
**EUROBANK EFG BULGARIA
FINANCIAL STATEMENTS
31 DECEMBER 2010**

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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 2010 and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinion


In our opinion, the accompanying financial statements give a true and fair view of the financial position of Eurobank EFG Bulgaria AD as of 31 December 2010, 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

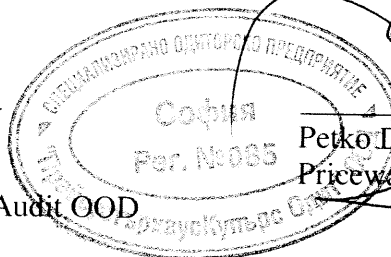
Management is also responsible for preparing the Annual Directors' Report in accordance with the Accounting Act.

We are required by the Accounting Act to express an opinion whether the Annual Directors' Report is consistent with the annual financial statements of Eurobank EFG Bulgaria AD.

In our opinion, the Annual Directors' Report set out on pages 1 to 6 is consistent with the accompanying financial statements of the Eurobank EFG Bulgaria AD as of 31 December 2010.



Rositsa Boteva
Statutory Auditor
PricewaterhouseCoopers Audit OOD
29 March 2011
Sofia, Bulgaria





Petko Dimitrov
PricewaterhouseCoopers Audit OOD

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

DIRECTORS' REPORT

The management presents the annual Directors' report as of 31 December 2010.

BUSINESS DESCRIPTION

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

BUSINESS OVERVIEW**Development and results from the business activity**

Eurobank EFG Bulgaria is a leading universal bank in Bulgaria, part of EFG Group international financial holding. 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. The Bank has 214 retail network locations and 2,023 customer service desks in post offices throughout the country and employs 2,998 people.

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

In 2010 there were many positive signs that the world economy was gradually emerging from the crisis. The real growth in the second and third quarters of 2010 was positive which officially confirmed that the country is out of the recession. The other macroeconomic indicators were also encouraging – inflation remained subdued, unemployment was slightly decreasing since the second quarter of the year onwards and the budget deficit was better than expected. The forecasts for 2011 are much more optimistic and it is expected that by the middle of 2011, the country will return to more normal levels of growth.

Despite the difficult environment, the Bank performed very well. Total assets of the Bank reached BGN 6,309 million as of 31 December 2010, increased by 5% compared to 2009. The Bank has followed its strategy with renewed emphasis on the segmentation of clients and strengthening the corporate and transactional Banking element of its operations. The solid brand image and the well-developed branch network contributed to the strong relationship between the Bank and its existing and new clients. The Bank plans to develop its product range further, in view of the evolving, dynamic and changing needs of its customers. Taking into consideration the current economic environment, the Bank will consider new opportunities for attracting new funding, in order to provide adequate financing to households and businesses.

During 2010, the operating income of the Bank reached BGN 326 million and the operating expenses excluding impairment charge for the year amounted to BGN 163 million. The net profit of the Bank for the year ended 2010 amounted to BGN 35 million.

As of 31 December 2010 the Bank's net loan portfolio amounts to BGN 4,156 million. The Bank's balance sheet provisions for impairment amount to BGN 186 million.

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

The Bank finances its operations mainly with funds attracted from its clients. The sound market position of the Bank, its substantial deposit market share as well as the good reputation, confirm that the deposit products offered by the Bank are competitive. As of 31 December 2010 attracted funds from clients amounting to BGN 4,642 million increased by 7% compared to 2009. With regards to preserving normal operating environment in the Bank, it is essential that optimal liquidity levels are to be maintained constantly. As of 31 December the Bank's ratio of liquid assets is 22.23%.

The share capital of the Bank is sufficient to maintain capital adequacy cover for its risk-weighted assets. The capital base of the Bank as of 31 December 2010 reached BGN 538 million (calculated in accordance to the Capital Adequacy Ordinance 8 of the Bulgarian National Bank). As of 31 December 2010 the Bank's Basel II compliant capital adequacy ratio is 13.35 %, higher than the 12% minimum set by the Bulgarian National Bank. The reinforcement of the capitalization increases the potential of the Bank for further growth and utilization of opportunities.

Important events that have occurred during the financial year

During 2010 Eurobank EFG Bulgaria has placed a renewed emphasis on the real economy, doing its best to support viable projects with sustainable growth prospects and characteristics that make sense in the current environment. This allowed it to preserve its positions among both the top 5 providers of corporate loans. At the same time, the Bank continued to work closely with its SME and SBB clients, supporting them during these difficult times either through extension of new credit or restructuring when and where appropriate.

The Bank managed to secure major deals by signing loan agreement with the European Bank for Reconstruction and Development (EBRD) for a credit limit of EUR 75 million with a tenor of 4 years. The granted funds are used for funding private enterprises, firms, businesses, sole proprietors or other legal entities.

In the last financial year the Bank actively promoted its trade related services where it has become a major player in the market. Together with the Capital Markets Division, Corporate Banking Division has developed a special product for its clients for hedging the interest rate risk. The Capital Market Division has also scored notable achievements in other areas holding top positions in the interbank market, custody and bond trading.

On the retail side, the Bank defended its leading positions as the second biggest mortgage lender in the country, third biggest Bank in consumer lending and in top three in the card business. It also launched several new products throughout the year such as the Flexi mortgage loan, the virtual credit card, the "Dynamica" packages for SBB clients and the new deposit "Renta" for our individual clients. All the product launches were supported by targeted advertising campaigns as this was the best of times to get its message heard on the market and enhance its image as an active and solid banking institution.

Even though 2010 was a challenging year and many companies limited their activities in order to overcome the crisis, Eurobank EFG Bulgaria remained responsible to its clients, employees and the community at large. As a responsible corporate citizen, the Bank continued its long-term CSR (Corporate Social Responsibilities) project and furthermore launched new community initiatives, investing in the wellbeing of the society and the future of the country.

In 2010 the Bank carried out the "High start with Postbank" program for a sixth consecutive year. The fully revamped program aimed to foster the dialogue between high school students, the Ministry of Education, Youth and Science and partnering NGOs. "High Start with Postbank" targeted high school students in all 1,134 high schools throughout the country and challenged them to compete for a total reward fund of BGN 50 000.

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

Eurobank EFG Bulgaria sustained its efforts to improve its environmental performance in the framework of the "Green start with Postbank" programme, an internal campaign, which purpose is to foster environment friendly conduct within the company. For a third consecutive year, the Bank remained committed to the purity and preservation of the Pancharevo Lake area with its long term project *Crystal Purity of Pancharevo*.

In 2010 the Bank started a new community related project *Cross safely with Postbank*, aimed at raising awareness for a very important cause – the safety of pedestrians on the roads. Eight zebra crossings in Sofia and the cities of Varna, Stara Zagora and Vratsa were renewed as part of Postbank's national campaign for the restoration of crosswalks.

The Bank has been awarded numerous prizes and distinctions for its products and service excellence in 2010. Without a doubt, the most important of them were to be selected as "Bank of the year" and "Bank of the client" by "Pari daily" and Banking Association respectively.

SHARE CAPITAL STRUCTURE

As of 31 December 2010 the total authorized number of ordinary shares of EFG Eurobank, Bulgaria was 452,752,652 with a nominal value of BGN 1 per share. EFG Eurobank Ergasias owns directly 34.56%, another 54.27% of the share capital is owned by EFG New Europe Holding B.V, 11.16% by CEH Balkan Holdings Limited and 0.01% by minority shareholders.

On 9 August 2010 Eurobank EFG Bulgaria signed a subordinated debt agreement with EFG Eurobank Ergasias for attracting EUR 20 million with a tenor of 7 years which was used to increase the capital base.

BOARD OF DIRECTORS

As at 31 December 2010 the Board of Directors consisted of the following members:

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

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

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

In 2010 the members of the Board of Directors did not receive remunerations from the Bank in their capacity of Board of Directors members.

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

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

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

○ **Anthony Hassiotis**

Investments AMK EOOD, Bulgaria – sole owner

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

○ **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 Services S.A., Romania – President of the Board
EFG Property Services d.o.o. Beograd, Serbia – President of the Board
Eurobank EFG a.d. Beograd, Serbia – President of the Board
EFG Leasing EAD, Bulgaria – Member of the Board
EFG Property Services Sofia AD, Bulgaria – President of the Board
Greek-Serbian Chamber of Commerce – Vice President of the Board
Hellenic-Romanian Chamber of Commerce and Industry – Secretary General

○ **Anthony Hassiotis**

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

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

- **Asen Yagodin**
EFG Securities Bulgaria EAD, Bulgaria - Member of the Board
Bulgarian Banks Association, Bulgaria – Deputy Chairperson of the Managing Board
Bulgarian Stock Exchange Sofia, Bulgaria – Chairman of the Board of Directors
- **Petia Dimitrova**
EFG Property Services Sofia AD, Bulgaria – Member of the Board
Bulgarian Retails Services AD, Bulgaria – Chairperson of the Board and Executive Director
IMO Property Investments Sofia EAD, Bulgaria – Member of the Board and Executive Director
Bulgarian Business Leaders Forum (BBLF), Bulgaria – Member of the Managing Board
Air Traffic Services Authority (State-owned enterprise), Bulgaria – Member of the Managing Board (resigned 10.03.2010)
Communicative construction and rehabilitation (State-owned enterprise), Bulgaria – Chairperson of the Managing Board
Audit Bureau of Circulations – Bulgaria – Chairperson of the Monitoring Board
- **Piergiorgio Pradelli**
Eurobank EFG Private Bank Luxembourg S.A. - Member of the Board
Bancpost S.A, Romania - Member of the Board
Eurobank EFG a.d. Beograd, Serbia - Member of the Board
EFG Internet Services S.A., Greece - Member of the Board
Eurobank Tekfen A.S., Turkey - Member of the Board
PJSC “Universal Bank”, Ukraine – Member of the Supervisory Board
Eurobank EFG Ergasias SA, Greece – General Manager
- **Georgios Katsaros**
EFG Telesis Finance, Greece – Member of the Board
SIDMA, Greece – Member of the Board
JUMBO SA, Greece – Member of the Board
- **Andreas Chasapis**
EFG Leasing SA, Greece - Member of the Board
EFG Factors, Greece - President of the Board
- **Evangelos Kavvalos**
EFG Eurobank Ergasias Leasing SA, Greece – Member of the Board
EFG Eurolife Life Insurance S.A., Greece - Member of the Board
Eurobank EFG Factors SA, Greece – Member of the Board
EFG Insurance Services SA, Greece – Member of the Board
Eurobank EFG Poland branch (Polbank EFG), Poland – Member of the Supervisory Board
Eurobank Tekfen AS, Turkey - Member of the Board
PJSC "Universal Bank", Ukraine – Member of the Supervisory Board
Eurobank EFG a.d. Beograd, Serbia – Member of the Board
EFG Eurobank Ergasias SA, Greece – General Manager
Unitfinance S.A., Greece - Member of the Board

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

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

The Bank has not entered into contracts specified in Article 240b, paragraph 1 of the Commerce Act during 2010.

GROUP STRUCTURE

Eurobank EFG Bulgaria does not have any subsidiaries as at 31 December 2010 and therefore no consolidated financial statements are prepared at this entity level.

OBJECTIVES FOR 2011

The Bank's strategic priorities for 2011 are focused on increasing the profitability and maintaining the market position of the Bank while closely monitoring the lending portfolio quality and strengthening the liquidity position.

In 2011 the Bank will place emphasis on deposit gathering and liquidity management as prerequisites for controlled expansion of the lending portfolio. The cost of funding will be under constant attention as being the most important factor for the pricing of the existing and the new loans.

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

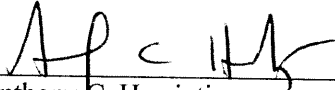
MANAGEMENT RESPONSIBILITIES

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

The Directors confirm that suitable accounting policies have been used.

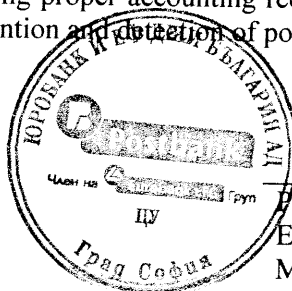
The Directors also confirm that the legislation applicable for banks in Bulgaria has been followed and that the financial statements have been prepared on a going concern basis.

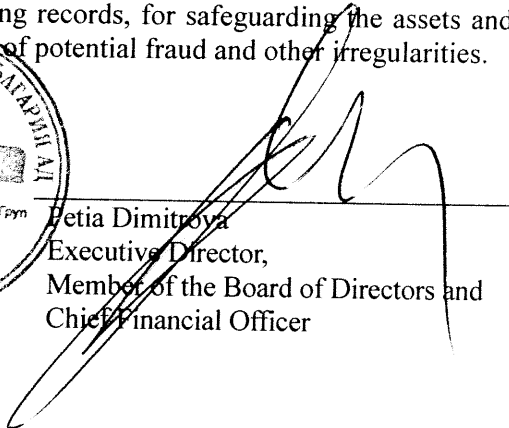
The Directors are responsible for keeping proper accounting records, for safeguarding the assets and for taking reasonable steps for the prevention and detection of potential fraud and other irregularities.



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

24 March 2011
Sofia, Bulgaria



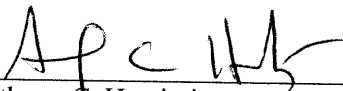


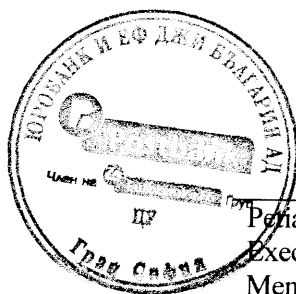
Petia Dimitrova
Executive Director,
Member of the Board of Directors and
Chief Financial Officer

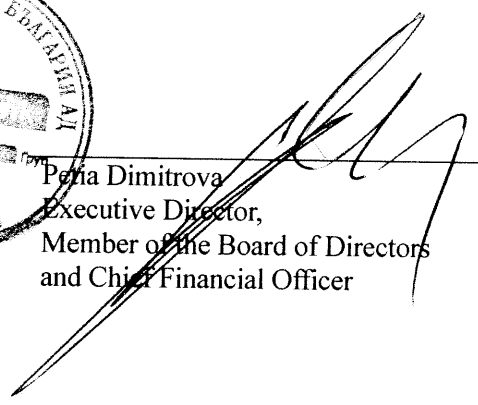
(All amounts are shown in BGN thousands unless otherwise stated)

Income statement

	Notes	Year ended 31 December	
		2010	2009
Interest and similar income	1	528,211	543,167
Interest and similar charges	1	(259,417)	(308,452)
Net interest income		268,794	234,715
Fee and commission income	2	69,894	62,298
Fee and commission expense	2	(14,851)	(17,273)
Net fee and commission income		55,043	45,025
Dividend income		563	22
Other operating income	3	452	5,280
Net trading (loss)	4	(2,992)	(474)
Gains less (losses) from trading securities	12	(135)	944
Gains less (losses) and impairment of securities available for sale	14	4,223	(1,368)
Other operating expenses	5	(146,263)	(138,421)
Deposit Insurance Fund expense		(17,100)	(16,903)
Impairment charge for credit losses	7	(123,941)	(110,645)
Profit before income tax		38,644	18,175
Income tax expense	8	(3,702)	(2,068)
Profit for the year		34,942	16,107

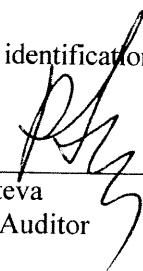

Anthony G. Hassiotis
Chief Executive Officer and
Member of the Board of Directors

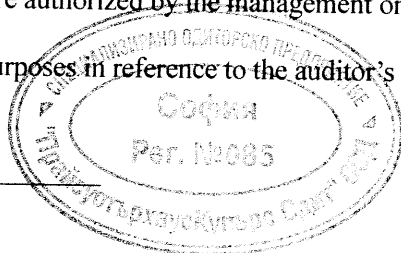



Petia Dimitrova
Executive Director,
Member of the Board of Directors
and Chief Financial Officer

The Financial statements were authorized by the management on 24 March 2011

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


Rositsa Boteva
Registered Auditor




Petko Dimitrov
PricewaterhouseCoopers Audit OOD

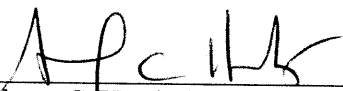
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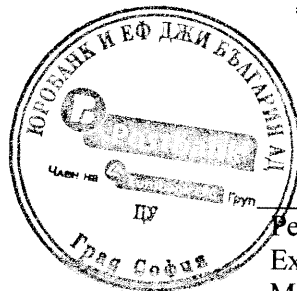
The following notes set out on pages 13 to 68 form an integral part of these financial statements

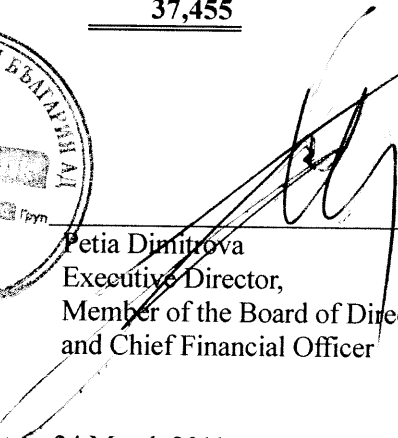
(All amounts are shown in BGN thousands unless otherwise stated)

Statement of comprehensive income

	Notes	Year ended 31 December	
		2010	2009
Profit for the year		<u>34,942</u>	<u>16,107</u>
Other comprehensive income for the year, after tax:			
Available for sale securities			
-net changes in fair value, net of tax	9	8,338	45,495
-transfer of (profit)/loss to net profit on sale	9	<u>(5,825)</u>	<u>168</u>
		2,513	45,663
Gain on property revaluation, net of tax	9	-	96
Other comprehensive income for the year	9	<u>2,513</u>	<u>45,759</u>
Total comprehensive income for the year		<u>37,455</u>	<u>61,866</u>



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

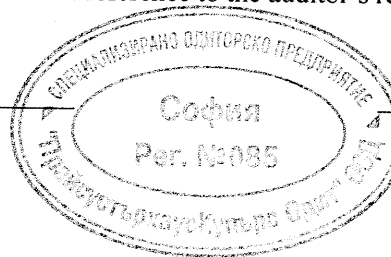


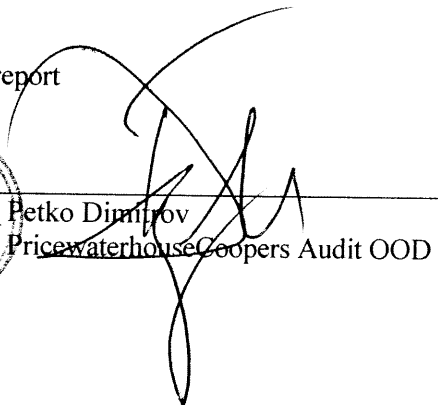

Petia Dimitrova
Executive Director,
Member of the Board of Directors
and Chief Financial Officer

The Financial statements were authorized by the management on 24 March 2011.

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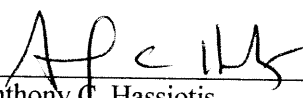

Rositsa Boteva
Registered Auditor
29 March 2011



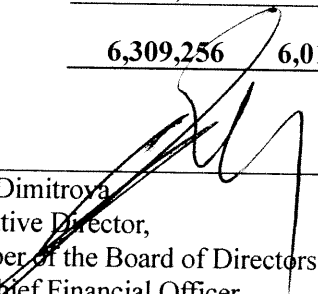

Petko Dimitrov
PricewaterhouseCoopers Audit OOD

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

Balance sheet	Notes	As at 31 December	
		2010	2009
Assets			
Cash and balances with the Central Bank	10	646,368	562,927
Loans and advances to banks	11	983,662	587,730
Financial assets held for trading	12	41,216	16,801
Loans and advances to customers	13	4,156,004	4,276,043
Investment securities available-for-sale	14	340,263	436,382
Derivative financial instruments	20	22,442	16,304
Investment property	15	876	876
Property, plant and equipment	16	79,319	88,360
Intangible assets	17	23,903	18,270
Current income tax recoverable		2,899	3,248
Other assets	18	12,304	13,005
Total assets		6,309,256	6,019,946
Liabilities			
Deposits from banks	19	438,369	372,042
Derivative financial instruments	20	76,513	54,758
Due to customers	21	4,641,511	4,332,669
Debt issued and other borrowed funds	22	335,111	476,331
Deferred income tax liabilities	23	3,332	2,669
Provisions for other liabilities and charges	24	1,637	473
Retirement benefit obligations	25	2,226	1,899
Other liabilities	26	28,134	34,137
Total liabilities		5,526,833	5,274,978
Shareholders' equity			
Share capital	27	452,753	452,753
Other reserves		329,670	292,215
Total shareholders' equity		782,423	744,968
Total shareholders' equity and liabilities		6,309,256	6,019,946

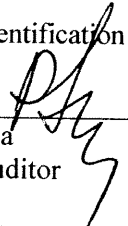

Anthony C. Hassiotis
Chief Executive Officer and
Member of the Board of Directors

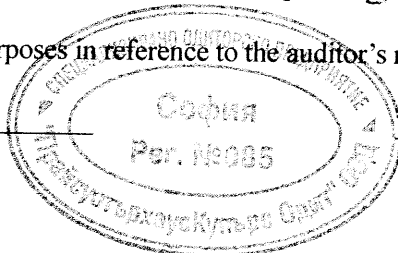


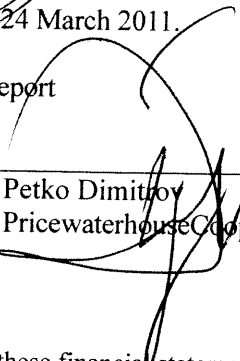

Petia Dimitrova
Executive Director,
Member of the Board of Directors
and Chief Financial Officer

The Financial statements were authorized by the management on 24 March 2011.

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


Rositsa Boteva
Registered Auditor




Petko Dimitrov
PricewaterhouseCoopers Audit OOD

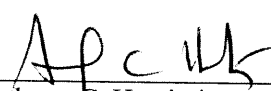
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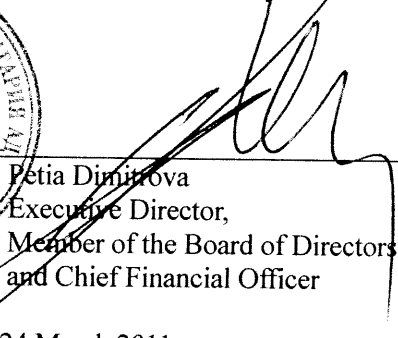
The following notes set out on pages 13 to 68 form an integral part of these financial statements

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

Statement of changes in shareholders' equity

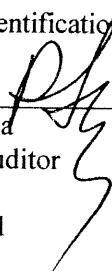
	Share capital	Property revaluation reserve	Available-for-sale investments revaluation reserve (deficit)	Retained earnings and other reserves	Total
Balance at 1 January 2009	246,178	7,736	(55,280)	277,893	476,527
Other comprehensive income for the year	-	96	45,663	-	45,759
Profit for the year	-	-	-	16,107	16,107
Total comprehensive income for the year 2009	-	96	45,663	16,107	61,866
Issue of share capital	206,575	-	-	-	206,575
Transfer to retained earnings	-	(829)	-	829	-
Balance at 31 December 2009	452,753	7,003	(9,617)	294,829	744,968
Balance at 1 January 2010	452,753	7,003	(9,617)	294,829	744,968
Other comprehensive income for the year	-	-	2,513	-	2,513
Profit for the year	-	-	-	34,942	34,942
Total comprehensive income for the year 2010	-	-	2,513	34,942	37,455
Transfer to retained earnings	-	(4,627)	-	4,627	-
Balance at 31 December 2010	452,753	2,376	(7,104)	334,398	782,423


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

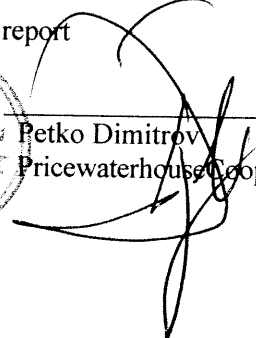

 Petia Dimitrova
 Executive Director,
 Member of the Board of Directors
 and Chief Financial Officer

The Financial statements were authorized by the management on 24 March 2011.

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


 Rositsa Boteva
 Registered Auditor

29 March 2011


 Petko Dimitrov
 PricewaterhouseCoopers Audit OOD

The following notes set out on pages 13 to 68 form an integral part of these financial statements

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

Statement of cash flows

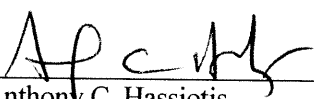
	Year ended 31 December	
	2010	2009
Cash flow from operating activities		
Interest received	531,210	514,703
Interest paid	(274,962)	(277,094)
Dividends received	563	22
Fees and commission received	68,562	51,044
Fees and commission paid	(13,128)	(17,273)
Amounts paid to and on behalf of employees	(62,443)	(51,923)
Net trading and other income received	(213)	3,595
Other expenses paid	(85,717)	(79,055)
Tax paid	(2,967)	(10,594)
Cash from operating activities before changes in operating assets and liabilities	160,905	133,425
Changes in operating assets and liabilities		
Net (increase) in reserve with the Central Bank	(11,736)	(36,584)
Net (increase)/decrease in trading securities	(23,875)	3,897
Net decrease/(increase) in loans and advances to customers	31,919	(641,690)
Net decrease/(increase) in other assets	1,490	(186)
Net increase in due to other banks	66,561	94,796
Net increase in amounts due to customers	319,514	446,848
Net (decrease)/increase in other liabilities	(5,929)	8,342
Net cash flow from operating activities	538,849	8,848
Cash flow from investing activities		
Purchase of property, plant and equipment and intangible assets (Notes 16, 17)	(13,694)	(11,203)
Purchase of investment securities	(21,367)	(2,504)
Proceeds on disposal of property and equipment	7	4,858
Proceeds from sale of investment securities	108,316	34,966
Net cash flow from investing activities	73,262	26,117

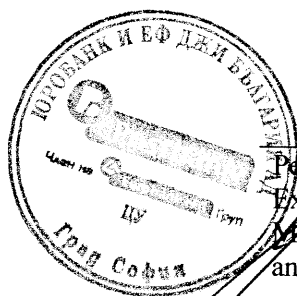
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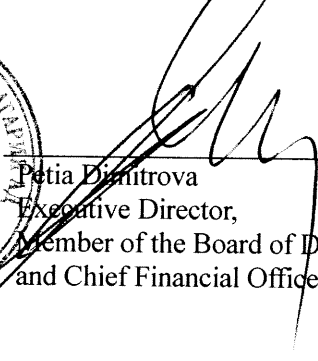
(All amounts are shown in BGN thousands unless otherwise stated)

Statement of cash flows (continued)

	Year ended 31 December	
	2010	2009
Cash flow from financing activities		
Issue of ordinary shares	-	206,575
Repayments of issued debt securities	-	(33,750)
Long-term financing received	156,326	22,270
Long-term debt repaid	(300,126)	(206,583)
Net cash used in financing activities	(143,800)	(11,488)
Effect of exchange rate changes on cash and cash equivalents	(264)	3,622
Net change in cash and cash equivalents	468,047	27,099
Cash and cash equivalents at beginning of year	950,985	923,886
Cash and cash equivalents at end of year (Note 28)	1,419,032	950,985

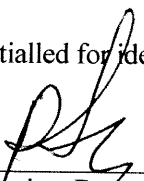

Anthony C. Hassiotis
Chief Executive Officer and
Member of the Board of Directors




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

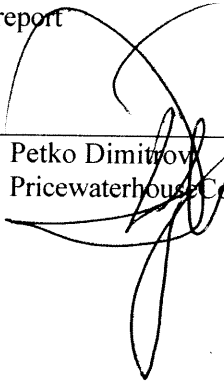
The Financial statements were authorized by the management on 24 March 2011.

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


Rositsa Boteva
Registered Auditor

29 March 2011




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 214 network locations (2009: 209) and 2,023 customer service desks in post offices throughout the country (2009: 2,023). The address of its registered office is as follows: 14 Tsar Osvoboditel Blvd, 1048 Sofia, Bulgaria. The Bank employs 2,998 people (2009: 2,902).

Accounting policies

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

A. Basis of preparation

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

The policies set out below have been consistently applied to the years 2009 and 2010.

(a) Amended and new standards and interpretations effective in 2010

- IAS 27, Revised - Consolidated and Separate Financial Statements
- IAS 39, Amendment - Eligible Hedged Items
- IFRS 3, Revised - Business Combinations
- IFRS 1, First-time Adoption of International Financial Reporting Standards
- IFRS 2, Amendments - Group Cash settled Share based payment transactions
- IFRIC 12, Service Concession Arrangements
- IFRIC 15, Agreements for the Construction of Real Estate
- IFRIC 16, Hedges of a Net Investment in a Foreign Operation
- IFRIC 17, Distributions of Non-cash Assets to Owners
- IFRIC 18, Transfers of Assets from Customers
- Amendments to various Standards that form part of IASB's 2009 Annual Improvement Project

(b) Standards and Interpretations issued but not yet effective

- IAS 24, Amendment - Related Party Disclosures (effective 1 January 2011)
- IAS 32, Amendment - Classification of Rights Issues (effective 1 January 2011)
- IAS 12, Amendment - Deferred tax: Recovery of Underlying Assets (effective 1 January 2012, not yet endorsed by EU)
- IFRS 7, Amendment - Disclosures, Transfers of Financial Assets (effective 1 January 2012, not yet endorsed by EU)
- IFRS 9, Financial Instruments (effective 1 January 2013, not yet endorsed by EU). While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. The Bank is considering the implications of the standard and the timing of its adoption.
- IFRIC 14, Amendment - Prepayments of a Minimum Funding Requirement (effective 1 January 2011)

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

Notes to the financial statements (continued)

A. Basis of preparation (continued)

- IFRIC 19, Extinguishing Financial Liabilities (effective 1 January 2011)
- Amendments to various Standards that form part of IASB's 2010 Annual Improvement Project (effective 1 January 2011)

The application of the above mentioned standards and interpretations does not have and is not expected to have a material impact on the Bank's financial statements in the period of the initial application.

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

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

B. Foreign currencies transactions

Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Bank operates ('the functional currency'). The financial statements are presented in the national currency of Bulgaria, Leva (BGN), which is the 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 recognised in the income statement. Such balances are translated at the Central bank's year-end exchange rates.

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

At 31 December 2010, monetary assets and liabilities are translated at the reference Central Bank exchange rate – BGN 1 for EUR 0.5113 (2009: BGN 1 for EUR 0.5113) and BGN 1 for USD 0.6789 (2009: BGN 1 for USD 0.7331).

C. Interest income and expense

Interest income and expense are recognised in the income statement for all interest bearing instruments on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period using effective interest rate. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount. When appropriate the Bank uses a shorter amortization period.

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

Notes to the financial statements (continued)

C. Interest income and expense (continued)

This is the period to the next reprising date when the market rates are changed before the expected maturity of the instrument.

When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument, but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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

D. Fees and commissions income and expense

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

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

E. Financial assets

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

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

This category includes financial assets held for trading.

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

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

(b) Available-for-sale

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

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

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

Notes to the financial statements (continued)

E. Financial assets (continued)

(b) Available-for-sale (continued)

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

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

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

(c) Loans and receivables

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

(d) Held-to-maturity

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

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

F. Sale and repurchase agreements and securities lending

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

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

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

Notes to the financial statements (continued)

G. Derivative financial instruments and hedge accounting

Derivatives are financial instruments :

- (a) which value is changed in response to the change in specified interest rate, financial instrument price, foreign exchange rate, index of prices and rates, credit rates or credit index or other variable;
- (b) that requires no initial net investment or an initial net investment is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors;
- (c) that are settled at a future date.

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

Fair value hedge:

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

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

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

If hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortized to profit or loss over the period to maturity. The adjustment to the carrying amount of a hedged item for which the effective interest method is not used remains in other comprehensive income until the disposal of the equity security.

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

Notes to the financial statements (continued)

H. Impairment of financial assets

(a) Assets carried at amortized cost

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

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

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

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

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

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

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

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

Notes to the financial statements (continued)

H. Impairment of financial assets (continued)

(a) Assets carried at amortized cost (continued)

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the 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 recognised in profit or loss – is removed from other comprehensive income and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments, classified as available-for-sale, are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

I. Property, plant and equipment

The Bank recognizes the cost of an item of property, plant and equipment as an asset if it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The cost of the property, plant and equipment comprises purchase price, including import duties and non-refundable purchase taxes and any cost directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The cost is the cash or cash equivalent paid or the fair value of other consideration given to acquire the assets.

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

Notes to the financial statements (continued)

I. Property, plant and equipment (continued)

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

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

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

- market prices 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.

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

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

- Buildings -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.

The carrying amount of an item of property, plant and equipment is derecognised:

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

The gain or loss from derecognition of an item of property, plant and equipment is included in profit or loss when the item is derecognised. The Bank does not classify the gains as revenue. The gain or loss from derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds and the carrying amount of the asset.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

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

Notes to the financial statements (continued)

J. Intangible assets

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

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

Intangible assets are amortized using the straight-line method over their useful lives (between 4 and 10 years as stated above). In 2010 the Bank extended the useful life of some software and the effect of the change in profit and loss amounted to BGN 1,424 thousand. This revision was 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.

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

K. Borrowings, including debt securities in issue

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

L. Investment property

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

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

M. Cash and cash equivalents

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

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

Notes to the financial statements (continued)

N. Operating leases

Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

O. Current tax and deferred income tax

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

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

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

P. Employee benefits

(a) Social, pension and health funds

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

(b) Retirement benefit obligations

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

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

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.

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

Notes to the financial statements (continued)**Q. Provisions (continued)**

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

R. Dividends

Dividends are recognised as a liability when authorized by the General Assembly of the Shareholders and are deducted from equity. 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 recognised amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

T. Financial guarantee contracts

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

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the bank's liabilities under such guarantees are measured at the higher of the initial measurement, less cumulative amortization recognised already in the income statement on a straight line basis over the life of the guarantee and the best estimate of the expenditure required settling any financial obligation arising at the balance sheet date in accordance with IAS 37. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of Management.

Any increase in the liability relating to guarantees is taken to the income statement.

U. Comparatives

The Bank has not performed any reclassifications on balance sheet and income statement positions for 2009.

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

Notes to the financial statements (continued)

V. Financial risk management

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

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

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

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

The adequacy of internal control systems is evaluated by Internal Audit functions. 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 and EFG Group's Internal Auditors and by regulatory authorities both in Bulgaria, Greece and Switzerland.

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

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

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

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

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

Notes to the financial statements (continued)

V. Financial risk management (continued)

1. Credit risk

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

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

1.1 Credit risk measurement

(a) Loans and advances

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

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

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

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

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

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 categorized as neither past due nor impaired wholesale loans with rating from 1 to 6 and with zero days past due as loans bearing satisfactory risk and these with rating 7 under watch list. The overdue loans from 1 to 6 ratings are presented as past due but not impaired loans. The wholesale loans in ratings from 8 to 11 are considered individually impaired loans (loans in 8 and 9 grades are categorized as potentially problematic and those in 10 and 11 as loss making).

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

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

Notes to the financial statements (continued)

V. Financial risk management (continued)

1. Credit risk (continued)

1.1. Credit risk measurement (continued)

(a) Loans and advances (continued)

The classification of retail clients is based on the full delinquency analysis by group according to which loans with zero overdue days are presented in category satisfactory risk and the rest in category past due but not impaired or impaired. The grouping is based on the common characteristics of the respective products, the similar risks they bear and the type of collateral that secures them. In case that a borrower is client to more than one of the above mentioned groups, the classification of each single retail loan of one and the same retail client should be done independently from the other loans of the same customer.

(b) Debt securities

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

1.2 Risk limit control and mitigation policies

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

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

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

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

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
- Issued guarantees.

(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)

1.2 Risk limit control and mitigation policies (continued)

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

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

(b) Derivatives

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

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

(c) Credit related commitments

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

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of the loan. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. The Bank monitors the term to maturity of credit commitments because 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 worst case scenario of credit risk exposure to the Bank as at 31 December 2010 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 92% of the total maximum exposure is derived from loans and advances to banks and customers as well as loan commitments (2009: 90%); 6% represents investments in debt securities (2009: 7%)

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

Notes to the financial statements (continued)

V. Financial risk management (continued)

1. Credit risk (continued)

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

Maximum exposure

	<u>As at 31 December</u>	
	2010	2009
Credit risk exposures relating to on-balance sheet assets are as follows:		
Loans and advances to banks	983,662	587,730
Loans and advances to customers:		
- Mortgages	983,483	890,353
- Consumer lending (including credit cards)	835,117	957,483
- Small Business lending	841,534	866,903
- Corporate lending	1,495,870	1,561,304
Trading assets - debt securities	40,072	15,527
Derivative financial instruments	22,442	16,304
Investment securities- available-for-sale-debt securities	329,679	429,715
Other assets	6,272	7,705
Credit risk exposures relating to off-balance sheet items are as follows:		
Financial guarantees	89,742	119,102
Letters of credit	23,023	10,210
Loan commitments and other credit related liabilities	539,685	510,132
Total	6,190,581	5,972,468

1.4 Loans and advances

Loans and advances are summarized as follows:

	<u>As at 31 December</u>	
	2010	2009
Loans and advances to customers		
Neither past due nor impaired	2,938,466	3,531,417
Past due but not impaired	766,264	522,922
Impaired	637,473	390,517
Gross	4,342,203	4,444,856
Less: allowance for impairment	(186,199)	(168,813)
Net	4,156,004	4,276,043

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

Notes to the financial statements (continued)

V. Financial risk management (continued)

1. Credit risk (continued)

1.4. Loans and advances (continued)

The total impairment provision for loans and advances is BGN 186,199 thousand (2009: BGN 168,813 thousand) of which BGN 110,274 thousand (2009: BGN 56,058 thousand) represents the individually impaired loans and the remaining amount of BGN 75,925 thousand (2009: BGN 112,755 thousand) represents the portfolio provision. Further information of the impairment allowance for loans and advances to customers is provided in Note 13.

During 2010, the Bank's total loans and advances decreased by 2.3%. 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 2010 can be assessed by reference to the internal standard grading system (see 1.1. a). The following information is based on that system:

Satisfactory risk	As at 31 December 2010	As at 31 December 2009
Mortgage Lending	835,326	788,400
Wholesale	776,771	1,219,228
Consumer Lending	691,026	783,217
SBB	594,884	722,922
Total Satisfactory risk	2,898,007	3,513,767
Watch list (wholesale)	40,459	17,650

(b) Loans past due but not impaired

31 December 2010	Consumer Lending	Mortgages	Small Business Lending	Corporate Lending	Total
Past due up to 29 days	75,895	58,199	50,519	157,147	341,760
Past due 30 - 89 days	50,950	34,054	60,487	167,242	312,733
Past due 90 - 179 days	-	16,464	-	80,782	97,246
Past due less than 1 year	-	-	-	14,525	14,525
Total	126,845	108,717	111,006	419,696	766,264
Fair value of collateral	50	107,014	89,819	171,657	368,540
31 December 2009	Consumer Lending	Mortgages	Small Business Lending	Corporate Lending	Total
Past due up to 29 days	90,004	38,026	36,927	144,200	309,157
Past due 30 - 89 days	70,510	23,924	34,173	38,392	166,999
Past due 90 days - 179 days	-	12,728	-	34,038	46,766
Total	160,514	74,678	71,100	216,630	522,922
Fair value of collateral	956	80,587	62,440	151,186	295,169

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

Notes to the financial statements (continued)

V. Financial risk management (continued)

1. Credit risk (continued)

1.4. Loans and advances (continued)

(c) Impaired loans and advances collectively assessed

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

31 December 2010	Consumer lending	Mortgages	Total
Collectively assessed for impairment	71,571	54,286	125,857
Fair value of collateral	1	46,630	46,631
31 December 2009	Consumer lending	Mortgages	Total
Collectively assessed for impairment	110,267	28,174	138,441
Fair value of collateral	772	26,992	27,764

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

(d) Loans and advances individually impaired

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

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

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

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

31 December 2010	Small Business Lending	Corporate Lending	Total
Individually impaired loans	174,400	337,216	511,616
Fair value of collateral	134,951	112,854	247,805
31 December 2009	Small Business Lending	Corporate Lending	Total
Individually impaired loans	85,531	166,545	252,076
Fair value of collateral	70,902	147,773	218,675

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

Notes to the financial statements (continued)

V. Financial risk management (continued)

1. Credit risk (continued)

1.4. Loans and advances (continued)

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

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

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

(e) Loans and advances renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of the management, indicate that the payment will most likely continue. These policies are kept under continuous review. Loans that have been renegotiated are considered by the Bank as cured if they fully perform over probation period following the renegotiation. Within the probation period the renegotiated loans are closely monitored by the Management and are presented as past due but not impaired or impaired ones. After the probation period if the cured loans are performing for the current year they are disclosed as renegotiated. In this regard as of end of December 2010 the respective amount of renegotiated loans that would otherwise be past due or impaired is BGN 18,008 thousand (2009: BGN 17,310 thousand).

	2010	2009
Loans and advances to customers :		
– Consumer lending	12,337	2,649
– Small business lending	4,969	8,139
– Mortgages lending	702	6,522
Total	18,008	17,310

1.5. Debt securities and Loans and advances to banks

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

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

Notes to the financial statements (continued)

V. Financial risk management (continued)

1. Credit risk (continued)

1.5. Debt securities and Loans and advances to banks (continued)

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

Investment securities available for sale include impaired corporate bonds with carrying amount of BGN 14,778 thousand (2009: BGN 6,187 thousand). The impairment provisions as of end of 2010 amounted to BGN 2,798 thousand (2009: BGN 1,270 thousand).

Rating	31 December 2009			
	Trading securities	Investment securities, available for sale	Loans and advances to banks	Total
AAA	-	2,035	-	2,035
AA- to AA+	-	2,851	125	2,976
A- to A+	8,845	-	11,547	20,392
BBB- to BBB+	1,827	327,079	515,469	844,375
BB- to BB+	-	28,572	5,000	33,572
Lower than BB-	-	2,842	52,004	54,846
Unrated	4,855	66,336	3,585	74,776
Total	15,527	429,715	587,730	1,032,972

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	2010	2009
Commercial property	695	480
Equipment	237	237
Residential property	2,062	1,537
Land	154	105
Total	3,148	2,359

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

Notes to the financial statements (continued)**V. Financial risk management (continued)****1. Credit risk (continued)****1.7 Concentration of risks of financial assets with credit risk***(a) Geographical sectors*

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by geographical region as of 31 December 2010. 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	177,791	805,871	-	-	983,662
Trading assets – debt securities	28,627	11,445	-	-	40,072
Loans and advances to customers:					
- Mortgages	982,354	997	-	132	983,483
- Consumer lending incl. credit cards	834,481	492	6	138	835,117
- Small business lending	841,534	-	-	-	841,534
- Corporate lending	1,490,429	5,441	-	-	1,495,870
Investment debt securities – AFS	298,799	30,880	-	-	329,679
Derivative financial instruments	7,863	14,579	-	-	22,442
Other assets	6,272	-	-	-	6,272
31 December 2010	4,668,150	869,705	6	270	5,538,131
31 December 2009	4,784,359	545,577	2,854	234	5,333,024

(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	Manufact uring	Construct ion	Public sector	Financial institutio ns	Other	Total
Loans and advances to banks	-	-	-	-	-	983,662	-	983,662
Trading assets-debt securities	-	-	-	-	28,627	11,445	-	40,072
Loans and advances to customers:								
- Mortgages	-	983,483	-	-	-	-	-	983,483
- Consumer lending incl. credit cards	-	835,117	-	-	-	-	-	835,117
- Small business lending	512,221	5,255	143,674	93,491	-	-	86,893	841,534
- Corporate lending	705,311	-	286,296	246,739	4,116	13,558	239,850	1,495,870
Investment debt securities – AFS	8,823	-	30,335	1,509	276,672	8,589	3,751	329,679
Derivative financial instruments	2,261	-	606	1,062	-	18,108	405	22,442
Other assets	-	-	-	-	-	6,272	-	6,272
31 December 2010	1,228,616	1,823,855	460,911	342,801	309,415	1,041,634	330,899	5,538,131
31 December 2009	1,244,522	1,853,024	496,073	365,053	367,318	660,985	346,049	5,333,024

(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 reprising risk, yield curve risk, basis risk, spread risk, volatility risk.

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

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

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

The objectives of market risk control and supervision are to:

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

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

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

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

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

2.1 Market risk measurement techniques

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

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

- Foreign Exchange rates
- Interest Rates and
- Equity prices

(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)

2.1 Market risk measurement techniques (continued)

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. Major part of the Bank’s FX positions is in EUR as BGN currency rate to EUR is pegged to 1.95583. The Management sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily.

2.3 Sensitivity of assets and liabilities

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

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

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

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

Notes to the financial statements (continued)

V. Financial risk management (continued)

2. Market risk (continued)

2.3 Sensitivity of assets and liabilities (continued)

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

1. Foreign exchange risk sensitivity has been calculated directly on the total net open position of the Bank as a 25% depreciation / 20% appreciation of the local currency against all foreign currencies which mainly include EUR, USD and CHF.

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

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

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

The following parallel yield curve shifts have been applied:

For BGN +250 bps / -250 bps;

For all other currencies +200 bps / -50 bps;

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

2.4 Fair values of financial assets and liabilities not measured at fair value

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

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

Notes to the financial statements (continued)

V. Financial risk management (continued)

2. Market risk (continued)

2.4 Fair values of financial assets and liabilities not measured at fair value (continued)

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

	Carrying value		Fair value	
	2010	2009	2010	2009
Financial assets				
Loans and advances to banks	983,662	587,730	983,662	587,730
Loans and advances to customers, including:				
-Mortgage loans	983,483	890,353	983,483	890,353
-Consumer loans, including credit cards	835,117	957,483	835,117	957,483
-Small business lending	841,534	866,903	841,534	866,903
-Corporate loans	1,495,870	1,561,304	1,495,870	1,561,304
Total loans and advances to customers	4,156,004	4,276,043	4,156,004	4,276,043
Financial liabilities				
Deposits from banks	438,369	372,042	438,369	372,042
Due to customers, including:				
- Retail customers	3,176,003	2,880,869	3,176,003	2,880,869
- Large corporate customers	1,368,445	1,346,766	1,368,445	1,346,766
- Medium corporate customers	97,063	105,034	97,063	105,034
Total due to customers	4,641,511	4,332,669	4,641,511	4,332,669
Debt issued and other borrowed funds	335,111	476,331	335,143	476,391

a) Due from other banks

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

b) Loans and advances to customers

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

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

Notes to the financial statements (continued)

V. Financial risk management (continued)

2. Market risk (continued)

2.4 Fair values of financial assets and liabilities not measured at fair value (continued)

c) Due to customers

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

d) Other borrowed funds

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

2.5 Financial instruments measured at fair value

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

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

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

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

As of 31 December 2010, the Bank did not have any level 3 financial assets or liabilities.

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

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

Notes to the financial statements (continued)

V. Financial risk management (continued)

2. Market risk (continued)

2.5 Financial instruments measured at fair value (continued)

	31 December 2009			Total
	Level 1	Level 2	Level 3	
Financial assets measured at fair value:				
Financial assets held for trading				
-Debt securities	10,672	4,855	-	15,527
-Equity securities	1,274	-	-	1,274
-Derivatives	-	16,304	-	16,304
Available-for-sale investment securities				
-Investment securities - debt	363,546	66,169	-	429,715
-Investment securities - equity	2,768	3,899	-	6,667
Total financial assets	378,260	91,227	-	469,487
Financial liabilities measured at fair value:				
Derivative financial instruments	-	54,758	-	54,758
Total financial liabilities	-	54,758	-	54,758

Bonds issued by EFG Hellas Ltd (part of EFG Group) with outstanding amount of BGN 11,445 thousand (2009: BGN 8,845 thousand) have been transferred from Level 1 to Level 2 in 2010 due to Group decision for applying internal valuation techniques in FV determination instead of available quoted prices. The effect of the changed valuation techniques used is BGN 96 thousand decrease in the fair value compared to fair value if quoted prices were used.

3. Liquidity risk

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

3.1. Liquidity risk management process

The Bank 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 liquidity management strategy.

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

Notes to the financial statements (continued)**V. Financial risk management (continued)****3. Liquidity risk (continued)****3.1. Liquidity risk management process (continued)**

Assets and Liabilities Committee manages:

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

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

3.2 Funding approach

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

3.3 Cash flows

The table below presents the cash flows receivables and payable by the Bank under financial assets/liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows for the year 2010 and 2009. Liabilities without contractual maturities (sight and saving deposits) are presented in "less than 1 month" time bucket.

As at 31 December 2010	Gross nominal inflow/outflow	Less than 1 month	1-3 months	3 -12 months	1-5 years	More than 5 years
Financial liabilities						
<i>Non-derivative liabilities</i>	5,559,167	2,069,393	1,136,366	1,805,329	338,722	209,357
Due to other banks	442,408	164,833	261,256	-	16,319	-
Due to customers	4,701,588	1,876,505	875,110	1,805,329	144,644	-
Debt issued and other borrowed funds	387,116	-	-	-	177,759	209,357
Other liabilities	28,055	28,055	-	-	-	-
<i>Derivative financial instruments</i>	1,841,182	463,011	272,564	831,680	273,674	253
Outflows from gross and net settled	1,841,182	463,011	272,564	831,680	273,674	253
Total liabilities (contractual maturity)	7,400,349	2,532,404	1,408,930	2,637,009	612,396	209,610
Total assets (contractual maturity)	9,577,852	3,320,539	699,731	1,220,148	2,312,465	2,024,969

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

Notes to the financial statements (continued)**V. Financial risk management (continued)****3. Liquidity risk (continued)****3.3 Cash flows (continued)**

As at 31 December 2009	Gross nominal inflow/ outflow	Less than 1 month	1-3 months	3 -12 months	1-5 years	More than 5 years
Financial liabilities						
<i>Non-derivative liabilities</i>	5,306,121	2,511,166	608,872	1,956,879	126,965	102,239
Due to other banks	374,575	137,975	115,670	120,930	-	-
Due to customers	4,392,476	2,339,125	493,202	1,541,194	18,955	-
Debt issued and other borrowed funds	505,004	-	-	294,755	108,010	102,239
Other liabilities	34,066	34,066	-	-	-	-
<i>Derivative financial instruments</i>	1,773,907	450,781	18,438	805,675	497,541	1,472
Outflows from gross and net settled	1,773,907	450,781	18,438	805,675	497,541	1,472
Total liabilities (contractual maturity)	7,080,028	2,961,947	627,310	2,762,554	624,506	103,711
Total assets (contractual maturity)	9,456,797	3,204,168	140,130	1,263,129	2,581,693	2,267,677

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.

(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 (continued)

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

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

4. Capital management

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

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

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

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

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

Notes to the financial statements (continued)

V. Financial risk management (continued)

4. Capital management (continued)

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

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

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

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

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

	2010	2009
Tier 1 capital		
Share capital	452,753	452,753
Reserves	291,175	275,067
Revaluation reserve of financial assets available for sale	(8,895)	(11,115)
Less:		
Intangible assets	(23,903)	(18,270)
Specific provisions under Reg.9	(185,136)	(78,905)
Total qualifying Tier 1 capital	525,994	619,530
Tier 2 capital		
Long term debt	122,792	71,940
Revaluation reserve of property owned by the Bank	2,376	2,376
Less:		
Specific provisions under Reg.9	(125,168)	(74,316)
Total qualifying Tier 2 capital	-	-
Risk-weighted assets		
On-balance sheet	3,793,885	4,518,814
Off-balance sheet	146,819	185,662
Total risk-weighted assets	3,940,704	4,704,476
Basel ratio	13.35%	13.17%

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

Notes to the financial statements (continued)

W. Business segments

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

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

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

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

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

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

Notes to the financial statements (continued)

W. Business segments (continued)

	31 December 2009				
	Capital Markets	Corporate	Retail	Other	Total
Net Interest income	12,151	80,799	159,445	(17,680)	234,715
Net Commission income	6,276	6,316	32,433	-	45,025
Other Net Revenues	(587)	-	-	4,991	4,404
Total External Revenue	17,840	87,115	191,878	(12,689)	284,144
Inter-segment revenue	(5,435)	(28,373)	10,557	23,251	-
Net operating income before impairment	12,405	58,742	202,435	10,562	284,144
Impairment charge for credit losses	-	(23,081)	(87,564)	-	(110,645)
Deposits Insurance Fund expense	-	(2,931)	(13,972)	-	(16,903)
OPEX	(4,398)	(18,249)	(115,774)	-	(138,421)
PBT	8,007	14,481	(14,875)	10,562	18,175
Tax	(889)	(1,608)	1,595	(1,166)	(2,068)
PAT	7,118	12,873	(13,280)	9,396	16,107
Segment assets	1,642,285	1,600,965	2,776,696	-	6,019,946
Segment liabilities	1,182,533	1,159,345	2,933,100	-	5,274,978

X. Critical accounting estimates and judgments in applying accounting policy

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

Impairment losses on loans and advances

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

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

Notes to the financial statements (continued)

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

Impairment of available-for-sale equity investments

The Bank determines that available-for-sale equity investments are impaired when there has been a significant (drop down of the average market price below 60%-70% of the cost price) or prolonged decline (continuing decline of the market price for the last 12 months) in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Bank evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

Fair value of derivatives

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

Application of the effective interest rate method

The application of the effective interest rate method for loan related fees requires the use of estimates about the expected life and other patterns and characteristics of the loan portfolio. In building up these estimates the bank utilizes the experience of other entities in EFG Eurobank Ergasias Group and Bulgarian market conditions.

Sensitivity analysis of assets and liabilities

The sensitivity analysis illustrates the potential impact on the income statement and equity for reasonable possible shifts. Sensitivity to changes 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 2010 and represent reasonable possible shifts in the market variables.

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

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

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

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

Notes to the financial statements (continued)**X. Critical accounting estimates and judgments in applying accounting policy (continued)***Fair value of land and buildings*

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

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

- market prices 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).

De-recognition of financial assets

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

When a small holding of shares in one entity that is classified as an AFS equity investments is exchanged for shares in another entity the original shares are derecognised. In 2010 the Bank disposed two small holdings of shares in Borika and Bankservice in exchange for share in the newly formed company Borika-Bankservice. The management has concluded that the holdings in Borika and Bankservice constitute dissimilar assets and has assessed the appropriateness of their derecognition separately. As a result of their derecognition the Bank has recognised a gain in the statement of comprehensive income of BGN 4,167 thousand, being the difference between the equities fair value at the time of disposal and the cost of acquisition.

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

Notes to the financial statements (continued)

1 Net interest income

Interest income	2010	2009
Loans and advances to customers	450,469	424,557
Derivative instruments	35,095	57,996
Investment securities	17,219	23,385
Loans and advances to banks	14,741	22,318
Hedging instruments	9,526	14,088
Trading securities	1,161	798
Investment securities, held-to-maturity	-	25
Total	528,211	543,167

Interest income accrued on impaired financial assets is BGN 16,998 thousand (2009: BGN 9,311 thousand).

Interest expense	2010	2009
Deposits from customers	193,893	196,334
Derivative instruments	28,036	58,211
Hedging instruments	18,020	22,311
Deposits from banks	10,493	11,782
Long term debt	6,929	16,069
Debt securities issued	2,046	3,745
Total	259,417	308,452

2 Net fee and commission income

Fees and commission income	2010	2009
Transfers	18,667	15,547
Loan's fees and commissions	17,390	18,235
Account maintenance	10,200	8,630
Foreign exchange operations	8,401	6,901
Cash operations	5,125	5,466
Receipts from sales of services	5,033	3,856
Documentary business	2,254	1,699
Operations with derivatives	2,074	131
Management, brokerage and securities trading	570	254
Other fees	180	1,579
Total	69,894	62,298

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

Notes to the financial statements (continued)**2 Net fee and commission income (continued)**

Fee and commission expense	2010	2009
Loans related fees	7,301	4,598
Transactions processing	4,377	5,563
Operations related to derivatives	1,444	13
Cash transactions and correspondent accounts	868	886
Fees related to long term funding	358	238
Other fees	329	673
Management, brokerage and securities trading	174	147
Services from BRS	-	5,155
Total	14,851	17,273

The Contract for cards processing services from BRS, a related party and subsidiary of EFG Ergasias, was terminated in late 2009.

3 Other operating income

	2010	2009
Rental income	198	146
Net gain/(loss) from sales of non-current fixed assets	(40)	5,134
Other	294	-
Other operating income	452	5,280

4 Net trading (loss)

	2010	2009
Translation gains less (losses)	(226)	(3,622)
Net results from derivative instruments	(2,766)	3,148
Net trading (loss)	(2,992)	(474)

5 Other operating expenses

	2010	2009
Staff costs (Note 6)	65,292	54,733
Operating lease rentals	25,878	26,133
Depreciation of property, plant and equipment (Note 16)	14,799	16,497
Amortisation of intangible assets (Note 17)	2,007	2,881
Advertising and marketing	6,219	7,463
External services	6,138	5,040
Repairs and maintenance	5,856	6,156
Security	4,649	4,897
Software costs	4,049	3,092
Communication	3,403	5,756
Materials and utilities	3,365	3,399
Other operating costs	2,922	4,855
Travel and accommodation	850	646
Insurance	457	436
Levies and taxes	379	499
Restructuring provisions write back	-	(4,062)
Total other operating expense	146,263	138,421

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

Notes to the financial statements (continued)

6 Staff costs	2010	2009
Wages and salaries	54,161	42,593
Pension insurance	4,270	4,853
Social security costs	3,855	3,671
Other	3,006	3,616
Total staff cost	65,292	54,733

The Bank estimated that the pension obligation provision as at year end is BGN 2,226 thousand (2009: BGN 1,899 thousand). See note 25.

7 Impairment charge for credit losses	2010	2009
Loans and advances to customers (Note 13)	(123,934)	(110,849)
Credit commitments	(7)	204
Total	(123,941)	(110,645)

8 Income tax expense	2010	2009
Deferred tax (Note 23)	663	1,949
Current tax	3,039	119
Total	3,702	2,068

Tax is payable at an actual rate of 10% (2009: 10%) on adjusted profits under Corporate Tax Act.

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

	2010	2009
Profit before income tax	38,644	18,175
Tax calculated at a tax rate of 10% (2009: 10%)	3,864	1,817
Tax effect of:		
Income and expenses not subject to tax	(162)	251
Income tax expense	3,702	2,068

Additional information about deferred tax is presented in Note 23.

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

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

Notes to the financial statements (continued)

9 Income tax effects relating to comprehensive income

	Year ended 31 December					
	2010			2009		
	Before tax amount	Tax (expense)/ benefit	Net of tax amount	Before tax amount	Tax (expense)/ benefit	Net of tax amount
Available for sale investments	2,792	(279)	2,513	50,737	(5,074)	45,663
Gain on property revaluation	-	-	-	107	(11)	96
Total	2,792	(279)	2,513	50,844	(5,085)	45,759

10 Cash and balances with the Central Bank

	2010	2009
Cash in hand	99,606	95,100
Balances with Central bank	546,762	467,827
Total	646,368	562,927
of which:		
Mandatory reserve with Central Bank	421,996	398,525

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

11 Loans and advances to banks

	2010	2009
Deposits in other banks	935,654	518,837
Reverse repurchase agreements	48,008	68,893
Total	983,662	587,730

Included in the amount of loans and advances to banks is accrued interest of BGN 1,148 thousand (2009: BGN 410 thousand).

Approximately 82 % (2009: 83 %) of the amounts due from other banks represent funds placed in banks domiciled in OECD countries, with the remainder held with banks in Bulgaria and Romania.

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

Notes to the financial statements (continued)

12 Financial assets held for trading	2010	2009
Bulgarian government bonds	28,627	1,826
Corporate bonds	11,445	13,701
Shares	1,144	1,274
	<u>41,216</u>	<u>16,801</u>

Equity securities:

- Listed	1,144	1,274
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Bonds:

- Listed	11,476	10,672
- Unlisted	28,596	4,855

Included in the amount of the bonds is accrued interest in the amount of BGN 746 thousand (2009: BGN 206 thousand).

Gains less losses from trading securities	2010	2009
Equity securities	(307)	(67)
Debt securities	172	1,011
Total	<u>(135)</u>	<u>944</u>

13 Loans and advances to customers	2010	2009
Consumer lending (including credit cards)	889,441	1,058,780
Small Business lending	880,290	887,789
Mortgages	998,329	897,773
Corporate lending	1,574,143	1,600,514
Gross loans and advances	<u>4,342,203</u>	<u>4,444,856</u>
Less allowance for impairment losses on loans and advances	(186,199)	(168,813)
Net outstanding balance of loans and advances to customers	<u>4,156,004</u>	<u>4,276,043</u>

Included in the amount of loans and advances to customers is accrued interest of BGN 51,019 thousand (2009: BGN 46,942 thousand). In 2010 Eurobank EFG Bulgaria AD purchased loans from BRS, a related party of the EFG Group, in the amount of BGN 43,669 thousand (2009: BGN 737,078 thousand).

	2010	2009
The ten largest exposures to customers	328,096	295,226
Percentage of gross loans	7.54%	6.64%

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

Notes to the financial statements (continued)

13 Loans and advances to customers (continued)

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

	Retail customers			Wholesale	Total
	Consumer lending	Mortgages	Small Business Lending	Corporate Lending	
At 1 January 2009	21,260	3,224	13,865	20,199	58,548
Acquisition of loan portfolio	28,634	2,031	436	-	31,101
Charge for the year	67,491	2,184	18,028	23,146	110,849
Recoveries and legal and collection fees	(1,221)	-	3	(13)	(1,231)
Amounts written off	(14,910)	(4)	(11,533)	(4,163)	(30,610)
Foreign exchange differences	42	(15)	88	41	156
At 31 December 2009	101,296	7,420	20,887	39,210	168,813
	Retail customers			Wholesale	Total
	Consumer lending	Mortgages	Small Business Lending	Corporate Lending	
At 1 January 2010	101,296	7,420	20,887	39,210	168,813
Acquisition of loan portfolio	1,194	2,542	198	128	4,062
Charge for the year	54,035	4,372	27,031	38,496	123,934
Recoveries and legal and collection fees	(4,377)	193	269	1,295	(2,620)
Amounts written off	(97,829)	(13)	(9,708)	(969)	(108,519)
Foreign exchange differences	5	333	78	113	529
At 31 December 2010	54,324	14,847	38,755	78,273	186,199

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

Notes to the financial statements (continued)

14 Investment securities, available for sale	2010	2009
Bulgarian government bonds	245,960	327,078
Corporate unsecured bonds	53,008	67,065
Foreign government bonds	30,711	31,414
Shares and participations	10,584	6,667
Bonds issued by banks	-	2,035
Corporate mortgage bonds	-	2,123
Total	340,263	436,382
Equity securities		
Listed	2,975	2,768
Unlisted	7,609	3,899
Debt securities		
Listed	289,999	405,686
Unlisted	39,680	24,029
	340,263	436,382

Included in the amount of the investment securities is accrued interest in the amount of BGN 12,739 thousand (2009: BGN 18,889 thousand).

Movement in available for sale securities is reconciled as follows:

Book value as at 31 December 2008	425,447
Additions	2,504
Disposals	(34,966)
Change in accrued interest	(779)
Amortization of discounts or premium	(6,560)
Net fair value gain	51,372
Impairment of corporate bonds	(636)
Book value as at 31 December 2009	436,382
Additions	26,965
Disposals	(110,396)
Change in accrued interest	(6,150)
Amortization of discounts or premium	(7,393)
Net fair value gain	2,383
Impairment of corporate bonds	(1,528)
Book value as at 31 December 2010	340,263

Gains less (losses) and impairment of securities available for sale	2010	2009
Transfer the revaluation reserve (deficit) from Other comprehensive income to Income Statement	6,760	(168)
Gain recognised on exchange of shares (Note X)	4,167	-
Gains less (losses) recognised on sale of AFS securities directly through income statement	(4,889)	(564)
Impairment of investment security recognised directly in income statement	(1,815)	(636)
	4,223	(1,368)

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

Notes to the financial statements (continued)**15 Investment property**

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

Investment property	2010	2009
Beginning of the year	876	876
Net gains or losses from fair value adjustments	-	-
End of the year	876	876

16 Property, plant and equipment

	Land and buildings	Leasehold improvements	Plant and equipment	Total tangible fixed assets
At 31 December 2008				
Gross amount	26,596	34,538	90,863	151,997
Accumulated depreciation	(2,441)	(6,500)	(40,151)	(49,092)
Net book amount	24,155	28,038	50,712	102,905
Year ended 31 December 2009				
Opening net book amount	24,155	28,038	50,712	102,905
Additions	352	272	4,092	4,716
Disposals and write offs	(1,555)	(921)	(288)	(2,764)
Depreciation charge (Note 5)	(1,351)	(3,386)	(11,760)	(16,497)
Closing net book amount	21,600	24,004	42,756	88,360
At 31 December 2009				
Gross amount	24,322	33,137	93,254	150,713
Accumulated depreciation	(2,722)	(9,133)	(50,498)	(62,353)
Net book amount	21,600	24,004	42,756	88,360
Year ended 31 December 2010				
Opening net book amount	21,600	24,004	42,756	88,360
Additions	252	607	5,195	6,054
Disposals and write offs	-	(176)	(120)	(296)
Depreciation charge (Note 5)	(1,020)	(3,309)	(10,470)	(14,799)
Closing net book amount	20,832	21,126	37,361	79,319
At 31 December 2010				
Gross amount	24,372	33,412	97,250	155,034
Accumulated depreciation	(3,540)	(12,286)	(59,889)	(75,715)
Net book amount	20,832	21,126	37,361	79,319

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

Notes to the financial statements (continued)**17 Intangible assets****Intangible assets****At 31 December 2008**

Gross book amount	29,354
Accumulated amortisation	(14,686)
Net book amount	14,668

Year ended 31 December 2009

Opening net book amount	14,668
Additions	6,487
Disposals and write offs	(4)
Amortisation charge (Note 5)	(2,881)
Closing net book amount	18,270

At 31 December 2009

Gross book amount	35,835
Accumulated amortisation	(17,565)
Net book amount	18,270

Year ended 31 December 2010

Opening net book amount	18,270
Additions	7,640
Disposals and write offs	-
Amortisation charge (Note 5)	(2,007)
Closing net book amount	23,903

At 31 December 2010

Gross book amount	43,476
Accumulated amortisation	(19,573)
Net book amount	23,903

18 Other assets**2010** **2009**

Amounts in transit	3,157	4,931
Reposessed collaterals	3,148	2,359
Other debtors	3,024	3,010
Prepaid expenses	2,760	2,683
Other assets	1,117	1,035
Materials	124	258
Less: provision against other assets	(1,026)	(1,271)
	12,304	13,005

The financial assets contained in the Other assets note amounted to BGN 6,272 thousand (2009: BGN 7,705 thousand) of which BGN 1,026 thousand (2009: BGN 1,271 thousand) represents impaired financial assets and the rest are neither past due nor impaired.

Provision against other financial assets**2010** **2009**

Opening balance at 1st of January	1,271	1,808
Charged to the income statement	430	270
Reversed to the income statement	(42)	(127)
Used during year	(633)	(680)
Closing balance	1,026	1,271

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

Notes to the financial statements (continued)

19 Deposits from Banks	2010	2009
Items in course of collection	7,001	14,145
Deposits from other banks	295,103	155,192
Repurchase agreements	136,265	202,705
	<u>438,369</u>	<u>372,042</u>

Included within due to other banks is accrued interest payable of BGN 1,383 thousand (2009: BGN 1,694 thousand).

20 Derivative financial instruments

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

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

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

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

Interest rate futures are contractual obligations to receive or pay a net amount based on changes in interest rates. The credit risk is negligible, as futures contracts are collateralized by cash or marketable securities, and changes in the futures' contract 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 favorable (assets) or unfavorable (liabilities) as a result of fluctuations in market interest or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which, instruments are favorable or unfavorable, and thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The fair values of derivative instruments held are set out below.

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

Notes to the financial statements (continued)

20 Derivative financial instruments and hedging activities (continued)

	Contract / notional amount	Assets	Liabilities
Year ended 31 December 2010			
Derivatives held for trading			
Foreign exchange derivatives			
OTC currency forwards	3,069	24	22
OTC currency swaps	1,256,970	3,952	35,053
Total OTC currency derivatives	1,260,039	3,976	35,075
Interest rate derivatives			
OTC interest rate swaps	667,616	4,781	3,849
OTC cross-currency interest rate swaps	488,712	11,310	12,325
OTC IR options bought and sold	430,087	1,147	1,147
Total OTC interest rate derivatives	1,586,415	17,238	17,321
Derivatives held for hedging			
OTC interest rate swaps	217,545	1,228	24,117
Total recognised derivative assets / liabilities		22,442	76,513
Year ended 31 December 2009			
Derivatives held for trading			
Foreign exchange derivatives			
OTC currency forwards	100,869	656	1,349
OTC currency swaps	1,632,643	746	6,573
Total OTC currency derivatives	1,733,512	1,402	7,922
Interest rate derivatives			
OTC interest rate swaps	207,024	4,561	7,251
OTC cross-currency interest rate swaps	676,283	9,483	9,599
OTC IR options bought and sold	289,898	771	771
Total OTC interest rate derivatives	1,173,205	14,815	17,621
Derivatives held for hedging			
OTC interest rate swaps	285,152	87	29,215
Total recognised derivative assets / liabilities		16,304	54,758

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

Notes to the financial statements (continued)

20 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 2010 was positive BGN 1,228 thousand (2009: 87 thousand) and negative BGN 24,117 thousand (2009: 29,215 thousand).

The gain on the hedging instruments was BGN 1,298 thousand (2009: gains BGN 3,483 thousand). The loss on the hedged item attributable to the hedged risk was BGN 1,302 thousand (2009: loss BGN 3,677 thousand). In 2010 the fair value hedges were highly effective (2009: highly effective), and the net effect recognised in income statements is loss of BGN 4 thousand (2009: loss BGN 194 thousand).

21 Due to customers

	2010	2009
Large corporate customers	1,368,445	1,346,766
Medium corporate customers	97,063	105,034
Total due to corporate customers	1,465,508	1,451,800
Retail customers	3,176,003	2,880,869
Total due to customers	4,641,511	4,332,669

Included within due to customers is accrued interest payable of BGN 41,871 thousand (2009: BGN 52,544 thousand).

22 Debt issued and other borrowed funds

	2010	2009
Subordinated debt	135,448	93,864
Long term loan from EBRD	120,050	29,384
Debt securities in issue	40,021	39,992
Long term debt from Bulgarian Development Bank	20,003	20,003
European Investment Bank Loan	19,589	-
Syndicated loan	-	293,088
Total	335,111	476,331

a) Subordinated debt instruments

In March 2005, DZI Bank signed a subordinated debt agreement for total amount of BGN 25,000 thousand at a fixed rate of 6.5%. In November 2006, all rights and obligations /including the receivables/, held by the legal entities (lenders) under agreements concluded by DZI Bank have been transferred to Eurobank EFG Holding /Luxembourg/ S.A., whereas all contractual terms remain unchanged. In 2010 an annex for maturity extension of the debt till March 2018 was signed. As of 31 December 2010 the total liability amounted to BGN 30,595 thousand (2009: BGN 29,132 thousand).

In June 2007, Eurobank EFG Bulgaria a signed subordinated debt agreement with EFG Eurobank Ergasias in the amount of EUR 30,000 thousand (BGN 58,675 thousands), floating rate of three-month Euribor plus 1 %. As of 31 December 2010 the total liability amounted to BGN 65,643 thousand (2009: BGN 64,732 thousand). In 2010 an annex for maturity extension of the debt till June 2017 was signed.

In August 2010, Eurobank EFG Bulgaria signed a subordinated debt agreement with EFG Eurobank Ergasias for EUR 20,000 thousand (BGN 39,117 thousand) at floating rate of three-month Euribor plus 0.65 % with maturity 2017. As of 31 December 2010 the total liability amounted to BGN 39,210 thousand.

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

Notes to the financial statements (continued)

22 Debt issued and Other borrowed funds (continued)

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

In October 2010 Eurobank EFG Bulgaria and the European Bank for Reconstruction and Development signed a Loan Agreement for a credit limit of EUR 75,000 thousand (BGN 146,687 thousand) divided in two tranches, the first of which for EUR 37,500 thousand (BGN 73,344 thousand) was fully disbursed as of end of 2010. The granted funds are used for financing private enterprises, firms, businesses, sole proprietors or other legal entities. As at 31 December 2010 the total liability amounted to BGN 72,855 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 25,000 thousand (BGN 48,896 thousand) for the purpose of granting funds to small and medium-sized enterprises. As of 31 December 2010 the total liability amounted to BGN 38,190 thousand (2009: 13,615 thousand).

In December 2006, Eurobank EFG Bulgaria and the European Bank for Reconstruction and Development amended and restated an existing Loan Agreement contract as of 2004 whereby the Bank can borrow up to EUR 15,000 thousand (BGN 29,337 thousand) for the purposes of granting loans to corporate customers for improving rational energy utilization and renewable energy projects. As of 31 December 2010 the total liability amounted to BGN 9,005 thousand (2009: BGN 12,043 thousand).

In June 2010 Eurobank EFG Bulgaria repaid the total outstanding liabilities on a loan contract signed in 2004 for EUR 5 million with European Bank for Reconstruction and Development for funding residential energy efficiency and small renewable energy investments of individual households. The outstanding liability as of end of 2009 was BGN 3,726 thousand.

c) *Debt securities in issue*

In April 2007 corporate bonds with nominal amount of BGN 40,000 thousand were issued. The bonds coupon carry floating rate coupon based on three-month SOFIBOR rate plus 0.8%, maturing in March 2012. The outstanding balance as of 31 December 2010 is BGN 40,021 thousand (2009: BGN 39,992 thousand).

d) *Loan received from the Bulgarian Development Bank*

In February 2009, Eurobank EFG Bulgaria and the Bulgarian Development Bank signed a Loan Agreement for BGN 20,000 thousand for a period of 10 years, at a fixed rate of 5%. The financing was part of the government measures package, aiming to minimize the global financial crisis impact over the Bulgarian economy. The purpose of the granted funds is medium to long term financing of small and medium enterprises. As of 31 December 2010 the total liability amounted to BGN 20,003 thousand (2009: 20,003).

e) *Loan received from the European Investment Bank*

In October 2009, Eurobank EFG Bulgaria and the European Investment Bank signed a Loan Agreement for a total amount of EUR 50,000 thousand (BGN 97,792 thousand) for financing of investment projects of small and medium sized enterprises in Bulgaria as well as for working capital. The contract has eight years maturity and interest rate of 3 month Euribor plus 0.5 %. As of 31 December 2010 the total liability amounted to BGN 19,589 thousand (2009: nil).

f) *Syndicated loan*

In July 2010, Eurobank EFG Bulgaria repaid a Syndicated Loan for the total amount of EUR 150,000 thousand (BGN 293,375 thousand) signed in July 2008.

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

Notes to the financial statements (continued)

22 Debt issued and other borrowed funds (continued)

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

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

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

Notes to the financial statements (continued)

22 Debt issued and other borrowed funds (continued)

	Within 1 year	1-5 years	31 December 2009 Over 5 years	Total
Corporate Bonds				
Floating rate	-	39,931	-	39,931
Accrued interest	61	-	-	61
Subordinated debt				
Floating rate	-	58,675	-	58,675
Accrued interest	-	6,057	-	6,057
Fixed rate	-	-	25,000	25,000
Accrued interest	-	-	4,132	4,132
EBRD Credit lines				
Floating rate	15,597	13,516	-	29,113
Accrued interest	271	-	-	271
Syndicated Loan				
Floating rate	293,070	-	-	293,070
Accrued interest	18	-	-	18
Loan from Bulgarian Development Bank				
Fixed rate	-	4,000	16,000	20,000
Accrued interest	3	-	-	3
Total Debt issued and other borrowed funds	309,020	122,179	45,132	476,331

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

Notes to the financial statements (continued)**23 Deferred income taxes**

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 10% (2009: 10%). The movement on the deferred income tax account is as follows:

	2010	2009
Deferred tax liability at the beginning of year	2,669	816
Income statement charge (Note 8)	663	1,949
Credit to revaluation reserves in equity	-	(96)
Deferred tax liability at end of year	3,332	2,669

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

	2010	2009
Deferred income tax liabilities		
Accelerated tax depreciation	3,488	3,052
Property revaluation	264	266
Gain on share exchange	416	-
	4,168	3,318
Deferred income tax assets		
Unused holidays	135	163
Provision for court claims	164	47
Provision for retirement obligations	222	190
Other temporary differences	315	249
	836	649

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

	2010	2009
Depreciation	436	640
Gain on share exchange	416	-
Unused holidays	28	(37)
Provision for court claims and off balances	(116)	(24)
Other temporary differences	(68)	975
Provision for retirement obligations	(33)	(11)
Restructuring provisions	-	406
Net deferred tax charge	663	1,949

24 Provisions for other liabilities and charges**(a) Legal proceedings**

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

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

Legal provisions	2010	2009
Opening balance at 1st of January	473	232
Charged to the income statement	1,420	301
Used during year	(256)	(60)
Closing balance	1,637	473

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

Notes to the financial statements (continued)**24 Provisions for other liabilities and charges (continued)***(b) Assets pledged*

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

	Asset		Related liability	
	2010	2009	2010	2009
Mandatory reserves with BNB	421,996	398,525	5,059,175	4,902,466
Trading and Investment Securities (pledged under repurchase agreement and government accounts)	222,766	350,347	191,914	291,009
Loans pledged under long term debt agreement	17,840	17,697	20,003	20,003
Total	662,602	766,569	5,271,092	5,213,478

The total financial assets that have been pledged as collateral for liabilities (including amounts reflected above) as of 31 December 2010 was BGN 662,602 thousand (2009: BGN 766,569 thousand). These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities, as well as requirements determined by exchanges where the Bank acts as an intermediary.

The Bank has entered into reverse repurchase agreements with financial institutions and other clients for the total amount of BGN 49,312 thousand (2009: BGN 73,686 thousand). The Bank has accepted bonds and shares at fair value 52,308 thousand (2009: 81,696 thousand) as collateral, which it is permitted to sell or repledge. The collaterals accepted have not been repledged or lent to third parties.

25 Retirement benefits obligations	2010	2009
Retirement benefit obligation at start of period	1,899	1,793
Service cost	307	333
Interest cost	126	102
Benefits paid	(93)	(16)
Actuarial (gain)	(13)	(313)
Retirement benefit obligation at end of period	2,226	1,899
Expenses recognised in profit or loss		
Service cost	307	333
Interest cost	126	102
Actuarial (gain)	(13)	(313)
Total expense included in staff costs	420	122
Actuarial assumptions	2010	2009
Discount rate	6.00%	6.75%
Future salary increase	3.50%	4.00%
Inflation rate	2.50%	3.00%

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

Notes to the financial statements (continued)

26 Other liabilities	2010	2009
Accrued expenses	20,694	17,836
Other creditors	5,267	13,208
Unused paid leave accrual	1,347	1,325
Other	826	1,768
Total	28,134	34,137

27 Share capital

As of 31 December, 2010 the total authorized number of ordinary shares of Eurobank EFG Bulgaria AD was 452,752,652 (2009: 452,752,652) with a nominal value of BGN 1 per share. All issued shares are fully paid.

28 Cash and cash equivalents

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

	2010	2009
Cash in hand (Note 10)	99,606	95,100
Balances with Central bank excluding the minimum level of mandatory reserves	335,764	268,565
Loans and advances to banks	983,662	587,320
Total amount of cash and cash equivalent	1,419,032	950,985

29 Related party transactions

Eurobank EFG Bulgaria is a subsidiary of EFG Eurobank Ergasias which is listed on the Athens Stock Exchange. EFG Eurobank Ergasias is a member of the worldwide EFG Group, which consists of credit institutions, financial services and financial holding companies. The operating parent company of the EFG Group is European Financial Group EFG (Luxembourg) S.A., whilst its ultimate parent company is Private Financial Holdings Limited (PFH), which is owned and controlled indirectly by members of the Latsis family. As at 31 December 2010, the EFG Group held 44.8% of the ordinary shares and voting rights of the Bank through wholly owned subsidiaries of the ultimate parent company, the remaining ordinary shares and voting rights being held by institutional and retail investors, none of which, to the knowledge of the Bank, holds 5% or more.

As at 31 December 2010 EFG Eurobank Ergasias owns directly 34.56% of Eurobank EFG, Bulgaria, another 54.27% through its 100% subsidiary EFG New Europe Holding B.V and 11.16% through its 100% subsidiary CEH Balkan Holdings Limited.

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

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

Notes to the financial statements (continued)

29 Related party transactions (continued)

	31 December 2010			31 December 2009		
	Parent company	Other Group companies	Key management personnel	Parent company	Other Group companies	Key management personnel
Loans and advances to banks	789,050	8	-	470,711	4	-
Loans and advances to customers	-	-	113	-	-	119
Financial assets held for trading	-	11,445	-	-	8,845	-
Derivative financial instruments assets	12,682	3,637	-	6,065	469	-
Due to other banks	337,749	344	-	320,847	195	-
Due to Customers	-	684,974	162	-	630,132	147
Debt issued and other borrowed funds	104,853	30,595	-	64,732	87,750	-
Derivative financial instruments liabilities	65,123	-	-	47,155	-	-
Interest income	46,511	3,779	3	44,004	35,202	11
Interest (expense)	(35,429)	(12,158)	-	(66,347)	(11,391)	-7
Fee and commission income	15	1,164	-	149	808	-
Fee and commission (expense)	(2,352)	(3)	-	(24)	(4,296)	-
Net trading income	13,822	269	-	2,820	2,849	-
Salaries and other short-term benefits	-	-	1,526	-	-	1,300
(Loss)/gain from AFS securities	(7,156)	-	-	5,275	-	-
Valuation expenses related to NPL property	-	(229)	-	-	-	-
Letters of guarantee issued	4,498	2,642	-	4,498	81	-
Letters of guarantee received	2,084	-	-	1,757	-	-

No provisions have been recognised in respect of loans given to related parties (2009: nil).

30 Contingent liabilities and commitments

(a) Legal proceedings

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

(b) Loan commitments, guarantee and other financial facilities

As at 31 December 2010, the Bank had the contractual amounts of its off-balance sheet financial instruments that commit it to extend credit to customers, guarantee and other facilities as follows:

	2010	2009
Financial guarantees	89,742	119,102
Letters of credit	23,023	10,210
Loan commitments and other credit related liabilities	539,685	510,132
Total	652,450	639,444

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

Notes to the financial statements (continued)

31 Operating leases

(a) Operating lease commitments-Bank as a lessee

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

Future minimum lease payments	2010	2009
No later than one year	12,081	6,547
Later than one year and no later than five years	16,736	-
Later than five years	1,067	-
Total	29,884	6,547

(b) Operating lease commitments-Bank as a lessor

The Bank has entered into commercial leases on premises. Where the Bank is the lessor, the amount of the future minimum rentals under non-cancelable operating leases as of 31 December 2010 is BGN 28 thousand (2009: BGN 30 thousand).

32 Events after the balance sheet date

There are no significant post balance sheet events with effect on the financial statements as of 31 December 2010.