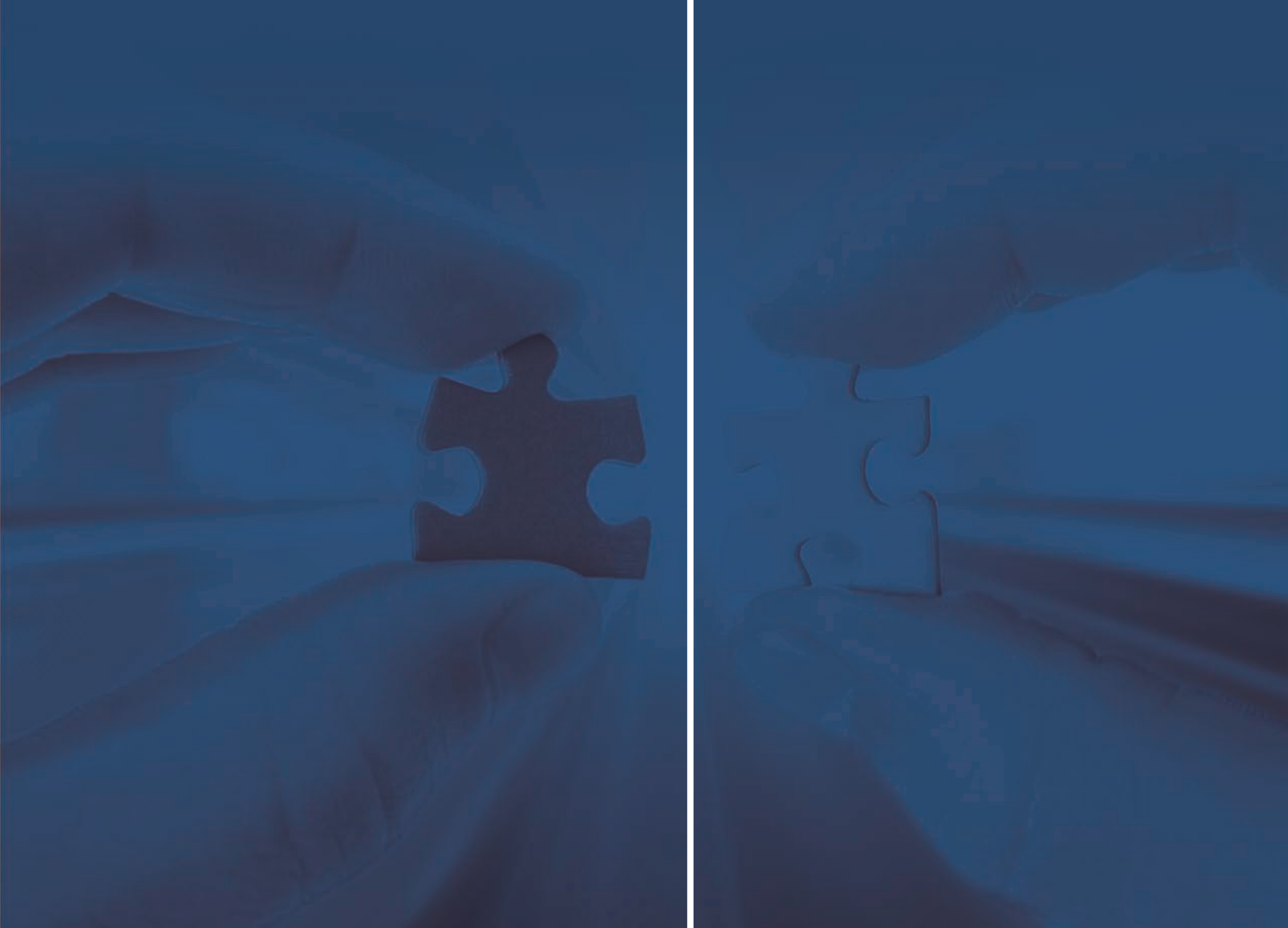
Postbank was rated by international magazine *Global Custodian* as the best custodian bank for local institutional clients. The award is based on surveys among local institutional clients.

The EU Structural Funds Department was established in 2007 to facilitate financing of EU structural funds projects. In 2008 the bank started to finance local SME projects by back-to-back EU funding. Further to that, a new EBRD credit line (of up to EUR 25M) was organized for SME financing.

In the beginning of 2008, Postbank entered the local mutual funds market introducing five investment schemes managed internationally by EFG Mutual Fund Management Company.

The Insurance Section was established in Capital Markets in Oct`08 to optimize the administration of insurance business related to various bank products. The objective is to offer a wide range of insurance products in order to add extra value and protection for the bank's clients and for EFG Group.

Subsidiaries



Subsidiaries

EFG Leasing

In 2008, EFG Leasing/EFG Auto Leasing continued to build up stable market presence and progressive development. Both companies provide the full range of leasing products for passenger and commercial vehicles, equipment and real estate to retail and corporate clients. Commercial and passenger vehicles have the largest share in the lease portfolio with 54%, followed by industrial equipment 27% and real estateestates– 19 %. Despite the strong competition and new serious players that entered the market in 2008, EFG Leasing managed to maintain its position among the market leaders due to the strong cooperation and support from Postbank and EFG Eurobank Ergasias Leasing and the efficiency and competency of the personnel.

In the end of 2008, outstanding balances increased by 50% compared to 2007.

In 2008, another new branch of EFG Auto Leasing started operation in the country. Thus the existing 7 branches cover all major business areas of the country and made EFG Leasing services available to new respective vendors and partners.

This, along with the introduction of stock financing, has contributed to the rapid expansion of vendor sales throughout the country.

Following the unfavorable economic situation, in 2009 EFG Leasing will focus primarily on preserving the quality of its portfolio by targeting primarily its key partners – vehicles dealers and corporate clients.

EFG Factors Branch Bulgaria

EFG Factors SA - the factoring company of Eurobank EFG Group – offers a full range of factoring services – recourse and non-recourse domestic and international factoring, collection services, reverse factoring, back-to-back factoring, invoice discounting, forfeiting to corporate clients. EFG Factors SA is member of Factors Chain International (FCI) – an association of more than 200 leading factoring companies from more than 60 countries - and in 2008 was ranked among the Top 3 Best Factors in Europe and Top 4 in the world for product know-how, business communication, quality of services and overall performance.

In 2008 EFG Factors strengthened its presence on the Bulgarian market via its local branch by launching new and innovative domestic factoring services to meet the specific needs of its clients, as well as growing demand on the domestic market. The branch provides full range of factoring services to corporate clients based in the country.

Building on its position in the market, the branch achieved substantial growth of both domestic and international factoring turnover in 2008. As the first active Bulgarian member of FCI, EFG Factors implemented the largest share of international factoring deals in the country. Working in close collaboration with the Corporate Banking Department of Postbank and other subsidiaries of Eurobank EFG Group in the country, the branch is determined to continue supporting corporate clients based in Bulgaria by offering high quality and innovative factoring services.

Factoring services are considered to have great potential as a source of short-term financing and risk mitigation in the current environment of high inter-firms indebtedness in Bulgaria. As part of the Eurobank EFG Group, the branch plans to take full advantage of the growing factoring market as the services provided are expected to become more popular financial products in the country.

EFG Property Services Sofia

The company continued its successful activities, providing real estate appraisal and agency services.

The Valuation Department of the company established its own network of appraisers including more than 60 partners throughout the country, offering reliable and timely services, and providing for the needs of Postbank. The company performed more than 16 000 valuations in 2008, covering the full range of assets.

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

Main services of EFG Property Services Sofia:

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

EFG Securities Bulgaria

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

The Investment Banking Department offers three main types of services:

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

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

- M&A / Consulting: Several transactions completed or in the process of completion in 2008. Advisor to a Bulgarian insurance group for the sale to a private equity fund of a significant minority stake, a financial restructuring advisory, a sell-side M&A mandate, and a company valuation;

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

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

In 2008, the Brokerage and Trading Department ranked No. 6 among investment intermediaries on the Bulgarian market by turnover a 5.3% market share.

Group Sales

At the end of 2008, the Group Sales Department achieved traditionally good results from its activity, despite the difficult period which Bulgaria and the rest of the world faced during the last three months. The wide variety of products, in fact the whole range of retail products by the bank offered by Group Sales, is the reason why Postbank's preferential package continues to sell successfully.

These achievements are evident from the results: 7.21% of market share, compared to 5.46% at the end of 2007.

The Group Sales Department, through its activity and attractive offers, has managed to increase the percentage of cross sales in the business activity of the branch network. It should also be emphasized that the achievements of the Group Sales Department have manage to increase the client base of the bank.

The possibility for cross sales enables the great flexibility of Premia Program. This is why, bearing in mind the new conditions, the preferential package is being offered now as a combination of convenience and VIP services for customers of the bank.

To achieve great sales of products, it is also necessary to organize training for employees who will be offering the products. The training of new branch managers was a priority in the activity of GS during the last year.

Despite the specific economic conditions in Bulgaria in 2009, the Group Sales Department set ambitious goals. Our main objective is to increase the client base and to attract new financial resources to clients' accounts, and to increase the taxes and commissions as a result of cross sales.

During 2008, the Outsourcing section (OPM) continued to develop its product in accordance with Bulgarian law. A parallel run for several companies was started for testing.

3. Information Technologies

Information Technologies

In 2008 IT efforts went ahead in several main directions:

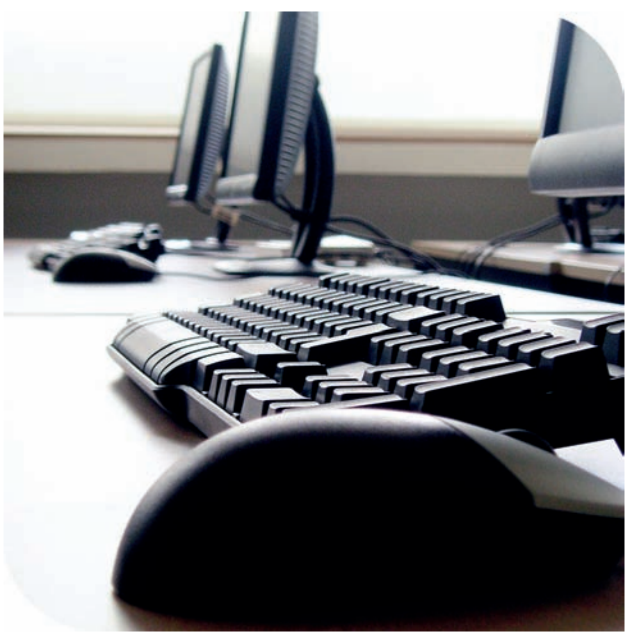
- **Group Initiatives**
- **Strategic and Mandatory Projects for the bank**
- **Business initiatives related to improvement of bank services**
- **Audit Findings projects**

The new measures and improvements were focused on different areas to satisfy increased business requirements as well as Bulgarian National Bank initiatives connected with international standards implementation and Basel II.

In accordance with the IT Master plan, 78 projects were completed; additionally 11 projects were carried out as a result of audit Findings and implemented.

Twenty-three Master Plan initiatives (short term projects) were completed.

Group initiatives



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

- **BASEL II – IRB Models** – Historical extractions. The project is a stage of Basel II Internal Ratings Models implementation for capital accord calculation. The information about the retail portfolio from different business applications – the core banking system VCSoftBnak. Loan workflow system I- Apply, Credit cards processing system Prime and Collection system Quaclo - is extracted . Basel II Data for all bank customers and their exposures loaded to e ProbeSM Modelling System where the model of portfolio is built.

- **Basel II - Default events project** covers the implementation of new criteria for customer default in accordance to the EFG Group Requirements. Another approach for buckets calculation is also applied (buckets after materiality). Default events are implemented in the core application and Credit Cards business application system. The interface between them is changed as well.

- **Basel II – Restructuring** is an implementation of the new requirements about loans restructuring, replacement and re-negotiation so the necessary data for Basel II to be provided.

- **Basel II MRA Implementation project** implements Moody's internal rating system for corporate customers, having yearly turnover of more than 500 000 Euros. The objective of the project is to facilitate the Credit control department in approving MRA eligible customers for borrowers. The system allows an internal rating to be assigned to the corporate customers based on the financial data provided from an external data provider. The internal ratings will be used when the capital adequacy is calculated in the Internal Rating Based Implementation of Basel II.

Strategic Initiatives

Strategic Initiatives for the bank were several projects connected with EFG Provisioning and BNB Regulations, Call center establishment, Fraud prevention and other important initiatives:

- **New BNB Regulation 9 Implementation**

- **New Changes in Regulation 22 of the National Bank**

- **Reg. 8 Implementation** – a next stage of Basel II Standardized approach implementation by the

National Regulator was implemented. The existing functionality was tested and further extended to cover the financial collaterals, letters of credit and the implemented provisioning

- **Set of EFG Provisioning projects provided**

✓ Extension of the existing EFG Provisioning Module to apply the provisioning policy, related to SBB loans;

✓ Letters of credit;

✓ Fraud cases in retail banking;

✓ Calculation of risk value and balance value by applicable accounting standards, specific provision in accordance with Regulation № 9 of BNB. Elaboration of the algorithm for calculating the depreciation / MCC39 provisions/ regarding corporate loans with adjudged credit rate from 8 to 11.

- **Automation of Fees and commissions** – implementation is based on the event-driven approach - Multiple actions could be assigned to one event. This mechanism is currently used for fees but it could be further developed in order to meet the increased business needs. As a part of this project some important new functionalities were implemented:

✓ Automation of recurrent fees, fee collection for account opening, closing, financial transaction - parameterization based on product, client type (legal entities, individuals, employees), payment system (BISERA, RINGS), originating system (E-banking, Core banking), fund transfer type – intra bank, incoming, outgoing, between accounts of the customer;

✓ Mechanism for accounting of the overdue fees for loans;

✓ Enhancement of the existing mechanism for immediate collection of overdue amounts;

✓ New mechanism and special screen for reversal of the collected fees.

- **Call Center is two stage project including**

✓ IT Call Center Establishment (Production environment installation etc.);

✓ Database integration with relevant bank systems;

✓ Providing of a complete functionality including client pre-identification's IVR – system which gives the possibility to the customer to select different services from the menu, information about balances on the client's accounts in the bank. Possibility for transactions – "phone banking"; speech recognition, etc.

- **Unification of desktop environment** – the target is unify the desktop environment within Postbank and EFG Group subsidiaries, which are part of the common internal network. It is also required as part of project for Rebranding (currently on hold).

✓ Within last 5 years, and especially with the merger with DZI Bank and transfer of Consumer Lending division of BRS to the Bank, different directory and desktop base images were introduced and currently exist. It was decided to unify directory and desktop environment to simplify management, application deployment and problem troubleshooting.

✓ Project was initially separated in three phases:

  o migration/unification to a common desktop infrastructure of former DZI Bank and BRS employees;

  o migration/unification to a common desktop infrastructure of former Postbank employees;

  o migration/unification to a common desktop infrastructure of employees of other EFG Group subsidiaries in Bulgaria.

✓ Within 2008 first phase was successfully completed. As project for rebranding was postponed, second phase will be pushed for later and phase two will be executed before.

- **Implementation of Microsoft Exchange Server front-end layer** – Implementation of front-end e-mail filtering layer based on Microsoft Exchange and TrendMicro Antivirus software enabled us to better control malicious code, entering the organization, introduced anti-spam capabilities and improved e-mail message routing, reducing e-mail delays and congestions.

Other Important Initiatives

A lot of implementations in 2008 were done to satisfy business requests connected with extension of the

business activities and improvement of effectiveness of the customers servicing.

- **SMS Messaging project** covers credit cards SMS messaging, debit cards transactions amounts notification, transactions posted to the current account amounts notifications. The project helps the bank's activities for fraud prevention and notification. It will include the sending of SMS message though an SMS Gateway to the customers whenever a debit transaction to their debit cards, credit cards and other accounts are posted.

- **Datawarehouse redesign is an on going project that will last in 2009 as well.** The main activities were forwarded to:

  ✓ Aggregation tables creation for Branch Network reporting performance optimization;

  ✓ Re-design of the warehouse structures for assets and liabilities;

  ✓ Creation and extension of the exiting Business Objects universes for Management reporting purposes and Finance Division reporting;

  ✓ Loading of new data from the core banking application for loans reporting;

  ✓ This project needs permanent re-modeling and will continue in 2009.

- **Document workflow system (administrative workflow).** The units will be gradually attached to the system and included in the workflow. Scanning, registering and storing documents electronically is performed which make them available for future reference and to users without having all of the physical copies circulate around the bank.

Business units initiated a lot of projects extending the I- Apply business application functionality and the information transferred from the other banking applications to I- Apply

- **Baskets of I- Apply.** The application functionality is extended in work load assignment and application monitoring. Currently each user in his in-basket, see only the applications that are automatically or manually assigned to him and are in the appropriate queue. The supervisors should have an extra in-basket where there will be all the applications that exist in the in-basket of the users they are responsible for.

- **Apply - EDAM (Event Driven Alert Mechanism)** - EDAM /Event Driven Alert Mechanism/ is Based on preset benchmark for certain I-Apply statuses. A list of applications, exceeding these benchmarks will be presented to the relevant responsible roles (ex. credit manager).

- **Apply - total credit positioning** - the total credit positioning (total credit exposure) of the customer and related parties, guarantor etc. will be visualized together, in one screen.

- **Transferring of whole production from Prime to I-Apply provides a lot of new possibilities .**

  ✓ Enhancement of Prime information - several new fields in i-Apply updated with data from Prime;

  ✓ More information extracted from the Core banking system - extension of the interface with CBS - Loan deals, status, balance, overdues, exposures;

  ✓ Transfer of credit card applications in the bridge file before the cards are granted in CSoft; complementary cards;

  ✓ Credit Limit Increase/Decrease - new type of application in i-Apply; extraction of new file with approved applications from i-Apply to be imported in Prime.

- **New quality control role and automations** - Automation of quality control unit workflow In I-apply; creation of the new role for the needs of Quality Control activities only.

4. Risk Management

Risk Management

Risk Division

Postbank responded to the new adverse conditions with a number of initiatives that aim to strengthen the balance sheet of the bank and enhance the relationships with its clients. Special priority was given to the quality of the loan portfolio and to the creation of preemptive provisions to protect against potential future risks, the more efficient utilization of shareholders funds and liquidity management.

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

Credit Risk

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

To manage and control credit risk, there are different structures and bodies with specific responsibilities:

- Risk Committee – for strategic decisions and country risk management;
- Country Credit Committee and Regional Credit Committee – for Credit Approval Process decisions;
- Credit Committee – for provisioning management and deteriorated loans management decisions
- Loans and Product Committee - for approval of products' risk parameters.

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

Market Risk

The Market Risk Department deals with the measurement, monitoring and management of the bank's exposure to market risk, aiming to keep within acceptable levels any potential financial losses from adverse changes in market variables such as interest or foreign exchange rates and equity prices. The bank's Market Risk Policy applies to the control of market risk related to all the bank's assets, liabilities and off-balance sheet positions; it therefore covers Treasury and non-Treasury activities that are subject to market risk. In 2008, the process of monitoring, measuring, analyzing, reporting and managing the bank's exposure to market risks was further improved by the introduction of daily independent monitoring and control by the Market Risk Department on all deals concluded by Treasury Division. The bank does not take material open positions in foreign currencies other than the Euro, which keeps exposure to currency risk at low levels. The bank's exposure to interest rate risk also remained relatively low, mainly due to the floating rate nature of most of its assets and liabilities and the short re-pricing periods. The interest rate risk of a significant part of the bond portfolio is hedged through asset swaps. The bank's proprietary equity portfolio consists entirely of equities listed on the Bulgarian Stock Exchange. Equity price risk monitoring and management is performed on a daily basis, further supported by daily portfolio VaR calculations. Counterparty risk monitoring and management is also performed on a daily basis and was enhanced in 2008 by increasing the scope of transactions that are subject to control and reporting, together with the introduction of daily PFE limit monitoring for corporate customer exposures.

Liquidity Risk

Liquidity risk is the risk that the bank would not be able to fund assets to meet obligations at a reasonable cost or at all; for financial assets the risk is that an instrument cannot be sold or otherwise exchanged for its full market value. The ultimate responsibility for liquidity management within the bank lies with the Assets and Liabilities Committee (ALCO). In 2008, despite the unfavorable market developments, the bank's liquidity remained good and stable. The main liquidity ratios – cash mismatch up to 8 days and cash mismatch up to 1 month, calculated and monitored on a weekly basis, remained within the targets set by the ALCO. The Liquid Assets Ratio as per BNB Ordinance No 11 was at 24% at the end of the year.

Operational Risk

During 2008, further steps were taken by the Bank in order to support more effective management of Operational Risk, i.e. the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, incl. legal risk. The bank continues to develop and implement techniques to reduce operational risk and to limit losses. No operational losses that could expose the bank to risk significant for its size were registered in 2008.

Basel II Project

Basel II project activities, as part of the Group programme for Basel II standards implementation, included central as well as local implementation of instruments to ensure efficient preparation for the Basel II requirements, Group-wide consistent

Basel II implementation and uniform application of risk management.

The aim is Basel II Advanced Internal Ratings Based Approach for Credit Risk to be gradually adopted within the Group and respectively in Postbank. Basel II is viewed not only as fulfilment of regulatory requirements and reporting but also as an opportunity to improve risk management methods and instruments.

Compliance

In 2008, the Compliance Department continued to provide support and assistance to the Bank's management in the process of corporate governance with the purpose to appropriately manage the compliance risk and to protect the interests of shareholders, customers, business partners and employees.

Anti-Money Laundering

The main purpose of Compliance Department continued to be the protection and prevention of using Postbank for money laundering or terrorism financing. The usage of implemented software helped a lot to identify suspicious transactions and to defend the bank from carrying out payments to or from countries or institutions under embargo.

Code of Conduct and Professional Ethics

Staff compliance with the requirements of the Code of conduct and professional ethics was monitored and controlled. Higher standards of behaviour were established and the principles of honesty, loyalty and conscientiousness became the guiding principles and main basis of work.

Regulatory Relations

The Compliance Department continued responding on time to various public authorities' requests.

Internal Controls and Audit

Postbank operates a robust system of internal controls, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Achievement of strategic goals through effective and efficient operations;
- Safeguarding of the bank's assets;
- Reliability of financial reporting;
- Compliance with applicable laws and regulations.

The primary role of the bank's Internal Audit function is to assist the Board of Directors and the Audit Committee through:

- Evaluating the adequacy and effectiveness of the internal control systems established within the bank, and recommending measures to improve them in compliance with the leading international practices;
- Providing assurance to senior management and shareholders for the adequate and effective functioning of the systems of internal controls, risk management and governance processes;
- Through the continuous support of the bank's Audit Committee and the Senior Management, the Internal Audit function strives to apply the best international practices and standards.

5. Human Resources

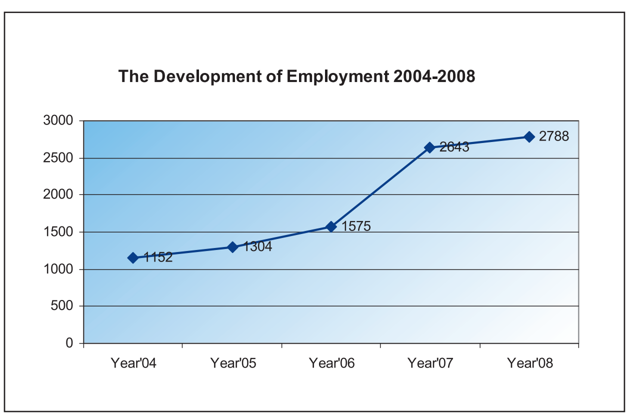
Human Resources

The constant striving for excellence by the Human Resources Division made it integral to the achievement of the company's goals in 2008. In order to contribute to the bank's business development, HR stayed committed to creating and sustaining an open environment of skills improvement and rewarding performance. The outstanding results of the company in 2008 were mainly due to the highly-motivated and devoted workforce. That is why the HR Division fosters initiative and change, providing proper training and equal career advancement opportunities.

New Hires

At the end of 2008, the total number of bank's employees was 2788 and the total headcount of local subsidiaries was 154. We have seen the merger between the Bank and the biggest subsidiary company Bulgarian Retail Services (BRS) since May 2008. As of 2 January 2008 a new company in the family, EFG Securities Bulgaria, started its operations independently, functioning as an investment intermediary.

The recruitment process in Postbank has always been based on principles of high value, such as accuracy, transparency and objectivity in selection. 2008 was no exception in following high standards in recruitment, when there were 809 newcomers numbered at the end of the year. After the merger with DZI Bank, Postbank created one of the best-developed branch networks, with presence in almost every Bulgarian municipality. Even so, in 2008 we extended our network with 8 newly opened branches.



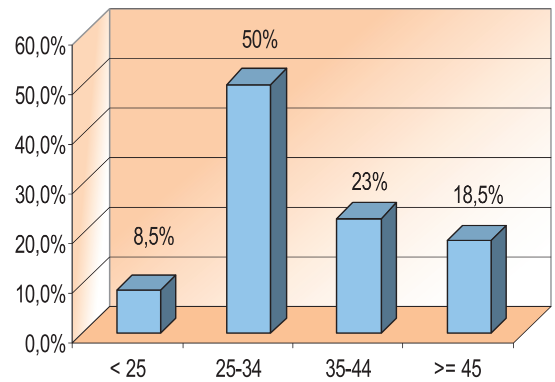
Total number of employees in 2008:

Head Office: 954

Corporate Network: 75

Branch Network: 1759

Postbank continued its successful tradition in organizing internship programs, as 2008 was the year with the most numerous participating students since the first internship at the bank. More than 120 people passed through several programs during the past year, about 50% of whom were hired.



Age Structure 2008

The main purpose of the bank in recruiting new people is to find young-hearted, vigorous and sales-skilled persons, capable of seizing the opportunities on the market with a distinctive service-oriented approach.

Training

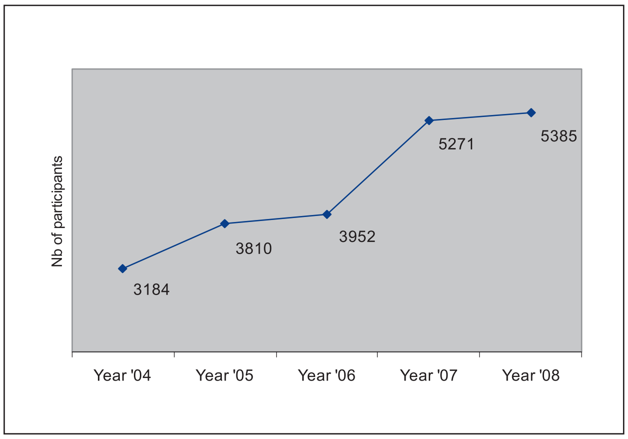
In 2008 the main training initiatives were dedicated to setting up and carrying out a number of training sessions focused on improving customer service and sales skills, knowledge of new products and IT systems, as well as expanding and enriching the scope of the induction program for newly recruited personnel.

A group of Corporate Banking Officers successfully completed a certification program on Corporate Banking which aimed to create rich knowledge, excellent customer service attitude and strategic understanding of the latest business trends. During the year Corporate Banking staff also received on-the-job coaching in business skills in order to improve their sales, presentation and communication abilities.

In order to ensure better quality consultative service in terms of deposits throughout the branch network, the team of Deposit Sales Supervisors passed through a specially designed program on product and sales coaching.

In response to identified training needs, many new internal training programs were developed and carried out. In order to sustain and improve the customer service level a training program on outbound telephone skills was created and carried out. Newly designed programs on business processes, systems and procedures were provided to bank employees who were promoted or transferred within the organization.

In 2008 the number of participants enrolled in long-term qualification programs such as ACCA, CFA, CIA, CISA, CIM, as well as master's degrees increased.



In 2008 the number of participants in both internal and external training programs went up to 5385 and thus we strived to create the appropriate learning opportunities for all employees and stimulate their individual skills to apply knowledge efficiently and provide our customers with the highest quality and consultative service.

6. Our Values

Mission And Values

Our mission

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

Our vision

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

Our core values

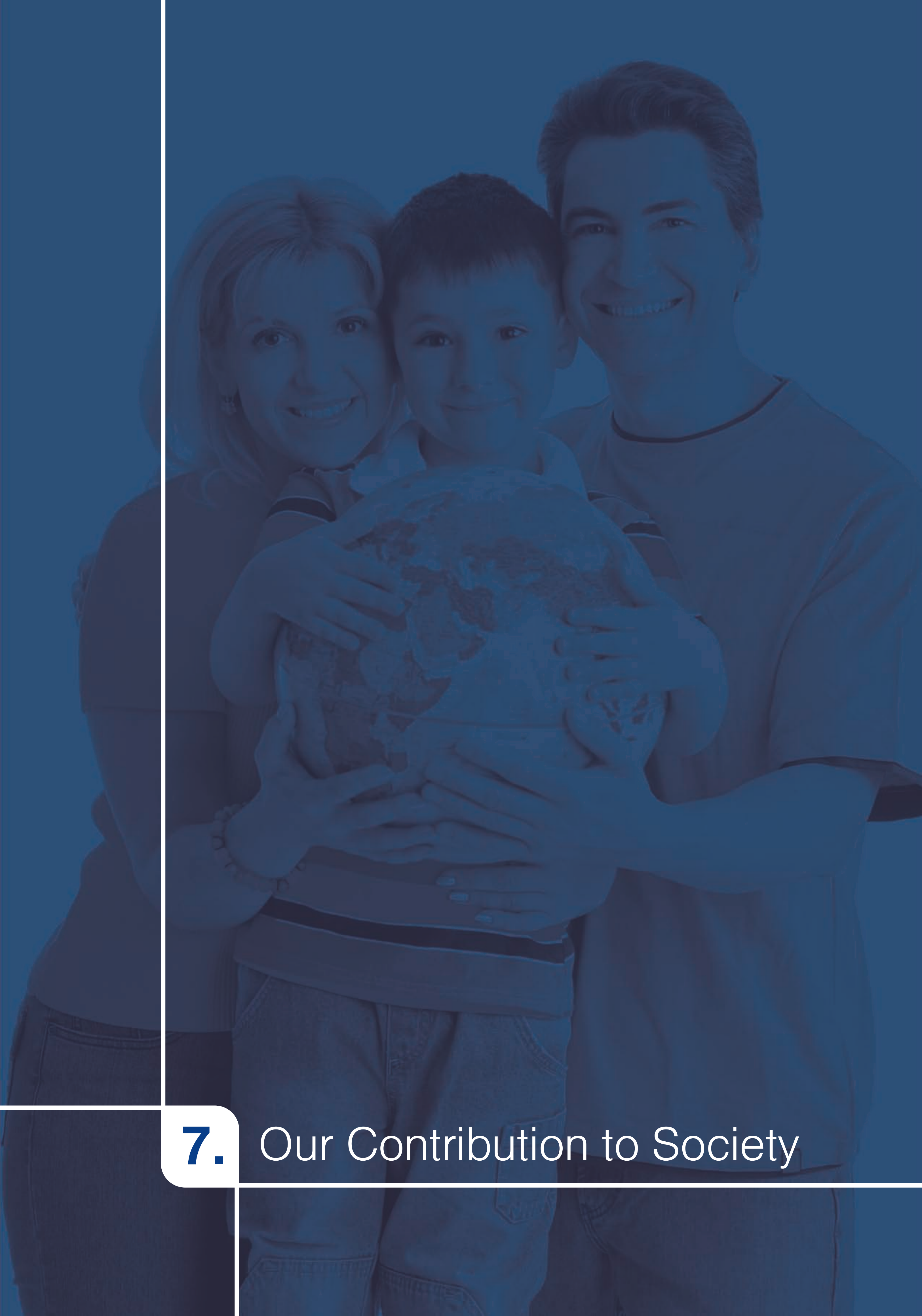
- **Trust**
  We believe in the mutual confidence among our shareholders, employees and customers.

- **People-centrism**
  People are at the core of our corporate philosophy – our customers, employees and partners

- **Innovation**
  We offer flexible solutions, products and know-how based on the best European standards.

- **Quality**
  In order to satisfy customers' high expectations, we recognize human resources to be our most important asset, and invest in our personnel, offering the necessary motivation and adding value to our service.

- **Flexibility**
  Fully aware of the constantly growing needs on the market, we offer competitive products and services.



7. Our Contribution to Society

Our Contribution to Society

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

Our strategy of corporate social responsibility reflects the vision and values of our institution. Therefore, we support a wide variety of projects in any of the following areas: education, culture, sport and environmental protection. Moreover, Postbank also champions a number of charity initiatives.

In 2008, Postbank's efforts to make a tangible social contribution to each of these domains included the following projects:

Education

High Start with Postbank

For a fourth consecutive year, Postbank carried out its traditional High Start with Postbank programme, the aim of which is to assist and to promote secondary education in Bulgaria. In 2008, Postbank awarded 108 outstanding students from 17 Bulgarian cities with scholarships for a total amount of 54 000 BGN. The scholarships were won by children from the specialized foreign language schools and classes and who had achieved excellent results at the compulsory centralized external foreign language examination at the end of eighth grade. The major goal of this programme is to reward the efforts of all students who work responsibly and diligently in order to become more knowledgeable and skillful. In this way, Postbank hopes to give a high start to their future development.

Traditional Partner of the Manager for a Day Initiative

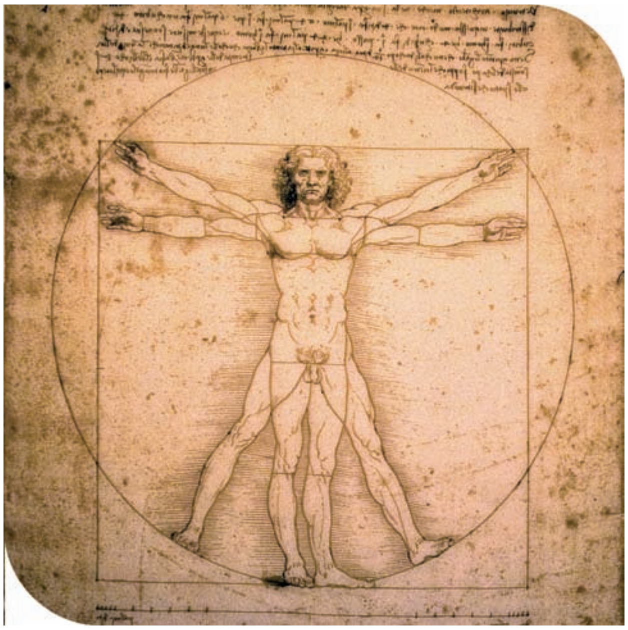
For seventh consecutive year, Postbank has welcomed students, participating in the campaign 'Manager for a Day', organized by Junior Achievement Bulgaria. The future managers also became acquainted with the work of key business units within Postbank's structure and took part in the execution of various tasks, similar to the daily activities of the banking experts.

Environmental protection

The Crystal Purity of Pancharevo

In September 2008, Postbank officially launched its long-term programme of corporate social responsibility *Crystal Purity of Pancharevo*. With this initiative, the bank made a lasting commitment to care for the purity and maintenance of the area around the lake of Pancharevo. The start of this programme is also part of the comprehensive strategy for environmental protection that our financial institution is determined to implement.

Culture



Partner of With Tailcoat and Patent Leather Shoes Dance Club

Postbank has been a partner of long-standing of the dance club With Tailcoat and Patent Leather Shoes dance club. The company has supported actively emerging talents of the dance floor by sponsoring their training by distinguished trainers and participation in world class events.

Sports

Sponsorship of the Army Shooting Club Trakia

Postbank supports the Army Shooting Club – Trakia. Last year, the club won two distinctions in the National Championship for Sports Shooting. The club has won 12 golden, 13 silver and 13 bronze medals, breaking 3 national records.

Open Workers' Festival Balkans Invite for Peace

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

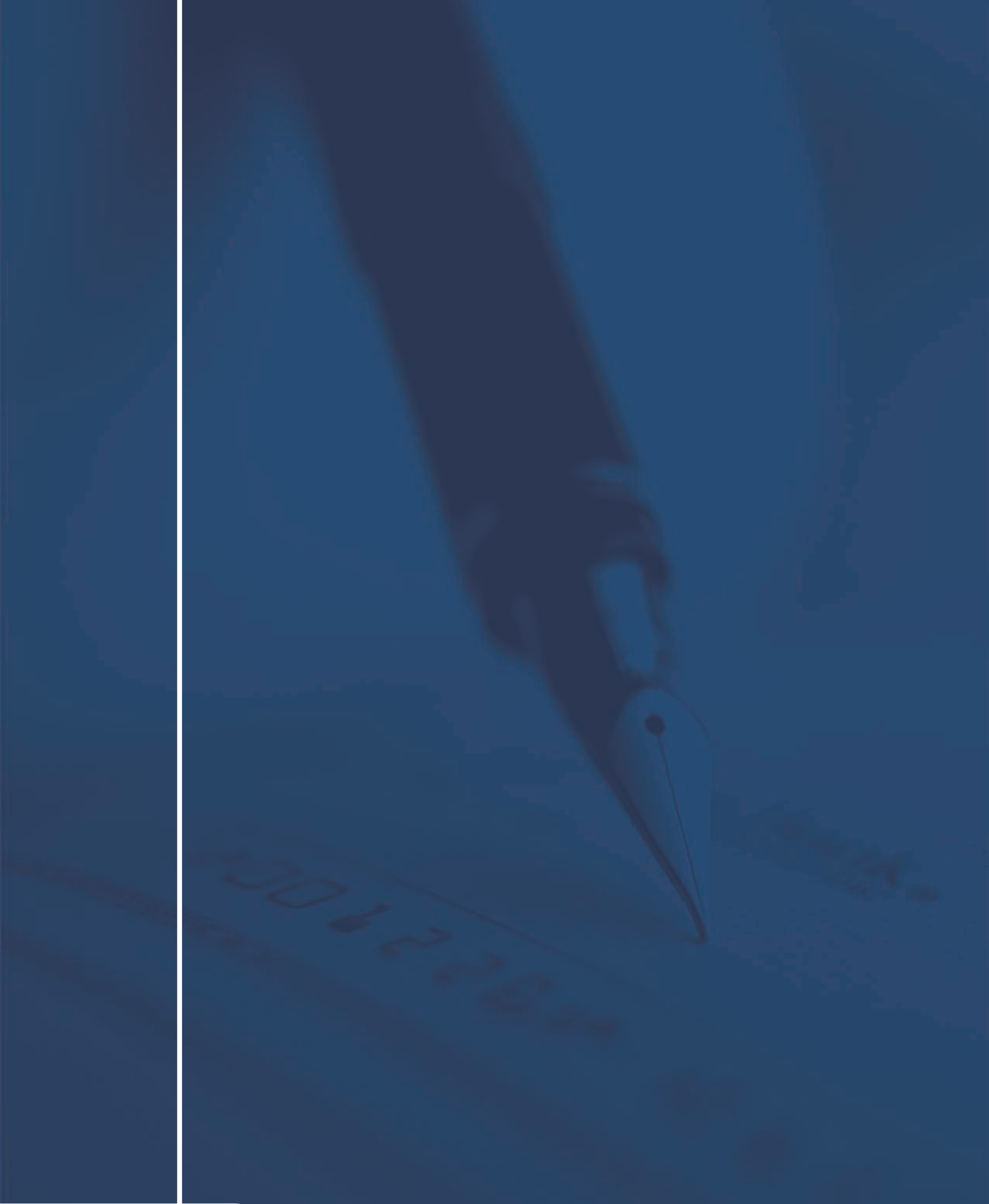
Charity

Sponsorship of the Annual Black Tie Charity Dinner to aid the children from the Gorna Koznitsa Orphanage

Last year, Postbank became a sponsor of the Annual Black Tie Charity Dinner, organized by the Cedar Foundation to support the Gorna Koznitsa project. The goal of this project is to help mentally disabled children and young people from the Gorna Koznitsa orphanage. The orhanage is in a remote area and at present children have little or no access to specialised care they need.

Support of the Gorski Senovec Orphanage

In recent years, Postbank has purchased all the martenitsi and some of the Christmas cards that it distributed to its employees and clients from the Gorski Senovec orphanage. The beautiful items, hand-crafted by the inmates, were not only unique, but also helped support financially the orphanage.



8. Financial Statements

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PRICEWATERHOUSECOOPERS

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Eurobank EFG Bulgaria AD

Report on the Financial Statements

We have audited the accompanying financial statements of Eurobank EFG Bulgaria AD (the "Bank") which comprise the balance sheet as of 31 December 2008 and the income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

PRICEWATERHOUSECOOPERS

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as of 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

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

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

In our opinion, the Annual Report set out on pages 1 to 7 is consistent with the accompanying financial statements of the Bank as of 31 December 2008.

Rositsa Boteva
Registered Auditor

Petko Dimitrov
PricewaterhouseCoopers Audit OOD

March 31, 2009
Sofia, Bulgaria

Directors' Report

The management present the annual Directors' report as of 31 December 2008.

BUSINESS DESCRIPTION

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

BUSINESS OVERVIEW

Development and results from the business activity

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

Developing innovative products and services in all fields, and emphasizing on quality, the Bank constantly capture new market shares, and build long-term relations of cooperation and trust with the customers. The good image and the availability 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 continued to meet the challenges related to the increased competition in the bank sector and financial culture of the clients.

For Eurobank EFG Bulgaria 2008 was a year of dynamic growth, strong profitability and outstanding performance in all fields of activity. The total assets of Eurobank EFG Bulgaria as at 31 December 2008 have reached BGN 5,428 million and the regulatory capital increased by 40%, reaching BGN 609 million. The Bank has 223 network locations and 2,023 customer service desks in post offices throughout the country and employs 2, 889 people.

The Bank's net profit rose by 17.14% as compared to 2007, amounting to BGN 90 million.

In a rather competitive environment the Bank's lending portfolio before provisions grew by BGN 971 million (34.6%) and at the year end amounted to BGN 3,775 million before provisions.

Bank's sound image and nationwide coverage enabled it to build up customer loyalty and attract new depositors. In 2008 the deposits grew by 15.4% and reached BGN 3,848 million.

The Bank's total revenue rose by 22.8%, increasing from BGN 254 million in 2007 to BGN 312 million in 2008. The increase in operating expense was only 9.7% from BGN 150 million in 2007 to BGN 164 million in 2008.

As at 31 December 2008 the Bank's Basel II compliant capital adequacy ratio is 13.8%, much higher than the 12% minimum set by the Bulgarian National Bank. The reinforcement of our capitalization increases our potential for further growth and utilization of opportunities

Important events that have occurred during the financial year

Eurobank EFG Bulgaria enriched its product portfolio with the launch of a number of new products and services it offered for retail, small business and wholesale clients. The Bank developed several new long and short term savings products in answer to the diverse financial needs in the market, among which was the innovative Super Mega Savings Account, and continued to successfully offer consumer and mortgage loans as well as business credit lines for small business. Eurobank EFG Bulgaria also added Maestro and MasterCard to its card portfolio and became the first to install APS devices offering credit card owners an easy, automated service.

In February the Bank launched its mutual funds products on the Bulgarian market and became the only Bank to offer market making services in the country. The Bank also marked 10 years as a successful investment intermediary and publicly presented its successor in the service EFG Securities Bulgaria.

The Bank managed to secure two major deals attracting considerable financing from Raiffeisen Zentralbank Österreich

AG and the European Bank for Reconstruction and Development (EBRD). Eurobank EFG Bulgaria signed a syndicated term loan facility with Raiffeisen Zentralbank Osterreich AG, the arranger and agent in a syndication of major international banks, amounting to 150 000 000 EUR. The syndication included 15 banks from 7 countries and aims to facilitate the growth plans of the Bank. It is the Bank's biggest deal attracting external financing and another testament to its good reputation on the international debt capital markets as well as the strength of parent company Eurobank EFG Group.

Eurobank EFG Bulgaria received a BGN 48.9 million credit line from the European Bank for Reconstruction and Development (EBRD) for on-lending to Bulgarian small and medium-sized enterprises (SMEs). The loan came under the EU/EBRD SME Finance Facility and is complemented by grant support from the EU to include technical assistance support. The EBRD and Eurobank EFG Bulgaria have been partners since 2003 when the EBRD granted the Bank a BGN 29.3 million mortgage line. More recently Eurobank EFG Bulgaria also became a partner in the Residential Energy Efficiency Framework and the Energy Efficiency and Renewable Energy Framework.

The Bank further developed its corporate social responsibility initiatives not only carrying out its High Start with Eurobank EFG Bulgaria program in support of secondary education for a fourth consecutive year, but also launching its environmental protection program with the Crystal Purity of Pancharevo project. The Bank was accepted as a member of the Global Compact in acknowledgement of its efforts to conduct and support sustainable business.

Eurobank EFG Bulgaria was awarded numerous prizes and distinctions in 2008. Among these the more prominent awards were the Grand Prize for Innovation and Services Quality, as well as the prize for Best Credit Product – Financing for its Cash Bonus House Loan, at the Banks Investments Money International Financial Exhibition and the prize for Best Bank In Tourism from the Banks Investments from the Bulgarian Hoteliers and Restaurateurs' Association.

SHARE CAPITAL STRUCTURE

As at 31 December 2008 the total authorized number of ordinary shares of EFG Eurobank, Bulgaria was 246,177,887 with a par value of BGN 1 per share.EFG Eurobank Ergasias owns directly 63.56% of Eurobank EFG, Bulgaria, another 20.53% through its 100% subsidiary CEH Balkan Holdings Limited and 15.61% through its subsidiary Eurobank Holding (Luxemburg) S.A. Bulgarian Posts EAD holds 0.30 % of the total number of shares of the Bank.

BOARD OF DIRECTORS

As at 31 December 2008 the Board of Directors consists of the following members: Theodoros Karakasis, Emilia Milanova, Antonios Hassiotis, Asen Yagodin, Petia Dimitrova, Evangelos Kavvalos, Andreas Chasapis, Georgios Katsaros and Piergiorgio Pradelli.

From 1 January 2008 Mr. Haralambos Kyrkos resigned as a member of the Board of Directors.

However, he was officially released as a member of the Board of Directors by resolution of the Extraordinary General meeting of the Shareholders, held on 21st January 2008

Mrs. Emilia Milanova has been appointed as member of the Board of Directors by resolution of the Extraordinary General meeting of the Shareholders, held on 21st January 2008.

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

In 2008 the members of the Board of Directors didn't receive remunerations from the Bank in their capacity of Board of Directors members.

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

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

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

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

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

4.1. Partners with unlimited liability

° **Theodoros Karakasis**

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

° **Haralambos Kyrkos**

EFG Property Services d.o.o. Beograd, Serbia – Chairman of the Board (resigned 1/1/2008)

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

° **Antonios Hassiotis**

Investments AMK EOOD – sole owner

° **Asen Yagodin**

Daik Imoti EOOD, Bulgaria– sole owner

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

° **Theodoros Karakasis**

Bancpost S.A., Romania – Member of the Board
EFG Retail Services IFN S.A., Romania – Member of the Board
EFG Eurobank Leasing IFN S.A., Romania – Member of the Board
EFG Eurobank Property Sevices S.A., Romania – President of the Board
EFG Retail Services a.d. Beograd, Serbia – Member of the Board
EFG Property Services d.o.o. Beograd, Serbia – President of the Board
Eurobank EFG Bulgaria AD, Bulgaria – Vice President of the Board
EFG Leasing EAD, Bulgaria – Member of the Board
EFG Property Services Sofia AD, Bulgaria – President of the Board
Polbank EFG , Poland – Member of the Supervisory Board
Greek – Serbian Chamber of Commerce - Vice President of the Board
Hellenic-Romanian Chamber of Commerce and Industry - Member of the Board
Eurobank EFG a.d. Beograd, Serbia, - Member of BoD.

° **Antonios Hassiotis**

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

° **Asen Yagodin**

EFG Securities Bulgaria EAD - Member of the Board
Bulgarian Banks Association – Member of the MB
Bulgarian Stock Exchange Sofia – Member of the Managing Board (as of September 2008)
Daik Imoti EOOD, Bulgaria– sole owner

° **Petia Dimitrova**

EFG Property Services Sofia AD, Bulgaria – Member of the Board
Bulgarian Retails Services AD – Chairman of the Board and Executive Director
EFG Business Services Bulgaria EAD –Member of the Board and Excutive Director
Bulgarian Business Leaders Forum (BBLF) – Member of the Managing Board

° **Piergiorgio Pradelli**

Eurobank EFG Private Bank (Luxembrourg) S.A. - Member of the Board
Bancpost S.A, Romania - Member of the Board
Eurobank EFG Stedionica a.d. Beograd - Member of the Board
EFG Internet Services S.A., Greece - Member of the Board
Eurobank Tekfenbank A.S., Turkey - Member of the Board
OJSC " Universal Bank" - Supervisory Board Member
EFG Eurobank Ergasias S.A. - General Manager – General Division International Activities

° **Georgios Katsaros**

EFG Telesis Finance, Greece – Member of the board
SIDMA, Greece – Member of the board
JUMBO SA, Greece – Member of the board

° **Haralambos Kyrkos**

EFG Eurobank Ergasias S.A., Greece - Member of the Board (resigned 25/10/2007)
EFG Eurobank Ergasias Leasing S.A., Greece - Member of the Board (resigned 25/10/2007)
Eurobank Properties REIC - Chairman of the Board (resigned 1/1/2008)
Be-Business Exchanges S.A. Greece - Chairman of the Board (resigned 25/10/2007)
Eurobank Property Services S.A Greece - Chairman of the Board (resigned 1/1/2008)
Financial Planning Services S.A. Greece - Member of the Board (resigned 4/12/2007)
Bancpost S.A., Romania - Member of the Board (resigned 25/10/2007)
EFG Eurobank Property Services S.A. Romania - Chairman of the Board (resigned 1/1/2008)
EFG Property Services d.o.o. Beograd., Serbia - Chairman of the Board (resigned 1/1/2008)
EFG Property Services Sofia AD, Bulgaria - Chairman of the Board (resigned 1/1/2008)
EFG Property Services Polska Sp.z.o.o., Poland - Chairman of the Board (resigned 1/1/2008)

- **Andreas Chasapis**

EFG Leasing SA, Greece - Member of the Board
EFG Factors, Greece - Member of the Board

- **Evangelos Kavvalos**

Open24 Eurobank Ergasias SA, Greece - Vice President
EFG Leasing SA, Greece - Member of the Board
BE-Business Exchanges SA, Greece - Member of the Board
EFG Factors, Greece - Member of the Board
EFG Insurance Services SA, Greece - Member of the Board
Polbank Dystrybucja Sp.Zo., Poland - Member of Supervisory Council
Eurobank Tekfen, AS, Turkey - Member of the Board
Universal Bank, Ukraine-Member of the Board
Eurobank EFG Stedionica a.d. Beograd, Serbia – Member of the Board
EFG Eurobank Ergasias SA, Greece – General Manager

5. The Contracts under Article 240b of the Commerce Act, entered into in 2007

The Bank has not entered into contracts specified in Article 240b, paragraph 1 of the Commerce Act during 2007.

Group structure

Eurobank EFG Bulgaria does not have any subsidiaries as at 31 December 2008 and therefore no consolidated financial statements are prepared at this entity level.

Financial instruments and financial risks

By their nature the Bank's activities are principally related to the use of financial instruments including derivatives. The Bank accepts deposits from customers, at both fixed and floating rates, and for various periods and seeks to earn above average interest margins by investing these funds in high quality assets. The Bank seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due.

The Bank also seeks to raise its interest margins by obtaining above average margins, net of provisions, through lending to commercial and retail borrowers within a range of credit standing. Such exposures include both on-balance sheet loans and advances and off-balance sheet guarantees and other commitments such as letters of credit.

The Bank also trades in financial instruments where it takes positions in traded and over the counter instruments including derivatives, to take advantage of short-term market movements in the equity and bond markets and in currency and interest rates. The management places trading limits on the level of exposure that can be taken in relation to overnight and intra-day market positions as well as limits in longer durations.

The most important types of risk are credit risk, liquidity risk, market risk and other operational risk. Market risk includes currency risk, interest rate and other price risk.

The credit risk is the risk that a counterparty will be unable to pay amounts in full when due.

Credit exposures arise principally in loans and advances, debt securities and other bills. There is also credit risk in off-balance sheet financial arrangements such as loan commitments. 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 the geographical and industry segments. Such risks are monitored regularly.

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

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

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

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

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

OBJECTIVES FOR 2009

The Bank's strategic priorities for 2009 will be focused on capital adequacy and liquidity management, deposit gathering, restructuring, collection, cost rationalization and HR trainings and redeployment.

The Bank will continue its daily monitoring of funding inflows/outflows and to explore opportunities for attracting new sources of liquidity. Within the scope of deposit gathering the Bank will be focused on deposits retention and anti-attraction measures.

In 2009 Eurobank EFG Bulgaria will continue to offer more and wider spectrum of financial products, corresponding to the needs of the clients. The strategy of the bank to develop a wide range of bank services, the effective management of the operating expenses, the reasonable management of the risks and the strong capitalization, will allow the continuing growth of the assets and the gain of the Bank.

Eurobank EFG Bulgaria will continue to extend credits to individuals and projects that are viable with emphasis on existing clients. In that view the bank will review and revise its credit extension criteria.

Eurobank EFG Bulgaria will develop a segmental approach related to its clients and products. Following its priorities Eurobank EFG Bulgaria will continue to diversify its cards services.

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

31 March 2009

Income statement

	Notes	Year ended 31 December 2008	2007
Interest and similar income	1	513,068	324,294
Interest and similar charges	1	(260,132)	(124,559)
Net interest income		**252,936**	**199,735**
Fee and commission income	2	78,659	54,078
Fee and commission expense	2	(16,361)	(17,211)
Net fee and commission income		**62,298**	**36,867**
Dividend income		768	207
Net trading income	3	6,379	3,912
Gains less losses from trading securities	10	(3,057)	(1,089)
Gains less losses from investment securities	12	(7,713)	11,358
Other operating income		165	2,956
Other operating expenses	4	(164,268)	(149,721)
Deposit Insurance Fund expense		(13,342)	(12,714)
Impairment charge for credit losses	6	(32,099)	(7,652)
Profit before income tax		**102,067**	**83,859**
Income tax expense	7	(11,596)	(6,629)
Profit for the year		**90,471**	**77,230**

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

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

Initialed for identification purposes in reference to the audit report

Rositsa Boteva
Registered Auditor
31 March 2009

Petko Dimitrov
PricewaterhouseCoopers Audit OOD

All amounts are shown in BGN thousands unless otherwise stated.

Balance sheet

	Notes	As at 31 December 2008	2007
Assets			
Cash and balances with the Central Bank	8	449,384	510,256
Loans and advances to banks	9	633,485	626,705
Trading assets	10	20,914	53,975
Loans and advances to customers	11	3,716,392	2,748,553
Investment securities, available-for-sale	12	425,447	353,735
Investment securities, held-to-maturity	13	1,365	-
Derivative financial instruments	18	46,649	6,561
Other assets	14	16,067	13,269
Investment property	15	876	876
Property and equipment	16	117,573	101,840
Total assets		**5,428,152**	**4,415,770**
Liabilities			
Deposits from banks	17	279,645	314,079
Derivative financial instruments	18	66,371	1,451
Due to customers	19	3,848,243	3,335,028
Debt issued and other borrowed funds	20	694,246	250,642
Current income tax liabilities		2,157	155
Deferred income tax liabilities	21	816	3,937
Provisions for other liabilities and charges	22	4,294	5,385
Retirement benefit obligations	23	1,793	2,226
Other liabilities	24	54,060	61,357
Total liabilities		**4,951,625**	**3,974,260**
Shareholders' equity			
Share capital	25	246,178	246,178
Other reserves		230,349	195,332
Total shareholders' equity		**476,527**	**441,510**
Total shareholders' equity and liabilities		**5,428,152**	**4,415,770**

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Member of the Board of Directors

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31 March 2009

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Statement of changes in shareholders' equity

	Share capital	Property and equipment revaluation reserve	Available-for-sale investments re-valuation reserve (deficit)	Retained earnings and other reserves	Total
Balance at 31 December 2006/1 January 2007	**246,178**	**6,362**	**12,010**	**110,188**	**374,738**
Available-for-sale investments					
- Net gains/(losses) from changes in fair value, net of tax	-	-	1,137	-	**1,137**
- Net (gains)/losses transferred to net profit	-	-	(11,581)	-	**(11,581)**
Deferred tax on property revaluation	-	(14)	-	-	**(14)**
Total income recognized directly in equity	**-**	**(14)**	**(10,444)**	**-**	**(10,458)**
Net profit	-	-	-	77,230	**77,230**
Total recognized income in 2007	**-**	**(14)**	**(10,444)**	**77,230**	**66,772**
Balance at 01 January 2008	**246,178**	**6,348**	**1,566**	**187,418**	**441,510**
Available-for-sale investments					
- Net gains/(losses) from changes in fair value, net of tax	-	-	(65,609)	-	**(65,609)**
- Net (gains)/losses transferred to net profit	-	-	8,763	-	**8,763**
Revaluation of property, net of tax	-	1,392	-	-	**1,392**
Revaluation reserve transferred to retained earnings on disposal of fixed assets, net of tax		(4)	-	4	**-**
Total income recognized directly in equity	**-**	**1,388**	**(56,846)**	**4**	**(55,454)**
Net profit	-	-	-	90,471	**90,471**
Total recognized income in 2008	**-**	**1,388**	**(56,846)**	**90,475**	**35,017**
Balance at 31 December 2008	**246,178**	**7,736**	**(55,280)**	**277,893**	**476,527**

Anthony C. Hassiotis
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Member of the Board of Directors

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Member of the Board of Directors and
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Registered Auditor
31 March 2009

Petko Dimitrov
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All amounts are shown in BGN thousands unless otherwise stated.

Cash flow statement

	Year ended 31 December	
	2008	**2007**
Cash used in operating activities		
Interest received	487,748	313,389
Interest paid	(236,210)	(102,154)
Dividends received	768	207
Fees and commission received	78,659	54,745
Fees and commission paid	(16,361)	(17,211)
Amounts paid to and on behalf of employees	(60,468)	(51,885)
Net trading and other income received	4	3,052
Other expenses paid	(77,054)	(63,216)
Tax paid	(5,515)	(4,504)
Cash from operating activities before changes in operating assets and liabilities	**171,571**	**132,423**
Changes in operating assets and liabilities		
Net (increase) / decrease in reserve with the Central Bank	43,030	(22,363)
Net decrease in trading securities	32,181	172,478
Net increase in loans and advances to customers	(970,570)	(708,537)
Net increase in other assets	(17,817)	(5,525)
Net increase/(decrease) in due to other banks	(34,842)	157,803
Net increase in amounts due to customers	514,747	191,564
Net increase/(decrease) in other liabilities	(28,190)	16,082
Net cash used in operating activities	**(289,890)**	**(66,075)**
Cash used in investing activities		
Purchase of property and equipment (Note 16)	(32,100)	(35,009)
Purchase of investment securities	(289,146)	(151,165)
Proceeds on disposal of property and equipment	314	159
Proceeds from sale of investment securities	159,688	71,632
Net cash used in investing activities	**(161,244)**	**(114,383)**

All amounts are shown in BGN thousands unless otherwise stated.

Cash flow statement (continued)

	Year ended 31 December	
	2008	**2007**
Cash flows (used in) from financing activities		
Proceeds from issued debt securities	-	40,000
Repayments from issued debt securities	(60,221)	-
Long-term financing received	301,658	4,503
Increase in long term debt	195,583	58,675
Net cash from financing activities	**437,020**	**103,178**
Effect of exchange rate changes on cash and cash equivalents	4,528	316
Net change in cash and cash equivalents	**(9,585)**	**(76,964)**
Cash and cash equivalents at beginning of year	933,471	1,010,435
Cash and cash equivalents at end of year (Note 26)	**923,886**	**933,471**

Anthony C. Hassiotis
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Member of the Board of Directors

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Member of the Board of Directors and
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Rositsa Boteva
Registered Auditor
31 March 2009

Petko Dimitrov
PricewaterhouseCoopers Audit OOD

All amounts are shown in BGN thousands unless otherwise stated.

Notes to the financial statements

General information

Eurobank EFG Bulgaria AD (the Bank) provides retail, corporate banking and investment banking services in Bulgaria. Its Head Office is located in Sofia and it has 223 network locations (2007: 272) and 2,023 customer service desks in post offices throughout the country (2007: 2,048). The address of its registered office is as follows: 14, Tsar Osvoboditel Blvd, 1048 Sofia, Bulgaria. The Bank employs 2,889 people (2007: 2,649).

Accounting policies

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

A. Basis of preparation

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

The policies set out below have been consistently applied to the years 2007 and 2008. Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

(a) Amended and new standards and interpretations effective in 2008

- IFRIC 11, IFRS 2 – Group and Treasury Share Transactions
- IFRIC 13, Customer Loyalty Programmes
- IFRIC 14, IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
- IFRIC 16, Hedges of a Net Investment in a Foreign Operation
- IAS 39 & IFRS 7, Amendment - Reclassification of Financial Assets

(b) Standards and Interpretations issued but not yet effective

- IAS 1, Revised – Presentation of Financial Statements (effective 1 January 2009)
- IAS 23, Amendment – Borrowing costs (effective 1 January 2009)
- IAS 39, Amendment – Eligible Hedged items (effective 1 July 2009)
- IAS 27, Revised - Consolidated and Separate Financial Statements (effective 1 July 2009)
- IFRS 3, Revised - Business Combinations (effective 1 July 2009)
- IFRS 2, Amendment - Vesting Conditions and Cancellations (effective 1 January 2009)
- IFRS 8, Operating Segments (effective 1 January 2009)
- IFRIC 17, Distributions of Non-cash Assets to Owners (effective 1 July 2009)

Notes to the financial statements

A. Basis of preparation (continued)

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

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

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

Notes to the financial statements (continued)

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, the Leva (BGN), which is the Company's functional and presentation currency.

Transactions and balances

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

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

At 31 December 2008, monetary assets and liabilities are translated at the reference Central Bank exchange rate – BGN 1 for EUR 0.5113 (2007: BGN 1 for EUR 0.5113) and BGN 1 for USD 0.72081 (2007: BGN 1 for USD 0.75119).

C. Interest income and expense

Interest income and expense are recognized in the income statement for all interest bearing instruments on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortised 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 amortisation period. This is the period to the next repricing date when the market rates are changed before the expected maturity of the instrument. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument, but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest income includes coupons earned on fixed income investment and trading securities.

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

Notes to the financial statements (continued)

D. Fees and commissions income and expense

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

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

E. Financial assets

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

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

This category includes financial assets held for trading.

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

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

as interest income.

(b) Available-for-sale

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

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

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

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

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

E. Financial assets (continued)

(b) Available-for-sale (continued)

features of the securities market in Bulgaria.

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership. Financial liabilities are 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 entity intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss; (b) those that the entity upon initial recognition designates as available for sale; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

(d) Held-to-maturity

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

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

F. Sale and repurchase agreements

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

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

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

G. Derivative financial instruments and hedge accounting

Derivatives are financial instruments:

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

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

(c) that is settled at a future date.

Derivative financial instruments including currency swaps, interest rate swaps, currency forwards, options and futures are initially recognized in the balance sheet at cost (including transaction costs) and subsequently are re-measured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models and pricing models as appropriate. The positive fair value of the derivatives is carried as asset and the negative fair value is carried as liability. The changes in the fair value of derivatives are included in the income statement.

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

Fair value hedge:

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

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

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

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

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 collateralised 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.

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 Bank and historical loss experience for assets with credit risk characteristics similar to those in the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

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

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

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

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

(b) Assets classified as available for sale

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

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

(c) Renegotiated loans

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years, the asset is considered to be past due and disclosed only if there is non-compliance with the renegotiated conditions

I. Property and equipment

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

After initial recognition the Bank measures the land and building at fair value. The last revaluation of land and buildings has been performed by a qualified independent valuer at the end of 2008. The main valuation methods used to determine the fair value were:

- market prices analogs (where assets are compared to those similar of nature offered on the market)
- present value of future income for rent generating assets (DCF)
- method of reduced cost (taking into account the price that the asset would cost at present if acquired or built and reduced on the basis of economic and physical depreciation factors).

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

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

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

The carrying amount of an item of property and equipment is derecognized:

(a) on disposal

(b) when no future economic benefits are expected from its use or disposal.

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

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

Notes to the financial statements (continued)

I. Property and equipment (continued)

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

J. Intangible assets

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

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

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

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

K. Borrowings, including debt securities in issue

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

L. Investment property

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

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

M. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days to maturity from the date of acquisition including: cash and non-restricted balances with central banks, amounts due from other banks and short-term government securities.

Investments are treated or qualify as cash equivalents only when they have a short maturity of 90 days or less from the date of acquisition.

N. Operating leases

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

O. Current tax and deferred income tax

Taxation has been provided for in the financial statements in accordance with Bulgarian legislation currently in force. The charge for taxation in the income statement for the year comprises current tax and changes in deferred tax. Current tax is calculated on the basis of the taxable profit for the year, using the tax rates enacted at the balance sheet date. Income tax payable on profits, based on the applicable tax law is recognized as an expense in the period in which profits arise. Taxes other than on income are recorded within operating expenses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. The principal temporary differences arise from depreciation of property, plant and equipment, revaluation reserve of financial instruments, provisions for court cases, the difference on balance sheet provision expenses according to the local and IFRS requirements and provisions for untaken annual leaves.

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

P. Employee benefits

(a) Social, pension and health funds

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

(b) Retirement benefit obligations

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

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

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. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

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

R. Dividends

Dividends are recognised as a liability when authorized by the General Assembly of the Shareholders. Subsequently they are deducted from equity when distributed.

Dividends will not be declared according to the long-term strategy of the Bank.

S. Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realise 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 amortisation calculated to recognise in the income statement the fee income earned on a straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of Management.

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

U. Comparatives

The Bank has reclassified certain of the 2007 comparative figures in the income statement.

Fees from foreign exchange operations have been reclassified from line “Net trading income” to line “Fee and commission income”

The reclassification is as follows:

	31 Dec 2007 (previously reported)	Reclassifications	31 Dec 2007 (reclassified)
Net trading income	46,909	7,169	54,078
Fee and commission income	11,081	(7,169)	3,912

V. Financial risk management

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

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

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

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

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

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

All amounts are shown in BGN thousands unless otherwise stated.

Notes to the financial statements (continued)

V. Financial risk management (continued)

The ongoing global liquidity crisis which commenced in the middle of 2007 has resulted in a lower level of capital market funding, lower liquidity levels across the banking sector, and higher inter-bank lending rates and very high volatility in stock markets. The uncertainties in the global financial markets reflect the banks and companies in Bulgaria at the end of 2008. Indeed the full extent of the impact of the ongoing financial crisis is proving to be impossible to anticipate or complete guard against.

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

The borrowers of the Bank may be affected by the lower liquidity situation which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for borrowers may also have an impact on management's cash flow forecasts and assessment of the impairment of financial assets. To the extent that information is available, management have properly reflected revised estimates of expected future cash flows in their impairment assessments.

The amount of provision for impaired loans is based on management's appraisals of these assets at the balance sheet date after taking into consideration the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

1. Credit risk

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

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

1.1 Credit risk measurement

(a) Loans and advances

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

(a) the '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) the 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 acomprehensive set of policies and procedures to ensure that all aspects of credit risk areadequately covered.

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

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

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

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

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

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

(b) Debt securities

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

Notes to the financial statements (continued)

V. Financial risk management (continued)

1. Credit risk (continued)

1.2 Risk limit control and mitigation policies

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

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

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

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

Some other specific control and mitigation measures are outlined below

(a) Collateral

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

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

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

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

(b) Derivatives

The Bank maintains strict control limits on net open derivative positions (i.e. the difference between purchase and sale contracts), by both amount and term. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Bank (i.e., assets where their fair value is positive), which in relation to derivatives is only a small fraction of the contract, or notional values used to express the volume of instruments outstanding.

Notes to the financial statements (continued)

V. Financial risk management (continued)

1.Credit risk (continued)

1.2 Risk limit control and mitigation policies (continued)

(b) Derivatives (continued)

This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments. Further details of the'Group's derivative instruments are provided in note 18.

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

(c) Credit related commitments

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

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

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

The table below represents a worse case scenario of credit risk exposure to the Bank as at 31 December 2008, 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, 90% of the total maximum exposure is derived from loans and advances to banks and customers (2007: 89%); 9% represents investments in debt securities (2007: 10%)

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		**31 December**
	2008	**2007**
Credit risk exposures relating to on-balance sheet assets are as follows:		
Loans and advances to banks	633,485	626,705
Loans and advances to customers:	3,716,392	2,748,553
Mortgages	529,760	332,804
Consumer lending (including credit cards)	610,414	405,792
Small Business lending	847,158	509,747
Corporate lending	1,729,060	1,500,210
Trading assets - debt securities	19,713	53,950
Derivative financial instruments	46,649	6,561
Investment securities- available-for-sale	418,834	334,506
Investment securities, held-to-maturity	1,365	-
Other assets	15,817	13,019
Credit risk exposures relating to off-balance sheet items are as follows:		
Financial guarantees	176,182	168,441
Letters of credit	25,304	17,052
Loan commitments and other credit related liabilities	704,608	677,321
Total	**5,758,349**	**4,646,108**

1.4. Loans and advances

Loans and advances are summarized as follows:

Balance at 31 December 2008	**Loans and advances to customers**
Neither past due nor impaired	3,164,694
Past due but not impaired	515,263
Impaired	94,983
Gross	**3,774,940**
Less: allowance for impairment	(58,548)
Net	**3,716,392**

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)

Balance at 31 December 2007	**Loans and advances to customers**
Neither past due nor impaired	2,535,396
Past due but not impaired	162,834
Impaired	106,205
Gross	**2,804,435**
Less: allowance for impairment	(55,882)
Net	**2,748,553**

The total impairment provision for loans and advances is BGN 58,548 thousands (2007: BGN 55,882 thousands) of which BGN 34,064 thousands represents the individually impaired loans and the remaining amount of BGN 24,484 thousands represents the portfolio provision. Further information of the impairment allowance for loans and advances to banks and to customers is provided in Note 11.

During the year ended 31 December 2008, the Bank's total loans and advances increased by 34,6% as a result of the expansion of the lending business. In order to minimize the potential increase of credit risk exposure, the Bank has focused more on the business with large corporate enterprises with good credit rating or retail customers providing sufficient collateral.

(a) Loans and advances neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired at 31 December 2008 can be assessed by reference to the internal standard grading system (see 1.1. a). The following information is based on that system:

Balance at 31 December 2008	**Loans and advances to customers**
Satisfactory risk	3,164,694

Balance at 31 December 2007	**Loans and advances to customers**
Satisfactory risk	2,535,396

All amounts are shown in BGN thousands unless otherwise stated.

Notes to the financial statements (continued)

V. Financial risk management (continued)

1.Credit risk (continued)

1.4. Loans and advances (continued)

(b) Loans past due but not impaired

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

31 December 2007	Consumer lending	Mortgages	Small Business Lending	Corporate Lending	Total
Past due up to 29 days	37,628	32,558	41,527	18,722	130,435
Past due 30 - 89 days	13,759	7,908	6,396	2,396	30,459
Past due 90 days - 179 days	-	1,789	-	151-	1,940
Total	**51,387**	**42,255**	**47,923**	**21,269**	**162,834**
Fair value of collateral	1,325	41,889	27,130	18,611	**88,955**

(c) Impaired Loans and advances collectively assessed

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

All amounts are shown in BGN thousands unless otherwise stated.

Notes to the financial statements (continued)

V. Financial risk management (continued)

1.Credit risk (continued)

1.4. Loans and advances (continued)

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

31 December 2007	Consumer lending	Mortgages	Total
Collectively assessed for impairment	18,325	5,026	23,351
Fair value of collateral	377	4,949	5,326

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

(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 reorganisation; and
- a downgrading in credit rating by an external credit rating agency

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

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

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)

(d) Loans and advances individually impaired (continiued)

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

31 December 2007	Small Business Lending	Corporate Lending	Total
Individually impaired loans	9,349	73,505	82,854
Fair value of collateral	3,168	53,692	56,860

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

Small business lending loans over 90 days overdue are assessed on a case by case basis, following the bank's provisioning policy.

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

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)

(e) Loans and advances renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is re-set to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of the management, indicate that payment will most likely continue. These policies are kept under continuous review. Renegotiated loans that would otherwise be past due or impaired totaled BGN 4,943 thousands as at 31 December 2008 (2007: BGN 13,793 thousands).

	2008	2007
Loans and advances to customers :		
– Mortgages	68	-
– Corporate lending	4,875	13,793
Total	**4,943**	**13,793**

1.5. Debt securities

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

				31 December 2008
Rating	**Trading securities**	**Investment securities, available for sale**	**Investment securities, held to maturity**	**Total**
AAA	-	1,717	-	1,717
AA- to AA+	4,830	2,308	-	7,138
A- to A+	-	-	-	-
Lower than A-	14,883	329,724	1,365	345,972
Unrated	-	85,085	-	85,085
Total	**19,713**	**418,834**	**1,365**	**439,912**

			31 December 2007
Rating	**Trading securities**	**Investment securities, available for sale**	**Total**
AAA	-	-	-
AA- to AA+	-	-	-
A- to A+	402	-	402
Lower than A-	53,548	273,729	327,277
Unrated	-	60,777	60,777
Total	**53,950**	**334,506**	**388,456**

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 (continued)

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

1.6. Repossessed collateral

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

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

Nature of assets	2008	2007
Commercial property	315	366
Equipment	237	285
Residential property	1,176	65
Land	52	48
Total:	**1,780**	**764**

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 2008. For this table, the Bank has allocated exposures to regions based on the country of domicile of its counterparties.

	Bulgaria	Europe	Canada and US	Other countries	Total
Loans and advances to banks	39,003	594,360	122	-	633,485
Trading assets	14,763	6,151	-	-	20,914
Loans and advances to customers:					
- Mortgages	529,160	374	-	226	529,760
-Consumer lending incl. credit cards	609,936	247	-	231	610,414
-Small business lending	847,158	-	-	-	847,158
-Corporate lending	1,722,995	6,065	-	-	1,729,060
Investment securities – available-for-sale	393,948	29,191	2308	-	425,447
Investment securities – held-to-maturity	-	1,365	-	-	1,365
Derivative financial instruments	14,847	31,802	-	-	46,649
Other assets	583,900	-	-	-	583,900
31 December 2008	**4,755,710**	**669,555**	**2,430**	**457**	**5,428,152**
31 December 2007	**3,772,836**	**637,503**	**15**	**5,416**	**4,415,770**

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 exposure (continued)

(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	Manufacturing	Construction	Public sector	Financial institutions	Other	Total
Loans and advances to banks	-	-	-	-	-	633,485	-	**633,485**
Trading assets	-	-	-	-	14,882	4,831	-	**19,713**
Loans and advances to customers:								
- Mortgages	-	529,760	-	-	-	-	-	**529,760**
- Consumer lending incl. credit cards	-	610,414	-	-	-	-	-	**610,414**
- Small business lending	449,484	5,718	129,669	94,689	-	-	167,598	**847,158**
- Corporate lending	717,194	-	331,855	268,993	-	42,188	368,830	**1,729,060**
Investment securities – available-for-sale	8,060	-	39,491	2,324	320,092	48,374	493	**418,834**
Investment securities – held-to-maturity	-	-	-	-	1,365	-	-	**1,365**
31 December 2008	**1,174,738**	**1,145,892**	**501,015**	**366,006**	**336,339**	**728,878**	**536,921**	**4,789,789**
31 December 2007	**895,463**	**738,596**	**361,179**	**241,665**	**313,859**	**665,689**	**547,263**	**3,763,714**

All amounts are shown in BGN thousands unless otherwise stated.

Notes to the financial statements (continued)

V. Financial risk management (continued)

2. Market risk

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

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

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

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

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

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

The objectives of market risk control and supervision are to:

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

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

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

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

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

Notes to the financial statements (continued)

V. Financial risk management (continued)

2. Market risk (continued)

2.1 Market risk measurement techniques

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

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

- Foreign Exchange rates
- Interest Rates and
- Equity prices

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

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

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

1. Document the assumptions and methodologies used for market risk measurement and periodically assess and check their validity and accuracy;
2. Measure the Income statement impact of breakdown of one or more of the underlying assumptions (that is a "stress test").

2.2 Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Management sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily. The table below summarizes the Bank's exposure to foreign currency exchange rate risk at 31 December 2008. Included in the table are the Bank's financial instruments at carrying amounts, categorized by currency.

Notes to the financial statements (continued)

V. Financial risk management (continued)

2. Market risk (continued)

2.2 Foreign exchange risk (continued)

Concentrations of currency risk – on- and off-balance sheet financial instruments

At 31 December 2008	BGN	USD	EUR	Other	Non monetary items	Total
Assets						
Cash and balances with BNB	390,424	7,666	46,989	4,305	-	**449,384**
Due from other banks	43,520	167,041	411,333	11,591	-	**633,485**
Trading assets	16,711	371	3,832	-	-	**20,914**
Loans and advances to customers	1,633,830	44,508	1,938,416	99,638	-	**3,716,392**
Derivative financial instruments	2,095	-	44,554	-	-	**46,649**
Investment securities						
- available-for-sale	19,361	114,284	291,802	-	-	**425,447**
- held to maturity	-	1,365	-	-	-	**1,365**
Other assets	9,744	1,564	4,756	3	-	**16,067**
Investment property	-	-	-	-	876	**876**
Property and equipment	-	-	-	-	117,573	**117,573**
Total assets	**2,115,685**	**336,799**	**2,741,682**	**115,537**	**118,449**	**5,428,152**
Liabilities						
Deposits from banks	113,275	171	166,152	47	-	**279,645**
Derivative financial instruments	1,869	-	64,502	-	-	**66,371**
Due to customers	2,046,548	339,833	1,448,998	12,864	-	**3,848,243**
Debt issued and other borrowed funds	114,233		580,013	-	-	**694,246**
Current income tax liabilities	-	-	-	-	2,157	**2,157**
Deferred income tax liabilities	-	-	-	-	816	**816**
Retirement Benefit Obligations	-	-	-	-	1,793	**1,793**
Provisions for other liabilities and charges	4,294	-	-	-	-	**4,294**
Other liabilities	41,278	1,012	11,599	171	-	**54,060**
Total liabilities	**2,321,497**	**341,016**	**2,271,264**	**13,082**	**4,766**	**4,951,625**
Net on-balance sheet position	**(205,812)**	**(4,503)**	**470,418**	**102,455**	**113,683**	**476,527**
Off-balance sheet net notional position	**58,512**	**10,319**	**132,624**	**31**	**-**	**201,486**
Credit commitments	**434,861**	**6,706**	**263,041**	**-**	**-**	**704,608**

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)

2.2 Foreign exchange risk (continued)

At 31 December 2007	BGN	USD	EUR	Other	Non monetary items	Total
Total financial assets	1,689,825	355,425	2,232,180	35,624	102,716	4,415,770
Total financial liabilities	2,065,790	357,548	1,520,229	24,375	6,318	3,974,260
Net on balance sheet financial position	(375,965)	(2,123)	711,951	11,249	96,398	441,510
Credit commitments	473,659	22,294	366,861	-	-	862,814

2.3 Sensitivity of assets and liabilities

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

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

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

			31 December 2008
	Total Sensitivity	Sensitivity of income stat.	Sensitivity of equity
Interest Rate			
+250 bps parallel shift local currency +200 bps parallel shift other currencies	**16,819**	19,360	(2,541)
-250 bps parallel shift local currency -50 bps parallel shift EUR -25 bps parallel shift other currencies	**(22,064)**	(22,871)	807
Equities / Equity Indices / Mutual Funds			
-25% equity price drop across the board	**(992)**	(300)	(692)
+25% equity price increase across the board	**992**	300	692
Foreign exchange			
-25% depreciation of local currency	**141,698**	141,698	-
20% appreciation of local currency	**(113,358)**	(113,358)	-

All amounts are shown in BGN thousands unless otherwise stated.

Notes to the financial statements (continued)

V. Financial risk management (continued)

2. Market risk (continued)

2.3 Sensitivity of assets and liabilities (continued)

			31 December 2007
	Total Sensitivity	**Sensitivity of income stat.**	**Sensitivity of equity**
Interest Rate			
+250 bps parallel shift local currency +200 bps parallel shift other currencies	**2,556**	4,433	(1,877)
-250 bps parallel shift local currency -50 bps parallel shift EUR -25 bps parallel shift other currencies	**(7,599)**	(8,234)	635
Equities / Equity Indices / Mutual Funds			
-25% equity price drop across the board	**(4,013)**	(4)	(4,009)
+25% equity price increase across the board	**4,013**	4	4,009
Foreign exchange			
-25% depreciation of local currency	**99,465**	99,465	-
20% appreciation of local currency	**(79,572)**	(79,572)	-

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 current market environment and the dynamics during 2008 and represent reasonable possible shifts in the market variables. The 2007 figures have been recalculated with the same parameters.

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.

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:

- Income Statement- for items with revaluation reflected in the Income Statement (trading portfolio securities and derivatives);
- Equity effect - for items with revaluation that affects the equity reserves (AFS securities);

The following parallel yield curve shifts have been applied:

For BGN +250 bps / -250 bps;

For EUR +200 bps / -50 bps;

For USD & CHF +200 bps / -25 bps.

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

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

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

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

	Carrying value		Fair value	
	2008	**2007**	**2008**	**2007**
Financial assets				
Loans and advances to banks	633,485	626,705	633,485	626,705
Loans and advances to customers, including:				
- Mortgage loans	529,760	332,804	529,760	332,924
- Consumer loans, including credit cards	610,414	405,792	610,414	400,192
- Small business lending	847,158	509,747	847,158	510,180
- Corporate loans	1,729,060	1,500,210	1,729,060	1,427,879
Total loans and advances to customers	**3,716,392**	**2,748,553**	**3,716,392**	**2,671,175**
Investment securities, held –to-maturity	1,365	-	1,079	-
Financial liabilities				
Deposits from banks	279,645	314,079	279,645	314,079
Due to customers , including:				
– Retail customers	2,768,352	2,407,359	2,768,352	2,407,359
– Large corporate customers	945,207	810,314	945,207	810,314
– Medium corporate customers	134,684	117,355	134,684	117,355
Total due to customers	**3,848,243**	**3,335,028**	**3,848,243**	**3,335,028**
Debt issued and other borrowed funds	694,246	250,642	694,354	250,874

All amounts are shown in BGN thousands unless otherwise stated.

Notes to the financial statements (continued)

V. Financial risk management (continued)

2. Market risk (continued)

2.4 Fair values of financial assets and liabilities (continued)

	Notional amount		Fair value	
Off Balance Sheet Items	**2008**	**2007**	**2008**	**2007**
Guarantees and Letters of Credits				
- Corporate lending	192,979	166,456	2,370	1,630
- Small business and retail lending	8,507	19,037	193	318
Undrawn loan commitments				
- Corporate lending	410,212	311,012	-	-
- Small business and retail lending	294,396	366,309	-	-

a) Due from other banks

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

b) Loans and advances to customers

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

c) Due to customers

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

d) Other borrowed funds

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

e) Guarantees and Letters of credits

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

All amounts are shown in BGN thousands unless otherwise stated.

Notes to the financial statements (continued)

V. Financial risk management (continued)

3. Liquidity risk

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

3.1. Liquidity risk management process

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

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

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

Assets and Liabilities Committee manages:

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

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

3.2 Funding approach

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

Notes to the financial statements (continued)

V. Financial risk management (continued)

3. Liquidity risk (continued)

3.3 Cash flows

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

As at 31 December 2008	**Gross nominal outflow**	**Less than 1 month**	**1-3 months**	**3 -12 months**	**1-5 years**	**More than 5 years**
Non-derivative liabilities						
Due to other banks	281,345	111,053	170,292	-	-	-
Due to customers	3,878,575	2,538,916	795,062	493,532	50,770	295
Debt issued and other borrowed funds	1,085,904	-	-	34,946	383,722	667,236
Other liabilities	63,120	-	-	-	-	63,120
Derivative financial instruments						
Outflows from gross and net settled	2,746,832	1,813,376	18,789	139,097	770,674	4,896
Inflows from gross settled	(2,591,724)	(1,805,794)	(12,022)	(110,718)	(663,190)	-
Total liabilities (contractual maturity dates)	**5,464,052**	**2,657,551**	**972,121**	**556,857**	**541,976**	**735,547**

As at 31 December 2007	**Gross nominal outflow**	**Less than 1 month**	**1-3 months**	**3 -12 months**	**1-5 years**	**More than 5 years**
Non-derivative liabilities						
Due to other banks	312,448	294,890	17,558	-	-	-
Due to customers	3,367,895	2,019,489	514,181	787,538	46,687	-
Debt issued and other borrowed funds	299,860	-	-	62,753	181,911	55,196
Other liabilities	72,227	-	-	-	-	72,227
Derivative financial instruments						
Outflows from gross and net settled	875,820	5,734	228,985	183,942	15,061	1,309,542
Inflows from gross settled	(873,835)	(5,726)	(233,390)	(175,894)	(10,211)	(1,299,056)
Total liabilities (contractual maturity dates)	**4,054,415**	**2,314,387**	**527,334**	**858,339**	**233,448**	**137,909**

All amounts are shown in BGN thousands unless otherwise stated.

Notes to the financial statements (continued)

V. Financial risk management (continued)

3. Liquidity risk (continued)

3.4 Off-balance sheet items

a) Loan commitments

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

(b) Financial guarantees and other financial facilities.

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

(c) Operating lease commitments

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

(d) Capital commitments

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

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

At 31 December 2007	**No later than 1 year**	**1-5 years**	**Over 5 years**	**Total**
Guarantees:				
- guarantees and standby letters of credit	105,287	23,175	57,031	**185,493**
Commitments:				
- Undrawn loan commitments	456,536	128,250	92,535	**677,321**
- Capital expenditure	11,261	-	-	**11,261**
Operating lease commitments	8,979	-	-	**8,979**

All amounts are shown in BGN thousands unless otherwise stated.

Notes to the financial statements (continued)

V. Financial risk management (continued)

4. Capital management

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

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

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

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

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

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

Tier-two capital can not exceed 50% of tier-one capital.

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

Notes to the financial statements (continued)

V. Financial risk management (continued)

4. Capital management (continued)

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

	2008	2007
Tier 1 capital		
Share capital	246,178	246,178
General bank Reserves	-	-
Statutory Reserves	183,565	106,334
Retained Earnings (loss)	-	-
Audited current profit	42,092	-
Revaluation–reserve - available for sale investments	(56,048)	(322)
Less:		
Intangible assets	14,668	13,316
Specific Provisions under Reg.9	42,705	-
50% of the paid-in capital of a unconsolidated undertakings	125	125
Total qualifying Tier 1 capital	**358,289**	**338,749**
Tier 2 capital		
Long term debt	290,258	94,675
Revaluation reserve of property owned by the Bank	3,310	1,918
Less:		
Specific Provisions	42,705	-
50% of the paid-in capital of a unconsolidated undertakings	125	125
Total qualifying Tier 2 capital	**250,738**	**96,468**
Risk-weighted assets		
On-balance sheet	4,101,905	3,058,735
Off-balance sheet	323,146	306,177
Total risk-weighted assets	**4,425,051**	**3,364,912**
Basel ratio	**13.76%**	**12.93%**

The increase in the regulatory capital is mainly due to the increase in the long-term debt. The increase of the risk-weighted assets reflects the expansion of the business of the Bank.

All amounts are shown in BGN thousands unless otherwise stated.

Notes to the financial statements (continued)

W. Critical accounting estimates and judgments in applying accounting policy

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

Impairment losses on loans and advances

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

Impairment of available- for-sale equity investments

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

Fair value of derivatives

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

Application of the effective interest rate method

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

Notes to the financial statements (continued)

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

Sensitivity analysis of assets and liabilities

The sensitivity analysis illustrates the potential impact on the income statement and equity for "reasonable possible shifts. Sensitivity to changes to the three major market risk factors – foreign exchange, interest rate and equity price risk, has been calculated The parameters of calculations used have been determined based on the current market environment and the dynamics during 2008 and represent reasonable possible shifts in the market variables. The 2007 figures have been recalculated with the same parameters.

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

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

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

Fair value of land and buildings

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

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

- market prices analogs (where assets are compared to those similar of nature offered on the market)
- present value of future income for rent generating assets (DCF)
- method of reduced cost (taking into account the price that the asset would cost at present if acquired or built and reduced on the basis of economic and physical depreciation factors).

Notes to the financial statements (continued)

1	**Net interest income**	**2008**	**2007**
	Interest income		
	Loans and advances to customers	376,026	258,014
	Derivative instruments	69,529	16,378
	Due from other banks	25,675	23,336
	Investment securities	21,914	11,377
	Hedging instruments	17,874	6,976
	Trading securities	2,036	8,213
	Investment securities, held-to-maturity	14	-
		513,068	**324,294**

Interest income accrued on impaired financial assets is BGN 37,379 thousand (2007: 22,756).

	Interest expense		
	Deposits from customers	134,639	85,439
	Derivative instruments	63,950	13,514
	Hedging instruments	18,907	7,384
	Long term debt	14,475	2,499
	Deposits from Banks	13,230	8,809
	Syndicated loan	6,915	-
	Debt securities issued	6,863	6,164
	Other borrowed funds	1,148	745
	Other	5	5
		260,132	**124,559**

2	**Net fee and commission income**	**2008**	**2007**
	Fees and commission income		
	Foreign exchange operations	23,509	7,169
	Transfers	17,130	14,071
	Loans' fees and commissions	15,766	9,419
	Cash operations	8,866	10,142
	Account maintenance	7,266	6,381
	Receipts from sales of services	2,364	1,959
	Off-balance commitments and letters of guarantee	1,829	1,368
	Commission securities	720	1,323
	Operations with derivatives	352	588
	Investment banking	47	616
	Other fees	810	1,042
		78,659	**54,078**
	Fee and commission expense		
	Services from BRS	7,337	7,901
	Transactions processing	3,822	3,927
	Expenses for Post offices	2,212	2,210
	Cash transactions an correspondent accounts	921	901
	Credit cards, cheques and other	646	663
	Securities	531	551
	Operations related to derivatives	256	256
	Bonds issued	105	114
	Others	531	688
		16,361	**17,211**

All amounts are shown in BGN thousands unless otherwise stated.

2 Net fee and commission income (continued)

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

3 Net trading income

	2008	2007
Foreign exchange:		
Translation gains less losses	(4,529)	(316)
Transaction gains less losses	(199)	-
Net results from derivative instruments	11,107	4,228
	6,379	3,912

4 Other operating expenses

	2008	2007
Staff costs (Note 5)	73,162	59,675
Operating lease rentals	23,994	19,235
Depreciation (Note 16)	17,223	16,403
Advertising and marketing	11,085	11,741
Communication	7,996	8,347
External services	7,425	6,300
Repairs and maintenance	6,719	4,205
Security	5,400	4,729
Materials and utilities	4,440	3,823
Software costs	3,361	4,512
Other operating costs	1,072	906
Travel and accommodation	1,038	770
Tax loss	975	-
Levies and taxes	724	693
Insurance	436	363
Restructuring (write backs)/costs	(782)	8,019
	164,268	149,721

5 Staff costs

	2008	2007
Wages and salaries	58,739	46,939
Pension insurance	5,842	6,642
Social security costs	4,200	3,102
Other	4,381	2,992
	73,162	59,675

The Bank estimated that the pension obligation provision as at year end is BGN 1,793 (2007: BGN 2,226).

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

	2008	2007
Loans and advances to customers (Note 11)	(20,450)	(7,709)
Credit commitments	(11,649)	57
	(32,099)	(7,652)

All amounts are shown in BGN thousands unless otherwise stated.

Notes to the financial statements (continued)

7	Income tax expense	2008	2007
	Current tax	10,449	4,839
	Deferred tax (Note 21)	469	1,790
	Prior year tax expense	678	-
		11,596	**6,629**

Tax is payable at an actual rate of 10% (2007: 10%) on adjusted profits under Bulgarian tax law.

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

	2008	2007
Profit before tax	**102,067**	**83,859**
Tax calculated at a tax rate of 10% (2007: 10%)	10,207	8,386
Tax effect of permanent differences	711	(1,757)
Prior year tax expense	678	-
Income tax expense	**11,596**	**6,629**

Additional information about deferred tax is presented in Note 21.

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.

8	Cash and balances with the Central Bank	2008	2007
	Cash in hand	162,319	126,952
	Balances with Central bank other than mandatory reserve	124,386	177,596
	Included in cash and cash equivalents (Note 26)	**286,705**	**304,548**
	Mandatory reserve with Central Bank	162,679	205,708
		449,384	**510,256**

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

All amounts are shown in BGN thousands unless otherwise stated.

9	Loans and advances to banks	2008	2007
	Deposits in other banks up to 90 days from the date of acquisition	633,312	625,815
	Less impairment provision	-	(374)
	Included in cash and cash equivalents (Note 26)	633,312	625,441
	Interest receivable	173	1,264
		633,485	**626,705**

Approximately 94 % (2007: 95%) of the amounts due from other banks represent funds placed in banks domiciled in OECD countries, with the remainder held with banks in Bulgaria, Romania and Russia.

The total gross amount of individually impaired loans and advances to banks as at 31 December 2008 was BGN 0 thousand (2007: BGN 374 thousand). No collateral is held by the Bank and a full impairment provision has been provided against the gross amount.

10	Trading securities	2008	2007
	Government bonds as follows:		
	Bulgarian government bonds	13,562	52,064
	Foreign government bonds	1,321	1,483
	Bonds issued by companies	4,830	403
	Shares	1,201	25
		20,914	**53,975**
	Equity securities:		
	- Listed	1,201	25
	Bonds:		
	- Listed	4,830	403
	- Unlisted	14,883	53,547

Included in the amount of the bonds is accrued interest in the amount of BGN 423 thousand (2007: BGN 1,302 thousand).

Gains less losses from trading securities	2008	2007
Equity securities	(1,481)	2,715
Debt securities	(1,576)	(3,804)
	(3,057)	**(1,089)**

All amounts are shown in BGN thousands unless otherwise stated.

11 Loans and advances to customers

	2008	2007
Retail customers:		
Consumer lending (including credit cards)	631,674	425,428
Small Business Lending	861,023	516,183
Mortgages	532,984	334,283
Corporate Lending	1,749,259	1,528,541
Gross loans and advances	**3,774,940**	**2,804,435**
Less allowance for impairment losses on loans and advances	(58,548)	(55,882)
	3,716,392	2,748,553

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

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

	Retail customers				Wholesale
	Consumer lending	Mortgages	Small Business Lending	Corporate Lending	Total
At 1 January 2007	**28,412**	**1,318**	**4,757**	**29,530**	**64,017**
Charge for the year	7,068	161	1,679	(1,199)	7,709
Amounts written off	(15,844)	-	-	-	(15,844)
At 31 December 2007	**19,636**	**1,479**	**6,436**	**28,331**	**55,882**

	2008	2007
The ten largest loans and advances to customers	296,040	295,799
Percentage of gross loans	7.84%	10.55%

Included in the amount of loans and advances to customers is accrued interest of BGN 19,367 thousand (2007: BGN 10,602 thousand). Eurobank EFG Bulgaria has transferred loans to the companies that are part of the EFG Group amounting BGN 1,742,875 thousand as at 31 December 2008 (2007: BGN 1,489,633 thousand).

All amounts are shown in BGN thousands unless otherwise stated.

12 Investment securities, available for sale

	2008	2007
Bulgarian government bonds	295,024	228,170
Bonds issued by banks	11,349	8,593
Corporate bonds issued by companies	84,562	65,601
Foreign government bonds	25,069	25,033
Mortgage bonds issued by companies	2,830	7,109
Shares and participations	6,613	19,229
	425,447	**353,735**

	2008	2007
Equity securities		
Listed	2,154	16,191
Unlisted	3,380	3,038
Debt securities		
Listed	18,091	14,591
Unlisted	401,822	319,915
	425,447	**353,735**

Included in the amount of the investment securities is accrued interest in the amount of BGN 19,668 thousand (2007: BGN 13,254 thousand).

Movement in available for sale securities is reconciled as follows:

Book value as at 31 December 2006	**252,903**
Additions	151,165
Disposals	(71,632)
Accrued interest	7,231
Amortization of discounts or premium	12,931
Net fair value gains	1,137
Book value as at 31 December 2007	**353,735**
Additions	289,147
Disposals	(159,689)
Reclassified to held to maturity	(1,331)
Accrued interest	6,417
Amortization of discounts or premium	329
Net fair value loss	(63,162)
Book value as at 31 December 2008	**425,447**

Gains less losses from investment securities

	2008	2007
Transfer the revaluation reserve (deficit) from equity to Income Statement	(7,397)	11,581
Gains less (losses) recognized on sale of AFS securities directly through income statement	(316)	(223)
	(7,713)	**11,358**

All amounts are shown in BGN thousands unless otherwise stated.

13 Investment securities, held-to-maturity

In 2008, the Bank reclassified from available for sale portfolio to held to maturity portfolio debt securities of BGN 1,331 thousand due to change of intention to hold the securities to maturity. The debt securities are reclassified as at 1 October 2008.

	2008	2007
Foreign government bonds	1,365	-
Listed	1,365	-

Included in the amount of the investment securities, held to maturity is accrued interest in the amount of BGN 37 thousand (2007: nil).
Movement in held to maturity investment securities :

Book value as at 31 December 2007		-
Reclassified from Available for sale	1,331	-
Disposals	-	-
Accrued interest	23	-
Amortization of discounts or premium	11	-
Book value as at 31 December 2008	1,365	-

14 Other assets

	2008	2007
Amounts in transit	4,093	5,581
Other debtors	6,956	3,121
Deferred expenses	3,098	2,652
Repossessed collaterals	1,780	764
Materials	268	284
Prepayments	83	729
Less provision against other assets	(1,808)	(1,432)
Other assets	1,597	1,570
	16,067	**13,269**

15 Investment property

Investment property is held for long-term rental yields and is not occupied by the Bank. Investment property is carried at fair value, representing open market value determined by external valuers. The fair value of the investment properties is based on market prices, adjusted, for any difference in the nature, location or condition of the specific asset.
In 2008 EFG Properties Bulgaria has made an assessment of the investment property. Based on the assessment the fair value of Bank's investment properties does not differ from their carrying amount, because there were no significant changes in the market prices of these properties in 2008.The Bank has not recognized the amounts in income statement as at 31 December 2008.
Changes in fair values are recorded in the income statement as part of other income.

All amounts are shown in BGN thousands unless otherwise stated.

Notes to the financial statements (continued)

15 Investment property (continued)

Investment property	2008	2007
Beginning of the year	876	876
Net gains or losses from fair value adjustments	-	-
End of the Year	**876**	**876**

16 Property and equipment

	Property	Equipment and other fixed assets	Total
At 31 December 2006			
Gross amount	39,594	82,477	122,071
Accumulated depreciation	(4,217)	(33,635)	(37,852)
Net book amount	35,377	48,842	84,219
Year ended 31 December 2007			
Opening net book amount	35,377	48,842	84,219
Additions	13,064	21,945	35,009
Disposals	(907)	(78)	(985)
Depreciation charge (Note 4)	(3,352)	(13,051)	(16,403)
Closing net book amount	**44,182**	**57,658**	**101,840**
At 31 December 2007			
Gross amount	51,093	102,115	153,208
Accumulated depreciation	(6,911)	(44,457)	(51,368)
Net book amount	**44,182**	**57,658**	**101,840**
Year ended 31 December 2008			
Opening net book amount	**44,182**	**57,658**	**101,840**
Additions	10,017	22,083	32,100
Disposals	(157)	(534)	(691)
Revaluation of properties	1,547	-	1,547
Depreciation charge (Note 4)	(3,396)	(13,827)	(17,223)
Closing net book amount	**52,193**	**65,380**	**117,573**
At 31 December 2008			
Gross amount	61,134	120,217	181,351
Accumulated depreciation	(8,941)	(54,837)	(63,778)
Net book amount	**52,193**	**65,380**	**117,573**

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

All amounts are shown in BGN thousands unless otherwise stated.

17 Deposits from Banks	2008	2007
Items in course of collection	23,681	27,567
Deposits from other banks	103,193	159,945
Repurchase agreements	152,771	126,567
	279,645	314,079

Included within due to other banks is related accrued interest payable of BGN 996 thousand (2007: BGN 588 thousand).

18 Derivative financial instruments

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

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

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

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

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

The notional amounts of certain types of financial instrument provide a basis for comparison with instruments 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 price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which, instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The fair values of derivative instruments held are set out below.

All amounts are shown in BGN thousands unless otherwise stated.

Notes to the financial statements (continued)

18 Derivative financial instruments and hedging activities (continued)

	Contract / notional amount	Assets	Liabilities
Year ended 31 December 2008			
Derivatives held for trading	**3,059,671**	**46,465**	**46,432**
Foreign exchange derivatives			
OTC currency forwards	131,237	1,129	899
OTC currency swaps	1,687,220	13,301	13,480
OTC currency options bought and sold	9,989	325	329
Total OTC currency derivatives	**1,828,446**	**14,755**	**14,708**
Interest rate derivatives			
OTC interest rate swaps	229,466	3,381	17,603
OTC cross-currency interest rate swaps	694,141	27,688	13,480
OTC IR options bought and sold	307,618	641	641
Total OTC interest rate derivatives	**1,231,225**	**31,710**	**31,724**
Derivatives held for hedging			
OTC interest rate swaps	287,010	184	19,939
Total recognised derivative assets / liabilities	**3,346,681**	**46,649**	**66,371**
Year ended 31 December 2007			
Derivatives held for trading	**1,744,305**	**4,774**	**1,451**
Foreign exchange derivatives			
OTC currency forwards	376,712	-	54
OTC currency swaps	657,813	2,875	321
OTC currency options bought and sold	17,244	1,076	1,076
Total OTC currency derivatives	**1,051,769**	**3,951**	**1,451**
Interest rate derivatives	692,536	823	-
OTC interest rate swaps	285,076	752	-
OTC cross-currency interest rate swaps	395,914	-	-
Total OTC interest rate derivatives	**680,990**	**752**	**-**
Interest rate futures	**11,546**	**71**	**-**
Derivatives held for hedging	**189,785**	**1,787**	**-**
OTC interest rate swaps	189,785	1,787	-
Total recognised derivative assets / liabilities	**1,934,090**	**6,561**	**1,451**

All amounts are shown in BGN thousands unless otherwise stated.

Notes to the financial statements (continued)

18 Derivative financial instruments and hedging activities (continued)

The Bank hedges part of its existing interest rate risk resulting from any potential decrease in the fair value of fixed rate assets denominated in foreign currencies using interest rate swaps. The fair value of these swaps at 31 December 2008 was positive BGN 184 thousand (2007: 1,787) and negative BGN 19,939 thousands.(2008: null)
The loss on the hedging instruments were BGN 21, 542 thousand (2007: gain 609). The gains on the hedged item attributable to the hedged risk were BGN 21,362 thousand (2007: loss 609). In 2008 the ineffectiveness arising from fair value hedges, recognised in income statements is BGN 180 thousand (2007: nil)

19 Due to customers

	2008	2007
Large corporate customers	945,207	810,314
Medium corporate customers	134,684	117,355
Total due to corporate customers	**1,079,891**	**927,669**
Retail customers	2,768,352	2,407,359
Total due to customers	**3,848,243**	**3,335,028**

Included within due to customers is related accrued interest payable of BGN 20,477 thousand (2007: BGN 22,010 thousand).

20 Debt issued and other borrowed funds

	2008	2007
Debt securities in issue	74,371	135,226
Subordinated debt	189,487	86,442
Debt equity (hybrid) financial instruments	110,496	11,431
Long term debt from EBRD	27,297	17,543
Syndicated Loan	292,595	-
Total debt issued and Other borrowed funds	**694,246**	**250,642**

a) Debt securities in issue
In July 2006 corporate bonds of the nominal amount of BGN 33.75 million were issued. The new corporate bonds carry a fixed coupon rate of 4.55%. The outstanding balance as at 31 December 2008 is BGN 34,034 thousand (2007: BGN 34,072 thousands)
In April 2007 corporate bonds of the nominal amount of BGN 40 million were issued.
The new corporate bonds carry floating coupon rate calculated based on 3 month SOFIBOR plus 0.8%. The outstanding balance as at 31 December 2008 is BGN.40,337 thousand (2007: BGN 70,669 thousands)

(b) Subordinated debt and Debt equity (hybrid) financial instruments
In March 2005, DZI Bank signed a long term agreements with three Bulgarian legal entities for the total amount of BGN 36,000 thousands. In November 2006, all rights and obligations /including the receivables/, held by the three Bulgarian legal entities under the agreements, have been transferred to Eurobank EFG Holding /Luxembourg/ S.A., whereas all contractual provisions remain unchanged. The long term debt has a ten years maturity and fixed interest rates 6,5% for the subordinated debt and 7% for debt-equity (hybrid) instruments. As at 31 December 2008 the total liability amounted to BGN 39,861 thousands. (2007: BGN 37,686 thousands)
In June 2007, Eurobank EFG Bulgaria signed a long term agreement with EFG Eurobank Ergasias The agreement is for BGN 58,674 thousands at floating rate of 3 month Euribor plus 0.5%. As at 31 December 2008 the total liability amounted to BGN 60,659 thousands (2007: BGN 60,187 thousands).

All amounts are shown in BGN thousands unless otherwise stated.

Notes to the financial statements (continued)

20 Debt issued and other borrowed funds (continued)

In June 2008, Eurobank EFG Bulgaria signed a long term agreements with EFG Eurobank Ergasias for the total amount of BGN 195,583 thousands. The subordinated debt shall be valid at least for the period of 7 years of its signing date at floating rate of 3 month Euribor plus 2.5%. The debt-capital (hybrid) hybrid agreement shall be valid until the full repayment of all amounts due under the agreement (principal, interest, commissions and costs) at floating rate of 3 month Euribor plus 3.5%. As at 31 December 2008 the total liability amounted to BGN199,463 thousands.

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

In March 2004, Eurobank EFG Bulgaria and the European Bank for Reconstruction and Development executed a Loan Agreement whereby the Bank can borrow up to EUR 5 million in two equal tranches of EUR 2.5 million each, for the purpose of granting for improving rational energy utilization in Republic of Bulgaria.In December 2006, the amount of the loan was increased with EUR 15 million As at 31 December 2008 the total liability amounted to BGN 14,542 thousands.

In June 2005, Eurobank EFG Bulgaria and the European Bank for Reconstruction and Development executed a Loan Agreement whereby the Bank can borrow up to EUR 5 million for the purpose of granting funds to individual household in the Republic of Bulgaria in respect of residential energy efficiency and small renewable energy investments. As at 31 December 2008 the total liability amounted to BGN 7,072 thousands.

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 million for the purpose of granting funds to small and medium-sized enterprises in the form of Small and Micro Loans. As at 31 December 2008 the total liability amounted to BGN 5,683 thousands.

According to the loan agreements with European Bank for Reconstruction and Development, the Bank is required to comply with certain financial and non-financial covenants. In case of breach of these covenants the Bank is obliged to inform European Bank for Reconstruction and Development immediately. In case of breach of any covenant, European Bank for Reconstruction and Development has the right to require payment of the whole amount of the borrowing or of any portion of the principle and accrued interest.

Syndicated loan

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

Notes to the financial statements (continued)

20 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 2008
	Within 1 year	1-5 years	Over 5 years	Total
Corporate Bonds				
Fixed rate	-	33,694	-	**33,694**
Accrued interest	340	-	-	**340**
Floating rate	-	39,934	-	**39,934**
Accrued interest	403	-	-	**403**
Subordinated debt				
Floating rate	-	-	156,466	**156,466**
Accrued interest	-	-	5,290	**5,290**
Fixed rate	-	-	25,000	**25,000**
Accrued interest	-	-	2,731	**2,731**
Debt equity (hybrid) financial instruments				
Floating rate	-	-	97,792	**97,792**
Accrued interest	-	-	574	**574**
Fixed rate	-	-	11,000	**11,000**
Accrued interest	-	-	1,130	**1,130**
EBRD Credit lines				
Floating rate	-	26,694	-	**26,694**
Accrued interest	-	603	-	**603**
Syndicated Loans				
Floating rate	-	292,484	-	**292,484**
Accrued interest	-	111	-	**111**
Total Debt issued and other borrowed funds	**743**	**393,520**	**299,983**	**694,246**

All amounts are shown in BGN thousands unless otherwise stated.

Notes to the financial statements (continued)

20 Debt issued and other borrowed funds (continued)

				31 December 2007
	Within 1 year	1-5 years	Over 5 years	Total
Mortgage Bonds				
Fixed rate	-	30,302	-	**30,302**
Accrued interest	183	-	-	**183**
Corporate Bonds				
Fixed rate	-	33,684	-	**33,684**
Accrued interest	388	-	-	**388**
Floating rate	-	69,863	-	**69,863**
Accrued interest	806	-	-	**806**
Subordinated debt				
Floating rate	-	-	58,675	**58,675**
Accrued interest	-	-	1,512	**1,512**
Fixed rate	-	-	25,000	**25,000**
Accrued interest	-	-	1,255	**1,255**
Debt equity (hybrid) financial instruments				
Fixed rate	-	-	11,000	**11,000**
Accrued interest	-	-	431	**431**
EBRD Credit lines				
Floating rate	17,521	-	-	**17,521**
Accrued interest	22	-	-	**22**
Total Debt issued and other borrowed funds	**18,920**	**133,849**	**97,873**	**250,642**

All amounts are shown in BGN thousands unless otherwise stated.

21 Deferred income taxes

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 10% (2007: 10%). The movement on the deferred income tax account is as follows:

	2008	2007
Deferred tax liability at beginning of year	3,937	2,046
Income statement charge (Note 7)	469	1,790
Reclassification from deferred tax liability to current tax	(3,571)	-
(Credit)/debit to revaluation reserves in equity	(19)	101
Deferred tax liability at end of year	**816**	**3,937**

Based on the management decision the Bank has reclassified to the current tax the amount of deferred tax liability under the difference until 2007 (BGN 3,571 thousand) between the profit calculated based on the impairment for credit losses according to the local regulation and the profit calculated based on the impairment for credit losses according to IAS 39.

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

	2008	2007
Deferred income tax liabilities		
Accelerated tax depreciation	2,413	1,698
Property revaluation	363	208
Available-for-sale revaluation	-	174
Loan loss provisions	-	3,571
	2,776	**5,651**
Deferred income tax assets		
Unused holidays	126	110
Provision for court claims	23	83
Provision for retirement obligations	179	223
Restructuring provisions	406	510
Other temporary differences	1,226	788
	1,960	**1,714**

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

	2008	2007
Difference between statutory loan loss provisions and IFRS provisions	-	2,654
Depreciation	716	734
Unused holidays	(16)	(41)
Provision for court claims and off balances	60	(36)
Provision for retirement obligations	43	(223)
Restructuring provisions	104	(510)
Other Temporary Differences	(438)	(788)
Net deferred tax charge/(credit)	**469**	**1,790**

All amounts are shown in BGN thousands unless otherwise stated.

22 Provisions for other liabilities and charges

(a) Legal proceedings

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

Legal provisions	**2008**	**2007**
Opening balance at 1st of January	282	471
Charged to the income statement	(31)	37
Used during year	(19)	(226)
Closing balance	**232**	**282**

(b) Provisions for restructuring

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

Restructuring provisions	**2008**	**2007**
Opening balance at 1st of January	5,103	-
Reversed to the income statement	(782)	8,019
Used during year	(259)	(2,916)
Closing balance	**4,062**	**5,103**

Provisions used during the year	**2008**	**2007**
Audit and consultancy expenses	199	1,585
Staff related expenses	-	521
Other expenses	60	810
Total	**259**	**2,916**

All amounts are shown in BGN thousands unless otherwise stated.

22 Provisions for other liabilities and charges (continued)

Assets pledged

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

	Asset		Related liability	
	2008	2007	2008	2007
Mandatory reserves with BNB	324,684	411,417	4,058,434	3,428,471
Trading and Investment Securities	315,171	222,672	287,884	180,569
Loans to customers	-	31,565	-	30,484
	639,855	**665,654**	**4,346,318**	**3,639,524**

The total financial assets that have been pledged as collateral for liabilities (including amounts reflected above) at 31 December 2008 was BGN 639,855 thousands (2007: BGN 665,654 thousands). 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 9,385 thousands (2007: BGN62,852 thousands). The Bank has accepted bonds and shares at fair value 11,172 thousands (2007: 135,774) as collateral, which it is permitted to sell or repledge. The collaterals accepted have not been repleged or lent to third parties.

23 Retirement benefits obligations

Retirement benefits obligations	2008	2007
Liability for staff retirement indemnity obligations at 1 January	2,226	250
Cost for the year (see below)	(349)	1,976
Benefits paid	(84)	-
Liability for staff retirement indemnity obligations at 31 December	**1,793**	**2,226**

Expenses recognised in profit or loss		
Current service cost	(349)	1,976
Total included in staff costs	**(349)**	**1,976**

Actuarial assumptions	**2008**	**2007**
Discount rate	5.70%	5.00%
Future salary increase	4.00%	5.50%
Inflation rate	3.00%	3.00%

All amounts are shown in BGN thousands unless otherwise stated.

24	Other liabilities	2008	2007
	Accrued expenses	30,575	22,362
	Other creditors	20,312	35,614
	Deferred income	1,674	1,430
	Unused pay leave accrual	1,000	820
	Withholding tax obligations	97	41
	Off balance sheet items provisions	350	472
	Other	52	618
		54,060	**61,357**

25 Share capital

As at 31 December, 2008 the total authorized number of ordinary shares of EFG Eurobank, Bulgaria was 246,177,887 with a par value of BGN 1 per share (2007: 246,177,887).

26 Cash and cash equivalents

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

	2008	2007
Cash in hand (Note 8)	162,319	126,952
Balances with Central bank (Note 8)	124,386	177,596
Loans and advances to banks (Note 9)	633,312	625,441
Trading securities up to 90 days	3,869	3,482
	923,886	**933,471**

27 Related party transactions

Eurobank EFG Bulgaria is subsidiary of EFG Eurobank Ergasias listed in the Athens Stock Exchange. EFG Eurobank Ergasias is a member of the EFG Group, the ultimate parent company of which is EFG Bank European Financial Group, a bank incorporated in Switzerland, which owns 43.68% of the ordinary shares. The remaining 56.32% of the shares are widely held.

All the voting rights in EFG Bank European Financial Group are held by the Latsis family, the ultimate controlling party of the Group.

As at 31 December 2008 EFG Eurobank Ergasias owns directly 63.56% of Eurobank EFG, Bulgaria, another 20.53% through its 100% subsidiary CEH Balkan Holdings Limited and 15.61% through its subsidiary Eurobank Holding (Luxemburg) S.A.

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)

27 Related party transactions (continued)

	31 December 2008		31 December 2007	
	EFG Group	Key management personel	EFG Group	Key management personel
Loans and advances to banks	593,863		606,026	-
Loans and advances to customers	-	241	-	298
Derivative financial instruments assets	24,274		2,999	-
Due to other banks	213,979		112,031	-
Due to Customers	48,619	90	35,321	2
Debt issued and other borrowed funds	358,658		97,873	
Derivative financial instruments liabilities	49,575		2,682	-
Net interest income/(expense)	12,537	8	7,631	10
Net banking fee and commission income/(expense)	(3,897)		(6,181)	-
Net trading income	-		401	
Other operating income/(expenses)	22,394		(308)	-
Salaries and other short-term benefits	-	1,404		2,190
Letters of quarantee issued	785		448	-
Letters of quarantee received	138		1,499	-

No provisions have been recognised in respect of loans given to related parties (2007:nil).

28 Events after the balance sheet date

There are no significant post balance sheet events with effect on the financial statements as at 31 December 2008.

All amounts are shown in BGN thousands unless otherwise stated.

A Member of Eurobank EFG Group