Annual report 2010

Fibank
First Investment Bank

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Message from the Managing Board

Dear shareholders, clients and colleagues,

In 2010, despite the first signs of recovery, the crisis continued to be a dominant factor in the economic life of the country. It affected the behavior of all sectors – public, private, as well as households. There was sluggish investment activity and caution in taking decisions on current expenditures combined with lower consumption. This, along with stricter criteria in risk assessment, were among the main features of the macroeconomic environment in the past year. Despite conditions of external volatility, however, the banking system in Bulgaria remained stable. Growth opportunities continued, encouraged by the consistent policies of the Bulgarian National Bank.

First Investment Bank is the largest bank with Bulgarian capital and once again reaffirmed its position among the leading credit institutions in the country. Regardless of market fluctuations, Fibank continued to follow its long-term strategy of giving priority to high standards in customer service. This accounts for its sustainable growth under conditions of global downturn. Thanks to a balanced and coherent approach towards achieving profit, growth and efficiency, in 2010 the Bank reported improved balance sheet indicators and financial results. Its assets grew by 21.6 percent to BGN 4,999 million compared to BGN 4,112 million a year before, with its market share on this indicator increasing by 0.93 percentage points over 2009, to 6.71%; its loan portfolio grew by 15.2% to BGN 3,417 million (2009: 2,966 million), and its market share by 0.69 percentage points, to 6.54%. Notwithstanding the increased impairment costs resulting from the strained business environment, the Bank generated a net profit of BGN 28 million, while preserving its capital buffers and a high level of liquidity. Total capital adequacy ratio was 13.23%, and liquidity stood at 26.06%. Confidence in the Bank was preserved and even increased, sound evidence of which was the increase in the customer deposit base by 28.3%, to BGN 4,286 million from 3,340 million in 2009, as well as increase in market share by 1.39 percentage points to 8.96%.

In 2010 the Bank continued to pursue a policy of cost optimization and a tightening of controls over risk management, while preserving its flexibility and adaptability to customer demands and needs. Fibank maintained its position among the market leaders in the fields of card payments, international transfers, the sale of investment gold, articles from precious metals, and other unique products and services.

Corporate values and culture are especially important for the development of the Bank and the implementation of its strategic objectives and programs. We, the management of First Investment Bank, have identified the time of crisis as appropriate for restructuring, process optimization, and for the development of products and services. In 2010, with the assistance of IFC (International Finance Corporation) as a consultant, we devoted time and resources to a new organizational structure, aimed at increasing the efficiency of business processes, risk management, and good corporate governance.

Our plans for development of the branch network were revised, with some of the largest offices in Bulgaria being restructured into branches for the purpose of business development. The plans for development of Fibank branches in Cyprus and its subsidiary bank in Albania were also updated. During the reporting period Fibank acquired participation in new companies with a view to diversify the portfolio and open new opportunities for ancilliary activities. With particular satisfaction the employees of the Bank accepted a shareholding in the Health Insurance Fund FiHealth AD, providing them with highly qualified medical services combined with very good conditions and modern equipment.

In 2010 we also devoted time and resources to the development of new products, services and technology. Fibank was the first bank in the country to introduce PayPass technology for contactless payments , an innovative service with a new generation of bank cards. Special attention was paid to the improvement of services through the Virtual Banking Branch of Fibank, both in terms of security and the development of new services such as telephone banking and Internet banking via mobile phones. And the YES loyalty program was launched with a bonus point program for loyal customers, which places the Bank among the pioneers in this product niche.

At the end of 2010, the management of Fibank was reinforced by young and promising new Managing Board members and deputy executive directors (Vassil Christov, Dimitar Kostov and Svetoslav Moldovansky) – managers with modern thinking, flexibility and determination for the active development of the Bank. We, the management of Fibank, believe that with the measures taken during the crisis, we have prepared Fibank for the period of revival that lies ahead.

Regardless of the conditions and periods in which we operate, we never forget that the Bank is part of Bulgarian society and that we have social responsibilities. In 2010, six social projects were implemented, providing practical training for children deprived of parental care with a view to their re-socialization, personal development and future achievement in life. The Bank continued to actively promote and support the participation of its employees in social initiatives through volunteer work and charity. It was awarded a prize for the greatest contribution through volunteer work of staff at the Ceremony for the Largest Corporate Donor, organized by the Bulgarian Donors' Forum.

In February 2011 our longtime colleague – Executive Director and Chairman of the Board of Fibank – Mr. Matthew Mateev, passed away. He was not only a well-known and respected professional in the banking and financial community in Bulgaria, but was also much liked by partners, customers and counterparties of the Bank in Bulgaria and abroad, and especially by the Bank's staff. During his work with Fibank, Mr. Mateev not only managed to achieve a high level of well-deserved trust, but also to protect the interests and reputation of the Bank through years of crisis and progress.

We are aware that we would not have continued so successfully without the professionalism and loyalty of our employees. We deeply appreciate the support and commitment of our shareholders, who have helped us to overcome the obstacles of the external environment. We also greatly appreciate the consistent counter-cyclic policy pursued by the Central Bank, which managed to successfully lead the banking system through the crisis of the recent years. To all of them we give our thanks.

'Bulgarian Symbols and Traditions' - this is the latest in Fibank's collectors' series of coloured silver coins. It shows the three symbols of Bulgaria - Survachka, Martenitsa and the Bulgarian rose. This is also our message to our customers, counterparts, colleagues and friends – three symbols which, despite all the challenges and reversals, will abide in time. Let's enter the new decade confident and prepared for the new challenges that await us.

The Managing Board of First Investment Bank AD

Sofia, March 2011

Managing

Maya Oyfalosh
Member of the MB

Dimitar Kostov
Deputy Executive Director

Evgeni Lukanov
Executive Director

Maya Georgieva
Executive Director

Board

Matthew Mateev [1960–2011]
Executive Director;
Chairman of the MB

Jordan Skortchev
Executive Director

Svetoslav Moldovansky
Deputy Executive Director

Vassil Christov
Deputy Executive Director

Macroeconomic development

In 2010 the Bulgarian economy reported indications for recovery from the recession under the influence of growing external demand and a more favourable international situation. Economic activity remained unstable, due to a number of ongoing factors related to internal consumption, the labour market and low investment activity. Macroeconomic stability in the country was preserved due to a balanced fiscal policy, the Currency Board Agreement and the highly regulated banking system.

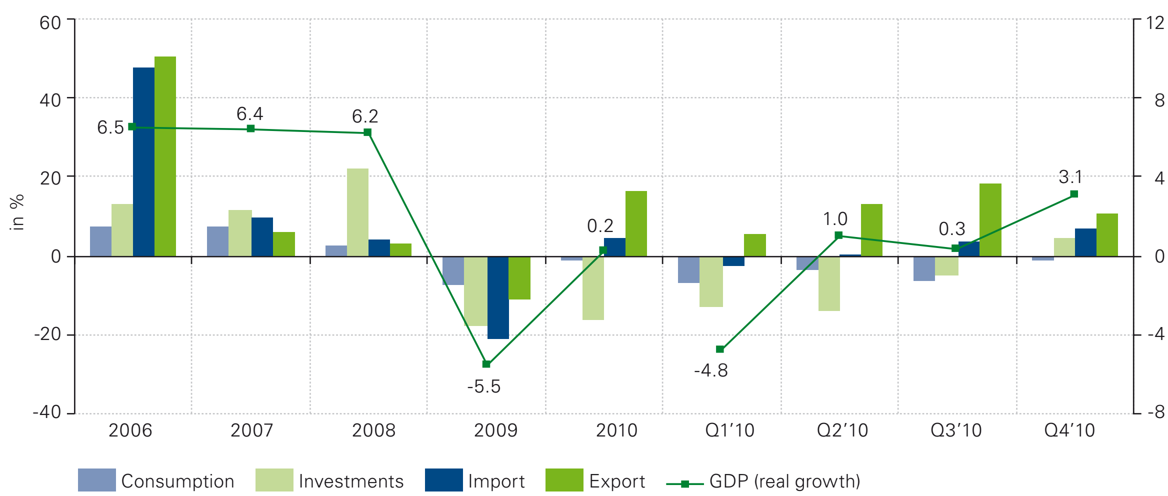
Table 1: Macroeconomic indicators

	2010	2009	2008	2007	2006
Gross domestic product, real growth (%)	0.2	(5.5)	6.2	6.4	6.5
Consumption, real growth (%)	(1.1)	(7.3)	2.6	7.2	7.5
Gross fixed capital formation, real growth (%)	(16.5)	(17.6)	21.9	11.8	13.1
Inflation at period-end (%)	4.5	0.6	7.8	12.5	6.5
Average annual inflation (%)	2.4	2.8	12.3	8.4	7.3
Unemployment (%)	9.2	9.1	6.3	6.9	9.1
Current account (% of GDP)	(0.8)	(9.9)	(23.1)	(25.2)	(17.6)
Trade balance (% of GDP)	(6.7)	(11.9)	(24.3)	(23.5)	(21.0)
Foreign exchange reserves of BNB (in EUR million)	12,977	12,919	12,713	11,937	8,926
Foreign direct investments (% of GDP)	3.8	9.4	18.9	29.4	23.5
Gross external debt (% of GDP)	102.3	107.9	104.7	94.3	82.0
Public sector external debt (% of GDP)	11.9	11.9	11.0	13.3	18.0
Average exchange rate of USD (BGN for 1 USD)	1.47	1.36	1.39	1.33	1.49

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

During 2010 the country's economy slowly came out of recession, registering economic growth of 0.2% for the year (2009: a fall of 5.5%). The trend of GDP growth increased in the last quarter of 2010 with real growth reaching 3.1%. A contributing factor to this recovery was the 16.2% growth in export volumes, resulting from increased external demand and a better international situation.

Chart 1: GDP composition (real growth)



Source: National Statistics Institute

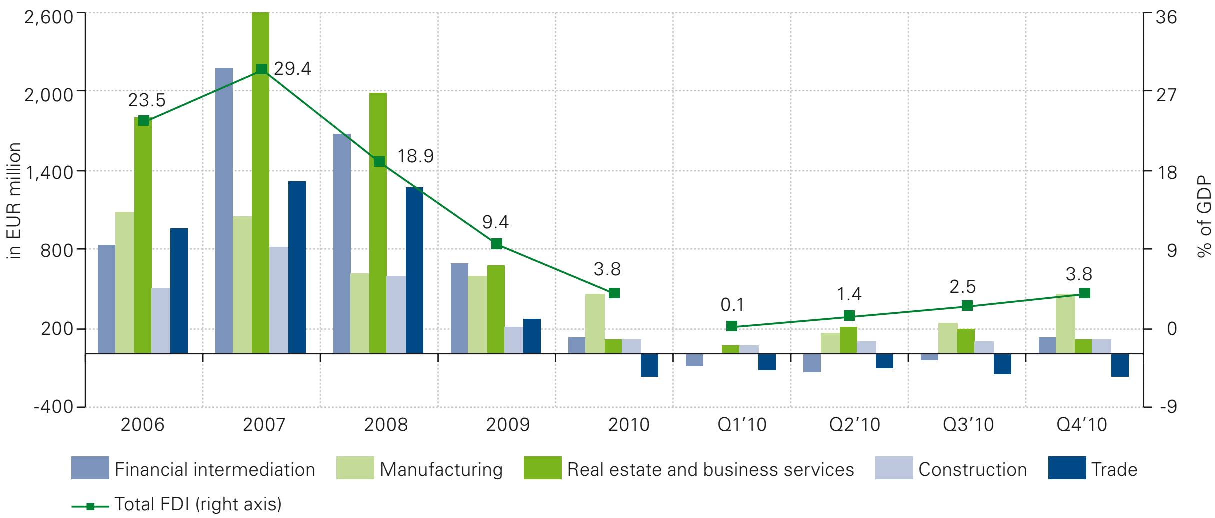
Factors which supressed economic growth were low investment activity, which dropped by 16.5% during the year (2009: -17.6%) and final consumption, which decreased by 1.1% (2009: 7.3%), influenced by income dynamics related to the drop in employment and to the increased savings rate of individuals.

The highest growth was registered in the agricultural sector (by 3.9%), a result of the good climate and the increased export of raw materials for food products. In the industrial sector there was growth in mining and manufacturing (by 2.3%) and in construction (by 0.9%). In the services sector growth was registered in business services and financial intermediation (by 1.3%), and a drop in trade and transportation by 1.8%, as well as in government and health services and education.

Despite export activity, the recovery of the economy continued to face constraints related to the labour market and the smaller inflow of foreign capital. The unemployment rate remained at high levels – at 9.2% for 2010 (2009: 9.1%; 2008: 6.3%; 2007: 6.9%; 2006: 9.1%), but was commensurate with the EU which was at 9.6% (2009: 9.5%) and the Euro area at 10.0% (2009: 9.9%).

Foreign direct investments continued to decline. They amounted to EUR 1,359 million (3.8% of GDP) at the end of the year, or 58.6% less than in 2009 – EUR 3,282 million (9.4% of GDP).

Chart 2: Foreign direct investments in Bulgaria



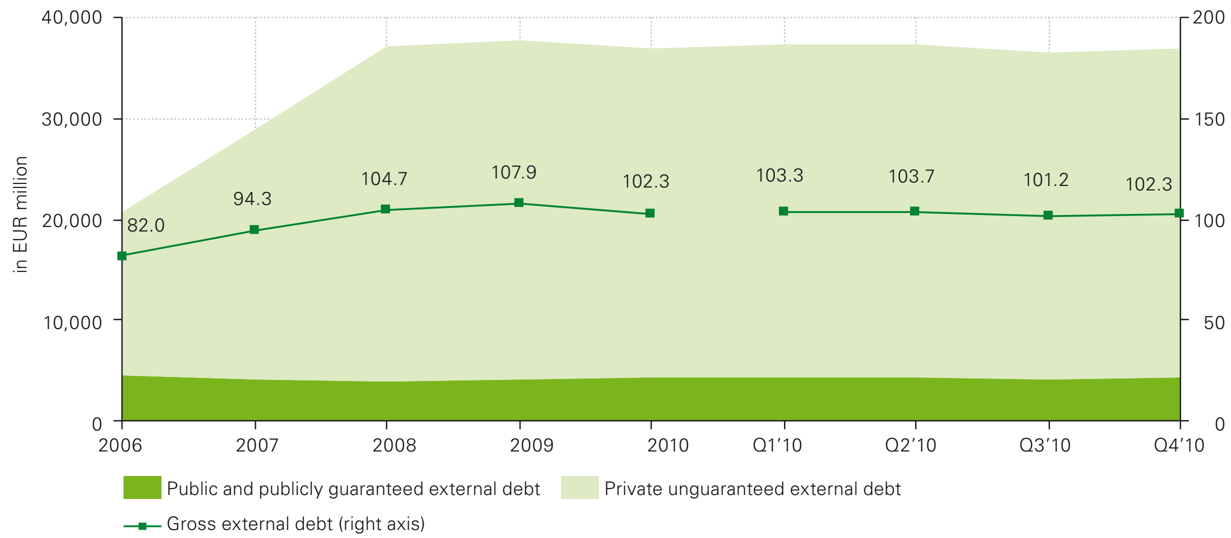
Source: Bulgarian National Bank

Most investments during the period were attracted to manufacturing (EUR 453 million), followed by transport and the communication sector (EUR 228 million) and the electricity and thermal power production sector (EUR 211 million). The largest net outflow was in the trade, repairs and technical service sector (EUR 167 million).

Despite the lower inflow of foreign capital, the country's external position remained resilient, supported mainly by a shrinking of the current account deficit and its coverage by foreign direct investments – 481% (2009: 94.4%). The current account balance was negative at the end of the reporting period on the amount of EUR 283 million (0.8% of GDP), twelve times less than a year earlier (2009: EUR 3,477 million or 9.9% of GDP).

This cut in the current account deficit reflected the decreasing trade balance due to higher growth in export volumes of goods and services. Exports grew during 2010 and reached EUR 15,554 million or 33% more than a year earlier, influenced mainly by growth in investment goods and raw materials, and higher international prices. Imports increased at a slower pace of 13.1% and reached EUR 17,955 million, due to a slower recovery of economic activity and internal demand. Trade volumes with EU countries decreased in the reporting period, compared to those with Russia and with the Balkan region countries. Nevertheless, the EU remained the country's main trade partner, taking 60.8% of exports (2009: 64.9%) and 59.2% of imports (2009: 60.5%)..

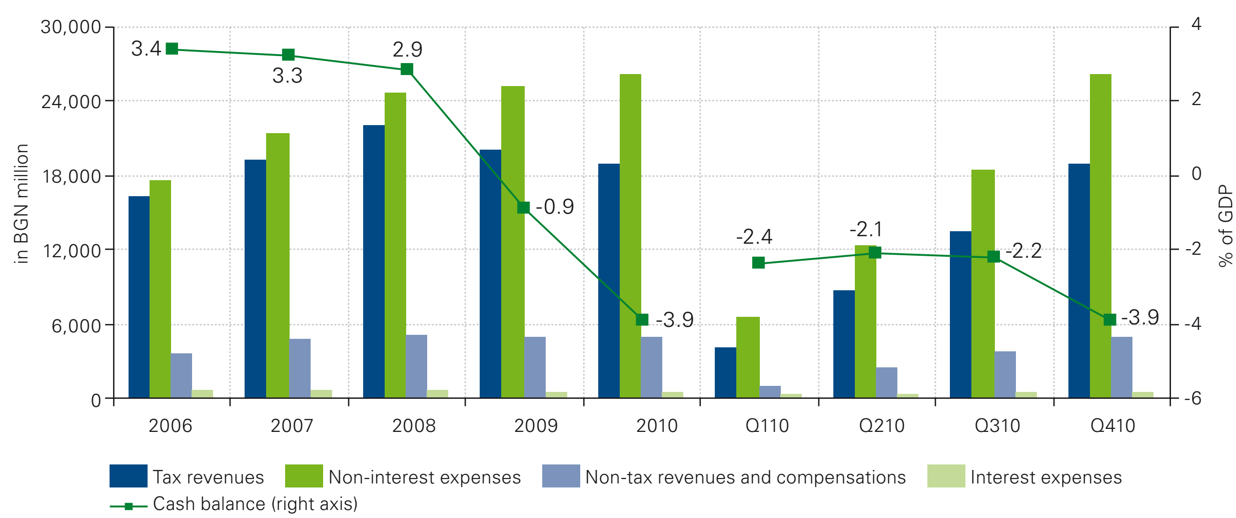
Chart 3: Gross external debt



Source: Bulgarian National Bank

The country's gross external debt decreased by 2.4% to EUR 36,918 million or 102.3% of GDP at the end of 2010 (2009: EUR 37,808 million or 107.9% of GDP). This decrease was at the expense of private unguaranteed external debt and more specifically of banks' short-term liabilities. Public and publicly guaranteed external debt, on the other hand, increased by 2.6% to EUR 4,283 million (2009: EUR 4,175 million) resulting from new loans negotiated with the European Investment Bank, but remained low as a percentage of GDP at 11.9% (2009: 11.9%; 2008: 11.0%; 2007: 13.3%). The foreign exchange reserves of BNB covered 113.7% of short-term external debt, compared to 104.6% a year earlier.

Chart 4: Budget composition



Source: Ministry of Finance

In 2010 the consolidated budget deficit increased to reach BGN 2,783 million or 3.9% of GDP, compared to BGN 626 million (0.9% of GDP) a year ago. The increased budget deficit resulted from lower tax revenues mainly from corporate tax – by 23.1% to BGN 1,243 million (2009: BGN 1,617 million), due to a shrinkage in company profits influenced by the recession and the slow recovery of economic activity. Revenues from excise duties also decreased by 7.2% to BGN 3,568 million (2009: BGN 3,845 million), resulting from the lower consumption of tobacco products, while revenues from VAT decreased by 2.6% to BGN 6,267 million (2009: BGN 6,433 million) due to a shrinking in internal demand and final consumption. Expenses in the consolidated fiscal program increased by 4.1% during the year, as a result of growing social security and health insurance compensations, and increased subsidies to the agricultural sector. The budget deficit was financed mainly by funds from the fiscal reserve, which decreased by 21.6% during 2010 to BGN 6,012 million (2009: BGN 7,673 million), acting as a buffer and ensuring financial flexibility in times of crises.

A tendency for higher inflation was observed in 2010, with accumulated inflation reaching 4.5% by the end of the year (2009: 0.6%). Key factor for this dynamics was the significant increase in the international prices of energy products and agricultural raw materials, and its impact on the end consumer prices of food and fuel in the country. The increased excise duties on tobacco products also contributed to the tendency. Harmonized inflation, which is a comparable measure for inflation in the EU countries and one of the price stability criteria for joining the Euro zone, rose to 4.4% (2009: 1.6%).

The good level of human capital development, along with the business climate and the political stability resulting from EU membership, as well as strict fiscal discipline and maintenance of the tax burden, became the basis for the decision of two international rating agencies to raise their estimates on the country's outlooks during the year (Moody's Investor Service from negative to stable, and Japan Credit Rating Agency from stable to positive). Long-term credit ratings were confirmed.

Table 2: Credit rating of Bulgaria

Rating agency	Long-term rating	Outlook	Rating actions in 2010
Standard & Poor's	BBB	stable	confirmed rating – December 2010
Moody's Investor Service	Baa3	positive	improved outlook – January 2010 confirmed rating – August 2010
Fitch Ratings	BBB-	negative	confirmed rating – August 2010
Japan Credit Rating Agency	BBB	stable	improved outlook – October 2010

Source: Ministry of Finance

The main challenges for the further recovery of economic activity in Bulgaria in 2011 remain the encouragement of investment activity, increasing capital expenditures, overcoming negative trends in the labour market, and strengthening of consumer demand. The effective use of EU funds remains among the priorities for achieving long-term and sustainable economic development.

The banking system

In 2010, the banking system in Bulgaria managed to significantly offset the negative processes in the domestic and international economic environment, while showing good financial indicators, preserving the buffers formed in the capital base and liquidity, and retaining its capacity for enhancing credit intermediation. The main problems faced by the system remained increasing credit risk and the associated increase in impairment charges, which placed pressure on the profitability of the banks.

The capital position of the system remained strong due to a more cautious banking policy in taking risks and to an increase in general reserves resulting from retained earnings. The total capital adequacy ratio rose by 0.44 percentage points and reached 17.48% at the end of 2010 (2009: 17.04%; 2008: 14.86%) and tier 1 capital by 1.21 percentage points to 15.24% (2009:14.03% 2008: 11.16%). The buffer of capital above the regulatory minimum of 12% increased to reach BGN 2,794 million (2009: BGN 2,754 million; 2008: BGN 1,513 million).

The liquidity of the system improved as a result of the available free resources and the increased investment in securities, while remaining adequate to the structure of assets and customers' behavior. The limited lending activity and the sustainable growth of deposits had improved liquidity indicators – the liquidity ratio reached 24.37% (2009: 21.90%; 2008: 21.71%) the loans-to-deposits ratio amounted to 93.67% (2009 : 96.82%), and cash funds reached 9.9% of assets in the system (2009: 9.0%).

Table 3: The banking system – key indicators

	in %			change in p.p.	
	2010	**2009**	**2008**	**2010/ 2009**	**2009/ 2008**
Capital adequacy ratio	17.48	17.04	14.86	0.44	2.18
Tier 1 capital ratio	15.24	14.03	11.16	1.21	2.87
Liquidity ratio	24.37	21.90	21.71	2.47	0.19
Loans-to-deposits ratio	93.67	96.82	92.83	(3.15)	3.99
Return-on-equity (ROE)	6.73	9.29	20.45	(2.56)	(11.16)
Return-on-assets (ROA)	0.86	1.12	2.14	(0.26)	(1.02)
Loans with 90 days overdue	11.90	6.42	2.42	5.48	3.92

Source: Bulgarian National Bank

In 2010, the profitability of the banking system remained under pressure primarily due to impairment charges, which increased by 26.6%, but this increase was more moderate compared to 2009/2008 period (215.2%). The reported profit after tax for 2010 decreased by 20.9% to BGN 617 million (2009: BGN 780 million; 2008: BGN 1,387 million), the return-on-assets (ROA) by 0.26 percentage points to 0.86% (2009: 1.12%; 2008: 2.14%), and the return-on-equity (ROE) by 2.56 percentage points to 6.73% (2009: 9.29%; 2008: 20.45%). However profitability remained at good levels.

Table 4: The banking system – more important items from the financial statements

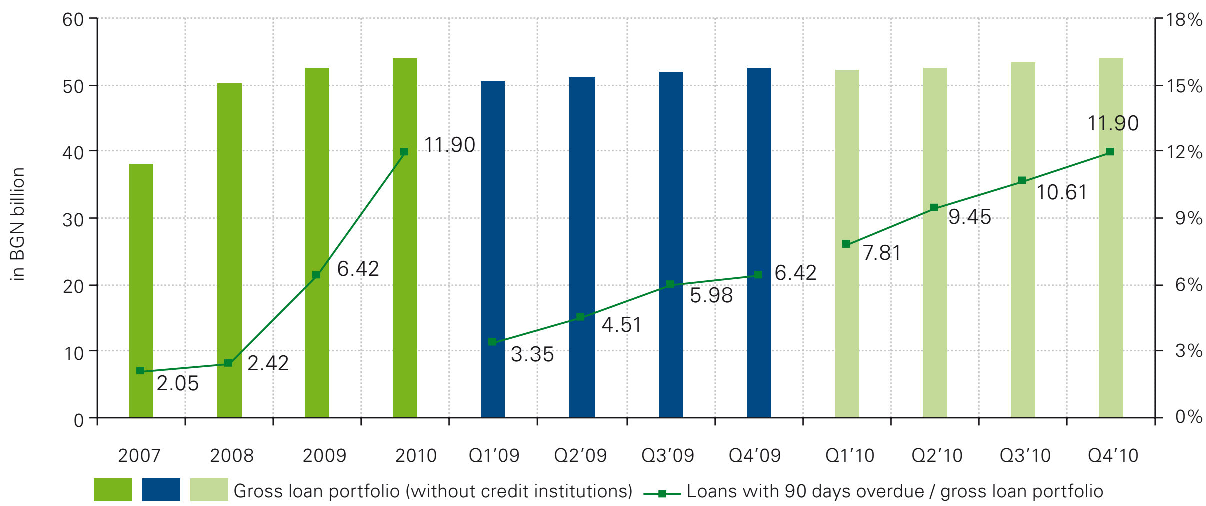
	in BGN million			change in %	
	2010	**2009**	**2008**	**2010/ 2009**	**2009/ 2008**
Assets	73,726	70,868	69,560	4.0	1.9
Loans to corporates	33,993	32,712	31,883	3.9	2.6
Loans to individuals	18,579	18,664	17,357	(0.5)	7.5
Deposits from corporates	18,891	18,449	19,568	2.4	(5.7)
Deposits from individuals	28,037	24,837	22,168	12.9	12.0
Profit after tax	617	780	1,387	(20.9)	(43.8)
Impairment	1,317	1,040	330	26.6	215.2

Source: Bulgarian National Bank

Credit activity remained restricted by cautious demand and tighter requirements in the evaluation of creditworthiness. The total balance sheet assets of the system increased by 4.0% to BGN 73,726 million (2009: BGN 70,868 million; 2008: BGN 69,560 million), with loans and advances retaining a determinant share in their structure, by 79.2% (2009: 81.5% 2008: 80.2%). The gross loan portfolio (excluding credit institutions) increased by 2.7% to BGN 53,854 million mainly due to increases in loans to corporate clients, which reached BGN 33,993 million or a 3.9% increase over the previous year (2009/2008: 2.6%). Loans to individuals decreased by 0.5% to BGN 18,579 million due to the lower demand for credit products and the rise in savings of people generally. Consumer loans decreased by 4.1% to BGN 9,310 million, while mortgage lending increased by 3.5% to BGN 9,269 million.

The currency structure of the system's loan portfolio continued its tendency for an increase in the share in EUR – up to 58.9% (2009: 56.5%; 2008: 54.9%), at the expense of that in BGN – down to 38.7% (2009: 41.4%; 2008: 42.8%).

Chart 5: Loan portfolio quality



Source: Bulgarian National Bank

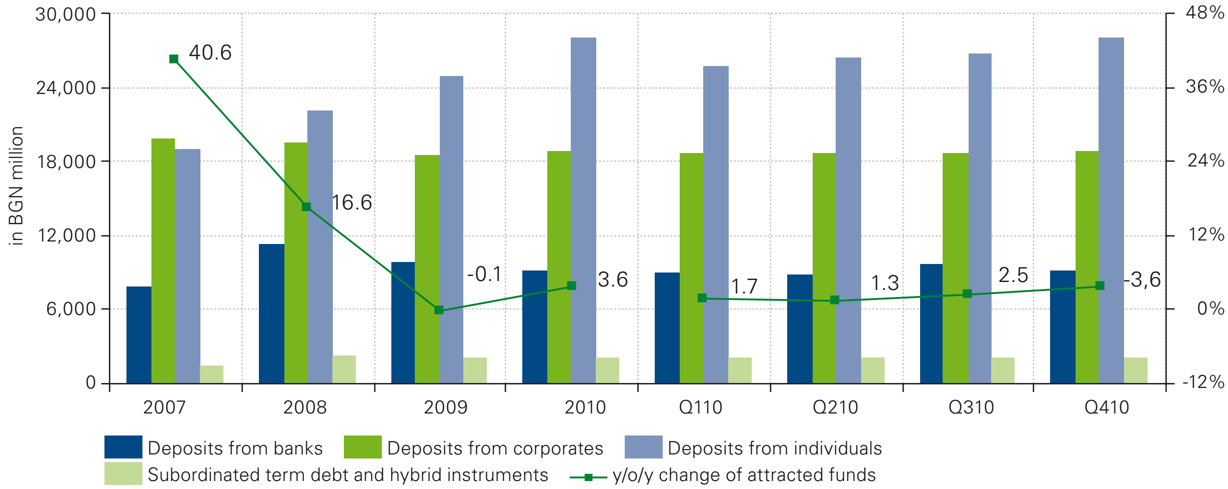
The quality of the loan portfolio continued to deteriorate due to the slow economic recovery and the subsequent negative effects of the 2009 recession related to the labour market. Loans past due over 90 days increased by 5.48 percentage points to 11.90% of the gross loan portfolio, compared to 6.42% at the end of 2009 (2008: 2.50%). Despite this increase, the level of provisioning of loans provides an adequate degree of protection against risk. The Bank's policy for the active management of credit risk continued during the year, with banks allocating additional resources for the development of methodologies and practices for risk management, including mechanisms for the identification, measurement and control of risks.

In 2010, attracted funds in the banking system increased by 3.6% to reach BGN 63,011 million (2009: BGN 60,833 million; 2008: BGN 60,884 million). This increase was a result of the continuing trend of growth in deposits from individuals by 12.9% (BGN 3,200 million) to BGN 28,037 million (2009: BGN 24,837 million; 2008: BGN 22,168 million). Deposits from corporate customers also increased by 2.4% to 18,891 million, compared to a decline of 5.7% for the period 2009/2008.

Local sources of funding continued to increase their share, forming 76.3% of the total attracted funds, at the expense of those from abroad, which continued their decline of the past three years.

The currency composition of attracted funds marked an increase in the BGN share to 41.3% (2009: 35.4%) and that of other currencies to 6.7% (2009: 5.8%), at the expense of the EUR which was down to 52.0% (2009: 58.7%).

Chart 6: Attracted funds



Source: Bulgarian National Bank

Certain regulatory changes were made in 2010, aimed at increasing consumer protection and at the stability of the banking system, as well as the harmonization of national legislation with that of Europe.

A new Law on consumer credit was adopted, which transposes the requirements of Directive 2008/48/EC on credit agreements for consumers. The new law increases the maximum amount of credit to BGN 147,000 and expands the scope and type of pre-contractual information given to customers in a standard European form. Consumers are entitled at any time to repay all or part of their obligations, thereby reducing the total costs of the credit.

On February 1, 2010, the national component TARGET2-BNB was launched of the TARGET2 system for real-time gross settlement of express transfers in Euro. The component involves the BNB and 17 credit institutions, as well as the BISERA7-EUR ancillary system for servicing of customer payments in Euro up to EUR 50,000, designated to be executed at a defined moment.

In February 2010 changes were adopted to Ordinance № 21 on the Minimum Reserves Maintained by Banks with the BNB. Apart from the recognition of 50% of the cash balances of banks as reserve assets, also recognized as such were the funds on banks' settlement accounts in the national system component of TARGET2, equal to 10% of the average daily amount of successfully settled payment orders for the maintenance period.

In March 2010, amendments came into force to Ordinance № 8 on the Capital Adequacy of Credit Institutions, regarding the mode of treatment of current profits and profits from the previous year. These amendments removed the requirement for a general meeting of shareholders for the recognition of such profits as an element of the capital base, and optimized the process for capital budgeting.

In December 2010, the new requirements of the EU directives on the capital adequacy of banks were introduced, including requirements on Tier 1 capital, the maintaining of liquidity buffers, and the acceptable level of concentration risk. These requirements were implemented in the Law on Credit Institutions, Ordinance № 7 on Large Exposures of Banks, Ordinance № 8 on the Capital Adequacy of Credit Institutions, and Ordinance № 11 on the Management and Supervision of Banks' Liquidity. The changes lead to more conservative treatment of risks and create conditions for better management thereof. They require the maintenance of liquidity buffers by the banks for the overcoming of liquidity difficulties in an adverse environment, and enhancing the application of stress tests. They also allow for increasing the sources of capital for banks by incorporating perpetual hybrid instruments in Tier 1 capital. Further reforms relating to capital adequacy, including the preparation to meet the increased requirements of Basel III, are among the challenges facing the banking system in the coming years.

As part of the overall framework for risk management, new European Union regulations on the principles and requirements for remuneration policies in banks were introduced, which promote avoidance of excessive risk-taking. These regulations were introduced with the new Ordinance №4 of BNB on the Requirements for Remunerations in Banks, and with changes in Ordinance № 8 on the Capital Adequacy of Credit Institutions, regarding the requirements for their disclosure.

At the end of the year, amendments were adopted to the Bank Deposit Guarantee Act by which the guaranteed amount of bank deposits was increased to BGN 196 thousand, equaling the amount valid for the EU countries at EUR 100 thousand.

As at the end of December 2010, 30 credit institutions operated in the country, including 6 branches of foreign banks. The number of bank employees in the system neared 34,000. The total capital of the banking system amounted to BGN 10,032 million, with a predominant participation of investors from the European Economic Area.

The main challenges for the banking system in 2011 remain connected to the recovery of economic activity and the strengthening of demand for credit by the population, overcoming the negative effects of the deteriorated asset quality, and adaptation to the environment, including greater flexibility in responding to tha expectations and concerns of customers.

Mission

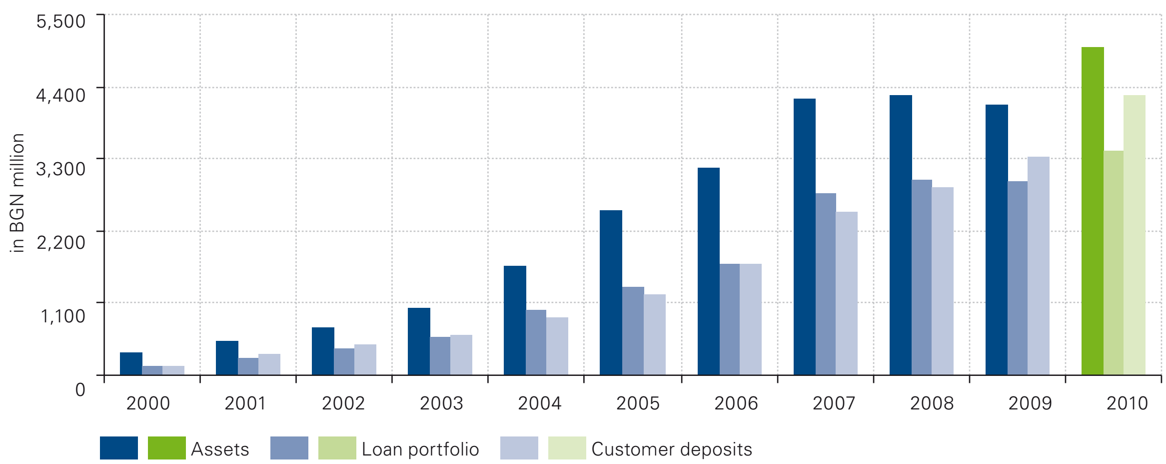
First Investment Bank AD aspires to be one of the finest banks in Bulgaria and the Balkan region, recognised as a rapidly growing, innovative, customer-oriented bank, offering outstanding products and services, ensuring excellent careers for its people, and contributing to the community. The Bank aims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

Fibank – stable development

In 2010 First Investment Bank reported positive financial results, maintaining strict discipline in respect of costs, capital and risk undertaking.

Fibank continued to follow its long-term strategy for being loyal and correct in its relationships with customers, for being near them, understanding their needs and offering high quality innovative and diversified products. This lays at the foundation of Fibank's stable development in conditions of global financial crisis..

Chart 7: Balance-sheet indicators



Source: Fibank

Chart 8: 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
- BORICA – Bankservice AD
- CaSys International
- MasterCard International
- VISA International
- S.W.I.F.T.

Subsidiaries

First Investment Bank owns seven 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 2010 the registered capital of Diners Club Bulgaria AD was BGN 610 thousand, while the shareholding of Fibank was 94.79%.

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 2010 the company had registered capital of EUR 10,975 thousand, 100% of which was owned by First Investment Bank AD.

Debita OOD

Debita OOD was set up with the aim of acting as a servicing company in accordance to art.18 of the Special Purpose Investment Companies Act, engaged in the following activities: acquisition, servicing, management and transactions with receivables, as well as consultancy services in relation to such operations. As at 31 December 2010 the registered capital of Debita OOD was BGN 150 thousand, 70% of which was owned by First Investment Bank AD.

Realtor OOD

Realtor OOD was set up with the aim of acting as a servicing company in accordance with art.18 of the Special Purpose Investment Companies Act, engaged in the following activities: management, servicing and maintenance of real estates, the organization of construction and renovation of buildings, and consultancy services related to real estates. As at 31 December 2010 the registered capital of Realtor OOD was BGN 150 thousand, 51% of which was owned by First Investment Bank AD.

Health Insurance Fund FI Health AD

Health Insurance Fund FI Health AD is a joint stock company, which is engaged in the activity of providing voluntary health insurance services in accordance with the Health Insurance Act. In August 2010 First Investment Bank acquired 2% of the share capital of the company and in October 2010 the Bank became a majority shareholder in the company after a capital increase. As at 31 December 2010 the registered capital of Health Insurance Fund FI Health AD was BGN 5,000 thousand, 57.1% of which was owned by First Investment Bank AD.

Framas Enterprises Limited

Framas Enterprises Limited is a company registered in the British Virgin Islands which was acquired by the Bank in November 2010 with a view to providing auxiliary services pursuant to art.2, par.4 of the Law on Credit Institutions. As at 31 December 2010 First Investment Bank AD owned 100% of the capital of Framas Enterprises Limited.

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
- Fifth in deposits
- Eighth in terms of profit
- Eighth in shareholders' equity

* The market positions are based on unconsolidated data byBNB, BORICA-Bankservice and SWIFT

Market share*

- 14.6% of credit cards
  – 18.5% of VISA credit cards
  – 9.7% of MasterCard credit cards
- 8.0% of debit cards
- 12.7% of ATM terminals
- 19.6% of POS terminals
- 9.9% (sent) and 9.8% (received) of cross-border transactions – financial instruments for trade financing
- 6.7% of bank assets in Bulgaria
- 6.5% of loans in Bulgaria
  – 8.1% of corporate lending
  – 3.7% of mortgage lending
  – 4.0% of consumer lending
- 9.0% of deposits in Bulgaria
  – 12.7% of deposits from individuals

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 31.12.2010 First Investment Bank had a total of 172 branches and offices: the Head Office, 160 branches and offices throughout Bulgaria, one branch in Cyprus and 10 branches and offices in Albania.

Awards 2010

- Fibank received the reward “Bank of the Client” by “Pari” daily for its activities through 2009 for the fifth time in its 17 years of operation (in 2002, 2003, 2006, 2008 and in 2009);
- Fibank was awarded two prizes by Deutsche Bank and Commerzbank for exceptional quality and meeting global standards in international payments.
- Fibank won the prize for “The biggest contribution by employees’ voluntary work” at the “Biggest Corporate Donor” annual awards for 2010.
- Diners Club Bulgaria won a prize in the category “External advertising” at the “BELONG” advertising campaign contest organized by Diners Club International..

* The market shares are based on unconsolidated data byBNB, BORICA-Bankservice and SWIFT

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.
1999	The Bank negotiated a syndicated loan organized by EBRD on the total amount of EUR 12.5 million. Fibank received a midium-term loan for EUR 6.6 million from a German government organization for financing of Bulgarian companies. The Bank opened a foreign branch in Tirana, Albania offering banking services to Albanian companies and individuals.
2000	First Investment Bank started developing its business in the field of retail banking. Deposits from private individuals grew 2.3 fold.
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. Fibank became an official representative of the New Zealand Mint for Bulgaria and the Balkans.
2008	The Bank 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. Fibank became the first bank in Bulgaria with its 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.
2009	Fibank became the first and only bank in Bulgaria which started to offer the sale and redemption of investment diamonds. 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. Two syndicated loans received from leading banks all over the world were repaid. Fibank offered a new service for cardholders – VISA Cash Back providing an opportunity to withdraw cash from POS terminals in Bulgaria. 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. 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. Fibank signed an agreement for partnership with the Export-Import Bank of China.

Highlights 2010

January

- Fibank established two new subsidiaries jointly with FFBH OOD – Debita OOD and Realtor OOD, to operate as servicing companies under the Act on the Special Investment Purpose Companies.
- Fibank promoted its six-month deposit product "Super G – Season 2009 – 2010", which is offered with a free V PAY debit card.
- Fibank offered a new silver coin of the New Zealand Mint for the Year of the Tiger, which began on February 14, 2010.

February

- Fibank celebrated its one millionth customer with a prize of investment gold bullion.
- Fibank joined the national system component of TARGET2 - TARGET2-BNB, and the auxiliary payment system BISERA7-EUR.
- Fibank optimized the conditions of its programs for consumer lending to individuals.
- The Bank gave its award for Best Corporate Blog for 2009 – a business package of high tech communication services -to the Workshop for Civil Initiatives Foundation.
- An investment loan, guaranteed by the National Guarantee Fund – intended for small and medium businesses, including for start-ups.

March

- icOns BLOOMS – a new series of gold and silver bullion medallions with symbols of flowers, designed by the Swiss PAMP refinery jointly with the Gold and Commemorative coins team of Fibank.
- Maestro cash back – providing an opportunity for withdrawing cash from retail outlets with Maestro debit cards.
- Fibank offered a specialized product to support small and medium enterprises in the implementation of investment projects, including projects financed with EU funds

April

- Fibank continued its initiative to support its corporate clients for the effective use of EU funds through conducting seminars.
- Six projects for the practical training of children deprived of parental care were approved under the Social Responsibility fund of Fibank.
- The accepting of orders began for the subscription / redemption of units of FFBH Vostok mutual fund, managed by FFBH Asset Management AD.
- The offering of a mortgage product began with maturity of up to 30 years and preferential terms for customers receiving their incomes to an account in the Bank.

May

- A Regular annual general meeting of shareholders of Fibank was held, at which a decision was taken for 2009 earnings to be retained.
- Fibank implemented the requirements of the new Law on consumer credit, including providing clients with a standardized European form with pre-contractual information.
- Fibank received the Deutsche Bank "Straight-Through Processing (STP) Excellence Award-2009 for outstanding quality and meeting global standards in the handling of foreign currency transfers.
- First Investment Bank – Albania was the first to offer products of gold and other precious metals on the Albanian banking market.

June

- An electronic encoding Token device was introduced as a new method of identification when working with the Bank's Virtual Branch.
- Fibank won the annual Bank of the Client award of Pari daily for its activity in 2009.
- The corporate blog of Fibank became two years old.
- Diners Club Bulgaria AD was licensed as a payment institution under the Law on payment services and payment systems.
- Fibank updated its card system and migrated it to a new, higher version in order to add new products and functionalities..

July

- New housing, mortgage and student loans "Adaptation" were launched for individuals.
- Fibank continued to actively develop its deposit products, becoming one of the leaders in the local market.
- First Investment Bank – Albania was licensed as a dealer and custodian of Albanian government securities.

August

- Super Credit was launched – a new product for medium, small, and micro enterprises with a term of up to 7 years.
- Fibank signed an agreement with IFC (International Finance Corporation) for cooperation in the area of trade finance..

September

- Fibank created mobile teams to respond quickly and appropriately in the management of problem assets throughout the country.
- A new internal consultative body was established - the Operational risk committee, to ensure the effective management of operational risk in the Bank.
- The renewed internal (intranet) site of the Bank was launched.
- First Investment Bank – Albania started offering internet banking to its customers.

October

- Fibank started issuing different debit cards (VISA Electron, V PAY, Maestro) to a single account.
- Fibank became a majority shareholder in Health Insurance Fund FI Health AD with a 57.1% shareholding in the company.
- Fibank received an award from Commerzbank for exceptional quality and covering of global standards in international transfers.
- Diners Club Bulgaria won a prize for its advertising campaign at a global contest organized by Diners Club International.

November

- Fibank offered new products – housing/mortgage loan and a students' loan at an initial fixed interest rate of 7% (for up to 36 months) and an option for a grace period of up to 3 years.
- Fibank acquired a 100% shareholding in Framas Enterprises Limited for the purpose of carrying out ancillary services under the Law on Credit Institutions.
- The rating agency Fitch Ratings confirmed the Bank's credit ratings – long-term rating (BB-), short-term rating (B) and outlook (negative).
- For increased security, Fibank offered its customers additional identification with smart cards.
- Mortgage overdraft Adaptation with free repayment schedule (by choice of the client) for the first 5 years.

December

- Fibank became the first bank in the country to offer PayPass contactless payments technology – an innovative service with new generation bank cards MasterCard PayPass and Maestro PayPass.
- Fibank launched the YES loyalty program with a new credit card MasterCard YES and a bonus point system for loyal customers.
- Bulgarian Symbols and Traditions – a new exclusive collector's series of colored silver coins with detailed color images of three symbols of Bulgaria - Survachka, Martenitsa and the Bulgarian rose, with partial gold plating.
- Fibank was granted the award for "largest contribution through volunteer work of employees" in the annual awards competition "Largest corporate donor for 2010".

Corporate development

Regardless of the uncertain macroeconomic environment resulting from the global financial crisis, in 2010 First Investment Bank maintained its position among the leading banks in the country with positive financial indicators and sustainable development.

Thanks to its flexibility, adaptability and stable business model, Fibank successfully overcame the obstacles of the ongoing economic fluctuations, focusing on product quality, high standards of service, discipline of cash flows and costs, and innovation.

The Bank responded adequately to changes in the market environment by strengthening its controls over risk management, combined with a balanced and consistent approach to achieving profit, growth and efficiency. Fibank responded to the changes in its clients' needs by new, specialized programs and products, consistent with the challenges of market conditions, confirming its position that customers are its most valuable asset.

Key performance indicators

Table 5: Key indicators

	2010	2009	2008	June'10	June'09
Financial results (in BGN thousand)					
Net interest income	137,854	128,150	147,509	62,315	56,821
Net fee and commission income	55,923	50,864	63,383	24,133	25,893
Net trading income	8,752	10,321	4,258	4,071	4,712
Total income from banking operations	206,976	189,950	213,631	91,437	87,280
Administrative expenses	(144,568)	(144,358)	(156,169)	(70,037)	(70,437)
Impairment losses	(27,099)	(10,965)	1,109	(8,303)	1,847
Group profit after tax	27,851	29,796	49 170	12,416	18,012
Earnings per share (in BGN)	0.25	0.27	0.45	0.11	0.17
Balance sheet indicators (in BGN thousand)					
Assets	4 998,776	4,112,284	4,270,751	4 565,426	4,192,353
Loans and advances to customers	3 417,094	2,966,461	2,969,984	3 111,624	3,046,865
Loans and advances to banks and other financial institutions	21,736	26,187	10,244	19,165	25,701
Customer deposits	4 285,693	3,339,546	2,855,327	3 859,318	2,992,983
Liabilities evidenced by paper	116,725	193,363	832,620	126,082	608,214
Total shareholders' equity	430,898	402,943	368,676	415,588	392,814
Key ratios (in %)					
Solvency ratio (capital adequacy)	13.23	13.83	13.18	13.89	13.68
Liquidity ratio	26.06	19.79	25.67	26.03	20.02
Loan provisioning ratio	2.95	2.56	2.32	2.66	2.15
Net interest income/ income from banking operations	66.60	67.47	69.05	68.15	65.10
ROE (after tax)	6.67	7.65	14.08	6.12	9.52
ROA (after tax)	0.61	0.72	1.21	0.58	0.86
Operating expenses/ income from banking operations	69.85	76.00	73.10	76.60	80.70
Resources (number)					
Branches and offices	172	170	171	172	170
Staff	2,690	2,486	2689	2,610	2,476

Source: Fibank

Ratings

Table 6: Ratings

Fitch Ratings/Moody's	2010	2009	2008
Long-term	BB-	BB-	BB-/Ba1
Short-term	B	B	B/NP
Financial stability/ Individual	D	D	D/D
Outlook	Negative	Negative	Negative/ Stable

Source: Fibank

In 2010 Fitch Ratings affirmed the long-term rating "BB-", short-term rating "B" and support rating floor of "3" of FIbank. The Agency recognizes the Bank's status as the largest Bulgarian-owned bank as well as its systemic importance.

Financial results

In 2010 First Investment Bank reported Group profit after tax in the amount of BGN 27,851 thousand. The decrease of 1945 (6.5%) was a result of the increased Impairment losses compared to the previous year.

The Bank is at eight place in terms of this indicator among the banks in the country on an unconsolidated basis (2009: seventh place), at the same time improving its market share from 4.1% in 2009 to 5.0%.

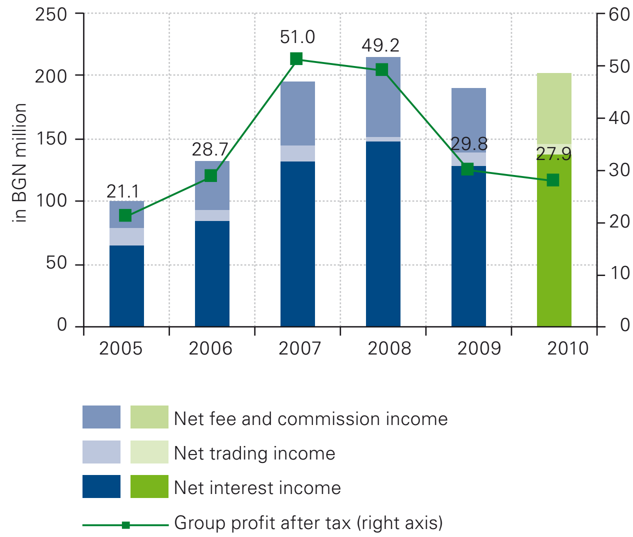
In 2010 FIbank managed to overcome the negative influence of the external environment and to react promptly and adequately to the first signs of recovery, as the total income from banking operations reached BGN 206,976 thousand or an increase of BGN 17,026 thousand (9.0%) compared to 2009 – BGN 189,950 thousand (2008: BGN 213,631 thousand).

Interest income increased by 9.6% to BGN 397,790 thousand compared to the previous year, when it amounted to BGN 362,878 thousand (2008: BGN 335,937 thousand). Corporate loans continued to contribute for a consecutive year to the main part of the interest income, amounting to BGN 266,262 thousand (2009: BGN 227,938 thousand; 2008: BGN 200,114 thousand) and forming 66.9% of the interest income of the Bank during the reporting period. .

In 2010 interest income from small and medium enterprises at BGN 28,331 thousand (2009: BGN 30,402 thousand; 2008: BGN 29,281 thousand), as well from microlending at BGN 3,942 thousand (2009: BGN 4,771 thousand; 2008: BGN 6,089 thousand) represented a fall of 6.8%, and 17.4% respectively over the same period of the previous year. This was a result of weaker protective buffers and mechanisms in these sectors for overcoming the economic crisis. Interest income form the retail customers amounted to BGN 89,491 thousand (2009: BGN 88,867 thousand; 2008: BGN 79,769 thousand) and formed 22.5% of the interest income of the Bank for 2010.

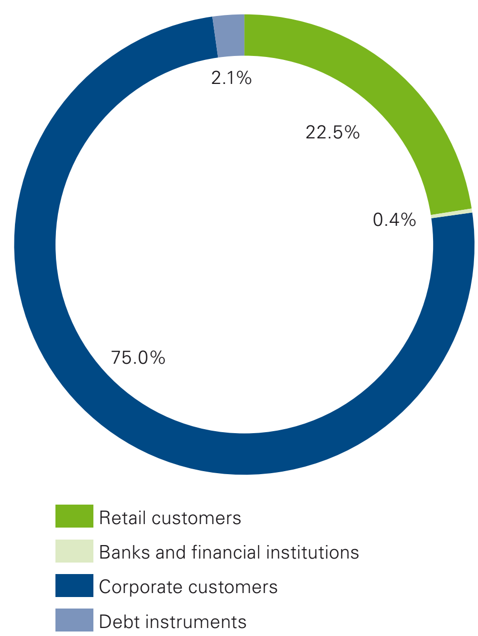
During 2010 interest expenses increased by 10.7%, amounting to BGN 259,936 thousand (2009: BGN 234,728 thousand; 2008: BGN 188,428 thousand). The majority of interest expenses were attracted funds from customers in the form of term deposits, current accounts and other types of accounts – 91.7% (2009: 79.4%; 2008: 54.4%), followed by perpetual debt – 4.5% (2009: 4.97%; 2008: 6.2%). Interest expenses from liabilities evidence by paper and subordinated term debt decreased by BGN 23,922 thousand (85.5%), down BGN 1,368 thousand (18.9%) on the previous year and as a whole forming 3.8% of the interest expenses of the Bank during 2010.

Chart 9: Profit and income



Source: Fibank

Chart 10: Interest income structure in 2010



Source: Fibank

Net fee and commission income reported an increase of 9.9%, reaching BGN 55,923 thousand (2009: BGN 50,864 thousand; 2008: BGN 63,383 thousand). Increased fee and commission income from customers' accounts rose – by 55.0% to BGN 13,930 thousand (2009: BGN 8,985 thousand; 2008: BGN 9,213 thousand), and in the cards business there was an increase by 5.4% to BGN 21,223 thousand (2009: BGN 20,131 thousand; 2008: BGN 21,964 thousand).

The card business continued to form a main share, constituting 33.2% of fee and commission income of the Bank. Income from fees and commissions from letters of credits and guarantees amounted to BGN 6,199 thousand (2009: BGN 6,321 thousand; 2008: BGN 9602 thousand), and for a consecutive year registered a decrease, reflecting the general decline in trade activities of companies.

During the reporting period foreign operations (through FIbank - Albania Sh.A. and at the Cyprus branch) formed 1,4% of the net fee and commission income, 1.6% in 2009 (2008: 1.7%).

Net trading income (debt instruments and foreign exchange) in 2010 amounted to BGN 8,752 thousand (2009: BGN 10,321 thousand; 2008: BGN 4,258 thousand), as the relative share of the total income from banking operations continued to be insignificant at 4.2% (2009: 5.4%; 2008: 2.0%).

Other operating income in 2010 amounted to BGN 4,447 thousand, registering an increase by BGN 3,832 thousand compared to 2009, mainly as a result of realized incomes from mergers of companies in which where FIbank is a shareholder.

In 2010 FIbank continued with its policy of controlling administrative expenses at BGN 144,568 thousand (2009: BGN 144,358 thousand; 2008: BGN 156,169 thousand). The greatest decrease was reported in advertising expenses by BGN 2,407 thousand to BGN 5,367 thousand (2009: BGN 7,774 thousand; 2008: BGN 18,210 thousand), as well personnel costs by BGN 182 thousand to BGN 44, 522 thousand (2009: BGN 44,704 thousand; 2008: BGN 51,036 thousand).

There was a decrease in administrative expenses, consultancy, audit and other costs by BGN 163 thousand to BGN 27,011 thousand (2009: BGN 27,174 thousand; 2008: BGN 31,325 thousand). Building rent expense and amortization expenses increased by BGN 571 thousand, respectively by BGN 2,689 thousand.

Net impairment losses of loan exposures accrued by Fibank in 2010 amounted to BGN 27,099 thousand (2009: BGN 10,965 thousand). Expenses increased by BGN 16,134 thousand (147%) compared to the previous year. This was a consequence of the economic crisis in the country and reflected the tightened criteria of the Bank when assessing probabilities of default, taking into account hampered cash flows of companies and the probability of the customers servicng their loans.

Balance sheet

As at 31 December 2010 the assets of the Fibank Group amounted to BGN 4,998,776 thousand or BGN 886,492 thousand (21.6%) more than 2009 (2009: BGN 4,112,284 thousand; 2008: BGN 4,270,751 thousand). The market position of Fibank remained at sixth place among the banks in Bulgaria on an unconsolidated basis.

Loans and advances to customers had the biggest share in the total assets of the Group with 68.4% at the amount of BGN 3,417,094 thousand (2009: BGN 72.1%, BGN 2,966,461 thousand; 2008: 69.5%, 2,969,984 thousand) followed by available for sale investments with a relative share of 14.3% at the amount of BGN 715,405 thousand (2009: 6.9%, BGN 285,110 thousand; 2008: 6.7%, BGN 286,623 thousand). The greatest increase was in investmesnts in foreign government treasury bills reaching BGN 626,225 thousand (2009: BGN 214,160 thousand; 2008: BGN 194,940).

Cash and balances with central banks totalled BGN 556,861 thousand (2009: BGN 603,792 thousand; 2008: BGN 742,284 thousand) and formed 11.1% of the Bank's assets as at 31 December 2010.

Balances with central banks increased by BGN 121,121 thousand to BGN 383,064 thousand (2009: BGN 261,943 thousand; 2008: BGN 432,349 thousand) corresponding to the increased deposit base of the Bank and the maintenance of minimum required reserves. Balances with resident and foreign banks decreased by BGN 147,844 thousand. Cash on hand also decreased by BGN 20,208 thousand as a result of optimizing the management of cash balances in accordance with market conditions.

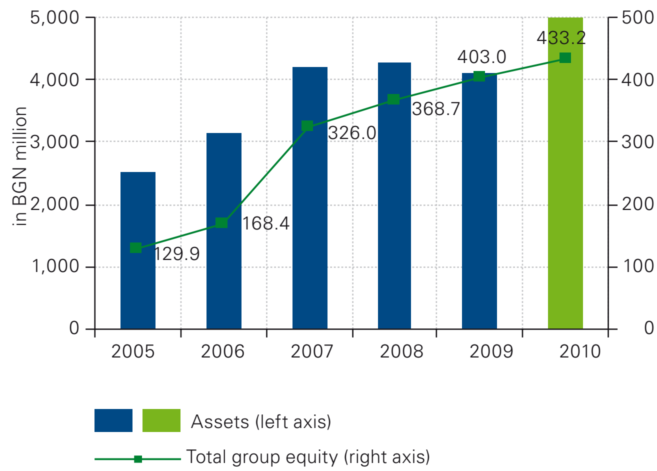
Loans and advances to banks and financial institutions decreased in comparison to the previous year – BGN 21,736 thousand (2009: BGN 26,187 thousand; 2008: BGN 10,244 thousand).

Financial assets held for trading increased by BGN 7,618 thousand to BGN 16,641 thousand (2009: BGN 9,023 thousand; 2008: BGN 9,681 thousand). This was a result of acquired bonds and other securities issued by the Bulgarian government with a rating of "BBB" and denominated in foreign currency at the amount of BGN 7,574 thousand and by Bulgarian banks with rating "BBB" at the amount of BGN 1,956 thousand.

Financial assets held to maturity amounted to BGN 57,102 thousand compared to BGN 35,425 thousand a year earlier (2008: BGN 62,395 thousand) registering an increase of 61.2% on an annual basis.

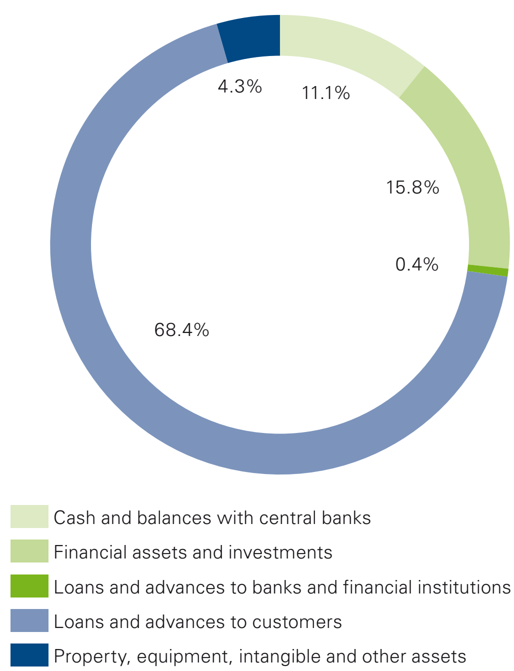
The operations of the Group abroad also registered growth and the assets reached BGN 305,977 thousand (2009: BGN 227,794 thousand; 2008: BGN 201,007 thousand).

Chart 11: Assets and group



Source: Fibank

Chart 12: Asset structure as at 31.12.2010



Source: Fibank

Loan portfolio

Loans

As at 31 December 2010 the loan portfolio before allowances amounted to BGN 3,514,920 thousand (2009: BGN 3,039,663 thousand; 2008: BGN 3,037,733 thousand), which was 15.6% (BGN 475,257 thousand) more than the previous year. The increase was a result of growth in corporate lending (with 22.0%) and utilized credit limits on the credit cards and overdrafts of individuals (with 12.3%).

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

Table 7: Loan portfolio by business line

in BGN thousand / % of total	2010	%	2009	%	2008	%
Loans to individuals	742,674	21.1	737,917	24.3	770,962	25.4
SME lending	240,128	6.8	219,053	7.2	267,158	8.8
Microlending	27,017	0.8	29,456	1.0	41,196	1.4
Loans to corporate clients	2 505,101	71.3	2,053,237	67.5	1,958,417,	64.4
Loan portfolio before allowances for impairment	**3,514,920**	**100.0**	**3,039,663**	**100.0**	**3,037,733**	**100.0**
Allowances for impairment	(97,826)		(73,202)		(67,749)	
Loan portfolio	**3,417,094**		**2,966,461**		**2,969,984**	

Source: Fibank

The financing of large corporate customers continued to form the predominant share of the Group's loan portfolio, by increasing to 71.3% from 67.5% in 2009 (2008: 64.4%) and reaching BGN 2,505,101 thousand as at the end of 2010.

The portfolio of loans to SMEs registered an increase of 9.6% reaching BGN 240,128 thousand. Loans to micro enterprises decreased by BGN 2,439 thousand to BGN 27,017 thousand compared to a year ago.

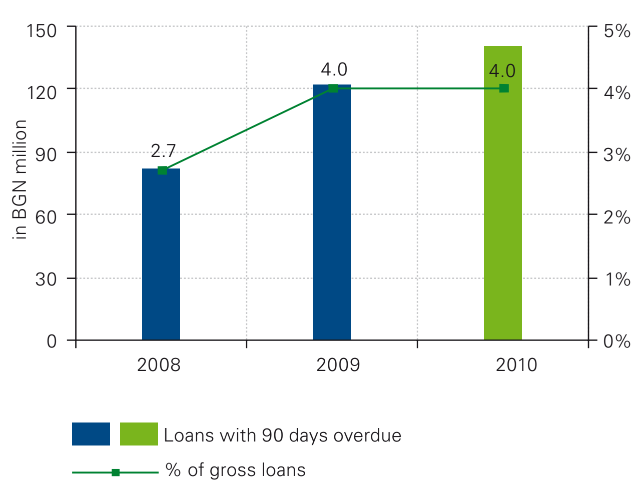
Loans to individuals amounted to BGN 742,674 thousand at the end of 2010 and remained at the previous year's levels. Their relative share decreased by 3.2 percentage points to 21.1% in the Bank's loan portfolio.

Allowances for impairment increased to BGN 97,826 thousand (2009: BGN 73,202 thousand; 2008: BGN 67,749 thousand). The 33.6% increase resulted mainly from the economic crisis and the growing credit risk in the country.

The Bank applies rules for the classification and impairment of risk exposures which are in compliance with the effective legislation and with the criteria provided by Ordinance №9 of the Bulgarian National Bank. Allowances for impairment for loans, classified as nonperforming and loss amounted to BGN 87,393 thousand.

During the year receivables amounting to BGN 2,466 thousand were recorded off balance sheet, against BGN 2,474 thousand a year earlier (2008: BGN 1,451 thousand).

Chart 13: Loan portfolio quality



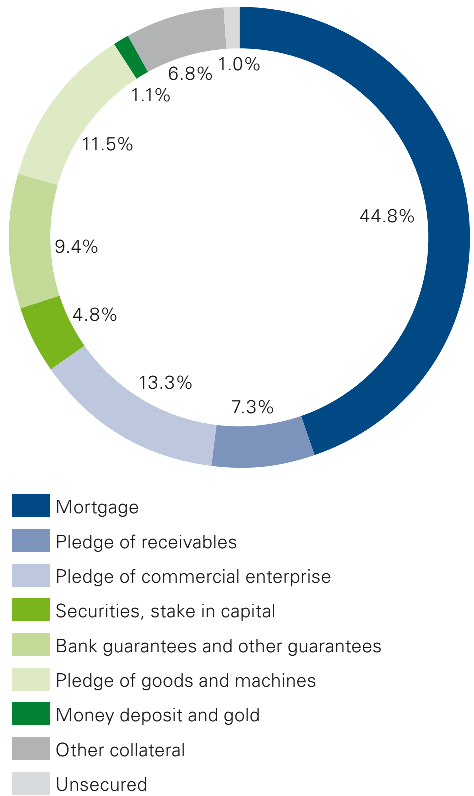
Source: Fibank

The policy of the Group requires proper collateral before allowing a loan. In this respect, it accepts all types of collateral permitted by law and applies discount rates depending on the expected realizable net value of the collateral.

At the end of 2010 the collateral with the largest share in the Bank's portfolio were mortgages at 44.8%, followed by pledge of commercial enterprise at 13.3%, pledge of goods and machines at 11.5%, guarantees at 9.4% and pledge of receivables at 7.3%, which included receivables from bank accounts with the Bank.

For more information regarding credit risk, see Note 3 "Risk management" of the Consolidated Financial Statements as at 31 December 2010 together with the Report of the Independent Auditor.

Chart 14: Loan portfolio by type of collateral



Source: Fibank

Related party transactions

In the normal course of business the Bank carries 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 8: Related party transactions

in BGN thousand	2010	2009	2008
Loans			
Parties that control or manage the Bank	2,997	2,130	2,455
Enterprises under common control	19,055	21,721	11,728
Off-balance sheet commitments			
Parties that control or manage the Bank	1,204	2,280	1475
Enterprises under common control	1,289	1,322	2,102

Източник ПИБ

For further information regarding related party transactions, see Note 35 "Related party transactions" of the Consolidated Financial Statements as at 31 December 2010 together with the Report of the Independent Auditor.

Commitments and contingent liabilities

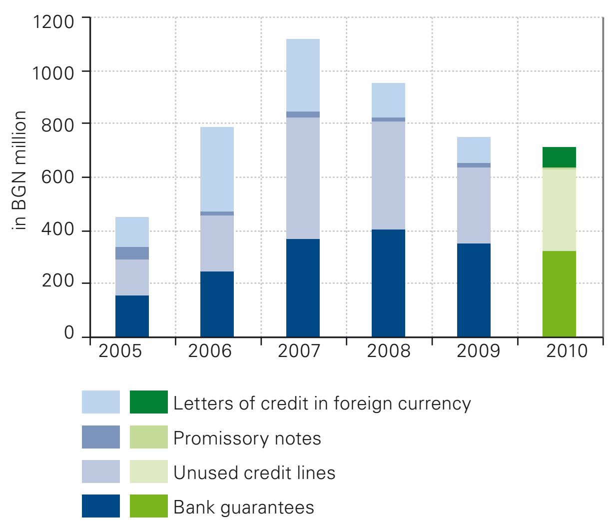
Commitments and contingent liabilities of the Bank include bank guarantees, letters of credit in foreign currency, credit lines and promissory notes. These are issued in compliance with the general loan policy of the Bank on risk assessment and collateral sufficiency. Contingent liabilities are preferred by credit institutions because they carry lower credit risk and at the same time are good sources of fee and commission income. They are also preferred by clients because they not only facilitate payments but also reduce the cost of financing as compared to direct financing and immediate payment.

At the end of the reporting period the total amount of off-balance sheet commitments amounted to BGN 713,134 thousand (2009: BGN 753,455 thousand; 2008: BGN 953,764 thousand) or 5.4% lower than the previous year.

Bank guarantees in BGN and in foreign currency decreased by BGN 27,093 thousand to BGN 323,836 thousand (2009: BGN 350,929 thousand; 2008: BGN 401,253 thousand), and letters of credit in foreign currency by BGN 20,944 thousand to BGN 77,805 thousand (2009: BGN 98,749 thousand; 2008: BGN 129,294 thousand).

Unused credit lines amounted to BGN 303,400 thousand (2009: BGN 289,482 thousand; 2008: BGN 407,465 thousand).

Chart 15: Commitments and contingent liabilities



Source: Fibank

Attracted funds

Funds attracted from customers remained Fibank's main source of funding, amounting to BGN 4,285,693 thousand at the end of 2010 (2009: BGN 3,339,546 thousand; 2008: BGN 2,855,327 thousand) or 28.3% more than the previous year.

The Bank's market position in terms of this indicator was improved during the year from sixth to fifth place among the banks in the country on unconsolidated basis.

The trend of a growth in funds attracted from individuals during previous years continued, to reach BGN 3,621,627 thousand at the end of the reporting period (2009: BGN 2,709,208 thousand; 2008: BGN 1,753,561 thousand) or 33.7% more compared to a year ago. Their relative share increased as well to 84.5% of total liabilities due to other customers (2009: 81.1%; 2008: 61.4%).

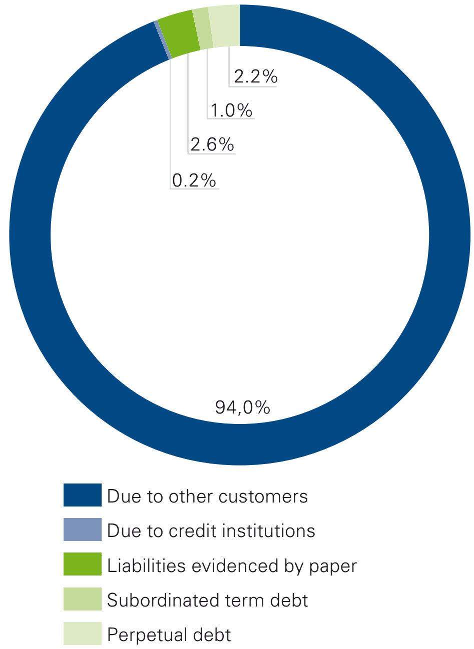
The trend of a growth in funds in EUR continued in 2010, as their relative share reached 47.5% of the liabilities due to other customers (2009: 45.4%; 2008: 31.6%) and registered an increase of 1.9 percentage points year-on-year. The Currency Board Arrangement operating in Bulgaria contributed to this increase by increasing 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 29.3% (2009: 28.8%; 2008: 24.0%), as well as those in other currencies – to 7.7% (2009: 6.9%, 2008: 5.9%).

First Investment Bank sets aside the required annual premiums in accordance with the Bank Deposit Guarantee Act, which additionally increases the safety of the Bank's depositors. According to the amendments in the Act (effective from 31 December 2010) the amount guaranteed by the Fund was increased from BGN 100,000 to BGN 196,000 per client.

Funds attracted from corporate, state-owned and public institutions grew to BGN 664,066 thousand, compared to the previous year (2009: BGN 630,338 thousand; 2008: BGN 1,101,766 thousand).

Chart 16: Structure of attracted funds as at 31.12.2010



Source: Fibank

Table 9: Liabilities due to other customers

in BGN thousand / % of total	2010	%	2009	%	2008	%
Funds attracted from individuals	**3,621,627**	**84.5**	**2,709,208**	**81.1**	**1,753,561**	**61.4**
In BGN	1,256,629	29.3	960,486	28.8	684,979	24.0
In EUR	2,036,301	47.5	1,517,424	45.4	901,194	31.6
In other currency	328,697	7.7	231,298	6.9	167,388	5.9
Funds attracted from corporate, state-owned and public institutions	**664,066**	**15.5**	**630,338**	**18.9**	**1,101,766**	**38.6**
In BGN	388,585	9.1	324,988	9.7	788,101	27.6
In EUR	217,039	5.1	236,973	7.1	235,624	8.2
In other currency	58,442	1.3	68,377	2.0	78,041	2.7
Total funds attracted from customers	**4,285,693**	**100.0**	**3,339,546**	**100.0**	**2, 855,327**	**100.0**

Source: Fibank

Funds in BGN had a predominant share in the currency structure of funds attracted from corporate, state-owned and public institutions at 58.5% (2009: 51,6%; 2008: 71,5%), increasing by 19.6% to BGN 388,585 thousand at the end of the reporting period. Funds in EUR and in other currencies decreased by 8.4% to BGN 217,039 thousand and by 14.5% to BGN 58,442 thousand in absolute terms, and down to 5.1% and 1.3% as a relative share, against 7.1% and 2.0% a year earlier.

Liabilities evidenced by paper decreased to BGN 116,725 thousand at the end of 2010 (2009: BGN 193,363 thousand; 2008: BGN 832,620 thousand), resulting mainly from the decrease in liabilities under repurchase agreements (by BGN 64,085 thousand).

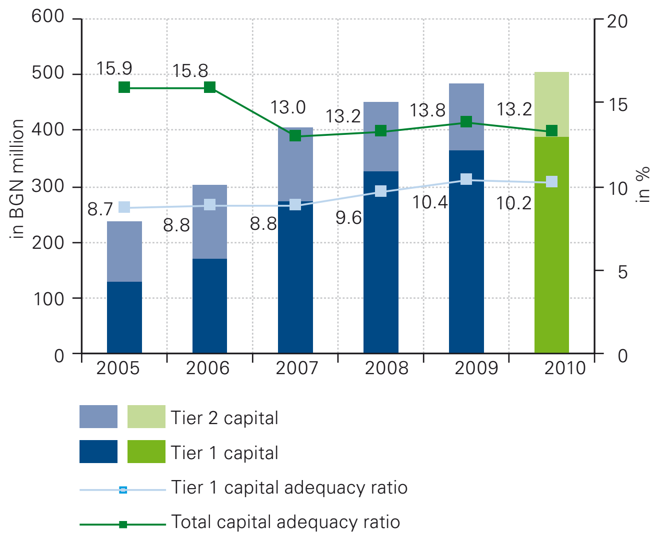
Other term liabilities, which comprised mainly financing obtained from financial institutions through the extension of loan facilities, amounted to BGN 80,142 thousand (2009: BGN 93,919 thousand; 2008: BGN 105,097 thousand).

Capital

As at the end of 2010 Fibank's total capital base amounted to BGN 505,695 thousand or BGN 22,038 thousand more than the previous year (2009: BGN 483,657 thousand; 2008: BGN 451,322 thousand). The growth resulted from an increase in the amount of Tier 1 capital due to the capitalization of net profit and its allocation to other general purpose reserves.

To develop its capital base Fibank also uses perpetual debt instruments and subordinated term debt, which are recognized as Tier 2 capital. As at 31 December 2010 the Bank had entered into six separate subordinated loan agreements with four different lenders on the total amount of BGN 47,169 thousand (2009: BGN 60,641 thousand; 2008: BGN 53,852 thousand), as well as signing two guaranteed perpetual subordinated bonds for the total amount of BGN 99,201 thousand (2009: BGN 98,952 thousand; 2008: BGN 98,658 thousand).

Chart 17: Capital adequacy



Source: Fibank

Table 10: Capital adequacy

in BGN thousand / % of risk-weighted assets	**2010**	**%**	**2009**	**%**	**2008**	**%**
Tier 1 capital	390,169	10.21	363,237	10.39	328,859	9.60
Total capital base	505,695	13.23	483,657	13.83	451,322	13.18
Risk-weighted assets	**3,821,008**		**3,497,667**		**3,424,859**	

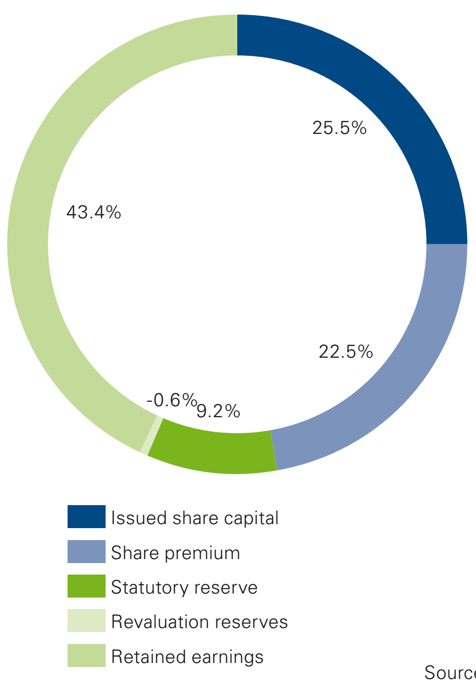
Source: Fibank

During the reporting period capital adequacy ratios were above regulatory requirements – Tier 1 capital adequacy ratio was 10.21% (2009: 10.39%; 2008: 9.60%), while total capital adequacy ratio was 13.23% (2009: 13.83%; 2008: 13.18%).

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.

Total group equity increased to BGN 433,175 thousand as at 31 December 2010 (2009: BGN 403,035 thousand; 2008: BGN 368,734 thousand) as a result of increased retained earnings, which reached BGN 186,799 thousand (2009: BGN 158,857 thousand; 2008: BGN 129,095 thousand).

Chart 18: Equity structure as at 31.12.2010



Source: Fibank

During 2010 one Regular general meeting of shareholders was held. It was decided that no dividends would be paid to shareholders and no other deductions from the profit would be made.

As at 31.12.2010 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%).

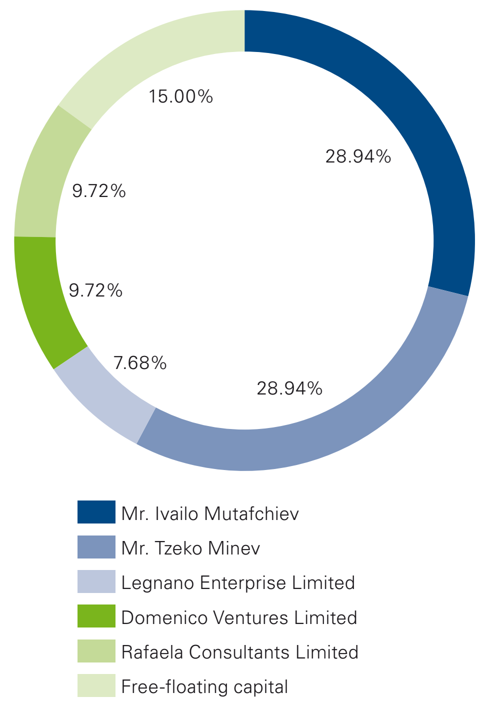
Currently 15% of the Bank's issued share capital (BGN 16.5 million) is freely traded on the Bulgarian Stock Exchange – Sofia (free-float).

During the reporting period Fibank's share price ranged between BGN 1.60 – BGN 2.54 according to the main stock indices of the Bulgarian Stock Exchange – Sofia.

The shares were traded at 247 trade sessions held at the Bulgarian Stock Exchange – Sofia throughout the year.

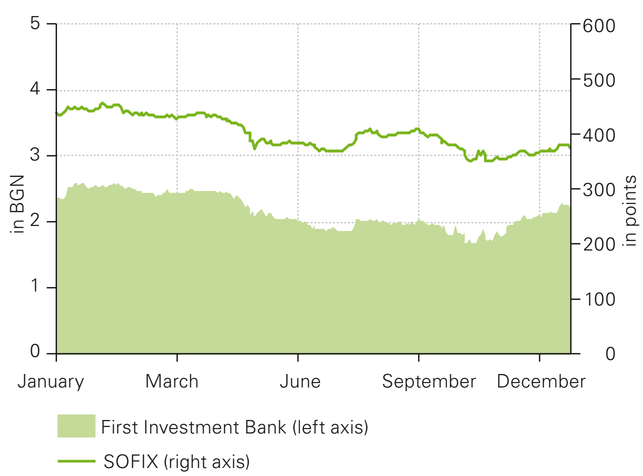
The average daily turnover of shares of the Bank amounted to BGN 30,928. The average share price of Fibank during the period was BGN 2.11, while the Bank's market capitalization, calculated on this basis, was BGN 232 million.

Chart 19: Shareholders' structure as at 31.12.2010



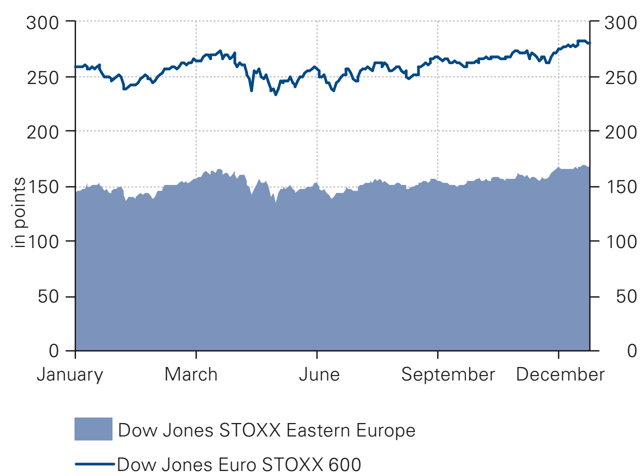
Source: Fibank

Chart 20: Fibank share price in 2010



Source: BSE

Chart 21: European stock indices in 2010



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 the last two years 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 the 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, the Credit Committee and the Operational Risk 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 respresentatives of the Legal, Corporate Banking, SME Lending, Branch Network, Trade finance and Risk Management 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 two members of the Managing Board, the head of the Liquidity Department, the Chief Dealer, and the directors of the Risk Management Department and Finance and Accounting Departments.

The Credit Committee is a specialised body for monitoring loan exposures with indicators for impairment. It has seven members elected by the Managing Board – representatives of the Legal, Corporate Banking, Risk Management, Finance and Accounting, Impaired Assets and Provisioning departments, SME Lending and Retail Banking 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.

The Operational Risk Committee is a consultative body established in October 2010. Its purpose is to facilitate the adequate management of operational risk by monitoring and analyzing the occurring operating events. The Committee proposes measures for minimizing of operational risks, as well as preventive measures. The Committee includes representatives of the following departments: the Risk Management, the Methodology, the Finance and Accounting, the Operations, the Card Payments, and the Branch Network.

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.

Considering the unstable external environment, the Bank's management has continued its conservative approach to risk management, including centralized management of the loan portfolio and application of forecasting models, stress tests and programs for internal analysis of capital adequacy (ICAAP).

The Bank reflects the risk profile of its activities by assessing the basic indicators of the used quantitative methods in case of unfavorable economic environment scenario. The internal system for assessment of the internal capital needed is based on prognostic VaR models for credit risk and market risk, stress tests for liquidity risk and interest risk in the bank portfolio and basic indicator approach in relation to the operational risk.

During the review period, increased resources and control were focused on the active management of problem exposures – in means of their timely diagnosis and taking of measures, consistent with the repayment capacity of the clients and the Bank's policy on risk-taking.

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..

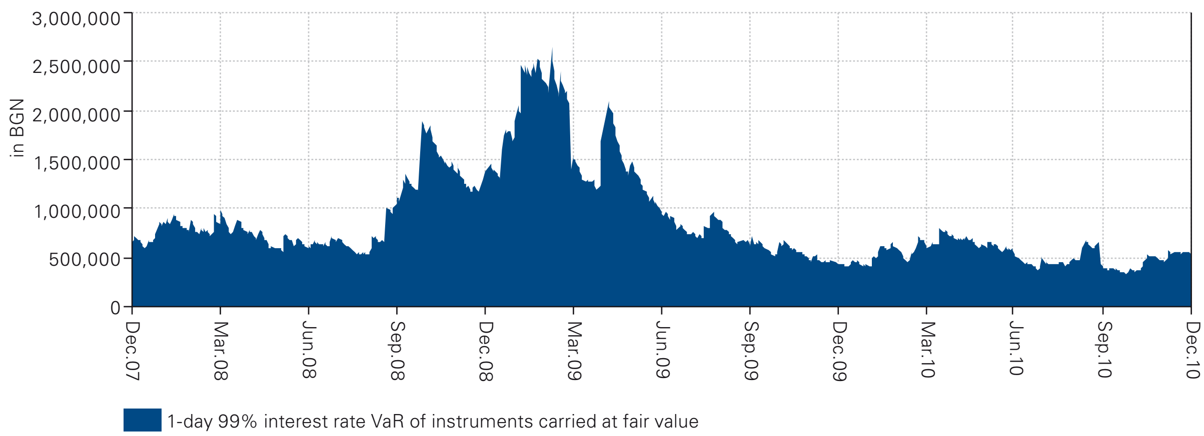
Market risk

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 22: 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, a 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 2010 the liquidity ratio was 26.06% (2009: 19.79%; 2008: 25.67%).

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, and active management of operational risk.

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.

The Operational Risk Committee reviews regularly the occurred operating events and suggests to the managing Board measures for the immediate correction of the reasons, as well for the optimization of the processes, activities, products and services of all levels in the Bank's system.

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 11: Risk-weghted assets

	Amount in BGN thousand			% of change	
	2010	**2009**	**2008**	**2010/2009**	**2009/2008**
For credit risk	3,456,345	3,166,229	3,162,584	9.2	0.1
For market risk	5,988	4,325	3,250	38.5	33.1
For operational risk	358,675	327,113	259,025	9.6	26.3
Total risk-weghted assets	**3,821,008**	**3,497,667**	**3,424,859**	**9.2**	**2.1**

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 2011 Fibank will continue to develop its infrastructure to prepare for the introduction of an Internal Ratings Based approach in line with Basel II and applying the strengthen requirements of Basel III - 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.

Distribution channels

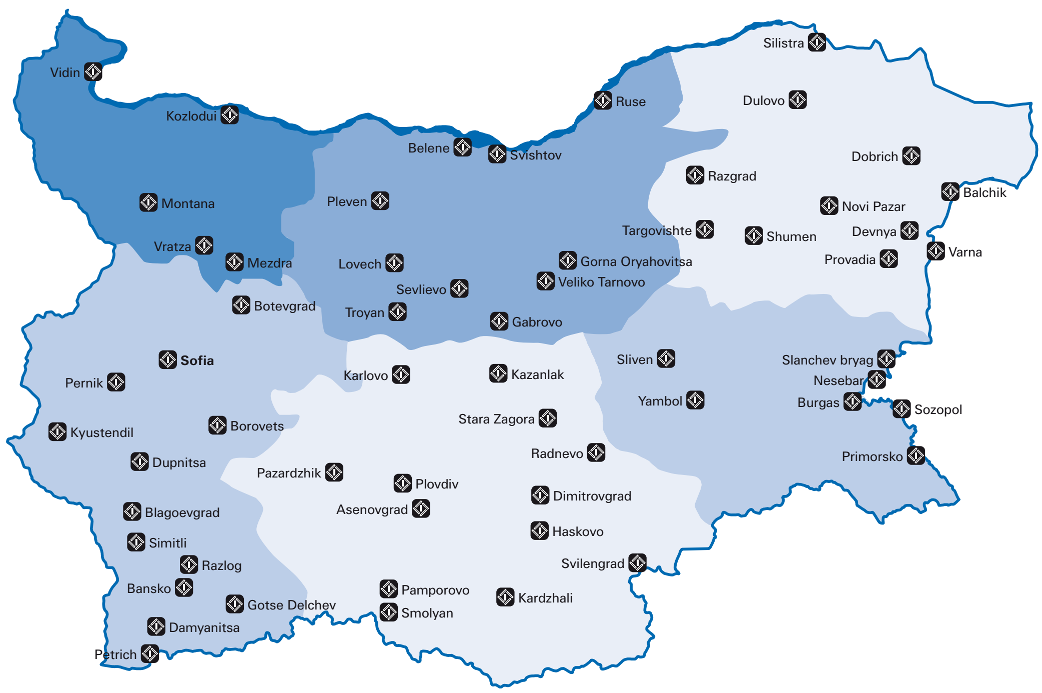
First Investment Bank uses various types of distribution channels for its products and services, which are developed and improved with the aim of best responding to the needs of its customers. The Bank offers a balanced choice between visits to a bank offices, the use of ATM and POS terminals, distant access to information and services through its own contact centre, and direct sales and internet banking.

During the year Fibank allocated resources for the development of new alternative distribution channels, including phone banking and promoting the corporate blog as a channel for active communication with customers and partners.

Branch network

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

In 2010 the Bank focused on increasing the effectiveness of the branch network with the aim of optimizing the working processes and exploiting maintenance costs. Throughout the year five new offices were opened in the country (three in Sofia, and one in Aksakovo and Harmanli), and three were closed – in Yambol, Haskovo and Vratsa. In December the offices in Razgrad and Targovishte were restructured in separate branches registered in the Commercial Register.



As at 31 December 2010 the Group`s branch network included a total of 172 branches and offices (2009: 170) – a Head Office, 52 offices in Sofia, 108 branches and offices in the rest of the country, one foreign branch in Cyprus, a Head Office of the subsidiary bank in Tirana and nine branches and offices in Albania.

Contact centre – ☎*bank (☎*2265), ☎0800 11 011

Fibank`s Contact centre has proven its role though the years as an effective channel for communication with customers and as an active channel for the sale of specific banking products and services. The Contact Centre's customers can apply for credit and debit cards, for debit card overdraft, 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.

In 2010 total calls with customers increased almost two-fold. Outgoing calls formed 76% of total serviced calls. The capacity for performing outgoing calls has increased steadily over the years and in 2010 it reached the ability to perform over 200,000 outgoing phone calls per year. The Contact centre serves over 6,000 incoming phone 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 massages upon request, as well as by phone internet connection through the Bank`s corporate web site – www.fibank.bg (through the "click to call" function).

Corporate blog

In 2010 the corporate blog of First Investment Bank marked off two years since its establishment as an alternative channel for communication with customers and partners. It publicises a various 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 inquires.

During the year Fibank continued to develop the scope of presented information and to expand the dialogue with customers and interested parties through its new rubric "Our analyses", which included the Bank`s analyses and researches regarding the market of credit products and the tendencies in this segment.

First Investment Bank has a strong and positive image in the Internet society, an aspect of which is its active participation in all leading social networks (Facebook, Twitter, Youtube, Svejo.net, Foursquare). During the year the Bank`s corporate blog was used as a successful example for online marketing in a book published with practical examples dedicated to this subject.

Sales

Fibank has used direct sales as a successful channel for the distribution of bank products and services more than five years. The Bank has its own distribution network of agents and provides complex banking services to institutional and corporate customers at place in their 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 is a pioneer in the area of electronic banking, having successfully developed and offered it for more than nine years, providing its clients with modern, fast, inexpensive and safe way to use a wide range of banking products and services.

Fibank strives to continuously work towards improving the products and services offered by the virtual bank branch in order to meet in the best possible way the needs of its customers regarding speed, functionality, efficiency and security. In 2010 the Bank added a new means for identification in active banking in the Virtual Banking Branch – a Token encoding electronic device with double degree of protection (with two codes – PINt and TAN). For the purpose of further increasing the level of security for customers, SMS notification is also offered for successfully performed transactions.

New functionalities were introduced during the year for clients using passive electronic banking – reports for credit card statements and card authorizations, as well as features designed for merchants with POS terminals. The providing of electronic account statements through My Fibank internet service helps for the timely notification of customers, and is in line with the Ecoprogram of the Bank. Nearly 70 000 clients had subscribed to this service as at the end of 2010.

Over the period, transfers using the Virtual Banking Branch increased by an average of nearly 30% in means of number and total amount, while their relative share of all transfers of the Bank reached 32%.

In implementing its plans for the development of electronic banking towards broadening of the payment capabilities and providing higher quality, innovative and competitive services, in 2010 the Bank allocated resources to finalize its projects for banking via mobile or fixed phone as alternative channels for remote banking.

Information technologies

Information technology development is one of the main priorities in the activity of First Investment Bank. The policy for development of information systems as a basis for diversification, upgrading and expanding the portfolio of products and services by offering a higher level of security in carrying out of banking operations and of first class customer service continued throughout 2010.

The Bank offered its clients an innovative opportunity for additional identification by using debit and credit cards with chip. The service is free and provides additional control of accounts and deposits, facilitating the process of better bank servicing. The additional identification is used in debit transactions on individual accounts – cash withdrawals, transfers, and checking of account balances.

A system of identification by Token devices was implemented. A Token device can be used to work with the Internet banking of Fibank (e-fibank.bg) and features a dual level protection, guaranteed by the combination of the PINt (Personal Identification Number) of the device known only to its owner, and a one-time password (TAN) generated by the Token by a complex algorithm. Applied together with the username, those increase the level of security in banking.

In 2010 a new Data Recovery Center was launched, providing a higher level of security for storage and preservation of data in case of temporary disruptions or arising of emergency circumstances.

Several projects for the development and implementation of new systems were successfully completed: the "YES" loyalty program (with special software by a leading company in the development and supply of such programs), an IP telephone exchange, a system for mass payments, and inter-bank reporting system featuring a multifunctional interface.

At the beginning of the past year, First Investment Bank joined the Trans-European Automated Real-Time Gross Settlement Express Transfer system (TARGET2), and the system for servicing of customer payments in Euro designated to be executed in a defined moment (BISERA7-EUR), based on the rules, practices and standards of the Single Euro Payment Area (SEPA).

Corporate development

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 is set up on the basis of internationally recognized good corporate governance standards, as well as the National Corporate Governance Code. Fibank is also managed in accordance with the effective legislation and the Bank`s By-law 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 regulations and directives.

Throughout the years the Bank has worked systematically towards improving its policy for good corporate governance. Since 2006 Fibank has followed a Programme for the Implementation of Internationally Recognised Good Corporate Governance Standards consistent with the National Corporate Governance Code, which the Bank reconsiders every year in terms of its adherence and effectiveness and compliance with the legislation tendencies and the good practices in corporate governance.

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 2010 the Supervisory Board's activity was supported by an Audit Committee which monitors the financial reporting process, the independent financial audit, as well as the effectiveness of the Bank`s internal control systems and the risk management systems, and which reports to the General Meeting of Shareholders.

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 Managing Board's activity is supported by internal bodies such as: the Credit Council, Credit Committee, Liquidity Council, Operational Risk Committee, which carry out their activities on the basis of pre-determined written structure, scope of activities and functions.

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 2010 a Regular Annual General Meeting of Shareholders was held, at which the following decisions were been made: the whole net profit of the Bank for 2009 was capitalized; KPMG Bulgaria OOD was chosen as the specialized audit company that would audit the Bank's annual financial statements for 2010; a new Head of the Specialised Internal Audit Service was chosen.

Being a public company Fibank discloses to the public (through the news agency www.x3news.com) regular information including annual and semi-annual financial statements audited by an independent auditor, as well as interim quarterly financial statements and activity reports. The Bank immediately discloses additional "ad hoc" information regarding important events in connection with its business activity. The information is also available on Fibank`s website: www.fibank.bg, Section "Investor information".

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 providing regular information in connection with its financial calendar for 2010.

Human capital

a question of team
FIRST INVESTMENT BANK

Fibank`s policy for personnel management is oriented towards achieving long-term compliance between the personal goals of employees and the aims of the institution as a whole – the fulfillment of Fibank`s goals and strategy; binding remuneration motives with stability of achieved results; and recognition of the Bank as a preferrred working place for employees. This policy is based on the principles of rationality, transparency, avoiding conflict of interests, keeping proper records, and objectivity.

Fibank`s policy concerning remunerations is in line with the Bank's volume, type and complexity of operations and corresponds to the Bank`s financial results, the requirements in respect of capital adequacy and effective risk management. The policy is in line with the Bank`s 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 effective risk management, and not to allow excessive taking of risk.

Fibank is developing its policy concerning remunerations in compliance with the new European regulations that were implemented in Bulgarian legislation with Ordinance №4 of the Bulgarian National Bank on the requirements towards remunerations in banks.

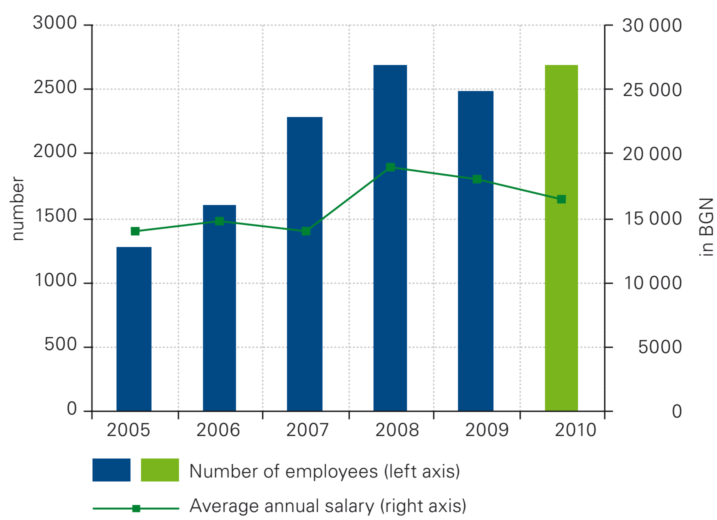
Training and raising of employees` qualifications with an accent laid on the improvement of skills for serving customers and effective internal cooperation are among the priority tasks set in the policy.

In 2010 47% of the Bank's employees took part in different forms of training (mainly internal training sessions and seminars in the country), including programs for improving skills for working with customers.

Through the year Fibank gained the right to receive free financing for the realization of a project "Question of Development" under the operating programme "Development of Human Resources 2007-2013", according to which in 2011 training sessions for improving skill and key competences of 366 Bank employees will be organized in two groups – for developing management potential and improving skills for serving customers.

As at 31 December 2010 the total number of employees was 2,690, an increase of 8.2% y/o/y (2009: 2,486, 2008: 2,689).

Chart 23: Human capital



Source: Fibank

Charity

For yet another year, First Investment Bank demonstrated its public commitment by participating in various charitable and social initiatives. The values of the Bank are responsibility, transparency and support of issues of social significance.

In 2010, the emphasis of Fibank's social agenda was on the resocialization and vocational training of youths from institutions who are facing problems in personal development and future achievement in life. Six social projects were approved during the year, providing practical training for youths deprived of parental care, aimed at acquiring professional qualifications, choice of vocation, and providing part-time employment.

The Bank continues to actively encourage and support the participation of its employees in social initiatives through volunteer work and charity, evidence of which is the prize won by Fibank for the largest voluntary contribution by staff at the Ceremony for the Largest Corporate Donor, organized by the Bulgarian Donors' Forum.

During the year, Fibank continued its successful collaboration with its longtime partner, the Workshop for Civic Initiatives Foundation, to whom it donated the Bank's prize for Best Corporate Blog – a business package of high tech communications services, covering the requirements of a modern corporate office.

First Investment Bank is a general sponsor of the Bulgarian Olympic Committee and supports projects aimed at sports and physical activity.

Business structure

Supervisory Board

Audit Commitee

Internal Audit

Managing Board

Business Structures

Corporate banking	Retail banking	Dealing
SME Lending	Card payments	Branch network
Microlending	Gold and Numismatics	Fund transfers
Private banking	Sales	Alternative channels
Trade Finance		Correspondent Banking

Supporting Structures

Legal	Finance and Accounting	Operations
Methodology	Risk Management	Liquidity
Marketing and Advertising	Impaired Assets and Provisioning	Human capital management
Loan Administration	Specialized monitoring and control	Nostro accounts
Administration		Security

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 2010.

As at 31 December 2010 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
Dimitar Kostov Kostov	Deputy Executive Director
Vassil Christov Christov	Deputy Executive Director
Svetoslav Stoyanov Moldovansky	Deputy Executive Director
Radoslav Todorov Milenkov	Chief Financial Officer
Maya Ivanova Oyfalosh	Director “Corporate Banking

There were changes in the Managing Board as follows:

In December 2010 new members of the Managing Board were elected: Mr. Dimitar Kostov Kostov – Director of “Risk Management” Department, Mr. Vassil Christov Christov – Director of “Branch Network” Department and Mr. Svetoslav Stoyanov Moldovansky – Director of “Operations” Department. In January 2011 each of them was reappointed as a Deputy Executive Director.

In December 2010 Mr. Ivan Stefanov Ivanov – Regional Director “Northeast Bulgaria” was discharged as a member of the Managing Board.

In January 2011 Mr. Radoslav Todorov Milenkov was discharged from his positions in the Bank.

In February 2011 Mr. Matthew Alexandrov Mateev (1959 - 2011) – former Chairman of the Managing Board and Executive Director left us.

Mr. Matthew Mateev joined the Bank in its establishment in 1993. In 1998 he was appointed member of the Managing Board and Executive Director and in 2006 - Chairman of the Managing Board and Executive Director. He was named ‘‘Banker of the Year’’ for 2005 by the Bulgarian financial weekly “The Banker”. Besides his position in the Bank, Mr. Matthew Mateev was 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.

As at 31 December 2010 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 2010 the key management personnel received remuneration amounting to BGN 2,602 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. 02/ 81 71 430, email: vstamatova@fibank.bg.

Business overview

Retail banking

Deposits

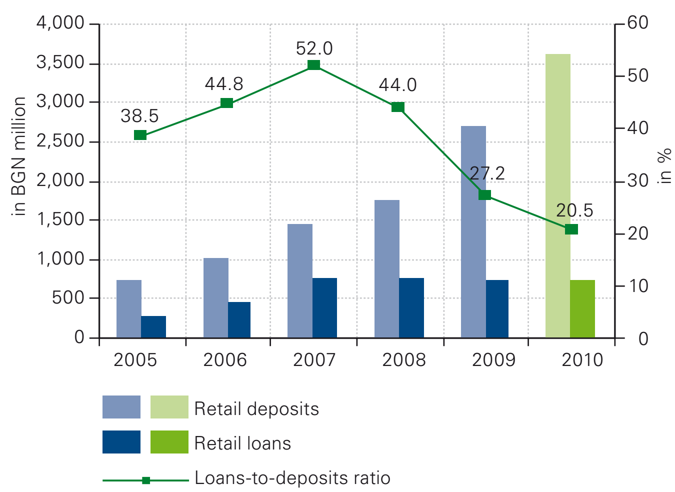
In 2010 attracted funds from individuals increased by BGN 912,419 thousand (33.7%) and amounted to BGN 3,621,627 thousand, forming the majority of the attracted funds of the Bank at 84.5% (2009: 81.1%; 2008: 61.4%). This growth was due to the new promotional deposit products offered by the Bank, as well as to increased demand for low-risk saving instruments by individuals and the good quality of customer service, for which Fibank was awarded "Bank of the Client" by "Pari" daily for a consecutive year.

In the structure of deposits term deposits demonated, amounting to BGN 3,150,228 thousand or 87.0% of retail deposits, against BGN 2,389,561 thousand (88.2%) at the end of 2009 (2008: BGN 1,355,671 thousand, 77.3%). Current accounts amounted to BGN 471,399 thousand (2009: BGN 319,647 thousand; 2008: BGN 397,890 thousand).

In 2010 Fibank continued to develop its deposit products in accordance with changes in the financial markets and in customer demand. New promotional deposit products were offered – one-year and 24-months "Free Deposit".

As at 31 December 2010 Fibank improved its market position in terms of deposits from individuals and ranked second among banks in the country according to this indicator on an unconsolidated basis (2009: third place, 2008: sixth place).

Chart 24: Deposits and loans to individuals



Source: Fibank

Loans

As at the end of 2010 loans to individuals amounted to BGN 742,674 thousand or BGN 4,757 thousand more than 2009. Despite the Bank's more active offering of new credit products the demand from individuals remained at the previous year's levels, resulting from the unstable economic situation in the country, increased unemployment and different signals from the international markets.

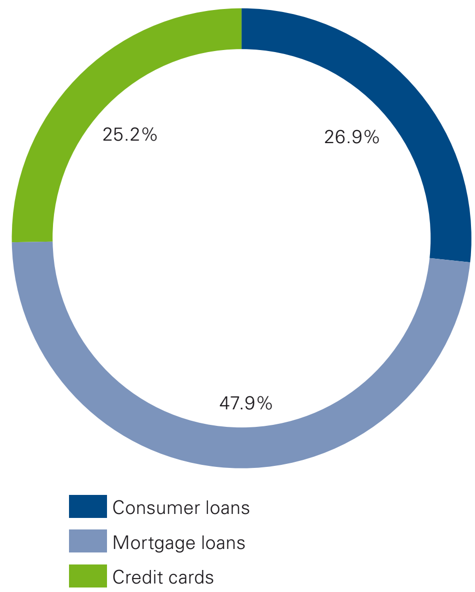
In 2010 a decrease was registered in consumer loans of BGN 10,663 thousand (5.1%), amounting to BGN 199,671 thousand (2009: BGN 210,334 thousand; 2008: BGN 229,858 thousand) and in mortgage loans of BGN 5,044 thousand (1.4%) to BGN 355,737 thousand (2009: BGN 360,781 thousand; 2008: BGN 380,141 thousand). The trend of growth in utilized credit limits on credit cards was retained, as in 2010 the increase was BGN 20 464 thousand (12.3%), amounting to BGN 187,266 thousand (2009: BGN 166,802 thousand; 2008: BGN 160,963 thousand).

The structure of the loan portfolio was retained. Mortgage loans formed 47.9% (2009: 48.9%, 2008: 49.3%) of loans to individuals, consumer loans were at 26.9% (2009: 28.5%, 2008: 29.8%), and credit cards at 25.2% (2009: 22.6%, 2008: 20.9%).

As at the end of 2010 Fibank retained seventh place in terms of consumer loans and eighth place in mortgage loans among the banks in Bulgaria on an unconsolidated basis.

New credit products were developed through the period responding to the changed business environment. A new housing, mortgage and student loan "Adaptation" was developed during the year, designed for individuals.

Chart 25: Loans to individuals



Source: Fibank

In 2010 the Bank continued to support the optimizing of clients' personal finances with a special program developed for the needs of individuals.

Card payments

In 2010 First Investment Bank continued to be among the leading banks in the card business in Bulgaria by developing and introducing new and innovative products and services.

Throughout the period Fibank offered the service „Maestro Cash Back", which provided card holders and the Maestro debit card holders with the possibility for cash withdrawal from POS terminals at trade locations

For the convenience of customers in 2010 Fibank started issuing different debit cards (VISA Electron, V PAY, Maestro) to one customer account, which ensured permanent control and higher effectiveness for clients.

At the end of 2010 First Investment Bank started offering bank cards from a new generation - MasterCard PayPass and Maestro PayPass, and became the first bank in the country to introduce contactless payments under the PayPass technology.

The Bank's card structure was retained during the year as 82.2% (2009: 85.3%; 2008: 83.2%) of all issued cards were debit cards (Maestro, VISA Electron and V PAY), and 17.8% (2009: 14.7%; 2008: 16.8%) were credit cards (VISA, MasterCard and Diners Club).

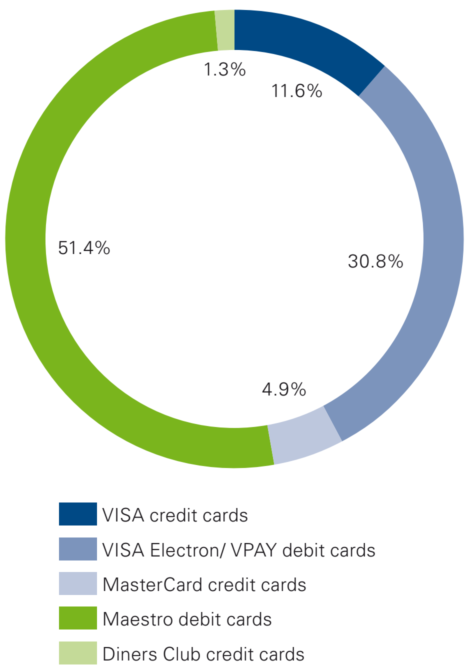
During 2010 the number of POS terminals reached nearly 8800 and the ATM terminals stood at 673 devices. Contributing factors were the professional and high quality of customer service, the competitive conditions offered by Fibank, as well as the growing number of cards issued, and people's increasing need for card products usage.

In 2010 Fibank updated and migrated its card system to a new higher version offering new products and functionalities at the same time as ensuring security and control to its clients.

Fibank launched its YES loyalty program, which encompasses a network of partner merchants throughout the country. Through this program, the Bank aims to reward its customers and to support the operations of its partner merchants by integrating them into one common system for loyalty. The YES program is based on a special application on the FIB-issued smart cards for individuals which gives the card holder points, discounts and other rewards for every transaction made at a POS terminal of the Bank with a loyalty application installed. The YES program started with the new revolving credit card MasterCard YES, and also included the MastrerCard PayPass credit cards and Maestro PayPass debit cards. For the purposes of the program a special site (http://yes.fibank.bg/) was developed, providing users with information on current promotions, updates and news.

A new product from Diners Club Bulgaria (Fibank's subsidiary company) was offered during the period – a revolving credit card with a minimum repayment installment of 10% and a grace period up to 45 days. The new product enabled customers to repay the obligation in installments and use the already repaid part of the card's credit limit.

Chart 26: Bank cards for 2010



Source: Fibank

Gold and commemorative coins

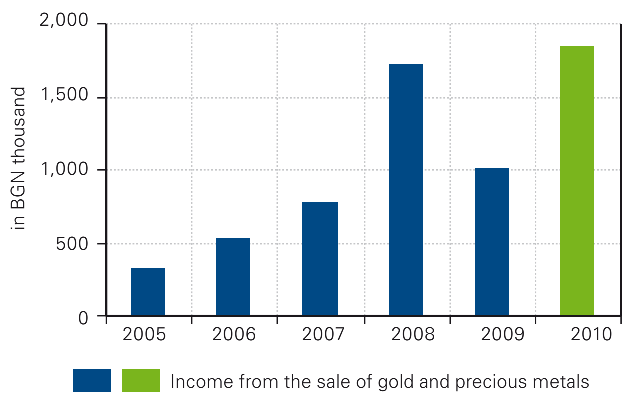
In 2010, Fibank maintained its leading position among commercial banks in Bulgaria in its offering of intermediary services for trading in investment gold and other precious metals.

The Bank continued to develop its successful cooperation with the New Zealand Mint, and in the course of the year began the distribution of new silver coins dedicated to the Year of the Tiger, as well as a new collector's series of coloured silver coins with partial gold plating named Bulgarian Symbols and Traditions. The series was created from an idea of First Investment Bank, while the design and manufacture of the coins were by the New Zealand Mint. The three coins in the collection represent three of the most famous symbols of Bulgaria: the Survachka, the Martenitsa and the Bulgarian rose.

For customers who prefer medallion-shaped bars, the Bank proposed a new series "IcOns BLOOMS", manufactured at the prestigious Swiss mint PAMP, for which Fibank is the official representative for Bulgaria.

For 2010, the revenues from sales of investment gold and other precious metals articles amounted to BGN 1,854 thousand (2009: BGN 1,015 thousand, 2008: BGN 1,732 thousand).

Chart 27: Income from the sale of gold and precious metals



Source: Fibank

First Investment Bank has offered investment products from gold and other precious metals to its clients since 2001, and over the years has established successful cooperation with several leading financial institutions from around the world – the renowned Swiss mint PAMP (Produits Artistiques de Métaux Précieux), the banks UBS and Credit Suisse, the New Zealand Mint, the National Bank of Mexico, the Austrian Mint, the British auction house SPINK, and others.

In carrying out transactions with gold and other precious metals articles, Fibank has invariably complied with all quality criteria of the London Metal Exchange and with international standards for ethical trade.

In 2010 First Investment Bank – Albania Sh.a. became the first bank to offer products of gold and other precious metals on the Albanian banking market.

Private banking

In 2010 First Investment Bank continued to develop its private banking, offering personal attention by an individual Bank officer who is responsible for the entire servicing of a customer, as well as a joint team principle for performing more complex banking services. This banking is offered in the branches and offices of the Bank, as well as by visiting the client'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 as well as use of additional products and services.

Corporate banking

Deposits

Attracted funds from corporate, state-owned and public institutions as at the end of 2010 amounted to BGN 664,066 thousand or an increase of BGN 33,728 thousand (5.4%) compared to the previous year (2009: BGN 630,338 thousand; 2008: BGN 1,101,766 thousand).

This growth was mainly a result of term deposits which increased by 17.9% and reached BGN 390,761 thousand, forming 58.8% (2009: 52.6%; 2008: 61.6%) of all attracted funds from corporate, state-owned and public institutions. The attracted funds on current accounts as at the end of 2010 totalled BGN 273,305 thousand (2009: BGN 299,011 thousand; 2008: BGN 422,830 thousand), registering a decline of BGN 25,706 thousand over the previous year and forming 41.2% (2009: 47.4%; 2008: 38.4%) of the attracted funds from companies.

The dynamics in the attracted funds from corporate customers of the Bank in 2010 reflected the business potential which is still not recovered and the continuing shortage of free cash funds for corporate customers.

As at 31 December 2010 the funds of the thirty largest non-bank depositors represented 4.6% of total deposits from all customers (2009: 6.5%)..

Loans

Corporate lending

Loans granted to corporate customers as at the end of the reporting period increased by 20.4% and reached BGN 2,772,246 thousand. The increase was due to a growth of 22.0% in loans to large corporate customers, which reached BGN 2,505,101 thousand. The Bank provides varied financing to its corporate customers including working capital loans, investment loans, guarantees etc.

During 2010 the market position of the Bank improved. Fibank ranked fourth in terms of corporate loans among the banks in the country on an unconsolidated basis (2009: fifth place, 2008: sixth place).

Table 12: Structure of corporate lending by type of customer

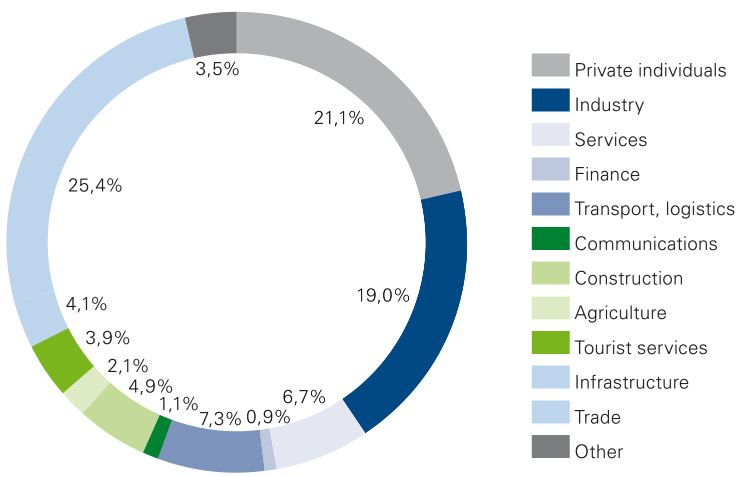
in BGN thousand / % of total	2010	%	2009	%	2008	%
Small and medium enterprises	240,128	8.6	219,053	9.5	267,158	11.8
Microlending	27,017	1.0	29,456	1.3	41,196	1.8
Corporate customers	2,505,101	90.4	2,053,237	89.2	1,958,417	86.4
Total corporate loans	2,772,246	100.0	2 301,746	100.0	2 266,771	100.0

Source: Fibank

The tendency for increasing the share of loans to large corporate customers remained in the structure of the corporate loan portfolio (from 86.4% in 2008 to 90.4% in 2010). This contrasted with the share of loans to small and medium enterprises (from 11.8% in 2008 to 8.6% in 2010) and of loans for microlending (from 1.8% in 2008 to 1% in 2010).

During the reporting period loans extended in the trade sector marked the biggest absolute growth of BGN 132,584 thousand (17.5%) to reach BGN 891,439 thousand (2009: BGN 758,855 ; 2008: BGN 649,185 thousand), supported mainly by the successful development of the export-oriented companies. The loans in this sector increased their share in the Group's portfolio to 25.4% (2009: 25.0%; 2008: 21.4%) and retained their structure determining role.

Chart 28: Structure of loan portfolio by type of industry



Source: Fibank

Loans in the sectors of transport and infrastructure increased by BGN 115,840 thousand to BGN 256,342 thousand (2009: BGN 157,317 thousand; 2008: BGN 148,266 thousand) and BGN 142,906 thousand respectively (2009: BGN 126,091 thousand; 2008: BGN 106,212 thousand) mainly as a result of infrastructure projects activated during the year. Loans in the industry sector kept their basic share at 19.06% of the loan portfolio (2009: BGN 21.5%; 2008: 23.3%) supported by non-cyclic production and the metallurgy, mine and energetics industries.

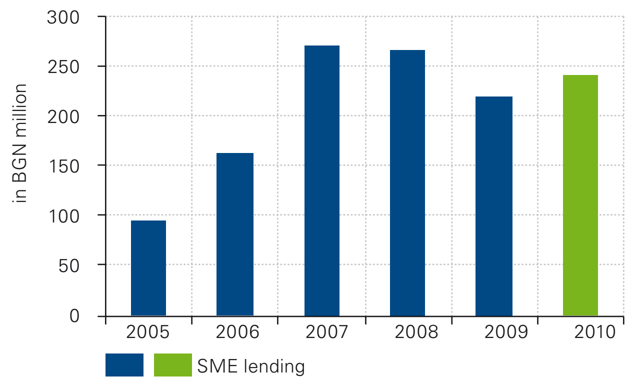
An increase was registered in all economic sectors. In the services sector it was by BGN 65,704 thousand reaching BGN 236,986 thousand (2009: BGN 171,282 thousand; 2008: BGN 187,411 thousand). An increase of BGN 29,547 thousand was reached in the tourism sector to total BGN 137,996 thousand (2009: BGN 108,449 thousand; 2008: BGN 112,973 thousand) as well as in the construction sector, by BGN 27,337 thousand reaching BGN 170,447 thousand (2009: BGN 143,110 thousand; 2008: BGN 145,293 thousand). This confirms the presence of real signals for the recovery the country's economy.

SME Lending

The small and medium enterprises loan portfolio marked an increase in 2010 and reached BGN 240,128 thousand at the end of the year (2009: BGN 219,053 thousand; 2008: BGN 267,158 thousand). During the reporting period a new product in this market segment was offered the Super SME Loan with the maximum amount of BGN 500,000 thousand and a term of seven years the first part of which is an overdraft with the possibility for a free repayment schedule.

The realization of projects financed with EU structural funds continued to be among the accents of the Bank for lending to small and medium enterprises through offering an investment loan guaranteed by the National Guarantee Fund.

Chart 29: Loan portfolio - small and medium enterprises



Source: Fibank

The Bank has an agreement with the National Guarantee Fund for providing portfolio guarantee of up to 50% of the loans extended to companies with a business history or to companies with less market experience. In April 2010 the Bank organized a seminar on the operative program "Competitiveness of the Bulgarian Economy" stressing the possibilities for the development and modernization of small and medium enterprises through free financing of projects under EU programs and the management of already approved projects. In this way Fibank proved for a consecutive year to its corporate customers the readiness it has not only to provide appropriate financing but also to assist by giving timely and accurate information.

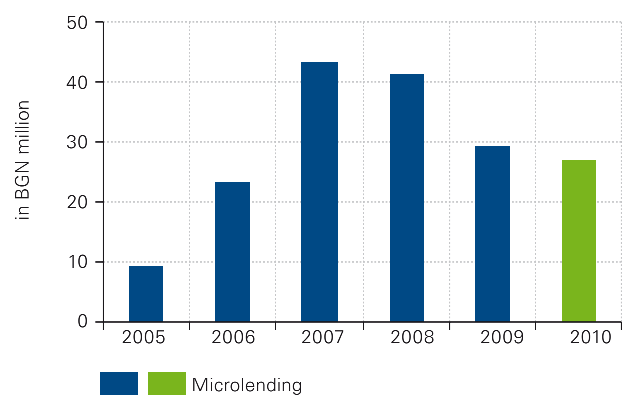
Microlending

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 2010 the Bank offered a new credit product to its customers which are micro companies called Super Micro Loan with a maximum amount of BGN 80,000 thousand and a term of seven years the first part of which is an overdraft with the possibility of a free repayment schedule.

During the reporting period the microlending loan portfolio decreased to BGN 27,017 thousand compared to BGN 29,456 thousand a year earlier (2008: BGN 41,196 thousand) as a result of the economic crisis which had a great effect on micro companies.

Chart 30: Loan portfolio - microlending



Source: Fibank

Payment transactions

First Investment Bank carries out its activity related to remittances and other payment services in compliance with Bulgarian legislation, including the Law on Payment services and Payment Systems and Ordinance №3 of the BNB on the Conditions and Procedure for the Execution of Payment Transactions and for the Use of Payment Instruments. The Bulgarian regulatory frame in this sphere has been harmonized to this of the European Community in regards to Payment Services Directive and reflects the contemporary European tendencies for the establishment of the single European market for payment services.

In 2010 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 (BORICA);
- MoneyGram Agent;
- Express-M Agent;
- EasyPay Agent (domestic money transfers).

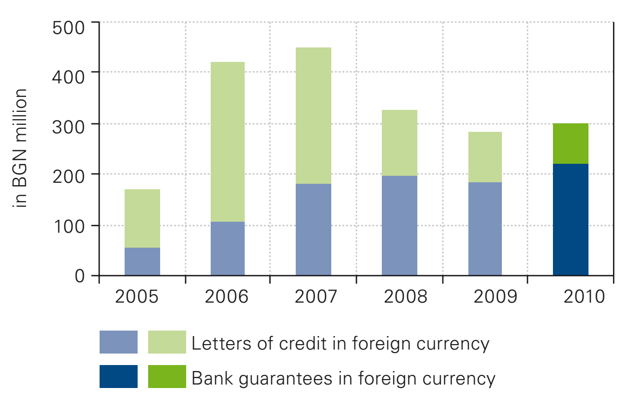
International payments

In 2010 First Investment Bank affirmed its leading role in the sphere of international payments, acknowledged as a correct and stable business partner in the international financial markets. This was evidenced by the two prizes awarded to Fibank by Deutsche Bank and Commerzbank for exceptional quality and for meeting global standards in international payments.

The Bank reported a good year in respect of its international activities regarding trade finance. Market shares were improved to 9.94% in terms of outgoing (2009: 8.82%) and up to 9.77% in terms of incoming (2009: 9.67%) operations. During the year Fibank signed an agreement for cooperation with International Finance Corporation (IFC), covering the trade finance business of the Bank.

Bank guarantees in foreign currency registered a growth of 19.4% (BGN 35,988 thousand) and reached BGN 221,186 thousand at the end of 2010 (2009: BGN 185,198 thousand; 2008: BGN 198,695 thousand). The increase resulted from restructuring in the types of payments used by customers in favor of international bank guarantees, compared to letters of credit in foreign currency, and from the attraction of new customers. Letters of credit in foreign currency decreased to BGN 77,805 thousand, compared to BGN 98,749 thousand a year earlier (2008: BGN 129,294 thousand). Fibank maintains a wide network of correspondent banks and services, international bank guarantees and letters of credit around the world.

Chart 31: Bank guarantees and letters of credit in foreign currency



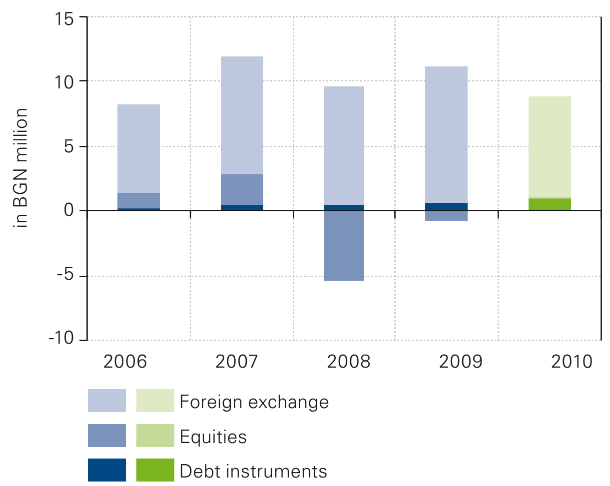
Source: Fibank

Capital Markets

The net trading income of the Group fell by 15.2% to BGN 8,752 thousand during 2010, compared to BGN 10,321 thousand a year earlier (2008: BGN 4,258 thousand). The decrease resulted from the lower income from foreign exchange operations.

At the end of the year financial assets held for trading amounted to BGN 16,641 thousand (2009: BGN 9,023 thousand; 2008: BGN 9,681 thousand), available for sale investments reached BGN 715,405 thousand (2009: BGN 285,110 thousand; 2008: BGN 286,623 thousand) and financial assets held to maturity reached BGN 57,102 thousand (2009: BGN 35,425 thousand; 2008: BGN 62,395 thousand).

Chart 32: Trading income



Source: Fibank

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 of government securities, shares, corporate and municipal bonds, compensatory instruments as well as primary money market instruments. The Bank also offers depositary and custodian services to private individuals and corporates, including maintaining 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 non-professional customers. The Bank has a unit for the control of investment services and activities, which ensures the observing of the requirements regarding Fibank's activity as an investment intermediary.

In 2010 Fibank started to accept orders for subscription/redemption of units in a new mutual fund FFBH Vostok, managed by the Management company FFBH Asset Management AD, registered with the Financial Supervision Commission. The Bank also offers units in three other mutual funds (FIB Garant Mutual Fund, FIB Classic Mutual Fund and FIB Avangard Mutual Fund), managed by the same management company.

During the reporting period the subsidiary bank in Albania (First Investment Bank – Albania Sh.a.) was licensed as a dealer and custodian of Albanian government secirities. The Bank also became the first bank licensed to perfom depository services to assets of the voluntary pension funds operating in the Albanian market.

Events after the reporting period

- On 11 January 2011 with a decision of the Supervisory Board Radoslav Todorov Milenkov was discharged as a member of the Managing Board of the Bank.
- On 18 January 2011 First Investment Bank AD acquired 100,000 ordinary bearer voting shares each with a nominal value of BGN 1 (temporary certificates in place of shares), constituting 2% of the capital of Health Insurance Fund FI Health AD. Following the acquisition the Bank increased its shareholding in the company to 59.10%.
- On 7 February 2011 First Investment Bank AD acquired 100 shares constituting 100% of the capital of Balkan Financial Services OOD for the amount of BGN 5 thousand. The company is engaged in consultancy services on the implementation of financial information systems as well as software development.
- On 18 February 2011 Mr. Matthew Alexandrov Mateev, Chairman of the Managing Board and Executive Director of First Investment Bank AD, passed away following a prolonged illness.
- On 17 March 2011 the Bank issued a debt capital (hybrid) instrument (bond issue) which it intends, after obtaining permission from the Bulgarian National Bank, to include in its Tier 1 capital pursuant to Art. 3a of Ordinance 8 on Capital Adequacy of Credit Institutions. The Bank placed under private subscription the bond issue with a total nominal and issue value of EUR 20,000 thousand, constituting the first tranche of a bond issue for up to EUR 40,000 thousand. The bonds are registered, dematerialized, interest-bearing, perpetual, unsecured, freely transferable, non-convertible and deeply subordinated.

CONSOLIDATED FINANCIAL STATEMENTS

as at 31 december 2010

WITH INDEPENDENT AUDITOR'S REPORT THEREON

Independent Auditors' Report

To the Shareholders of First Investment Bank

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

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 as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on 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 audit 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 2010, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

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

Tzvetelinka Koleva

Authorized Repreentative

KPMG Bulgaria OOD

Sofia, 5 April 20111

Margarita Goleva

Registered audito

Consolidated statement of comprehensive income for the year ended 31 December 2010

in thousands of BGN

	Note	2010	2009
Interest income		397,790	362,878
Interest expense		(259,936)	(234,728)
Net interest income	**6**	**137,854**	**128,150**
Fee and commission income		63,976	58,739
Fee and commission expense		(8,053)	(7,875)
Net fee and commission income	**7**	**55,923**	**50,864**
Net trading income	**8**	**8,752**	**10,321**
Other operating income	**9**	**4,447**	**615**
TOTAL INCOME FROM BANKING OPERATIONS		**206,976**	**189,950**
General administrative expenses	10	(144,568)	(144,358)
Impairment losses	11	(27,099)	(10,965)
Other expenses, net		(3,993)	(378)
PROFIT BEFORE TAX		**31,316**	**34,249**
Income tax expense	**12**	**(3,465)**	**(4,453)**
GROUP PROFIT AFTER TAX		**27,851**	**29,796**
Other comprehensive income			
Exchange differences on translating foreign operations		(105)	(1,816)
Available for sale financial assets		118	6,321
Other comprehensive income for the period		**13**	**4,505**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**27,864**	**34,301**
Profit attributable to:			
Owners of the Bank		27,958	30,013
Non-controlling interests		(107)	(217)
Total comprehensive income attributable to:			
Owners of the Bank		27,971	34,518
Non-controlling interests		(107)	(217)
Basic and diluted earnings per share (in BGN)	**13**	**0.25**	**0.27**

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 62 to 95.

Tzvetelinka Koleva
Authorized representative
KPMG Bulgaria OOD

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

Margarita Goleva
Registered auditor

Consolidated statement of financial position as at 31 December 2010

in thousands of BGN

	Note	2010	2009
ASSETS			
Cash and balances with central banks	14	556,861	603,792
Financial assets held for trading	15	16,641	9,023
Available for sale investments	16	715,405	285,110
Financial assets held to maturity	17	57,102	35,425
Loans and advances to banks and financial institutions	18	21,736	26,187
Loans and advances to customers	19	3,417,094	2,966,461
Property and equipment	20	128,563	131,793
Intangible assets	21	20,997	18,543
Other assets	23	64,377	35,950
TOTAL ASSETS		**4,998,776**	**4,112,284**
LIABILITIES AND CAPITAL			
Due to credit institutions	24	8,826	7,650
Due to other customers	25	4,285,693	3,339,546
Liabilities evidenced by paper	26	116,725	193,363
Subordinated term debt	27	47,169	60,641
Perpetual debt	28	99,201	98,952
Deferred tax liability	22	3,248	1,944
Derivative liabilities held for risk management		247	248
Other liabilities	29	4,492	6,905
TOTAL LIABILITIES		**4,565,601**	**3,709,249**
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	(28)	(146)
Reserve from translation of foreign operations	31	(2,734)	(2,629)
Retained earnings	31	186,799	158,857
SHAREHOLDERS' EQUITY		**430,898**	**402,943**
Non-controlling interests	31	2,277	92
TOTAL GROUP EQUITY		**433,175**	**403,035**
TOTAL LIABILITIES AND GROUP EQUITY		**4,998,776**	**4,112,284**

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 62 to 95.

Tzvetelinka Koleva
Authorized representative
KPMG Bulgaria OOD

Margarita Goleva
Registered auditor

Consolidated statement of cash flows for the year ended 31 December 2010

in thousands of BGN

	2010	2009
Net cash flow from operating activities		
Profit for the period	27,851	29,796
Adjustment for non-cash items		
Impairment losses, loans to customers	27,099	7,927
Impairment losses, available for sale investments	–	3,038
Depreciation and amortisation	21,421	18,732
Income tax expense	3,465	4,453
Profit from sale and derecognition of tangible and intangible fixed assets, net	(4,216)	(5,912)
	75,620	**58,034**
Change in operating assets		
(Increase))/decrease in financial instruments held for trading	(7,618)	658
(Increase)/decrease in available for sale investments	(430,177)	4,796
(Increase) in loans and advances to banks and financial institutions	(421)	(17,701)
(Increase) in loans to customers	(477,732)	(4,404)
(Increase) in other assets	(28,427)	(5,400)
	(944,375)	**(22,051)**
Change in operating liabilities		
Increase/(decrease) in deposits from banks	1,176	(45,384)
Increase in amounts owed to other depositors	946,147	484,219
Net (decrease) in other liabilities	(1,532)	(1,376)
	945,791	**437,459**
Income tax paid	(3,148)	(4,322)
NET CASH FLOW FROM OPERATING ACTIVITIES	**73,888**	**469,120**
Cash flow from investing activities		
(Purchase) of tangible and intangible fixed assets	(21,593)	(12,023)
Sale of tangible and intangible fixed assets	5,164	7,857
(Increase)/decrease of investments	(21,677)	26,970
NET CASH FLOW FROM INVESTING ACTIVITIES	**(38,106)**	**22,804**
Financing activities		
(Decrease) in borrowings	(89,861)	(632,174)
Non-controlling interests at incorporation of subsidiaries	118	–
Non-controlling interests upon business combination	2,158	–
NET CASH FLOW FROM FINANCING ACTIVITIES	**(87,585)**	**(632,174)**
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(51,803)**	**(140,250)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	**612,084**	**752,334**
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD (see note 33)	**560,281**	**612,084**

The cash flow statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 62 to 95.

Tzvetelinka Koleva
Authorized representative
KPMG Bulgaria OOD

СПЕЦИАЛИЗИРАНО ОДИТОРСКО ПРЕДПРИЯТИЕ
София
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Margarita Goleva
Registered auditor

Consolidated statement of changes in equity for the year ended 31 December 2010

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	Non-controlling interests	Total
Balance as at 1 January 2009	**110,000**	**97,000**	**129,095**	**(6,467)**	**(813)**	**39,861**	**58**	**368,734**
Total comprehensive income								
Profit for the year ended 31 December 2009	–	–	30,013	–	–	–	(217)	29,796
Other comprehensive income								
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**
Total comprehensive income								
Profit for the year ended 31 December 2010	–	–	27,958	–	–	–	(107)	27,851
Other comprehensive income								
Revaluation reserve on available for sale investments	–	–	–	118	–	–	–	118
Reserve from translation of foreign operations	–	–	–	–	(105)	–	–	(105)
Non-controlling interests at incorporation of subsidiaries	–	–	–	–	–	–	118	118
Non-controlling interests upon business combination							2,158	2,158
Movement related to the changes in non-controlling interest's shareholding	–	–	(16)	–	–	–	16	–
Balance as at 31 December 2010	**110,000**	**97,000**	**186,799**	**(28)**	**(2,734)**	**39,861**	**2,277**	**433,175**

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 62 to 95.

The financial statements have been approved by the Managing Board on 31 March 2011 and signed on its behalf by:

Evgeni Lukanov
Executive Director

Maya Georgieva
Executive Director

Ianko Karakolev
Chief Financial Officer

Tzvetelinka Koleva
Authorized representative
KPMG Bulgaria OOD

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

Margarita Goleva
Registered auditor

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 2010 comprise the Bank and its subsidiaries (see note 36), together referred to as the "Group".

The Group has foreign operatios 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 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 (liability) 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 in profit or loss 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 non-controlling 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.

- 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 thousands of BGN	Level 1	Level 2	Level 3	Total
31 December 2010				
Financial assets held for trading	16,641	–	–	16,641
Available for sale investments	671,834	37,552	6,019	715,405
Derivatives held for risk management	(247)	–	–	(247)
Total	**688,228**	**37,552**	**6,019**	**731,799**

in thousands of BGN	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 allocated 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 issuer or 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 – 50
• Fixtures and fittings	10 – 20
• Vehicles	10 – 20
• Leasehold improvements	2 – 50

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	8 – 50

(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, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of 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 amount of an asset or liability for financial reporting purposes and the amount 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 or her compensations amounted to two gross monthly salaries. In case the employee has service in the Bank during the last 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 effective for annual periods beginning after 1 January 2010, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Group.

IASB/IFRIC documents not yet endorsed by the European Commission:

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.

- IFRS 9 Financial Instruments (issued November 2009 and Additions to IFRS 9 issued October 2010) has an effective date 1 January 2013 and could change the classification and measurement of financial instruments. The extent of the potential impact has not been determined.
- Amendments to IFRS 7 Financial Instruments: Disclosures (issued October 2010) has an effective date 1 July 2011 – not expected to have a significant impact on the financial statements of the Group.
- Amendments to IAS 12 Deferred Tax: Recovery of Underlying Assets (issued December 2010) has an effective date 1 January 2012 – not expected to have a significant impact on the financial statements of the Group.
- Amendments to IFRS 1 Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (issued December 2010) has an effective date 1 July 2012 – not expected to have a significant impact on the financial statements of the Group.
- Improvements to IFRSs 2010 (issued April 2010), various effective dates, generally 1 January 2011 - not expected to have a significant impact on the financial statements of the Group.

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, capital base, 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 money and 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 2010:

in thousands of BGN	31 December 2010	Twelve months ended 31 December 2010			31 December 2009
		average	low	high	
VaR	538	529	329	808	531

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, subordinated debt instruments 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 2010

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	556,861	–	–	–	–	556,861
Financial assets held for trading	16,641	–	–	–	–	16,641
Available for sale investments	118,590	234,511	288,336	67,949	6,019	715,405
Financial assets held to maturity	5,394	9,167	6,774	35,767	–	57,102
Loans and advances to banks and financial institutions	8,705	611	4,043	8,377	–	21,736
Loans and advances to customers	165,799	210,735	763,802	2,276,758	–	3,417,094
Total financial assets	**871,990**	**455,024**	**1,062,955**	**2,388,851**	**6,019**	**4,784,839**
Liabilities						
Due to credit institutions	8,826	–	–	–	–	8,826
Due to other customers	1,350,080	815,919	992,620	1,127,074	–	4,285,693
Liabilities evidenced by paper	21,311	11,258	3,422	80,734	–	116,725
Subordinated term debt	–	–	–	47,169		47,169
Perpetual debt	–	–	–	–	99,201	99,201
Other financial liabilities	247	–	–	–	–	247
Total financial liabilities	**1,380,464**	**827,177**	**996,042**	**1,254,977**	**99,201**	**4,557,861**
Net liquidity gap	**(508,474)**	**(372,153)**	**66,913**	**1,133,874**	**(93,182)**	**226,978**

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**

As at 31 December 2010 the funds by the thirty largest non-bank depositors represent 4.59% of total deposits from other customers (2009: 6.52%).

The following table provides a remaining maturities analysis of the financial liabilities of the Group as at 31 December 2010 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	Total
Due to credit institutions	8,826	–	–	–	8,826
Due to other customers	1,351,726	824,939	1,033,634	1,276,178	4,486,477
Liabilities evidenced by paper	21,341	11,323	3,496	89,083	125,243
Subordinated term debt	–	–	2,920	75,978	78,898
Perpetual debt	–	4,775	6,601	144,157	155,533
Other financial liabilities	247	–	–	–	247
Total financial liabilities	**1,382,140**	**841,037**	**1,046,651**	**1,585,396**	**4,855,224**

(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 of 31 December 2010 is BGN +3.7/-3.7 Mio. The interest rate risk on the Group's net interest income one year forward following a standardised shock of +100bp/-100bp as of 31 December 2010 is BGN +5.1/-5.1Mio.

The following table indicates the effective interest rates at 31 December 2010 and the periods in which financial liabilities and assets reprice.

in thousands of BGN	Total	Weighted average effective interest rate	Floating rate instru-ments	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	62,835	0.31%	27,537	35,298	–	–	–
Financial assets held for trading	13,428	3.58%	–	–	–	–	13,428
Available for sale investments	709,386	0.95%	46,349	118,590	235,511	287,335	21,601
Financial assets held to maturity	57,102	5.80%		5,394	9,167	6,774	35,767
Loans and advances to banks and financial institutions	19,128	5.05%	121	6,701		3,929	8,377
Loans and advances to customers	3,379,115	12.49%	2,945,624	71,810	24,395	132,795	204,491
Non-interest earning assets	757,782	–	–	–	–	–	–
Total Assets	**4,998,776**		**3,019,631**	**237,793**	**269,073**	**430,833**	**283,664**
Liabilities							
Due to credit institutions	8,826	0.18%	1,826	7,000	–	–	–
Due to other customers	4,284,196	5.62%	1,382,820	453,651	701,800	851,761	894,164
Liabilities evidenced by paper	116,725	3.40%	68,326	21,215	78	14	27,092
Subordinated term debt	47,169	15.15%	–	–	–	–	47,169
Perpetual debt	99,201	12.55%	–	–	–	–	99,201
Non-interest bearing liabilities	9,484	–	–	–	–	–	–
Total Liabilities	**4,565,601**		**1,452,972**	**481,866**	**701,878**	**851,775**	**1,067,626**

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

in thousands of BGN	Total	Weighted average effective interest rate	Floating rate instru-ments	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	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**

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	**2010**	**2009**
Monetary assets		
Euro	3 422 525	2 362 649
US dollar	381 025	263 242
Other currencies	81 936	57 998
Gold	6 723	7 538
Monetary liabilities		
Euro	2 475 250	1 991 204
US dollar	382 068	271 394
Other currencies	86 387	58 422
Gold	–	–
Net position		
Euro	947 275	371 445
US dollar	(1 043)	(8 152)
Other currencies	(4 451)	(424)
Gold	6 723	7 538

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 2010		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	3,057,066	3,053,222
Individually impaired		
Watch	311,715	305,126
Nonperforming	27,875	24,275
Loss	118,264	34,471
Total	**3,514,920**	**3,417,094**

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**

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	**2010**	**2009**
Trade	891,439	758,855
Industry	668,427	652,808
Services	236,986	171,282
Finance	30,931	13,295
Transport, logistics	256,342	157,317
Communications	38,018	31,580
Construction	170,447	143,110
Agriculture	74,408	71,192
Tourist services	137,996	108,449
Infrastructure	142,906	126,091
Private individuals	742,982	752,021
Other	124,038	53,663
Less allowance for impairment	(97,826)	(73,202)
Total	**3,417,094**	**2,966,461**

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 2010 with total exposures amounting to BGN 78,336 thousand (2009: BGN 45,903 thousand) - ferrous and non-ferrous metallurgy, BGN 68,850 thousand (2009: BGN 75,684 thousand) – mining industry and BGN 108,113 thousand (2009: BGN 105,139 thousand) - power engineering.

The Group has extended loans and issued contingent liabilities to 17 individual clients or groups (2009: 13) with each individual exposure exceeding 10% of the capital base of the Group. The total amount of these exposures is BGN 1,324,378 thousand which represents 261.89% of the Group's capital base (2009: BGN 804,532 thousand which represented 166.34%of capital base) of which BGN 1,102,284 thousand (2009: BGN 694,309 thousand) represent loans and BGN 222,094 thousand (2009: BGN 110,223 thousand) represent guarantees, letters of credit and other commitments.

The loans extended by the Cyprus branch amount to BGN 175,938 thousand (2009: BGN 147,095 thousand) and in Albania – BGN 45,575 thousand (2009: BGN 22,950 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 187,266 thousands (2009: BGN 166,802 thousands):

In thousands of BGN	**2010**	**2009**
Mortgage	1,489,092	1,392,732
Pledge of receivables	241,395	200,429
Pledge of commercial enterprise	443,797	433,880
Securities	130,044	68,904
Bank guarantee	7,127	4,159
Other guaranties	305,410	234,325
Pledge of goods	164,800	128,774
Pledge of machines	219,301	181,282
Money deposit	37,146	47,479
Stake in capital	29,013	28,006
Gold	18	18
Other collateral	227,206	128,736
Unsecured	33,305	24,137
Total	**3,327,654**	**2,872,861**

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 and a minimum prescribed ratio of 6% of Tier 1 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. As the Group holds insignificant trading book, the Group does not apply capital requirements to its exposures in trading portfolio in respect to market risk and calculates required capital for trading instruments in accordance with the provisions for banking book.

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%, 35%, 50%, 75%, 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 calculates also capital requirements for market risk for foreign currency and commodity instruments in trading book and banking book.

In addition, the Group is required to hold capital for operational risk. The basic indicator approach is used. Required capital is equal to the average gross annual income over the previous three years multiplied by a fixed percentage (15%). Respective risk weighted assets are calculated by further multiplication by 12.5.

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 non-controlling 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:

in thousands of BGN	Carrying amount/notional amount		Risk weighted amount	
	2010	**2009**	**2010**	**2009**
Risk weighted assets for credit risk				
Assets				
Exposure class				
Central governments and central banks	1,111,542	538,983	36,403	12,319
Multirateral development banks	–	3,224	–	–
Institutions	123,335	268,535	37,492	65,644
Corporates	2,462,179	1,977,273	2,433,889	1,948,053
Retail	508,642	533,454	369,494	511,035
Claims secured by residential property	383,677	395,941	134,287	197,971
Past due exposures	51,909	44,810	51,909	44,810
Collective investment undertaking	2,100	2,004	2,100	2,004
Other items	323,709	314,536	195,795	164,549
Total	**4,967,093**	**4,078,760**	**3,261,369**	**2,946,385**
Off-balance sheet items				
Exposure class				
Central governments and central banks	851	–	–	–
Institutions	15,464	26,704	3,468	7,147
Corporates	465,959	495,301	187,034	209,004
Retail	226,751	226,810	3,515	2,473
Claims secured by residential property	4,109	4,640	708	1,143
Other items	–	–	13	15
Total	**713,134**	**753,455**	**194,738**	**219,782**
Derivatives				
Exposure class				
Institutions	830	311	166	62
Corporates	72	–	72	–
Total	**902**	**311**	**238**	**62**
Total risk-weighted assets for credit risk			**3,456,345**	**3,166,229**
Risk-weighted assets for market risk			**5,988**	**4,325**
Risk-weighted assets for operational risk			**358,675**	**327,113**
Total risk-weighted assets			**3,821,008**	**3,497,667**

Capital adequacy ratios		**Capital**		**Capital ratios %**
	2010	**2009**	**2010**	**2009**
Tier 1 Capital	**390,169**	**363,237**	**10.21**	**10.39**
Total capital base	**505,695**	**483,657**	**13.23**	**13.83**

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.

in thousands of BGN	Bulgarian operations		Foreign operations		Total	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**
Interest income	374,459	342,290	23,331	20,588	397,790	362,878
Interest expense	(255,584)	(232,196)	(4,352)	(2,532)	(259,936)	(234,728)
Net interest income	**118,875**	**110,094**	**18,979**	**18,056**	**137,854**	**128,150**
Fee and commission income	62,997	57,813	979	926	63,976	58,739
Fee and commission expense	(7,883)	(7,754)	(170)	(121)	(8,053)	(7,875)
Net fee and commission income	**55,114**	**50,059**	**809**	**805**	**55,923**	**50,864**
General administrative expenses	**(138,233)**	**(138,409)**	**(6,335)**	**(5,949)**	**(144,568)**	**(144,358)**
	2010	**2009**	**2010**	**2009**	**2010**	**2009**
Segment assets	**4,692,799**	**3,884,490**	**305,977**	**227,794**	**4,998,776**	**4,112,284**
Segment liabilities	**4,452,439**	**3,588,244**	**113,162**	**121,005**	**4,565,601**	**3,709,249**

The following table presents the allocation of assets and liabilities, income and expenses based on business segments as at 31 December 2010 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 income**
Commercial banking	2,711,599	664,066	298,535	(28,072)	15,563	–	–
Retail banking	705,495	3,621,627	89,491	(210,247)	5,180	–	–
International business	–	263,095	–	(21,557)	7,353	–	–
Cards business	–	–	–	–	14,875	–	–
Liquidity	1,358,513	8,826	9,764	(20)	9	943	449
Dealing	9,232	247	–	–	(105)	7,809	4,019
Clients services	–	–	–	–	12,528	–	–
Other	213,937	7,740	–	(40)	520	–	(21)
Total	**4,998,776**	**4,565,601**	**397,790**	**(259,936)**	**55,923**	**8,752**	**4,447**

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 2010.

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	–	–	434,148	–	–	122,713	556,861	556,861
Financial assets held for trading	16,641	–	–	–	–	–	16,641	16,641
Available for sale investments	–	–	–	715,405	–	–	715,405	715,405
Financial assets held to maturity	–	57,102	–	–	–	–	57,102	56,949
Loans and advances to banks and financial institutions	–	–	21,736	–	–	–	21,736	21,736
Loans and advances to customers	–	–	3,417,094	–	–	–	3,417,094	3,417,094
	16,641	**57,102**	**3,872,978**	**715,405**	**–**	**122,713**	**4,784,839**	**4,784,686**
Liabilities								
Due to credit institutions	–	–	–	–	8,826	–	8,826	8,826
Due to other customers	–	–	–	–	4,285,693	–	4,285,693	4,285,693
Liabilities evidenced by paper	–	–	–	–	116,725	–	116,725	116,725
Subordinated term debt	–	–	–	–	47,169	–	47,169	47,169
Perpetual debt	–	–	–	–	99,201	–	99,201	96,800
Other financial liabilities	–	–	–	–	–	247	247	247
	–	**–**	**–**	**–**	**4,557,614**	**247**	**4,557,861**	**4,555,460**

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 are either with short-term maturity or 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 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**

6. Net interest income

in thousands of BGN	2010	2009
Interest income		
Accounts with and placements to banks and financial institutions	1,507	1,943
Retail customers	89,491	88,867
Loans to corporate clients	266,262	227,938
Loans to small and medium enterprises	28,331	30,402
Microlending	3,942	4,771
Debt instruments	8,257	8,957
	397,790	**362,878**
Interest expense		
Deposits from banks	(20)	(1,002)
Deposits from other customers	(238,319)	(186,446)
Liabilities evidenced by paper	(4,048)	(27,970)
Subordinated term debt	(5,884)	(7,252)
Perpetual debt	(11,625)	(11,670)
Lease agreements and other	(40)	(388)
	(259,936)	**(234,728)**
Net interest income	**137,854**	**128,150**

For 2010 the recognised interest income on individually impaired financial assets (loans and advances to customers) amounts to BGN 31,791 thousand (2009: BGN 22,190 thousand).

7. Net fee and commission income

in thousands of BGN	2010	2009
Fee and commission income		
Letters of credit and guarantees	6,199	6,321
Payments transactions	8,126	7,680
Customer accounts	13,930	8,985
Cards business	21,223	20,131
Other	14,498	15,622
	63,976	**58,739**
Fee and commission expense		
Letters of credit and guarantees	(360)	(669)
Correspondent accounts	(812)	(880)
Cards business	(6,348)	(5,835)
Other	(533)	(491)
	(8,053)	**(7,875)**
Net fee and commission income	**55,923**	**50,864**

8. Net trading income

in thousands of BGN	2010	2009
Net trading gains/(losses) arise from:		
- Debt instruments	943	608
- Equity instruments	30	(665)
- Foreign exchange	7,779	10,378
Net trading income	**8,752**	**10,321**

9. Other operating income

in thousands of BGN	2010	2009
Other operating income/(expenses) arise from:		
- Debt instruments	449	788
- Equity instruments	4,016	–
- Other	(18)	(173)
Other operating income	**4,447**	**615**

10. General administrative expenses

in thousands of BGN	2010	2009
General and administrative expenses comprise:		
- Personnel cost	44,522	44,704
- Depreciation and amortisation	21,421	18,732
- Advertising	5,367	7,774
- Building rent expense	25,497	24,926
-Telecommunication, software and other computer maintenance	10,926	11,344
- Unclaimable VAT	9,824	9,704
- Administration, consultancy, audit and other costs	27,011	27,174
General administrative expenses	**144,568**	**144,358**

Personnel costs include salaries, social and health security contributions under the provisions of the local legislation. At 31 December 2010 the total number of employees of the Group is 2,690 (2009: 2,486).

11. Impairment losses

in thousands of BGN	2010	2009
Write-downs		
Loans and advances to customers	(38,437)	(36,089)
Available for sale investments	–	(3,038)
Reversal of write-downs		
Loans and advances to customers	11,338	28,162
Net impairment losses	**(27,099)**	**(10,965)**

12. Income tax expense

in thousands of BGN	2010	2009
Current taxes	(2,161)	(4,238)
Deferred taxes (see note 22)	(1,304)	(215)
Income tax expense	**(3,465)**	**(4,453)**

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

in thousands of BGN	2010	2009
Accounting profit before taxation	**31,316**	**34,249**
Corporate tax at applicable tax rate (10% for 2010 and 10% for 2009)	3,132	3,425
Effect of tax rates of foreign subsidiaries and branches	19	170
Tax effect of permanent tax differences	(990)	643
Tax effect of temporary differences	1,304	215
Income tax expense	**3,465**	**4,453**
Effective tax rate	11.06%	13.00%

13. Earnings per share

	2010	2009
Net profit attributable to shareholders (in thousands of BGN)	27,958	30,013
Weighted average number of ordinary shares (in thousands)	110,000	110,000
Earnings per share (in BGN)	**0.25**	**0.27**

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 2010 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	2010	2009
Cash on hand		
- In Bulgarian leva	85,366	97,145
- In foreign currencies	37,347	45,776
Balances with central banks	383,064	261,943
Current accounts and amounts with resident banks	7,000	4,094
Current accounts and amounts with foreign banks	44,084	194,834
Total	**556,861**	**603,792**

15. Financial assets held for trading

in thousands of BGN	2010	2009
Bonds, notes and other instruments issued by:		
Bulgarian government, assessed with BBB rating :		
- denominated in Bulgarian leva	3,898	2,638
- denominated in foreign currencies	7,574	–
Bulgarian banks, assessed with BBB- rating	1,956	–
Foreign banks, assessed with AAA rating	–	3,224
Other issuers – equity instruments (unrated)	3,213	3,161
Total	**16,641**	**9,023**

16. Available for sale investments

in thousands of BGN	2010	2009
Bonds, notes and other instruments issued by:		
Bulgarian government		
- denominated in Bulgarian leva	31,839	27,688
- denominated in foreign currencies	8,797	5,376
Foreign governments		
- treasury bills	626,225	214,160
- government bonds	4,973	–
Foreign banks	37,552	35,166
Other issuers – equity instruments	6,019	2,720
Total	**715,405**	**285,110**

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	2010	2009
Securities held to maturity issued by:		
Bulgarian government	29,371	21,833
Foreign governments	18,895	5,407
Foreign banks	8,836	8,185
Total	**57,102**	**35,425**

18. Loans and advances to banks and financial institutions

(a) Analysis by type

in thousands of BGN	2010	2009
Placements and other amounts due from banks	13,316	20,007
Receivables under resale agreements (see note 30)	5,910	2,810
Other	2,510	3,370
Total	**21,736**	**26,187**

(b) Geographical analysis

in thousands of BGN	2010	2009
Resident banks and financial institutions	6,298	3,491
Foreign banks and financial institutions	15,438	22,696
Total	**21,736**	**26,187**

19. Loans and advances to customers

in thousands of BGN	2010	2009
Retail customers		
- Consumer loans	199,671	210,334
- Mortgage loans	355,737	360,781
- Credit cards	187,266	166,802
Small and medium enterprises	240,128	219,053
Microlending	27,017	29,456
Corporate customers	2,505,101	2,053,237
Less allowance for impairment	(97,826)	(73,202)
Total	**3,417,094**	**2,966,461**

(a) Movement in impairment allowances

in thousands of BGN

Balance at 1 January 2010	**73,202**
Additional allowances	38,437
Amounts released	(11,338)
Write - offs	(2,466)
Effects of changes in foreign currencies rates	(9)
Balance at 31 December 2010	**97,826**

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**
Additions	–	56	31	16,982	168	17,237
Exchange differences on translating foreign operations	–	(17)	(2)	(1)	(9)	(29)
Acquired through business combination	–	3	–	–	–	3
Disposals	(448)	(3,478)	(79)	(463)	(365)	(4,833)
Transfers	2,258	14,128	274	(26,440)	9,502	(278)
At 31 December 2010	**12,639**	**116,332**	**6,183**	**25,409**	**57,432**	**217,995**
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**
Exchange differences on translating foreign operations	–	(9)	–	–	(3)	(12)
Acquired through business combination	–	2	–	–	–	2
Charge for the period	378	14,596,	769	–	3,500	19,243
On disposals	(209)	(3,352)	(79)	–	(263)	(3,903)
At 31 December 2010	**3,579**	**64,722**	**4,933**	**–**	**16,198**	**89,432**
Net book value						
At 1 January 2009	**8,764**	**52,555**	**2,629**	**60,104**	**29,307**	**153,359**
At 31 December 2009	**7,419**	**52,155**	**1,716**	**35,331**	**35,172**	**131,793**
At 31 December 2010	**9,060**	**51,610**	**1,250**	**25,409**	**41,234**	**128,563**

21. Intangible assets

in thousands of BGN	Software and licences	Greenhouse allowances	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**
Additions	36	–	–	36
Exchange differences on translating foreign operations	(1)	–	–	(1)
Acquired through business combinations	100	3,820	480	4,400
Disposals	(745)	–	–	(745)
Transfers	278	–	–	278
At 31 December 2010	**22,355**	**3,820**	**587**	**26,762**
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**
Acquired through business combination	81	–	–	81
Charge for the period	2,178	–	–	2,178
On disposals	(745)	–	–	(745)
At 31 December 2010	**5,765**	**–**	**–**	**5,765**
Net book value				
At 1 January 2009	**5,524**	**–**	**107**	**5,631**
At 31 December 2009	**18,436**	**–**	**107**	**18,543**
At 31 December 2010	**16,590**	**3,820**	**587**	**20,997**

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	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**
Property, equipment and intangibles	–	–	3,017	2,273	3,017	2,273
Other items	(208)	(392)	439	63	231	(329)
Net tax (assets)/liabilities	**(208)**	**(392)**	**3,456**	**2,336**	**3,248**	**1,944**

Movements in temporary differences for 2010 at the amount of BGN 1,304 thousand are recognised in the net profit for the period.

23. Other Assets

in thousands of BGN	2010	2009
Deferred expense	10,288	5,003
Gold bullion	6,723	7,538
Other assets	47,366	23,409
Total	**64,377**	**35,950**

24. Due to credit institutions

in thousands of BGN	2010	2009
Term deposits	7,000	6,359
Payable on demand	1,826	1,291
Total	**8,826**	**7,650**

25. Due to other customers

in thousands of BGN	2010	2009
Retail customers		
- payable on demand	471,399	319,647
- term deposits	3,150,228	2,389,561
Corporate, state-owned and public institutions		
- payable on demand	273,305	299,011
- term deposits	390,761	331,327
Total	**4,285,693**	**3,339,546**

26. Liabilities evidenced by paper

in thousands of BGN	2010	2009
Acceptances under letters of credit	15,375	14,151
Liabilities under repurchase agreements (see note 30)	21,208	85,293
Other term liabilities	80,142	93,919
Total	**116,725**	**193,363**

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

27. Subordinated term debt

As at 31 December 2010 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 2010**
Growth Management Limited	5,867	10 years	27.08.2014	13,163
Growth Management Limited	3,912	10 years	24.02.2015	6,980
Hillside Apex Fund Limited	9,779	10 years	01.03.2015	9,397
Growth Management Limited	1,956	10 years	17.03.2015	3,441
ING Bank NV	9,779	10 years	22.04.2015	10,136
Hypo-Alpe-Adria Bank	3,912	10 years	14.04.2015	4,052
Total	**35,205**			**47,169**

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 2010**
Step-up guaranteed perpetual subordinated bonds EUR 27 mio	52,807	54,873
Step-up guaranteed perpetual subordinated bonds EUR 21 mio	41,073	44,328
Total	**93,880**	**99,201**

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	**2010**	**2009**
Liabilities to personnel	1,822	3,668
Current tax liability	1,080	1,131
Other payables	1,590	2,106
Total	**4,492**	**6,905**

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 2010 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	1,938	1,970
Other government securities	22,107	19,238
Total	**24,045**	**21,208**

At 31 December 2009 assets sold under repurchase agreements were 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**

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 2010 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	5,863	5,910
Total	**5,863**	**5,910**

At 31 December 2009 assets purchased subject to agreements to resell were 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**

31. Capital and reserves

(a) Number and face value of registered shares as at 31 December 2010

As at 31 December 2010 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

The table below shows those shareholders of the Bank holding shares as at 31 December 2010 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 2010, 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	2010	2009
Bank guarantees		
– in BGN	102,650	165,731
- in foreign currency	221,186	185,198
Total guarantees	**323,836**	**350,929**
Unused credit lines	303,400	289,482
Promissory notes	8,093	14,295
Letters of credit	77,805	98,749
Total	**713,134**	**753,455**

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 2010 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	2010	2009
Cash and balances with central banks	556,861	603,792
Loans and advances to banks and financial institutions with maturity less than 90 days	3,420	8,292
Total	**560,281**	**612,084**

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	2010	2009
FINANCIAL ASSETS		
Cash and balances with central banks	589,865	563,554
Financial assets held for trading	11,330	15,444
Available for sale investments	526,513	308,848
Financial assets held to maturity	43,804	39,407
Loans and advances to banks and financial institutions	22,561	26,581
Loans and advances to customers	3,167,615	3,002,265
FINANCIAL LIABILITIES		
Due to credit institutions	4,572	31,342
Due to other customers	3,842,321	3,045,372
Liabilities evidenced by paper	135,475	517,305
Subordinated term debt	53,994	57,176
Perpetual debt	98,280	98,245

35. Related party transactions

Parties are considered to be related if one party controls or exercises 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 are 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	**2010**	**2009**	**2010**	**2009**
Loans				
Loans outstanding at beginning of the period	2,130	2,455	21,721	11,728
Loans issued/(repaid) during the period	867	(325)	(2,666)	9,993
Loans outstanding at end of the period	**2,997**	**2,130**	**19,055**	**21,721**
Deposits and other financing received				
Deposits at beginning of the period	8,306	6,419	25,075	4,090
Deposits received/(repaid) during the period	(312)	1,887	(10,878)	20,985
Deposits at end of the period	**7,994**	**8,306**	**14,197**	**25,075**
Deposits placed				
Deposits at beginning of the period	–	–	3,912	11,735
Deposits placed/(matured) during the period	–	–	10	(7,823)
Deposits at end of the period	**–**	**–**	**3,922**	**3,912**
Off-balance sheet commitments issued by the Group				
At beginning of the period	2,280	1,475	1,322	2,102
Granted/(expired)	(1,076)	805	(33)	(780)
At the end of the period	**1,204**	**2,280**	**1,289**	**1,322**

The key management personnel of the Bank received remuneration of BGN 2,602 thousand for 2010 (2009: BGN 2,780 thousand).

36. Subsidiary undertakings

(a) First Investment Finance B.V.

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 2010 the registered share capital of the company is BGN 610 thousand, and the Bank's shareholding is 94.79%. 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 2010 the share capital of First Investment Bank – Albania Sh.a. is EUR 10,975 thousand, fully paid in and the Bank's shareholding is 100%. The Bank consolidates its investment in the company.

(d) Debita OOD and Realtor OOD

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 the 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:

- Debita OOD – 70% or 105,000 shares held by the Bank, and 30% or 45,000 shares held by FFBH.
- 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 management, servicing and maintenance of real estate, organization of construction and renovation of buildings, and consultancy services related to real estate. The Bank consolidates its investments in the companies.

(e) Health Insurance Fund FI Health AD

On 5 August 2010 the Bank acquired a 2% minority stake capital of Health Insurance Fund Prime Health AD with the option of listing the amount of shares needed to become a majority shareholder at the next increase of capital of the company.

On 8 October 2010 the Bank increased its shareholding in Health Insurance Fund FI Health AD (formerly Health Insurance Fund Prime Health AD), subscribing 2,755,000 ordinary shares with nominal value of BGN 1 each from the capital of the company. Following the capital increase the Bank holds 2,855,000 ordinary shares with nominal value of BGN 1 each, representing 57.10% of the capital of the health insurance fund. The Bank consolidates its investment in the company.

(f) Framas Enterprises Limited

On 22 November 2010 the Bank acquired 10,000 shares, representing 100% of the issued share capital of Framas Enterprises Limited, British Virgin Islands, with the view of providing auxiliary services pursuant to Article 2 (4) of the Law on Credit Institutions. The Bank consolidates its investment in the company.

37. Events after the reporting period

(a) Increased shareholding in Health Insurance Fund FI Health AD

On 18 January 2011 the Bank acquired 100,000 ordinary shares with nominal value of BGN 1 each (temporary certificates in place of shares), representing 2% of the capital of Health Insurance Fund FI Health AD. Following the acquisition the Bank holds 2,955,000 ordinary shares with voting rights and nominal value of BGN 1 each, representing 59.10% of the capital of the health insurance fund.

(b) Balkan Financial Services OOD

On 7 February 2011 the Bank acquired 100 shares representing 100% of the capital of Balkan Financial Services OOD. The company is engaged in consultancy services related to implementation of financial information systems and software development.

(c) Private bond placement

On 17 March 2011 the Bank issued a debt capital (hybrid) instrument (bond issue) which it intends, after obtaining permission from the Bulgarian National Bank, to include in its Tier 1 capital pursuant to Art. 3a of Ordinance 8 on Capital Adequacy of Credit Institutions. The Bank placed the bond issue under private subscription with a total nominal and issue value of EUR 20,000 thousand, constituting the first tranche of a bond issue for up to EUR 40,000 thousand. The bonds are registered, dematerialized, interest-bearing, perpetual, unsecured, freely transferable, non-convertible and deeply subordinated.

Fullfilment of the strategic goals for 2010

In 2010 First Investment Bank fulfilled its goals, as follow:

N	Goals	Fullfilment
1	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	Fibank continued to rank among the 10 leading banks in the country, maintaining its sixth place in terms of assets and loans and improving its position in deposits on an unconsolidated basis (from sixth to fifth place).
2	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	The Reveleus module for analysis of the profitability by business centers, customers, and products is in the process of implementation. It will optimize the generation of standardized information for management and control purposes.
3	To increase its capital base with an emphasis on tier 1 capital	Fibank increased its capital base by BGN 22 million, focusing on tier one capital, which increased by BGN 27 million for 2010 as a result of the retaining of current earnings and earnings from previous years.
4	To continue to maintain an adequate liquidity ratio, corresponding to the market environment	The liquidity ratio of the Bank increased from 19.79% to 26.06% in line with the market conditions and the market environment.
5	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	Fibank increased its gross loan portfolio by 15.6 percent (BGN 475 million) to BGN 3,515 million by the end of 2010, with a major contribution by corporate loans. It thus outpaced the average growth ratio for the banking system (2.3%).
6	To develop its card payments in line with the development guidelines of the Single Euro Payment Market	Fibank continued to offer card payments following best European practices. The Bank is among the leaders in this segment. Cards issued by Fibank have a high level of security based on chip technology and EU standards in relation to payments. At the end of 2010 Fibank started issuing a new generation, PayPass cards.
7	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	Fibank increased its market share by the end of 2010, performing 9.94 percent of all outgoing trade finance operations countrywide (compared to 8.82 for the previous year) and 9.77% of the incoming operations (9.67 for the previous year).
8	To continue to finance competitive projects, with an emphasis on programmes for the utilization of EU funds	Fibank continued to support the implementation of projects financed by European funds through specialized products – investment loans guaranteed by the National Guarantee Fund. During the year, the Bank organized a seminar on funding opportunities under OP "Competitiveness of the Bulgarian economy" for its SME clients.
9	To increase net fee and commission income, including an increase in income from financial instruments related to the servicing of foreign trade operations	Net fee and commission income increased by 10%, reaching BGN 55.9 million for the year, mainly due to revenues related to customer accounts (55% growth), payment transactions (6% growth) and card business (5% growth).
10	To increase operating efficiency by optimizing the volume and structure of expenses	The operating expenses / income from banking operations ratio improved from 76.00% to 69.85% over the year. Administrative costs were maintained at the level of 2009.
11	To optimize and increase the activity of the branch network and other distribution channels, such as the Contact Centre, ATM and POS terminals	Fibank continued to optimize the efficiency of its branch network, opening five new offices in the country in 2010 and closing three, bringing the total number of branches and offices of the Group to 172 (170 for 2009). By the end of the year, two offices – Targovishte and Razgrad were transformed into branches. The number of ATMs increased by 4 and of POS terminals by 824.
12	To develop further the activity of its virtual banking branch in order to respond better to the growing needs of electronic banking	During the period, Fibank continued to focus on the security of its Virtual Banking Branch by implementing a new service – active banking through an electronic encoding Token device. This is a new type of identification which is easy to use, compact and has a dual level of protection (with two codes – PINt and TAN). SMS notification for successfully performed transactions was also introduced.

13	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	Fibank implemented new innovative banking products and services – contactless payments (by MasterCard PayPass and Maestro PayPass cards), additional identification by smart card (via PinPad device), housing/mortgage loans with fixed interest, housing/mortgage loan "Adaptation", and revolving Diners Club credit cards. Fibank also started its "Yes" loyalty program by launching a new MasterCard YES credit card and a bonus point program for its loyal customers.
14	To emphasize human capital management, with the aim of keeping and encouraging good employees and of investing in their future development	Fibank continued to invest in its employees, mainly by organizing internal trainings. Costs for external seminars were reduced as part of the Bank's program for cost optimization. During the year, Fibank was awarded a grant funding for the implementation of the "A question of development" project for training 366 employees, aimed at developing management potential and improving customer service skills.

Strategic goals for 2011

1. ∆To continue to rank among the 10 leading banks in the country, enjoying the confidence of shareholders and customers, while maintaining an appropriate balance between risk, capital and profitability.
2. To increase the capital base, mainly focusing on tier one capital.
3. To continue to maintain adequate liquidity ratio in accordance with the market environment.
4. To maintain its place among the leading banks in the deposit market by offering new flexible products to individuals and corporate customers, while optimizing the structure and cost of funds in accordance with market conditions.
5. Moderate growth of the loan portfolio, corresponding to the development of the economic environment and the needs for financing of investment projects, while maintaining high standards of risk assessment and return.
6. Development of new loan products and flexible financing schemes tailored to the needs of corporate clients, with emphasis on project funding for programs related to the absorption of EU funds.
7. To continue to be a leading Bulgarian bank in the area of international transactions and trade finance, and to offer its customers the use of specialized credit lines through external financing from Fibank correspondent banks.
8. Development of investment banking services, including trust portfolio management and investment consultations.
9. To develop and optimize the range of products and services for individuals and to intensify cross-selling in order to increase the number of used products per bank customer.
10. To maintain its market positions with a gradual growth in mortgage and consumer lending, and a focus on credit cards.
11. To reinforce its position as a technological leader among banks in Bulgaria, raising the quality and reliability of customer service.
12. To preserve its leadership in the field of card payments by intensifying the widespread use of the Fibank projects launched at the end of 2010 – the YES loyalty program and the PayPass contactless payment technology, by introducing new services and by further increasing the level of security of credit cards.
13. Activating private banking by expanding existing channels, including offices outside of Sofia and broadening the range of services.
14. To continue the development of electronic banking, systematically increasing the quality and diversity of services provided by the Virtual Banking Branch (e-fibank) and introducing new possibilities for banking – e-fibank via mobile phone, telephone banking and more.

15. Expansion of the offered online services and the introduction of new alternative channels for servicing of Fibank customers.
16. Maintaining its strategic focus on high standards of customer service and expanding the field of existing financial services.
17. Optimizing and improving the effectiveness of the branch network, including deeper penetration in local markets, as well as expanding other distribution channels in Bulgaria and abroad.
18. Continue to improve management systems in accordance with best banking practices, observing high standards for assessing and managing credit, liquidity and operational risk, all in accordance with the market environment.
19. Effective financial management based on diversification of income from the banking business, and on the operational efficiency of the volume and structure of costs.
20. Increasing the effectiveness of human capital management in the direction of staff development and establishing of a working environment which promotes initiative.

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 which 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 and owns more than 10% of the capital of 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 in 2001 he was elected as 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 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, Globus Balistik OOD and is the owner of Bulkontri EOOD.

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 of 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. 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 a manager in Sofia Opportunities OOD.

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

Kaloyan Ninov – Member of the Supervisory 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 the 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 manager in and holds more than 10% of the capital of MNI OOD.

Members of the Managing Board

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 Retail banking Department, the Marketing, Advertising and Public Relations Department, the Branch network Department, the Private banking Department, the Administration Department and the Vault.

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 Gold and Commemorative Coins Department, the Alternative Channels Department, the Nostro Accounts Department and the Fund Transfers Department.

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, a member of the Board of Directors of Medical center FiHealth AD and a manager in FiHealth OOD.

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 Impaired Assets and Provisioning Department, the Loan Administration Department and the Specialised Monitoring and Control 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. He is also owner of ET Imeksa-Evgeni Lukanov and a Chairman of the Board of Directors of Health Insurance Fund FiHealth AD. Mr. Lukanov holds more than 10% of the capital of Avea OOD.

Dimitar Kostov – Member of the Managing Board and Deputy Executive Director

Mr. Dimitar Kostov joined Fibank's team in 2003 as a specialist in the "Risk Management" Department. Soon after that he was promoted to head of "Evaluation of risk exposures" Division. From 2004 to 2007 he was a deputy director of "Risk Management" Department, and from 2007 to 2011 he was a director of "Risk Management" Department. In 2010, Mr. Kostov has been elected as a member of a Managing Board of Fibank, and in the beginning of 2011 he was appointed as a deputy executive director.

Previously, Mr. Kostov had worked as a manager "Customer relations" at Raiffeisenbank, Bulgaria AD and in United Bulgarian Bank AD as a senior bank officer "Large Corporate Clients". He holds a Master's degree in Business Administration from the Sofia University "St. Kliment Ohridski" and a CFA.

Mr. Kostov does not hold outside professional positions.

Sveloslav Moldovansky – Member of the Managing Board and Deputy Executive Director

Mr. Sveloslav Moldovansky joined Fibank in 2005 as a director of "Specialised internal control service". From 2007 to 2008 he was a Chief Executive Officer of "First Investment Bank – Albania Sh.a". From 2008 to 2010 he held a position as a director of "Operations" Department. In 2010 he was elected as a member of the Managing Board of Fibank, and in the beginning of 2011 he was appointed as a deputy executive director.

Previously, Mr. Moldovansky had worked as a manager "Management of the corporate risk" at KPMG Bulgaria OOD and as a senior auditor at Deloitte&Touche, Bulgaria. He holds a Master's in Finance from the University of National and World Economy in Sofia. Mr. Moldovansky is certified auditor from the Information Systems Audit and Control Association (ISACA), US.

Besides his position in the Bank, Mr. Moldovansky is also a member of the Board of Directors of First Investment Bank – Albania Sh.a. and a member of the Supervisory Board of Casys International. As at the end of 2010 Mr. Moldovansky possesses more than 10% of Next DC OOD, more than 25% of the capital of Balkan Financial Services OOD and he is a manager of the company.

Vassil Christov – Member of the Managing Board and Deputy Executive Director

Mr. Vassil Christov joined Fibank in 2001 as a head of the "Mortgage loans" Division. From 2002 he was a director of "Retail banking" Department, and from 2005 to 2010 he was a director of "Branch network Department". In 2010 Mr.Christov was elected as a member of the Managing Board of Fibank, and in beginning of 2011 was appointed as a deputy executive director.

Previously, Mr. Christov had worked as a senior credit officer of "Large corporate customers" at United Bulgarian Bank AD. He holds a Master's in accounting and control from the University of National and World Economy in Sofia.

Besides his position in the Bank, Mr. Christov is also a member of the Board of Directors of the First Investment Bank – Albania Sh.a. Mr. Christov is a member of the Managing Board of "National Real Estate Association".

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.

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