BULGARIAN RETAIL SERVICES AD
DIRECTORS' REPORT
FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS
AS ADOPTED BY THE EUROPEAN UNION

31 DECEMBER 2011

CONTENTS

DIRECTORS' REPORT AS OF 31 DECEMBER 2011

BUSINESS DESCRIPTION

The Company was incorporated as a joint-stock company in 2002, and as of its incorporation until 31 December 2011 it has not changed its legal form.

The Company was registered with the principal activity consultancy and other services related to data processing, management, promoting, organizing etc. with relation to payment systems and consumer lending activities, expertise, software and equipment supporting those activities, providing financial services including creation, installment and maintenance of the technical equipment required for their provision, debt collection and other.

BUSINESS OVERVIEW

Bulgarian Retail Services is part of EFG Group – an international financial group.

The basic business activity of the Company in 2011 was to provide loan portfolio administration.

During 2011 Bulgarian Retail Services AD and Eurobank EFG Bulgaria AD (the "Bank', "Eurobank") have signed several contracts for transferring of receivables under the loan agreements. BRS transferred to the Bank all its receivables under these loans agreements, together with all collateral, privileges and other belongings, including the accrued interests, including the co-debtors under these loans. The Company received amount that equals the net book value of the transferred loans, which approximated the fair value of the assets transferred. The operation constitutes an intra-group restructuring of the lending operations in Bulgaria. Bulgarian Retail Services AD did not retain any risks or benefits on the transferred loans.

Eurobank EFG Bulgaria AD has separate contractual agreements to provide to BRS services regarding loans in the Company portfolio

DEVELOPMENT AND RESULTS FROM THE BUSINESS ACTIVITY

The Company maintains strict control of the main risks it is exposed to.

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 reviewing these lending limits where appropriate.

DEVELOPMENT AND RESULTS FROM THE BUSINESS ACTIVITY (CONTINUED)

The exposure to anyone borrower is restricted by limits covering on- and off-balance sheet exposures, and risk limits in relation to trading items such as currency swaps, and currency forward contracts. Actual exposures against limits are monitored daily.

The Company maintains strict control limits on net open derivative positions by both amount and term. The Company analyzes the effectiveness of the derivative instruments on a monthly basis. The Company estimates the market risk of positions held and the maximum losses expected, based upon a number of assumptions, and reviews various market risks on a monthly basis.

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

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

In relation with interest rate exposure, the Company has the contractual right to change interest rates on all loans contracts after a certain period from the origination date of a contract. Limits are set on the level of mismatch of interest rate reprising that may be undertaken.

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. To mitigate the foreign exchange risk the Company uses derivative instruments.

In order to optimize the liquidity risk the Company sets limits for the maximum level of activities requiring cash resources ensuring that cash and maturing funds are available to meet any expected calls and to prevent unexpected levels of demand.

SHARE CAPITAL STRUCTURE

The number of the issued shares as at year-end is 70,000 (2010: 70,000) with nominal value of BGN 10 per share (2010: BGN 10). All issued ordinary shares are fully paid giving one voting right each.

The structure of the registered capital of the Company as at 31 December 2011 is, as follows:

Shareholders	**Shareholding Stake**	**Number of Shares**	**Nominal Value (BGN)**
Eurobank Cards S.A. - Greece	99.999%	69,999	699,990
Theodoros Karakasis	0.001%	1	10
TOTAL:	**100.00%**	**70,000**	**700,000**

SHARE CAPITAL STRUCTURE (CONTINUED)

During the reported year the shares of the Company have not been transferred, pledged or attached.

BOARD OF DIRECTORS

As at the end of the reported period the composition of the Board of Directors, according to the valid registration in the Commercial registry, and the distribution of functions among its members are as follows:

- Petia Dimitrova – Chairperson of the Board and Executive Director;
- Christina Theofilidi – Deputy Chairperson of the Board;
- Elli Anastasia Giannopoulou – Member of the Board;
- Solomon Berahas - Member of the Board;
- Emil Georgiev - Member of the Board;

During 2011 the members of the Board of Directors did not receive remunerations from BRS in their capacity of BD members.

None of the members of the Board of Directors has owned or transferred shares or bonds of BRS.

None of the members of the Board of Directors holds special rights of acquisition of shares or bonds of BRS.

None of the members of the Board of Directors is a Partner with unlimited liability into commercial companies.

None of the members of the Board of Directors holds more than 25 per cent of the capital of another company.

The following members of the Board of Directors participate in the management of other companies as procurators, managers or board members, as follows:

Petia Dimitrova

- Eurobank EFG Bulgaria AD, Bulgaria – Member of the Board of Directors and Executive Director (until 05.05.2011); Deputy Chairperson of the Management Board and Executive Director (effective as of 05.05.2011)
- EFG Property Services Sofia AD, Bulgaria – Member of the Board of Directors
- IMO Property Investments Sofia EAD, Bulgaria – Member of the Board of Directors and Executive Director

BOARD OF DIRECTORS (CONTINUED)

Petia Dimitrova (continued)

- IMO Rila EAD, Bulgaria – Deputy Chairperson of the Board of Directors and Executive Director
- IMO Central Office EAD, Bulgaria – Deputy Chairperson of the Board of Directors and Executive Director
- IMO 03 EAD, Bulgaria – Member of the Board of Directors and Executive Director
- AmCham Bulgaria (American Chamber of Commerce in Bulgaria), Bulgaria – Member of the Board of Directors
- Bulgarian Business Leaders Forum (BBLF), Bulgaria – Member of the Board of Directors
- State-owned enterprise Communicative construction and rehabilitation, Bulgaria – Member of the Board of Directors
- Municipal Bank AD, Bulgaria – Member of the Supervisory Board

Christina Theofilidi

- Bankpost S.A., Romania – Member of the Board of Directors
- EFG Retail Services INF S.A., Romania – Member of the Board of Directors
- Eurocredit Retail Services Ltd., Cyprus – Member of the Board of Directors (until 06.07.2011)
- Public Joint Stock Company "Universal Bank", Ukraine – Member of the Supervisory Board
- Eurobank EFG Poland branch (Polbank EFG), Poland – Member of the Supervisory Board (until 19.09.2011)
- Eurobank EFG Cards S.A., Greece – Member of the Board of Directors (effective as of 15.04.2011) and Deputy General Manager

Solomon Berahas

- Eurobank EFG Cards S.A., Greece – Member of the Board of Directors and Deputy General Manager
- Eurobank EFG Financial Planning Services S.A., Greece – Deputy Chairperson of the Board of Directors
- EFG Retail Services INF S.A., Romania – Member of the Board of Directors
- Eurocredit Retail Services Ltd., Cyprus – Member of the Board of Directors (until 06.07.2011)

BOARD OF DIRECTORS (CONTINUED)

Elli Anastasia Giannopoulou

- EFG Retail Services INF S.A., Romania – Member of the Board of Directors
- NEU Property Holdings Limited, Cyprus – Member of the Board of Directors
- NEU II Property Holdings Limited , Cyprus – Member of the Board of Directors (effective as of 08.02.2011)
- NEU III Property Holdings Limited, Cyprus – Member of the Board of Directors (effective as of 08.02.2011)
- EFG New Europe Funding III Limited, Cyprus – Member of the Board of Directors
- EFG New Europe Funding B.V., Netherlands – Member of the Board of Directors and Managing Director A
- EFG New Europe Funding II B.V., Netherlands – Member of the Board of Directors and Managing Director A
- EFG Eurobank Ergasias S.A., Greece – Assistant General Manager, Head of Financial Planning & Control Division, International Division

BRS AD has not entered into contracts in the sense of Article 240b, paragraph 1 of the Commerce Act during 2011.

FINANCIAL INSTRUMENTS AND FINANCIAL RISKS

By its nature the Company's activities are principally related to the use of financial instruments. The Company borrows at floating rates for various periods and seeks to earn above average interest margins by investing these funds in a high quality loan portfolio.

For more detailed explanations of the financial risk management please refer to the section in the annual financial statements for financial risk management.

PLANNED BUSINESS POLICY IN 2012

- The main goals of the Company during 2012 will be to manage effectively its financial assets.
- During 2012 the Company does not plan to increase personnel.
- During 2012 the Company will be committed to retaining its key employees by inspiring their professional development, rewarding performance and offering various training opportunities.

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 as at the year end and its financial results. The management has prepared the enclosed financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS) and the Bulgarian legislation.

The Directors confirm that suitable accounting policies have been used.

The Company uses the Bulgarian lev (BGN) as a reporting currency. The 2011 financial statements are prepared in BGN.

The Directors confirm that applicable International Financial Reporting Standards (IFRS) as adopted by the European Union have been followed and 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.

The Directors of the Company are optimistic regarding the future of Bulgarian Retail Services AD, as the control and coordination which could be exercised by a single management are these factors, which will contribute to the good performance and the sustainability of the Company.

БЪЛГЕРИАН РИТЕЙЛ СЪРВИСИЗ АД * BULGARIAN RETAIL SERVICES AD * София Sofia

Petia Dimitrova
Executive Director and
Chairperson of the Board of Directors

Milena Boyadzhieva
Chief Financial Officer

Bulgarian Retail Services AD
Sofia, 28 May 2012

BULGARIAN RETAIL SERVICES AD
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2011

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

	Notes	Year ended 31 December	
		2011	**2010**
Interest income and similar income	4	60,848	59,050
Interest expense and similar charges	4	(48,028)	(36,295)
Net interest income		**12,820**	**22,755**
Fee and commission income	5	3,054	4,184
Fee and commission expense	5	(148)	(256)
Net fee and commission income		**2,906**	**3,928**
Net trading income/(expense)	6	(211)	313
Operating expenses	7	(416)	(602)
Provision for loan impairment	11	(5,592)	(4,201)
Profit before income tax		**9,507**	**22,193**
Income tax expense	9	(951)	(2,226)
Profit for the year		**8,556**	**19,967**
Other comprehensive income for the year		-	-
Total comprehensive income for the year		**8,556**	**19,967**

Petia Dimitrova
Executive Director
28 May 2012
Sofia, Bulgaria

БЪЛГАРИАН РИТЕЙЛ СЪРВИСИЗ АД * BULGARIAN RETAIL SERVICES AD
София Sofia

Milena Boyadzhieva
Chief Financial Officer

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

Rositsa Boteva
Registered Auditor
30 May 2012

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

Petko Dimitrov
PricewaterhouseCoopers Audit OOD

BULGARIAN RETAIL SERVICES AD
BALANCE SHEET
AS AT 31 DECEMBER 2011

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

	Notes	As at 31 December 2011	As at 31 December 2010
Assets			
Cash and cash equivalents	10	552,865	499,535
Loans and advances to banks	10	139,240	137,094
Loans and advances to customers	11	698,167	743,832
Equipment and other non-current assets	13	78	59
Deferred income tax assets	9	1,210	1,243
Current income tax receivable		1,379	2,298
Other assets	12	321	576
Total assets		**1,393,260**	**1,384,637**
Liabilities			
Bank borrowings	14	1,287,081	1,287,009
Derivative financial instruments	15	2,138	3,637
Deferred income tax liabilities	9	4	5
Other liabilities	16	1,802	307
Total liabilities		**1,291,025**	**1,290,958**
Shareholders' equity			
Share capital	17	700	700
Other reserves			70
Retained earnings		101,465	92,909
Total shareholders' equity		**102,235**	**93,679**
Total shareholders' equity and liabilities		**1,393,260**	**1,384,637**

Petia Dimitrova
Executive Director
28 May2012
Sofia, Bulgaria

Milena Boyadzhieva
Chief Financial Officer

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

Rositsa Boteva
Registered Auditor
30 May 2012

Petko Dimitrov
PricewaterhouseCoopers Audit OOD

BULGARIAN RETAIL SERVICES AD
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011

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

	Share capital	Reserves	Retained earnings	Total
At 1 January 2010	**700**	**70**	**72,942**	**73,712**
Profit for the year	-	-	19,967	19,967
Total comprehensive income for the year	**-**	**-**	**19,967**	**19,967**
At 31 December 2010	**700**	**70**	**92,909**	**93,679**
At 1 January 2011	**700**	**70**	**92,909**	**93,679**
Profit for the year	-	-	8,556	8,556
Total comprehensive income for the year	**-**	**-**	**8,556**	**8,556**
At 31 December 2011	**700**	**70**	**101,465**	**102,235**

БЪЛГАРСКИ РИТЕЙЛ СЪРВИСИЗ АД * BULGARIAN RETAIL SERVICES AD
София
Sofia

Petia Dimitrova
Executive Director
28 May 2012
Sofia, Bulgaria

Milena Boyadzhieva
Chief Financial Officer

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

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

Rositsa Boteva
Registered Auditor
30 May 2012

Petko Dimitrov
PricewaterhouseCoopers Audit OOD

BULGARIAN RETAIL SERVICES AD
CASH FLOW STATEMENT
AS AT 31 DECEMBER 2011

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

	Notes	Year ended 31 December 2011	2010
Cash flow from operating activities			
Interest and similar income received		58,637	61,857
Interest paid		(46,332)	(32,393)
Fees and commission receipts		2,201	3,954
Fees and commission paid		(148)	(256)
Amounts paid to and on behalf of employees		(123)	(222)
Other expenses paid		(410)	(205)
Net trading and other (losses)/income		(400)	475
Income tax paid		-	(108)
Cash from operating profits before changes in operating assets and liabilities		**13,425**	**33,102**
Changes in operating assets and liabilities			
Loans and advances to customers		52,928	87,387
Derivative financial liabilities		(13,012)	(83,564)
Due from other banks	10		(136,908)
Other receivables		(85)	(137)
Other payables		113	(806)
Net cash from operating activities		**53,368**	**(100,926)**
Cash flows from investing activities			
Purchase of equipment		(39)	-
Net cash from investing activities		**(39)**	**-**
Cash flows from financing activities			
Increase in due to banks		-	244
Net cash from financing activities		**-**	**244**
Net increase in cash and cash equivalents		**53,330**	**(100,682)**
Cash and cash equivalents at beginning of year		499,535	600,217
Cash and cash equivalents at end of year	10	**552,865**	**499,535**

Петия Димитрова / Petia Dimitrova
Executive Director
28 May 2012
Sofia, Bulgaria

Milena Boyadzhieva
Chief Financial Officer

БЪЛГАРИАН РИТЕЙЛ СЪРВИСИЗ АД * BULGARIAN RETAIL SERVICES AD
София Sofia

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

Rositsa Boteva
Registered Auditor
30 May2012

Petko Dimitrov
PricewaterhouseCoopers Audit OOD

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

(In the notes all amounts are shown in BGN thousand unless otherwise stated)

1 Company background and significant accounting policies

(1) Company background

Bulgarian Retail Services AD ("the Company") was incorporated in 2002 and commenced its lending activities in January 2003. The Head Office is in Sofia, Bulgaria. Until the end of the 1st quarter of 2005 the Company's activities included issuing of credit cards and providing services in relation to the issued credit cards, such as transactions processing, establishment of the necessary retail network and offering of different methods of repayment for client's liabilities.

On 26 March 2005, Bulgarian Retail Services AD transferred its credit card loan portfolio and some fixed assets (all POS devices) to Eurobank EFG Bulgaria AD (Bulgarian Post Bank AD). After that date the Company ceased issuing credit cards but continued to provide services in relation to issued credit cards by other related companies including: Eurobank EFG Bulgaria AD, Eurocredit Retail Services, EFG Retail Services IFN SA, EFG Eurobank Belgrade. At the end of 2009, the Company ceased providing credit card processing services.

The Company loan portfolio consists of loans transferred during 2008, 2007 and 2006 and paid amount that equals the net book value of the transferred loans, which approximated the fair value of the assets transferred. Both companies are part of the EFG Group. Eurobank EFG Bulgaria AD has separate contractual agreements to provide services regarding the transferred loans. Eurobank EFG Bulgaria AD did not retain any risks or benefits on the transferred loans.

Shareholders of Bulgarian Retail Services AD are:

1. Eurobank Cards S.A., a joint-stock company, incorporated and existing under the laws of Greece with its registered seat and address of management at 41, Syggrou Av. & Petmeza St., registered with the Prefecture of Athens on February 12, 1997 under Registration № 37552/01/B/97/84 - a shareholder with 69,999 shares, being 99.999% of the capital issued by Bulgarian Retail Services AD and

2. Theodoros Karakassis, citizen of Greece, born on October 24, 1947 in Drama, Greece, passport №N875062, issued on August 23, 1999 by the Prefecture of Athens, residing in Athens at 16, F. Negri Str. - a shareholder with 1 share, being 0.001% of the capital of Bulgarian Retail Services AD.

Company address of management is: 4-6, Kniaz Alexander Dondukov Blvd., Sofia, Bulgaria.

(2) Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

(In the notes all amounts are shown in BGN thousand unless otherwise stated)

1 Company background and significant accounting policies (continued)

(3) Basis of preparation

The financial statements of the Company have been prepared in accordance with both International Financial Reporting Standards as adopted by the European Union and International Financial Reporting Standards issued by the IASB and in particular with those IFRS standards and IFRIC interpretations issued and effective or issued and early adopted as at the time of preparing these statements.
The policies set out below have been consistently applied to the years 2010 and 2011. Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

Impact of the economic crisis and situation in Greece

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

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

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

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

Position of the Group

EFG Eurobank Ergasias, although significantly affected by the impairment charge on Greek Government bonds (due to its participation in the PSI), continues to closely monitor these constructive developments and has taken necessary steps and continues adjusting to the new requirements. The shift towards a greater level of collateralized lending, growth in self-funding and the more promising market situation has been in place for some time. Additionally, the Group continues to reduce its cost base in order to increase the efficiency of operations. It also strengthens its collection efforts to maximize loan recoveries by redeploying resources where necessary and implements conservative provisioning policies. Finally and notwithstanding the required recapitalisation of the Parent, the Group is improving continuously the effectiveness of balance sheet management and is undertaking significant strategic initiatives in respect of its capital and liquidity positions.

(In the notes all amounts are shown in BGN thousand unless otherwise stated)

1 Company background and significant accounting policies (continued)

(3) Basis of preparation (continued)

Impact of the economic crisis and situation in Greece (continued)

Position of the Company

Bulgarian Retail Services AD finances its activities through a revolving short term borrowing by EFG Private Bank Luxembourg, own funding and equity.

a) Amended and new standards and interpretations effective in 2011

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

b) Standards and Interpretations issued but not yet effective

- IAS 1, Amendment - Presentation of Items of Other Comprehensive Income (effective 1 January 2013, not yet endorsed by EU)
- IAS 12, Amendment - Deferred tax: Recovery of Underlying Assets (effective 1 January 2012, not yet endorsed by EU)
- IAS 19, Amendment - Employee Benefits (effective 1 January 2013, not yet endorsed by EU)
- IAS 27, Amendment - Separate Financial Statements (effective 1 January 2013, not yet endorsed by EU)
- IAS 28, Amendment - Investments in Associates and Joint Ventures (effective 1 January 2013, not yet endorsed by EU)
- IAS 32, Amendment - Offsetting Financial Assets and Financial Liabilities (effective 1 January 2014, not yet endorsed by EU)
- IFRS 7, Amendment - Disclosures, Offsetting Financial Assets and Financial Liabilities (effective 1 January 2013, not yet endorsed by EU)
- IFRS 7, Amendment -Disclosures, Transfers of Financial Assets (effective 1 January 2012)
- IFRS 9, Financial Instruments (effective 1 January 2015, not yet endorsed by EU)
- IFRS 9 and IFRS 7, Amendment - Mandatory Effective Date and Transition Disclosures (effective 1 January 2015, not yet endorsed by EU)
- IFRS 10, Consolidated Financial Statements (effective 1 January 2013, not yet endorsed by EU)
- IFRS 11, Joint Arrangements (effective 1 January 2013, not yet endorsed by EU)
- IFRS 12, Disclosure of Interests in Other Entities (effective 1 January 2013, not yet endorsed by EU)
- IFRS 13, Fair Value Measurement (effective 1 January 2013, not yet endorsed by EU)

(In the notes all amounts are shown in BGN thousand unless otherwise stated)

1 Company background and significant accounting policies (continued)

(3) Basis of preparation (continued)

b) Standards and Interpretations issued but not yet effective (continued)

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

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

The financial statements are prepared under the historical cost convention as modified by the revaluation of available-for-sale financial assets and of financial assets and financial liabilities (including derivative instruments) at fair-value-through-profit-or-loss.

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.

(4) Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

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

At 31 December 2011, monetary assets and liabilities are translated at the reference Central Bank exchange rate – BGN 1 for EUR 0.5113 (2010: BGN 1 for EUR 0.5113) and BGN 1 for CHF 0.621527 (2010: BGN 1 for CHF 0.637836).

(In the notes all amounts are shown in BGN thousand unless otherwise stated)

1 Company background and significant accounting policies (continued)

(5) Interest income and expense

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

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

(6) Fees and commissions income and expense

Fee and commission expense consists mainly of mediation fees for services received from related parties in Bulgaria. Fees generated from and to related parties are described in Note 19.

Fees and commissions, except for those, which form part of the effective interest rate of the instrument, are generally recognized on an accrual basis when the service has been provided. Loan commitment fees that are likely to be drawn down are deferred and recognized as an adjustment to the effective interest rate on loans.

(7) Non – derivative financial assets

The Company classifies its financial assets in the following categories: loans and receivables; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

(a) 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.

(In the notes all amounts are shown in BGN thousand unless otherwise stated)

1 Company background and significant accounting policies (continued)

(7) Non – derivative financial assets (continued)

(b) Available-for-sale

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

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

Purchases and sales of financial assets are recognized at settlement date – which is the date the Company actually trades the relevant assets. The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and other valuation techniques consistent with the specific features of the security market in Bulgaria.
Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where the Company has transferred substantially all risks and rewards of ownership.
Financial liabilities are derecognized when they are extinguished – that is, when the obligation is discharged, cancelled or expires.

(8) Derivative financial instruments

Derivatives are financial instruments :

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

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

(c) that is settled at a future date.

Derivative financial instruments including currency swaps, interest rate swaps and currency forwards are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models and pricing models as appropriate. The positive fair value of the derivatives is carried as asset and the negative fair value is carried as liability. The changes in the fair value of derivatives are included in the income statement if any.

(In the notes all amounts are shown in BGN thousand unless otherwise stated)

1 Company background and significant accounting policies (continued)

(8) Derivative financial instruments (continued)

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

(9) Impairment of financial assets

(1) Assets carried at amortized cost

The Company 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;

Downgrading below investment grade level;

The Company 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 Company 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 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 Company may measure impairment on the basis of an instrument's fair value using an observable market price.

(In the notes all amounts are shown in BGN thousand unless otherwise stated)

1 Company background and significant accounting policies (continued)

(9) Impairment of financial assets (continued)

(1) Assets carried at amortized cost (continued)

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

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Company'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.

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 Company and historical loss experience for assets with credit risk characteristics similar to those in the Company. 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 Company and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Company 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 recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the income statement in impairment charge for credit losses.

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

(In the notes all amounts are shown in BGN thousand unless otherwise stated)

1 Company background and significant accounting policies (continued)

(9) Impairment of financial assets (continued)

(2) Financial assets carried at fair value

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

If any such evidence exists for available for- sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments, classified as available-for-sale, are not reversed through the income statement.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the income statement.

(10) Equipment and other tangible fixed assets

All property and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement when the expenditure is incurred.

Depreciation is calculated on the straight-line method to allocate the cost of each asset to their residual values over their estimated useful life.

Depreciation rates are between 8% and 24% per annum on computer equipment and fixtures and fittings.

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

Gains and losses on disposal of property and equipment are determined by comparing proceed with carrying amount. These are included in the income statement.

(In the notes all amounts are shown in BGN thousand unless otherwise stated)

1 Company background and significant accounting policies (continued)

(11) Intangible assets

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

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

Intangible assets are amortized using the straight-line method over their useful lives.
Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An intangible asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

(12) Borrowings

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

(13) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including: cash in hand and call deposits held with banks.

(14) Operating leases

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

(15) Current and deferred income tax

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

(In the notes all amounts are shown in BGN thousand unless otherwise stated)

1 Company background and significant accounting policies (continued)

(15) Current and deferred income tax (continued)

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

(16) Employee benefits

(1) Social, pension and health funds.

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

(2) Pension obligations.

In accordance with article 222, paragraph 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 a compensation as follows: 2 gross monthly salaries in all cases and 6 gross monthly salaries if the employee has been engaged with the Company for at least 10 years.

In the end of every reporting period the Company estimates and recognizes the provision for its pension obligations. In calculating the provision the Company estimates the present value of its future pension obligations considering the probability of the employees to retire while employed in the Company.

(17) Provisions

Provisions for restructuring costs and legal claims are recognised when: the Company 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.

(In the notes all amounts are shown in BGN thousand unless otherwise stated)

1 Company background and significant accounting policies (continued)

(17) Provisions (continued)

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

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

(18) Share capital

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company's shareholders. Dividends for the year that are declared after the balance sheet date are dealt with in the subsequent events note.

(19) Offsetting financial instruments

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

(20) Comparatives

The Company has not performed any reclassifications on balance sheet and income statement positions for 2011.

2 Financial Risk Management

Strategy in using financial instruments

The Company'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.

The activity of the Company 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 Mother-company. The adequacy of internal control systems is evaluated by the EFG Group's Internal Auditors. Risk functions are managed by the Company's Management. The most important types of risk are credit risk, market risk, operational risk and liquidity risk. Market risk includes currency risk, interest rate and other price risk.

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

(In the notes all amounts are shown in BGN thousand unless otherwise stated)

2 Financial Risk Management (continued)

Strategy in using financial instruments (continued)

The borrowers of the Company 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

(1) Credit risk measurement

The Company assumes exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. Impairment provisions are provided for losses that have been incurred at the balance sheet date. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Company's portfolio, could result in losses that are different from those provided for at the balance sheet date. Management therefore carefully manages its exposure to credit risk.

The Company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and the geographical and industry segments. Such risks are monitored regularly.
Exposure to credit risk is managed through regular analysis of the ability of borrowers to meet interest and capital repayment obligations and reviewing these lending limits where appropriate. Credit operations are governed by a comprehensive set of policies and procedures to ensure that all aspects of credit risk are adequately covered.

(a) Loans and advances

The Company loan portfolio consists only of loans referred from Eurobank EFG Bulgaria AD. The Company assesses the credit risk on the referred loans individually and on a portfolio basis before the referral takes place.

The Company has an agreement with Eurobank EFG Bulgaria AD, under which Eurobank EFG Bulgaria AD is obliged to service the loans and provide the necessary information to the Company to assess the risks related with the loan portfolio. The exposure to anyone borrower is restricted by limits covering on-and off-balance sheet exposures, and risk limits in relation to trading items such as interest swaps, currency swaps, and currency forward contracts. Actual exposures against limits are monitored daily.

The Company assesses the probability of default using internal rating system from Eurobank EFG Bulgaria. The wholesale borrowers are rated on a case-by-case basis in 11 categories. The internal ratings that should be assigned to the wholesale borrowers are based on a profound analysis of a set 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.)

(In the notes all amounts are shown in BGN thousand unless otherwise stated)

2 Financial Risk Management (continued)

(1) Credit risk measurement (continued)

(a) Loans and advances (continued

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

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

The management of the Company reviews the reports provided from Eurobank EFG Bulgaria AD on regular basis and takes appropriate actions to mitigate credit risk.

(b) Collateral

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

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

Long-term finance and lending to corporate entities are generally secured. In order to minimize the credit loss the Company 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.

(c) Derivatives

The Company 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 Company (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. Collateral or other security is not usually obtained for credit risk exposures on these instruments.

(In the notes all amounts are shown in BGN thousand unless otherwise stated)

2 Financial Risk Management (continued)

(2) Maximum exposure to credit risk before collateral held or other credit enhancements

The table below represents a worse case scenario of credit risk exposure to the Company as at 31 December 2011, without taking account of any collateral held or other credit enhancements attached. These are on-balance-sheet assets and the exposures set out below are based on net carrying amounts as reported in the balance sheet.
As shown below, 50% of the total maximum exposure is derived from loans and advances to customers (2010: 54%).

Maximum exposure

	2011	2010
Credit risk exposures relating to on-balance sheet assets are as follows:		
Loans and advances to customers:	**698,167**	**743,832**
Mortgages	648,890	682,754
Consumer loans	2	3
Small Business lending	12,233	13,727
Corporate customers	37,042	47,348
Other assets	**2,674**	**792**
Cash with banks	**689,752**	**636,413**
At 31 December	**1,390,593**	**1,381,037**

(3) Loans and advances to customers
Loans and advances are summarized as follows:

Balance at 31 December 2011	**Loans and advances to customers**
Neither past due nor impaired	532,796
Past due but not impaired	123,744
Impaired	56,791
Gross	**713,331**
Less: allowance for impairment	(15,164)
Net	**698,167**

Balance at 31 December 2010	**Loans and advances to customers**
Neither past due nor impaired	604,641
Past due but not impaired	112,801
Impaired	37,491
Gross	**754,933**
Less: allowance for impairment	(11,101)
Net	**743,832**

(In the notes all amounts are shown in BGN thousand unless otherwise stated)

2 Financial Risk Management (continued)

(3) Loans and advances to customers (continued)

The total impairment provision for loans and advances is BGN 15,164 thousands (2010: BGN 11,101 thousands). Further information of the impairment allowance for loans and advances to customers is provided in Note 11.

(a) Loans and advances neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired at 31 December 2011 can be assessed by reference to the internal standard grading system. The following information is based on that system:

Balance at 31 December 2011	**Loans and advances neither past due nor impaired**
Low – acceptable risk	532,347
Watch list	449
Total	**532,796**

Balance at 31 December 2010	**Loans and advances neither past due nor impaired**
Low – acceptable risk	604,153
Watch list	488
Total	**604,641**

(b) Loan and advances past due but not impaired

	Retail customers			Corporate entities	
Balance at 31 December 2011	**Consumer Lending**	**Mortgage Lending**	**Small Business**	**Wholesale**	**Total**
Past due up to 29 days	-	63,220	2,164	1,784	67,168
Past due 30 - 59 days	-	24,569	-	6,165	30,734
Past due 60 - 89 days	-	16,490	136	-	16,626
Past due 90 - 179 days	-	8,719	-	497	9,216
Total	**-**	**112,998**	**2,300**	**8,446**	**123,744**

(In the notes all amounts are shown in BGN thousand unless otherwise stated)

2 Financial Risk Management (continued)

(3) Loans and advances to customers (continued)

		Retail customers		Corporate entities	
Balance at 31 December 2010	**Consumer Lending**	**Mortgage Lending**	**Small Business**	**Wholesale Banking**	**Total**
Past due up to 29 days	-	55,836	1,820	1,736	59,392
Past due 30 - 59 days	-	22,714	211	-	22,925
Past due 60 - 89 days	-	11,959	156	10,329	22,444
Past due 90 - 179 days	-	8,040	-	-	8,040
Total	-	**98,549**	**2,187**	**12,065**	**112,801**

(c) Loans and advances individually impaired (SBB & Wholesale)

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 Company to determine that there is objective evidence of impairment include:

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

The breakdown of the gross amount of individually assesseded loans and advances by class, along with the fair value of related collateral held by the Company as security, are as follows:

Balance at 31 December 2011	**Small Business**	**Wholesale Banking**
Individually assessed loans	1,560	5,223
Total	**1,560**	**5,223**

Balance at 31 December 2010	**Small Business**	**Wholesale Banking**
Individually assessed loans	4,728	4,408
Total	**4,728**	**4,408**

(In the notes all amounts are shown in BGN thousand unless otherwise stated)

2 Financial Risk Management (continued)

(3) Loans and advances to customers (continued)

(d) Loans and advances collectively assessed (MLU & CLB)

Balance at 31 December 2011	Mortgage Lending	Small Business
Collectively assessed loans	46,841	3,167
Total	**46,841**	**3,167**

Balance at 31 December 2010	Mortgage Lending	Small Business
Collectively assessed loans	28,147	208
Total	**28,147**	**208**

The disclosed fair value of collateral is determined by local certified valuers and represents value realizable by the legal owners of the assets. Management considers the loans covered by collateral as impaired because experience shows that a significant proportion of the collateral cannot be enforced due to administrative and legal difficulties. 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 Company's management will vigorously pursue the outstanding debts with all possible means at their disposal.

Based on past experience, consumer and small business loans less than 90 days past due, for mortgage loans - 180 days past due, are not considered impaired, unless specific information indicates to the contrary. Certain wholesale loans for which the exposure is fully collateralized and/or the counterparty is of high credit quality are not considered impaired for a period of up to 1 year.

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

(d)Loans and advances 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 payment will most likely continue. These policies are kept under continuous review. Loans that have been renegotiated are considered by the Company as cured if they fully perform over probation period following the renegotiation.

(In the notes all amounts are shown in BGN thousand unless otherwise stated)

2 Financial Risk Management (continued)

(3) Loans and advances to customers (continued)

(d)Loans and advances renegotiated (continued)

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. Renegotiated loans that would otherwise be past due or impaired totalled BGN 721 thousands as at 31 December 2011 (2010: BGN 0).

	2011	**2010**
Loans and advances to customers		
– Mortgages lending	721	-
Total	**721**	**-**

(4) Concentration of risks of financial assets with credit risk exposure

(a) Geographical sectors

The following table breaks down the Company's main credit exposure at their carrying amounts, as categorized by geographical region as of 31 December 2011. For this table, the Company has allocated exposures to regions based on the country of domicile of its counterparties.

	Bulgaria	**Other countries in Europe**	**Total**
Loans and advances to customers:	**696,527**	**1,640**	**698,167**
- Mortgages	648,890	-	648,890
- Consumer lending	2	-	2
- Small business lending	12,233	-	12,233
- Corporate lending	35,402	1,640	37,042
Other assets	**2,674**	-	**2,674**
31 December 2011	**699,201**	**1,640**	**700,841**
31 December 2010	**743,318**	**1,307**	**744,625**

The borrowers in the Company's loan portfolio are mainly Bulgarian individuals and entities. BRS provided services to companies from EFG Group: Eurobank EFG Bulgaria AD (Bulgaria), EFG Eurobank (Serbia), EFG Retail Services IFN SA (Romania) and Eurocredit Retail Services Ltd (Cyprus). Balances with related parties are presented in Note 19.

(In the notes all amounts are shown in BGN thousand unless otherwise stated)

2 Financial Risk Management (continued)

(4) Concentration of risks of financial assets with credit risk exposure (continued)

(b) Industry sectors

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

	Commerce and services	Private individuals	Manufacturing	Construction	Other	Total
Loans and advances to customers:	**28,781**	**649,108**	**6,168**	**8,968**	**5,142**	**698,167**
- Mortgages	-	648,890	-	-	-	648,890
-Consumer loans	-	2	-	-	-	2
-Small business lending	6,781	216	1,171	1,688	2,377	12,233
-Corporate lending	22,000	-	4,997	7,280	2,765	37,042
Other assets	-	-	-	-	2,674	2,674
31 December 2011	**28,781**	**649,108**	**6,168**	**8,968**	**7,816**	**700,841**
31 December 2010	**32,451**	**682,978**	**7,760**	**15,338**	**6,098**	**744,625**

(5) Market risk

The Company 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 re-pricing 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 Company mitigates the foreign currency risk by entering into foreign currency swap deals (Note 15) that cover the foreign currency mismatch of Company's assets and liabilities.

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

The Company estimates the market risk of positions held and the maximum losses expected, based upon a number of assumptions, and reviews various market risks on a monthly basis.

The Market Risk Policy is in compliance with the Parent company Risk Guidelines, which pertain to market risk.

(In the notes all amounts are shown in BGN thousand unless otherwise stated)

2 Financial Risk Management (continued)

(6) 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 Company 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 of the Company set limits on the level of mismatch of interest rate reprising that may be undertaken, which were monitored regularly.

The Company 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 "reasonably possible" shifts. Sensitivity to changes to two of the major market risk factors - FX and interest rates, has been calculated and presented in the below table. The calculation parameters used have been determined based on the current market environment and the dynamics during 2011and represent reasonable possible shifts in the market variables. The 2010 figures have been calculated with the same parameters.

Interest rate risk sensitivity has been estimated by applying a parallel yield curve shift to all relevant on- and off-balance sheet positions and calculating the changes in their present value. The results have been allocated to two columns depending on the accounting treatment of each position: Income statement - for items with revaluation reflected in the P&L accounts; Equity effect - for items with revaluation that affects the equity reserves;

		2011	
	Total Sensitivity	**Sensitivity of income statement**	**Sensitivity of equity***
Interest Rate			
+250 bps for BGN; 200 bps for all other - parallel shift	(5,051)	1	(5,052)
-250 bps for BGN; 50 bps - EUR; 25 bps - CHF parallel shift	1,288	-	1,288
Foreign exchange			
-25% depreciation of local currency	30	30	-
+20% appreciation of local currency	(24)	(24)	-

(In the notes all amounts are shown in BGN thousand unless otherwise stated)

2 Financial Risk Management (continued)

(6) Sensitivity of assets and liabilities (continued)

		2010	
	Total Sensitivity	**Sensitivity of income statement**	**Sensitivity of equity***
Interest Rate			
+250 bps for BGN; 200 bps for all other - parallel shift	(5,188)	-	(5,188)
-250 bps for BGN; 50 bps - EUR; 25 bps - CHF parallel shift	1,323	-	1,323
Foreign exchange			
-25% depreciation of local currency	59	59	-
+20% appreciation of local currency	(47)	(47)	-

For the estimation of the Interest Rate Sensitivity, the Company's assets and liabilities were distributed into time bands based on their maturity and repricing characteristics. For Equity Sensitivity, the calculations are based on the full revaluation of the positions. For trading book positions, the fair value movements are reflected directly into P&L. For Foreign Exchange Sensitivity, the calculations are based on the open foreign currency positions of the Company.

**The effect in equity represents the impact of market changes on the fair value of financial assets and liabilities carried at amortized cost; hence, these reasonable possible shifts do not have a direct impact on the financial performance and financial positions of the Company.*

(7) Liquidity risk

Liquidity risk is the risk that the Company 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 fulfil commitments to land.
The Company designates appropriate liquidity policies which have to ensure that sufficient liquid assets are maintained to meet liabilities as they arise.

The maturities of assets and liabilities and the ability to replace at an acceptable cost, interest bearing liabilities as they mature, are important factors in assessing the liquidity of the Company and its exposure to changes in interest rates and exchange rates.

(a) Non-derivative cash flows

The table below presents the cash flows payable by the Company under non-derivative financial liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Company manages the inherent liquidity risk based on expected undiscounted cash inflows.

All payments are estimated based on spot rate.

(In the notes all amounts are shown in BGN thousand unless otherwise stated)

2 Financial Risk Management (continued)

(7) Liquidity risk (continued)

As at 31 December 2011	Gross nominal outflow	Less than 1 month	1-3 months	3 -12 months	1-5 years	More than 5 years
Non-derivative liabilities						
Bank borrowings	1,293,438	3,462	1,289,976	-	-	-
Other liabilities	1,802	1,802	-	-	-	-
Total liabilities (contractual maturity dates)	**1,295,240**	**5,264**	**1,289,976**	-	-	-
Total assets (contractual maturity dates)	**1,258,757**	**11,641**	**468,382**	**61,242**	**442,932**	**868,391**

As at 31 December 2010	Gross nominal outflow	Less than 1 month	1-3 months	3 -12 months	1-5 years	More than 5 years
Non-derivative liabilities						
Bank borrowings	1,292,621	2,967	1,289,654	-	-	-
Other liabilities	307	307	-	-	-	-
Total liabilities (contractual maturity dates)	**1,292,928**	**3,274**	**1,289,654**	-	-	-
Total assets (contractual maturity dates)	**1,394,041**	**7,004**	**433,506**	**63,014**	**492,383**	**957,500**

The liquidity table above discloses the contractual undiscounted cash flows as at the end of 2011 and 2010. It should be noted that in February 2012, the short term bank borrowing was extended to 24 February 2013 as explained in Note 14.

(b) Derivative cash flows - Derivatives settled on a net basis

The table below analyses the Company's derivative financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. All payments are estimated based on spot rate.

As at 31 December 2011	Gross nominal outflow	Less than 1 month	1-3 months	3 -12 months	1-5 years	More than 5 years
Derivatives held for trading:						
– Foreign exchange derivatives	**676**	676	-	-	-	-
Total	**676**	676	-	-	-	-

As at 31 December 2010	Gross nominal outflow	Less than 1 month	1-3 months	3 -12 months	1-5 years	More than 5 years
Derivatives held for trading:						
– Foreign exchange derivatives	**303**	303	-	-	-	-
Total	**303**	303	-	-	-	-

(In the notes all amounts are shown in BGN thousand unless otherwise stated)

2 Financial Risk Management (continued)

(8) Capital risk management

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

- To safeguard the Company'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 and to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company didn't pay dividend to shareholders.

Consistent with others in the business, the Company monitors capital on the net basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total long term debt less cash and cash equivalents. Total capital is calculated as "equity" as shown in the balance sheet plus net debt.

During 2011, the Company's strategy was to renegotiate the credit facility received from EFG Private Bank (Luxembourg) and extend the terms of the facility.

(9) Fair values of financial assets and liabilities

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation and is best evidenced by a quoted market price.

The estimated fair values of financial instruments have been determined by the Company using available market information, where it exists, and appropriate valuation methodologies.

The following table summarises the carrying amounts and fair values of financial assets and liabilities of the Company.

	Carrying value			Fair value
	2011	**2010**	**2011**	**2010**
Financial assets				
Loans and advances to banks	**136,908**	**136,908**	**136,908**	**136,908**
Loans and advances to customers, including:				
-Mortgage customers	648,890	682,754	648,890	682,754
-Consumer customers	2	3	2	3
-SBB	12,233	13,727	12,233	13,727
-Corporate clients	37,042	47,348	37,042	47,348
Total loans and advances to customers	**698,167**	**743,832**	**698,167**	**743,832**
Total financial assets	**835,075**	**880,740**	**835,075**	**880,740**
Financial liabilities				
Short term debt	1,287,081	1,287,009	1,287,081	1,287,009
Total due to customers	**1,287,081**	**1,287,009**	**1,287,081**	**1,287,009**

(In the notes all amounts are shown in BGN thousand unless otherwise stated)

2 Financial Risk Management (continued)

(9) Fair values of financial assets and liabilities (continued)

a) Loans and advances to customers

Loans and advances are carried at amortized cost and are net of provisions for impairment. The fair value of floating rate loans and advances approximates their carrying amount. Management estimates that the fair value of fixed rate loans and advances is not materially different from their carrying amount, as the Company can change the interest rates on its discretion after a certain period (up to one year). Fair value incorporates expected future losses, while amortized cost and related impairment include only incurred losses at the balance sheet date

b) Bank borrowings

Bank borrowings represent short term floating rate facilities. The fair value of floating rate borrowings is not materially different from their carrying amount.

3 Critical accounting estimates, and judgements

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Impairment losses on loans and advances

The Company reviewed its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Company made judgements as to whether there was any observable data indicating that there was a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease could 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 Company. Management used 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 were reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(b) Effective interest rates

The application of the effective interest rate method for loan receivables requires the use of estimates about the expected life and other patterns and characteristics of the portfolio. In building up these estimates the Company utilizes the experience of other entities in EFG Eurobank Ergasias Group and makes adjustments, as appropriate, to reflect Bulgarian market conditions.

(c)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.

(In the notes all amounts are shown in BGN thousand unless otherwise stated)

4 Net interest income and similar income

Interest income	2011	2010
Loans and advances to customers	47,462	50,321
Due from other banks	13,386	8,729
	60,848	**59,050**

Interest expense and similar charges		
Banks and other financial institutions	43,211	32,654
Expense for derivative instruments	4,817	3,641
	48,028	**36,295**

Interest expense and similar charges amounts include BGN 1,631 thousand (2010: BGN 3,675 thousand) commission expense for letter of guarantee cost related to EFG Eurobank Ergasisas SA guarantee for the Company loan facility from EFG Private Bank Luxembourg SA.

5 Net fee and commission income

	2011	2010
Fees and commission income		
Loans fees related to earlier payment of loans	3,054	4,184
	3,054	**4,184**

Fee and commission expense		
Fee for loan portfolio processing and bank commissions	148	256
	148	**256**

Fees generated from related parties are disclosed in Note 19.

Fee and commission expense in 2011 relates to loan portfolio processing based on contractual agreement with Eurobank EFG Bulgaria AD for services concerning the transferred loans. For further details refer to Note 19.

6 Net trading income/expense

	2011	2010
Foreign exchange translation gains less losses	(211)	313
	(211)	**313**

(In the notes all amounts are shown in BGN thousand unless otherwise stated)

7 Operating expenses

	2011	2010
Rents	244	13
Staff costs (Note 8)	103	226
Consulting and other professional services	36	204
Depreciation (Note 13)	22	21
Materials	1	8
Communication and courier expenses	1	5
Maintenance of equipment and buildings	9	5
Other operating costs, net	-	120
	416	**602**

The increase in rental expense was due to increase in the rented area in 2011 compared to 2010.

8 Staff costs

	2011	2010
Wages and salaries	96	203
Other staff costs	7	23
	103	**226**

The average number of employees of the Company during the year was 4 (2010: 7).

9 Current and deferred income tax

	2011	2010
Current income tax charge	919	2,206
Deferred income tax charge	32	20
Income tax expense	**951**	**2,226**

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 tax assessments and penalties. The Company's management is not aware of any circumstances, which may give rise to a potential material liability in this respect. The Company has had corporate tax audit for the period 2003 - 2008.

The tax on the Company's financial result before tax differs from the theoretical amount that would have arisen using the applicable tax rate of the Company as follows:

	2011	2010
Profit before income tax	9,507	22,193
Tax calculated at a tax rate of 10% (2010: 10%)	951	2,219
Effect of expenses not deductable for tax purposes	-	7
Income tax expense	**951**	**2,226**

(In the notes all amounts are shown in BGN thousand unless otherwise stated)

9 Current and deferred income tax (continued)

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

	2011	2010
Deferred tax asset at the beginning of the period, net	1,238	1,258
Income statement credit /(charge)	(32)	(20)
Deferred tax asset at end of year, net	**1,206**	**1,238**

	2011	2010
Deferred income tax liabilities		
Accelerated tax depreciation	4	5
	4	**5**

	2011	2010
Deferred income tax assets		
Unused holidays	1	3
Impairment of loans and advances	1,209	1,240
	1,210	**1,243**
Net deferred income tax asset	**1,206**	**1,238**

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

Depreciation	1	2
Impairment of loans and advances	(31)	(22)
Net deferred income tax credit	**(30)**	**(20)**

10 Cash and cash equivalents/Bank balances

	2011	2010
Cash in hand	1	1
Cash equivalents	552,865	499,535
Loans and advances to banks	139,240	137,094
	692,106	**636,630**

In the 2010 financial statements the term deposit amounting to BGN 136,908 thousand was presented as a cash and cash equivalent in the cash flow statement as at 31 December 2010. In the 2011 cash flow statement the same deposit was presented as an increase in due from other banks in the 2010 comparative period since its maturity was longer than 3 months as at 31 December 2010.

(In the notes all amounts are shown in BGN thousand unless otherwise stated)

11 Loans and advances to customers

	2011	2010
Retail customers:		
Mortgages	659,535	689,342
Consumer loans	2	3
Small Business Banking	12,765	14,227
	672,302	**703,572**
Corporate customers:		
Large corporate customers	22,386	37,616
Small and Medium Enterprises	18,643	13,745
	41,029	**51,361**
Gross loans and advances	**713,331**	**754,933**
Less allowance for loan losses on loans and advances	(15,164)	(11,101)
	698,167	**743,832**

Included within loans and advances to customers is related accrued interest receivable of BGN 6,485 thousand (2010: 6,213 thousand).

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

	Retail customers			Wholesale	
	Consumer lending	Mortgages	Small Business Lending	Corporate Lending	Total
Balance at 1 January 2010	**1,369**	**4,618**	**319**	**4,110**	**10,416**
Charge for the year	578	3,644	350	31	**4,603**
Amounts written off	(1,947)	(1,673)	(170)	(128)	**(3,918)**
At 1 January 2011	-	**6,589**	**499**	**4,013**	**11,101**
Charge for the year	-	5,522	195	(24)	**5,693**
Amounts written off	-	(1,709)	(169)	-	**(1,878)**
FX revaluation through PL	-	242	6	-	**248**
At 31 December 2011	-	**10,644**	**531**	**3,989**	**15,164**

Loans and advances to customers (continued)

The impairment reported in the Statement of comprehensive income differs from the one reported in the present note with the annual expense for bad debt collection services amounting to BGN 8 thousand (2010: BGN 525 thousand), and annual income from bad debt collection amounting to BGN 109 thousand (2010: BGN 123 thousand).

	2011	2010
The ten largest loans and advances to customers	33,376	37,429
Percentage of gross loans	4.68%	4.96%

(In the notes all amounts are shown in BGN thousand unless otherwise stated)

12 Other assets

	2011	2010
Other debtors	165	421
Recoverable VAT	136	136
Other receivables	20	19
	321	**576**

The fair value of the receivables from related parties and other receivables disclosed above approximate their carrying value as at 31 December 2011 and 31 December 2010.

13 Equipment and other non-current assets

	Computer equipment and software	Machinery and office equipment	Total
2010			
Opening net book value	71	9	80
Depreciation charge	(17)	(4)	(21)
Closing net book value	**54**	**5**	**59**
As at 31 December 2010			
Cost	227	21	248
Accumulated depreciation	(173)	(16)	(189)
Net book value	**54**	**5**	**59**
2011			
Opening net book value	54	5	59
Additions	-	41	41
Depreciation charge	(17)	(5)	(22)
Closing net book value	**37**	**41**	**78**
As at 31 December 2011			
Cost	227	62	289
Accumulated depreciation	(190)	(21)	(211)
Net book value	**37**	**41**	**78**

14 Bank borrowings

	2011	2010
Short-term bank borrowings (Note 19.5)	1,287,081	1,287,009
	1,287,081	**1,287,009**

(In the notes all amounts are shown in BGN thousand unless otherwise stated)

14 Bank borrowings (continued)

Included within bank borrowings is related accrued interest payable of BGN 455 thousand (2010: 383 thousand).

On 27 February 2006 the Company signed a contract with EFG Private Bank (Luxembourg) for working capital facility to be used solely for the purchase of receivables from Eurobank EFG Bulgaria AD. The facilities were secured by a bank guarantee, issued by Eurobank Ergassias S.A. and covering the whole amount and term of the loan. The interest rate of the facility is 1-month Euribor plus 2,075% p.a. (2010: 1.875% p.a.). In February 2012, the borrowing was extended to 24 February 2013.

15 Derivative financial instruments

The Company utilizes currency swaps, interest rate swaps and currency forwards, which are negotiated between the Company and Eurobank EFG Bulgaria AD for non-hedging purposes.

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 Company's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfil their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. 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.

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 Company's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which, instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The fair values of derivative instruments held are set out below.

	Contract/notional amount	Assets	Liabilities
Year ended 31 December 2011			
Foreign exchange derivatives			
OTC currency swaps	439,642	-	2,138
Total OTC currency derivatives	**439,642**	-	**2,138**
Total recognised derivative assets / liabilities	**439,642**	-	**2,138**

(In the notes all amounts are shown in BGN thousand unless otherwise stated)

15 Derivative financial instruments (continued)

	Contract / notional amount	Assets	Liabilities
Year ended 31 December 2010			
Foreign exchange derivatives			
OTC currency swaps	454,553	-	3,637
Total OTC currency derivatives	**454,553**	**-**	**3,637**
Total recognised derivative assets / liabilities	**454,553**	**-**	**3,637**

16 Other liabilities

	2011	2010
Related parties payables (Note 19.4)	1,754	213
Trade payables	29	51
Payables to employees, social securities and taxes	10	25
Retirement benefits obligations	2	9
Other liabilities and accruals	7	9
	1,802	**307**

The fair value of trade and other payables disclosed above approximates their carrying value as at 31 December 2011 and 31 December 2010.

17 Share capital

The number of the issued shares as at year-end is 70,000 (2010: 70,000) with nominal value of BGN 10 per share (2010: BGN 10). All issued ordinary shares are fully paid giving one voting right each.

18 Contingent liabilities and commitments

Non-cancellable operating lease commitments

Non-cancelable operating lease commitments, contracted as at the balance sheet date, but not recorded in the financial statements, are payable as follows:

	2011	2010
Up to 1 year	169	11
Between 1 and 5 years	-	28
	169	**39**

(In the notes all amounts are shown in BGN thousand unless otherwise stated)

19 Related party transactions

The Company is a member of the worldwide EFG Group, which consists of credit institutions, financial services and financial holding companies. The company's immediate parent is Eurobank Cards SA which in turn is 100% owned by EFG Eurobank Ergasias S.A (Greece). The Bank is a member of the worldwide EFG Group. The operating parent company of the EFG Group is European Financial Group EFG (Luxembourg) S.A., whilst its ultimate parent company is Private Financial Holdings Limited (PFH), which is owned and controlled indirectly by members of the Latsis family. As at 31 December 2011, the EFG Group held 44.8% 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.

Private Financial Holdings Limited (PFH) became the ultimate parent company on 6 August 2009, after the restructuring of the EFG Group. Until 6 August 2009, the ultimate parent company of EFG Group was EFG Bank European Financial Group (EFGB).

A number of transactions are entered into with related parties in the normal course of business. These transactions were carried out on commercial terms and at market rates. The volumes of related party transactions outstanding at the year end, and relating expense and income for the year are as follows:

(1) Loan portfolio acquired

Eurobank EFG Bulgaria AD has transferred loan receivables to the Company during 2011 for BGN 222 thousand. The main portfolio consists of loans transferred during 2008 and previous periods. The Company has paid amount that equals the net book value of the referred loans, which approximated the fair value of the assets transferred. Both companies are part of the EFG Group. Eurobank EFG Bulgaria AD has separate contractual agreements to provide services regarding the referred loans. Eurobank EFG Bulgaria AD did not retain any risks or benefits on the referred loans.

	2011	**2010**
(2) Received services fee expense		
Eurobank EFG Bulgaria AD (expenses for loan portfolio processing)	136	403
	136	**403**
(3) Key management personnel salaries and short-term benefits	16	75

(4) Payables to related parties (Note 16):	**2011**	**2010**
EFG Eurobank Ergasias SA	1, 751	121
Business Exchanges S.A	-	88
Eurobank EFG Bulgaria AD	3	4
	213	**213**

(In the notes all amounts are shown in BGN thousand unless otherwise stated)

19 Related party transactions (continued)

(5) Borrowings from related parties (Note 14):

	2011	2010
EFG Private Bank (Luxembourg)	1,287,081	1,287,009
	1,287,081	**1,287,009**

(6) Collateral for loans from EFG Private Bank (Luxembourg) from EFG Eurobank Ergasias S.A.

Guarantees received	1,733,022	1,733,022
Commission expense for Letter of guarantees	1,492	3,675

(7) Interest expenses to related parties

EFG Private Bank (Luxembourg)	37,969	29,980
Eurobank EFG Bulgaria AD/SWAP deals	4,107	3,641

(8) Derivatives outstanding, contracted with Eurobank EFG Bulgaria AD

Year ended 31 December 2011	**Contract/notional amount**	**Assets**	**Liabilities**
Foreign exchange derivatives			
OTC currency swaps	439,642	-	2,138
Total OTC currency derivatives	439,642	-	2,138
Total recognised derivative assets / liabilities	439,642	-	2,138

Year ended 31 December 2010	**Contract / notional amount**	**Assets**	**Liabilities**
Foreign exchange derivatives			
OTC currency swaps	454,553	-	3,637
Total OTC currency derivatives	**454,553**	**-**	**3,637**
Total recognised derivative assets / liabilities	**454,553**	**-**	**3,637**

(In the notes all amounts are shown in BGN thousand unless otherwise stated)

19 Related party transactions (continued)

(9) Company's bank accounts with Eurobank EFG Bulgaria AD

The Company has operating bank accounts with Eurobank EFG Bulgaria AD which balances as of 31 December 2011 by currencies are as follows:

As at 31 December	**2011**	**2010**
EUR	599,575	555,848
BGN	89,181	80,350
CHF	994	212
	689,750	**636,410**

20 Events after the balance sheet date

There are no significant post balance sheet events with effect on the financial statements as at 31 December 2011 other than the extension of the borrowing by EFG Private Bank (Luxembourg) till 24 February 2013 as disclosed in Note 14.

Independent auditor's report

To Shareholders of the Bulgarian Retail Services AD

Report on the Financial Statements

We have audited the accompanying financial statements of Bulgarian Retail Services AD (the "Company") which comprise the balance sheet as of 31 December 2011 and the statement of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

PricewaterhouseCoopers Audit OOD, 9-11 Maria Louisa Blvd., 1000 Sofia, Bulgaria
T: +359 2 9355200, F: +359 2 9355266, www.pwc.com/bg
Registered with the Sofia City Court under company file number 13424/1997.

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

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Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Bulgarian Retail Services AD as of 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

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

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

In our opinion, the Annual Report set out on pages 3 to 8, is consistent with the accompanying financial statements of the Company as of 31 December 2011.

Rositsa Boteva
Registered Auditor

Petko Dimitrov
PricewaterhouseCoopers Audit OOD

София
Рег. №085

30 May 2012
Sofia, Bulgaria