Annual report

2009

Fibank
First Investment Bank

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Message from the Managing board

Dear shareholders, clients and colleagues,

During 2009 the global financial crisis reached all sectors of economic life in Bulgaria and set new challenges to the financial system, the real economy and people's lives. Since the second half of 2008, when the first symptoms of recession took effect in Bulgaria, the whole of 2009 passed in the context of turbulence on the international financial markets.

We started to prepare our business for these changes in the external environment in time. The restrictive and anti-cyclic policy pursued by the Central Bank, together with high European standards and the management experience we have gained during the restructuring of the economy during the last 20 years helped us find a reasonable balance between risk and return, so as to achieve good financial results and positioning.

First Investment Bank retained its position among the leading banks in Bulgaria – sixth place in terms of assets and a positive financial result for 2009 (BGN 29.8 million after tax). It improved its market position to seventh place and its market share from 3.7% to 4.1%. Thanks to the on-time measures undertaken for heightening risk assumption and risk management criteria, for improving system integrity and control, FIBank imcreased its capital adequacy (tier 1 ratio 10.39%, total capital adequacy ratio 13.83%), while maintaining good profitability and asset quality. With the support of its shareholders FIBank's total equity was increased by BGN 34.3 million through profit capitalization and reached BGN 403 million.

During the reporting period FIBank succeeded in retaining and improving the market positions of most of its products and services – sixth place in loans and in deposits, a 15.9% market share for VISA credit cards, 8.2% for MasterCard credit cards, 12.5% of ATMs and 19% of POS terminals in the country. A contributor to this was our client-oriented strategy and flexible business model which quickly adapted to changing conditions and demands. In times of financial uncertainty FIBank faced its customers' problems and help them by developing a special program for optimizing their personal finances. We invested in our future by introducing new technologies and programs – a new platform for our Virtual banking branch, a program for automated management accounting, new products and services – the loan "Friend", "BG loan", "My FIBank" – for e-statements on customers' accounts (a part of the Bank's ecological program), a new V PAY international debit card based on chip and PIN technology, etc. Activity of the corporate blog on FIBank's website grew as well, which made the Bank closer and more accessible to all who have questions, want to share or learn about its latest products, services, corporate events or initiatives. Despite the slow-down in business activity within the country FIBank succeeded in reasonably expanding its customer base and welcomed its 1-millionth customer. The Bank won the prize "Bank of the client" for the forth time.

Of course FIBank's potential is greater than the results achieved in 2009. The stagnation on international markets and decreased trade activity within Bulgaria led to a slow-down in total income from banking operations of BGN 23.7 million to BGN 190 million. Net interest income totaled BGN 128 million (against BGN 148 million in 2008), while net fee and commission income was BGN 51 million against BGN 63 million for the previous year. Despite the recession and unstable business environment FIBank continued to finance long-term customers and sound projects, as corporate lending increased by nearly BGN 35 million. At the same time retail lending registered a drop of BGN 33 million (or 4.3% compared to 2008). This reflected the heightened risk assessment criteria, as well as a slow-down in demand resulting from increased unemployment and insecurity, which reoriented people to look for banking products with savings characteristics.

In 2009 we took additional measures to increase the cost control. General administrative expenses fell by nearly BGN 12 million (or 7.6% compared to the previous year). In addition to centralized cost administration and management the branch network of the Group was optimized. At the end of the period it consisted of 159 branches and offices within Bulgaria, 10 in Albania and one branch in Cyprus.

First Investment Bank maintains high standards of compliance with regulatory requirements by applying policies and procedures which conform to the effective legislation. In 2009 we implemented the requirements of the Law on Payment Services and Payment Systems and reconsidered our internal rules and systems for the detection, assessment and control of risks, for their early diagnosis and prognosis based on stress-tests, an internal capital adequacy assessment program and simulation models. These can protect the Bank in the most extreme situations and conditions.

In 2009 First Investment Bank continued to be among the leading banks in terms of international transactions with a market share of 9.67% (received) and 8.82% (sent) of transactions for trade financing and 6.81% (received) and 5.37% (sent) of transfers in foreign currency, and confirmed its reputation as a proper partner by repaying bonds and syndicated loans on the total amount of EUR 192 million. FIBank retained its position as a leader in the offering of investment gold and other precious metals and became the first and only bank in Bulgaria to sell investment diamonds.

Corporate culture and management lay at the foundation of our success. The high discipline, dedication and participation of FIBank's employees helped to overcome the obstacles of the external environment. It is they who in times of difficulty give us confidence that we are on the right track and are succeeding in achieving our goals together.

We have never forgotten that participating in the social development of society remains our responsibility. In 2009 FIBank continued its participation in the "Social Responsibility" fund of the "Workshop for Civil Initiatives" foundation and in a number of initiatives for helping disabled children and for the development of new talents. The Bank received three prizes for its social engagement towards society – for "Most Generous Company", first place in the category "Biggest Volume of Financial Donations" and third place in the category "Biggest Donation of Employees' Voluntary Work".

We have always believed that honesty and loyalty towards our customers, partners and counter-parties, together with a stable capital base, a conservative approach to risk management, our flexible corporate structure and competitive products and services based on new technologies and contemporary approaches constitute a proven business model which allows us to face challenges and to retain trust. Our focus on these main factors, and our aspiration to be among the first, give us the determination to succeed in retaining our competitive position and overcoming the obstacles of the times we live in.

We thank our shareholders, customers and counter-parties for their support and trust. They lay the foundation of our success. We thank the employees for their dedication and responsibility. They all give us the confidence to build new, even bigger plans for the successful development of First Investment Bank.

Managing Board of First Investment Bank AD

Sofia, April 2010

Managing Board

From left to right:

Evgeni Krastev Lukanov
Executive Director

Radoslav Todorov Milenkov
Chief Financial Officer

Maya Lubenova Georgieva
Executive Director

Ivan Stefanov Ivanov
Regional Director „Northeast Bulgaria

Maya Ivanova Oyfalosh
Director "Corporate Banking"

Matthew Alexandrov Mateev
Executive Director,
Chairman of the Managing Board

Jordan Velichkov Skortchev
Executive Director

Marcoeconomic Development

During 2009 Bulgaria retained its macroeconomic stability and resilience in conditions of a global financial and economic crisis. Despite the recession and the increasing level of unemployment, the net inflow of capital into Bulgaria remained positive, while the country's financial position was stable and resilient. There was a low budget deficit by global standards and low and stable public debt. This was reflected by the upgraded outlook of the country by the international rating agencies (Moody's – from "stable" to "positive" and Standard&Poor's – from "negative" to "stable") and by the confirmed credit ratings of Bulgaria.

Regarding the ongoing risks from misbalances to the economy, during the year the country's foreign debt was refinanced, while the currency account deficit was gradually corrected. A key factor contributing to maintaining stability was the Currency Board Agreement operating within the country, the reasonable fiscal policy, the maintenance of adequate foreign exchange reserves and the highly regulated banking system.

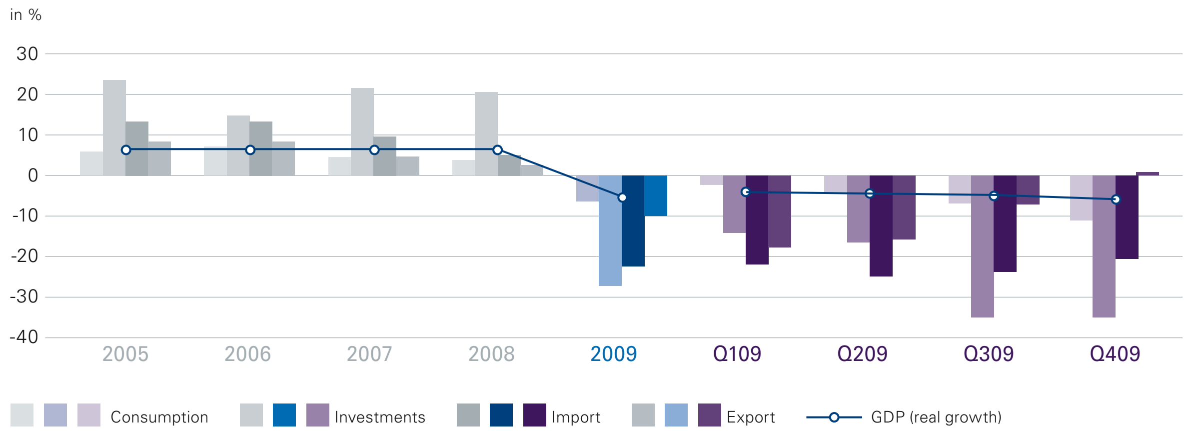
Table 1: Macroeconomic indicators

	2009	**2008**	**2007**	**2006**	**2005**
Gross Domestic Product, real growth (in %)	**(5.0)**	6.0	6.2	6.3	6.3
Consumption, real growth (in %)	**(6.1)**	3.9	4.9	7.3	5.3
Gross fixed capital formation, real growth (in %)	**(26.9)**	20.4	21.7	14.7	23.3
Inflation at period-end (in %)	**0.6**	7.8	12.5	6.5	6.5
Average annual inflation (in %)	**2.8**	12.3	8.4	7.3	5.0
Unemployment (in %)	**9.1**	6.3	6.9	9.1	10.7
Current account (in % of GDP)	**(9.4)**	(24.0)	(26.8)	(18.4)	(12.4)
Trade balance (in % of GDP)	**(12.1)**	(25.2)	(25.1)	(22.0)	(20.2)
Foreign exchange reserves of BNB (in EUR million)	**12,919**	12,713	11,937	8,926	7,370
Foreign direct investment (in % of GDP)	**9.5**	19.6	31.3	24.7	14.4
Gross foreign debt (in % of GDP)	**111.3**	108.7	100.4	82.0	70.9
Public sector foreign debt (in % of GDP)	**12.3**	11.4	14.2	18.0	23.8
Average exchange rate of USD (BGN for USD 1)	**1.36**	1.39	1.33	1.49	1.66

Source: Ministry of the Economy, Bulgarian National Bank, National Statistics Institute

During 2009 the country's economy entered into recession. It registered negative economic growth of -5.0% in real terms (2008: 6.0%). Investment activity (including gross fixed capital formation) decreased by 26.9% annually. This was due to a slow-down in demand for goods and services, especially to external demand and to the restricted access of companies to financing. Consumption dropped by 6.1%, influenced mainly by the negative expectations of consumers, resulting from uncertainty in regards to employment and income, as well as by the increased savings rate of individuals and households.

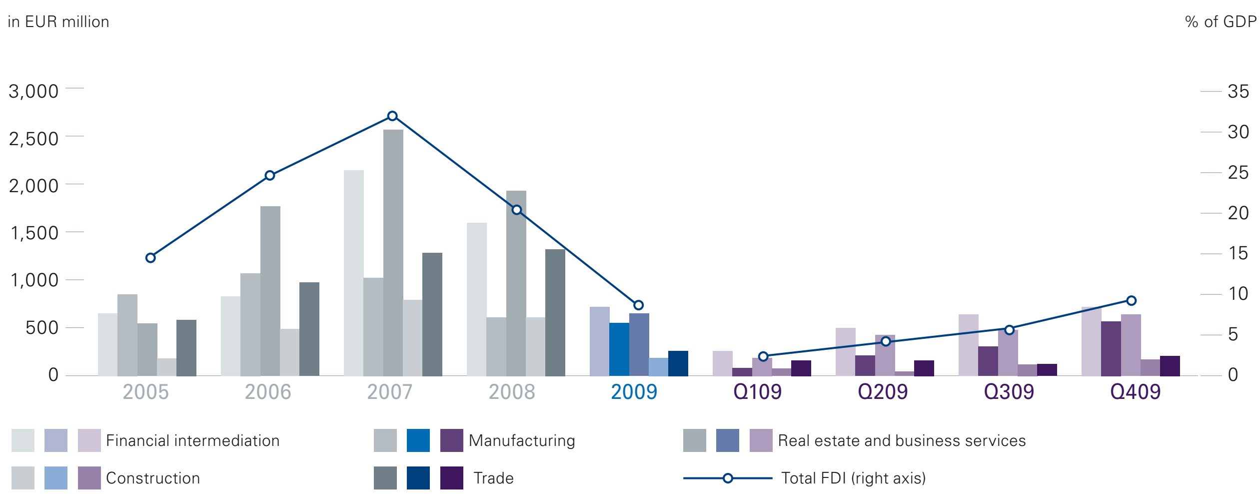
Chart 1: GDP composition (real growth)



Source: National Statistics Institutes

The highest decrease of gross value added was registered in the industrial sector, including in mining and manufacturing (by 8.5%) and in construction (by 7.2%), followed by trade and transport sector (by 6.2%) and in the agricultural sector – (by 3.3%). There was growth only in the business services and financial intermediary sector (by 1.8% annually).

Chart 2: Foreign direct investments in Bulgaria



Source: Bulgarian National Bank

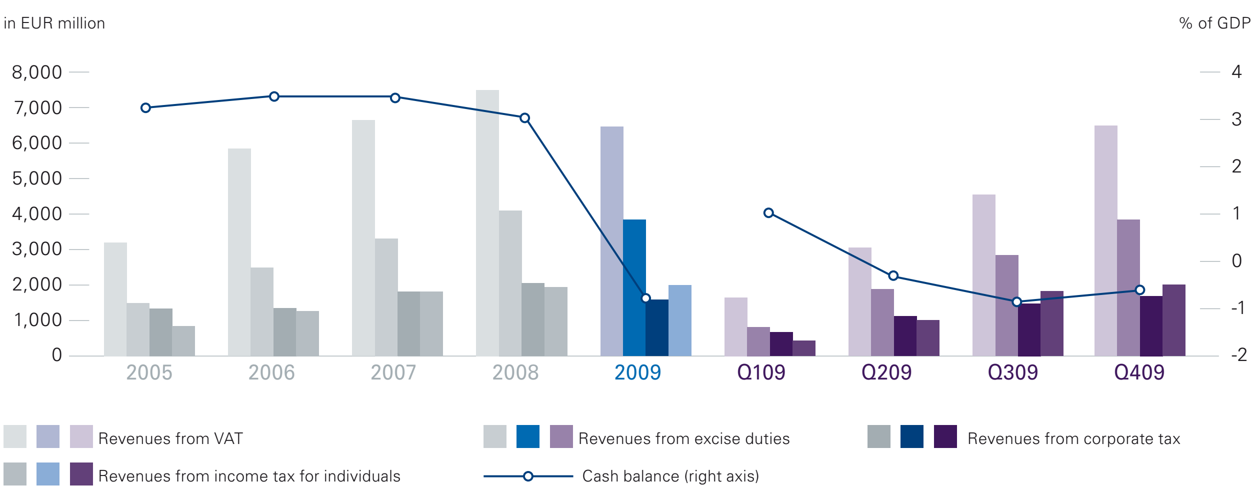
The resilience of Bulgaria's external position resulted from the financial and capital inflow of funds, which were mainly in the form of foreign direct investments and played an important role in the economy. In 2009 the decreasing trend of foreign direct investments into the country remained. At the end of the year they amounted to EUR 3,213 million (9.5% of GDP), or 52% less than 2008 with EUR 6,697 million (19.6% of GDP). The highest decrease was registered in investments in real estate and business services – by EUR 1,331 million (67.1%) to EUR 653 million (2008: EUR 1,984 million), followed by these in the trade sector – by EUR 1,100 million (81.9%) to EUR 244 million (2008: EUR 1,343 million), in financial intermediary – by EUR 897 million (54.9%) to EUR 737 million (2008: EUR 1,634 million) and in construction – by EUR 407 million (67.5%) to EUR 196 million (2008: EUR 603 million). Foreign direct investments covered the current account deficit at 100.5% (2008: 81.7%), ensuring the correction of the country's external position without any shocks and in accordance with expectations.

As at the end of 2009 the current account deficit of the balance of payments amounted to EUR 3,196 million (9.4% of GDP) or 61.0% less than 2008 with EUR 8,199 million (24.0%). The decrease resulted from the faster slow-down in import volumes during the year (by 33.2%), compared to export volumes (by 22.5%), due to decreased investment and production activity and to lower demand for investment goods and raw materials, which formed over a half of total imports. During the last quarter of the year export volumes registered a positive trend – a growth of 0.8% on an annual basis, which additionally narrowed the trade deficit to EUR 4,103 million (12.1% of GDP) as at the end of the year (2008: EUR 8,597 million; 25.2% of GDP). In 2009 the European Union remained the country's main trade partner, which took up 64.4% of exports and 60.5% of imports.

Important in maintaining macroeconomic stability throughout the year and providing protection against external shocks were the foreign exchange reserves of the BNB which reached EUR 12,919 million (2008: EUR 12,713 million). In August and in September Bulgaria received EUR 666 million in the form of special drawing rights from the IMF, as part of the measures (from the meeting of G-20 countries) to overcome the effects the global financial and economic crisis. The increase in reserves exceeded EUR 1 billion during the second half of 2009 and compensated for the decrease at the beginning of the year.

In 2009 some of the external debt of the country was refinanced through a new financial loan received from the World Bank, which resulted in an increase in public and publicly guaranteed foreign debt of 6.6% (EUR 257 million) to EUR 4,159 million. Despite this its level remained low at 12.3% of GDP (2008: 11.4%; 2007: 14.2%), compared to the EU average. Private unguaranteed foreign debt slowed its growth on an annual basis with 1.1% for 2009 (2008: 33.2%; 2007: 54.4%), but remained a main factor in the high level of gross foreign debt at 111.3% of GDP (2008: 108.7%; 2007: 100.4%). The increase resulted from the rise in intracompany loans (related to direct investments), which underlined the long-term interest of foreign investors in the Bulgarian economy.

Chart 3: Composition of the consolidated fiscal program



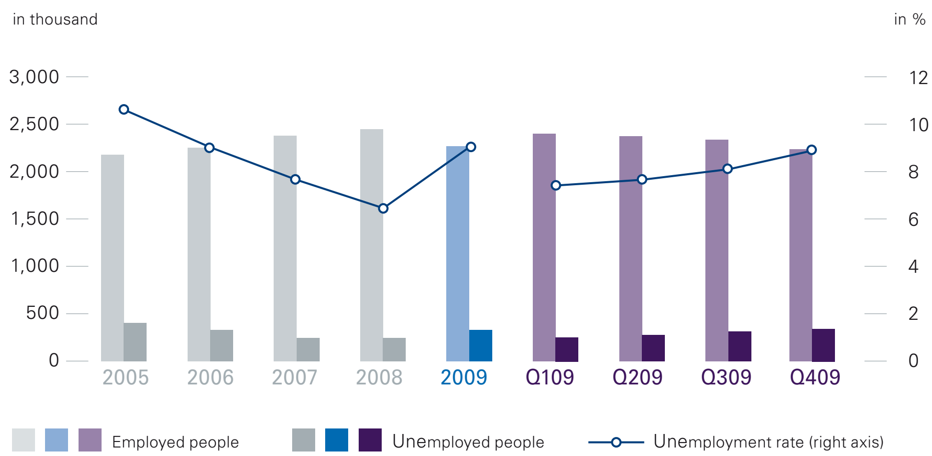
Source: Ministry of Finance

The country's financial position remained stable in accordance with goals and a reasonable and well-regulated fiscal policy. As at end-2009 the consolidated fiscal program registered a deficit of BGN 530 million or 0.8% of GDP (2008: surplus of BGN 2,001 million or 3% of GDP), which placed Bulgaria among the group of EU member states with the lowest budget deficit for the year. The negative budget balance resulted from the decrease in tax revenues, mainly from indirect taxes. VAT revenues decreased by 14.1% (BGN 1,053 million), while those from customs duty by 45.0% (BGN 99 million) due to a slow-down in import volumes. Revenues from excise duties fell by 5.1% (BGN 207 million), despite the hike in main excise duties at the beginning of the year. A decrease was registered in direct taxes as well, including from corporate tax by 21.5% (BGN 442 million), due to a slow-down in corporate profits. The effects of the economic cycle were noticed also in the expenditure part of the budget. Compensations for unemployment increased, as so did social security and health-insurance payments.

During the year the tranches (advance payments for working capital), received from the EU Structural funds and from the Cohesion fund increased in absolute value by 72.6% (EUR 267 million) to EUR 635 million, but continued to form a small relative share of the total indicative budget for operating programme – EU Financing (9.5%, against 5.5% for 2008). The largest share of funds utilized were under the Operating Programmes "Transport", "Environment" and "Regional Development" with 10.2% (EUR 165 million), 10.1% (EUR 147 million) and 9.0% (EUR 122 million) of the total budget respectively. The funds utilized under the Programme for rural development reached EUR 194 million, as funds continued to be utilized under the pre-accession programmes as well (PHARE, SAPARD, ISPA).

The slow-down in business activity during the year influenced also the dynamics of inflationary levels in the country – average inflation fell to 2.8%, against 12.3% for the previous year. The decrease resulted mainly from a drop in food prices, energy products and administrative prices, which formed a large share of the consumer basket. Harmonized inflation, used as a comparative criterion for all EU member states and one of the criteria for price stability in joining the Euro Area, fell to 2.5% (2008: 12.0%).

Chart 4: Labour market



Source: Employment Agency

During the year the labour market shifted in accordance with shrinking business volumes and the programs for cost optimization and improvement of efficiency levels undertaken by companies – the unemployment rate increased by 2.8 percentage points to 9.1%, and reached end-2006 levels, while the number of employed people dropped by 172 thousand to 2,295 thousand by the end of the reporting period.

During the year political stability within the country was preserved. In June 2009 a new government was set up, as the centre-right GERB (Citizens for the European Development of Bulgaria) political party won Bulgaria's parliamentary elections. A month earlier Bulgarians elected their 18 new members of the European Parliament.

An important element for the recovery of the economy in 2010 was the effective utilization of EU structural and cohesion funds. Bulgaria's place as a stabilising factor in the Balkan region depends on its meeting the Maastricht stability criteria for integration in the Euro Area, as well as the continuance of reforms in the judicial system and fighting corruption and organized crime.

Banking System

During 2009 the Bulgarian banking system retained its stable financial parameters and confirmed its resilience to the unfavorable conditions of the global financial and economic crisis. A contributing factor to this was the highly regulated banking system, as well as the BNB's consecutive anti-cyclic actions.

Capital adequacy ratio increased by 2.1 percentage points to 17.0% (2008: 14.9%), while tier 1 capital ratio by 2.8 percentage points to 14.0% (2008: 11.2%). The increase was due to the banks' more cautious policies of assuming risk, as well as the accumulation of an additional capital buffer in the form of retained earnings. As at end-2009 the capital surplus of the system above the 12% regulatory minimum increased to BGN 2,754 million (2008: BGN 1,513 million), proportionally allocated between the credit institutions.

The liquidity position of the banking system remained stable, as there were no registered processes that required the undertaking of specific supporting actions in this field. At the end of 2009 available for sale investments and financial assets held for trading (held primarily as contributors to Banks' current liquidity management) amounted to BGN 1,843 million (2008: BGN 1,872 million) and BGN 773 million (2008: BGN 855 million) respectively. The loans-to-deposits ratio reached 96.8%, against 92.8% a year earlier.

Table 2: Key ratios of the banking system

	in %			change in per. points	
	2009	**2008**	**2007**	**2009/ 2008**	**2008/ 2007**
Capital adequacy ratio	**17.0**	14.9	13.8	**2.1**	1.1
Tier 1 capital ratio	**14.0**	11.2	10.8	**2.8**	0.4
Liquidity	**21.9**	21.7	28.2	**0.2**	(6.5)
Loans-to-deposits	**96.8**	92.8	76.1	**4.0**	16.7
Return-on-equity (ROE)	**9.3**	20.1	23.8	**(10.8)**	(3.7)
Return-on-assets (ROA)	**1.1**	2.1	2.4	**(1.0)**	(0.3)
Classified loans	**13.0**	5.5	4.3	**7.5**	1.2
Problem loans (90 days past due)	**6.1**	2.4	2.0	**3.7**	0.4

Source: Bulgarian National Bank

The change in asset quality throughout the period was as expected and reflected the effects of the economic cycle on the banking system in the country. Problem loans (90 days past due) increased by 3.7 percentage points to 6.1% of the total loan portfolio (2008: 2.4%; 2007: 2.0%), as their growth was adequately covered by the allowances for impairment and by the additional buffers accumulated by the credit institutions. The coverage ratio of problems loans with allowances for impairment was 83% as at end-2009 (2008: 115%) – a factor that guaranteed additional protection of credit risk in the system.

Table 3: Key indicators of the banking system

	in BGN million			% of change	
	2009	**2008**	**2007**	**2009/ 2008**	**2008/ 2007**
Assets	**70,868**	69,650	59,090	**1.7**	17.9
Corporate loans	**32,712**	31,883	24,305	**2.6**	31.2
Retail loans	**18,664**	17,357	12,972	**7.5**	33.8
Corporate deposits	**18,449**	19,568	19,846	**(5.7)**	(1.4)
Retail deposits	**24,837**	22,168	18,986	**12.0**	16.8
Net profit	**780**	1,387	729	**(43.8)**	21.2

Source: Bulgarian National Bank

In 2009 total assets of the system increased and reached BGN 70,868 million or a growth of 1.7% annually (2008: BGN 69,650 million, 17.9%). The assets structure was retained, as the loans and advances formed a predominant share with 81.5% (2008: 80.2%), while cash and balances with central banks stood at 9.0% (2008: 9.7%).

Table 4: TOP 10 banks in terms of assets

№ Banks (as at 31.12.2009)	Assets (in BGN million)	Market share (in %)
1. UniCredit Bulbank	11,519	16.25
2. DSK Bank	8,739	12.33
3. United Bulgarian Bank	8,152	11.50
4. Raiffeisenbank (Bulgaria)	6,641	9.37
5. Eurobank EFG Bulgaria	6,026	8.50
6. First Investment Bank	**4,095**	**5.78**
7. Piraeus Bank Bulgaria	3,625	5.12
8. Societe General Expressbank	2,889	4.08
9. Alpha Bank – Bulgaria Branch	2,241	3.16
10. Corporate Commercial Bank	2,036	2.87

Source: Bulgarian National Bank

Gross loans slowed their growth, as for one year they increased by BGN 2.9 billion or 5.1% (2008/2007: BGN 11.0 billion or 24.1%), due to a change in demand, heightened standards for credit risk and a more conservative approach undertaken by banks in the country in granting loans. Corporate loans increased by 2.6% (BGN 828 million), while retail loans by 7.5% (BGN 1,307 million). Retail loans dynamics were supported mainly by mortgage loans, which continued to grow faster (8.4%, reaching BGN 8,954 million), compared to consumer loans (6.7%, reaching BGN 9,711 million).

Table 5: TOP 10 banks in terms of loans

№ Banks (as at 31.12.2009)	Loans (in BGN million)	Market share (in %)
1. UniCredit Bulbank	7,472	14.49
2. DSK Bank	7,335	14.22
3. United Bulgarian Bank	6,763	13.11
4. Raiffeisenbank (Bulgaria)	4,597	8.91
5. Eurobank EFG Bulgaria	4,433	8.60
6. First Investment Bank	**3,016**	**5.85**
7. Piraeus Bank Bulgaria	2,815	5.46
8. Societe General Expressbank	2,224	4.31
9. Alpha Bank – Bulgaria Branch	1,946	3.77
10. Corporate Commercial Bank	1,398	2.71

Source: Bulgarian National Bank

Attracted funds in the system amounted to BGN 60,833 million and retained their 2008 level at BGN 60,883 million. A decrease was registered in deposits from credit institutions of 13.5% (BGN 1,531 million) and from corporates of 5.7% (BGN 1,120 million). This was due to a slump in cash flows, including in credit resources, and to the increased needs of capital resulting from the global financial crisis. The decrease was compensated by the annual growth in deposits from individuals and households by 12.0% (BGN 2,669 million), a result of the higher savings rate of individuals and of the competitive conditions in the market of term deposits in the country.

Table 6: TOP 10 banks in terms of deposits

№ Banks (as at 31.12.2009)	Deposits (in BGN million)	Market share (in %)
1. UniCredit Bulbank	6,418	14.83
2. DSK Bank	5,843	13.50
3. Eurobank EFG Bulgaria	4,332	10.01
4. Raiffeisenbank (Bulgaria)	4,312	9.96
5. United Bulgarian Bank	4,244	9.80
6. First Investment Bank	**3,277**	**7.57**
7. Corporate Commercial Bank	1,666	3.85
8. Central Cooperative Bank	1,518	3.51
9. Eibank	1,510	3.49
10. Societe General Expressbank	1,400	3.23

Source: Bulgarian National Bank

During the year banks reported good levels of net interest income at BGN 2,847 million, which was enough to cover operating expenses, including impairment. This, together with non-interest income, contributed to the system's positive financial result on the amount of BGN 780 million, which although 43.8% lower than the previous year was an indicator of the banks' ability to accumulate resources for covering any future additional shift in asset quality. In view of the lower profit of the banking system in 2009, the return-on-equity and return-on-assets ratios decreased as well to 9.3% (2008: 20.1%) and to 1.1% (2008: 2.1%) respectively.

Hampered access to international financing enhanced competition for attracting funds on the local market, which increased interest rates on term deposits to 7.0% (2008: 5.6%, 2007: 4.1%).

In 2009 the Bulgarian National Bank undertook anti-crisis measures by easing the restrictions on lending growth which had been applied to banks in Bulgaria during the last few years.

Amendments in Ordinance №21 of the BNB for the minimal required reserves kept in the Central Bank by all trade banks were accepted at the end of 2008, but had a major effect on the banking system in 2009. They included: recognition of 50% of the available cash funds of the banks for reserve assets and facilitating access to their reserves in BNB, decreasing the rate of the minimal required reserves on all attracted funds from 12% to 10% and removing the minimal required reserves on attracted funds from the state and the local budgets.

In March 2009 amendments to Ordinance №9 on the Evaluation and Classification of Risk Exposures of Banks and the Allocation of Specific Provisions for Credit Risk became effective. The main amendments included an extension of the overdue period for the classification of exposures into a higher risk group (i.e. nonperforming exposures now over 90 days overdue, loss now over 180 days) and extension of the types of collateral used.

BNB increased supervision and requirements towards capital adequacy and the conducting of assessment stress tests specific to each bank. In general BNB continues to manage the regulatory framework by applying a prudent and conservative approach towards banks in Bulgaria.

The Bulgarian banking system continued its EU projects for the harmonization of regulations. Since 1 November 2009 a new Law on Payment Services and Payment Systems was adopted, aiming to harmonize the legal framework for payment services within the EU and to expedite entry into the Single Euro Payment Area.

In 2009 the Bulgarian banking community prepared its accession to and from 1 February 2010 effectively joined the Transeuropean Automated Real-time Gross Settlement Express Transfer System – TARGET2. The national system component TARGET2-BNB includes the BNB and 16 banks-participants, as well as the auxiliary system for servicing of customer transfers in Euro up to the amount of EUR 50,000, designated to be executed at a defined moment – BISERA7-EUR.

Maintaining stability and trust in credit institutions as well as stimulating business activity in the country remain the financial system's top priorities.

Mission

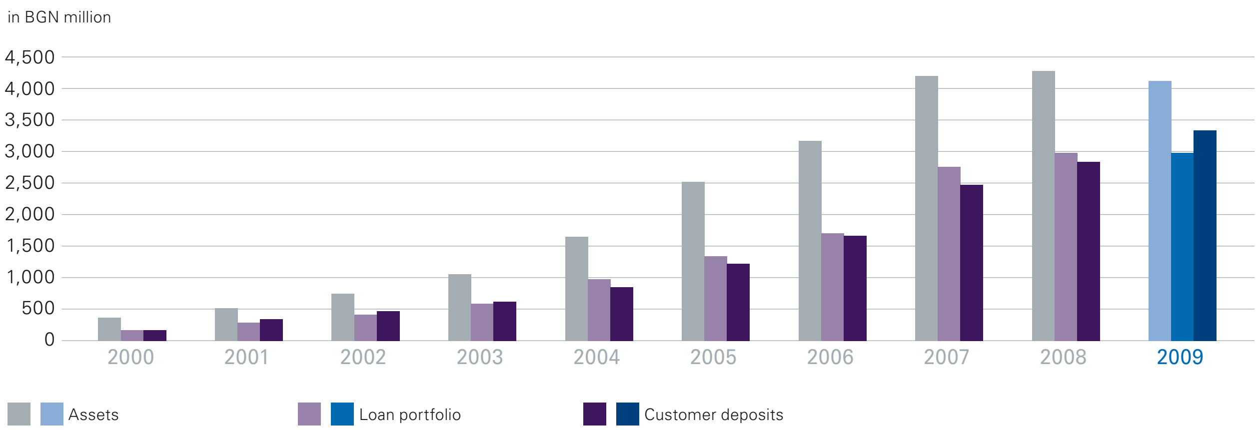
First Investment Bank AD aspires to be one of the finest banks in Bulgaria and the Balkan region, recognised as a rapidly growing, innovative, customer-oriented bank, offering outstanding products and services, ensuring excellent careers for its people, and contributing to the community. The Bank aims at developing, through sister banks and subsidiaries, a regional banking network to service the business needs of the Balkan region.

Proven Business Model

In 2009 First Investment Bank reported positive financial results, maintaining strict discipline in respect of costs, capital and risk undertaking.

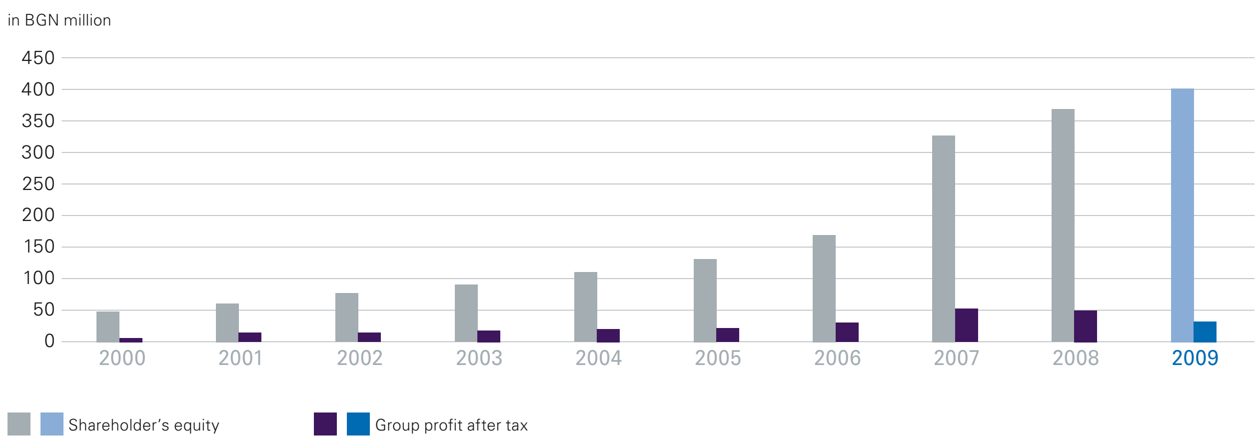
FIBank preserved its competitive market position following its strategic focus towards customers and its proven business model, and affirmed its vision as an innovative, stable and responsible credit institution in the banking market both in Bulgaria and the Balkan region.

Chart 5: Balance-sheet indicators



Source: FIBank

Chart 6: Financial indicators



Source: FIBank

Bank Profile

Corporate Status

First Investment Bank is a joint-stock company registered with Sofia City Court pursuant to a ruling dated 8 October 1993. Since 28 February 2008 the Bank has been registered in the Commercial Register at the Registry Agency.

First Investment Bank is a public company registered in the Commercial Register of Sofia City Court by a decision dated 4 June 2007 and in the register of public companies and other issuers held by the Financial Supervision Commission by a decision dated 13 June 2007.

The Bank owns a universal banking licence for domestic and international operations.

First Investment Bank is a licensed primary dealer in government securities and is a registered investment intermediary.

Participations and Memberships

- Association of Banks in Bulgaria
- Bulgarian Stock Exchange – Sofia AD
- Central Depository AD
- Bankservice AD
- CaSys International
- MasterCard International
- VISA International
- S.W.I.F.T.

Subsidiaries

First Investment Bank owns three subsidiaries:

First Investment Finance B.V. (The Netherlands)

First Investment Finance B.V. was created for a special investment purpose – to provide additional financing for the Bank in the form of bonds and other debt instruments. The company has a registered seat in the Netherlands and complies with local corporate governance practices. The entity's issued and paid up share capital is EUR 90 thousand divided into 900 ordinary shares, each with a nominal value of EUR 100. 180 shares have been issued and paid up. First Investment Bank is the sole owner and shareholder of First Investment Finance B.V.

Diners Club Bulgaria AD

Diners Club Bulgaria AD is a company registered in Bulgaria as an issuer of credit cards and a processor of payments. In May 2005 First Investment Bank became the majority shareholder in Diners Club Bulgaria AD by acquiring 80% of the company's share capital. As at 31 December 2009 the registered capital of Diners Club Bulgaria AD was BGN 1,360 thousand, while the shareholding of FIBank was 87.93%.

First Investment Bank – Albania Sh.a (Albania)

First Investment Bank – Albania Sh.a was incorporated in April 2006. In June 2007 the bank was granted a full banking license by the Central Bank of Albania. On 1 September 2007 First Investment Bank – Albania Sh.a took over all assets and liabilities of the pre-existing Tirana branch of First Investment Bank. As at 31 December 2009 the company had registered capital of EUR 10,475 thousand, 99.999838% of which was owned by First Investment Bank AD.

Market Position*

- Among the leading banks in the cards business
- Among the leading banks in international settlements and trade finance
- Sixth in assets
- Sixth in lending
- Sixth in deposits
- Seventh in terms of profit
- Eighth in shareholders' equity

Market Share*

- 15.9% of VISA credit cards
- 8.2% of MasterCard credit cards
- 12.5% of ATM terminals
- 19.0% of POS terminals
- 8.8% (sent) and 9.7% (received) of cross-border transactions – financial instruments for trade financing
- 5.8% of bank assets in Bulgaria
- 5.8% of loans in Bulgaria
    - 7.0% of corporate lending
    - 4.0% of mortgage lending
    - 3.8% of consumer lending
- 7.6% of deposits in Bulgaria
    - 10.7% of deposits from individuals

* The market positions and shares are based on unconsolidated data by the BNB, BORICA and SWIFT

Correspondent Relations

FIBank maintains correspondent relationships with over 600 banks all over the world and performs international money transfers in more than 60 currencies. It is one of the leading banks in the country in terms of international payments and trade financing.

Branch Network

As at 31.12.2009 First Investment Bank had a total of 170 branches and offices: the Head Office, 159 branches and offices throughout Bulgaria, one branch in Cyprus and 10 branches and offices in Albania.

Awards 2009

FIBank received the reward "Bank of the Client" by "Pari" daily for its activities through 2008 for the fourth time in its 15 years of operation (in 2002, 2003, 2006 and in 2008);

The corporate web site of FIBank (www.fibank.bg) was awarded two prizes by the Bulgarian Web Association – first place in the category "Business" in the contest "Bulgarian awards for Web 2009" and "BG Site for 2009" in the category "Banks and finance" in the tenth jubilee issue of the contest "BG Site";

FIBank was awarded three prizes by the Bulgarian Donor Forum and by the Corporate Donors Club – "Most generous company", "Biggest volume of financial donations" and "Largest donation of services and employee time";

The corporate blog of FIBank was named the best corporate blog in Bulgaria in a contest of Novavizia.com and of ITD Network

First Investment Bank: Dates and Facts

1993	First Investment Bank was established on 8 October 1993 in Sofia. It was granted a full banking licence for carrying out operations in Bulgaria and abroad.
1994 – 1995	The Bank developed and specialised in servicing corporate clients.
1996	FIBank was the first in Bulgaria to offer services enabling banking from home or from the office. FIBank was the first bank to receive a 5-year loan from the European Bank for Reconstruction and Development for financing small and medium-sized enterprises in Bulgaria.
1997	The Bank started issuing Cirrus/Maestro debit cards, Eurocard/Mastercard credit cards and the American Express card. FIBank was the first Bulgarian bank to offer debit cards with international access. Thompson Bankwatch awarded FIBank its first credit rating. The Bank opened its first branch abroad, in Cyprus.
1998	FIBank obtained its first syndicated loan from foreign banks. The Bank negotiated financing for the import of investment goods from Austria, Belgium, Denmark, Finland, France, Germany, Italy, the Netherlands, Norway, Portugal, Spain, Sweden and Switzerland, guaranteed by export insurance agencies.
2000	First Investment Bank started developing its business in the field of retail banking. Deposits from private individuals grew 2.3 times.
2001	First Investment Bank launched the first virtual bank branch in Bulgaria allowing customers to bank via the Internet. The Bank was awarded the prize "Bank of the Year" by 'Pari' ('Money') daily. Maya Georgieva, Executive Director of FIBank, received the prize "Banker of the Year" from 'The Banker' weekly.
2002	FIBank was named "Bank of the Client" in the annual rating of 'Pari' daily.
2003	Products and services to individuals became the focus of the Bank's activities. Loans to individuals increased over five times during the year. FIBank was named "Bank of the Client" for the second time in the annual rating of 'Pari' daily.
2004	The Bank expanded its infrastructure. The branch network expanded by 27 new branches and offices, the ATM network more than doubled. The Bank was awarded the prize "Financial Product of the Year" for its Mortgage Overdraft product.
2005	FIBank acquired 80% of the capital of Diners Club Bulgaria AD. The Bank issued Eurobonds at the amount of EUR 200 million on the Luxembourg Stock Exchange. FIBank was also the first Bulgarian bank to issue perpetual subordinated bonds. Matthew Mateev, Deputy Chief Executive Director of FIBank, was awarded the prize "Banker of the Year" by 'The Banker' weekly.

2006	FIBank negotiated financing for SMEs, at the amount of USD 10 million for a 5-year term, covered by OPIC. Share capital was increased from BGN 10 million to BGN 20 million through the issuance of 1 million shares. FIBank was named “Bank of the Client” for the third time in the annual rating of ‘Pari’ daily. FIBank received a syndicated loan, at the amount of EUR 185 million, organised by Bayerische Landesbank in which 33 banks participated. FIBank’s share capital was increased from BGN 20 million to BGN 100 million by transforming retained profits into 8 million new shares with a nominal value of BGN 10 each.
2007	FIBank realized the biggest banking initial public offering of shares in Bulgaria. The Bank became a public company and increased its issued share capital from BGN 100 million to BGN 110 million. „FIBank Mobile“ – the first banking mobile portal created by FIBank with useful financial information for its customers, started functioning. FIBank was one of the first banks in Bulgaria to implement the new chip technology when issuing debit and credit cards. The processing of card transactions was transferred to the new authorization centre in Macedonia – CaSys International. The Albanian Central Bank issued a full banking licence to First Investment Bank – Albania Sh.a.
2008	Repaid on maturity EUR 200 million of principal and EUR 15 million of interest on a long-term bond, issued by First Investment Finance B.V. FIBank successfully completed the first stage of the new centralized and integrated core banking information system FlexCube, suitable for retail banking as well as for corporate banking, with a module for Internet banking and a module for work processes management. FIBank was named “Bank of the Client” for the fourth time in the annual rating of ‘Pari’ daily. First Investment Bank received a syndicated loan at the amount of EUR 65 million from 11 leading banks all over the world. FIB became the first bank in Bulgaria with own corporate blog– an Internet platform where clients, employees and fans of FIBank can exchange ideas, share impressions of the Bank in general, its products and services, its initiatives and values. FIBank received the prestigious card business award OSCARDS of Publi-News in the Europe region for innovation in the card business.

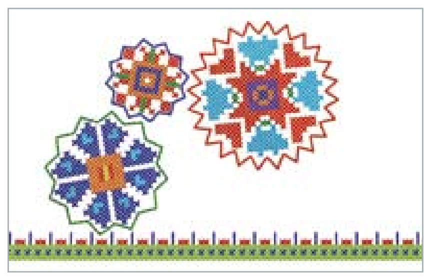
Highlights 2009

January

- FIBank negotiated a BGN 20 million loan with the Bulgarian Development Bank under a Program for the refinancing of commercial banks;
- The rating agency Moody's lowered the outlook on credit ratings of FIBank from "stable" to "negative", due to a changed assessment of the market environment;
- "Golden Deposit" – a new three-month deposit in BGN and in EUR.

February

- A new consumer loan "Friend" was offered with a maximum amount of BGN 30 thousand and a payment period of 7 years;
- The capital of the Bank's subsidiary First Investment Bank – Albania Sh.a. was increased by EUR 1 million;



- FIBank offered two new silver coins to its customers, devoted to the Year of the Ox and developed by the New Zealand Mint;
- "BG loan" – a new flexible loan product aimed at customers with business in the country and providing the opportunity for their own choice (in respect of repayment schedule, type of currency, etc.) in response to specific business needs.

March

- FIBank negotiated a BGN 5 million loan facility with the Bulgarian Development Bank, aimed at financing agricultural producers;
- The Bank developed a special program with the aim of assisting its customers in optimizing their finances in a period of economic crisis.

April

- "Easter Deposit" – a new deposit account in BGN and in EUR with rising interest;
- VISA Cash Back – a new service for cardholders providing an opportunity to withdraw cash from POS terminals at specific locations in the country, such as supermarkets and petrol stations.

May

- The General Meeting of Shareholders elected a three-member Audit Committee of the Bank in compliance with the new requirements of the Independent Financial Audit Act;
- Deposit "St.George's Day" – a new three-month deposit account in BGN and in EUR;
- The Bank offered its customers a new collection of medallion-shaped bars "FORS-Talismans" of the Swiss mint PAMP;
- FIBank became the first and only bank in Bulgaria, which started to offer the sale and redemption of investment diamonds.

June

- Fitch Ratings upgraded FIBank's support rating from "5" to "3" and the support rating floor from "No Floor" to "BB-", recognizing the Bank stature as the largest Bulgarian-owned bank and its systemic importance; FIBank's long-term (BB-) and short-term (B) ratings were unchanged.
- A new international debit card V PAY was offered, based totally on chip and PIN technology;
- FIBank entered into the "GSM-102" guarantee mechanism. This enabled customers which deal with the import of agricultural production from the United States the opportunity to receive financing from US banks through FIBank;
- The Bank signed an agreement with the National Guarantee Fund for ensuring guarantees of up to 50% of loans granted to companies which are customers of FIBank;
- The Bank repaid on maturity an EUR 65 million syndicated loan from 12 leading international banks.

July

- FIBank was awarded "Bank of the Client" by „Pari" daily for its activity in 2008 for the forth time in its 15 years of operation (in 2002, 2003, 2006 and in 2008);
- The card processing centre in Macedonia CaSys International S.A., which services FIBank, received a certificate under the international standard ISO 20000:2005 – "Information technologies and management of services";
- "Super Deposit" – a new three-month deposit account in BGN and in EUR.

August

- FIBank offered a new Internet service "My FIBank" – part of the Bank's Ecological program, which provides e-statements on customers' current and deposit accounts and credit cards;
- The Bank repaid before maturity EUR 117 million on a renegotiated (in October 2008) one-year syndicated loan.

September

- At an Extraordinary General Meeting the shareholders voted for capitalizing the semi-annual profit of the Bank for 2009;
- FIBank repaid on maturity a BGN 10 million mortgage bond, traded at the Bulgarian Stock Exchange – Sofia AD and a USD 15 million long-term loan;
- FIBank joined the Agreement between the bank-members of the Association of Banks in Bulgaria for the switching of current accounts of individuals from one bank to another (Bank Account Switching).

October

- Part of FIBank's Head Office was moved to a new modern building on 81G, Bulgaria Blvd. in Sofia with the aim of improving the working processes and reducing running costs;
- FIBank updated its activity in compliance with the new Law on Payment Services and Payment Systems and with the secondary legislative acts for its enforcement.

November

- Moody's changed FIBank's financial stability rating from "D" to "D-" and the long-term local and foreign currency deposit ratings from "Ba1" to "Ba2";
- FIBank's corporate web site (www.fibank.bg) was named "BG Site for 2009" in the category "Banks and Finance" at the tenth jubilee issue of the contest "BG Site", organized by the Bulgarian Web Association;
- FIBank offered a new service to its customers – the issuance of an additional credit card to each one already issued, but with a common credit limit and a single account;
- The Bank signed an agreement with the Export-Import Bank of China for a long-term partnership in banking and for the financing of investment projects of mutual interest;
- FIBank launched a new collection of silver coins "Panagyursko sakrovishte", the outcome of a unique cooperation between a financial, a cultural and an international numismatic institution.

December

- "Deposit Super G – Season 2009-2010" – a new sixth-month deposit account in BGN and in EUR;
- FIBank was awarded three prizes by the Bulgarian Donor Forum and by the Corporate Donors Club – "Most generous company", "Biggest volume of financial donations" and "Largest donation of services and employee time";
- First Investment Bank started providing free WiFi connection to its customers in over 60 branches and offices throughout the country;
- FIBank prepared to join the payment systems for servicing customer transfers in euro – TARGET2-BNB and BISERA7-EUR.

Corporate Development

During 2009, despite the unsure macroeconomic environment and contraction of the real economy as a result of the global financial crises, First Investment Bank retained its position among the leading banks in the country with positive financial indicators and business development.

Thanks to its stable business model, flexibility and adaptability FIBANK continued to follow an existing strategy – to be among the leading banks in Bulgaria and the region, emphasizing high standards of service and to be in compliance with regulatory decrees.

The Bank reacted adequately to changes in the market environment by tightening control on risk management, increasing capital adequacy, retaining good financial stability and its reputation. FIBank responded to changing needs with specialized programs and products suitable to the challenges of market conditions.

Key Performance Indicators

Table 7: Key indicators

	2009	2008	2007	June'09	June'08
Financial results (in BGN thousand)					
Net interest income	**128,150**	147,509	132,609	56,821	78,531
Net fee and commission income	**50,864**	63,383	50,962	25,893	30,495
Net trading income	**10,321**	4,258	11,827	4,712	1,883
Total income from banking operations	**189,950**	213,631	195,197	87,280	108,468
Administrative expenses	**(144,358)**	(156,169)	(107,325)	(70,437)	(72,350)
Impairment losses	**(10,965)**	1,109	(26,958)	1,847	(7,258)
Group profit after tax	**29,796**	49,170	51,013	18,012	24,006
Earnings per share (in BGN)	**0.27**	0.45	0.48	0.17	0.22
Balance sheet indicators (in BGN thousand)					
Assets	**4,112,284**	4,270,751	4,201,377	4,192,353	4,270,751
Loans and advances to customers	**2,966,461**	2,969,984	2,778,123	3,046,865	2,969,984
Loans and advances to banks and other financial institutions	**26,187**	10,244	189,575	25,701	10,244
Customer deposits	**3,339,546**	2,855,327	2,475,139	2,992,983	2,855,327
Liabilities evidenced by paper	**193,363**	832,620	1,238,113	608,214	832,620
Total shareholders' equity	**402,943**	368,676	325,854	392,814	368,676
Key ratios (in %)					
Solvency ratio (Capital adequacy)	**13.83**	13.18	12.98	13.68	13.80
Liquidity ratio	**19.79**	25.67	29.92	20.02	24.12
Loan provisioning ratio	**2.56**	2.32	2.62	2.15	2.76
Net interest income / income from banking operations	**67.47**	69.05	67.94	65.10	72.40
ROE (after tax)	**7.65**	14.08	20.54	9.52	14.25
ROA (after tax)	**0.72**	1.21	1.50	0.86	1.21
Operating expenses / Income from banking operations	**76.00**	73.10	54.98	80.70	66.70
Resources (number)					
Branches and offices	**170**	171	127	170	146
Staff	**2,486**	2,689	2,289	2,476	2,509

Source: FIBank

Ratings

Table 8: Ratings

	2009	**2008**	**2007**
Fitch Ratings/Moody's			
Long-term	**BB-**	BB-/Ba1	BB-/Ba1
Short-term	**B**	B/NP	B/NP
Financial stability/ Individual	**D**	D/D	D/D
Outlook	**Negative**	Negative/ Stable	Positive/ Positive

Source: FIBank

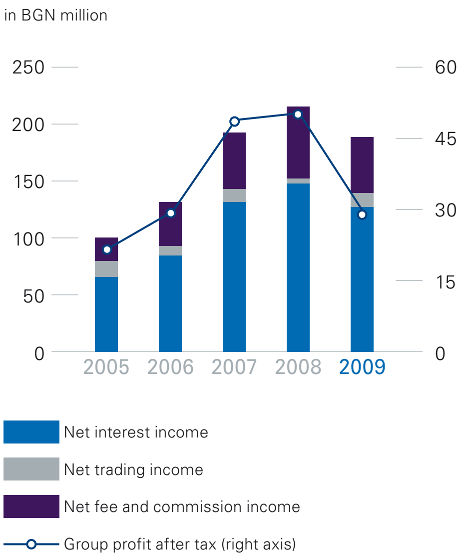
In June 2009 Fitch Ratings upgraded support ratings from "5" to "3" and support rating floor from "No Floor" to "BB-", recognizing the Bank stature as the largest Bulgarian-owned bank and its systemic importance. FIBank's long-term (BB-) and short-term (B) ratings were affirmed.

At the end of the year the rating agency Moody's changed FIBank's financial stability rating from "D" to "D-" and the long-term local and foreign currency deposit ratings from "Ba1" to "Ba2". The outlook was changed from "stable" to "negative".

Financial Results

In 2009 Group profit after tax amounted to BGN 29,796 thousand. The decrease of BGN 19,374 thousand (39,4%) compared to 2008 was in accordance with management predictions, taking into account the effect of the world economic crisis on the local market. At the same time the Bank improved its market position (from eight to seventh place) and its market share (from 3.7% to 4.1% on an unconsolidated basis) among banks in Bulgaria.

Chart 7: Profit and income



Source: FIBank

The main tendency of a decrease in trade activity and limited internal demand affected total income from banking operations, which amounted to BGN 189,950 thousand (2008: BGN 213,631 thousand; 2007: 195,197 thousand) and a decrease of BGN 23,681 thousand (11.1%) compared to 2008.

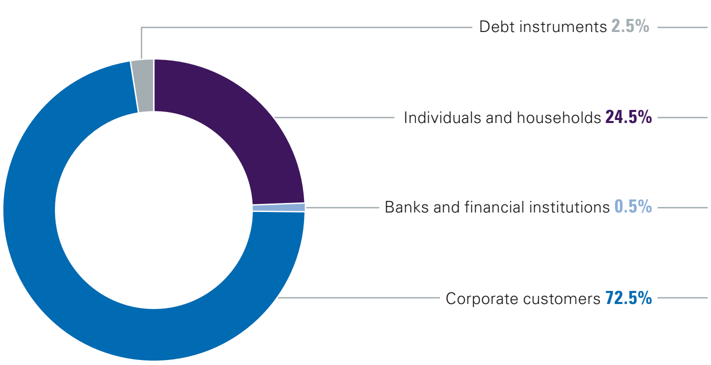
Net interest income for the year amounted to BGN 128,150 thousand against BGN 147,509 thousand for 2008 (2007: BGN 132,609 thousand). There was a 13.1% fall in interest margins, a result of the increased importance of the local market as a resource of funds as well as increased competition among banks-resulting from stagnation in the international financial markets, as well as limited credit growth. Corporate clients including small and medium enterprises made the major contribution (72.5%) to the interest income of the Bank. Retail banking made up 24.5% of total interest income. The majority of interest expenses were attracted funds from customers in the form of term deposits, current accounts and other types of accounts at 79.4% (2008: 54.4%; 2007: 37.2%), followed by liabilities evidence by paper, subordinated term debt and perpetual debt at 20.0% (2008: 45.2%; 2007: 62.5%).

In 2009 foreign operations (Cyprus and Albania) formed 14.1% of total net interest income, compared to 8.2% in 2008 (2007: 6.2%).

Net fee and commission income amounted to BGN 50,864 thousand against BGN 63,383 thousand for 2008 (2007: BGN 50,962 thousand). There was a decrease of 34.2% in income from fees and commissions from letters of credits and guarantees, reflecting the general decline in export-import activities in the country during 2009, as well as decreased trade activity of companies. This led to a fall in income from payment transactions (by 16.5%), and customer accounts (by 2.5%), which stood at BGN 7,680 thousand and BGN 8,985 thousand respectively.

The card business continued in importance, forming 28.1% of Group net income from fees and commissions.

Chart 8: Interest income structure in 2009



Source: FIBank

Net income from trading operations (debt instruments and foreign exchange) in 2009 reached BGN 10,321 thousand (2008: 4,258 thousand; 2007: 11,827 thousand) thanks to minimized net expenses from operations with equity (BGN 4,633 thousand) and increased incomes from foreign exchange (BGN 1,342 thousand).

In the reported period foreign operations (Cyprus and Albania) formed 1.6% of the total net fee and commission income, compared to 1.7% in 2008 (2007: 1.8%).

During 2009 FIBank increased control regarding expenses and undertook measures for their optimization. As a result, administrative expenses declined by BGN 11,811 thousand (7.6%) to BGN 144,358 thousand. The greatest decrease was reported in advertising expenses with BGN 10,436 thousand (57.3%) to BGN 7,774 thousand, as well personnel costs with BGN 6,322 thousand (12.4%) to BGN 44,704 thousand. A fall in administrative expenses was reported in FIBank's foreign operations units (Cyprus and Albania) with BGN 677 thousand to BGN 5,949 thousand or 4.1% of Group general administrative expenses, compared to BGN 6,626 thousand (4.2% of general expenses) for 2008.

The Bank regularly reviews its loan portfolio and reports the probability of default for each exposure. After an analysis of the cash flows and the loan portfolio, FIBank's allowances for impairment for 2009 amounted to BGN 10,965 thousand.

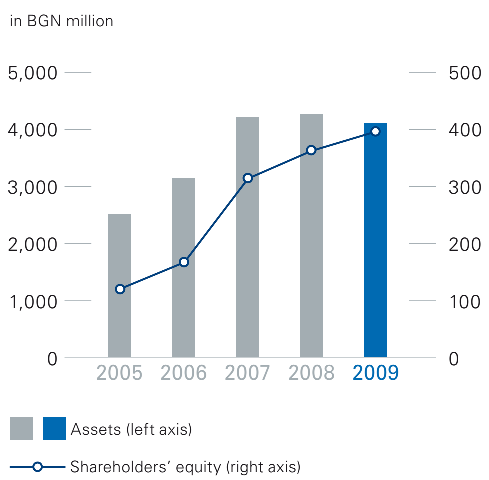
Balance Sheet

The assets of the FiBank Group as at 31st of December 2009 amounted to BGN 4,112,284 thousand or BGN 158,467 thousand (3.7%) less than the previous year (2008: BGN 4,270,751 thousand; 2007: BGN 4,201,377 thousand). The decrease was to a large extent compensated by a growth in deposits from individuals, as well as by attracted funds from the local market. The market position of FIBank remained at sixth place (on an unconsolidated basis) among banks in Bulgaria.

Loans and advances to customers increased their relative share, with 72.1% of total assets of the Group (2008: 69.5%; 2007: 66.1%), while cash and balances with central banks decreased by 2.7 percentage points to 14.7% (2008: 17.4%; 2007; 14.5%) by the end of the reporting period.

Balances with central banks decreased by BGN 170,406 thousand (39.4%) to BGN 261,943 thousand as a result of lightened regulatory requirements regarding minimum required reserves maintained on attracted funds by banks (from 12% to 10%) including from abroad (from 10% to 5%) and from state and local government budgets (0%).

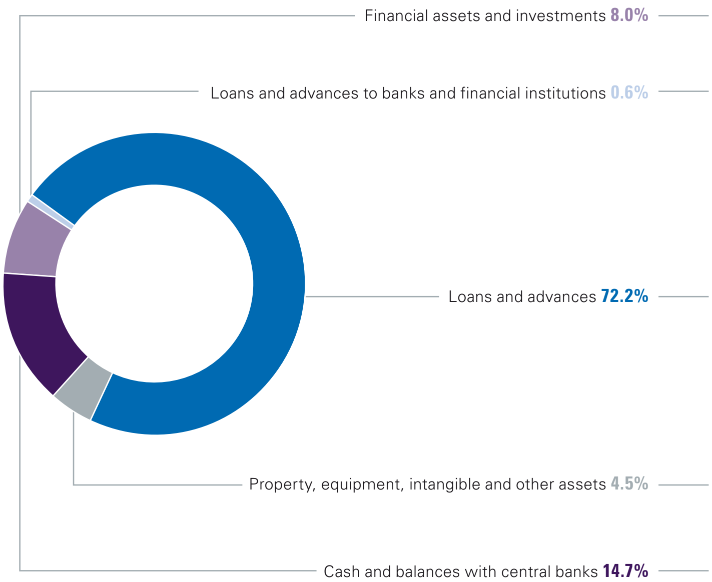
Chart 9: Assets and group equity



Source: FIBank

Loans and advances to banks and financial institutions increased by BGN 15,943 thousand (155.6%) to BGN 26,187 thousand. There were increased placements with foreign banks and receivables under repurchase agreements.

Chart 10: Asset structure as at 31.12.2009



Source: FIBank

Financial assets held for trading amounted to BGN 9,023, against BGN 9,681 thousand a year earlier, a decrease of 6.8% on an annual basis. During the year the Bank acquired bonds issued by foreign banks with rating of "AAA" amounting to BGN 3,224 thousand, with the aim of optimizing profitability and maintaining a stable liquid position.

Available for sale investments reached BGN 285,110 thousand – a decline of 0.5% (2008: BGN 286,623; 2007: BGN 374,203). During the reporting period financial instruments issued by foreign banks decreased (by 36.9%) to BGN 35,166 thousand. Those issued by foreign governments increased (by 9.9%) to BGN 214,160 thousand.

Financial assets held to maturity amounted to BGN 35,425 thousand against BGN 62,395 thousand a year earlier.

The foreign operations of the Bank (in Albania and Cyprus) registered growth. Their assets represented 5.5% of the total assets of the Group or BGN 227,794 thousand (2008: BGN 201,007 thousand or 4.7%; 2007: BGN 170,425 thousand 4.1%). There was positive economic development in Albania which, although slower than 2008, still showed an increase of around 5%. There are positive expectations for 2010.

Loan Portfolio

Loans

The loan portfolio of the Group as at 31st of December 2009 amounted to BGN 3,039,663 thousand before allowances. This was BGN 1,930 thousand (0.1%) more than 2008 with BGN 3,037,733 thousand (2007: BGN: 2,848,432). The increase was a result of growth in corporate lending (with 4.8%) and utilized credit limits on the credit cards and overdrafts of individuals and households (with 3.6%).

During the reporting period FIBank retained its market position in terms of loans to customers – sixth place (on an unconsolidated basis) in the banking system.

Table 9: Loan portfolio by business line

(in BGN thousand / % of the total)	2009	%	2008	%	2007	%
Loans to individuals	737,917	24.3	770,962	25.4	756,767	26.6
SME Lending	219,053	7.2	267,158	8.8	270,565	9.5
Microlending	29,456	1.0	41,196	1.4	43,476	1.5
Loans to corporate clients	2,053,237	67.5	1,958,417	64.4	1,777,624	62.4
Loan portfolio before allowances for impairment	**3,039,663**	**100.0**	**3,037,733**	**100.0**	**2,848,432**	**100.0**
Specific allowances for impairment losses	(73,202)		(67,749)		(70,309)	
Loan portfolio	**2,966,461**		**2,969,984**		**2,778,123**	

Source: FIBank

Despite worsening market conditions FIBank continued to support its customers and prospective projects.

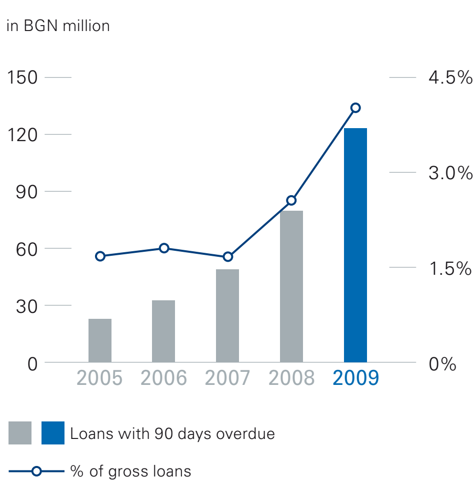
The portfolio of loans to corporate clients increased its relative share to 67.5% (2008: 64.4%; 2007: 62.4%) of the total loan portfolio before allowances. At the end of 2009 they reached BGN 2,053,237 thousand.

The portfolio of loans to SMEs decreased as an absolute amount by BGN 48,105 thousand (18.0%) and to Micro enterprises by BGN 11,740 thousand (28.5%). As a relative share this was a fall of 1.6 percentage points to 7.2% of the total portfolio and of 0.4% percentage points to 1.0% respectively.

Loans to individuals and households as at the end of the reporting period amounted to BGN 737,917 (BGN 770,962 in 2008). This formed 24.3% of the Group loan portfolio. The decline of 4.3% was a result of decreased demand for loans from individuals and households, in consequence of highly uncertain job security and income. Demand was reoriented towards deposit products, as well as the higher risk criteria of the banks.

During 2009 the criteria for the classification and impairment of risk exposures were carried out in compliance with the criteria provided by Ordinance No. 9 of the Bulgarian National Bank. By classification, in addition to other applicable regulatory decrees and criteria, "regular" loans are defined as up to 30 days, "watch" (31-90 days), "non-performing" (91-180 days) and "loss" (above 180 days).

Chart 11: Loan portfolio quality



Source: FIBank

Allowances for impairment increased and reached BGN 73,202 thousand (2008: BGN 67,749 thousand), reflecting the worsening economic situation and growing credit risk.

At the same time the quality of the loan portfolio of the Bank for the period remained at a level above average for the banking system. Loans classified as loss, formed 3.0% of the loan portfolio before allowances (4.1% for the banking system), while together with those classified as non-performing they stood at 4.1% (6.1% for the banking system).

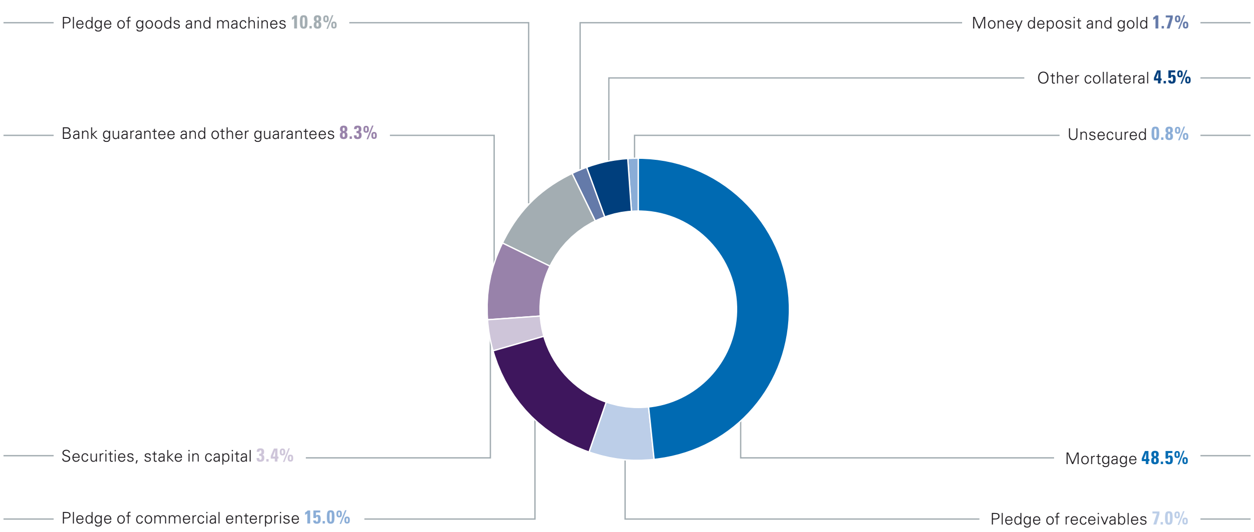
During the year the off-balance sheet exposure of customers amounted to BGN 2,474 thousand, as against BGN 1,451 a year earlier.

The policy of the Bank requires collateral before allowing a loan. It accepts all types of collateral permitted by law and applies discount rates depending on the expected realizable net value of the collateral.

During the year loans collateralized with pledges of commercial enterprises increased (by BGN 147,593 thousand) and those collateralized with warranties and other guarantees by BGN 104,241 thousand (on the account of loans collateralized with pledge of receivables and securities).

The majority of the structure of the portfolio continued to be loans collateralized by mortgage – 48.5% (2008: 47.4%; 2007: 55.5%).

Chart 12: Loan portfolio by type of collateral



Source: FIBank

For further information regarding credit risk, see the section “Risk management” and Note 3 “Risk management” of the Consolidated Financial Statement as at 31 of December 2009 together with the Report of the Independent Auditor (CFS).

Related Party Transactions

In the normal course of business the Bank carried out transactions with related parties. These transactions were effected in market conditions. The internal rules and regulations of the Bank with respect to such loans are in compliance with the effective legislation.

Table 10: Related party transactions

in BGN thousand	2009	2008	2007
Loans			
Parties that control or manage the Bank	**2,130**	2,455	2,474
Enterprises under common control	**21,721**	11,728	8,110
Off-balance sheet commitments			
Parties that control or manage the Bank	**2,280**	1,475	387
Enterprises under common control	**1,322**	2,102	2,108

Source: FIBank

For further information regarding related parties transactions, see section Note 35 "Related party transactions" of the Consolidated Financial Statement (CFS).

Commitments and Contingent Liabilities

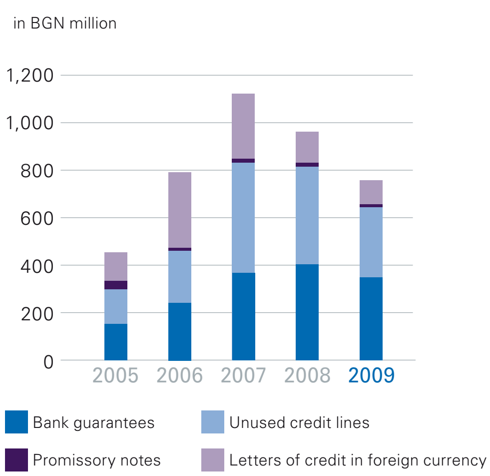
Most of the commitments and contingent liabilities of the Bank were bank guarantees and letters of credit, issued by FIBank to guarantee the execution of engagements by its customers to third parties.

These instruments are predominantly used by customers, because they are more inexpensive than immediate payment and payment transactions with foreign partners are facilitated. Banks also prefer contingent liabilities because they carry lower credit risk and are good sources of fee and commission income.

At the end of the reporting period the total amount of off-balance sheet commitments amounted to BGN 753,455 thousand, BGN 200,309 thousand (21.0%) lower than the previous year.

Bank guarantees in BGN and in foreign currency decreased by BGN 50,324 thousand (12.5%) to BGN 350,929 thousand (2008: BGN 401,253 thousand; 2007: BGN 367,812 thousand), and letters of credit in foreign currency by BGN 30,545 thousand (23.6%) to BGN 98,749 thousand (2008: BGN 129,294 thousand; 2007: BGN 268,562 thousand).

Chart 13: Commitments and contingent liabilities



Source: FIBank

The unused credit lines amounted to BGN 289,482 thousand (2008: BGN 407,465 thousand; 2007: BGN 457,669 thousand).

Attracted Funds

As at 31 December 2009 attracted funds from customers amounted to BGN 3,339,546 thousand. This was BGN 484,219 thousand (17.0%) more than 2008: BGN 2,855,327 thousand (2007: BGN 2,475,139 thousand). This was mainly due to funds attracted from individuals and households throughout the reporting period. FIBank's market position was retained – sixth place (on an unconsolidated basis) in the banking system.

The trend of a growth in funds attracted from individuals and households during previous years continued. At the end of the reporting period they reached BGN 2,709,208 thousand or a growth of 54.5% (BGN 955,647 thousand) annually. Their relative share of total liabilities due to other customers increased – to 81.1% (2008: 61.4%; 2007: 58.8%). Contributing to the increase were the new deposit products and the good quality of customer service, for which FIBank was awarded "Bank of the Client" by "Pari" daily for a consecutive year.

As at the end of 2009 FIBank was placed third (on an unconsolidated basis) in terms of attracted deposits from individuals amongst the banks in Bulgaria.

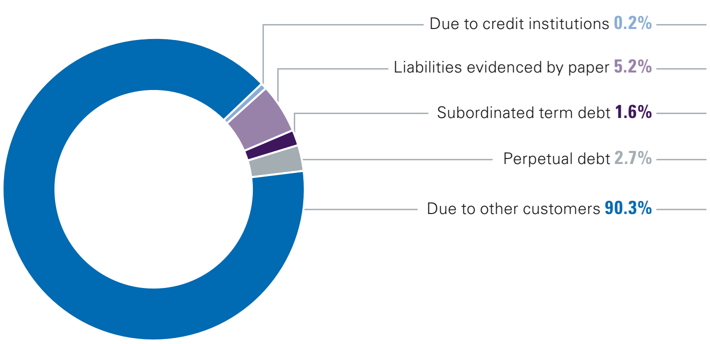
First Investment Bank sets aside the required annual premiums in accordance with the Bank Deposit Guarantee Act. This additionally increases the safety of the Bank's depositors. According to amendments in the Act (effective from 18 November 2008) the amount guaranteed by the Fund reached BGN 100,000 per client.

Attracted funds from corporate, state-owned and public institutions decreased to BGN 630,338 thousand (2008: BGN 1,101,766 thousand; 2007: BGN 1,020,394 thousand). This was due to reduced cash flows, including lending funds and companies' heightened demands for capital.

The trend of a rise funds in EUR attracted from individuals and households was maintained, as in 2009 their relative share determined the structure of the liabilities due to other customers – 45.4% (2008: 31.6%; 2007: 28.0%), growing by 13.8 percentage points annually. A contributing factor to the increase was the Currency Board Agreement operating within Bulgaria, which increased the security of savings in EUR and minimized currency risk.

The relative share of funds in BGN attracted from individuals increased as well – up to 28.8% (2008: 24.0%; 2007: 23.1%), as well as those in other currencies – to 6.9% (2008: 5.9%; 2007: 7.7%).

Chart 14: Structure of attracted funds as at 31.12.2009



Source: FIBank

Funds in EUR attracted from corporate, state-owned and public institutions decreased to 7.1% (2008: 8.2%; 2007: 12.7%). Those in BGN fell to 9.7% (2008: 27.6%; 2007: 25.6%), while those in other currencies dropped to 2.0% of the liabilities due to other customers (2008: 2.7%; 2007: 2.9%).

Table 11: Liabilities due to other customers

in BGN thousand/% of total	2009	%	2008	%	2007	%
Funds, attracted from individuals	**2,709,208**	**81.1**	**1,753,561**	**61.4**	**1,454,745**	**58.8**
In BGN	**960,486**	**28.8**	684,979	24.0	571,535	23.1
In EUR	**1,517,424**	**45.4**	901,194	31.6	692,564	28.0
In other currency	**231,298**	**6.9**	167,388	5.9	190,646	7.7
Funds, attracted from corporate, state-owned and public institutions	**630,338**	**18.9**	**1,101,766**	**38.6**	**1,020,394**	**41.2**
In BGN	**324,988**	**9.7**	788,101	27.6	633,158	25.6
In EUR	**236,973**	**7.1**	235,624	8.2	314,892	12.7
In other currency	**68,377**	**2.0**	78,041	2.7	72,344	2.9
Total funds attracted from customers	**3,339,546**	**100.0**	**2,855,327**	**100.0**	**2,475,139**	**100.0**

Source: FIBank

Liabilities evidenced by paper decreased to BGN 193,363 thousand as at the end of the year (2008: BGN 832,620 thousand; 2007: BGN 1,238,113 thousand), as a result of the payment of two syndicated loans on the total amount of BGN 354,433 thousand. There were also reduced acceptances under letters of credit (by BGN 339,028 thousand), as well as repaid mortgage bonds amounting to BGN 19,911 thousand. The decrease was partly compensated by liabilities under repurchase agreements – BGN 85,293 thousand as at the end of the reporting period. These are commonly used as a tool for managing current liquidity.

Other term liabilities, which comprised mainly financing obtained from financial institutions through extension of loan facilities, amounted to BGN 93,919 thousand (2008: BGN 105,097 thousand; 2007: BGN 103,274 thousand).

During the year FIBank negotiated two new arrangements with the Bulgarian Development Bank – BGN 20 million under a program for the refinancing of commercial banks and a BGN 5 million loan facility for the financing of agricultural producers.

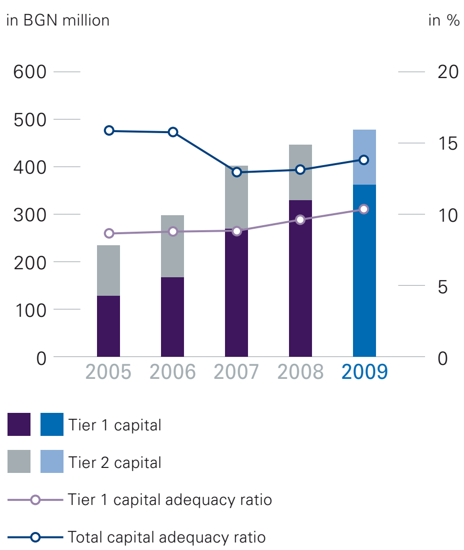
Capital

As at the end of 2009 the total capital base reached BGN 483,657 thousand or BGN 32,335 thousand more y/o/y (2008: BGN 451,322 thousand; 2007: BGN 404,614 thousand). This growth was due to an increase in the amount of Tier 1 capital resulting from the capitalization of profit and its allocation to other general purpose reserves.

To develop its capital base FIBank also used perpetual debt instruments and subordinated term debt, which are recognized as Tier 2 capital. As at 31 December 2009 the Bank had entered into six separate subordinated loan agreements with four different lenders on the total amount of BGN 60,641 thousand (2008: BGN 53,852 thousand; 2007: BGN 51,005 thousand), as well as signing two guaranteed perpetual subordinated bonds for the total amount of BGN 98,952 thousand (2008: BGN 98,658 thousand; 2007: BGN 98,386 thousand).

During the reporting period capital adequacy ratios were improved – Tier 1 capital adequacy ratio reached 10.39% (2008: 9.60%; 2007: 8.78%), while total capital adequacy ratio was at 13.83% (2008: 13.18%; 2007: 12.98%). The amount of the capital base exceeding regulatory requirements (12%) increased to BGN 63,937 thousand. This acted as an additional buffer against future risks assumption.

Chart 15: Capital Adequacy



Source: FIBank

Since 1 January 2007 FIBank has applied the provisions of Basel II as formulated in the applicable EC directives and Ordinance No.8 of the Bulgarian National Bank, and sets aside additional provisions for credit, market and operational risk.

Table 12: Capital Adequacy

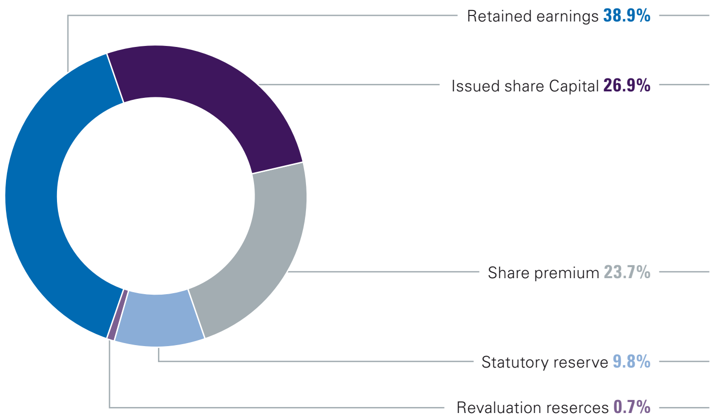
in BGN thousand/ % of risk-weighted assets	**2009**	**%**	**2008**	**%**	**2007**	**%**
Tier 1 Capital	**363,237**	**10.39**	328,859	9.60	273,573	8.78
Total Capital Base	**483,657**	**13.83**	451,322	13.18	404,614	12.98
Risk-weighted assets	**3,497,667**		**3,424,859**		**3,116,968**	

Source: FIBank

The total equity of the Group increased to BGN 403,035 thousand as at 31 December 2009 (2008: BGN 368,734 thousand; 2007: BGN 325,979 thousand) as a result of increased retained earnings, which reached BGN 158,857 thousand (2008: BGN 129,095 thousand; 2007: BGN 79,858 thousand).

Two General Meetings of Shareholders were held during the year (a regular and an extraordinary). It was decided that no dividends would be paid to shareholders and no other deductions from the profits would be made.

Chart 16: Equity structure as at 31.12.2009

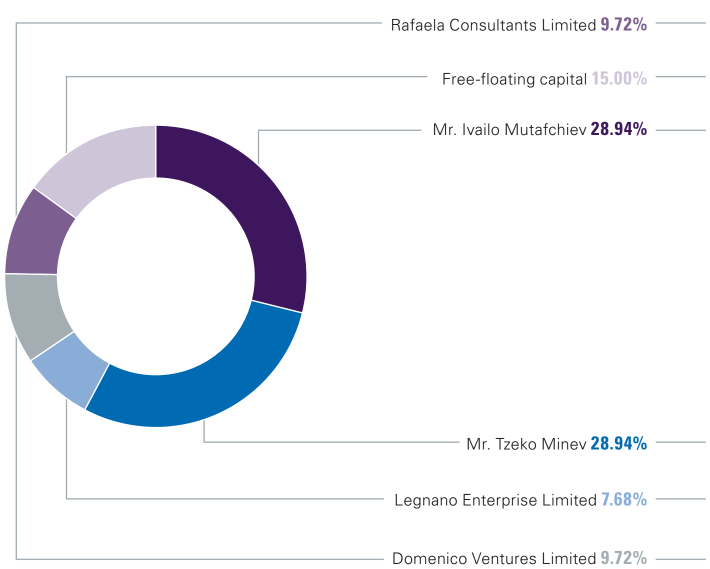


Source: FIBank

As at 31.12.2009 the shareholder structure of the Bank remained unchanged. The major shareholders of First Investment Bank were Mr. Tzeko Minev (28.94%), Mr. Ivailo Mutafchiev (28.94%), Domenico Ventures Limited (9.72%), Rafaela Consultants Limited (9.72%) and Legnano Enterprise Limited (7.68%).

Currently 15% of the Bank's issued share capital (BGN 16.5 million) is freely traded on the Bulgarian Stock Exchange – Sofia (free-float).

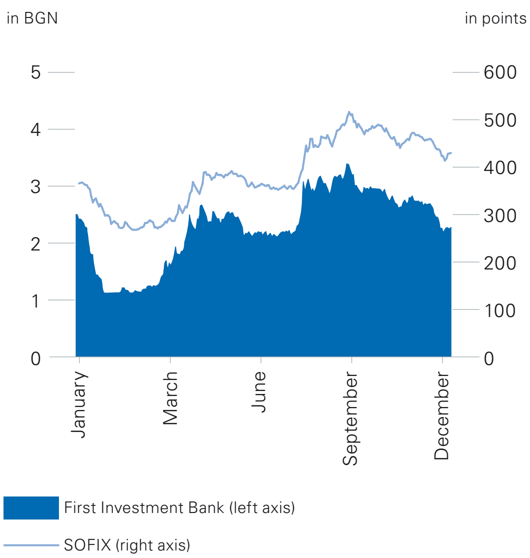
Chart 17: Shareholders' structure as at 31.12.2009



Source: FIBank

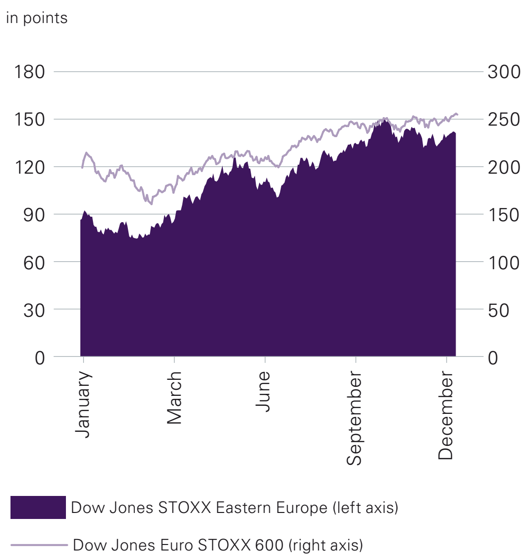
During the reporting period FIBank's share price ranged between BGN 1.07 – BGN 3.45 according to the main stock indices of the Bulgarian Stock Exchange – Sofia. The shares were traded at all 243 trade sessions held throughout the year, with an average 57 transactions per day. The average daily turnover amounted to BGN 85,203. The Bank was placed among the first three companies in terms of this indicator at the Bulgarian Stock Exchange – Sofia. The average share price of FIBank during the period was BGN 2.30, while the Bank's market capitalization, calculated on this basis was BGN 253 million.

Chart 18: FIBank share price in 2009



Source: BSE

Chart 19: European stock indices in 2009



Source: Dow Jones

Risk Management

Risk is inherent in the banking business; it is the likelihood of deviation from an expected positive result. Higher probability of occurrence and amount of the potential loss are associated with higher level of risk.

The economic crisis in 2009 tested in a real environment the policies and systems for risk management. Thanks to consistent measures taken in recent years to develop risk governance, including at a regulatory level – through the ordinances of the Bulgarian National Bank – the banking sector entered the crisis prepared for the challenges of the external environment.

FIBank's strategy for managing risks is part of the overall development strategy of the Bank. It aims at building and maintaining risk management process as commensurate with the challenges of the external environment and regulatory provisions, one which identifies measures and monitors the inherent risks of the Bank on an ongoing basis. FIBank assumes risks while maintaining the required level of its own funds (capital base) and an adequate management process. The framework for risk management comprises written policies, rules and procedures, mechanisms for policy enforcement, identification, measurement, monitoring and risk mitigation. Fundamental principles embedded in it are: objectivity, dual oversight over all operations, centralised management, separation of duties, and clearly defined authority levels.

The Managing Board of FIBank administers the general risk profile of the Bank so as to achieve an efficient balance of risk, return and capital.

Collective risk management bodies

For the purpose of managing various types of risks complying with the regulatory requirements of the Bulgarian National Bank, the Basel Committee recommendations and internationally established standards, the following collective management bodies operate at the head office of FIBank: the Credit Council, the Liquidity Council, and the Credit Committee.

The Credit Council administers the credit risk undertaken by the Bank by issuing opinions on loan transactions in accordance with the authority level assigned thereto. The Credit Council consists of seven members (of which at least five must attend its meetings) elected by the Managing Board. The Credit Council is chaired by the executive director responsible for the Risk Management Department, while the other members include the directors of the Legal, Corporate Banking, SME Lending and Branch Network departments.

The Liquidity Council oversees on an ongoing basis the Bank's assets, liabilities and liquidity. It conducts systemic analyses of the interest and maturity structure of assets and liabilities, and of liquidity indicators with a view to their optimisation. It comprises three members of the Managing Board, the head of the Liquidity Department, the Chief Dealer, and a representative of the Risk Management Department.

The Credit Committee is a specialised body for monitoring loans with indicators for impairment. It has five members elected by the Managing Board – representatives of the Legal, Corporate Banking, Risk Management, Finance and Accounting, and Impaired Assets and Provisioning departments. The Credit Committee members are employees of the Bank who are not directly involved in decision-making on the extension of loans. The Credit Committee monitors and analyses asset impairment and allowances both in general (portfolio level) and in terms of specific, individually significant exposures.

In addition to the collective management bodies, FIBank employs a specialised unit – the Risk Management department. The department exercises secondary control over risk exposures, monitors and assesses the Bank's risk profile, and is responsible for the implementation of the requirements related to risk assessment and capital adequacy.

Having regard to changes in the external environment the management of the Bank placed emphasis on conservative risk governance and took further measures to strengthen its resilience to the adverse effects of the global financial crisis. In 2009 the enforced limits were reviewed and centralised portfolio management was strengthened, the stress test scenarios and the internal capital adequacy assessment programme (ICAAP) were updated.

The primary mechanisms and tools for the management of different types of risk are summarised below:

Credit Risk

Credit risk is the risk arising from the debtor's inability to meet the requirements of a contract with the bank or inability to act in accordance with agreed terms. Credit risk is the major source of risk to the banking business and its effective assessment and management are crucial for the long-term success of credit institutions.

FIBank regularly updates its internal rules and procedures in view of optimising the process of timely detection, analysis and optimisation of risks. The Bank applies limits on all exposures to credit risk, including to individual customers / customer groups / counterparts, to types of instruments, industries et al.

Internal models for credit risk assessment based on statistical methods for processing and analysis of historical information, help assess the probability of default (PD) and loss on default (LGD) for certain classes of exposures that allows the calculation of risk-adjusted return. All credit risk exposures are controlled on an ongoing basis. FIBank requires collateral for credit risk exposures, including for contingent liabilities.

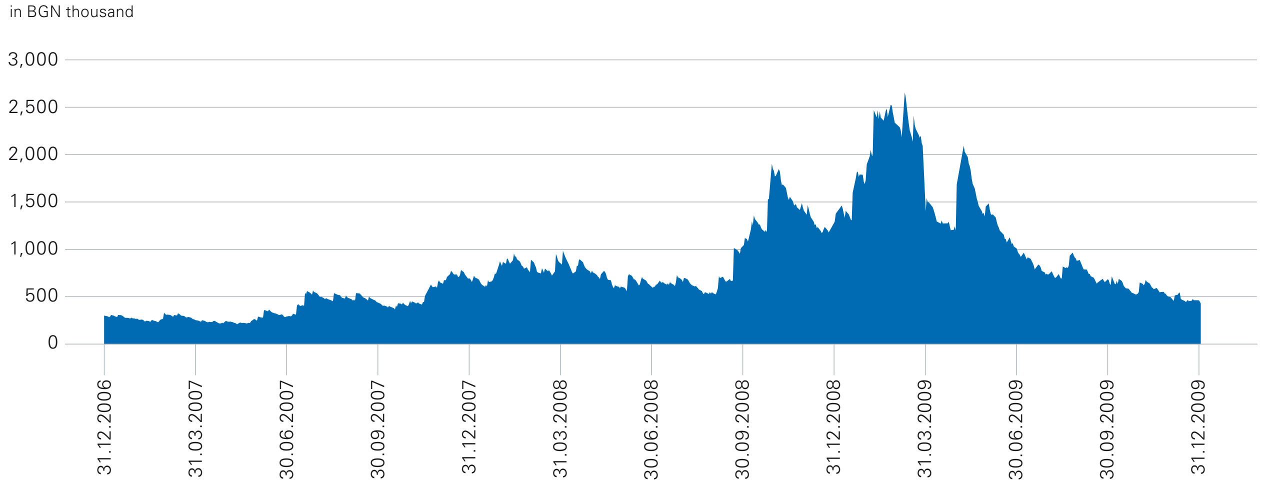
Market Risk

Market risk is the risk of losses due to changes in the price of financial instruments resulting from general risk factors not related to the specific characteristics of individual instruments, such as changes in interest rates, exchange rates and / or specific risk factors relating to the issuer.

Interest rate risk – the risk of change in the income of the Bank as a result of adverse changes in interest rates. FIBank manages interest rate risk in the banking book though written rules, limits and procedures aimed at reducing the mismatch between interest sensitive assets and liabilities. Interest rate risk in the banking book is measured using models that assess the impact of interest rate scenarios on the economic value of the Bank and on the net interest income for a one-year horizon. Evaluation of the impact on the economic value of the Bank is based on models of duration of interest-bearing assets and liabilities. The evaluation of the impact on net interest income is based on a maturity/repricing table of assets and liabilities and the estimated change in interest rates by classes of instruments following a change in market interest rates.

To manage interest rate risk of securities carried at fair value, FIBank applies VaR analysis (see infra), duration analysis and analysis of standardised interest rate shocks.

Chart 20: 1-day 99% interest rate VaR of instruments carried at fair value



Source: FIBank

Currency risk – the risk of loss resulting from an adverse change in exchange rates. FIBank controls this risk by limiting its open foreign exchange position to 2 per cent of its capital base. FIBank is also exposed to currency risk when effecting proprietary trading in foreign exchange. The volume of such trading operations is very limited, and is controlled through limits on open foreign currency positions and stop-loss limits on open positions.

Liquidity Risk

Liquidity risk originates from the funding of the banking business and in positions management. It includes the risk of failure to meet a payment when due, or failure to sell certain assets at a fair price and in the short term to meet an obligation.

FIBank manages liquidity risk through an internal system for monitoring and daily liquidity management, maintenance of sufficient amount of cash in view of the maturity and currency structure of assets and liabilities, monthly gap analysis of inflows and outflows, maintaining a low risk portfolio of assets to meet current liabilities, and operations on the interbank market. FIBank's policy on liquidity management is specified and pursued so as to ensure that the Bank can meet all obligations under external (systemic) or idiosyncratic stress.

Despite the stagnation in the international financial markets in the reporting year the Bank maintained adequate liquidity. As at 31 December 2009 the liquidity ratio was 19.79% (2008: 25.67%; 2007: 29.92%).

Operational Risk

In the context of the Basel II accord operational risk is the risk of loss resulting from inadequate or failed processes, people or systems, or from external events. In order to mitigate the risks arising from operational events FIBank applies written policies, rules and procedures that are based on the requirements laid down in Bulgarian and EU legislation and good banking practices.

The managing of operational risk is based on the following principles: not to assume unsound risk, strict compliance with the authority levels and applicable laws, active management of operational risk.

FIBank calculates the capital requirement for operational risk using the basic indicator approach. The Bank also maintains a system for the registration, tracking and control of operational incidents and near-misses that complies with Ordinance No.8 of the BNB. The Risk Management department defines and categorises operational events across event types and business lines inherent in banking; the department also defines the responsibilities of the employees tasked with data collection.

Risk-weighted Assets

Since January 1, 2007 FIBank has applied the standardised approach for the calculation of risk-weighted assets for credit risk under Basel II and the provisions of Ordinance No.8 of the BNB on the capital adequacy of credit institutions. Due to the limited volume of financial instruments in the trading book (bonds and other securities) capital requirements are calculated in accordance with the requirements of Ordinance No.8 of the BNB as applied to the banking book. The Bank applies the basic indicator approach for calculation of the capital requirement to cover the risk of operational losses.

Table 13: Risk-weighted assets

	Amount in BGN thousand			% change	
	2009	**2008**	**2007**	**2009/ 2008**	**2008/2007**
For credit risk	**3,166,229**	3,162,584	2,922,976	0.1	8.2
For market risk	**4,325**	3,250	3,341	33.1	(2.7)
For operational risk	**327,113**	259,025	190,651	26.3	35.9
Total risk-weighted assets	**3,497,667**	**3,424,859**	**3,116,968**	**2.1**	**9.9**

Source: FIBank

FIBank also calculates economic capital that will ensure its solvency and business continuity in adverse market conditions. For that purpose FIBank uses analytical tools and techniques, stress tests and forecasting models, which allow a more detailed assessment of the capital adequacy commensurate with the Bank's risk profile and current operating environment.

In 2010 FIBank will continue to develop its infrastructure to prepare for the introduction of an Internal Ratings Based approach in line with Basel II – a refinement of the rating models applied by the Bank, a statistical approach to risk assessment, and a centralised management of credit risk while maintaining flexibility and adaptability of the Bank to market needs.

For further information regarding risk management please refer to Note 3 in the CFS.

Distribution Channels

First Investment Bank uses various types of distribution channels for its products and services, which are developed and improved with the aim of best responding to the needs of its customers.

The Bank offers a balanced choice between visits to a bank office, the use of ATM and POS terminals, distant access to information and services through its own contact centre, and direct sales and internet banking.

Branch Network

The branch network is the basic channel for the distribution of the bank products and services of First Investment Bank.

Throughout the year the Bank undertook a policy of optimizing the effectiveness of the branch network. Six new offices were opened in bigger cities in Bulgaria (in Sofia, Plovdiv and Silistra) and six were closed in less busy locations in Bulgaria (in Targovishte, Vratsa, Pazardzhik, Dobrich and Pamporovo). The "Vitosha" branch in Sofia was reorganized into an office, structurally subordinated to the Head Office, while the office "Pernik" became a separate branch. In the reporting period one branch was closed in Albania, where FIBank has a subsidiary bank.

In October part of FIBank's Head Office was moved to a new modern building, situated on 81G, Bulgaria Blvd in Sofia with the aim of improving the working processes and optimizing and exploiting maintenance costs. The building is of a high energy-saving class, is distinguished with exceptionally secure communications, power supply and ergonomics, and complies with all standards for the effective activity of a modern banking institution.

Chart 21: FIBank's new Head Office in Sofia

Source: FIBank

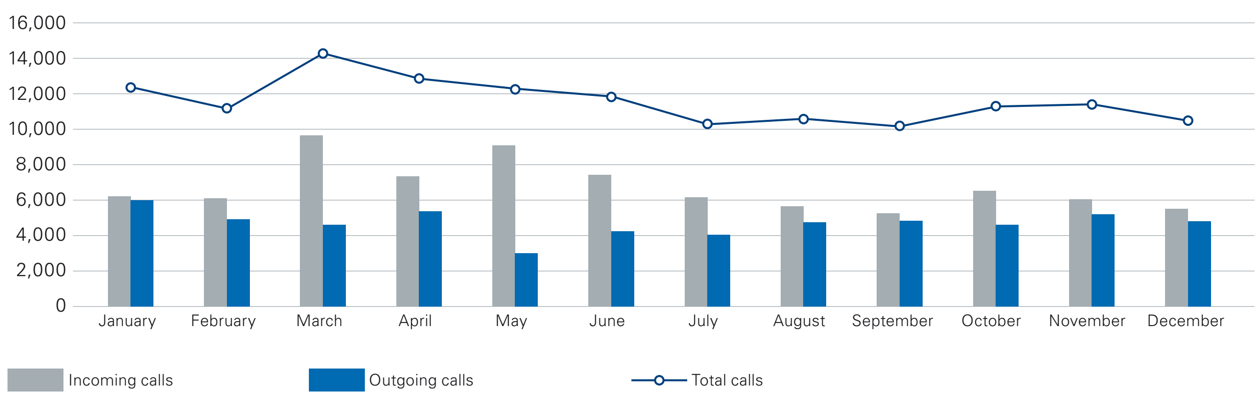
As at the end of the year the Group's branch network included a total of 170 branches and offices (2008: 171) – a Head Office, 49 offices in Sofia, 109 branches and offices in the rest of Bulgaria, one foreign branch in Nicosia, Cyprus, a Head Office of the subsidiary bank in Tirana and nine branches and offices in the rest of Albania.

Contact Centre – *bank (*2265), 0800 11 011

The importance of FIBank's Contact centre as an effective method for communication with customers and as an active channel for the sale of specific products and services increases in accordance with the increased needs of customers and the necessity of an adequate and prompt response to their growing demands.

During 2009 the Bank registered a 40% increase in incoming calls from customers compared to 2008. The Contact Centre serves over 6800 incoming calls on average per month, and maintains compliance with the international "golden" standard "80/20" for contact centres (80% of incoming calls must be answered within 20 seconds). It maintains intensive communication with present and potential customers by e-mail, and ensures the opportunity to send information by personal SMS messages upon request. The Contact Centre is also accessible by phone internet connection through the Bank's corporate web site – www.fibank.bg (through the "click to call" function).

Chart 22: Contact Centre Phone Calls in 2009



Source: FIBank

The Contact Centre's phones customers can apply for credit and debit cards, receive accurate and correct information on products and services and the Bank's terms and conditions and interest rates, on the branch network and bank offices' working time, as well as adequate and professional assistance from the Contact centre employees whenever questions or problems occur.

The Contact centre continued to conduct regular telemarketing and information campaigns with current or potential customers, as well as campaigns for assisting in the collection of overdue liabilities. The capacity for performing outgoing calls has increased steadily over the years and in 2009 it reached the ability to perform 60,000 – 100,000 outgoing phone calls per year.

Corporate Blog

The corporate blog of First Investment Bank was developed in May 2008 as an alternative channel for communication, aiming at an open dialogue with customers and partners in a simple form. It publicises a range of social and corporate initiatives, presents the employees of the Bank, and assesses the usage of products and services, through an open discussion and interactive inquiries. During 2009 the FIBank team that administers the platform and maintains the Bank's image on the Internet organized and participated in a few meetings with bloggers and opinion leaders in the Internet. First Investment Bank has a strong positive image in the Internet society, proof of which is the awards received by the Bank in this sphere throughout the year. FIBank maintains real-time communication with its customers and interested parties through all leading social networks – Facebook, Twitter, Youtube, Svejo.net.

Sales

Direct sales are another distribution channel used by the Bank for the offering of strategic products and services, as well as for providing complex banking service to institutional and corporate customers.

FIBank has its own distribution network of agents and provides services to the customer's offices.

Sales Department employees represent FIBank at trade fairs and exhibitions and actively take part in FIBank's promotional campaigns. The Department also contributes to the winning of new customers and to establishing long-term relations with key customers.

Virtual Banking Branch

First Investment Bank's electronic banking is designed for both individuals and companies ensuring a modern, fast, inexpensive and secure way for offering a wide range of products and services: information on account balance, opening deposit and current accounts in BGN and in foreign currency, initiating requests for direct debit, currency exchange, domestic and cross border payments, tax payments and others.

The Bank is a pioneer in this field and has successfully developed electronic banking for more than 8 years.

In 2009 FIBank migrated its Virtual banking branch to a new platform, renovating the design, and optimizing the user interface, aiming at better, easier and client–oriented functioning of electronic banking. The database was optimized as well by ensuring the opportunity for better analysis of the needs of the active customers.

During the reporting period FIBank continued to continuously work on the improvement of its products and services offered by the Virtual banking branch, as the process for registering and administering of the customers was improved and new functions were added.

As at the end of 2009 the number of registered accounts through the Virtual banking branch were around 59,000. The total number of operations was maintained at the 2008 level. The active customers of e-banking, which reached 27,000 as at the end of the reporting period, generated around 30% of the Bank's transfers.

The development plans for the Virtual banking branch include extension of the types of payments used and the means of access, aiming at the provision of even higher quality, modern and competitive service.

Information Technologies

The development of information technology is one of the main priorities of the activity of First Investment Bank. This is due to the necessity of providing a higher security level when performing bank operations, as well as to strive for first-class client service. The supply of more complex bank products and services requires constant development of the information systems of the Bank.

After the successful launch of the modules for bank services for individuals, corporate and investment banking of the Flexcube information system in 2008, FIBank continued to work actively throughout 2009 on the finalization of the second phase of the most extensive project in the field of information technologies. This was the implementation of the Reveleus module for the analysis of the profitability of business centres, clients and products, credit risk management and the application of the international framework for capital adequacy (Basel II). The new module will provide for better management of credit, market and operational risks through the standardized and automated application of the international framework for capital adequacy. With the implementation of the new functionality, the process of preparation of management, finance and accounting and regulatory reports will also be accelerated and facilitated.

As an institution which rapidly and effectively implements contemporary technologies, FIBank developed a new innovative service for its clients – “My FIBank”. This is part of the Ecological program of the Bank and provides its clients electronic statements on their current and deposit accounts and credit cards.

During the year the Bank prepared for accession and in February 2010 joined two new payment systems related to servicing clients’ orders in Euro:

- The Transeuropean Automated Real-time Gross settlement Express Transfer System (TARGET2) and
- The system for servicing of client transfers in Euro designated to be executed in a defined moment (BISERA-EUR), based on the rules, practices and standards of the Single Euro Payment Area (SEPA).

The experience gained and the successfully completed IT projects allow the Bank to standardize the processes of client service, while satisfying clients’ specific needs and providing improved products and services.

Corporate Governance

To First Investment Bank good corporate governance means reaching its strategic goals and attaining long-term sustainable results on behalf of its shareholders, lenders, employees, customers and the public in general.

FIBank’s governance has been set up on the basis of internationally recognised corporate governance standards effective in the European Union, as well as the National Corporate Governance Code, which is advisable for public companies in Bulgaria. FIBank is also managed in accordance with the effective legislation and the Bank’s statutes which provide for the shareholders’ rights, ownership registration, share transfer, as well as the regular preparation and presentation of information regarding the Bank’s financial position and corporate status. For establishing contemporary professional and ethical standards, required and applicable to the Bank as a business company, working environment and credit institution, FIBank has a Code of Conduct that determines the major principles, ethical norms and corporate values which underlie the policies and business plans, rules, procedures and daily operational work of the Bank. Being a bank operating in an EU member state, FIBank complies in its activities with European Parliament regulations and directives.

Throughout the years the Bank has worked systematically towards improving its policy for good corporate governance. In this respect, in 2009, in compliance with the requirements of the Independent Financial Audit Act and in its capacity as a public-interest entity, the General Meeting of Shareholders of FIBank elected a three-member Audit Committee of the Bank. The main functions and activities of the Audit Committee include the monitoring of the financial reporting process and the independent financial audit, as well as the effectiveness of the Bank's internal control systems and of the risk management systems. The Audit Committee recommends the choosing of the registered external auditor of the Bank and monitors its independence in accordance with the regulatory requirements and with the Code of Ethics of professional accountants.

FIBank's corporate governance is a system with clearly defined functions, rights and responsibilities at all levels: the General Meeting of Shareholders, the Supervisory Board, the Managing Board, and structures at the Head Office and the branches. First Investment Bank has a two-tier management system, comprising the Supervisory Board and the Managing Board.

The Supervisory Board does not participate directly in the Bank's management. The Supervisory Board elects and discharges members of the Managing Board, and approves the major strategic decisions of the Bank. In 2009 the Supervisory Board held 31 meetings.

The Managing Board carries out the management of the Bank by resolving all issues in its line of business, except those within the exclusive competence of the General Meeting of Shareholders or the Supervisory Board. The Managing Board of FIBank holds sessions every week.

The General Meeting of Shareholders of FIBank has the right to amend and supplement the Bank's statutes, to increase and reduce share capital and to transform and terminate the Bank. The General Meeting of Shareholders has competences to elect and dismiss the members of the Supervisory Board and the management of the Specialised Internal Audit Service (SIAS) of the Bank. In 2009 the General Meeting of Shareholders had two meetings – an Annual meeting and an Extraordinary meeting.

Being a public company and issuer of financial instruments, First Investment Bank complies with the principles of transparency, equality, accountability, and objectivity which constitute key elements of its Programme for the Implementation of Internationally Recognised Good Corporate Governance Standards. They are also at the heart of its business practice and facilitate the establishment and functioning of effective controls and risk management, timely compliance with legislative changes and the disclosure of information to the market. An essential part of it are the written rules and procedures for preventing conflicts of interests and the use of internal information, for preserving banking and commercial confidentiality, preventing money laundering, the financing of terrorism and financial malpractice.

The Bank prepares annual and semi-annual financial statements audited by an independent auditor, which are available free of charge in the Bank's branches and offices, as well as on FIBank's website: www.fibank.bg. Being a public company, the Bank also prepares interim quarterly activity reports, which are disclosed to the investment society through the Bulgarian Stock Exchange information system and available on the FIBank's website. In compliance with effective legislation requirements the Bank discloses additional 'ad hoc' information regarding important events in connection with its business activity.

During the reporting period FIBank met the requirements set in its Programme for the Implementation of Internationally Recognised Good Corporate Governance Standards, including the requirements for the regular disclosure of information and such information in connection with its financial calendar for 2009.

Human Capital

FIBank's policy for personnel management is oriented towards achieving long-term compliance between the personal goals of employees and the goals of the institution as a whole (the fulfillment of FIBank's goals and strategy); binding remuneration motives with stability of the results achieved; and recognition of the Bank as a preferable working place for employees. This policy is based on the principles of rationality, transparency and avoiding conflict of interests, keeping documentation, and objectivity.

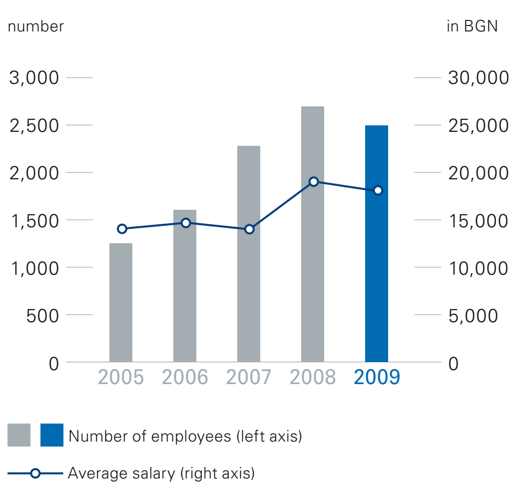
Training and the raising of employees' qualifications with an accent laid on the improvement of skills for servicing customers and effective internal cooperation are among the priority tasks set in the policy.

In 2009 more than 45% of the Bank's personnel took part in different forms of training (internal trainings, seminars, conferences – in Bulgaria and abroad) including programs for improving skills for working with customers.

FIBank's policy concerning remunerations is in line with its goals – to be competitive in the attraction and retention of the best professionals, to differentiate the levels of responsibilities, to be flexible enough to respond to market changes and to motivate and encourage excellent employee performance, to correspond to the effective risk management, and not to allow excessive taking of risk.

As a means for sustaining a high standard of working performance a renewed system for assessing personnel was implemented during the year, based on updated criteria. This further developed feedback from employees, furthered the support and stimulation of key employees with potential, as well as building an individual plan for the development of performance at work.

Chart 23: Human resources



Source: FIBank

As at 31 December 2009 the total number of employees reached 2,486, a decrease of 7.5% y/o/y (2008: 2,689; 2007: 2,289).

Charity

For a second consecutive year First Investment Bank proved its public involvement by taking part in different charity and social initiatives. The values of the Bank are responsibility, transparency and assistance in important social problems.

In 2009 the Bank continued its participation in the "Social Responsibility" fund of the "Workshop for Civil Initiatives" foundation and in this way for the fifth consecutive year proved that corporate charity is possible despite the strained economic situation. FiBank supported different initiatives with a social, educational, sports and cultural purpose.

Since 2004 FIBank has invested more than BGN 200 000 in the development of abilities for an independent life for children deprived of parental care. Since 2006 FIBank has donated more than BGN 3.4 million in support of other public initiatives (sport, culture, health services).

The basic activities of the Bank in the sphere of corporate and social responsibility are related to improving the life of different communities, as well as supporting important causes for the development of society. FIBank takes part in creating conditions and abilities for disabled children and building of social involvement among the employees of the Bank.

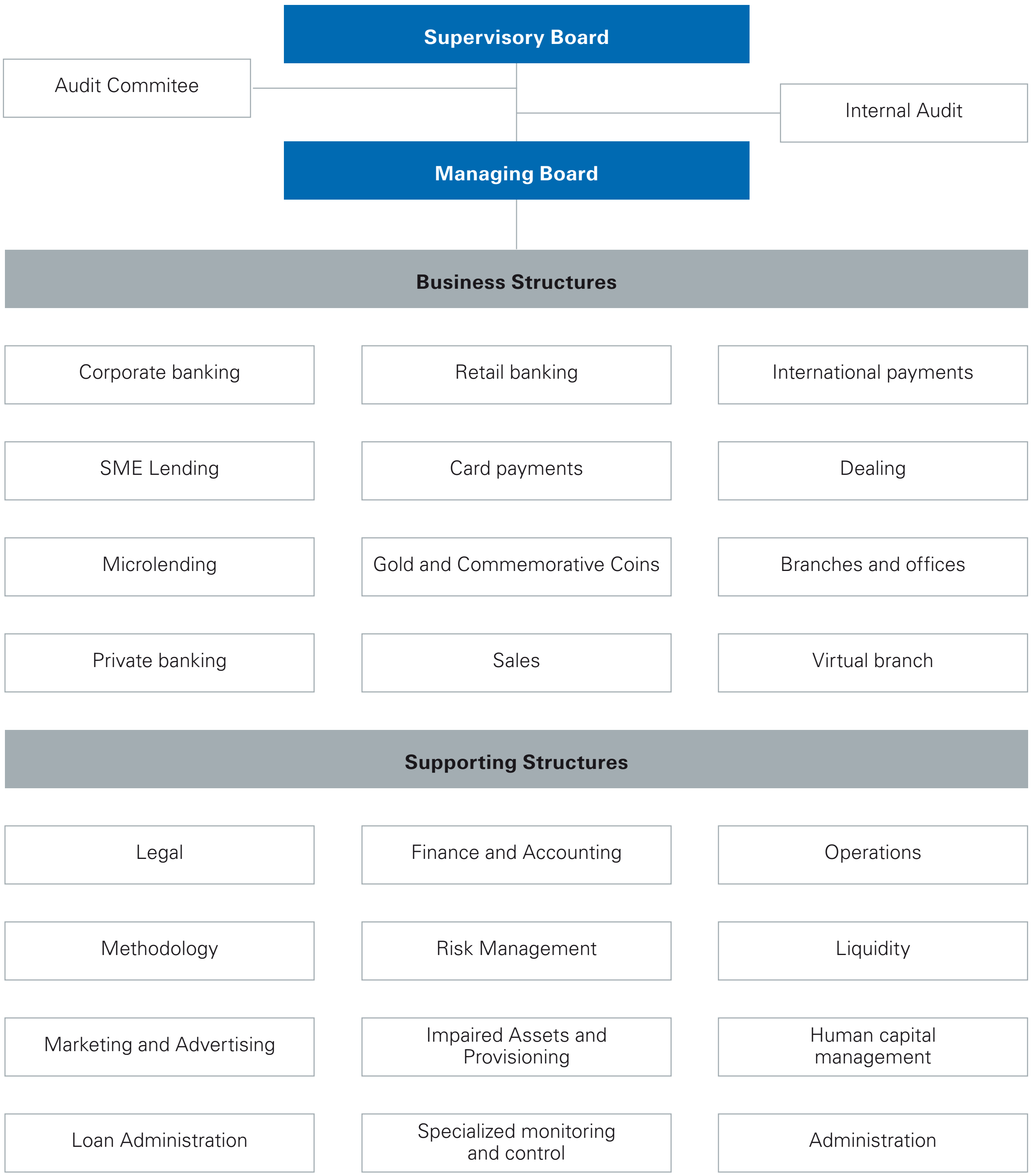
Being a general sponsor of the Bulgarian Olympic Committee FIBank pays special attention to projects directed at sports and physical activity and supports different initiatives aiming to improve the physical culture especially of children and youths in different ways – financial support or material awards.

An appraisal of First Investment Bank's actions during the year was the winning of three awards in connection twith the social engagement of the Bank:

- FIBank took the award "The most generous company" of the "Bulgarian Donation Forum" and the "Corporate Donors Club" – adjudged to the Bank with the highest percentage of the profit used for charity and donations (1.4%).
- The Bank was given first place in "The biggest volume of financial donations" category – awarded to the Bank for donations at the amounting to BGN 783 400.
- FIBank won third place in "The biggest donation of employees' voluntary work" category.

Business Structure

Chart 24: Business structure of First Investment Bank



Source: FIBank

Supervisory Board

Georgi Dimitrov Mutafchiev	Chairman of the Supervisory Board
Radka Vesselinova Mineva	Member of the Supervisory Board
Todor Ludmilov Breshkov	Member of the Supervisory Board
Nedelcho Vassilev Nedelchev	Member of the Supervisory Board
Kaloyan Yonchev Ninov	Member of the Supervisory Board

There were no changes in the Supervisory Board in 2009.

As at 31 December 2009 the members of the Supervisory Board held a total of 98,374 FIBank shares and none of them owned more than 1% of the registered capital.

The business address of all Supervisory Board members is
37, Dragan Tsankov Blvd., 1797 Sofia.

Managing Board

Matthew Alexandrov Mateev	Executive Director, Chairman of the Managing Board
Maya Lubenova Georgieva	Executive Director
Jordan Velichkov Skortchev	Executive Director
Evgeni Krastev Lukanov	Executive Director
Maya Ivanova Oyfalosh	Director "Corporate Banking"
Radoslav Todorov Milenkov	Chief Financial Officer
Ivan Stefanov Ivanov	Regional Director "Northeast Bulgaria"

There were no changes in the Managing Board in 2009.

As at 31 December 2009 the members of the Managing Board held a total of 292,493 FIBank shares and none of them owned more than 1% of the registered capital.

In 2009 the key management personnel of the Group received remuneration amounting to BGN 3,057 thousand.

The business address of all Managing Board members is
37, Dragan Tsankov Blvd., 1797 Sofia.

Investor Relations Director

Vassilka Momchilova Stamatova	Investor Relations Director

The business address of the Investor Relations Director is
37, Dragan Tsankov Blvd., 1797 Sofia,
tel. +359 2/ 81 71 430,
e-mail: vstamatova@fibank.bg

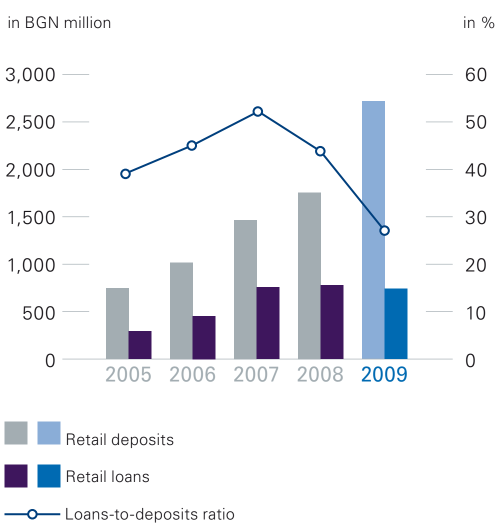
Business Overview

Retail Banking

Deposits

Attracted funds from individuals and households in 2009 increased by BGN 955,647 thousand (54.5%) and amounted to BGN 2,709,208 thousand forming the majority of attracted funds of the Group with 81.1% (2008: 61.4%; 2007: 58.8%). This growth was due to the new promotional deposit products offered by the Group, as well as to increased demand for low-risk saving instruments by individuals.

Chart 25: Deposits and loans to individuals



Source: FIBank

New promotional three-month and six-month deposit accounts – "Golden Deposit", "St.George's Day", "Super Deposit", "Deposit Super G – 2009-2010 Season" were offered with a choice of BGN or Euro. A new flexible deposit product – "Easter deposit 3+3+3" with increasing interest for every successive three-month period was introduced.

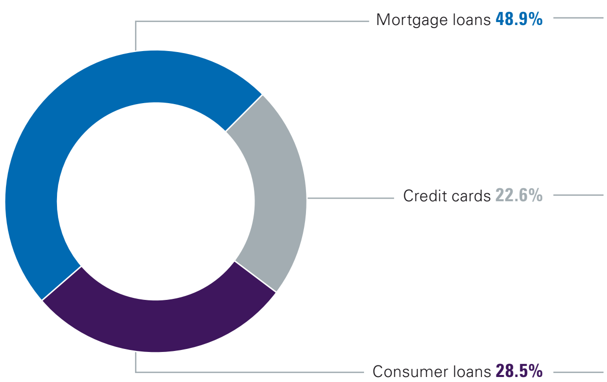
As at the end of 2009 the term deposits from individuals and households increased their relative share in the structure of deposits to 71.6% (BGN 2,389,561 thousand) compared to 47.5% (BGN 1,355,671 thousand) a year earlier. Current accounts amounted to BGN 319,647 thousand (2008: BGN 397,890 thousand; 2007: BGN 465,621 thousand).

As at 31 December 2009 FIBank improved its market position in terms of deposits from individuals and households and ranked third (on an unconsolidated basis) among banks in the country according to this indicator (2008: sixth place)

Loans

As at the end of 2009 loans to individuals amounted to BGN 737,917 thousand, or BGN 33,045 thousand (4.3%) less than the previous year. The decrease was due to the heightened solvency requirements for borrowers, a result of the more conservative risk management policy undertaken by the Bank, as well as to the lower demand for loan products due to the uncertain external environment.

Chart 26: Loans to individuals



Source: FIBank

The greatest decrease was registered for mortgage loans – BGN 19,360 thousand (5.1%), followed by consumer loans – BGN 19,524 thousand (8.5%) which amounted to BGN 360,781 and BGN 210,334 thousand respectively as at 31 December 2009. There was an increase in utilized credit limits on credit cards and overdrafts – with BGN 5,839 thousand (3.6%), reaching BGN 166,802 thousand. This reflected the variety of card products and services offered by FIBank.

The structure of the loan portfolio was retained. Mortgage loans formed 48.9% (2008: 49.3%; 2007: 51.6%) of the loans to private individuals and households, consumer loans were at 28.5% (2008: 29.8%; 2007: 36.7%) and credit cards at 22.6% (2008: 20.9%; 2007: 11.7%).

As at the end of 2009 FIBank ranked seventh in terms of consumer loans and eighth in terms of mortgage loans among the banks in the country.

New credit products responding to the changed business environment were developed during the period. A new consumer loan "Friend" with a maximum amount of BGN 30 thousand and a seven year repayment period was offered.

FIBank continued to stay close to its customers and in 2009 developed a special program for optimizing the personal finances of individual customers in a time when they need this the most.

Card Payments

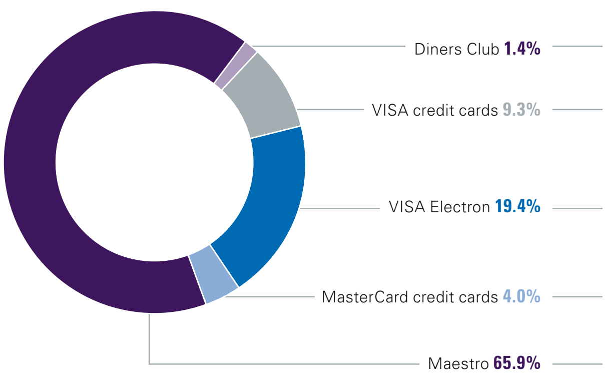
During the year FIBank strengthened its traditionally strong position in the card payment business, continuing to develop its products and services, emphasizing security and functionality.

Market shares were retained – 12.4% of credit cards and 10.2% of debit cards on an unconsolidated basis in Bulgaria.

A new product – the international debit card V PAY, entirely based on chip technology with identification through a PIN code for every transaction, was offered to card holders. All electronic transactions with the new card are 100% authorized by the Bank in its capacity as a card issuer.

FIBank developed a new service– 'cash back' – providing card holders (VISA credit card, VISA Electron and V PAY debit card) the facility for cash withdrawal of up to BGN 50 from POS terminals in Bulgaria at specific locations such as supermarkets and gas stations. The service is also provided to traders of FIBank, giving them the chance to increase their turnover and to decrease the costs for servicing cash balances at trade outlets.

Chart 27: Bank cards for 2009



Source: FIBank

For the convenience of customers at the end of 2009 the Bank began issuing an additional credit card to the one already issued with a common credit limit and a single account.

The bank card structure was retained during the year, as 85.3% (2008: 83.2%) of all issued cards were debit cards (Maestro and VISA Electron) and 14.7% (2008: 16.8%) were credit cards (VISA and MasterCard and Diners Club). In October Diners Club Bulgaria implemented a new card system, developed after the system of the Austrian Diners Club Franchise.

During 2009 the number of POS terminals was net increased by more than 330, reaching almost 8000 in the conditions of an economic crisis when many trade outlets were closed and their work ceased. The ATM terminals network of the Bank increased by 13 devices, reaching a total of 669. This was the result of attractive terms and flexible schemes for POS commission pricing, as well as the increasing number of issued cards and people's increasing need for card usage.

FIBank continued to focus on the maintenance of a reliable IT infrastructure for card payments providing customers with permanent control, higher effectiveness and continuous improvement.

Gold and Commemorative Coins

In 2009 FIBank preserved its leading position among the trade banks in the country in terms of offering intermediary services for trade with investment in gold and other precious metals.

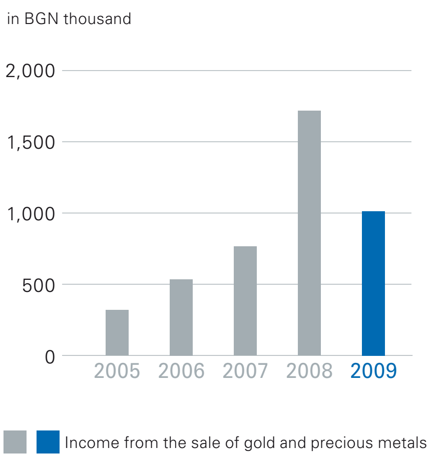
In May 2009 FIBank became the first and only bank in Bulgaria which started offering the sale and repurchase of investment diamonds. The new service is appropriate for customers who are looking for a universal, near liquid and safe investment which keeps its value in long term, stabilizes the different investment portfolios against risks and inflation and is preferred in conditions of crisis and an uncertain financial environment.

The Bank continued its successful cooperation with the New Zealand Mint and during the year began the distribution of two new silver coins dedicated to the Year of the Ox and a new exclusive collection series of silver coins "Panagyursko sakrovishte".

This collection series is the result of a unique cooperation between three prominent but different institutions: one financial, one cultural and the other international/numismatic. It was created after the idea of First Investment Bank and the Regional Archeological Museum of Plovdiv and the design and the manufacturing of the coins were done by the New Zealand Mint. For the first time motives from Bulgarian cultural heritage were inlaid on coins with a foreign nominal value.

For customers preferring medallion-shaped bars the Bank offered a new series of "FORS-Talismans" manufactured by the prestigious Swiss mint PAMP which is officially represented in Bulgaria by FIBank. Within this series palladium products of the highest quality were distributed on the Bulgarian market for the first time.

Chart 28: Income from the sale of gold and precious metals



Source: FIBank

In 2009 the total income from the sale of investment gold and precious metals articles reached BGN 1,015 thousand, compared to BGN 1,732 thousand a year earlier.

First Investment Bank has been offering products of investment gold and other precious metals to its customers since 2001 and during the years has laid the foundations for joint cooperation with leading financial institutions around the globe, such as the world famous Swiss mint PAMP (Produits Artistiques de Métaux Précieux), the New Zealand Mint, the Mexican National Bank, the Austrian Mint and others.

Transactions with articles of gold and precious metals are subject to strict observance by the Bank of the quality criteria of the London Metal Exchange and international ethical trading standards.

Private Banking

In 2009 First Investment Bank continued to develop its private banking, offering individual attendance by a private contact person who is responsible for the entire servicing of a customer, as well as a joint working team to perform more complex banking services. This banking is offered in the branches and offices of FIBank, as well as by visiting the customer's office.

Private banking is offered to individuals and legal entities matching a number of criteria, such as: a definite amount of collections and turnover on accounts with the Bank on a monthly basis and also use of a minimum number of products and services of the Bank.

Corporate Banking

Deposits

Attracted funds from corporate, state-owned and public institutions as at the end of 2009 amounted to BGN 630,338 thousand, a BGN 471,428 thousand (42.8%) less than the previous year. The decline was mainly a result of low cash flows, including the loan resources and the heightened capital needs of companies.

As at 31.12.2009 term deposits formed 52.6% (2008: 61.6%; 2007: 38.7%) of deposits from corporate, state-owned and public institutions and current accounts formed 47.4% (2008: 38.4%; 2007: 61.3%).

Loans

Corporate Lending

As at the end of 2009 loans granted to corporate clients amounted to BGN 2,301,746 thousand, BGN 34,975 thousand more than 2008. There was a growth of BGN 94,820 thousand during the reporting period in loans to large corporate clients who have long-term relations with the Bank.

The Bank continued to support its loyal customers. During the year FIBank offered a new flexible loan product "BG Loan" for customers who have their business in Bulgaria giving them personal choice (in terms of reschedule plan, type of currency etc.) according to their particular business needs

Table 14: Structure of corporate lending by types of customer

In BGN thousand/% of total	2009	%	2008	%	2007	%
Small and medium enterprises	219,053	9.5	267,158	11.8	270,565	12.9
Microlending	29,456	1.3	41,196	1.8	43,476	2.1
Corporate customers	2,053,237	89.2	1,958,417	86.4	1,777, 624	85.0
Total corporate loans	**2,301,746**	**100.0**	**2,266,771**	**100.0**	**2,091,665**	**100.0**

Source: FIBank

The structure of the corporate loan portfolio remained unchanged with loans to large corporate clients still dominating the total portfolio with 89.2% (2008: 86.4%); 2007: 85.0%) followed by loans to SMEs at 9.5% (2008: 11.8%; 2007: 12.9%) and loans for microlending at 1.3% (2008: 1.8%; 2007: 2.1%).

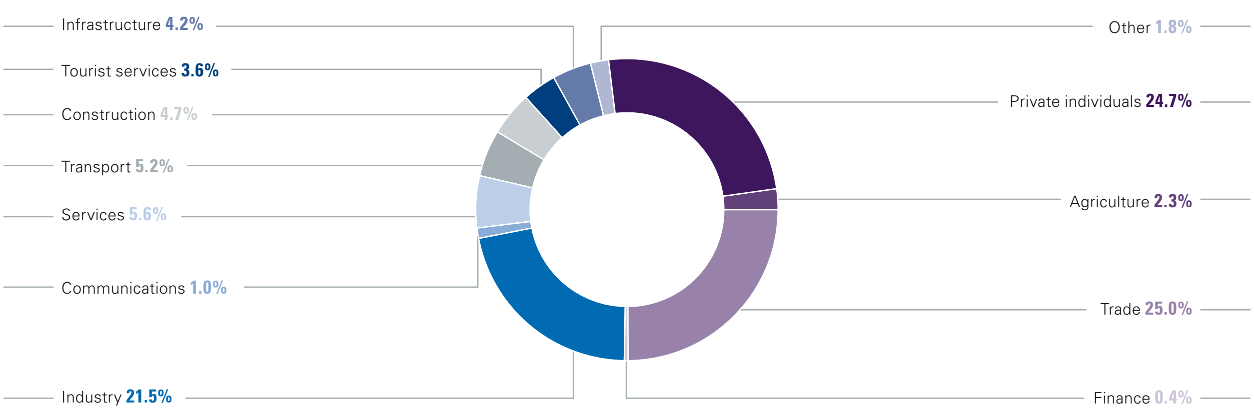
The market position of the Bank improved during the year and as at 31.12.2009 FIBank ranked fifth on an unconsolidated basis in terms of corporate loans among the banks in the country (2008: sixth place).

In 2009 the structure of the Bank's exposures to separate economic sectors was retained and an increase of the extended loans was reported for the trade sector exposures – an increase of BGN 109,670 thousand to BGN 758,855 thousand (25.0% of the total loan portfolio).

As a result of the pro-active government policy for development of infrastructure within the country, loans in this sector also rose by BGN 19,879 thousand reaching BGN 126,091 thousand (4.1% of the total portfolio) and loans to the construction sector increased by BGN 9,051 thousand to reach BGN 157,317 thousand (5.2% of the total portfolio).

Following the common market tendency and the recession in the country loans to industry decreased to BGN 652,808 thousand (2008: BGN 708,836 thousand; 2007: BGN 709,331 thousand), loans to services decreased to BGN 171,282 thousand (2008: BGN 187,411 thousand; 2007: BGN 222,270 thousand) and loans to construction to BGN 143,110 thousand (2008: BGN 145,293 thousand; 2007: BGN 110,511 thousand).

Chart 29: Structure of loan portfolio by type of industry as at 31.12.2009



Source: FIBank

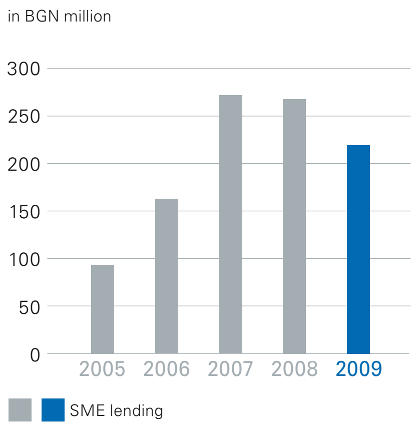
In November 2009 FIBank signed an agreement for a long-term partnership with the Export-Import Bank of China under which the two financial institutions will jointly take part in financing economic projects of mutual interest in Bulgaria, China and third countries.

SME Lending

In 2009 First Investment Bank continued to provide financing to its customers which are small and medium enterprises by optimizing its credit activity in accordance with new market conditions.

As a result of higher solvency requirements to borrowers and improved risk management controls the small and medium enterprises loan portfolio was decreased to BGN 219,053 thousand, compared to BGN 267,158 thousand a year earlier (2007: BGN 270,565 thousand).

Chart 30: Loan portfolio – small and medium enterprises



Source: FIBank

In 2009 the Bank offered more actively to SMEs the issuance of bank guarantees and letters of credit which substitute to a great extent the need for turnover lending and gave to companies the possibility to optimize their interest expenses.

During the period FIBank continued to offer long-term investment loans under the credit line for financing of small and medium enterprises negotiated in 2008 with the German investment bank KfW. The loans extended are at the amount of EUR 250,000 thousand and have different investment purpose – the purchase and repair of outlet and office areas, machines and equipment, vehicles and cultivated agricultural land, agricultural equipment etc.

The Bank continued to financially support companies-beneficiaries in the process of the utilization of EU structural funds such as the European Agricultural Fund. During 2009 FIBank granted loans for the realization of projects which were approved for financial support under the Rural Regions Development Program, the operative program "Human Resources Development" and the operative program "Competitiveness of the Bulgarian Economy". Some of this was connective financing with a grace period for servicing the principal consistent with the term for conclusion of the investment and the repayment of financial aid.

In due time financing was granted to agricultural producers on the basis of the subsidy due for 2009 based on the Single Area Payment Scheme (SAPS).

During the year FIBank signed an agreement with the National Guarantee Fund for providing guarantees to 50% of the loans extended to companies with a business history and to companies with less market experience. The signed agreement for portfolio guarantee with the National Guarantee Fund as well as the effective agreements with the Bulgarian Agency for Export Insurance and with Municipal Guarantee Funds for SMEs considerably ease the using of credit facilities by FIBank especially for start-up companies or those with insufficient collateral by value.

Microlending

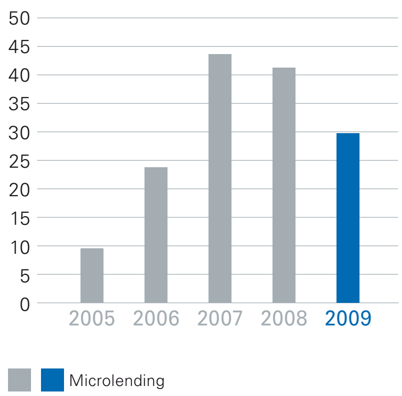
Since 2005 First Investment Bank has developed its own program for Microlending including the financing of a wide spectrum of traders, producers, farmers and freelancers, including start-up companies and companies with less market experience.

In order to assist borrowers and to contribute to their growth in business the Bank has developed an adequate range of banking services specific for this segment of clients – loans, overdrafts, cards, specialized products, professional consultations.

During 2009 FIBank negotiated a new credit line from the Bulgarian Development Bank for the financing of farmers and agricultural producers, customers of the Bank at the amount of BGN 5 million.

Chart 31: Loan portfolio – microlending

in BGN million



Source: FIBank

As at the end of 2009 the microlending portfolio amounted to BGN 29,456 thousand, compared to BGN 41,196 thousand a year earlier (2007: BGN 43,476 thousand). The decline was a result of the lower business activity of companies in the country, as well as the heightened requirements in terms of credit risk and solvency which are specific for this type of banking.

Payment Transactions

Effective from 1 November 2009, the Bank's activity related to remittances and other payment services has been harmonized to the regulatory frame of the European Community (Payment Services Directive). This came into force in Bulgarian legislation with the Law on Payment services and Payment Systems and Ordinance № 3 of the Conditions and Procedure for the Execution of Payment Transactions and for the Use of Payment Instruments of BNB. The new order is in compliance with contemporary European tendencies for the establishment of the single European market for payment services for the improvement of customers' information and their protection when using payment services.

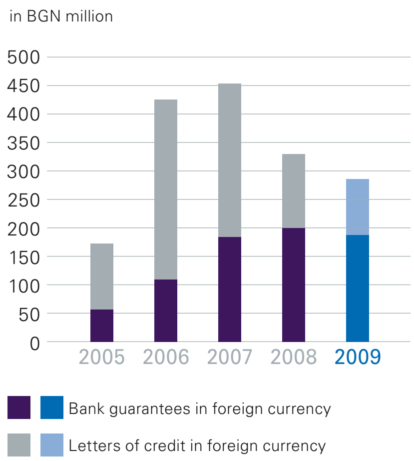
FIBank is a member and participant in the payment systems and agent of other payment service providers, as follows:

- Bank Integrated system for electronic transactions (BISERA);
- Real-Time Gross Settlement System (RINGS);
- System for servicing of clients transfers in Euro (BISERA7-EUR);
- Single Euro Payments Area (SEPA);
- Trans-European Automated Real-Time Gross Settlement Express Transfer System (TARGET2);
- Bank Organization for servicing Payments by Bank Cards (BORIKA);
- MoneyGram Agent;
- Express-M Agent;
- EasyPay (domestic money transfers) Agent.

International Payments

During 2009, FIBank retained its reputation as a preferred, reliable and correct partner in international payments and trade finance. The Bank reported better market shares during the year in terms of incoming (9.67% in 2009 compared to 8.64% in 2008) and outgoing (8.82% in 2009 compared to 8.31% in 2008) trade finance operations, as well as of the incoming foreign currency international payments (6.81% in 2009 compared to 6.57% in 2008). The increase in these market shares was achieved in an environment that is strongly influenced by the world financial crisis and the decrease of foreign investments in the country. A decrease in market share, but retained market positions of the Bank are reported in terms of outgoing transfers in foreign currency (5.37% in 2009 compared 6.11% in 2008) as a result of decreased import of raw materials, which is connected to the decreased orders for Bulgarian exports in the EU, Middle East, Russia and other regions, affected by the global crisis, and as a consequence of decreased demand and the shrinking trade volumes of companies.

Chart 32: Bank guarantees and letters of credit in foreign currency



Source: FIBank

At the end of 2009 as a result of the world financial crisis and decreased trade volumes in the country, bank guarantees and letters of credits in foreign currency reported a decrease of 13.4% compared to 2008 and amounted to BGN 283,947 thousand (2008:BGN 327,989 thousand; 2007: BGN 450,106 thousand).

During 2009 FIBank continued its traditional active policy in the field of long-term trade finance connected with the import of investment goods with insurance coverage. Export insurance was by the Export-Import Bank of USA, SACE, Euler Hermes and others. At the end of 2009 FIBank signed agreement with Ceskoslovenska Obhodna Banka a.s., Bratislava with coverage from the Export-Import Bank of the Slovak Republic, for five-year financing in connection with the purchase of equipment.

During April 2009 FIBank carried out trade finance for USD 10.7 million for up to three years of the program “GSM-102” as the only Bulgarian bank approved in the region of the South East Balkans (Bulgaria, Romania, Republic of Macedonia, Albania, and Moldavia). The program was supported by the Agriculture Department of USA and facilitated operations for the trade finance of American exported agricultural goods.

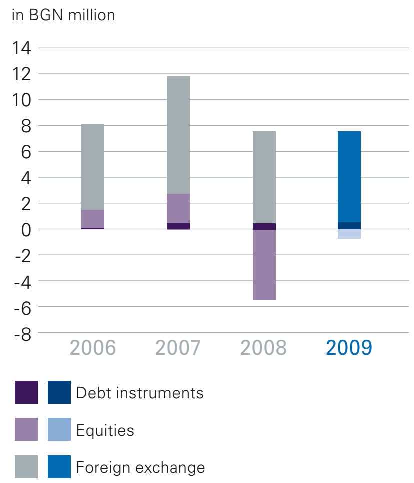
The guarantee mechanism “GSM-102” supports customers of the Bank and especially companies exporting American agricultural production in the countries of the South East Balkans to receive financing from American banks through FIBank.

Capital Markets

In 2009 the net trading income increased by BGN 6,063 thousand and reached BGN 10,321 thousand. There was an increase in minimized net expenses from equities (from BGN 5298 thousand during 2008 to BGN 665 thousand during 2009), a consequence of the effective management of the loan portfolio of financial instruments and higher attention to risks.

During the period FIBank reported an increase in trading income connected with changes of foreign exchange, reaching BGN 10,378 thousand, BGN 9,036 a year earlier.

Chart 33: Trading income



Source: FIBank

Net income from debt instruments reported an increase of BGN 88 thousand to BGN 608 thousand.

During the year FIBank applied a conservative approach to managing the financial instruments portfolio, investing mainly in Bulgarian Government Bonds, Bonds issued by OECD, as well as in bonds issued by foreign banks with a rating of "AAA" with the aim to optimizing profitability supporting a stable liquidity position.

At the end of the year the financial assets held for trading amounted to BGN 9,023 thousand (2008: BGN 9,681 thousand), available for sale investments reached BGN 285,110 thousand (2008: BGN 286,623 thousand), and investment held to maturity stood at BGN 35,425 thousand (2008: BGN 62,395 thousand).

In its capacity as an investment intermediary and a primary dealer of government securities, First Investment Bank carries out transactions with financial instruments in the country and abroad including transactions with government securities, shares, corporate and municipal bonds, compensatory instruments as well as primary money market instruments.

FIBank offers units in three mutual funds: FIB Garant Mutual Fund, FIB Classic Mutual Fund and FIB Avangard Mutual Fund, managed by the management company FFBH Asset Management AD.

FIBank offers also depositary and custodian services to private individuals and corporates, including maintaining of registers of investment intermediaries, of accounts of securities, income payments and servicing payments under transactions in financial instruments.

FIBank's activities are in compliance with MiFID regulation in accordance with the Markets in Financial Instruments Act and Ordinance №38 of the Financial Supervision Commission, which ensure a higher level of protection for the non-professional customers. The Bank has a unit for the control of investment services and activities, which ensures the observing of new regulation regarding the activity of FIBank as an investment intermediary.

Consolidated Financial Statements as at 31 December 2009 with Independent Auditor's Report Thereon

KPMG

Report of the independent auditor to the shareholders of First Investment Bank AD

Sofia. 6 April 2010

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of First Investment Bank AD ("the Bank"), which comprise the consolidated statement of financial position as at 31 December 2009. and the consolidated statements 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 consolidated financial statements in accordance with International Financial Reporting Standards, adopted by European Commission. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements. whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

Opinion

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

Gilbert McCaul
Partner,

KPMG Bulgaria OOD
45/A Bulgaria Blvd.
1404 Sofia
Bulgaria

СПЕЦИАЛИЗИРАНО ОДИТОРСКО ПРЕДПРИЯТИЕ
София
Рег. №045
"КПМГ - България" ООД

Margarita Goleva
Registered auditor

0202 Маргарита Голева
Регистриран одитор

Consolidated statement of comprehensive income for the year ended 31 December 2009

In thousands of BGN	Note	2009	2008
Interest income		**362,878**	335,937
Interest expense		**(234,728)**	(188,428)
Net interest income	**6**	**128,150**	**147,509**
Fee and commission income		**58,739**	72,816
Fee and commission expense		**(7,875)**	(9,433)
Net fee and commission income	**7**	**50,864**	**63,383**
Net trading income	**8**	**10,321**	**4,258**
Other operating income/(expenses)	**9**	**615**	**(1,519)**
TOTAL INCOME FROM BANKING OPERATIONS		**189,950**	**213,631**
General administrative expenses	10	**(144,358)**	(156,169)
Impairment (losses)/loss reversals	11	**(10,965)**	1,109
Other expenses, net		**(378)**	(4,231)
PROFIT BEFORE TAX		**34,249**	**54,340**
Income tax expense	**12**	**(4,453)**	**(5,170)**
GROUP PROFIT AFTER TAX		**29,796**	**49,170**
Other comprehensive income			
Exchange differences on translating foreign operations		**(1,816)**	(298)
Available for sale financial assets		**6,321**	(6,117)
Other comprehensive income for the period		**4,505**	**(6,415)**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**34,301**	**42,755**
Profit attributable to:			
Owners of the Bank		**30,013**	49,237
Minority interests		**(217)**	(67)
Total comprehensive income attributable to:			
Owners of the Bank		**34,518**	42,822
Minority interests		**(217)**	(67)
Basic and diluted earnings per share (in BGN)	**13**	**0.27**	**0.45**

The statement of comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 66 to 103.

Gilbert McCaul
Partner
KPMG Bulgaria OOD

СПЕЦИАЛИЗИРАНО ОДИТОРСКО ПРЕДПРИЯТИЕ
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Margarita Goleva
Registered auditor

0202 Маргарита Голева
Регистриран одитор

Consolidated statement of financial position as at 31 December 2009

In thousands of BGN	Note	2009	2008
ASSETS			
Cash and balances with central banks	14	**603,792**	742,284
Financial assets held for trading	15	**9,023**	9,681
Available for sale investments	16	**285,110**	286,623
Financial assets held to maturity	17	**35,425**	62,395
Loans and advances to banks and financial institutions	18	**26,187**	10,244
Loans and advances to customers	19	**2,966,461**	2,969,984
Property and equipment	20	**131,793**	153,359
Intangible assets	21	**18,543**	5,631
Derivative assets held for risk management		**–**	274
Other assets	23	**35,950**	30,276
TOTAL ASSETS		**4,112,284**	**4,270,751**
LIABILITIES AND CAPITAL			
Due to credit institutions	24	**7,650**	53,034
Due to other customers	25	**3,339,546**	2,855,327
Liabilities evidenced by paper	26	**193,363**	832,620
Subordinated term debt	27	**60,641**	53,852
Perpetual debt	28	**98,952**	98,658
Deferred tax liability	22	**1,944**	1,729
Derivative liabilities held for risk management		**248**	1,336
Other liabilities	29	**6,905**	5,461
TOTAL LIABILITIES		**3,709,249**	**3,902,017**
Issued share capital	31	**110,000**	110,000
Share premium	31	**97,000**	97,000
Statutory reserve	31	**39,861**	39,861
Revaluation reserve on available for sale investments	31	**(146)**	(6,467)
Reserve from translation of foreign operations	31	**(2,629)**	(813)
Retained earnings	31	**158,857**	129,095
SHAREHOLDERS' EQUITY		**402,943**	**368,676**
Minority interests	31	**92**	58
TOTAL GROUP EQUITY		**403,035**	**368,734**
TOTAL LIABILITIES AND GROUP EQUITY		**4,112,284**	**4,270,751**

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 66 to 103.

Gilbert McCaul
Partner
KPMG Bulgaria OOD

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Регистриран одитор

Consolidated statement of cash flows for the year ended 31 December 2009

In thousands of BGN	2009	2008
Net cash flow from operating activities		
Profit for the period	**29,796**	49,170
Adjustment for non-cash items		
Impairment losses/(loss reversals), loans to customers	**7,927**	(1,109)
Impairment losses, available for sale investments	**3,038**	–
Depreciation and amortisation	**18,732**	17,477
Income tax expense	**4,453**	5,170
(Profit)/loss from sale and derecognition of tangible and intangible fixed assets, net	**(5,912)**	319
	58,034	**71,027**
Change in operating assets		
Decrease in financial instruments held for trading	**658**	3,848
Decrease in available for sale investments	**4,796**	81,463
(Increase) in loans and advances to banks and financial institutions	**(17,701)**	(22)
(Increase) in loans to customers	**(4,404)**	(190,752)
(Increase) in other assets	**(5,400)**	(11,561)
	(22,051)	**(117,024)**
Change in operating liabilities		
Increase/(decrease) in deposits from banks	**(45,384)**	49,839
Increase in amounts owed to other depositors	**484,219**	380,188
Net increase/(decrease) in other liabilities	**(1,376)**	921
	437,459	**430,948**
Income tax paid	**(4,322)**	(7,423)
NET CASH FLOW FROM OPERATING ACTIVITIES	**469,120**	**377,528**
Cash flow from investing activities		
(Purchase) of tangible and intangible fixed assets	**(12,023)**	(61,150)
Sale of tangible and intangible fixed assets	**7,857**	222
Decrease of investments	**26,970**	43,689
NET CASH FLOW FROM INVESTING ACTIVITIES	**22,804**	**(17,239)**
Financing activities		
(Decrease) in borrowings	**(632,174)**	(402,374)
NET CASH FLOW FROM FINANCING ACTIVITIES	**(632,174)**	**(402,374)**
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	**(140,250)**	**(42,085)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	**752,334**	**794,419**
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD (see note 33)	**612,084**	**752,334**

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 66 to 103.

Gilbert McCaul
Partner
KPMG Bulgaria OOD

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0202 Маргарита Голева
Регистриран одитор

Consolidated statement of changes in equity for the year ended 31 December 2009

In thousands of BGN	Share capital	Share premium	Retained earnings	Revaluation reserve on available for sale investments	Reserve from translation of foreign operations	Statutory reserve	Minority interests	Total
Balance as at 1 January 2008	**110,000**	**97,000**	**79,858**	**(350)**	**(515)**	**39,861**	**125**	**325,979**
Total comprehensive income for the period								
Profit for the year ended 31 December 2008	–	–	49,237	–	–	–	(67)	**49,170**
Other comprehensive income for the period								
Revaluation reserve on available for sale investments	–	–	–	(6,117)	–	–	–	**(6,117)**
Reserve from translation of foreign operations	–	–	–	–	(298)	–	–	**(298)**
Balance as at 31 December 2008	**110,000**	**97,000**	**129,095**	**(6,467)**	**(813)**	**39,861**	**58**	**368,734**
Total comprehensive income for the period								
Profit for the year ended 31 December 2009	–	–	30,013	–	–	–	(217)	**29,796**
Other comprehensive income for the period								
Revaluation reserve on available for sale investments	–	–	–	6,321	–	–	–	**6,321**
Reserve from translation of foreign operations	–	–	–	–	(1,816)	–	–	**(1,816)**
Movement related to the changes in minority interest's shareholding	–	–	(251)	–	–	–	251	**–**
Balance as at 31 December 2009	**110,000**	**97,000**	**158,857**	**(146)**	**(2,629)**	**39,861**	**92**	**403,035**

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 66 to 103.

The financial statements have been approved by the Managing Board on 6 April 2010 and signed on its behalf by:

Matthew Mateev
Chairman of the Managing Board, Executive Director

Evgeni Lukanov
Executive Director

Jordan Skortchev
Executive Director

Radoslav Milenkov
Chief Financial Officer

Gilbert McCaul
Partner
KPMG Bulgaria OOD

Margarita Goleva
Registered auditor

ПЪРВА ИНВЕСТИЦИОННА БАНКА АД • СОФИЯ •

СПЕЦИАЛИЗИРАНО ОДИТОРСКО ПРЕДПРИЯТИЕ
София
Рег. №045
"КПМГ - България" ООД

0202 Маргарита Голева
Регистриран одитор

1. Basis of preparation

(a) Statute

First Investment Bank AD (the Bank) is incorporated in the Republic of Bulgaria and has its registered office in Sofia, at 37 Dragan Tzankov Blvd.

The Bank has a general banking license issued by the Bulgarian National Bank (BNB) according to which it is allowed to conduct all banking transactions permitted by the Bulgarian legislation.

As a result of a successful initial public offering (IPO) of new shares on the Bulgarian Stock Exchange – Sofia the Bank is registered as a public company at the Register of the Financial Supervision Commission in accordance with the provisions of the Bulgarian Public Offering of Securities Act on 13 June 2007.

The consolidated financial statements of the Bank as at and for the year ended 31 December 2009 comprise the Bank and its subsidiaries (see note 36), together referred to as the "Group".

The Group has foreign operations in Cyprus and Albania.

(b) Statement of compliance

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the European Commission.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 2 (p).

(c) Basis of preparation

The financial statements are presented in Bulgarian leva (BGN) rounded to the nearest thousand.

The Group has made certain reclassifications to the financial statements as of 31 December 2008 in order to provide more clear and precise comparison figures.

The financial statements are prepared on a fair value basis for derivative financial instruments, financial assets and liabilities held for trading, and available-for-sale assets, except those for which a reliable measure of fair value is not available. Other financial assets and liabilities and non-financial assets and liabilities are stated at amortised cost or historical cost convention.

2. Significant accounting policies

(a) Income recognition

(i) Interest income

Interest income and expense is recognised in profit or loss as it accrues, taking into account the effective yield of the asset or an applicable floating rate. Interest income and expense include the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

(ii) Fee and commission

Fee and commission income arises on financial services provided by the Group and is recognised when the corresponding service is provided.

(iii) Net trading income

Net gains (losses) on financial assets and liabilities held for trading include those gains and losses arising from disposals and changes in the fair value of financial assets and liabilities held for trading as well as trading income in dealing with foreign currencies and exchange differences from daily revaluation of the net open foreign currency position of the Group.

(iv) Dividend income

Dividend income is recognised when the right to receive dividends is established. Usually this is the ex-dividend date for equity securities.

(b) Basis of consolidation of subsidiaries

Subsidiaries are those enterprises controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Special purpose entities are consolidated when the substance of the relationship between the Group and the special purpose entity indicates that the special purpose entity is controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

As long as the Bank controls the subsidiary, subsequent acquisitions/sales of minority interests are accounted for as transactions with equity holders in their capacity as equity holders and therefore no goodwill is recognised as a result of such transactions.

(c) Foreign currency transactions

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Bulgarian leva, which is the Group's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the exchange rates at the reporting date of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss. Translation differences on non-monetary items are included in other comprehensive income.

(iii) Foreign operations

The assets and liabilities of foreign operations are translated to Bulgarian leva at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Bulgarian leva at exchange rates at the dates of the transactions. Foreign currency differences are recognised in other comprehensive income. The functional currency of the foreign operations in Cyprus is determined by the management to be the Euro. The functional currency of the foreign operations in Albania is determined by the management to be the Albanian lek.

(d) Financial assets

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

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

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management because its performance is internally evaluated and reported on a fair value basis. Derivatives are also categorised as held for trading unless they are designated as hedges.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable.

(iii) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity. Were the Group to sell or reclassify other than an insignificant amount of held-to-maturity assets, the entire category shall be reclassified as available for sale.

(iv) Available-for-sale

Available-for-sale investments are those non-derivative financial assets 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.

(v) Recognition

Purchases and sales of financial assets at fair value through profit or loss, held to maturity and available for sale are recognised on the date of the actual delivery of the assets. Loans are recognised when cash is advanced to the borrowers. Financial assets are initially recognised at fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

(vi) Measurement

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are recognised in profit or loss. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in other comprehensive income is reclassified in profit or loss.

Interest calculated using the effective interest method is recognised in profit or loss. Dividends on equity instruments are recognised in profit or loss when the Group's right to receive payment is established.

(vii) Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Group establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Group calibrates valuation techniques and tests them for validity using prices from observable current market transactions with the same instrument or based on other available observable market data.

The best evidence of the fair value of a financial instrument 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. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss depending on the individual facts and circumstances of the transaction but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the Group has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Group believes a third-party market participant would take them into account in pricing a transaction.

The Group determines the fair value of the financial instruments applying the next methods hierarchy that reflects the significance of the factors used for fair value measurement:

- Level 1 – fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – valuation techniques using inputs that are observable for the fair value of the financial instruments either directly (i.e., as prices) or indirectly (i.e., derived from prices). This level includes quotations in not active market or instruments measured by using a valuation technique;
- Level 3 – fair value measurements using inputs for the financial asset or liability that are not based on observable market data. In addition, this level includes equity investments in other institutions, related to the membership of the Group in certain organizations, whose fair value cannot be reliably measured and are measured at cost.

The next table analyses the financial instruments measured at fair value by valuation models.

in BGN thousand	Level 1	Level 2	Level 3	Total
31 December 2009				
Financial assets held for trading	7,595	1,428	–	**9,023**
Available for sale investments	247,224	35,166	2,720	**285,110**
Derivatives held for risk management	(248)	–	–	**(248)**
Total	**254,571**	**36,594**	**2,720**	**293,885**

(viii) Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

In transactions in which the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if it does not retain control over the asset. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers in which control over the asset is retained, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

(e) Cash and cash equivalents

Cash and cash equivalents comprise cash balances on hand, cash deposited with central banks and short-term highly liquid investments with maturity of three months or less.

(f) Investments

Investments that the Group holds for the purpose of short-term profit taking are classified as trading instruments. Debt investments that the Group has the intent and ability to hold to maturity are classified as held-to-maturity assets. Other investments are classified as available-for-sale assets.

(g) Securities borrowing and lending business and repurchase transactions

(i) Securities borrowing and lending

Investments lent under securities lending arrangements continue to be recognised in the statement of financial position and are measured in accordance with the accounting policy for assets held for trading or available-for-sale as appropriate. Cash collateral received in respect of securities lent is recognised as liabilities to either banks or customers. Investments borrowed under securities borrowing agreements are not recognised. Cash collateral placements in respect of securities borrowed are recognised under loans and advances to either banks or customers. Income and expenses arising from the securities borrowing and lending business are recognised on an accrual basis over the period of the transactions and are included in interest income or expense.

(ii) Repurchase agreements

The Group enters into purchases (sales) of investments under agreements to resell (repurchase) substantially identical investments at a certain date in the future at a fixed price. Investments purchased subject to commitments to resell them at future dates are not recognised. The amounts paid are recognised in loans to either banks or customers. The receivables are shown as collateralised by the underlying security. Investments sold under repurchase agreements continue to be recognised in the statement of financial position and are measured in accordance with the accounting policy for either assets held for trading or available-for-sale as appropriate. The proceeds from the sale of the investments are reported as liabilities to either banks or customers.

The difference between the purchase (sale) and resell (repurchase) considerations is recognised on an accrual basis over the period of the transaction and is included in interest income (expenses).

(h) Borrowings

Borrowings are recognised initially at 'cost', 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 recognised in profit or loss over the period of the borrowings using the effective yield method.

If the Group purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of a liability and the consideration paid is included in other operating income.

(i) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when the Group has a legally enforceable right to set off the recognised amounts and the transactions are intended to be settled on a net basis.

(j) Impairment

The carrying amounts of the Group's assets are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

(i) Loans and advances

The amount of the loss is determined as the difference between the assets's carrying amount and the present value of estimated future cash flows discounted at the instrument's original effective interest rate. If a loan has a variable interest rate, the discount rate is the current effective interest rate determined under the contract. Short-term balances are not discounted. Calculation of the present value of estimated future cash flows includes interest and principal repayments as well as the cash flows that could arise from high-liquid collateral.

Loans and advances are presented net of specific and general allowances for impairment. The carrying amount of the assets is reduced through use of an allowance account. Specific allowances are made against the carrying amount of loans and advances for which objective evidence of impairment exists as a result of past events that occurred after the initial recognition of the asset. Objective evidence of impairment include significant financial difficulty of the obligor; a breach of contract, such as a default or delinquency in interest or principal payments; the borrower will probably enter bankruptcy; observable data indicating that there is a measurable decrease in the estimated cash flows from a group of financial assets. General allowances are maintained to reduce the carrying amount of portfolios of loans and advances with similar credit risk characteristics that are collectively assessed for impairment. The expected cash flows for portfolios of similar assets are estimated on the basis of historical loss experience for assets with characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions. 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. Increases in the allowance account are recognised in profit or loss. When a loan is identified to be not recoverable, all the necessary legal procedures have been completed and the final loss has been determined, the loan is written off.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the write down, the allowance reversal is recognised in profit or loss.

(ii) Available for sale financial assets

If there is objective evidence that an impairment loss has been incurred on an equity instrument not carried at fair value, the amount of the loss is measured as the difference between its carrying amount and the present value of estimated future cash flows discounted at the current market rate of return.

When an asset remeasured to fair value through other comprehensive income is impaired, the decline in the fair value of the asset that had been previously recognised in other comprehensive income is reclassified to profit or loss even though the financial asset has not been derecognised.

If in a subsequent period the fair value of a debt instrument classified as available for sale increases and the increase can be related to an event after the impairment loss recognition, the impairment loss is reversed and recognised in profit or loss.

(k) Property, plant and equipment

Items of property, plant and equipment are stated in the statement of financial position at their acquisition cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on a straight line basis at prescribed rates designed to decrease the cost of fixed assets over their expected useful lives. The following are approximations of the annual rates used:

Assets	**%**
Buildings	3 – 4
Equipment	10 – 33
Fixtures and fittings	10 – 20
Vehicles	10 – 20
Leasehold improvements	2 – 67

Assets are not depreciated until they are brought into use and transferred from assets in the course of construction into the relevant asset category.

(l) Intangible assets

Intangible assets, which are acquired by the Group, are stated at cost less accumulated amortisation and any impairment losses.

Amortisation is calculated on a straight-line basis over the expected useful life of the asset. The annual rates of amortisation are as follows:

Assets	**%**
Licences	10 – 20
Computer software	20 – 33

(m) Provisions

A provision is recognised in the statement of financial position when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(n) Acceptances

An acceptance is created when the Group agrees to pay, at a stipulated future date, a draft drawn on it for a specified amount. The Group's acceptances primarily arise from documentary credits stipulating payment for the goods to be made a certain number of days after receipt of required documents. The Group negotiates most acceptances to be settled at a later date following the reimbursement from the customers. Acceptances are accounted for as liabilities evidenced by paper.

(o) Taxation

Tax on the profit for the year comprises current tax and the change in deferred tax. Current tax comprises tax payable calculated on the basis of the expected taxable income for the year, using the tax rates enacted by the end of each reporting period, and any adjustment of tax payable for previous years.

Deferred tax is provided using the balance sheet liability method on all temporary differences between the carrying amounts for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is calculated on the basis of the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. The effect on deferred tax of any changes in tax rates is charged to profit or loss, except to the extent that it relates to items previously recognised either in other comprehensive income or directly in equity.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(p) Critical accounting estimates and judgements in applying accounting policies

The Group 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.

(i) Impairment losses on loans and advances

The Group reviews its loan portfolios to assess impairment on a monthly basis. In determining whether an impairment loss should be recorded in profit or loss, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(ii) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant estimates are required in determining the overall provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(q) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options.

(r) Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further amounts. The respective jurisdictions are responsible for providing pensions under a defined contribution pension plan. The Group’s contributions to the defined contribution pension plan are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value.

The Bank has obligation to pay certain amounts to each employee who retires with the Bank in accordance with Art. 222, paragraph 3 of the Bulgarian Labor Code. According to these regulations, when a labor contract of an employee of the Bank, who has acquired a pension right, is ended, the Bank is obliged to pay him compensations amounted to two gross monthly salaries. In case the employee's length of service in the Bank equals to or is greater than 10 years as at retirement date, then the compensation amounts to six gross monthly salaries. As at the end of the reporting period, the management of the Group estimates the approximate amount of the potential expenditures for every employee using the projected unit credit method.

Termination benefits

Termination benefits are recognised as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employees, and the obligation can be estimated reliably. The Group recognises as a liability the undiscounted amount of the estimated costs related to annual leave expected to be paid in exchange for the employee's service for the period completed.

(s) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2009, and have not been applied in preparing these unconsolidated financial statements.

New, revised or amended standards:

- IFRS 9 *Financial Instruments*, published on 12 November 2009 as part of phase I of the IASB's comprehensive project to replace IAS 39, deals with classification and measurement of financial assets. The requirements of this standard represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivables. For an investment in an equity instrument which is not held for trading, the standard permits an irrevocable election on initial recognition, on an individual share by share basis, to present all fair value changes from the investment in other comprehensive income. No amount recognised in other comprehensive income would ever be reclassified to profit or loss at a later date. However, dividends on such investments are recognised in profit or loss, rather than other comprehensive income unless they clearly represent a partial recovery of the cost of the investment. Investments in equity instruments in respect of which an entity does not elect to present fair value changes in other comprehensive income would be measured at fair value with changes in fair value recognised in profit or loss. The standard requires that derivatives embedded in contracts with a host that is a financial asset within the scope of the standard are not separated; instead the hybrid financial instrument is assessed in its entirety as to whether it should be measured at amortised cost or fair value. The standard is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The management is in the process of evaluating the potential effect from the application of the standard on the financial statements of the Group.

- Revised IFRS 3 *Business Combinations* (2008) is effective for annual periods beginning on or after 1 July 2009. The management does not expect Revised IFRS 3 to have an effect on financial statements as the Group does not have any interests in subsidiaries that will be affected by the revisions to the standard.
- Amendments to IAS 27 *Consolidated and Separate Financial Statements* are effective for annual periods beginning on or after 1 July 2009. The management does not expect amendments to IAS 27 to have an effect on the financial statements as the Group does not have any interests in subsidiaries that will be affected by the amendments to the standard.
- Amendment to IAS 32 *Financial Instruments: Presentation* – Classification of Rights Issues is effective for annual period beginning on or after 1 February 2010. The management does not expect amendment to IAS 32 to have an effect on financial statements as the Group has not issued such instruments at any time in the past.
- Amendments to IAS 39 *Financial Instruments: Recognition and Measurement:* Eligible Hedged Items are effective for annual periods beginning on or after 1 July 2009. The management does not expect Amendments to IAS 39 to have an effect on the financial statements as the Group does not apply hedge accounting.

New interpretations:

- IFRIC 12 *Service Concession Arrangements* is effective, at the latest, for first annual reporting period beginning on or after 1 April 2009. The management does not expect IFRIC 12 to have an effect on the financial statements as none of the Group's entities has entered into any service concession arrangements.
- IFRIC 15 *Agreements for the Construction of Real Estate* is effective for annual periods beginning on or after 1 January 2010. The management does not expect IFRIC 15 to have an effect on the financial statements as the Group does not provide real estate construction services or develop real estate for sale.
- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* is effective for annual periods beginning on or after 1 July 2009. The management is in the process of evaluating the potential effect from the application of the interpretation on the financial statements of the Group.
- IFRIC 17 *Distributions of Non-cash Assets to Owners* is effective prospectively for annual periods beginning on or after 1 November 2009. As the interpretation is applicable only from the date of application, it will have no impact on the financial statements for periods prior to the date of adoption of the interpretation. Further, since it relates to future dividends that will be at the discretion of the general meeting of the shareholders, it is not possible to determine the effects of application in advance.
- IFRIC 18 *Transfers of Assets from Customers* is effective prospectively for annual period beginning on or after 1 November 2009. IFRIC 18 is not relevant to the financial statements as the Group does not normally receive contributions from customers.

Documents issued by IASB/IFRIC, that are not approved for application by the European Commission:

The management believes that it is appropriate to disclose that the following revised standards, new interpretations and amendments to current standards, which are already issued by the International Accounting Standards Board (IASB), are not yet endorsed for adoption by the European Commission, and therefore are not taken into account in preparing these financial statements. The actual effective dates for them will depend on the endorsement decision by the EC.

- Improvements to IFRSs 2009 (issued April 2009), various effective dates, generally 1 January 2010;
- Amendment to IFRS 2 *Group Cash-Settled Share-based Payment Transactions* (issued June 2009), effective from 1 January 2010;
- Amendments to IFRS 1 *Additional exemptions for first-time adopters* (issued July 2009), effective date 1 January 2010;

- Amendments to IAS 32 *Classification of Rights Issues* (issued October 2009), effective date 1 February 2010;
- Revised IAS 24 *Related Party Transactions* (issued November 2009), effective date 1 January 2011;
- IFRS 9 *Financial Instruments* (issued November 2009), effective date 1 January 2013;
- Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement* (issued November 2009), effective date 1 January 2011;
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* (issued November 2009), effective date 1 July 2010.

The management has not yet completed the estimation of the potential impact of these changes on the financial statements.

(t) Changes in the accounting policy

- IAS 1 *Presentation of Financial Statements*

The Group applies revised IAS 1 *Presentation of Financial Statements* (2007), which became effective as of 1 January 2009. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. This presentation has been applied to the financial statements for the year ended 31 December 2009.

Comparative information has been presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on net profit and earnings per share.

- IFRS 8 *Operating Segments*

As of 1 January 2009 the Group determines and presents operating segments in accordance with IFRS 8 *Operating Segments*. Previously operating segments were determined and presented in accordance with IAS 14 *Segment Reporting*. The new accounting policy in respect of segment operating disclosures is presented as follows.

Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on net profit and earnings per share.

An operating segment is a component, that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

- Fair value

The Group has applied Improving Discosures about Financial Instruments (Amendments to IFRS 7), issued in March 2009, that require enhanced disclosures about fair value measurement with respect to financial instruments.

The amendments require that fair value measurement disclosures use a three-level fair value hierarchy that reflects the significance of the inputs used in measuring fair values of financial instruments. Specific disclosures are required when fair value measurements are categorized as Level 3 (significant unobservable inputs) in the fair value hierarchy. The amendments require that any significant transfers between Level 1 and Level 2 of the fair value hierarchy be disclosed separately, distinguishing between transfers into and out of each level. Furthermore, changes in valuation techniques from one period to another, including the reasons therefore, are required to be disclosed for each class of financial instruments.

3. Risk management disclosures

A. Trading activities

The Group maintains active trading positions in a limited number of non-derivative financial instruments. Most of the Group's trading activities are customer driven. In anticipation of customer demand, the Group carries an inventory of money market instruments and maintains access to market liquidity by trading with other market makers. These activities constitute the proprietary trading business and enable the Group to provide customers with money market products at competitive prices.

The Group manages its trading activities by type of risk involved and on the basis of the categories of trading instruments held.

The Group operates in the condition of a dynamically developing global financial and economic crisis. Its further extension might result in negative implications on the financial position of the Group. The management of the Group performs daily monitoring over all positions of assets and liabilities, income and expenses, as well as the development of the international financial markets, applying the best banking practices. The management based on this analyses profitability, liquidity and the cost of funds and implements adequate measures in respect to credit, market (primarily interest rate) and liquidity risk, thus limiting the possible negative effects from the global financial and economic crisis. In this way the Group responds to the challenges of the market environment, maintaining a stable capital and liquidity position.

(i) Credit risk

Default risk is the risk that counterparts to financial instruments might default on their obligations. Default risk is monitored on an ongoing basis subject to Group's internal risk management procedures and is controlled through minimum thresholds for the credit quality of the counterpart and setting limits on exposure amount. Exposures arising from trading activities are subject to total exposure limits and are authorised by the appropriate person or body as set out in credit risk management procedures.

Settlement risk is the risk of loss due to counterpart failing to deliver value (cash, securities or other assets) under contractually agreed terms. When trades are not cleared through clearing agent settlement risk is limited through simultaneous commencement of the payment and delivery legs.

(ii) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Group assumes market risk when taking positions in debt instruments, equities, derivatives and foreign exchange transactions. These risks are managed by enforcing limits on positions taken and their risk sensitivities as measured by value-at-risk, duration or other measures appropriate for particular position in view of its sensitivity to risk factors. The major risk factors that affect Group's trading activities are changes of interest rates (interest rate risk), changes of exchange rates (foreign exchange risk) and changes of equity prices (equity price risk).

Exposure to market risk is formally managed in accordance with risk limits set by senior management by buying or selling instruments.

In a developing capital market, the prices at which transactions are realised can be different from quoted prices. While the management has used available market information in estimating fair value, it may not be fully reflective of the value that could be realised under the current circumstances.

The quantitative measurement of interest rate risk is performed by applying VaR (Value at Risk) approach. The Value at Risk estimates the maximum loss that could occur over specified horizon, under normal market conditions, due to adverse changes in market rates if the positions remain unchanged for the specified time interval. Value at risk is calculated using one day horizon and 99% confidence level, meaning that there is 1% probability that a portfolio will incur a loss in one day greater than its VaR. Parameters of the VaR model are estimated on the basis of exponentially weighted historical price changes of risk factors.

The Value at Risk is calculated and monitored on a daily basis as part of the Group's ongoing risk management. The following table summarises the range of interest rate VaR for all positions carried at fair value that was experienced in 2009:

in thousands of BGN	31 December 2009	Twelve months ended 31 December 2009			31 December 2008
		average	low	high	
VaR	531	1,191	508	2,648	1,373

B. Non-trading activities

Below is a discussion of the various risks the Group is exposed to as a result of its non-trading activities and the approach taken to manage those risks.

(i) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk arises in the general funding of the Group's activities and in the management of positions. It includes both the risk of being unable to fund assets at appropriate maturity and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame to meet the liability obligations.

Funds are raised using a broad range of instruments including deposits, liabilities evidenced by paper, and share capital. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. The Group makes its best efforts to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturity. The Group continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Group strategy.

The following table provides an analysis of the financial assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment.

Maturity table as at 31 December 2009

In thousands of BGN	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	Over 1 year	Maturity not defined	Total
Assets						
Cash and balances with central banks	603,792	–	–	–	–	603,792
Financial assets held for trading	9,023	–	–	–	–	9,023
Available for sale investments	39,101	–	175,059	68,230	2,720	285,110
Financial assets held to maturity	–	16,504	4,000	14,921	–	35,425
Loans and advances to banks and financial institutions	11,101	–	6,422	8,664	–	26,187
Loans and advances to customers	337,111	131,313	537,291	1,960,746	–	2,966,461
Total financial assets	**1,000,128**	**147,817**	**722,772**	**2,052,561**	**2,720**	**3,925,998**
Liabilities						
Due to credit institutions	7,650	–	–	–	–	7,650
Due to other customers	1,213,508	833,777	1,241,352	50,909	–	3,339,546
Liabilities evidenced by paper	68,545	23,626	9,359	91,833	–	193,363
Subordinated term debt	–	–	–	60,641	–	60,641
Perpetual debt	–	–	–	–	98,952	98,952
Other financial liabilities	248	–	–	–	–	248
Total financial liabilities	**1,289,951**	**857,403**	**1,250,711**	**203,383**	**98,952**	**3,700,400**
Net liquidity gap	**(289,823)**	**(709,586)**	**(527,939)**	**1,849,178**	**(96,232)**	**225,598**

Maturity table as at 31 December 2008

In thousands of BGN	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	Over 1 year	Maturity not defined	Total
Assets						
Cash and balances with central banks	742,284	–	–	–	–	**742,284**
Financial assets held for trading	9,681	–	–	–	–	**9,681**
Available for sale investments	58,599	78,053	58,288	89,645	2,038	**286,623**
Financial assets held to maturity	8,858	10,645	2,800	40,092	–	**62,395**
Loans and advances to banks and financial institutions	10,244	–	–	–	–	**10,244**
Loans and advances to customers	264,034	231,804	533,501	1,940,614	31	**2,969,984**
Other financial assets	274	–	–	–	–	**274**
Total financial assets	**1,093,974**	**320,502**	**594,589**	**2,070,351**	**2,069**	**4,081,485**
Liabilities						
Due to credit institutions	53,034	–	–	–	–	**53,034**
Due to other customers	1,130,154	569,565	1,077,328	78,280	–	**2,855,327**
Liabilities evidenced by paper	60,594	62,929	627,241	81,856	–	**832,620**
Subordinated term debt	–	–	–	53,852	–	**53,852**
Perpetual debt	–	–	–	–	98,658	**98,658**
Other financial liabilities	1,336	–	–	–	–	**1,336**
Total financial liabilities	**1,245,118**	**632,494**	**1,704,569**	**213,988**	**98,658**	**3,894,827**
Net liquidity gap	**(151,144)**	**(311,992)**	**(1,109,980)**	**1,856,363**	**(96,589)**	**186,658**

As at 31 December 2009 the funds by the thirty largest non-bank depositors represent 6.52% of total deposits from other customers (2008: 23.38%).

The following table provides a remaining maturities analysis of the financial liabilities of the Group as at 31 December 2009 based on the contractual undiscounted cash flows.

In thousands of BGN	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	Over 1 year	Maturity not defined	Total
Due to credit institutions	7,650	–	–	–	–	**7,650**
Due to other customers	1,215,445	844,817	1,302,788	58,976	–	**3,422,026**
Liabilities evidenced by paper	68,662	23,790	9,601	103,257	–	**205,310**
Subordinated term debt	–	–	7,277	98,728	–	**106,005**
Perpetual debt	–	4,775	6,601	61,653	93,880	**166,909**
Other financial liabilities	248	–	–	–	–	**248**
Total financial liabilities	**1,292,005**	**873,382**	**1,326,267**	**322,614**	**93,880**	**3,908,148**

(ii) Market risk

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature or reprice at different times or in differing amounts. In the case of floating rate assets and liabilities the Group is also exposed to basis risk, which is the difference in repricing characteristics of the various floating rate indices, such as the Bulgarian Base Interest Rate, the LIBOR and EURIBOR, although these indices tend to move in high correlation. In addition, the actual effect will depend on a number of other factors, including the extent to which repayments are made earlier or later than the contracted dates and variations in interest rate sensitivity within repricing periods and among currencies.

In order to quantify the interest rate risk of its non-trading activities, the Group measures the impact of a change in the market rates both on net interest income and on the Group's economic value defined as the difference between fair value of assets and fair value of liabilities. The interest rate risk on the economic value of the Group following a standardised shock of +100bp/-100bp as at 31 December 2009 is BGN +1.4/-1.4 Mio. The interest rate risk on the Group's net interest income one year forward following a standardised shock of +100bp/-100bp as at 31 December 2009 is BGN -4.7/+4.7 Mio.

The following table indicates the effective interest rates at 31 December 2009 and the periods in which financial liabilities and assets reprice.

				Fixed rate instruments			
In thousands of BGN	**Total**	**Weighted average effective interest rate**	**Floating rate instruments**	**Less than 1 month**	**Between 1 month and 3 months**	**Between 3 months and 1 year**	**More than 1 year**
Assets							
Cash and balances with central banks	**205,870**	0.24%	36,351	169,519	–	–	–
Financial assets held for trading	**5,862**	5.74%	–	–	70	–	5,792
Available for sale investments	**282,390**	1.84%	40,541	39,101	–	175,059	27,689
Financial assets held to maturity	**35,425**	3.75%	–	–	16,504	4,000	14,921
Loans and advances to banks and financial institutions	**22,196**	5.99%	6,423	7,109	–	–	8,664
Loans and advances to customers	**2,944,177**	13.03%	2,383,153	79,397	45,872	164,298	271,457
Non-interest earning assets	**616,364**	–	–	–	–	–	–
Total assets	**4,112,284**		**2,466,468**	**295,126**	**62,446**	**343,357**	**328,523**
Liabilities							
Due to credit institutions	**7,650**	0.44%	1,864	5,786	–	–	–
Due to other customers	**3,335,415**	6.52%	1,084,683	376,614	729,572	1,124,361	20,185
Liabilities evidenced by paper	**193,363**	4.09%	79,181	67,957	14,591	3,371	28,263
Subordinated term debt	**60,641**	13.55%	–	–	–	–	60,641
Perpetual debt	**98,952**	12.51%	–	–	–	–	98,952
Non-interest bearing liabilities	**13,228**	–	–	–	–	–	–
Total liabilities	**3,709,249**		**1,165,728**	**450,357**	**744,163**	**1,127,732**	**208,041**

The following table indicates the effective interest rates at 31 December 2008 and the periods in which financial liabilities and assets reprice.

In thousands of BGN	Total	Weighted average effective interest rate	Floating rate instruments	Fixed rate instruments			
				Less than 1 month	Between 1 month and 3 months	Between 3 months and 1 year	More than 1 year
Assets							
Cash and balances with central banks	**155,873**	1.99%	47,625	108,248	–	–	–
Financial assets held for trading	**5,476**	4.31%	–	–	–	–	5,476
Available for sale investments	**284,585**	3.08%	45,797	58,599	78,053	58,288	43,848
Financial assets held to maturity	**62,395**	3.37%	18,198	8,858	10,644	2,800	21,895
Loans and advances to banks and financial institutions	**6,231**	2.84%	1,674	4,557	–	–	–
Loans and advances to customers	**2,932,968**	10.89%	2,503,319	21,745	11,540	161,697	234,667
Non-interest earning assets	**823,223**	–	–	–	–	–	–
Total assets	**4,270,751**		**2,616,613**	**202,007**	**100,237**	**222,785**	**305,886**
Liabilities							
Due to credit institutions	**53,034**	4.68%	1,379	51,655	–	–	–
Due to other customers	**2,844,371**	5.32%	1,905,735	82,127	154,150	215,716	486,643
Liabilities evidenced by paper	**832,619**	7.05%	439,142	60,594	62,929	264,060	5,894
Subordinated term debt	**53,852**	13.10%	–	–	–	–	53,852
Perpetual debt	**98,658**	12.51%	–	–	–	–	98,658
Non-interest bearing liabilities	**19,483**	–	–	–	–	–	–
Total liabilities	**3,902,017**		**2,346,256**	**194,376**	**217,079**	**479,776**	**645,047**

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group is exposed to currency risk through transactions in foreign currencies and on financial instruments that are denominated in a foreign currency.

As a result of the currency board in place in Bulgaria, the Bulgarian currency is pegged to the Euro. As the currency in which the Group presents it financial statements is the Bulgarian lev, the Group's financial statements are effected by movements in the exchange rates between the Bulgarian lev and currencies other than the Euro.

The Group's transactional exposures give rise to foreign currency gains and losses that are recognised as net trading income in profit or loss. These exposures comprise the monetary assets and monetary liabilities of the Group that are not denominated in the presentation currency of the Group. These exposures were as follows:

In thousands of BGN	2009	2008
Monetary assets		
Euro	2,362,649	2,179,633
US dollar	263,242	241,828
Other currencies	57,998	49,266
Gold	7,538	7,848
Monetary liabilities		
Euro	1,991,204	2,151,577
US dollar	271,394	241,744
Other currencies	58,422	52,386
Gold	–	–
Net position		
Euro	371,445	28,056
US dollar	(8,152)	84
Other currencies	(424)	(3,120)
Gold	7,538	7,848

In respect of monetary assets and liabilities in foreign currencies that are not economically hedged, the Group manages foreign currency risk in line with policy that sets limits on currency positions and dealer limits.

(iii) Credit risk

Credit risk is the risk that a counterparty to a financial instrument will cause a financial loss for the Group by failing to discharge an obligation. The Group is subject to credit risk through its lending activities and in cases where it acts as an intermediary on behalf of customers or other third parties or issues contingent liabilities. The management of the credit risk exposures to borrowers is conducted through regular analysis of the borrowers' credit worthiness and the assignment of a rating grade. Exposure to credit risk is also managed in part by obtaining collateral and guarantees.

The Group's primary exposure to credit risk arises through its loans and advances. The amount of credit exposure in this regard is represented by the carrying amounts of the assets in the statement of financial position. These exposures are as follows:

31 December 2009 In thousands of BGN

Class of exposure	**Gross amount of loans and advances to customers**	**Carrying amount of loans and advances to customers**
Collectively impaired		
Standard	2,711,032	2,708,086
Individually impaired		
Watch	205,423	202,547
Nonperforming	32,034	25,698
Loss	91,174	30,130
Total	**3,039,663**	**2,966,461**

31 December 2008 In thousands of BGN

Class of exposure	**Gross amount of loans and advances to customers**	**Carrying amount of loans and advances to customers**
Collectively impaired		
Standard	2,911,251	2,907,981
Individually impaired		
Watch	27,620	26,379
Substandard	19,062	12,114
Nonperforming	79,800	23,510
Total	**3,037,733**	**2,969,984**

In addition, the Group is exposed to off-balance sheet credit risk through commitments to extend credits and issue contingent liabilities (see note 32).

Concentrations of credit risk (whether on or off balance sheet) that arise from financial instruments exist for counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

The major concentrations of credit risk arise by location and type of customer in relation to the Group's investments, loans and advances and off-balance sheet commitments.

Total economic sector credit risk concentrations in loans and advances to customers are presented in the table below.

In thousands of BGN	2009	2008
Trade	758,855	649,185
Industry	652,808	708,836
Services	171,282	187,411
Finance	13,295	13,280
Transport, logistics	157,317	148,266
Communications	31,580	46,836
Construction	143,110	145,293
Agriculture	71,192	85,620
Tourist services	108,449	112,973
Infrastructure	126,091	106,212
Private individuals	752,021	780,481
Other	53,663	53,340
Less allowance for impairment	(73,202)	(67,749)
Total	**2,966,461**	**2,969,984**

The Group has extended loans to enterprises involved in different types of activities but within the same economic sector – industry. As such the exposures share a similar industry risk. There are three such groups of enterprises at 31 December 2009 with total exposures amounting to BGN 45,903 thousand (2008: BGN 40,968 thousand) – ferrous and non-ferrous metallurgy, BGN 75,684 thousand (2008: BGN 77,149 thousand) – mining industry and BGN 105,139 thousand (2008: BGN 107,972 thousand) – power engineering.

The Group has extended loans and issued contingent liabilities to 13 individual clients or groups (2008: 16) with each individual exposure exceeding 10% of the capital base of the Group. The total amount of these exposures is BGN 804,532 thousand which represents 166.34% of the Group's capital base (2008: BGN 1,109,642 thousand which represented 245.86%of capital base) of which BGN 694,309 thousand (2008: BGN 938,241 thousand) represent loans and BGN 110,223 thousand (2008: BGN 171,401 thousand) represent guarantees, letters of credit and other commitments.

The loans extended in Cyprus amount to BGN 147,095 thousand (2008: BGN 130,871 thousand) and in Albania – BGN 22,950 thousand (2008: BGN 23,419 thousand).

The amounts reflected in the tables represent the maximum accounting loss that would be recognised at the end of the reporting period if counterparts failed completely to perform as contracted and any collateral or security proved to be of no value. The amounts, therefore, greatly exceed expected losses, which are included in the allowance for impairment.

The Group's policy is to require suitable collateral to be provided by customers prior to the disbursement of approved loans. Guarantees and letters of credit are also subject to strict credit assessments before being provided. The agreements specify monetary limits to the Group's obligations. The extent of collateral held for guarantees and letters of credit is 100 percent.

Collateral for loans, guarantees, and letters of credit is usually in the form of mortgage, cash, pledge of inventory, listed investments or other property.

The table below shows a breakdown of total loans and advances extended to customers by the Group by type of collateral, excluding credit cards in the amount of BGN 166,802 thousands (2008: BGN 160,963 thousands):

in BGN thousand	2009	2008
Mortgage	1,392,732	1,364,319
Pledge of receivables	200,429	416,239
Pledge of commercial enterprise	433,880	286,287
Securities	68,904	144,981
Bank guarantee	4,159	2,135
Other guaranties	234,325	130,084
Pledge of goods	128,774	111,366
Pledge of machines	181,282	229,057
Money deposit	47,479	38,735
Stake in capital	28,006	36,559
Gold	18	33
Other collateral	128,736	100,752
Unsecured	24,137	16,223
Total	**2,872,861**	**2,876,770**

Other collateral position includes insurance policies limited up to the insurance amount, future money transfers to account, other proceeds as salaries transfers and other.

C. Capital adequacy

The Group's lead regulator, the Bulgarian National Bank (BNB) sets and monitors capital requirements both on consolidated and stand-alone basis. Individual banking operations are directly supervised by their local regulators. BNB issued Ordinance 8 on Capital Adequacy of Credit Institutions effective from 1 January 2007 that is the Bulgarian supervisory implementation of the International Convergence of Capital Measurement and Capital Standards (Revised Framework), known as Basel II and complies with EU Directives 2006/48/EC and 2006/49/EC and their amendments. In implementing current capital requirements the Group is required to maintain a minimum prescribed ratio of 12% of total capital to total risk-weighted assets. Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

The Group calculates requirements for credit risk for its exposures in banking and trading portfolios based on standardised approach defined by the BNB. Exposures are taken into account using their carrying amount. Off-balance-sheet credit related commitments are taken into account by applying different categories of conversion factors (0%, 20%, 50%, 100%), designed to convert these items into carrying amount equivalents. The resulting equivalent amounts are then weighted for risk using different percentages (0%, 20%, 50%, 100%) depending on the class of exposure and its credit rating assessment. Various credit risk mitigation techniques are used, for example collateralised transactions and guarantees. Forwards and options based derivative instruments are weighted for counterparty credit risk.

The Group's regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes ordinary share capital, share premium, statutory reserve, other general reserves, retained earnings from past years, current half-year audited profit, translation reserve and minority interests after deductions for goodwill and other intangible assets and unrealised loss from available for sale investments.
- Tier 2 capital, which includes qualifying subordinated liabilities, namely perpetual debt and subordinated term debt.

Following limits are applied to elements of the capital base. Qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying term subordinated loan capital may not exceed 50 percent of tier 1 capital. Deductions from capital base include specific provisions for credit risk.

The Group has complied with all capital requirements.

Capital adequacy level is as follows:

	Carrying amount/notional amount		Risk weighted amount	
In thousands of BGN	**2009**	**2008**	**2009**	**2008**
Risk weighted assets for credit risk				
Assets				
Exposure class				
Central governments and central banks	**538,983**	714,120	**12,319**	10,814
Multirateral development banks	**3,224**	1,000	**–**	–
Institutions	**268,535**	231,482	**65,644**	75,068
Corporates	**1,977,273**	1,910,057	**1,948,053**	1,872,264
Retail	**533,454**	594,829	**511,035**	580,142
Claims secured by residential property	**395,941**	451,855	**197,971**	225,928
Past due exposures*	**44,810**	–	**44,810**	–
Collective investment undertaking	**2,004**	1,964	**2,004**	1,964
Other items	**314,536**	346,296	**164,549**	179,474
Total	**4,078,760**	**4,251,603**	**2,946,385**	**2,945,654**
Off-balance sheet items				
Exposure class				
Institutions	**26,704**	17,879	**7,147**	8,157
Corporates	**495,301**	653,005	**209,004**	205,413
Retail	**226,810**	274,811	**2,473**	1,078
Claims secured by residential property	**4,640**	8,069	**1,143**	1,963
Other items	**–**	–	**15**	28
Total	**753,455**	**953,764**	**219,782**	**216,639**
Derivatives				
Exposure class				
Institutions	**311**	1,359	**62**	272
Corporates	**–**	19	**–**	19
Total	**311**	**1,378**	**62**	**291**
Total risk-weighted assets for credit risk			**3,166,229**	**3,162,584**
Risk-weighted assets for market risk			**4,325**	**3,250**
Risk-weighted assets for operational risk			**327,113**	**259,025**
Total risk-weighted assets			**3,497,667**	**3,424,859**

Capital adequacy ratios	Capital		Capital ratios %	
	2009	**2008**	**2009**	**2008**
Tier 1 Capital	**363,237**	**328,859**	**10.39%**	**9.60%**
Total capital base	**483,657**	**451,322**	**13.83%**	**13.18%**

*new exposure class from March 2009

4. Segment Reporting

Segment information is presented in respect of the Group's geographical segments. The primary format is based on the Group's management and internal reporting structure.

Measurement and reporting of segment assets and liabilities and segment revenues and expenses are based on the accounting policies set out in the accounting policy note.

Transactions between segments are conducted on an arm's length basis.

The Group operates principally in Bulgaria, but also has operations in Cyprus and Albania.

In presenting information on the basis of geographical segments, income and expenses are allocated based on the location of the Group affiliate that generates them. Segment assets and liabilities are allocated based on their geographical location.

	Bulgarian operations		Foreign operations		Total	
In thousands of BGN	2009	2008	2009	2008	2009	2008
Interest income	342,290	322,420	20,588	13,517	362,878	335,937
Interest expense	(232,196)	(186,941)	(2,532)	(1,487)	(234,728)	(188,428)
Net interest income	**110,094**	**135,479**	**18,056**	**12,030**	**128,150**	**147,509**
Fee and commission income	57,813	71,560	926	1,256	58,739	72,816
Fee and commission expense	(7,754)	(9,283)	(121)	(150)	(7,875)	(9,433)
Net fee and commission income	**50,059**	**62,277**	**805**	**1,106**	**50,864**	**63,383**
General administrative expenses	**(138,409)**	**(149,543)**	**(5,949)**	**(6,626)**	**(144,358)**	**(156,169)**
	2009	**2008**	**2009**	**2008**	**2009**	**2008**
Segment assets	**3,884,490**	**4,069,744**	**227,794**	**201,007**	**4,112,284**	**4,270,751**
Segment liabilities	**3,588,244**	**3,852,576**	**121,005**	**49,441**	**3,709,249**	**3,902,017**

The following table presents the allocation of assets and liabilities, income and expenses based on business segments as at 31 December 2009 and for the year then ended:

In thousands of BGN **Business segment**	**Assets**	**Liabilities**	**Interest income**	**Interest expense**	**Net fee and commission income**	**Net trading income**	**Other operating expenses**
Commercial banking	2,261,319	630,338	263,111	(37,407)	16,388	–	–
Retail banking	705,142	2,709,208	88,867	(149,039)	5,070	–	–
International business	–	352,956	–	(46,892)	7,157	–	–
Card business	–	–	–	–	14,296	–	–
Liquidity	953,656	7,650	10,900	(1,002)	7	608	671
Dealing	5,881	248	–	–	(4)	9,713	–
Clients services	–	–	–	–	7,936	–	–
Other	186,286	8,849	–	(388)	14	–	(56)
Total	**4,112,284**	**3,709,249**	**362,878**	**(234,728)**	**50,864**	**10,321**	**615**

5. Financial assets and liabilities Accounting classification and fair values

The table below sets out the Group's classification of each class of financial assets and liabilities, and their fair values as at 31 December 2009.

In thousands of BGN	Trading	Held-to-maturity	Loans and receivables	Available for sale	Other amortised cost	Other	Total carrying amount	Fair value
ASSETS								
Cash and balances with central banks	–	–	460,871	–	–	142,921	603,792	603,792
Financial assets held for trading	9,023	–	–	–	–	–	9,023	9,023
Available for sale investments	–	–	–	285,110	–	–	285,110	285,110
Financial assets held to maturity	–	35,425	–	–	–	–	35,425	35,402
Loans and advances to banks and financial institutions	–	–	26,187	–	–	–	26,187	26,187
Loans and advances to customers	–	–	2,966,461	–	–	–	2,966,461	2,966,461
	9,023	**35,425**	**3,453,519**	**285,110**	**–**	**142,921**	**3,925,998**	**3,925,975**
LIABILITIES								
Due to credit institutions	–	–	–	–	7,650	–	7,650	7,650
Due to other customers	–	–	–	–	3,339,546	–	3,339,546	3,339,546
Liabilities evidenced by paper	–	–	–	–	193,363	–	193,363	193,363
Subordinated term debt	–	–	–	–	60,641	–	60,641	60,641
Perpetual debt	–	–	–	–	98,952	–	98,952	99,252
Other financial liabilities	–	–	–	–	–	248	248	248
	–	**–**	**–**	**–**	**3,700,152**	**248**	**3,700,400**	**3,700,700**

The fair value of cash, cash equivalents, demand and term deposits is approximately equal to the carrying value given, because of their short-term maturity. The fair value of loans and advances to customers is approximately equal to their carrying value due to the fact that the main part of the loan portfolio carry floating interest rates which reflect the changes in the market conditions. The fair value of liabilities evidenced by paper is approximately equal to their carrying value due to the fact that the main part of liabilities evidenced by paper with long-term maturity carry floating interest rates which reflect the changes in the market conditions.

The table below sets out the Group's classification of each class of financial assets and liabilities, and their fair values as at 31 December 2008.

In thousands of BGN	Trading	Held-to-maturity	Loans and receivables	Available for sale	Other amortised cost	Other	Total carrying amount	Fair value
ASSETS								
Cash and balances with central banks	–	–	580,519	–	–	161,765	742,284	742,284
Financial assets held for trading	9,681	–	–	–	–	–	9,681	9,681
Available for sale investments	–	–	–	286,623	–	–	286,623	286,623
Financial assets held to maturity	–	62,395	–	–	–	–	62,395	61,485
Loans and advances to banks and financial institutions	–	–	10,244	–	–	–	10,244	10,244
Loans and advances to customers	–	–	2,969,984	–	–	–	2,969,984	2,969,984
Other financial assets	–	–	–	–	–	274	274	274
	9,681	**62,395**	**3,560,747**	**286,623**	**–**	**162,039**	**4,081,485**	**4,080,575**
LIABILITIES								
Due to credit institutions	–	–	–	–	53,034	–	53,034	53,034
Due to other customers	–	–	–	–	2,855,327	–	2,855,327	2,855,327
Liabilities evidenced by paper	–	–	–	–	832,620	–	832,620	832,509
Subordinated term debt	–	–	–	–	53,852	–	53,852	53,852
Perpetual debt	–	–	–	–	98,658	–	98,658	98,332
Other financial liabilities	–	–	–	–	–	1,336	1,336	1,336
	–	**–**	**–**	**–**	**3,893,491**	**1,336**	**3,894,827**	**3,894,390**

6. Net interest income

In thousands of BGN	2009	2008
Interest income		
Accounts with and placements to banks and financial institutions	1,943	6,530
Retail customers	88,867	79,769
Loans to corporate clients	227,938	200,114
Loans to small and medium enterprises	30,402	29,281
Microlending	4,771	6,089
Debt instruments	8,957	14,154
	362,878	**335,937**
Interest expense		
Deposits from banks	(1,002)	(713)
Deposits from other customers	(186,446)	(102,526)
Liabilities evidenced by paper	(27,970)	(67,134)
Subordinated term debt	(7,252)	(6,353)
Perpetual debt	(11,670)	(11,643)
Lease agreements and other	(388)	(59)
	(234,728)	**(188,428)**
Net interest income	**128,150**	**147,509**

For 2009 the recognised interest income on individually impaired financial assets (loans and advances to customers) amounts to BGN 22,190 thousand (2008: BGN 7,028 thousand).

7. Net fee and commission income

In thousands of BGN	2009	2008
Fee and commission income		
Letters of credit and guarantees	6,321	9,602
Payments transactions	7,680	9,192
Customer accounts	8,985	9,213
Cards business	20,131	21,964
Other	15,622	22,845
	58,739	**72,816**
Fee and commission expense		
Letters of credit and guarantees	(669)	(2,562)
Correspondent accounts	(880)	(666)
Cards business	(5,835)	(5,712)
Other	(491)	(493)
	(7,875)	**(9,433)**
Net fee and commission income	**50,864**	**63,383**

8. Net trading income

In thousands of BGN	2009	2008
Net trading gains/(losses) arise from:		
– Debt instruments	608	520
– Equities	(665)	(5,298)
– Foreign exchange	10,378	9,036
Net trading income	**10,321**	**4,258**

9. Other operating income/(expenses)

Other operating income/(expenses) represent net gains/(losses) from disposal of financial instruments not carried at fair value through profit or loss.

.

In thousands of BGN	2009	2008
Other operating income/(expenses) arise from:		
– Debt instruments	788	(1,551)
– Other	(173)	32
Other operating income/(expenses)	**615**	**(1,519)**

10. General administrative expenses

In thousands of BGN	2009	2008
General and administrative expenses comprise:		
– Personnel cost	44,704	51,036
– Depreciation and amortisation	18,732	17,477
– Advertising	7,774	18,210
– Building rent expense	24,926	15,952
– Telecommunication, software and other computer maintenance	11,344	11,898
– Unclaimable VAT	9,704	10,271
– Administration, consultancy and other costs	27,174	31,325
General administrative expenses	**144,358**	**156,169**

Personnel costs include salaries, social and health security contributions under the provisions of the local legislation. At 31 December 2009 the total number of employees of the Group is 2,486 (2008: 2,689).

11. Impairment (losses)/loss reversals

In thousands of BGN	2009	2008
Write-downs		
Loans and advances to customers	(36,089)	(29,371)
Available for sale investments	(3,038)	–
Reversal of write-downs		
Loans and advances to customers	28,162	30,480
Net impairment (losses)/loss reversals	**(10,965)**	**1,109**

12. Income tax expense

In thousands of BGN	2009	2008
Current taxes	(4,238)	(4,858)
Deferred taxes (see note 22)	(215)	(312)
Income tax expense	**(4,453)**	**(5,170)**

Reconciliation between tax expense and the accounting profit is as follows:

In thousands of BGN	2009	2008
Accounting profit before taxation	**34,249**	**54,340**
Corporate tax at applicable tax rate (10% for 2009 and 10% for 2008)	3,425	5,434
Effect of tax rates of foreign subsidiaries and branches	170	246
Tax effect of permanent tax differences	643	(822)
Tax effect of reversals of temporary differences	215	312
Income tax expense	**4,453**	**5,170**
Effective tax rate	13.00%	9.51%

13. Earnings per share

	2009	2008
Net profit attributable to shareholders (in thousands of BGN)	30,013	49,237
Weighted average number of ordinary shares (in thousands)	110,000	110,000
Earnings per share (in BGN)	**0.27**	**0.45**

The basic earnings per share, calculated in accordance with IAS 33, are based on the profit attributable to ordinary equity holders of the Bank. In 2009 as in the previous year, no conversion or option rights were outstanding. The diluted earnings per share, therefore, correspond to the basic earnings per share.

14. Cash and balances with central banks

In thousands of BGN	2009	2008
Cash on hand		
– In Bulgarian leva	97,145	105,281
– In foreign currencies	45,776	56,484
Balances with central banks	261,943	432,349
Current accounts and amounts with resident banks	4,094	30,118
Current accounts and amounts with foreign banks	194,834	118,052
Total	**603,792**	**742,284**

15. Financial assets held for trading

In thousands of BGN	2009	2008
Bonds, notes and other instruments issued by:		
Bulgarian government, assessed with BBB or BBB- rating:		
– denominated in Bulgarian leva	2,638	5,476
Foreign banks, assessed with AAA rating	3,224	–
Other issuers – equity instruments (unrated)	3,161	4,205
Total	**9,023**	**9,681**

16. Available for sale investments

In thousands of BGN	2009	2008
Bonds, notes and other instruments issued by:		
Bulgarian government		
– denominated in Bulgarian leva	27,688	27,872
– denominated in foreign currencies	5,376	6,033
Foreign governments		
– short term	214,160	194,940
– long term	–	–
Foreign banks	35,166	55,740
Other issuers	2,720	2,038
Total	**285,110**	**286,623**

17. Financial assets held to maturity

Long-term securities held to maturity represent debt investments that the Group has the intent and ability to hold to maturity.

In thousands of BGN	2009	2008
Securities held to maturity issued by:		
Bulgarian government	21,833	42,196
Foreign governments	5,407	2,002
Foreign banks	8,185	18,197
Total	**35,425**	**62,395**

18. Loans and advances to banks and financial institutions

(a) Analysis by type

In thousands of BGN	2009	2008
Placements and other amounts due from banks	20,007	6,231
Receivables under resale agreements (see note 30)	2,810	–
Other	3,370	4,013
Total	**26,187**	**10,244**

(b) Geographical analysis

In thousands of BGN	2009	2008
Resident banks and financial institutions	3,491	625
Foreign banks and financial institutions	22,696	9,619
Total	**26,187**	**10,244**

19. Loans and advances to customers

In thousands of BGN	2009	2008
Retail customers		
– Consumer loans	210,334	229,858
– Mortgage loans	360,781	380,141
– Credit cards	166,802	160,963
Small and medium enterprises	219,053	267,158
Microlending	29,456	41,196
Corporate customers	2,053,237	1,958,417
Less allowance for impairment	(73,202)	(67,749)
Total	**2,966,461**	**2,969,984**

(a) Movement in impairment allowances

In thousands of BGN	
Balance at 1 January 2009	**67,749**
Additional allowances	36,089
Amounts released	(28,162)
Write – offs	(2,474)
Balance at 31 December 2009	**73,202**

20. Property and equipment

In thousands of BGN	Land and buildings	Fixtures and fittings	Motor vehicles	Assets under construction	Leasehold improvements	Total
Cost						
At 1 January 2009	12,367	97,196	6,261	60,104	39,468	**215,396**
Additions	–	283	–	11,625	27	**11,935**
Disposals	(1,538)	(4,768)	(309)	(73)	(502)	**(7,190)**
Transfers	–	12,929	7	(36,325)	9,143	**(14,246)**
At 31 December 2009	**10,829**	**105,640**	**5,959**	**35,331**	**48,136**	**205,895**
Depreciation						
At 1 January 2009	3,603	44,641	3,632	–	10,161	**62,037**
Charge for the year	378	12,930	871	–	3,160	**17,339**
On disposals	(571)	(4,086)	(260)	–	(357)	**(5,274)**
At 31 December 2009	**3,410**	**53,485**	**4,243**	**–**	**12,964**	**74,102**
Net book value						
At 31 December 2009	**7,419**	**52,155**	**1,716**	**35,331**	**35,172**	**131,793**
At 1 January 2009	**8,764**	**52,555**	**2,629**	**60,104**	**29,307**	**153,359**

21. Intangible assets

In thousands of BGN	Software and licences	Goodwill	Total
Cost			
At 1 January 2009	8,487	107	**8,594**
Additions	88	–	**88**
Disposals	(134)	–	**(134)**
Transfers	14,246	–	**14,246**
At 31 December 2009	**22,687**	**107**	**22,794**
Amortisation			
At 1 January 2009	2,963	–	**2,963**
Charge for the year	1,393	–	**1,393**
On disposals	(105)	–	**(105)**
At 31 December 2009	**4,251**	**–**	**4,251**
Net book value			
At 31 December 2009	**18,436**	**107**	**18,543**
At 1 January 2009	**5,524**	**107**	**5,631**

22. Deferred Taxation

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 10%.

Deferred income tax balances are attributable to the following items:

In thousands of BGN	Assets		Liabilities		Net	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**
Property, equipment and intangibles	**–**	–	**2,273**	1,969	**2,273**	1,969
Other items	**(392)**	(261)	**63**	21	**(329)**	(240)
Net tax (assets)/liabilities	**(392)**	**(261)**	**2,336**	**1,990**	**1,944**	**1,729**

Movements in temporary differences for 2009 at the amount of BGN 215 thousand are recognised in the net profit for the period.

23. Other assets

In thousands of BGN	2009	2008
Deferred expense	**5,003**	6,174
Gold bullion	**7,538**	7,848
Other assets	**23,409**	16,254
Total	**35,950**	**30,276**

24. Due to credit institutions

In thousands of BGN	2009	2008
Term deposits	6,359	51,655
Payable on demand	1,291	1,379
Total	**7,650**	**53,034**

25. Due to other customers

In thousands of BGN	2009	2008
Retail customers		
– payable on demand	319,647	397,890
– term deposits	2,389,561	1,355,671
Corporate, state-owned and public institutions		
– payable on demand	299,011	422,830
– term deposits	331,327	678,936
Total	**3,339,546**	**2,855,327**

26. Liabilities evidenced by paper

In thousands of BGN	2009	2008
Bonds and notes issued	–	19,911
Acceptances under letters of credit	14,151	353,179
Liabilities under repurchase agreements (see note 30)	85,293	–
Syndicated loans	–	354,433
Other term liabilities	93,919	105,097
Total	**193,363**	**832,620**

Other term liabilities comprise mainly financing obtained from financial institutions through extension of loan facilities.

Bonds and notes issued comprise the following:

In thousands of BGN	2009	2008
Mortgage bonds		
EUR 10,000,000, 7%, due 2009	–	19,911
Total	**–**	**19,911**

27. Subordinated term debt

As at 31 December 2009 the Bank has entered into six separate subordinated loan agreements with four different lenders. All these subordinated loan agreements are governed by English Law with funds raised outside the Republic of Bulgaria.

Subordinated liabilities can be analysed as follows:

In thousands of BGN

Lender	Original principal amount	Orirginal maturity	Maturity date	Amortised cost as at 31 December 2009
Growth Management Limited	5,867	10 years	27.08.2014	11,080
Growth Management Limited	3,912	10 years	24.02.2015	6,685
Hillside Apex Fund Limited	9,779	10 years	01.03.2015	16,686
Growth Management Limited	1,956	10 years	17.03.2015	3,286
Standard Bank	9,779	10 years	22.04.2015	16,456
Hypo-Alpe-Adria Bank	3,912	10 years	14.04.2015	6,448
Total	**35,205**			**60,641**

Interest is capitalised annually and is payable at maturity. The treatment of these liabilities for capital adequacy purposes as tier 2 capital is in accordance with the requirements of the local legislation. Any prepayment of subordinated debt prior to its final maturity is subject to written approval from the Bulgarian National Bank.

28. Perpetual debt

In thousands of BGN	Principal amount	Amortised cost as at 31 December 2009
Step-up guaranteed perpetual subordinated bonds EUR 27 mio	52,807	54,723
Step-up guaranteed perpetual subordinated bonds EUR 21 mio	41,073	44,229
Total	**93,880**	**98,952**

The issue of the step-up subordinated bonds by First Investment Finance B.V., a limited liability company registered under the laws of the Netherlands, a subsidiary 100% owned by the Bank was fully guaranteed by the Bank. The terms and conditions of the subordinated bonds fully comply with Ordinance 8 on Capital Adequacy of Credit Institutions issued by BNB. The amounts received for the perpetual subordinated bonds are included in tier 2 capital after respective permissions by the Bulgarian National Bank.

29. Other liabilities

In thousands of BGN	**2009**	**2008**
Liabilities to personnel	**3,668**	2,350
Current tax liability	**1,131**	1,084
Other payables	**2,106**	2,027
Total	**6,905**	**5,461**

30. Repurchase and resale agreements

The Group raises funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate. Repurchase agreements are commonly used as a tool for short-term financing of interest-earning assets, depending on the prevailing interest rates. At 31 December 2009 assets sold under repurchase agreements are as follows:

In thousands of BGN	**Fair value of underlying assets**	**Carrying amount of corresponding liabilities**
Bulgarian government securities	25,944	26,992
Other government securities	58,264	58,301
Total	**84,208**	**85,293**

At 31 December 2008 there were no outstanding repurchase agreements and therefore no comparatives have been provided.

The Group also purchases financial instrument under agreements to resell them at future dates ("reverse repurchase agreements"). The seller commits to repurchase the same instruments at an agreed future date. Reverse repurchases are entered into as a facility to provide funds of customers. At 31 December 2009 assets purchased subject to agreements to resell them are as follows:

In thousands of BGN	**Fair value of assets held as collateral**	**Carrying amount of corresponding receivables**
Bulgarian government securities	2,945	2,810
Total	**2,945**	**2,810**

At 31 December 2008 there were no outstanding reverse repurchase agreements and therefore no comparatives have been provided.

31. Capital and reserves

(a) Number and face value of registered shares as at 31 December 2009

As at 31 December 2009 the registered share capital of the Bank is BGN 110,000,000 divided into 110,000,000 ordinary dematerialized shares with voting rights of BGN 1 par value each. All the shares have been fully paid-up.

The share capital of the Bank was increased from BGN 100,000,000 to BGN 110,000,000 as a result of the successful IPO of new 10,000,000 dematerialized shares through the Bulgarian Stock Exchange – Sofia and was registered at the Commercial Register of Sofia City Court on 4 June 2007. In order to facilitate the IPO and prior to its launching the par value of the Bank's shares was reduced from BGN 10 to BGN 1 by a decision of the General Meeting of the Shareholders without affecting the aggregate amount of the share capital and the individual shareholdings.

(b) Shareholders

In October 2008 the shareholder Balkan Holidays Limited, London transferred all its FIB shares by splitting them in equal parts between Domenico Ventures Limited, British Virgin Islands and Rafaela Consultants Limited, British Virgin Islands, as a result of which their shareholdings in FIB increased to 9.72% each.

The table below shows those shareholders of the Bank holding shares as at 31 December 2009 together with the number and percentage of total issued shares.

	Number of shares	% of issued share capital
Mr. Ivailo Dimitrov Mutafchiev	31,830,000	28.94
Mr. Tzeko Todorov Minev	31,830,000	28.94
Legnano Enterprise Limited Cyprus	8,450,000	7.68
Domenico Ventures Limited, British Virgin Islands	10,695,000	9.72
Rafaela Consultants Limited, British Virgin Islands	10,695,000	9.72
Other shareholders (shareholders holding shares subject to free trade on the Bulgarian Stock Exchange – Sofia)	16,500,000	15.00
Total	**110,000,000**	**100.00**

Currently all newly issued shares plus the part of the existing shares held by First Financial Brokerage House Ltd. sold to new investors under the IPO (a total of 16,500,000 shares) are freely traded on the floor of the Bulgarian Stock Exchange – Sofia.

(c) Statutory reserve

Statutory reserves comprise amounts appropriated for purposes defined by the local legislation. Under Bulgarian law, the Bank is required to allocate 1/10 of its annual profit as statutory reserves until their aggregate amount reaches 1/10 of the Banks' share capital.

In 2009, as in the previous year, the Bank has not distributed dividends.

32. Commitments and contingent liabilities

(a) Memorandum items

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to two years.

The contractual amounts of commitments and contingent liabilities are set out in the following table by category. The amounts reflected in the table represent the maximum accounting loss that would be recognised at the end of the reporting period if counterparts failed completely to perform as contracted and any collateral or security proved to be of no value.

In thousands of BGN	2009	2008
Bank guarantees		
– in BGN	165,731	202,558
– in foreign currency	185,198	198,695
Total guarantees	**350,929**	**401,253**
Unused credit lines	289,482	407,465
Promissory notes	14,295	15,752
Letters of credit in foreign currency	98,749	129,294
Total	**753,455**	**953,764**

These commitments and contingent liabilities have off balance-sheet credit risk because only organisation fees and accruals for probable losses are recognised in the statement of financial position until the commitments are fulfilled or expire. Most of the contingent liabilities and commitments will expire without being advanced in whole or in part. Therefore, the amounts do not represent expected future cash flows.

As at the end of the reporting period there are no other significant commitments and contingencies which require additional disclosure.

At 31 December 2009 the extent of collateral held for guarantees and letters of credit is 100 percent.

33. Cash and cash equivalents

For the purposes of the cash flows statement, cash and cash equivalents comprises the following balances with less than 90 days original maturity:

In thousands of BGN	2009	2008
Cash and balances with central banks	603,792	742,284
Loans and advances to banks and financial institutions with maturity less than 90 days	8,292	10,050
Total	**612,084**	**752,334**

34. Average balances

The average carrying amounts of financial assets and liabilities are set out in the table below. The amounts are calculated by using a simple average of monthly balances for all instruments.

In thousands of BGN	2009	2008
FINANCIAL ASSETS		
Cash and balances with central banks	563,554	645,155
Financial assets held for trading	15,444	12,147
Available for sale investments	308,848	264,506
Financial assets held to maturity	39,407	75,719
Loans and advances to banks and financial institutions	26,581	30,140
Loans and advances to customers	3,002,265	2,866,998
FINANCIAL LIABILITIES		
Due to credit institutions	31,342	12,357
Due to other customers	3,045,372	2,531,518
Liabilities evidenced by paper	517,305	1,013,065
Subordinated term debt	57,176	52,368
Perpetual debt	98,245	97,949

35. Related party transactions

Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party on making financial or operational decisions, or the parties are under common control.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and other transactions. These transactions were carried out on commercial terms and at market rates. The volume of these transactions and outstanding balances at the end of respective periods are as follows:

Type of related party	**Parties that control or manage the Bank**		**Enterprises under common control**	
In thousands of BGN	**2009**	**2008**	**2009**	**2008**
Loans:				
Loans outstanding at beginning of the period	**2,455**	2,474	**11,728**	8,110
Loans issued during the period	**(325)**	(19)	**9,993**	3,618
Loans outstanding at end of the period	**2,130**	2,455	**21,721**	11,728
Deposits and other financing received:				
Deposits at beginning of the period	**6,419**	1,062	**4,090**	3,449
Deposits received during the period	**1,887**	5,357	**20,985**	641
Deposits at end of the period	**8,306**	6,419	**25,075**	4,090
Deposits placed				
Deposits at beginning of the period	**–**	–	**11,735**	11,735
Deposits matured during the period	**–**	–	**(7,823)**	
Deposits at end of the period	**–**	–	**3,912**	11,735
Off-balance sheet commitments issued by the Group				
At beginning of the period	**1,475**	387	**2,102**	2,108
Granted	**805**	1,088	**(780)**	(6)
At the end of the period	**2,280**	1,475	**1,322**	2,102

The key management personnel of the Group received remuneration of BGN 3,057 thousand for 2009 (2008: BGN 3,000 thousand).

36. Subsidiary undertakings

In April 2003 the Bank created a special purpose entity, incorporated in the Netherlands, First Investment Finance B.V., which is wholly owned by the Bank. Its purpose is to accomplish a narrow and well-defined objective of receiving loans from foreign financial institutions and attracting investors by issuing bonds and other financial instruments, guaranteed by the Bank, the proceeds from which are used to finance the operations of the Bank. The authorised share capital of the company amounts to EUR 90 thousand, divided into 900 common shares of EUR 100 each. Issued and paid up are 180 shares. The Bank consolidates its investment in this company.

(b) Diners Club Bulgaria AD

In May 2005 the Bank acquired 80% of the share capital of Diners Club Bulgaria AD. The company was incorporated in 1996 as a franchise and processing agent of Diners Club International. As at 31 December 2009 the registered share capital of the company is BGN 1,360 thousand, and the Bank's shareholding is 87.93%. The Bank consolidates its investment in the company.

(c) First Investment Bank – Albania Sh.a.

In April 2006 the Bank founded First Investment Bank – Albania Sh.a. with a 99.9998% shareholding. On 27 June 2007 First Investment Bank – Albania was granted a full banking licence by the Bank of Albania, and on 1 September 2007 effectively took over the activities of the former FIB-Tirana Branch by assuming all its rights and obligations, assets and liabilities.

As at 31 December 2009 the share capital of First Investment Bank – Albania Sh.a. is EUR 10,475 thousand, fully paid in and the Bank's shareholding is 99.999838%. The Bank consolidates its investment in the company.

37. Events after the reporting period

(a) Increase of share capital of Diners Club Bulgaria AD

On 23 February 2010 the Board of Directors adopted a decision to increase the share capital of Diners Club Bulgaria AD to BGN 1,860 thousand by issuing 500,000 shares, each with a nominal value and issuance price of BGN 1. All newly issued shares were acquired by the Bank, whereby its shareholding increased to 91.18%.

(b) Establishment of new companies affiliated to the Bank

Acting jointly the Bank and First Financial Brokerage House OOD (FFBH) set up two new companies Debita OOD and Realtor OOD, which were entered in Commercial Registry on 11 January 2010. Each of the new companies has a capital of BGN 150,000, which is divided in the following way:

1. Debita OOD – 70% or 105,000 shares held by the Bank, and 30% or 45,000 shares held by FFBH.

2. Realtor OOD – 51% or 76,500 shares held by the Bank, and 49% or 73,500 shares held by FFBH.

The affiliate companies are set up with the aim to act as servicing companies in accordance to Article 18 of the Special Purpose Investment Companies Act. Debita OOD will be engaged in the following activities – acquisition, servicing, management and transactions with receivables, as well as consultancy services in relation to such operations, and Realtor OOD – in the management, servicing and maintenance of real estates, the organization of construction and renovation of buildings, and consultancy services related to real estates.

Fullfilment of the Strategic Goals for 2009

Despite the worsened business environment resulting from the global financial crisis, in 2009 First Investment Bank fulfilled its strategic goals, as follow:

Goals	Fulfillment
Continue to be a leading credit institution trusted by both its shareholders and its clients, while maintaining an adequate balance between risk, capital and profitability	FIBank continued to be among the top 10 banks in the country retaining its sixth position in terms of assets (on unconsolidated basis). With positive financial results (Group profit after tax of BGN 29.8 million) and heightened requirements for risk management, despite the worsened macroeconomic environment, FIBank improved its balance between risk, capital and profitability (tier 1 capital ratio 10.39%, total capital adequacy ratio 13.83%). The stable business model, the flexible policy together with the new products and the high quality of customer service laid down the foundations of the Bank's good image and trust of shareholders and customers. In 2009 FIBank's customer base increased to nearly 1 million on an unconsolidated basis.
To develop further the internal rating approach for risk assessment in accordance with Basel II with a view to meet BNB requirements for the approval of internal models	During the last year FIBank improved its scoring models in terms of the precise assessment of customers' creditworthiness in accordance with the changing business environment and heightened requirements. The development of analytical and statistical models together with qualitative indicators and assessments laid down the foundation of FIBank's ratings system, which aimed at the maximum objectivity of credit risk assessment. The credit rating is also the basis for the price-formation of credit deals and for the allocation of the internal capital of the Bank. FIBank systematically improved the internal rating approach for risk assessment, with the aim of complying with regulatory requirements.
To retain its leading position among banks in Bulgaria	On an unconsolidated basis FIBank ranged sixth in terms of assets, sixth in loans, sixth in deposits, seventh in profit, eighth in shareholders' equity, among the leading banks in the card business, and in international payments and trade finance.
To increase the capital base with an emphasis on Tier 1 capital	FIBank increased the capital base to BGN 483,657 thousand or by BGN 32,335 thousand more than the previous year (BGN 451,322 thousand), as the growth resulted from the increased amount of tier 1 capital, which was due to net profit capitalization.
To increase operating efficiency by optimising the volume and structure of expenses	FIBank increased its cost controls by implementing centralized management of all operating expenses, written procedures and requirements when conducting tenders for suppliers' selection and confirmation of all current expenses. The complex measures contributed to the reduction of the general administrative expenses by BGN 11,811 thousand to BGN 144,358 thousand at the end of the year.
To optimise its corporate structure by emphasizing a centralised approach, while preserving decision-making flexibility in accordance with market demand and changes in the external environment	Having in mind the challenges of the market environment FIBank widened the centralized approach when managing business processes and risks, by developing its centralized information system as well as by administrative and procedural schemes and limits, and and approval limits based on clear rules for assumption of responsibilities with the aim at preserving the flexibility and quality of customer service.
To maintain its position as a leader among banks in Bulgaria in terms of international transactions and trade finance, as well as develop its programme for inclusion in the TARGET 2 interbank payment system for real-time processing of cross-border transfers between EU member states	With a market share of 8.8% (sent) and 9.7% (received) cross-border operations – financial instruments for trade financing, with a network of correspondent banks of over 600 banks from all over the world and execution of transfers in over 60 foreign currencies, FIBank retained its position among the leading banks in the country in terms of international payments and trade finance. FIBank successfully prepared its activities for accession in the payment system TARGET2-BNB for real-time execution of transfers in euro.

To provide further opportunities for FIBank's clients to use specialised credit lines through external funding from FIBank's correspondent banks	FIBank signed an agreement with the National Guarantee Fund for ensuring guarantees of up to 50% for loans granted to companies which are customers of FIBank. FIBank ensured its customers which deal with the import of agricultural production the opportunity to receive financing from US banks through the guarantee mechanism GSM-102.
To retain its position as one of the leading banks in corporate financing, with an emphasis on programs for the utilisation of EU structural and cohesion funds	The corporate financing retained its dominant share in the assets of the Group – 56.0% (2008: 53.1%; 2007: 49.8%), as FIBank ranked among the leading banks in the country with its fifth position on unconsolidated basis. The programs related to the utilization of EU structural and cohesion funds will continue to be a priority in 2010.
To optimise its distribution channels, including the branch network, ATM and POS terminal network	In the reporting period FIBank fulfilled its program for optimization of the distribution network by closing 6 offices with low profitability in Bulgaria as well a branch in Tirana. The 'Sofia' branch was restructured and united with the Head office, while the office 'Pernik' was turned into a separate branch. The Bank's network of ATM and POS terminals was optimized as well – 669, totalling 7,941 at the end of 2009. Sales at customers' officess, the Contact Centre and the Virtual banking branch were further developed throughout the year, in order to respond to the growing needs of distant banking.
To increase the share of net fee and commission income in the total income from banking operations by developing and introducing new competitive commission-related products and services, as well as by increasing the number of clients	Due to the development of the financial crisis and the fast shrinkage of business volumes in the country as well the decrease in trade and banking operations, this goal was not fulfilled. The share of the net fee and commission income in the total income from banking operations remained high at 26.8% (2008: 29.7%; 2007: 26.1%).
To improve further the quality of the customer service	The strategic goal for ensuring high quality standards of customer service is one of the main pillars in the business model that FIBank follows and is one of the main factors that contributed for the good financial results of the Bank in the financial crisis conditions. The award "Bank of the Customer" of "Pari" daily, which FIBank received for the forth time, as well as letters of gratitude from satisfied customers, are only part of the proof of this.

Strategic Goals for 2010

- To continue to be among the top 10 leading banks in the country, trusted by both its shareholders and its customers, while maintaining an adequate balance between risk, capital and profitability;
- To develop further its management information systems by implementing a specialized information module for automatic generation and procession of standardize information for managing and controlling purposes;
- To increase its capital base with an emphasis on tier 1 capital;
- To continue to maintain an adequate liquidity ratio, corresponding to the market environment;
- To increase its loan portfolio in accordance with growing trends of the banking market in the country, while maintaining its high standards of credit risk management and assessment;
- To develop its card payments in line with the development guidelines of the Single Euro Payment Market;
- To retain its position as a leading bank in Bulgaria in terms of international payments and trade finance and to increase further the opportunities to its customers to use specialised credit lines of international financing from FIBank correspondent banks;
- To continue to finance competitive projects, with an emphasis on the programmes for the utilization of EU funds;
- To increase net fee and commission income, including an increase in income from financial instruments related to the servicing of foreign trade operations;
- To increase operating efficiency by optimizing the volume and structure of expenses;
- To optimize and increase the activity of the branch network and other distribution channels, such as the Contact Centre, ATM and POS terminals;
- To develop further the activity of its virtual banking branch in order to respond better to the growing needs of electronic banking;
- To maintain its strategic focus on high standards of customer service and innovative products and approaches. To develop and implement a new loyalty program for its customers;
- To emphasize human capital management, with the aim to keep and to encourage good employees and to invest in their future development.

Other Information

Members of the Supervisory Board

Georgi Mutafchiev – Chairman of the Supervisory Board

In 1991 he joined the Bulgarian National Bank (BNB) as Foreign Currency Reserve Manager. In 1997 he was appointed Executive Director of Flavia AD. He is a graduate of Sofia University and has a Master's Degree in Law. He also attended the Sorbonne, Paris from where he has a PhD in Business Law. He also has an MBA in Business Administration from Schiller University, Paris.

Besides his position on the Supervisory Board of First Investment Bank, Mr. Mutafchiev also participates in the Management of Flavia AD and Flavin AD.

Todor Breshkov – Member of the Supervisory Board

In 1999 Mr. Todor Breshkov started work at First Financial Brokerage House OOD in the "Corporate Finance and Analyses" department, and since 2001 he has been elected as a General Manager of FFBH. Mr. Breshkov graduated with a degree in Business Administration from Sofia University "St. Kliment Ohridski".

Besides his position on the Supervisory Board, Mr. Breshkov is also a partner in First Financial Brokerage House OOD, a member of the Board of Directors of Bulgarian Stock Exchange – Sofia AD, and a Chairman of the Board of Directors of Real Estate Fund – Bulgaria REIT.

Mr. Breshkov is a partner in and holds more than 25% of the capital of Breshkov i Sinove OOD and Globus Balistik OOD.

Radka Mineva – Member of the Supervisory Board

Her career started as an external trade expert. Later she worked in RVM Trading Company. Mrs. Mineva has worked in BNB as a capital markets dealer.

She is a graduate from the University of National and World Economy in Sofia, with a degree in Trade and Tourism. She has specialised at the Frankfurt Stock Exchange and at the London Stock Exchange.

Besides her position on the Supervisory Board of the Bank, Mrs. Mineva is a manager of Balkan Holidays Services OOD.

Nedelcho Nedelchev – Member of Supervisory Board

Mr. Nedelcho Nedelchev was appointed a member of the Supervisory Board in February 2007. From 1997 he worked as a financial analyst in First Financial Brokerage House OOD and in 2001 became one of its managers and a partner. In 2003 he assumed the duties of Deputy Minister of Transport and Communications. From September 2005 till July 2006 Mr. Nedelchev was a consultant in the Ministry of State Administration.

Mr. Nedelchev has a Master's degree in International Economic Relations from the University of National and World Economy in Sofia. Mr. Nedelchev was awarded a certificate from the Wholesale Markets Brokers' Association (London) for working at the international financial and commodities markets in 2000.

Besides his position on the Supervisory Board of the Bank, Mr. Nedelchev is a manager in First Financial Brokerage House OOD, a manager and a Partner in Project Synergy OOD, a member of the Board of Directors and an Executive Director of Bulgarian Alternative Energy Company AD and Solarfin Bulgaria Energy AD, and he is a member of the Board of Directors of Bianor Holding AD and of Expat Alpha AD. Mr. Nedelchev is a member of the Board of Directors and a representative of Vitosha Ventures AD, a manager of Debita OOD and Realtor OOD, and he is a member of the Board of Directors of Expat Capital AD, and a manager in Sofia Opportunity OOD.

Mr. Nedelchev holds more than 10% of the capital of Bulgarian Alternative Energy Company AD.

Kaloyan Ninov – Member of the Suprvisory Board

Mr. Kaloyan Ninov was appointed as a member of the Supervisory Board of First Investment Bank in February 2007. Mr. Ninov had previously worked as an investment manager and was a member of the Managing Board in the National Privatisation Fund "Nadezhda" (Bulgaria). In 1993 he joined First Financial Brokerage House OOD as securities broker and was subsequently promoted to Head of the Securities Department and Manager. Mr. Ninov has sat as a member of the Managing Board of the Bulgarian Association of Licenced Investment Intermediaries and in 2000-2001 was president of the Association. In 2001 he was appointed Deputy Minister of Economy. From 2004 to 2006 he was a manager of Balkan Holidays Services OOD.

In addition to his position on the Supervisory Board of FIBank, Mr. Ninov is a partner in and holds more than 10% of the capital of MNI OOD.

Members of the Managing Board

Matthew Mateev – Chairman of the Managing Board and Executive Director

Mr. Matthew Mateev joined the Bank in 1993. In 1998 he was appointed member of the Managing Board and Executive Director. In 2006 he was appointed Chairman of the Managing Board and Executive Director. Mr. Mateev has a long experience in corporate banking.

Mr. Mateev holds a Master's in Accounting and Control and in International Economic Relations from the Higher Institute of Economics (now the University of National and World Economy) in Sofia. In 2006, he was named ''Banker of the Year'' by the Bulgarian financial weekly "The Banker".

In the Bank he is responsible for the Corporate Banking Department, the Microlending Department, the Legal Department, the Impaired Assets and Provisioning Department and the Loan Administration Department.

Besides his position in the Bank, Mr. Matthew Mateev is also a Chairman of the Steering Council and a member of the Audit Committee of First Investment Bank – Albania Sh.a, and a member of the Supervisory Board of UNIBank, Republic of Macedonia.

Maya Georgieva – Member of the Managing Board and Executive Director

Ms. Maya Georgieva joined the Bank in 1995 as a director of the International Department. In 1998 she was appointed Executive Director of the Bank. Before joining the Bank Ms. Georgieva was a Deputy General Director responsible for money markets in the Bank for Agricultural Credit. Previously she spent 19 years of her career at Bulgarian National Bank and has considerable experience in international banking. Her last appointment at BNB was as the Head of the "Balance of Payments" Division.

She holds a Master's in Macroeconomics from the Higher Institute of Economics (now the University of National and World Economy) in Sofia. She has a specialisation in international payments at the International Monetary Fund and a post-graduate specialisation with the Bulgarian Scientific-Technical Union. In 2001, she was named ''Banker of the Year'' by the Bulgarian financial weekly "The Banker".

In the Bank she is responsible for the International payments Department, the Marketing, Advertising and Public Relations Department, the SME Lending Department, the Sales Department, the Human Capital Management Department and the Administration Department.

Besides her position in the Bank, Ms. Georgieva is also a Chairman of the Supervisory Board of CaSys International (Republic of Macedonia), a Chairman of the Board of Directors of Diners Club Bulgaria AD and a member of the Steering Council of First Investment Bank – Albania Sh.a.

Jordan Skortchev – Member of the Managing Board and Executive Director

Mr. Jordan Skortchev joined the Bank in 1996 and has been Executive Director since 2000. Mr. Skortchev's career started as an assistant manager in the Central and Latin America Department of the foreign trade organisation "Intercommerce" in Bulgaria and Head of the Treasury Division in First Private Bank, Sofia. He holds a Master's in International Economic Relations from the Higher Institute of Economics (now the University of National and World Economy) in Sofia. He has specialised in banking in Luxembourg, swap deals at Euromoney, and futures and options at the Chicago Stock Exchange.

In the Bank he is responsible for the Card Payments Department, the Operations Department, the Dealing Department, the Gold and Commemorative Coins Department, the Private Banking Department, and the Vault.

Besides his position in the Bank, Mr. Skortchev is also a Chairman of the Supervisory Board of UNIBank, Republic of Macedonia, a member of the Supervisory Board of CaSys International, Republic of Macedonia, and a member of the Board of Directors of Diners Club Bulgaria AD and Bankservice AD.

Mr. Skortchev holds more than 10% of the capital of Delta Stock AD.

Evgeni Lukanov – Member of the Managing Board and Executive Director

Mr. Evgeni Lukanov joined the Bank in 1998 first as Deputy Director, then as Director and General Manager of the Tirana Branch, Albania. From 2001 to 2003 he was a Director of the Bank's Vitosha Branch (Sofia). From 2003 to 2007 he was a Director of the Risk Management Department and a Member of the Managing Board, and since 2004 he has been an Executive Director and a member of the Managing Board. Previously, Mr Lukanov worked as a currency dealer in FFBH. He holds a Master's in Economics from the University of National and World Economy, Sofia.

In the Bank he is responsible for the Risk Management Department, the Methodology Department, the Retail Banking Department, and the Liquidity Department; jointly with Mr. Mateev – for the Impaired Assets and Provisioning Department and the Loan Administration Department and jointly with Mr. Skorchev – for the Private Banking Department.

Besides his position in the Bank, Mr. Lukanov is also a member of the Steering Council and of the Audit Committee of First Investment Bank – Albania Sh.a, a Chairman of the Board of Directors of FFBH Asset Management AD, and a manager of Debita OOD and Realtor OOD. Mr. Lukanov holds more than 10% of the capital of Avea OOD.

Maya Oyfalosh – Member of the Managing Board and Director of the Corporate Banking Department

Mrs. Maya Oyfalosh joined the Bank in 1993 as a credit specialist. Later she was promoted to Director of ''Analysis of Corporate Loans'' and elected as a member of the Credit Council of the Bank. Previously, Mrs. Oyfalosh had worked as a department director at First West Finance House and as a credit specialist at First Private Bank. In 2004, Mrs. Oyfalosh was appointed Director of Corporate Banking Department and elected as a member of the Managing Board.

Mrs. Oyfalosh does not hold outside professional positions.

Radoslav Milenkov – Member of the Managing Board and Chief Financial Officer

Mr. Radoslav Milenkov has been the Chief Financial Officer and a member of the Managing Board since 2005. He joined the Bank in 2003 as a head of the Internal Audit Department.

Previously, Mr. Milenkov had worked as an external auditor in Deloitte&Touche. He holds a Master's in Finance from the University of National and World Economy in Sofia.

Besides his position in the Bank, Mr. Milenkov is also a member of the Supervisory Board of CaSys International, Republic of Macedonia, a member of the Supervisory Board of UNIBank, Republic of Macedonia and a member of the Audit Committee of First Investment Bank – Albania Sh.a.

Ivan Ivanov – Member of the Managing Board and Regional Director for North-Eastern Bulgaria

Mr. Ivan Ivanov joined the Bank in 1999 as a Director of the Varna Branch. Since 2003 Mr. Ivanov has been a member of the Managing Board. From 2003 to 2004 he was a Director of the Branch Network Department, and since 2004 he has been the Regional Director for North-Eastern Bulgaria. Previously, Mr. Ivanov was a Director at First Private Bank.

Mr. Ivanov holds a degree in Economics and a Master's degree in Construction Economics from the Higher Institute for National Economy (now the University of Economics) in Varna.

Besides his position in the Bank, Mr. Ivanov is also a member of the Supervisory Board of UNIBank, Republic of Macedonia, a partner and a manager of ICON 54 EOOD, a Partner in and holds more than 25% of the capital of Dives plus OOD, Zhivotni i Ptitsi OOD and a Partner in Bratya VG OOD.

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