Annual report 2011

Fibank
First Investment Bank

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ANNUAL REPORT 2011 I MESSAGE FROM THE MANAGING BOARD

Message from the Managing Board

Dear shareholders, clients and colleagues,

During 2011, the banking system in Bulgaria preserved its stability despite the volatile economic environment in the region and in the international markets. This is shown not only by Bulgaria's financial indicators , but also the positive projections of the World and European Bank for Reconstruction and Development. The ongoing maintenance of financial discipline is a good prerequisite for our country to emerge in very good condition from the crisis.

As the largest Bulgarian bank of systemic importance for the domestic market, First Investment Bank AD continued its consistent policy of business development with emphasis on customer service and increased attention to risk management, in accordance with the external environment and market conditions.

The results of this policy have assigned Fibank (First Investment Bank) fifth position in the banking sector, and transition from second to first group in terms of total assets. For 2011, the bank reported an increase in profit after taxes by 29.1% on an annual basis to BGN 36 million, asset growth of 23.5% compared to the end of 2010 (up to BGN 6,174 million), total capital adequacy of 12.57%, tier 1 capital adequacy of 10.18%, and liquidity of 26.17%.

In accordance with customer expectations, Fibank (First Investment Bank) continues to develop its services, products and quality of service. Our investment in modern technology and professionally trained staff at all levels guarantee our customers and partners security and opportunities for greater achievements.

It is of exceptional importance for us that in 2011 we remained a preferred savings bank for people generally, which placed us in second market position in terms of deposits from individuals. At the same time, Fibank (First Investment Bank) occupies third place in corporate loans.

The emphasis that we place on servicing both individuals and legal entities has resulted in the development of new, alternative channels for the use of banking services which maximize the satisfaction of our clients: telephone banking, a mobile version of the Virtual Branch, as well as new services and products in the field of payment transactions, lending, and investment banking. In the card business we mainly focused on promoting PayPass contactless payments, expanding the POS terminal network, as well as the network of partner merchants under the loyalty program YES.

For us 2011 was a successful and innovative year and we are well aware that this could not have happened without all of you who put your confidence in us. We thank our customers for their loyalty, our shareholders for their support, our partners and all our employees for their high level of professionalism. In 2012 we will again strive to achieve even higher results, provide the best banking services, ensure the highest quality of service and assist the Bulgarian economy. Our accomplishments are of the utmost importance to our country and society.

The Managing Board of Fibank (First Investment Bank AD)

Sofia, 2012

ANNUAL REPORT 2011 I MANAGING BOARD

Managing Board

Stanislav Bozhkov
Deputy Executive Director

Dimitar Kostov
Executive Director

Vassil Christov
Executive Director

Svetoslav Moldovansky
Executive Director

Maya Oyfalosh
Member of the Managing Board

Macroeconomic development

In 2011 the Bulgarian economy experienced a gradual recovery, at a different pace in each sector of industry, as a result of net exports. Economic activity remained unstable, influenced by weak domestic consumption and capital investments, and by signals of slowdown in economic growth on a global scale. Macroeconomic stability in the country was sustained as a result of a balanced fiscal policy, the existing system of a currency board, and the stable banking system.

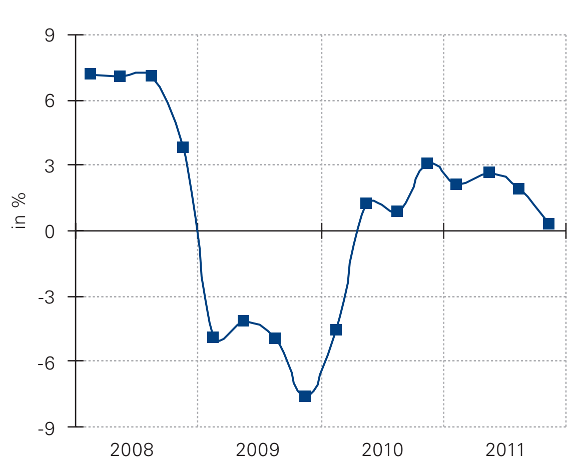
Table 1: Main macroeconomic indicators

	2011	2010	2009	2008	2007
Gross domestic product, real growth (%)	1.7	0.4	(5.5)	6.2	6.4
Consumption, real growth (%)	(0.3)	0.5	(7.3)	2.6	7.2
Gross fixed capital formation, real growth (%)	(9.7)	(18.3)	(17.6)	21.9	11.8
Inflation at period-end (%)	2.8	4.5	0.6	7.8	12.5
Average annual inflation (%)	4.2	2.4	2.8	12.3	8.4
Unemployment (%)	10.4	9.2	9.1	6.3	6.9
Current account (% of GDP)	0.9	(1.0)	(8.9)	(23.1)	(25.2)
Trade balance (% of GDP)	(5.1)	(7.7)	(11.9)	(24.3)	(23.5)
Foregn exchange reserves of BNB (EUR million)	13,349	12,977	12,919	12,713	11,937
Foreign direct investments (% of GDP)	3.5	3.4	7.0	19.0	29.4
Gross external debt (% of GDP)	91.9	102.8	108.3	105.1	94.3
Public sector external debt (% of GDP)	11.0	12.0	12.0	11.1	13.3
Average exchange rate of USD (BGN for 1 USD)	1.51	1.47	1.36	1.39	1.33

Source: BNB, Ministry of Finance, National Statistics Institute

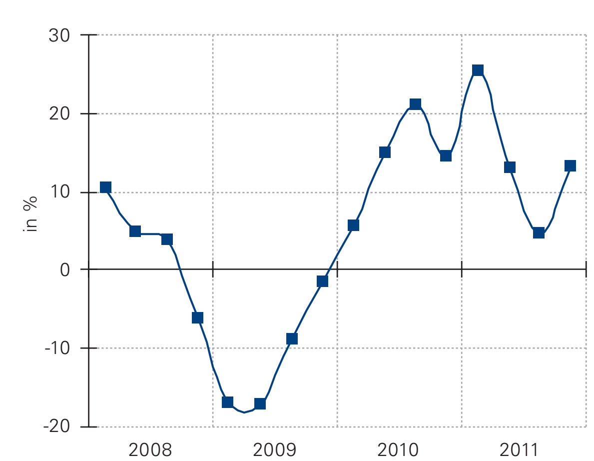
In 2011 the Bulgarian economy registered an annual real growth of 1.7% (2010: 0.4%) and a slowdown trend during the second half of the year, reaching 0.3% in the fourth quarter of 2011.

Chart 1: Gross domestic product



Gross domestic product (real growth)

Chart 2: Export of goods and services



Export of goods and services (real growth)

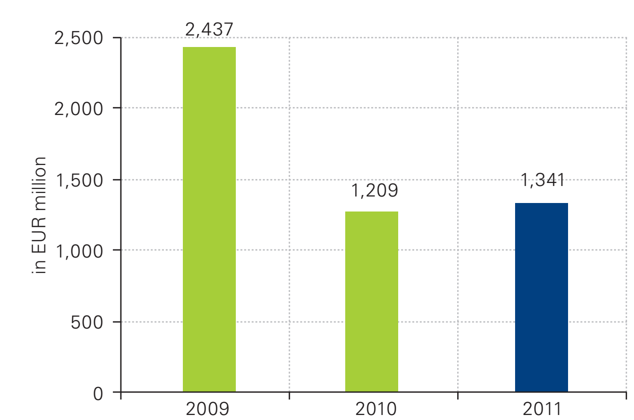
Source: National Statistics Institute

The volume of exports of goods and services continued to underpin economic growth, increasing by 12.8% year-on-year, compared to a growth of 14.7% in 2010. Gross fixed capital formation continued to suppress growth, decreasing during the year by 9.7%, compared to a drop of 18.3% in 2010. The continuing caution of households towards increasing their expenses and the volatile condition of the labour market contributed to the weak recovery of final consumption, which slightly decreased by 0.3% during the period and remained close to the levels of the previous year (0.5% growth).

By sectors, the major driver of the economy was industry (including mining and manufacturing), where the gross value added increased by 9.1% during the year (2010: -1.5%). Construction and real estate operations continued to show a negative contribution, decreasing by 1.1% and by 0.6% respectively year-on-year. A drop was registered in agriculture of 1.1% (2010: -6.2%) and in services, including trade, transport and tourism of 1.1% year-on-year (2010: 14.1% growth).

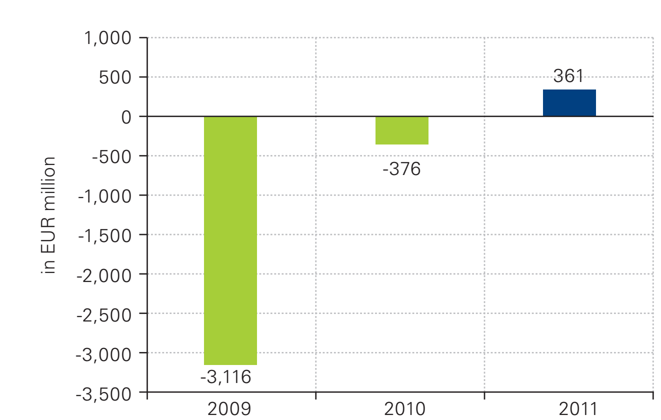
The labour market remained unstable. Companies continued to optimize their labour costs. As a result unemployment increased to 10.4% at the end of December 2011 (2010: 9.2%; 2009: 9.1%). But this was comparable to EU and Euro Area averages.

Chart 3: Foreign investments in Bulgaria



Foreign direct investments in Bulgaria

Chart 4: Current account of the balance of payments



Current account balance

Source: Bulgarian National Bank

In 2011 foreign direct investments in the country increased to EUR 1,341 million (2010: EUR 1,209 million). Most investments were attracted in the sectors of transport, storage and communications (EUR 498 million) and trade (EUR 223 million), whereas the largest net payments occured in manufacturing industry (EUR -70 million). An outflow of capital from the country was observed in portfolio investments and other investments, which include foreign assets and the liabilities of banks and companies in the form of loans and deposits. As a result, the financial account of the balance of payments at the end of 2011 was negative by EUR 1,194 million, compared to negative by EUR 699 million a year earlier.

The country's external position remained stable, supported mainly by the positive trend in the current account deficit, where a surplus of EUR 361 million was reported during 2011 or 0.9% of GDP (2010: -376 million or -1.0% of GDP). A major contributor to this was the reduction of the trade deficit by 28.6% (EUR 789 million) to EUR 1,975 million or 5.1% of GDP (2010: EUR 2,764 million or 7.7% of GDP). During the year exports continued to grow at a faster pace than imports, reaching EUR 20,227 million or a 30.0% increase year-on-year. This was due mainly to the growth in raw materials, investment goods and petroleum products. Imports increased by 21.2% and reached EUR 22,201 million (2010: EUR 18,325 million) mainly due to the increase in prices in the international markets and the gradual recovery of economic activity and internal demand. In 2011 the European Union remained the major trading partner, accounting for 62.5% of exports (2010: 60.8%, 2009: 64.8%) and 48.4% of imports (2010: 51.1%, 2009: 53.3%).

Chart 5: Gross external debt

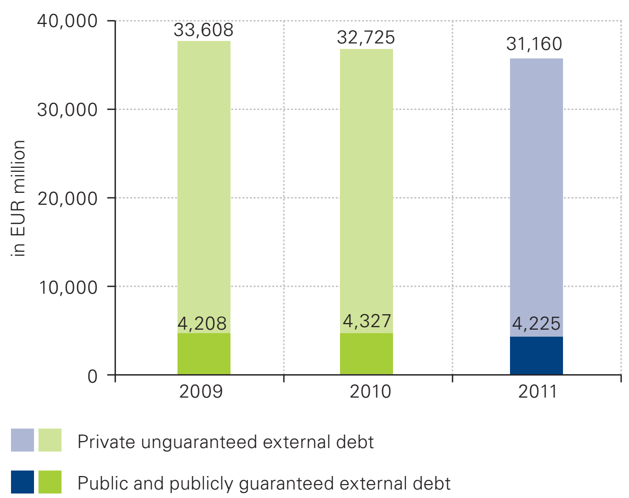
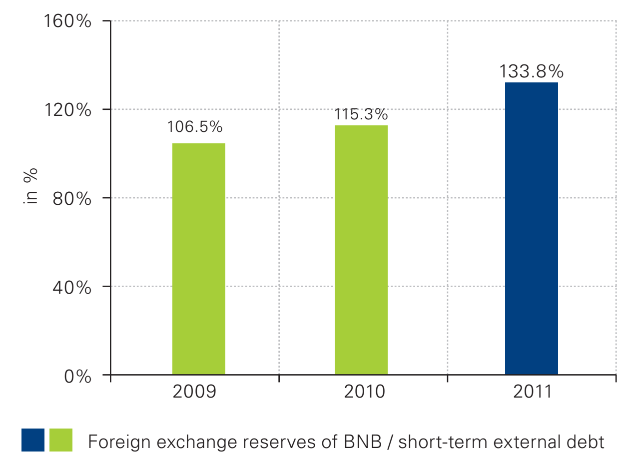


Chart 6: Reserves and short-term debt



Source: Bulgarian National Bank

Gross external debt decreased by 4,3% to EUR 35,385 million or 91.9% of GDP as at the end of 2011 (2010: EUR 37,051 million or 102.8% of GDP). The decrease was mainly at the expense of private unguaranteed debt, in particular bank deposits by non-residents. The public and publicly guaranteed external debt also decreased by 2.4% to EUR 4,225 million as at the end of the reporting period (2010: EUR 4,327 million) and remained low as a percentage of GDP: 11.0% (2010: 12.0%). Foreign exchange reserves covered 133.8% of the short-term external obligations of the country (2010: 115.3%).

A balanced fiscal policy was maintained during the period. New fiscal rules and procedures for the control of expenditures were introduced to ensure the sustainability of public finances. In June 2011, the Pact for Financial Stability was adopted through amendments to the Law on State Budget Structure (in force as of 1 January, 2012), which limit the consolidated budget deficit to 2% of GDP, and expenditures on the consolidated fiscal program to 40% of GDP.

In 2011 the consolidated budget deficit decreased by 44.0% (BGN 1,241 million) to BGN 1,582 million or 2.1% of GDP (2010: 2,823 million or 4.0% of GDP), the main contributors to which were increased revenues from indirect taxes and social security payments. In the period, VAT revenues increased by 5.2% to BGN 6,612 million (2010: 6,267 million) as a result of increased control over collections and higher international oil prices. The increased rate of VAT on tourism services from 7% to 9% during the year also contributed to growth. Revenues from excise duties reached BGN 3,860 million, compared to BGN 3,568 million a year earlier (mainly due to increased excise rates on fuels and tobacco products). At the beginning of 2011, a new indirect tax on insurance premiums came into force, which generated additional revenue to the budget of BGN 22 million for the year.

Corporate tax revenues in 2011 totalled BGN 1,357 million or 9.1% over the previous year (2010: BGN 1,243 million) while revenues from income tax of individuals grew by 7.4% to BGN 2,162 million (2010: BGN 2,013 million). Social security payments rose by 10.8% to BGN 5,500 million (2010: BGN 4,964 million) due to the higher pension contributions in force from the beginning of 2011. Total expenditures on the consolidated budget increased for the period, but remained close to the levels of the previous year at BGN 26,960 million (2010: BGN 26,715 million) due to a growth in interest and current expenses, and at the expense of reductions in capital expenditures.

Chart 7: Cash balance

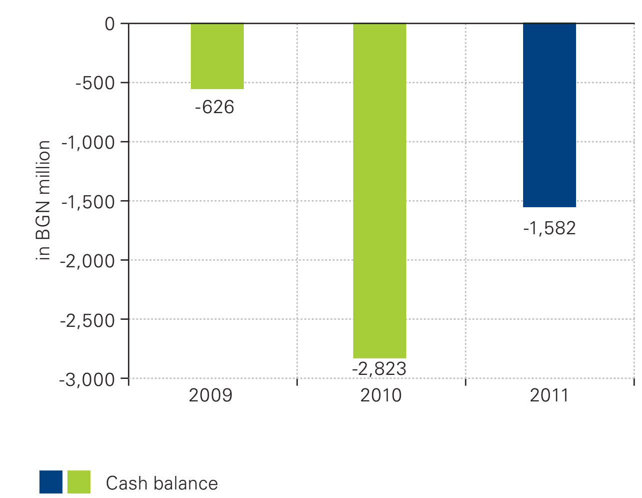
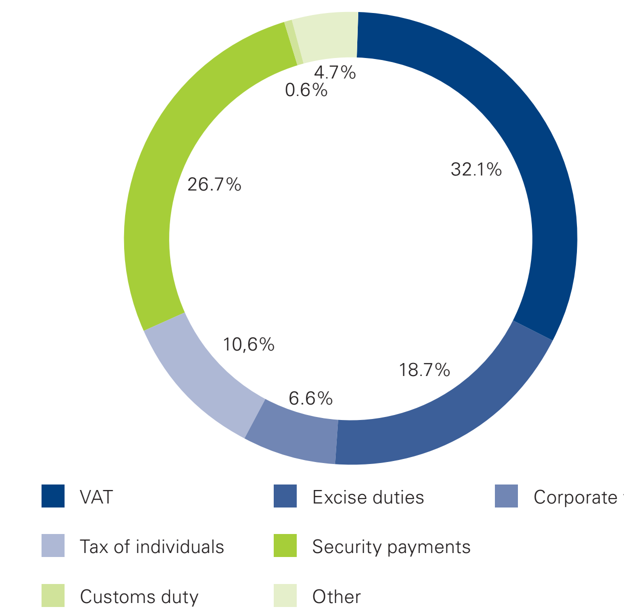


Chart 8: Structure of tax revenues and contributions



Source: Ministry of Finance

Annual average inflation in the country reached 4.2% in 2011 compared to 2.4% in 2010 (2009: 2.8%). This increase was a result of higher prices of foods and transport fuels in line with the dynamics of the international markets. Excise rates for tobacco products and fuels, which were increased during the period, also had an impact on the higher consumer price index in the country. 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 3.4% on average for the period, compared to 3.0% a year earlier (2009: 2.5%).

Table 2: Credit rating of Republic of Bulgaria

Rating agency	Long-term rating	Outlook	Rating actions during 2011
Standard & Poor's	BBB	Stable	Confirmed rating – December 2011
Moody's Investor Service	Baa2	Stable	Improved rating – July 2011

Source: Ministry of Finance

Continuing fiscal discipline, complemented by ongoing structural reforms, improved institutional sustainability, as well as the relative flexibility of the financial system in the conditions of a volatile regional environment, warranted two international rating agencies to increase and affirm their estimates for the ratings for the country during the year (Moody's Investor Service – increased long-term rating from Baa3 to Baa2 with a stable outlook; Standard & Poor's – affirmed long-term rating to BBB with stable outlook).

The main challenges for further recovery of the economic activity in Bulgaria in 2012 remain the activation of domestic consumption, an increase in capital investments, as well as overcoming the negative signals for the labour market and for the slowing of global economic growth and associated external demand. The effective absorption of EU funds and strengthening of structural reforms continue to be among the factors for sustainable and long-term economic development.

ANNUAL REPORT 2011 I THE BANKING SYSTEM

The banking system

In 2011 the banking system in Bulgaria was characterized by stability and continuing confidence and competitiveness, despite the turbulences in the international financial markets and the growing debt crisis in some countries of the Euro Area. Banks continued to develop their systems for risk management and adapted their operations and financial positions according to the external conditions, by increasing their capital and liquidity buffers. The effective regulatory and supervisory framework evolved in accordance with EU regulations and standards contributed to the good results of the banking system in Bulgaria.

Table 3: Banking system – key indicators

	in %			Change in p.p.	
	2011	**2010**	**2009**	**2011/ 2010**	2010/ 2009
Capital adequacy ratio	17.53	17.48	17.04	0.05	0.44
Tier 1 capital ratio	15.74	15.24	14.03	0.5	1.21
Liquidity ratio	25.57	24.37	21.90	1.2	2.47
Loans/Deposits ratio	103.42	112.03	118.69	(8.61)	(6.66)
Leverage ratio (equity/assets)	13.60	13.61	13.34	(0.01)	0.27
Return on equity	6.10	6.73	9.29	(0.63)	(2.56)
Return on assets	0.78	0.86	1.12	(0.08)	(0.26)
Loans past due over 90 days	14.93	11.90	6.42	3.03	5.48

Source: Bulgarian National Bank

The capital position of the banking system was strengthened, with a focus on Tier 1 capital, as a result of the increase in share capital and general purpose reserves, including retained earnings. Total capital adequacy ratio increased by 0.05 percentage points, reaching 17.53% at the end of 2011 (2010: 17.48%; 2009: 17.04%) and that of Tier 1 capital by 0.50 percentage points to 15.74% (2010: 15.24%; 2009: 14.03%). The buffer of capital above the regulatory minimum of 12% increased and reached BGN 2,907 million (2010: BGN 2,794 million; 2009: BGN 2,754 million), improving the capacity of the system to absorb potential shocks. The leverage ratio remained at levels close to those at the end of the previous year at 13.60% (2010: 13.61%; 2009: 13.34%), reflecting the balanced growth of equity and total assets.

The liquidity of the banking system remained at a good level, adequate to the structure and volume of cash flows. Prudent lending activity and sustainable growth in customer deposits improved the liquidity indicators - the ratio of liquid assets, measuring the extent of coverage of borrowed funds with highly liquid instruments, reached 25.57% (2010: 24.37%; 2009: 21.90%), and the loans/deposits ratio for companies and individuals decreased to 103.42% (2010: 112.03%; 2009: 118.69%). These improved liquidity indicators increased the capacity for meeting liquidity risk.

The gradual recovery of economic activity along with cautious lending policies contributed to the gradual increase in loans by banks. Credit risk and the associated increase in impairment charges, as well as the limited opportunities for expansion of income from other financial services, placed pressure on the profitability of the banking system. Profit after tax for the period was BGN 586 million, compared to BGN 617 million a year earlier (2009: BGN 780 million). It ensured a return on assets (ROA) of 0.78% (2010: 0.86%; 2009: 1.12%) and a return on equity (ROE) of 6.10% (2010: 6.73%; 2009: 9.29%), reflecting the ability of the banking system to sustain good profitability in times of ongoing global instability.

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

	In BGN million			Change in %	
	2011	**2010**	**2009**	**2011/ 2010**	**2010/ 2009**
Assets	**76,811**	73,726	70,868	**4.2**	4.0
Loans to corporate customers	**36,104**	33,993	32,712	**6.2**	3.9
Loans to individuals	**18,513**	18,579	18,664	**(0.4)**	(0.5)
Deposits other than from credit institutions	**20,907**	18,891	18,449	**10.7**	2.4
Deposits from individuals	**31,902**	28,037	24,837	**13.8**	12.9
Profit after tax	**586**	617	780	**(5.0)**	(20.9)
Impairment	**1,290**	1,317	1,040	**(2.1)**	26.6

Source: Bulgarian National Bank

The total balance sheet assets of the system increased by 4.2% to BGN 76,811 million (2010: BGN 73,726 million; 2009: BGN 70,868 million), as a result of a stable increase in attracted funds from retail customers. Loans lessened their share, but remained structure-determining for the system at 78.6% of total assets (2010: 79.2%; 2009: 81.5%).

The gross loan portfolio (excluding credit institutions) grew by 4.1% to BGN 56,044 million, mainly due to an increase in loans to corporate clients by 6.2% to BGN 36,104 million (2010: BGN 33,993 million; 2009: BGN 32,712 million) and in loans to banks by 8,5% to BGN 8,308 million (2010: BGN 7,654 million; 2009: BGN 7,404 million). Loans to individuals slightly decreased by 0.4% to BGN 18,513 million as a result of a drop in consumer loans, which amounted to BGN 9,145 million, compared to BGN 9,310 million a year earlier (2009: BGN 9,711 million). A growth was registered in mortgage loans by 1.1% to BGN 9,368 million (2010: BGN 9,269 million; 2009: BGN 8,954 million). The slow demand of loans from individuals was determined by continuing uncertainty regarding future incomes and labour market conditions.

Chart 9: Gross loan portfolio

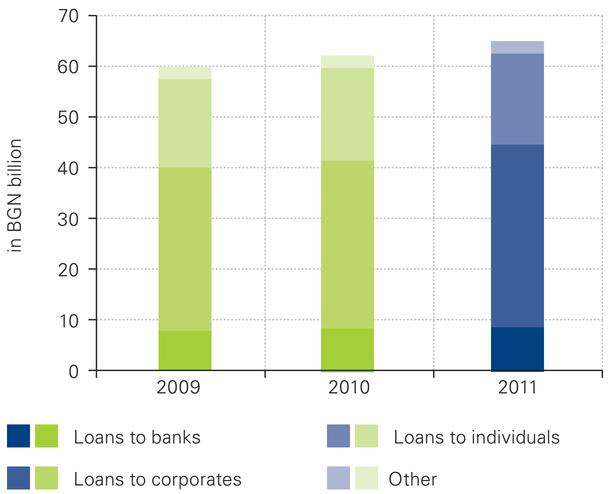
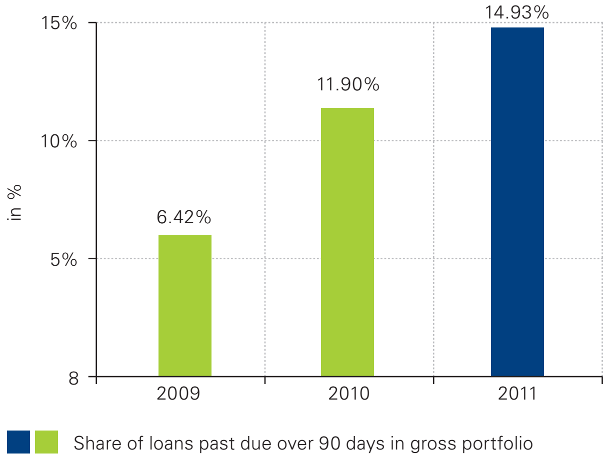


Chart 10: Quality of loan portfolio



Source: Bulgarian National Bank

During 2011 the tendency for a slowdown in the growth of classified loans (including loans in arrears by more than 90 days) continued, with the status of loans to individuals remaining better than that of corporate loans. During the period, loans past due over 90 days increased by 3.03 percentage points to 14.93% of the gross loan portfolio (excluding credit institutions), compared to 11.90% at the end of 2010 (2009: 6.42%).

During the reporting period the increase in local sources of funding continued, forming 80.7% of total attracted funds at the expense of sources from abroad which continued their decrease of the past years. Total attracted funds in the banking system increased by 4.1%, reaching BGN 65,607 million (2010: BGN 63,011 million; 2009: BGN 60,833 million) due to the continued growth in deposits from individuals by 13.8% (BGN 3,864 million) to BGN 31,902 million (2010: BGN 28,037 million; 2009: BGN 24,837 million), strengthening their role as a main source of funding. An increase was also registered in deposits other than from credit institutions by 10.7% (BGN 2,016 million) to BGN 20,907 million (2010: BGN 18,891 million; 2009: BGN 18,449 million). The currency structure of attracted funds marked an increase in the BGN portion to 45.2% (2010: 41.3%; 2009: 35.4%), at the expense of the EUR – down to 48.0% (2010: 52.0%; 2009: 58.7%). Funds in other currency remained almost unchanged – at 6.8% of total attracted funds of the system (2010: 6.7%; 2009: 5.8%).

Chart 11: Attracted deposits

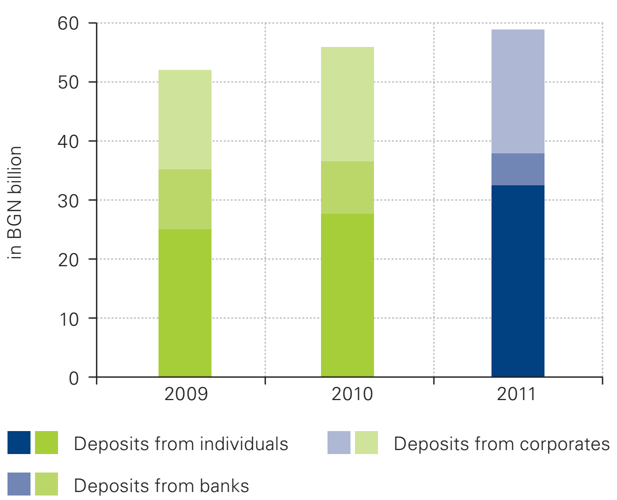
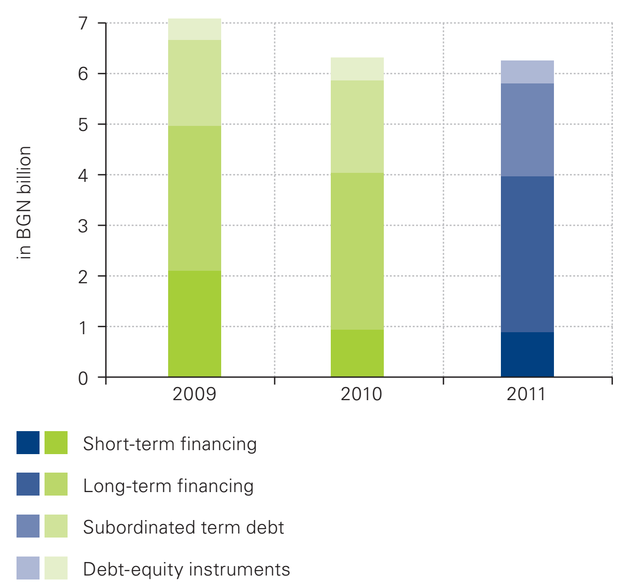


Chart 12: Other attracted funds



Source: Bulgarian National Bank

In 2011 regulatory changes were made in the direction of maintaining the anti-cyclical policies of credit institutions and harmonizing national requirements with those of European legislation.

Since the beginning of the year a new regulation of the BNB (Ordinance No 4) has been in effect in the requirements for remunerations in banks. The new provision, which is part of the overall framework for risk management, is driven by European directives regarding the principles and requirements for remuneration policies in banks, by which abstinence from excessive risk-taking is promoted.

In June 2011 changes were introduced to Ordinance No 9 of the BNB on the Evaluation and Classification of Risk Exposures of Banks and the Allocation of Specific Provisions for Credit Risk, whereby the acceptable regulatory limit for the realization of collaterals (property in buildings or regulated land properties) was extended to 12 months. Amendments were also made in Ordinance No 8 on the Capital Adequacy of Credit Institutions with regards to requirements for pre-securitisation positions and instruments in the trading portfolio, which are in line with the European directives.

During the period, a third settlement cycle of the system for the execution of client payment orders in BGN executed in a defined moment (BISERA 6) was introduced. There were also changes in the schedule of the real time gross settlement system RINGS, which was an important step towards optimizing cash flows in the country to assist customers and businesses.

In November 2011 changes were made to Ordinance No 38 of the Financial Supervision Comission on the requirements of the activities of investment intermediaries, introducing new remote means of offering investment services and facilitating the requirements to the internal organization of investment intermediaries.

In December 2011 amendments were made to the Currency Law, which facilitated the effective regime for requiring documents from customers when performing cross-border transfers. The threshold was increased from BGN 25,000 to BGN 30,000 for transfers to countries outside the European economic area.

During the year regulatory changes were introduced in relation to the new European supervisory bodies, part of the European system for financial supervision and their effective functioning within the country. The new requirements were implemented by amendments in the Law on Credit Institutions, the Law on the Additional Supervision over Financial Conglomerates and the Law on Payments Services and Payment Systems.

As at 31 December 2011, 31 credit institutions operated in the country, of which 7 were branches of foreign banks, including a new one – ISBANK-Bulgarian Branch. During the period two banks changed ownership – NLB Banka Sofia was acquired by TBIF Financial Services BV (100% of the capital) and renamed TBI Bank, while the Bulgarian-American Credit Bank was acquired by CSIF AD (49.99% of the capital).

The balance sheet capital of the banking system amounted to BGN 10,448 million (2010: BGN 10,032 million; 2009: BGN 9,457 million), with the majority of foreign participation by investors from the European Economic Area.

Mission

First Investment Bank AD aspires to be one of the best banks in Bulgaria and the Balkan region, recognized as a rapidly growing, innovative, customer-oriented bank, offering outstanding products and services, ensuring excellent careers for its employees, 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.

Positive development

In 2011, First Investment Bank successfully overcame the challenges of the external environment and reported enhanced results. Despite the highly volatile business conditions, resulting from the escalating debt crisis in parts of the Eurozone and the increasing strains in the financial markets on a global scale, this was yet another year in which Fibank achieved successful and sustainable development. This was thanks to the strategic decisions and consistent measures implemented by the Bank since the beginning of the crisis in 2008 for balancing the risk profile and profitability, as well as reinforcing the high quality of products and services while maintaining a flexible business model.

Chart 13: Balance-sheet indicators

Source: First Investment Bank

Chart 14: Financial indicators

Source: First Investment Bank

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 license for domestic and international operations.

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

Participations and memberships

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

Market position*

- Among the leading banks in the cards business
- Among the leading banks in international settlements and trade finance
- Fifth in assets
- Sixth in lending
  – Third in corporate lending
- Third in deposits
  – Second in deposits from individuals
- Seventh in profit
- Eight in shareholders' equity

*Market positions are based on unconsolidated data from BNB, Borica-Bankservice AD, MasterCard International, VISA Europe and SWIFT

Market share*

- 7.54% of sent and 9.17% of received cross-border transactions for trade finance
- 5.93% of sent and 8.11% of received international transfers in foreign currency
- 7.94% of bank assets in Bulgaria
- 7.71% of loans in Bulgaria

  –9.66% of corporate lending

  –3.68% of mortgage lending

  –4.66% of consumer lending
- 10.01% of deposits in Bulgaria

  –13.68% of deposits from individuals

Correspondent relations

Fibank has a wide network built up of over 600 correspondent banks, through which it performs international payments and trade finance operations in almost all parts of the world. The Bank executes international transfers in over 140 foreign currencies, issues cheques and performs different documentary operations.

Fibank is a demanded, reliable and fair partner, which has built over the years a good reputation among international financial institutions and gained valuable experience and know-how from its numerous business partners, investors, customers and counterparties.

During the year Fibank develops its activities to meet its clients' needs to a higher level in relation to European Funds disbursements.

Branch network

As of 31 December 2011 the Group of First Investment Bank had a total of 173 branches and offices: the Head Office, 161 branches and offices throughout Bulgaria, one branch in Cyprus, and a Head Office and 9 branches and offices of the subsidiary Bank in Albania.

Subsidiary companies

First Investment Bank – Albania Sh.a.

In June 2007 First Investment Bank – Albania was granted a full banking licence by the Bank of Albania, and in September 2007 effectively took over the activities of the former FIB-Tirana Branch by assuming all its rights and obligations, assets and liabilities.

First Investment Bank – Albania Sh.a. offers a full range of products and services for individuals and small and medium enterprises. The bank actively develops card payments by offering debit and credit cards, based on EMV compliant chip technology and by developing the network of ATM terminals, as well as by offering e-banking tailored to clients' growing needs and requirements. The bank was the first to offer products of investment gold and other precious metals on the Albanian market.

During 2010 First Investment Bank – Albania was licensed as a dealer and custodian of Albanian government securities, as well as for perfoming depository services to assets of the voluntary pension funds. In 2011 the license was extended by depository services to investment funds.

*Market shares are based on unconsolidated data from BNB and SWIFT

ANNUAL REPORT 2011 I BANK PROFILE

First Investment Bank – Albania Sh.a.'s corporate governance comprises of the Executive management (Directorate), the Managing Board (Steering Council) and the Audit Committee. The CEO of Fibank – Albania is Mr. Bojidar Todorov, who has extensive professional experience in the banking sector including several top-level management positions in First Investment Bank AD related to corporate asset management.

Diners Club Bulgaria AD

Diners Club Bulgaria AD is a joint-stock company registered in November 1996 as an issuer of Diners Club credit cards and a processor of payments.

In 2010 the company was licensed by BNB as a payment institution to perform payment operations through payment cards and the issuing and acceptance of payments by payment instruments. In the last six years the number of credit cards issued by Diners Club Bulgaria AD has increased over four times. As at the end of 2011 the network of POS terminals in the country accepting payments with Diners Club cards exceeded 7700. Their number throughout the years has continuously increased.

Diners Club Bulgaria AD has a one-tier management system, comprising the Executive management (Executive Director) and the Board of Directors. The Executive Director, entitled to represent Diners Club Bulgaria AD is Anna Angelova, who has extensive professional experience in the card business, including management positions in First Investment Bank AD related to card payments.

First Investment Bank AD has other subsidiary companies as follows: Health Insurance Fund FiHealth AD, First Investment Finance B.V., Debita OOD, Realtor OOD, Framas Enterprises Limited and Balkan Financial Services EOOD.

For further information regarding subsidiary companies see note 37 "Subsidiary undertakings" of the Consolidated Financial Statements as at 31 December 2011 together with the Report of the Independent Auditor.

Awards 2011

- Fibank received international recognition from the financial magazine Euromoney for Best Bank in Bulgaria in 2011, for introducing the most innovative market solutions and products, and demonstrating strong growth and stable indicators of efficiency and profit.
- Fibank was awarded the prize for market share at the annual awards of the Bank of the Year Association. The Bank has achieved the highest performance ratio per unit of share capital, by attracting the largest amount of deposits from households and businesses in the country, and returning the greatest part of these funds in the Bulgarian economy.
- Fibank became Favourite brand for 2010 of the Bulgarian consumer in the Financial Institutions category of the annual competition of BGBusiness Review magazine.
- Maya Georgieva, Executive Director of First Investment Bank, received the Banker of the Year 2011 award of the Banker newspaper for achieved market sustainability and earned customer confidence.
- Fibank was distinguished with two awards from Deutsche Bank and Commerzbank for superior quality and meeting global standards in the area of international payments.
- The Bank received international recognition from IFC as the most active issuing bank in the area of trade financing in Southeastern Europe.

ANNUAL REPORT 2011 I FIRST INVESTMENT BANK: DATES AND FACTS

First Investment Bank: Dates and Facts

1993	First Investment Bank was established on 8 October 1993 in Sofia. Fibank 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 medium-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 to start offering 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.
2010	Fibank welcomed its one millionth client. Fibank was named "Bank of the Client" for the fifth time in the annual bank awards of 'Pari' daily. Fibank signed an agreement with IFC (International Finance Corporation) for cooperation in the field of trade finance. Fibank was the first Bank in Bulgaria to offer contactless payments based on PayPass technology – an innovative service of a new bank card generation. Fibank's loyalty program YES started with a new credit card and a bonus points program for loyal clients. Fibank acquired four new subsidiaries – Debita OOD, Realtor OOD, Health Insurance Fund FI Health AD, Framas Enterprises Limited.

Highlights 2011

January

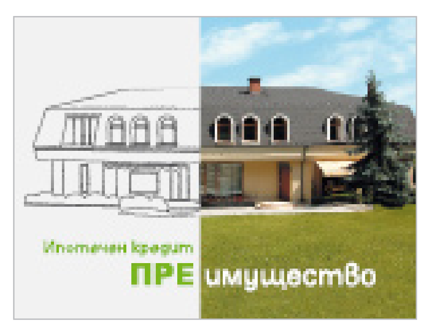
- Fibank increased its shareholding in Health Insurance Fund FiHealth AD by 2% to 59.10% of the capital of the subsidiary company.
- The Bank renewed its partnership with the Bulgarian Olympic Committee for a period of two years (2011-2012).

February

- The Bank acquired 100% of the capital of Balkan Financial Services – a company providing consulting services on the implementation of financial information systems and software development.
- A new Asset Management Unit was created, for the purpose of the development of services in investment banking, including trust portfolio management and investment consulting.
- Fibank became the main sponsor of the Bulgarian Athletics Federation.

March

- Fibank issued new hybrid debt for EUR 20 million, which is included in the tier one capital of the Bank, by placing perpetual subordinated bonds under the terms of a private offering.
- The loan 'Advantage' was launched – a new housing/mortgage loan with no charge for early repayment with own funds, and an option for fixed interest rate for the first three years of the loan term.
- Fibank – Albania received a new extended license as a Depository of voluntary pension funds and investment funds.



April

- Fibank launched promotional campaigns on its mortgage loans, consumer loans, credit cards, and precious metal products in connection with the Palm Sunday and Easter holidays.
- Fibank started opening specialized accounts tailored to meeting the needs of specific customer segments, such as condominium ownerships, notaries, etc.
- The offering began of two new luxury collections of gold bars and silver coins of the highest grade.

ANNUAL REPORT 2011 I HIGHLIGHTS 2011

May

- Telephone Banking was introduced – a new service of the Bank, allowing performing of active bank operations (transfers), as well as of passive operations (receiving of bank reference information) by telephone.
- A new mobile version of the Virtual Banking Branch (e-fibank) was developed.
- The international rating agency Fitch Ratings raised the outlook of the Bank from "Negative" to "Stable".
- A Regular Annual General Meeting of Shareholders was conducted, at which it was decided that the profit for 2010 would be capitalized, and no dividends or other deductions would be paid from the profit for 2011.
- Fibank received international recognition from IFC as the most active issuing bank in the area of trade financing in Southeastern Europe.

June

- A General Meeting was held of bondholders of the first tranche of perpetual subordinated bonds issued under the terms of a private placement.
- Fibank became Favourite brand for 2010 of the Bulgarian consumer in the Financial Institutions category of the annual competition of BGBusiness Review magazine.
- Credit Chance - a new housing/mortgage credit for purchase of property offered for public sale.
- The partner network of the loyalty program YES of the Bank expanded with new retail outlets, their number reaching over 460 throughout the country.
- Deposit Fibank – a new deposit offered by Fibank – Albania, with flexible terms for partial or complete closing of the deposit without losing the interest accumulated at the time of terminating the contract.

July

- Fibank was announced Best Bank in Bulgaria for 2011 by the financial magazine Euromoney, for introducing the most innovative market solutions and products, demonstrating strong growth and stable indicators for efficiency and profit.
- Fitch Ratings assigned a new rating for viability "b+" to the Bank, which replaced the previous individual rating "D".
- Fibank was awarded the prize for market share at the annual awards of the Bank of the Year Association. The Bank achieved the highest performance ratio per unit of share capital, by attracting the largest amount of deposits from households and businesses in the country, and returning the majority of these funds to the Bulgarian economy.
- Fibank was distinguished with an award by Deutsche Bank for superior quality and meeting global standards in international transfers.

August

- A new Super Credit was launched for micro, small and medium enterprises, to the amount of EUR 500 thousand, with the option for use in an overdraft mode for the first year of the credit term.
- The credit line granted to the Bank by IFC for guaranteeing of transactions related to trade financing was increased to USD 40 million.
- For Excellent Students – a new consumer loan up to BGN 10 000, with a fixed interest rate for the first year and no fee for review of the application documents.

September

- Fitch Ratings confirmed the ratings of the Bank, taking into account the position of the Fibank as the largest bank with Bulgarian capital and second largest in terms of deposits from individuals.
- A new External Partners, European Programs and Correspondent Relations Department was created for the purpose of the development of services in the financing and management of projects under European programs, including by providing clients with full administrative and financial support at each stage of the project cycle.
- Fibank continued to develop its written policies for the implementation of high standards of risk management and maintenance of liquidity buffers, in a way consistent with the development of the financial and economic crisis worldwide.
- The combined deposit "Portfolio" – a new mixed investment product, combining a savings deposit with investment in a mutual fund.
- Diners Club Bulgaria started a new service for its customers – SMS notifications for payment cards authorizations.

October

- An Extraordinary General Meeting of Shareholders was conducted, at which new members were elected to the Supervisory Board of the Bank – Maya Georgieva, Evgeni Lukanov and Jordan Skortchev, replacing former members Todor Breshkov, Nedelcho Nedelchev and Kaloyan Ninov, effective as of 24.01.2012.
- Fibank integrated its service for mass transfers in the Virtual Banking Branch of the Bank.
- The Bank further elaborated, ahead of the local market, its policies for internal corporate governance in accordance with the latest guidelines of the European Banking Authority.
- Fibank – Albania offered a new students' credit card with pre-approved limit, for students in private universities in Albania.

November

- Efforts and resources were allocated to a new service – 3D Card Security, offering a more secure environment for payments over the Internet through the programs MasterCard SecureCode and Verified by Visa.
- e-fibank Cyprus – a new channel for carrying out active and passive banking operations, part of Fibank's electronic banking, designed for the customers of Cyprus branch.
- Your Guardian Angel – a new silver medal offered by Fibank, part of the proceeds from which are used for charitable purposes.
- Full Support – a new service for integrated customer assistance in the utilization of resources from European funds.
- Diners Club Bulgaria worked on the introduction of the EMV chip technology standard for its payment cards.

December

- Home in the Present – a new mortgage loan featuring recovery of 1% annual interest upon regular payment of all amounts due, and a grace period of up to 12 months per every five years of the loan term after the first year.
- New Executive Directors of the Bank were elected – Dimitar Kostov, Vassil Christov, and Svetoslav Modovansky.
- A new Christmas Credit was launched, with maximum amount of BGN 10 000, fixed interest rate for the first year, and no fees for early repayment or reviewing of documents.
- Maya Georgieva, Executive Director of First Investment Bank, received the Banker of the Year 2011 award of the Banker newspaper for achieved market sustainability and earned customer confidence.
- Fitch Ratings placed under review with negative outlook the long-term rating, the support rating and the level of support of Fibank.
- Fibank signed a frame agreement with Taiwan's Eximbank for extending of credits for delivery of goods from Taiwan.
- The offering of two new silver coins began, as well as of gold and silver bullion bars dedicated to the Year of the Dragon 2012.


Редакцията на вестник
БАНКЕРЪ®
присъжда приза
Банкер на годината
2011
на
Мая Георгиева
Изпълнителен директор
на Първа инвестиционна банка
За постигнатата пазарна устойчивост
и спечеленото доверие на клиентите.
София
5 декември 2011 година
Главен редактор
/Бистра Георгиева/

Corporate development

In 2011 First Investment Bank reported good financial results and strengthened its positions in the market of banking services in the country. The Bank preserved its focus on product quality, high standards of service, and the management of risks in line with international standards, regulatory norms, and the challenges of the external environment.

During the year, Fibank continued to successfully adapt its flexible business model to market conditions and customer needs, to support good projects and maintain an adequate balance of risk, capital and returns.

The Bank offered its customers new credit products and flexible schemes of financing, further elaborated its online banking through new alternative channels, introduced new services in the sphere of investment banking, and strengthened its position among the leading banks in Bulgaria.

Key indicators

Table 5: Key indicators

	2011	2010	2009	June'11	June'10
Financial results (in BGN thousand)					
Net interest income	161,989	137,854	128,150	84,461	62,315
Net fee and commission income	72,328	55,923	50,864	31,135	24,133
Net trading income	11,294	8,752	10,321	7,803	4,071
Total income from banking operations	243,472	206,976	189,950	120,120	91,437
Administrative expenses	(157,926)	(144,568)	(144,358)	(76,216)	(70,037)
Impairment	(35,263)	(27,099)	(10,965)	(14,830)	(8,303)
Group profit after tax	35,962	27,851	29,796	20,076	12,416
Earnings per share (in BGN)	0.33	0.25	0.27	0.18	0.11
Balance-sheet indicators (in BGN thousand)					
Assets	6,174,452	4,998,776	4,112,284	5,542,885	4,565,426
Loans and advances to customers	4,182,236	3,417,094	2,966,461	3,933,134	3,111,624
Loans and advances to banks and financial institutions	100,427	21,736	26,187	86,405	19,165
Due to other customers	5,388,310	4,285,693	3,339,546	4,716,532	3,859,318
Liabilities evidenced by paper	112,306	116,725	193,363	137,226	126,082
Total Group equity	470,002	433,175	403,035	452,915	415,775
Key ratios (in %)					
Capital adequacy ratio	12.57	13.23	13.83	12.74	13.89
Liquidity ratio	26.17	26.06	19.79	22.56	26.03
Loan provisioning ratio	3.29	2.95	2.56	2.90	2.66
Net interest income/Total income from banking operations	66.53	66.60	67.47	70.31	68.15
Return on equity (after tax)	7.95	6.67	7.65	9.14	6.12
Return on assets (after tax)	0.64	0.61	0.72	0.77	0.58
Cost/Income ratio	64.86	69.85	76.00	63.45	76.60
Resourses (in numbers)					
Branches and offices	173	172	170	173	172
Staff	2,838	2,690	2,486	2,754	2,610

Source: First Investment Bank

Ratings

Table 6: Ratings

Fitch Ratings	2011	2010	2009
Long-term rating	BB-	BB-	BB-
Short-term rating	B	B	B
Viability rating / Individual rating	b+ / D	D	D
Support rating	3	3	3
Suport rating floor	BB-	BB-	BB-
Outlook	Watch	Negative	Negative

Source: Fitch Ratings

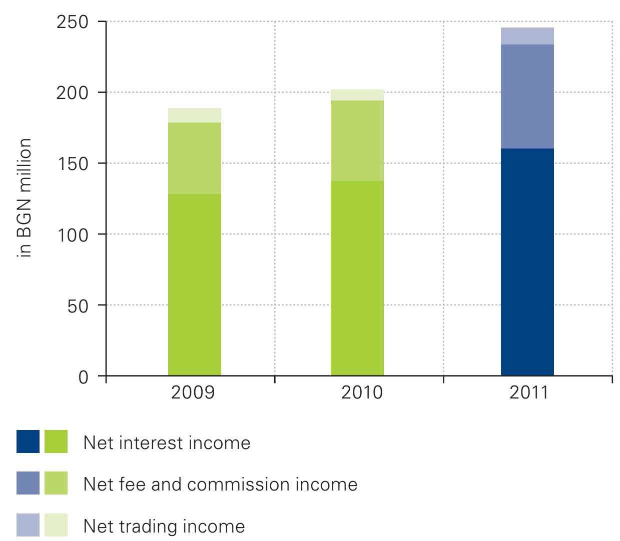
In May 2011 Fitch Ratings increased the perspective of Fibank`s ratings from "negative" to "stable". In July 2011 in relation to an amendment in the methodology applied by the rating agency, the Bank was assigned with a new Viability rating „b+", which replaced the former individual rating „D". In September 2011 the Bank's ratings were confirmed, taking into consideration the position of Fibank as the biggest Bank with Bulgarian capital and second in deposits from individuals. At the end of the year Fitch Ratings placed under Rating Watch Negative the Long-term rating, Support rating and Support Rating floor of Fibank.

Financial results

In 2011 the Group of First Investment Bank reported group profit after tax in the amount of BGN 35,962 thousand or a growth of 29.1% compared to the previous year. The increase was due to higher income from banking operations. Fibank improved its market position, ranking seventh in terms of profit on an unconsolidated basis among the banks in the country (2010: eighth; 2009: seventh). The Bank's market share rose to 6.23% on an unconsolidated basis (2010: 5.00%; 2009: 4.10%). Profitability indicators improved, with return on equity (after tax) reaching 7.95% (2010: 6.67%; 2009: 7.65%), return on assets (after tax) 0.64% (2010: 0.61%; 2009: 0.72%), and income per share BGN 0.33 (2010: BGN 0.25; 2009: BGN 0.27).

Chart 15: Group profit after tax

Chart 16: Income from banking operations



Source: First Investment Bank

During the reporting period First Investment Bank continued its business development in accordance with the economic environment and the need of financing. Total income from banking operations increased by 17.6% and reached BGN 243,472 thousand (2010: 206,976 thousand; 2009: 189,950 thousand).

Interest income rose by 10.8% to BGN 440,803 thousand (2010: 397,790 thousand; 2009: 362,878 thousand), a main contributor being the higher income from loans to corporate clients by 13.9% to BGN 303,170 thousand (2010: 266,262 thousand; 2009: 227,938 thousand). This had the predominant share and formed 68.8% of Group's interest income. Interest income from retail customers increased as well – by 4.4% to BGN 93,466 thousand (2010: 89,491 thousand; 2009: 88,867 thousand) and formed 21.2% of total interest income. A decrease was reported in small and medium enterprises and microlending, whose interest income amounted to BGN 27,060 thousand (2010: 28,331 thousand; 2009: 30,402 thousand) and BGN 3,345 thousand (2010: 3,942 thousand; 2009: 4,771 thousand) respectively at the end of the reporting period.

Interest expenses grew by 7.3% to BGN 278,814 thousand (2010: 259,936 thousand; 2009: 234,728 thousand) resulting mainly from the increased deposit base and newly issued hybrid debt during the period. Interest expenses on deposits from other customers reached BGN 250,862 thousand, compared to BGN 238,319 thousand a year earlier (2009: BGN 186,446 thousand) and formed 90.0% of total interest expenses. These on deposits from banks reached BGN 731 thousand, compared to BGN 20 thousand in 2010 (2009: BGN 1002 thousand). During the year the Bank continued to optimize the structure and cost of funds in accordance with market conditions.

Net interest income was the main source of income for the Bank, which formed 66.5% of total income from banking operations. Net interest income rose by 17.5% to BGN 161,989 thousand, compared to BGN 137,854 thousand a year ago (2009: BGN 128,150 thousand). Fibank's foreign operations (in Cyprus and Albania) formed 16.4% of net interest income (2010: 13.8%; 2009: 14.1%).

Net fee and commission income increased by 29,3% or BGN 16,405 thousand and amounted to BGN 72,328 thousand (2010: BGN 55,923 thousand; 2009: BGN 50,864 thousand) due to increased business volumes and customers of the Bank. A growth was recorded in all major business lines generating fee and commission income, including: customer accounts – by 17.3% to BGN 16,345 thousand (2010: BGN 13,930 thousand; 2009: BGN 8,985 thousand), card business – by 1.9% to BGN 21,630 thousand (2010: BGN 21,223 thousand; 2009: BGN 20,131 thousand), payment operations – by 13.6% to BGN 9,233 thousand (2010: BGN 8,126 thousand; 2009: BGN 7,680 thousand) and letters of credit and guarantees – by 36.6% to BGN 8,466 thousand (2010: BGN 6,199 thousand; 2009: BGN 6,321 thousand). Net fee and commission income increased its relative share to 29.7% of total income from banking operations, compared to 27.0% in 2010 and 26.8% in 2009 as a result of the Bank's consistent policy on the diversification of income from banking operations. Fibank's foreign operations (in Cyprus and Albania) formed 1.3% of net fee and commission income (2010: 1.4%; 2009: 1.6%).

Chart 17: Interest income

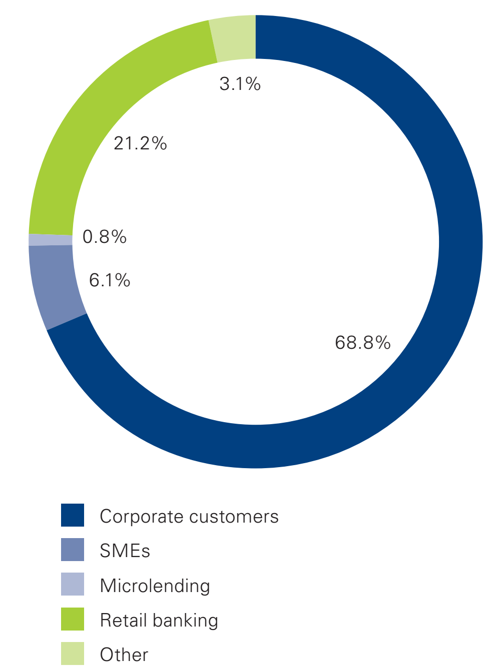
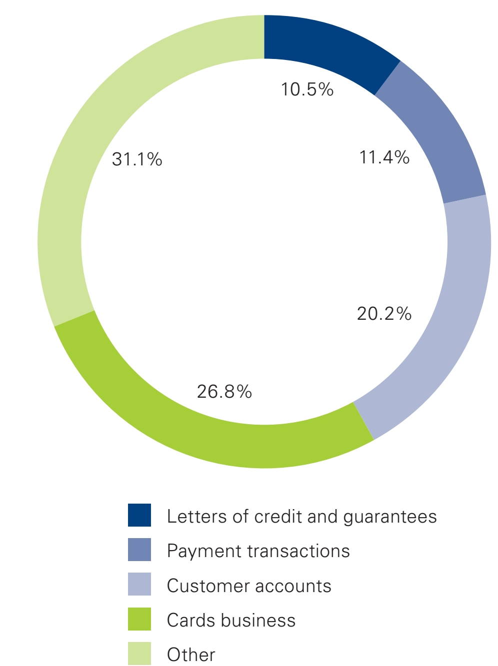


Chart 18: Fee and commission income



Source: First Investment Bank

Net trading income rose and reached BGN 11,294 thousand during the period (2010: BGN 8,752 thousand; 2009: BGN 10,321 thousand). This growth was mainly due to increased income from debt instruments of BGN 3,000 thousand to BGN 3,943 thousand (2010: BGN 943 thousand; 2009: BGN 608 thousand). Net trading gains arising from foreign exchange amounted to BGN 7,635 thousand, compared to BGN 7,779 thousand a year earlier (2009: BGN 10,378 thousand), while net trading losses, arising from equity instruments were BGN 284 thousand for the year, compared to net trading gains of BGN 30 thousand in 2010 (2009: BGN -665 thousand). Net trading income's relative share remained insignificant – 4.6% of total income from banking operations (2010: 4.2%; 2009: 5.4%).

General administrative expenses increased by 9.2% and reached BGN 157,926 thousand for the reporting period (2010: BGN 144,568 thousand; 2009: BGN 144,358 thousand), reflecting the increased number of staff and the related costs for salaries, social and health security contributions. A growth was registered in advertising expenses – to BGN 6,718 thousand (2010: BGN 5,367 thousand; 2009: BGN 7,774 thousand), while those related to administration, consultancy and auditing rose to BGN 29,327 thousand (2010: BGN 27,011 thousand; 2009: BGN 27,174 thousand). The cost/income ratio continued to improve at 64.86% (2010: 69.85%; 2009: 76.00%).

Net impairment losses of loan exposures accrued by the Group of First Investment Bank amounted to BGN 35,263 thousand for 2011, compared to BGN 27,009 thousand in the previous year (2009: BGN 10,965 thousand). The growth in impairment losses registered a slow-down of BGN 8,164 thousand or 30.1% for the 2011/2010 period, compared to BGN 16,134 thousand or 147.1% for the 2010/2009 period.

Balance sheet

As at the end of December 2011 the total assets of the Group of First Investment Bank reached BGN 6,174,452 thousand (2010: BGN 4,998,776 thousand; 2009: BGN 4,112,284 thousand), an increase of 23.5% (BGN 1,175,676 thousand) resulting mainly from the growth in attracted funds from other customers. Fibank improved its market position, ranking fifth in terms of assets among the banks in the country (2010: sixth; 2009: sixth). The Bank's market share rose to 7.94% on an unconsolidated basis (2010: 6.71%; 2009: 5.78%).

Chart 19: Total Group assets

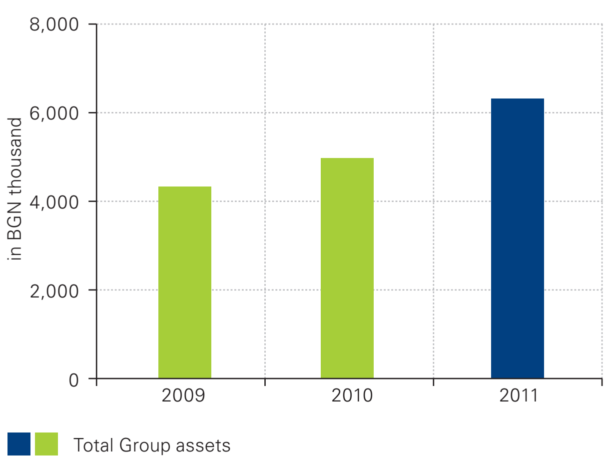
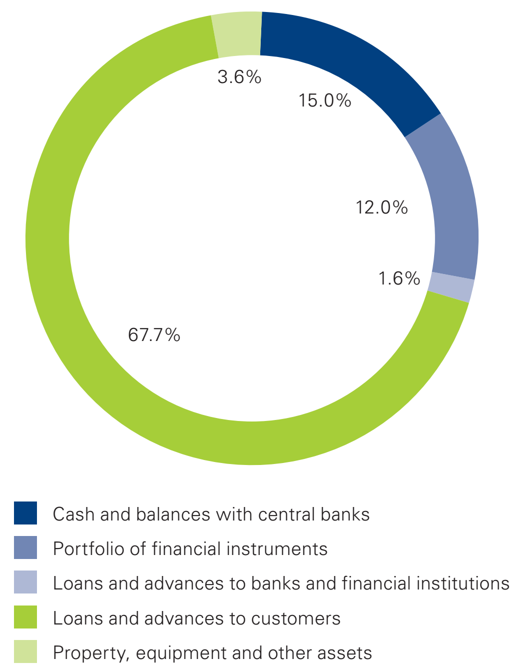


Chart 20: Asset structure



Source: First Investment Bank

The asset structure remained relatively unchanged, reflecting market conditions and the Bank's strategy for maintaining an adequate balance between risk, capital and return. Loans and advances to customers preserved their majority share and formed 67.7% (2010: 68.4%; 2009: 72.1%) of total assets, followed by cash and balances with central banks at 15.0% (2010: 11.1%; 2009: 14.7%) and the portfolio of financial instruments (financial assets held for trading, available for sale investments and financial assets held to maturity) at 12.0% (2010: 15.8%; 2009: 8.0%).

Cash and balances with central banks increased by 66.4% (BGN 369,533 thousand) to BGN 926,394 thousand (2010: BGN 556,861 thousand; 2009: BGN 603,792 thousand) mainly due to a growth in current accounts and amounts with foreign banks, which reached BGN 140,647 thousand (2010: BGN 44,084 thousand; 2009: BGN 194,834 thousand) and in balances with central banks, which reached BGN 655,739 thousand (2010: BGN 383,064 thousand; 2009: BGN 261,943 thousand), resulting from the increased deposit base and the maintenance of minimum required reserves. Cash on hand remained almost unchanged at BGN 129,905 thousand, compared to BGN 122,713 thousand in the previous year (2009: BGN 142,921 thousand), as the Bank continued to optimize the management of cash balances in accordance with the market environment and external conditions.

Loans and advances to banks and financial institutions rose to BGN 100,427 thousand, compared to BGN 21,736 thousand at the end of 2010, as a result of an increase in placements due from banks and resale agreements concluded as part of the liquidity management. At the end of the reporting period placements and other amounts due from banks reached BGN 85,512 thousand (2010: BGN 13,316 thousand; 2009: BGN 20,007 thousand), of which most were from foreign banks and financial institutions, while receivables under resale agreements reached BGN 12,683 thousand (2010: BGN 5,910 thousand; 2009: BGN 2,810 thousand).

Available for sale investments decreased to BGN 663,925 thousand (2010: BGN 715,405 thousand; 2009: BGN 285,110 thousand) as a result of a decline in foreign government treasury bills and bonds (2011: BGN 526,804 thousand; 2010: BGN 631,198 thousand; 2009: BGN 214,160 thousand) and in bonds, notes and other instruments issued by foreign banks (2011: BGN 26,934 thousand; 2010: BGN 37,552 thousand; 2009: BGN 35,166 thousand), at the expense of Bulgarian government bonds and notes (2011: BGN 103,649 thousand; 2010: BGN 40,636 thousand; 2009: BGN 33,064 thousand).

Chart 21: Portfolio of financial instruments

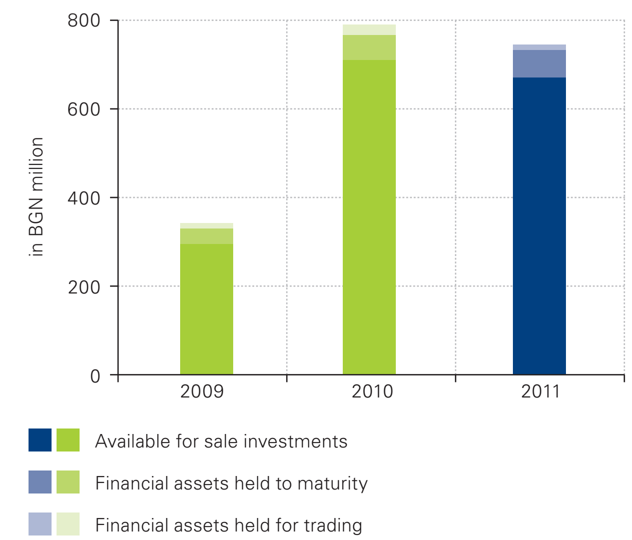
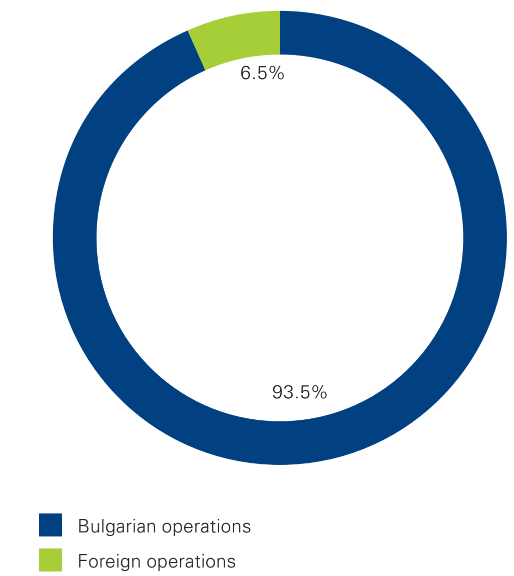


Chart 22: Asset structure by region



Source: First Investment Bank

At the end of 2011 financial assets held for trading amounted to BGN 8,659 thousand (2010: BGN 16,641 thousand; 2009: BGN 9,023 thousand), while financial assets held to maturity stood at BGN 65,886 thousand (2010: BGN 57,102 thousand; 2009: BGN 35,425 thousand).

At the end of December 2011 the Group's portfolio of exposures to government debt was BGN 682,955 thousand, compared to BGN 731,572 thousand a year earlier. The overall quality of the portfolio was very good.

The Bank's foreign operations (in Cyprus and Albania) grew as assets reached BGN 401,169 thousand or 6.5% of Group's assets (2010: BGN 305,977 thousand or 6.1%; 2009: BGN 227,794 thousand or 5.5%).

Loan portfolio

Loans

In 2011 the Group of First Investment Bank's gross loan portfolio rose by 22.8% (BGN 800,139 thousand) and reached BGN 4,315,059 thousand at the end of the period (2010: BGN 3,514,920 thousand; 2009: BGN 3,039,663 thousand). The increase was mainly due to a growth in loans to large corporate customers which was in compliance with the Bank's strategy for moderate growth of the loan portfolio, corresponding to the development of the economic environment, while maintaining high standards of risk assessment and return. Fibank's market share rose to 7.71% on an unconsolidated basis (2010: 6.54%; 2009: 5.85%). The Bank retained its market position, ranking sixth in terms of loans among banks in the country (2010: sixth; 2009: sixth).

Table 7: Loan portfolio by business line

In BGN thousand / % of total	2011	%	2010	%	2009	%
Retail customers	795,830	18.5	742,674	21.1	737,917	24.3
Small and medium enterprises	268,162	6.2	240,128	6.8	219,053	7.2
Microlending	26,612	0.6	27,017	0.8	29,456	1.0
Corporate customers	3,224,455	74.7	2,505,101	71.3	2,053,237	67.5
Gross loan portfolio	**4,315,059**	**100**	**3,514,920**	**100**	**3,039,663**	**100**
Impairment	(132,823)		(97,826)		(73,202)	
Loan portfolio	**4,182,236**		**3,417,094**		**2,966,461**	

Source: First Investment Bank

During the reporting period the trend of an increase in lending to large corporate customers over the last three years was maintained, as these loans increased their majority share in the Bank's loan portfolio at 74.7% at the end of 2011 (2010: 71.3%; 2009: 67.5%). Fibank continued to support sound projects in accordance with the needs for financing and market conditions in the country and abroad. Loans to small and medium enterprises lessened their relative share to 6.2% of total loans (2010: 6.8%; 2009: 7.2%), followed by microlending – to 0.6% (2010: 0.8%; 2009: 1.0%) and loans to retail customers fell to to 18.5% (2010: 21.1%; 2009: 24.3%).

Table 8: Loan portfolio by currency

In BGN thousand / % of total	2011	%	2010	%	2009	%
Loans in BGN	969,144	22.5	867,685	24.7	907,065	29.8
Loans in EUR	3,012,599	69.8	2,324,778	66.1	1,930,008	63.5
Loans in other currency	333,316	7.7	322,457	9.2	202,590	6.7
Gross loan portfolio	**4,315,059**	**100**	**3,514,920**	**100**	**3,039,663**	**100**
Impairment	(132,823)		(97,826)		(73,202)	
Loan portfolio	**4,182,236**		**3,417,094**		**2,966,461**	

Source: First Investment Bank

Loans and advances in EUR formed a predominant share of 69.8% (2010: 66.1%; 2009: 63.5%) in the currency structure of the loan portfolio. They continued to grow and reached BGN 3,012,599 thousand at the end of the period (2010: BGN 2,324,778 thousand; 2009: BGN 1,930,008 thousand), retaining their upward trend from the last years. A contributor to the increase was the Currency Board Arrangement effective in the country, which minimizes currency risk. Loans in BGN and in other currency increased as well in absolute value, to BGN 969,144 thousand (2010: BGN 867,685 thousand; 2009: BGN 907,065 thousand) and to BGN 333,316 thousand (2010: BGN 322,457 thousand; 2009: BGN 202,590 thousand) respectively, but decreased as a relative share in the loan portfolio, to 22.5% and to 7.7% at the end of 2011 (2010: 24.7% and 9.2%; 2009: 29.8% and 6.7%).

Gross loans extended by the Cyprus branch amount to BGN 290,861 thousand or a 35.4% increase over the previous year (2010: BGN 214,895 thousand). Gross loans extended by First Investment Bank – Albania increased by 31.9% and reached BGN 60,148 thousand (2010: BGN 45,607 thousand).

Chart 23: Loan portfolio and impairment

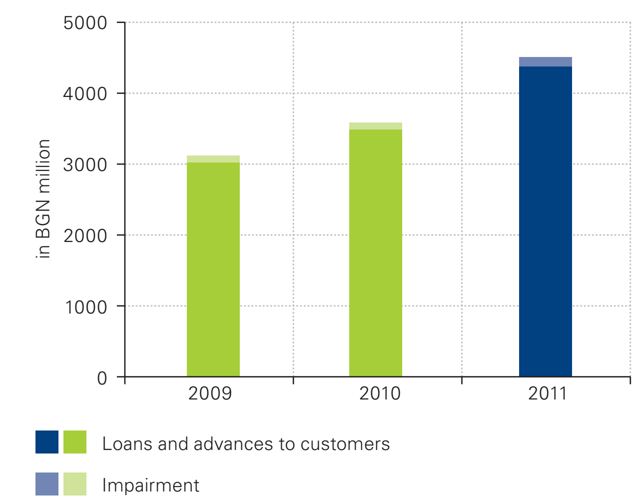
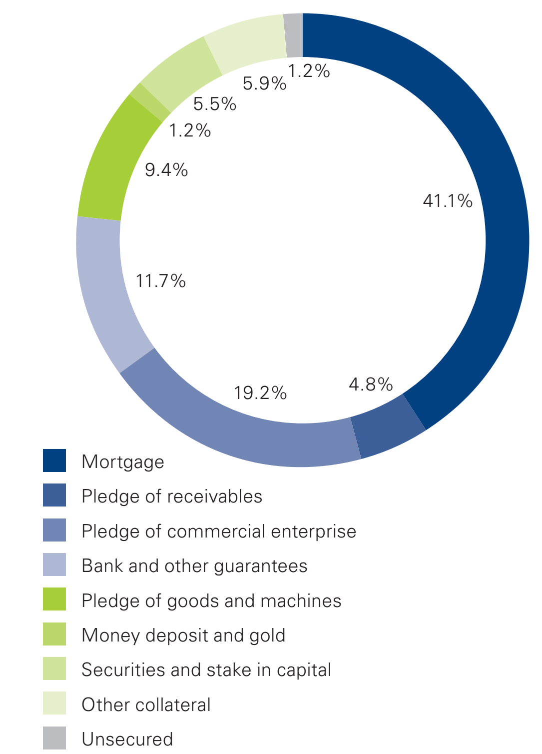


Chart 24: Loan portfolio by collateral



Source: First Investment Bank

The quality of the loan portfolio remained above average for the banking system, as problem loans (those classified as non-performing and loss) amounted to BGN 249,496 thousand or 5.78% of gross loans at the end of the year (14.93% for the banking system). Allowances for impairment increased and reached BGN 132,823 thousand (2010: BGN 97,826 thousand; 2009: BGN 73,202 thousand) as a result of the negative impact of the economic cycle and increased credit risk in the country. Allowances for impairment for loans, classified as non-performing and loss amounted to BGN 112,301 thousand. 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. During the year loans and advances to customers amounting to BGN 301 thousand were recorded off balance sheet, against BGN 2,466 thousand a year earlier (2009: BGN 2,474 thousand). The loan provisioning ratio was 3.29% (2010: 2.95%; 2009: 2.56%).

The policy of the Group requires proper collateral before granting 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 2011 the collateral with the largest share in the Group's portfolio were mortgages at 41.1%, followed by pledges of commercial enterprise at 19.2%, bank and other guarantees at 11.7%, pledges of goods and machines at 9.4% and pledges of receivables at 4.8%, 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 2011 together with the Report of the Independent Auditor.

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 9: Related party transactions

In BGN thousand	**2011**	2010	2009
Loans			
Parties that control or manage the Bank	**1,674**	2,997	2,130
Enterprises under common control	**23,161**	19,055	21,721
Off-balance sheet commitments			
Parties that control or manage the Bank	**1,843**	1,204	2,280
Enterprises under common control	**2,116**	1,289	1,322

Source: First Investment Bank

For further information regarding related party transactions, see Note 36 “Related party transactions” of the Consolidated Financial Statements as at 31 December 2011 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 instruments for 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.

Chart 25: Contingent liabilities

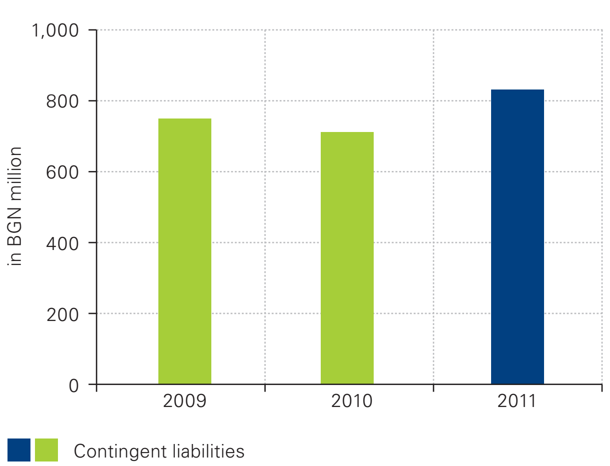
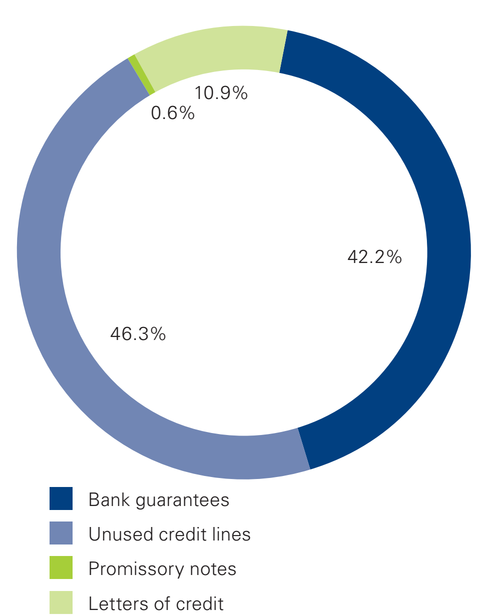


Chart 26: Structure of contingent liabilities



Source: First Investment Bank

At the end of the reporting period the total amount of off-balance sheet commitments increased by 16.8% and reached BGN 833,070 thousand (2010: BGN 713,134 thousand; 2009: BGN 753,455 thousand). Unused credit lines rose by 27.1% to BGN 385,569 thousand (2010: BGN 303,400 thousand; 2009: BGN 289,482 thousand), followed by bank guarantees in BGN and in foreign currency by 8.5% to BGN 351,305 thousand (2010: BGN 323,836 thousand; 2009: BGN 350,929 thousand), and letters of credit by 17.3% to BGN 91,270 thousand (2010: BGN 77,805 thousand; 2009: BGN 98,749 thousand). A decrease was registered in promissory notes to BGN 4,926 thousand (2010: BGN 8,093 thousand; 2009: BGN 14,295 thousand), which formed an insignificant part of the Group’s off-balance sheet commitments.

Attracted funds

In 2011 attracted funds from customers increased by 25.7% (BGN 1,102,617 thousand) and reached BGN 5,388,310 thousand (2010: BGN 4,285,693 thousand; 2009: BGN 3,339,546 thousand), remaining the Group’s major source of funding. A factor in this increase were the various and flexible deposit products offered to customers, which are in line with the market environment and market conditions.

Chart 27: Customer deposits

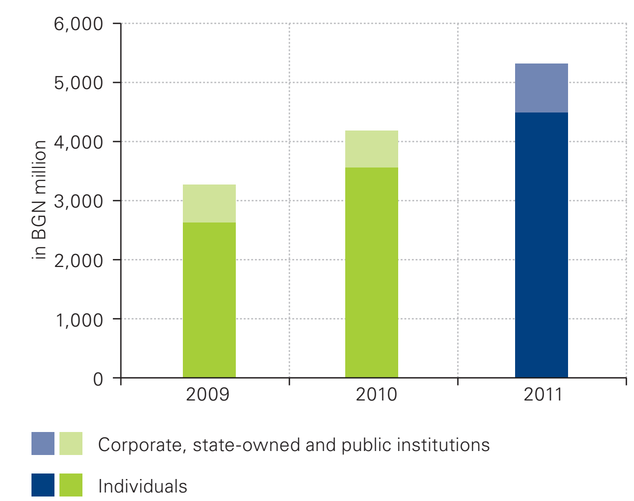
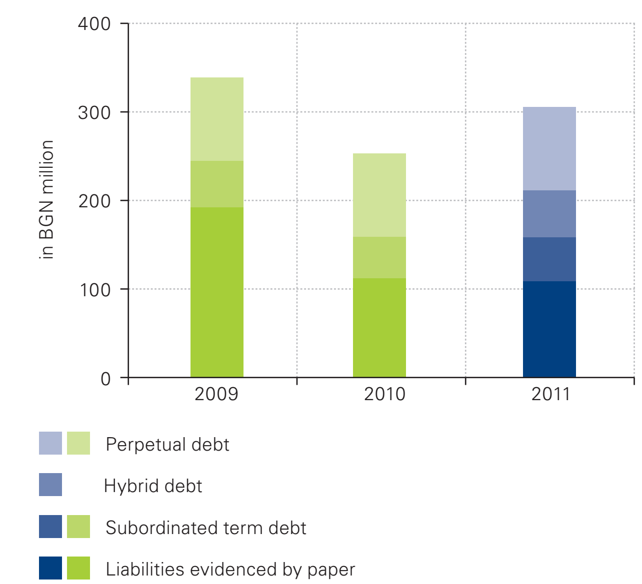


Chart 28: Other liabilities



Source: First Investment Bank

During the year Fibank improved its market position, ranking third in terms of deposits among banks in Bulgaria (2010: fifth; 2009: sixth). The Bank’s market share rose to 10.01% on an unconsolidated basis (2010: 8.96%; 2009: 7.57%) at the end of the period.

Attracted funds from retail customers continued to grow by 23.1% (BGN 836,885 thousand) to BGN 4,458,512 thousand (2010: BGN 3,621,627 thousand; 2009: BGN 2,709,208 thousand), preserving their upward trend over the last years and maintaining their predominant share in total attracted funds from customers at 82.7% (2010: 84.5%; 2009: 81.1%). In the currency structure of attracted funds from retail customers those in EUR were greatest at 42.8% (2010: 47.5%; 2009: 45.4%) of total attracted funds from customers, followed by those in BGN at 31.8% (2010: 29.3%; 2009 28.8%) and those in other currency at 8.1% (2010: 7.7%; 2009: 6.9%).

Table 10: Due to other customers

In BGN thousand / % of total	2011	%	2010	%	2009	%
Retail customers	**4,458,512**	**82.7**	**3,621,627**	**84.5**	**2,709,208**	**81.1**
In BGN	1,712,193	31.8	1,256,629	29.3	960,486	28.8
In EUR	2,309,132	42.8	2,036,301	47.5	1,517,424	45.4
In other currency	437,187	8.1	328,697	7.7	231,298	6.9
Corporate, stated-owned and public institutions	**929,798**	**17.3**	**664,066**	**15.5**	**630,338**	**18.9**
In BGN	548,124	10.2	388,585	9.1	324,988	9.7
In EUR	305,561	5.7	217,039	5.1	236,973	7.1
In other currency	76,113	1.4	58,442	1.3	68,377	2.0
Total attracted funds from customers	**5,388,310**	**100**	**4,285,693**	**100**	**3,339,546**	**100**

Source: First Investment Bank

First Investment Bank sets aside the required annual premiums in accordance with the Bank Deposit Guarantee Act, which serves to increase the safety of the Bank's depositors. According to regulatory requirements the amount guaranteed by the Fund on customer's bank accounts held with the Bank is BGN 196,000 per customer.

Attracted funds from corporate, stated-owned and public institutions rose by 40.0% (BGN 265,732 thousand) up to BGN 929,798 thousand (2010: BGN 664,066 thousand; 2009: BGN 630,338 thousand) during the year, increasing their relative share by 1.8 percentage points to 17.3% of total attracted funds from customers (2010: 15.5%; 2009: 18.9%). In the currency structure of attracted funds from corporate, stated-owned and public institutions those in BGN formed 10.2% of all attracted funds from customers (2010: 9.1%; 2009: 9.7%), these in EUR were at 5.7% (2010: 5.1%; 2009: 7.1%), while these in other currency were 1.4% (2010: 1.3%; 2009: 2.0%).

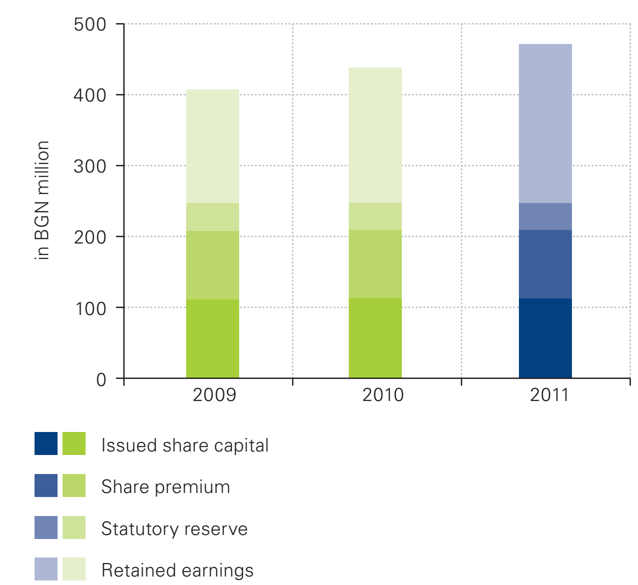
Liabilities evidenced by paper decreased by 3.8% to BGN 112,306 thousand (2010: BGN 116,725 thousand; 2009: BGN 193,363 thousand), as a consequence of the economic crisis and the ongoing uncertainty on global financial markets. A drop was reported in acceptances under letters of credit to BGN 9,217 thousand (2010: BGN 15,375 thousand; 2009: BGN 14,151 thousand) and in other term liabilities to BGN 75,138 thousand (2010: BGN 80,142 thousand; 2009: BGN 93,919 thousand), which comprise mainly financing obtained from financial institutions through extension of loan facilities. A growth was registered in liabilities under repurchase agreements, which amounted to BGN 27,951 thousand (2010: BGN 21,208 thousand; 2009: BGN 85,293 thousand) and more specifically in repurchase agreements with Bulgarian government securities.

Capital

The total capital base of the Group of Fibank increased and reached BGN 576,921 thousand or 14.1% (BGN 71,226 thousand) more compared to the end of 2010. Tier 1 capital rose by 19.8% (BGN 77,134 thousand) to BGN 467,303 thousand, as a result of capitalizing profits and the issuance of new hybrid debt in the form of perpetual subordinated bonds, placed 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 hybrid debt was included in the Bank's Tier 1 capital after obtaining permission from the BNB. The amortised cost of the debt was BGN 42,800 thousand at the end of 2011.

Chart 29: Capital base

Chart 30: Equity structure



Source: First Investment Bank

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 2011 the Bank had entered into six separate subordinated loan agreements on the amount of BGN 50,596 thousand, compared to BGN 47,169 thousand a year earlier (2009: BGN 60,641 thousand). At the end of the period the Bank had two guaranteed perpetual subordinated bonds on the amount of BGN 99,376 thousand, compared to BGN 99,201 thousand a year earlier (2009: BGN 98,952 thousand).

Table 11: Capital adequacy

In BGN thousand / % risk-weighted assets	2011	%	2010	%	2009	%
Tier 1 capital	467,303	10.18	390,169	10.21	363,237	10.39
Total capital base	576,921	12.57	505,695	13.23	483,657	13.83
Risk-weighted assets	4,588,589		3,821,008		3,497,667	

Source: First Investment Bank

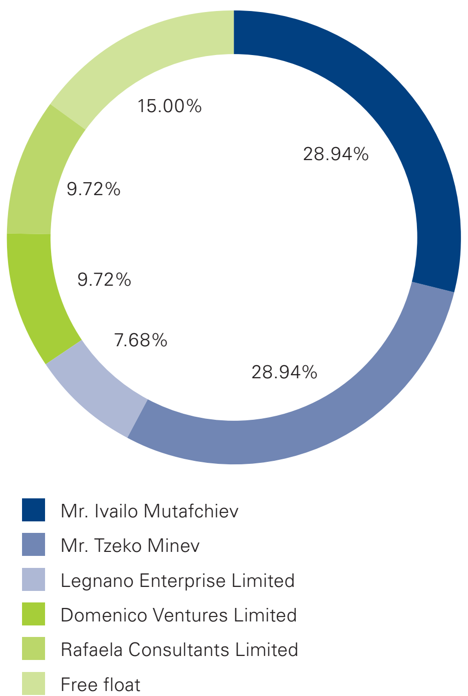
As at 31 December 2011 the capital indicators of the Bank were above the established regulatory requirements. Total capital adequacy ratio amounted to 12.57% (2010: 13.23%; 2009: 13.83%), while Tier I capital ratio was at 10.18% (2010: 10.21%; 2009: 10.39%). In calculating its capital adequacy, the Bank applies the Capital Accord (Basel II), as adopted in the EU Directives and Ordinance №8 of the BNB.

Total Group equity rose by 8.5% to BGN 470,002 thousand (2010: BGN 433,175 thousand; 2009: BGN 403,035 thousand), resulting from an increase in retained earnings, which reached BGN 222,751 thousand at the end of the year (2010: BGN 186,799 thousand; 2009: BGN 158,857 thousand). Fibank's issued share capital was BGN 110,000 thousand, divided into 110,000,000 common voting shares with a nominal value of BGN 1 each.

As at 31 December 2011 the shareholder structure of the Bank remained unchanged. The major shareholders of First Investment Bank were Mr. Tzeko Minev (28.94%), Mr. Ivailo Mutafchiev (28.94%), Domenico Ventures Limited (9.72%), Rafaela Consultants Limited (9.72%) and Legnano Enterprise Limited (7.68%). Currently 15% of the Bank's issued share capital (BGN 16.5 million) is freely traded on the Bulgarian Stock Exchange – Sofia (free-float).

Chart 31: Fibank's share price in 2011

Chart 32: Shareholders' structure



Source: First Investment Bank

During the reporting period the price of the Bank's shares fluctuated in the range between BGN 1.63 to BGN 3.55, in line with the leading market indices of the Bulgarian Stock Exchange. The last price of the shares of the Bank for the reporting period was BGN 1.89 (2010: BGN 2.15; 2009: BGN 2.28). A total of 4,044 transactions were concluded with shares of the Bank, amounting to a turnover of BGN 14,053 thousand, compared to 3,788 transactions and a BGN 7,639 thousand turnover a year earlier. The Bank's shares are traded on the Official market segment "B" of the Bulgarian Stock Exchange and are included in three stock indices – SOFIX, BG40 and BGTR30, which bring together the largest, most traded and most liquid companies on the stock market in the country.

Risk management

Fibank builds, maintains and develops an adequate and reliable risk management system, which ensures the timely identification, secure estimation and management of risks inherent to its activity.

The framework for risk management comprises written policies, rules and procedures, mechanisms for identification, measurement, monitoring and control of risks as well as risk mitigation. Fundamental principles embedded in it are: objectivity, dual control of each operation, centralized management, separation of duties, and clearly defined authority levels.

Fibank's strategy for risk management is a part of the overall strategy for the development of the Bank. Fibank assumes risks while maintaining the required level of its own funds (capital base) and an adequate management process, maintaining financial resources commensurate with the volume and the type of activities performed, the risk profile and the internal controlling systems and mechanisms for risks management. The Bank defines its risk appetite and risk tolerance at levels, which are commensurate with its strategic goals and stable functioning; the general risk profile of the Bank is managed in order to achieve a good balance between risk, return and capital.

Fibank aims to constantly develop, update, and improve to the highest level its risk management systems in order to meet the challenges of the market environment and changes in the legal framework. In this relation in 2011 the Bank implemented a new behavior-scoring model for Fibank's current clients' creditworthiness. Using historical data and statistical methods, the scoring model supports forecasting to what extent a given loan applicant is able to execute correctly his duties on a given credit deal.

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. As at the end of 2011 the Credit Council consisted of six members elected by the Managing Board – one member of the Managing Board and representatives of the Corporate Banking, SME Lending, Legal, Risk Management and Branch Network departments.

The Liquidity Council oversees on an ongoing basis the Bank's assets, liabilities and liquidity. It conducts systemic analyses of the interest and maturity structure of assets and liabilities, and of liquidity indicators with a view to their optimisation. As of 31 December 2011, it comprised two members of the Managing Board, the head of the Liquidity Department and the heads 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 generally (at the portfolio level) and in terms of specific, individually significant exposures.

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

In addition to these 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 continued its conservative approach to risk management, centralized management of the loan portfolio and the 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 an 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 a basic indicator approach in relation to operational risk.

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 the 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 to optimise the timely detection and analysis of risks. The Bank applies limits on all exposures to credit risk, including to individual customers / customer groups / counterparts, to types of instruments, industries etc.

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.

The Bank continued to actively manage its problem exposures – aiming at their timely diagnosis and taking measures consistent with the repayment capacity of the clients and the Bank's policy on risk-taking.

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 is 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 with 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 the 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 33: 1-day 99% interest rate VaR on instruments, carried at fair value

Source: First Investment Bank

Currency risk is 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, the 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.

In 2011 the Bank further developed its policies, procedures and systems for the identification, evaluation, management and supervision of liquidity risk, in order to maintain an adequate level and structure of liquid buffers and the application of appropriate mechanisms for the distribution of costs, profits and risk, related to liquidity.

During the reporting year Fibank continued to maintain an adequate amount of liquid assets. As of 31 December 2011 the liquidity ratio was 26.17% (2010: 26.06%; 2009: 19.79%).

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 principles of not assuming unsound risk, strict compliance with the authority levels and applicable laws, and the 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 regularly reviews operating events and suggests to the managing Board measures for the immediate correction of the reasons for them, 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 12: Risk-weighted assets

In BGN thousand / % of total	**2011**	%	2010	%	2009	%
For credit risk	4,224,125	92.1	3,456,345	90.4	3,166,229	90.5
For market risk	6,100	0.1	5,988	0.2	4,325	0.1
For operational risk	358,364	7.8	358,675	9.4	327,113	9.4
Risk-weighted assets	**4,588,589**	**100**	**3,821,008**	**100**	**3,497,667**	**100**

Source: First Investment Bank

Apart from Supervisory purposes, Fibank also calculates the 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 the current operating environment.

Distribution channels

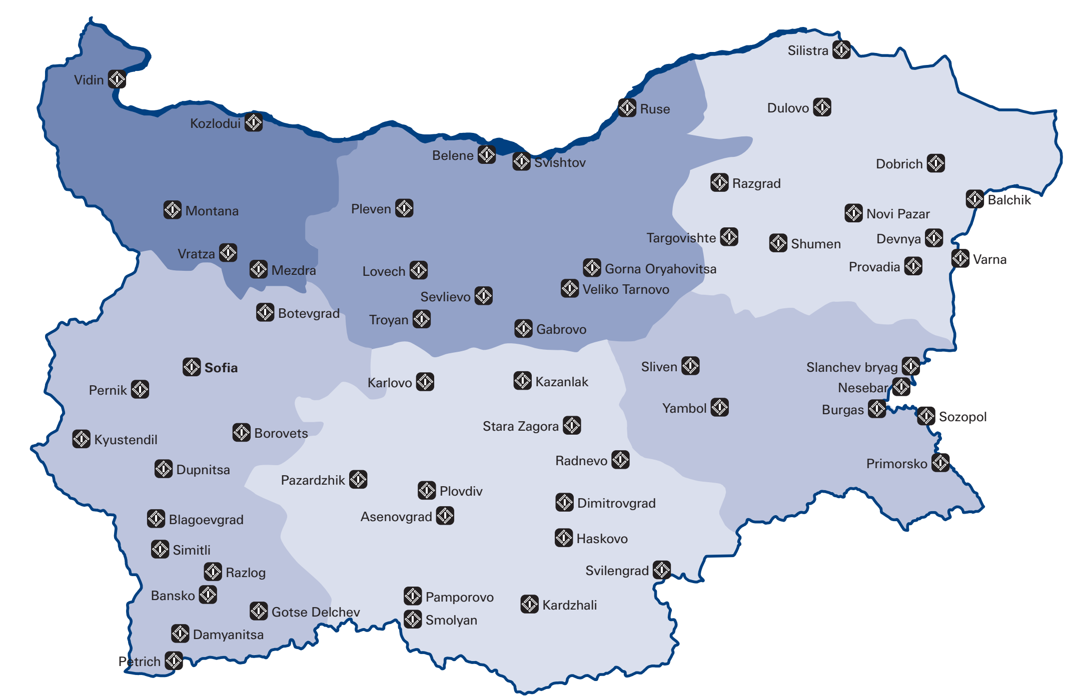
First Investment Bank uses various types of distribution channels for its products and services, which are developed and improved with the aim of best responding to the needs of its customers. The Bank offers a balanced choice between visits to a bank office, the use of ATM and POS terminals, distant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

In 2011 Fibank allocated resources for the development of new alternative distribution channels, including banking via mobile phone, telephone banking as well as new functionalities in the Virtual branch and My Fibank.

Branch network

The branch network is the basic channel for the distribution of the bank products and services of Fibank.

In 2011 the Bank continued to work on increasing the branch network effectiveness through optimizing working processes and lowering maintenance costs as well as deeper market penetration in different locations. In this relation five new offices in Razgrad, Targovishte, Kyustendil, Montana and Yambol towns were turned into separate branches during the year. Two new offices (one in Sofia and one in Stara Zagora) were opened and one was closed – in Blagoevgrad - during the period.



As of 31 December 2011 the Group's branch network included a total of 173 branches and offices (2010: 172) , a Head Office and 53 offices in Sofia, 108 branches and offices throughout the rest of the country, one foreign branch in Cyprus, a Head Office of the subsidiary bank in Tirana and 9 branches and offices in Albania, including in bigger cities: Durres, Vlora, Elbasan, Fier, Shkodar and Berat.

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

Fibank's Contact centre functions as an effective channel for communication with customers and for the active sale of specific banking products and services. The Bank has worked systematically throughout the years on the development and diversification of the services offered. The Contact Centre's customers can apply for credit and debit cards, for a debit card overdraft, receive accurate and correct information on products and services and the Bank's Terms and Conditions (Tariff) and interest rates, the location of branches and bank offices' working times, as well as adequate and professional assistance from the Contact centre employees whenever questions or problems occur.

The capacity for performing outgoing calls has increased steadily over the years and in 2011 it was able to carry out over 230,000 outgoing phone calls per year. Intensive communication with present and potential customers also continued to be maintained by e-mail, by personal SMS messages 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).

To optimize the processes and to add new functionalities, in 2011 the software-communication platform of the Contact centre was renovated and migrated to a new and higher version. Fibank's Contact centre maintains compliance with the international "golden" standard „80/20" for contact centres (80% of incoming calls must be answered within 20 seconds).

Corporate blog

In 2011 the corporate blog of First Investment bank continued its successful development as an alternative channel for communication with customers and partners. It publicises a range of social and corporate initiatives, presents the employees of the Bank, and assesses the use of products and services through open discussion and interactive inquires. The rubric "Our Analyses" presented the Bank's analysis and research regarding the market for credit products and the tendencies in this segment.

First Investment Bank has a positive image in the Internet society which is enhanced by its active participation in all the leading social networks (Facebook, Twitter, Youtube, Svejo.net, Foursquare, Google+).

Fibank's corporate blog was repeatedly cited as a successful example of online marketing in books dedicated to this subject.

Sales

First Investment Bank has used direct sales as a channel for the distribution of bank products and services for more than six years. Fibank provides complex banking services to institutional and corporate customers in their offices.

This channel also contributes to the attracting of new customers and to establishing long-term relations with key customers, as well as to receiving direct feed-back on the Bank's products and services.

In 2011 a large number of new corporate customers from different market segments were attracted through direct sales to First Investment Bank. Sales Department employees represent Fibank at trade fairs and exhibitions and actively take part in promotional campaigns for selling the Bank's services. The Department has considerable experience in taking part in tender procedures and the servicing of budget spending units, state and municipal companies.

Remote banking

Virtual banking branch (e-fibank)

First Investment Bank has successfully developed and offered electronic banking for ten years now and is among the pioneers in this field, providing its customers with a modern, fast, cheap and safe way to use a wide range of banking products and services. Fibank seeks to continuously work towards improving the products and services offered by the Virtual Banking Branch, in order to meet in the best possible way the needs of its customers in terms of speed, functionality, efficiency, and security.

In 2011, the Bank integrated the service for performing mass transfers over the Internet within the Virtual Banking Branch (e-fibank), thus centralizing and facilitating its use, and broadening its functionality.

During the year, a new mobile version of the Virtual Banking Branch was developed, allowing owners of mobile phones to perform banking transactions and dispose of their funds without having to visit a branch of the Bank.

At the end of 2011, Fibank started virtual banking at its branch in Cyprus (e-fibank Cyprus). The new platform, which is part of the Bank's electronic banking, provides an opportunity for active and passive banking operations and is intended for the customers of the Cyprus Branch.

In the period, outgoing transfers through the Virtual Banking Branch increased, reaching 33% of the number and 43% of the amount of all outgoing transfers performed by the Bank. As at 31 December 2011, almost 40 000 customers used the virtual banking service of First Investment Bank.

Telephone banking –☎*bank (☎*2265), ☎0700 19 599

In 2011, First Investment Bank added a new type of service for remote banking – telephone banking, which allows the performance of active banking operations by phone during the working hours of the Bank, and of passive operations without time limitations, 7 days a week, 24 hours a day.

Telephone banking allows customers of the Bank to order money transfers, to negotiate exchange rates and to purchase currency with one phone call. Furthermore, they can make inquiries about balances on their accounts, about performed transactions, and acquire information on exchange rates.

My Fibank

Since 2009, First Investment Bank began offering its customers electronic banking services through My Fibank, as part of its Ecoprogram. The service provides customers with electronic statements from their current and deposit accounts, their credit cards, as well as with information about sent and received interbank transfers in foreign currency.

In order to meet the needs of its customers, Fibank strives to constantly develop and improve the services offered through My Fibank. During the year, resources were allocated for the development of new services, such as payments through My Fibank of utility bills and of other obligations on accounts and cards kept with the Fibank, registration of 3D Card Security – a new functionality increasing the security of payments over the Internet (through the programs MasterCard SecureCode and Verified by Visa), as well as for a broadening of the reference information functionalities.

Information technologies

The development of information technologies is one of the main priorities in the activity of First Investment Bank. This is motivated by the necessity to provide ever higher levels of security in carrying out banking operations, as well as by its dedication to providing first class customer service.

Providing increasingly complex financial products and services requires constant development of the information systems of the Bank.

In 2011, Fibank introduced a new system for the integrated management of receivables, which includes the process-oriented recovery of receivables, tracking of all actions in the process of collection, as well as appropriate functionalities for the control and accountability over this process.

During the second half of the year the Bank further developed its operational risk systems, with a view to centralizing management through immediate contact with Head Office, as well as the more efficient recording of events related to technology and infrastructure.

There was a successfully completion of several projects for the development and implementation of new services: the virtual banking of Cyprus Branch (e-fibank Cyprus), telephone banking, and mass payments through the Virtual Banking Branch. Further developments and functionalities were added to the Bank's internal reference system and to the credit module, in relation to changes in the rating model.

Our accumulated experience and the record of completed projects in the sphere of information technologies have enabled the Bank to standardize the processes for servicing of clients, while taking into account their specific needs and offering them improved products and services.

Corporate governance

To First Investment Bank 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.

Since 2006 Fibank has followed a Programme for the Implementation of Internationally Recognised Good Corporate Governance Standards consistent with the practices of the Organisation for Economic Cooperation and Development (OECD), the National Corporate Governance Code (the Code) and the regulatory requirements which the Bank reconsiders every year in terms of its adherence and effectiveness. 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.

During 2011 First Investment Bank undertook new steps for improving its corporate governance in compliance with the effective legislation and the newest European recommendations and best practices in this sphere.

During the year, with the support of International Finance Corporation (IFC) as an external consultant, Fibank restructured part of the key responsibilities and counteraction between the managing and supervisory bodies, which included strengthening of the role of the Supervisory Board as a body that exercises permanent and effective supervision over the activity of the Managing Board, aiming at attaining the Bank's strategic goals, and improving the efficiency of the business processes and of risk management. In this respect during the year amendments were made in Fibank's By-laws, giving the opportunity for the Supervisory Board to set up committees in order to support its activity.

In February 2012 three committees started functioning as auxiliary bodies to the Supervisory Board: the Presiding committee, Remuneration committee and Risk committee. The Presiding committee is primarily responsible for the supervision of the activities of the Managing Board in regards to important strategic decisions, including the issuance of new shares, bonds, hybrid instruments, and the adoption of programs and budgets in relation to the activity of the Bank. The Remuneration committee shall assist the Supervisory Board in overseeing the application of the Bank's remuneration policy and its further amendments as well as in any other matters regarding remunerations, in compliance with the regulatory requirements and best practices in this sphere. The Risk committee is responsible for supervision of the risk management activities of the Managing Board and for a broad strategic and tactical supervision of the activities of the risk management function within the Bank, including the approval of large risk exposures.

In accordance with the National Corporate Governance Code during 2011 Fibank further developed and supplemented its corporate web site with a special section regarding shareholders' rights. Since 2010 every year, together with its annual report and financial statements, the Bank has issued to the public a Card for the assessment of its corporate governance, which has been developed in support to public companies which have agreed to follow the Code.

Fibank`s corporate governance is a system with clearly defined functions, rights and responsibilities at all levels – the General Meeting of Shareholders (GMS), the Supervisory Board and its committees, the Managing Board, the Specialised Internal Audit Service, internal councils and committees 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. It sets the main business objectives of the Bank and the attainment strategy, elects and discharges members of the Managing Board, as well as approving the major strategic decisions of the Bank. In 2011 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 risk management systems.

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, the Credit Committee, the Liquidity Council, and the Operational Risk Committee, which carry out their activities on the basis of a 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 by-laws, to increase and reduce share capital, as well as 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 May 2011 a regular annual general meeting of shareholders of First Investment Bank was held, at which a decision was taken that the entire net profit of the Bank for 2010 shall be capitalized and that no dividends shall be paid, or any other deductions made from the profit for 2011. KPMG Bulgaria OOD was selected as a specialized auditing company, which will verify the annual financial statements for 2011. In June 2011 the first general meeting of bondholders was held for the issue of perpetual subordinated bonds of the Bank with a principal amount of EUR 20 million, issued under the conditions of a private placement. In October 2011 an extraordinary general meeting of shareholders was held, at which amendments were made to the By-laws of the Bank, new members of the Supervisory Board of Fibank were elected. In addition the total amount of remunerations of the members of the Managing Board and of the Supervisory Board was determined.

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 2011.

Human capital

The policy of First Investment Bank on personnel management is oriented towards achieving long-term correspondence between the personal goals of employees and those of the institution as a whole – the fulfillment of the objectives and strategy of Fibank, linking payment incentives with the sustainability of achieved results and the reliable management of risks, and the affirmation of the Bank as a preferred workplace for employees. It is based on the principles of transparency, the prevention of conflicts of interest, accountability, and objectivity.

In 2011, a new Remuneration Policy of Fibank was adopted in implementation of the Law on Credit Institutions and Ordinance No. 4 of the BNB on the Requirements for Remunerations in Banks. This Policy is consistent with the business strategy, objectives and values of the Bank, and is based on the effective management of risks. It is aimed at motivating employees to achieve high results at a moderate level of risk, and in accordance with the long-term interests of the Bank and its shareholders. The Policy sets out the main principles in the setting of remunerations – fixed and variable.

Variable remunerations are based on performance results and the targets achieved in the long term, using an evaluation based on financial (quantitative) and non-financial (qualitative) criteria. For certain categories of employees – senior management and other employees whose work significantly influences the risk profile of the Bank, the Policy establishes specific requirements for the distribution of variable remuneration: not less than 50% of it is to be provided in the form of financial instruments – i.e. shares and other instruments related to shares under Art. 3a of Ordinance No. 8 of the BNB. It also determines an appropriate retention period for these instruments, and deferral of part of the variable remuneration (at least 40%, and for persons under Art. 10 of the Law on Credit Institutions at least 60%) for a period of three to five years.

Chart 34: Number of staff

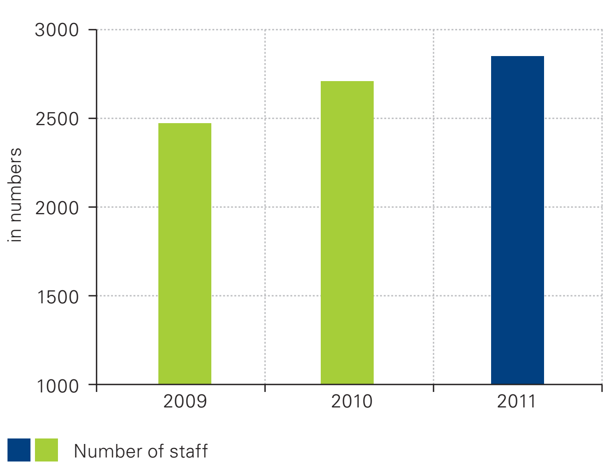
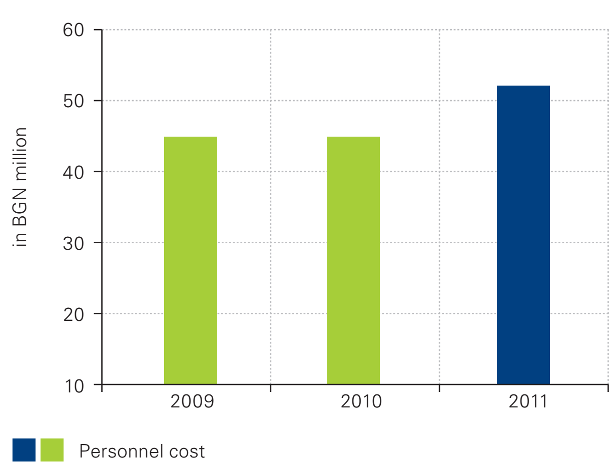


Chart 35: Personnel cost



Source: First Investment Bank

During the year, Fibank focused on motivating employees towards a higher contribution and the achievement of individual and corporate objectives through enhancing their personal and professional competencies in people management, customer service, and the offering of banking products and services. In this context, during the year a project named "A Matter of Development" was implemented under the Operational Program "Human Resources Development 2007-2013", in the course of which training was given to improve the key competencies of 366 employees of the Bank, divided into two key areas: for the development of managerial potential, and the improvement of customer service skills. Also implemented were training projects in Sofia and the country for the development and improvement of the employees' competencies in the areas of financial and credit analysis, cash activities, investment products, private banking, and customer service.

In 2011, 78% of the Bank's staff underwent various forms of training, compared to 47% in 2010, and 45% in 2009.

As at 31 December 2011, the number of staff reached 2838 employees on a consolidated basis (2010: 2690, 2009: 2486).

Charity

In 2011, investment in sport was placed at the centre of the program for corporate social responsibility of Fibank.

In January 2011 Fibank renewed its five-year partnership with the Bulgarian Olympic Committee (BOC), committing itself to continued support of the organization through conducting sports activities and events of the Committee as part of its general program for the period 2011-2012. This included the participation of Bulgarian athletes in the first Winter Youth Olympic Games in Innsbruck in 2012, as well as in the Olympic Games in London the same year. As part of its partnership with BOC, the Bank will continue to assist young talents in preparing for the European Youth Olympic Festivals, as well as in the organization of scientific conferences, art exhibitions, educational initiatives and other social programs of the Committee.

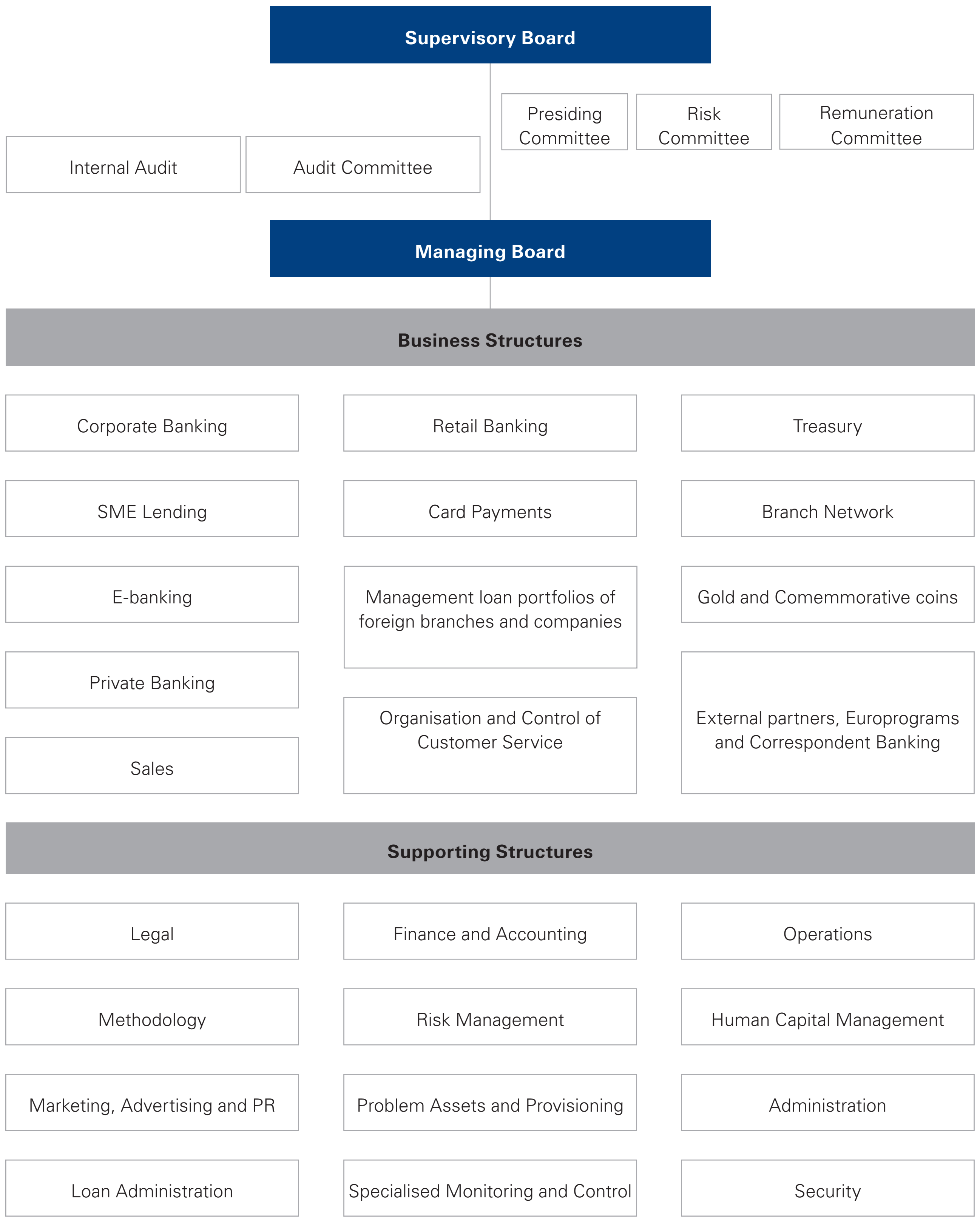
In February 2011, Fibank became the main sponsor of the Bulgarian Athletics Federation. As part of its partnership with the Federation during the year, First Investment Bank supported its activities related to the European Cup Winter Throwing in Sofia, the International Marathon (the largest road race in Bulgaria), the Balkan Championship for men and women in Sliven, and the European Indoor Championship in Paris.

As a general sponsor of the Bulgarian Ski Federation, First Investment Bank continued to support the efforts of Bulgarian athletes in skiing and snowboarding competitions. The Bank presented the award to the leader in the world rankings for bordercross and the world champion in ski jumping for juniors.

First Investment Bank has systematically and consistently carried out its social policy of supporting important social issues. In November 2011, the Bank and its longtime partner Workshop for Civic Initiatives worked together on a project designed to help children grow in conditions of poverty and domestic violence. Project funds are to be raised from sales of the new silver medal Your Guardian Angel, offered by Fibank in its capacity as an exclusive representative of the New Zealand Mint. The Bank also participated in charitable events related to the treatment of people with a disability.

The Bank's social program also supported gifted Bulgarian students in the international conference on mathematics Euromath.

Business structure



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

In October 2011 at an extraordinary general meeting of shareholders new members of the Supervisory Board of the Bank were elected – Ms. Maya Lubenova Georgieva, Mr. Jordan Velichkov Skortchev and Mr. Evgeni Krastev Lukanov, who will replace the former members Mr. Todor Ludmilov Breshkov, Mr. Nedelcho Vassilev Nedelchev and Mr. Kaloyan Yonchev Ninov effective from 24 January 2012. In February 2012 Mr. Evgeni Krastev Lukanov was elected Chairman of the Supervisory Board of the Bank, while Ms. Maya Lubenova Georgieva was elected Deputy Chair of the Supervisory Board of the Bank.

As at 31 December 2011 the members of the Supervisory Board held a total of 76,689 Fibank shares and none of them owned more than 1% of the issued share capital.

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

Managing board

Maya Lubenova Georgieva	Executive Director
Jordan Velichkov Skortchev	Executive Director
Evgeni Krastev Lukanov	Executive Director
Dimitar Kostov Kostov	Executive Director
Vassil Christov Christov	Executive Director
Svetoslav Stoyanov Moldovansky	Executive Director
Stanislav Ganev Bozhkov	Deputy Executive Director
Maya Ivanova Oyfalosh	Director Management of loan portfolios of foreign branches and companies Department

In May 2011 Mr. Stanislav Ganev Bozhkov was elected member of the Managing Board and Deputy Executive Director of the Bank. Previously, Mr. Bozhkov was director of the Specialized Internal Audit Service of the Bank, and has held management positions in the Methodology and Risk Management departments.

In December 2011 Mr. Dimitar Kostov Kostov, Mr. Vassil Christov Christov and Mr. Svetoslav Stoyanov Moldovansky were appointed as Executive Directors, entitled to manage and represent First Investment Bank AD. They were elected as members of the Managing Board of the Bank in 2010 and in January 2011 each one of them was reappointed as a Deputy Executive Director. In February 2012 Mr. Dimitar Kostov Kostov was elected Chairman of the Managing Board of the Bank.

In connection to the decision taken at the extraordinary general meeting of shareholders in October 2011 for election of new members of the Supervisory Board of Fibank, in January 2012 Ms. Maya Lubenova Georgieva, Mr. Jordan Velichkov Skortchev and Mr. Evgeni Krastev Lukanov were dismissed as Executive Directors and members of the Managing Board of the Bank.

As at 31 December 2011 the members of the Managing Board held a total of 223,278 Fibank shares and none of them owned more than 1% of the issued share capital.

In 2011 the key management personnel received remuneration amounting to BGN 6,611 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 2011 attracted funds from individuals increased by 23.1% (BGN 836,885 thousand) and amounted to BGN 4,458,512 thousand (2010: BGN 3,621,627 thousand; 2009: BGN 2,709,208 thousand). The increase was due to the growth of term deposits (23.3% or BGN 760,100 thousand), reaching BGN 4,028,187 thousand (2010: BGN 3,268,087 thousand; 2009: BGN 2,389,561 thousand) and retaining their structure-determining share of the attracted funds from individuals at 90.3% (2010: 90.2%; 2009: 88.2%).

Chart 36: Liabilities to individuals

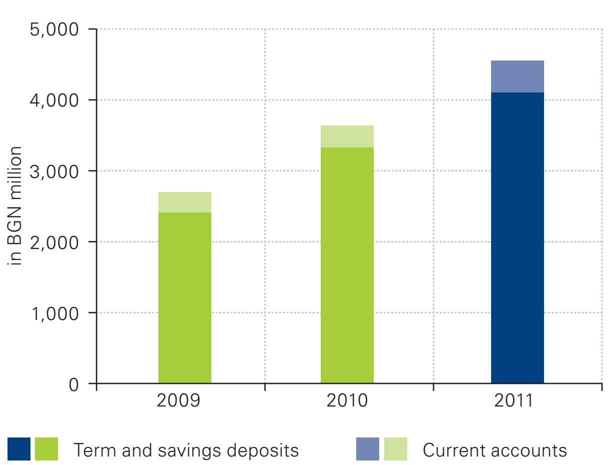
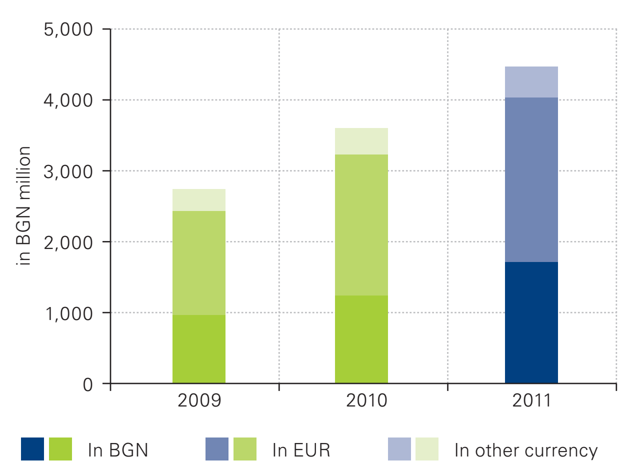


Chart 37: Liabilities to individuals by currency



Source: First Investment Bank

Fibank continued to adapt its varied and flexible deposit products to market conditions and to the needs of customers in accordance with the increased demand for low-risk saving instruments by individuals, with an accent on the maintenance of high standards of customer service. During the year the Bank started offering a new combined deposit "Portfolio" - a mixed investment product that combines a saving deposit along with an investment in a mutual fund. In 2001 Fibank – Albania offered a new "Fibank" deposit with flexible conditions for partial or full closing of the deposit without losing the interest up to the moment of contract termination.

As at the end of the period current accounts amounted to BGN 430,325 thousand or 21.7% (BGN 76,785 thousand) increase over the previous year (2010: BGN 353,540 thousand; 2009: BGN 319,647 thousand). Fibank offers different accounts including: "Optima" current account with a debit card; saving deposits under competitive terms consistent with the specific needs of particular customers like condominium accounts, notary accounts, accounts of insurance brokers and others.

In terms of deposits from individuals the Bank ranked second among banks in the country (2010: second place; 2009: third place). Market share increased to 13.68% on an unconsolidated basis (2010: 12.66%; 2009: 10.74%).

Evidence of the good results in 2011 can be seen in the Bank receiving the market share award at the annual bank awards of the "Bank of the Year" association. Fibank has achieved the highest performance ratio per unit of share capital, by attracting the largest amount of deposits from households and businesses in the country, and returning the greatest part of these funds in the Bulgarian economy.

Loans

The portfolio of loans to individuals increased by 7.2% to BGN 795,830 thousand (2010: BGN 742,674 thousand; 2009: BGN 737,917 thousand) resulting from the growth in consumer loans and utilized credit limits on credit cards and overdrafts.

Consumer loans grew by 19.5% to BGN 238,603 thousand compared to BGN 199,671 thousand a year earlier (2009: BGN 210,334 thousand) due to the facilitated application procedure and the competitive terms. The relative share of consumer loans marked an increase – up to 30.0% in the total loan portfolio of individuals (2010: 26.9%; 2009: 28.5%). Fibank's market share in this segment amounted to 4.66% (2010: 4.03%; 2009: 3.77%) and the Bank retained its market position – seventh place in terms of consumer loans among the banks in Bulgaria on an unconsolidated basis (2010: seventh place; 2009: seventh place).

Chart 38: Retail loans by business line

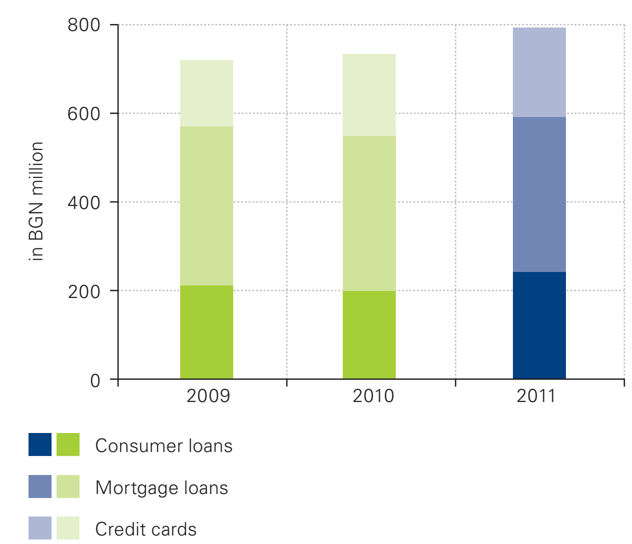
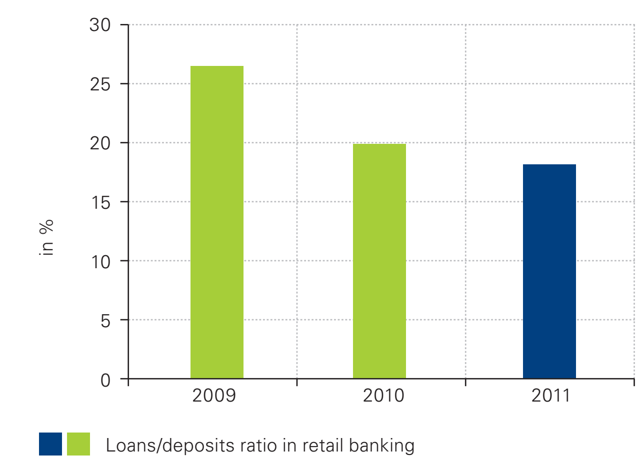


Chart 39: Loans/deposits ratio



Source: First Investment Bank

Two new consumer loans were offered during the year – the loan „For Excellent Students" of up to BGN 10,000 with a fixed interest rate for the first year and no loan application fee, as well as the „Christmas Loan" – with a maximum amount of up to BGN 10,000, a fixed interest rate for the first year and no prepayment and loan application fees.

Credit cards increased by 8.1% and reached BGN 202,495 thousand (2010: BGN 187,266 thousand; 2009: BGN 166,802 thousand). This was a reflection of the various and innovative card products and services offered by the Bank and the consistent policy of Fibank related to stimulating this type of non-cash payment. The relative share of loans utilized by means of credit cards was increased in the total loan portfolio of individuals to 25.4% (2010: 25.2%; 2009: 22.6%).

Mortgage loans reached BGN 354,732 thousand as at the end of December 2011 and remained almost unchanged compared to the levels as at the end of 2010 – BGN 355,737 thousand. These loans decreased their predominant share in the loan portfolio of individuals to 44.6% (2010: 47.9%; 2009: 48.9%). As at 31 December 2011 Fibank's market position in this market segment was retained – eighth place in terms of mortgage loans (2010: eighth place; 2009: eighth place) with a market share of 3.68% on an unconsolidated basis (2010: 3.74%; 2009: 4.02%).

The offering of a new mortgage loan "Advantage" was started in the reporting period with no commission for prepayment with own funds and the possibility for using a fixed interest for the first three years of the loan's term. In June 2011 a new mortgage loan "Chance" was offered for buying a property on public sale from public execution officers. At the end of the period a new mortgage loan "Home in the Present" was promoted giving the possibility to refund of 1% annual interest in case of regular payment of the amounts due and having a grace period of 12 months after each 5-year period of the loan's term after the first year.

Card payments

In 2011 First Investment Bank confirmed its leading position in the card business field, continuing its consistent policy for stimulating card payments and offering improved card products and services in accordance with best practices. The market share of the Bank increased to 16.49% in credit cards as at December 2011 on an unconsolidated basis (2010: 14.57%) and to 8.34% in debit cards (2010: 7.98%).

During the reporting period Fibank focused on the popularization of cards for contactless payments under the PayPass technology. These were first offered by the Bank at the end of 2010 including the development of POS terminals' network for this type of payments. In order to expand the segment of the offered card products during the year the Bank also worked on a new project for offering VISA contactless cards.

In 2011 Fibank developed its YES loyalty program which involved expanding the network of partner merchants throughout the country. More than 20,000 cards were issued to loyal customers of the Bank during the year and the partner's network on the program reached more than 460 outlets in Bulgaria. The YES program, which is the first entirely automated loyalty program introduced by a Bank in Bulgaria, is based on a special application on the FIBank-issued smart cards for individuals participating in the program (MasterCard YES and MasterCard PayPass credit cards and Maestro PayPass debit cards) which gives the cardholder the opportunity to receive/collect points, discounts and other rewards for every transaction made at a POS terminal of the Bank with a loyalty application installed.

Chart 40: Structure of credit cards

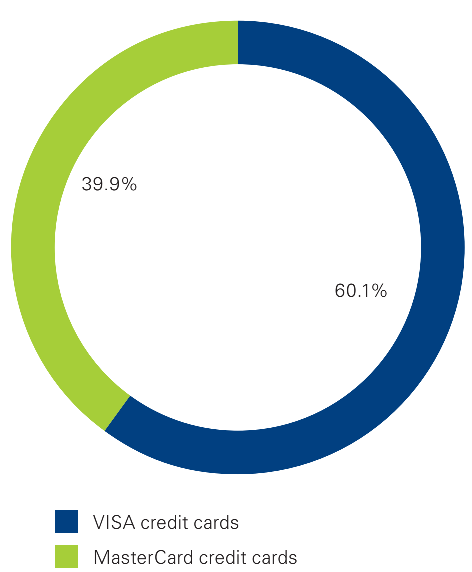
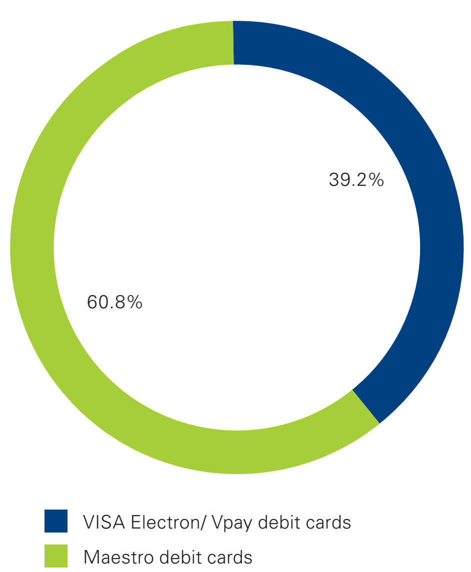


Chart 41: Structure of debit cards



Source: First Investment Bank

During the period the number of issued credit cards increased by 15.8% due to a growth in MasterCard cards, which formed 39.9% of all issued credit cards. During the year funds were allocated for the development of a new exclusive bank product in the premium segment – MasterCard World Elite - which combines a credit card with a high credit limit, prolonged interest-free grace period, additional services, personal attention and first-class servicing. The number of issued debit cards also grew by 8.1% as a result of an increase in VISA products (VISA Electron, VPAY) whose relative share reached 39.2% of all issued debit cards.

First Investment Bank continued to develop its terminal network and is actively working to raise their effectiveness. The POS terminal network was increased by more than 790 devices in the year to reach 9,560 while the number of ATM terminals stood at 678 devices compared to 673 devices a year earlier. During the period Fibank successfully realized a project for connecting the Banks' terminals to the merchant's cash machine.

In 2011 Fibank – Albania offered a new credit card with a preliminary approved limit for students studying in Albanian private universities.

During 2011 Diners Club Bulgaria AD continued to develop its services. The company started offering SMS notifications and e-mail statements, which will help cardholders in using credit cards. With the aim of reaching a larger number of internet traders, a new service was developed for PayPal registration with Diners Club cards. The company continued to work on the introduction of EMV compliant chip technology to ensure greater safety and implement new functionalities.

Gold and commemorative coins

In 2011, First Investment Bank maintained its leading position among commercial banks in the country related to consultations and deals with investment gold and other precious metals. Fibank has already established a successful cooperation with many leading financial institutions worldwide - 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. The Bank is the first and only bank in Bulgaria that offers the sale and redemption of investment diamonds.

During the year Fibank extended its set of offered products with new coins, bars, medals and medallions. The distribution of a new gold investment coin from the New Zealand Mint was started at the beginning of 2011.

For customers who prefer a luxury collection series, in April 2011 the Bank proposed two new series of six gold bars "Golden Rush" and twenty silver coins "Muses" of the highest proof, manufactured at the prestigious Swiss mint PAMP, for which Fibank is the official representative for Bulgaria.

In September 2011 the offering of a new collection series of silver coins "Pirates Of The Caribbean" was started. A new silver medal "Your Guardian Angel" with a massive two-folded gilt was offered in November 2011. It was created from an idea of First Investment Bank and designed and manufactured by the New Zealand Mint. Part of the price of each medal sold is to be donated to charity.

At the end the year the offering of two new silver coins was started including golden and silver bars dedicated to the Year of the Dragon 2012.

Chart 42: Income from the sale of gold

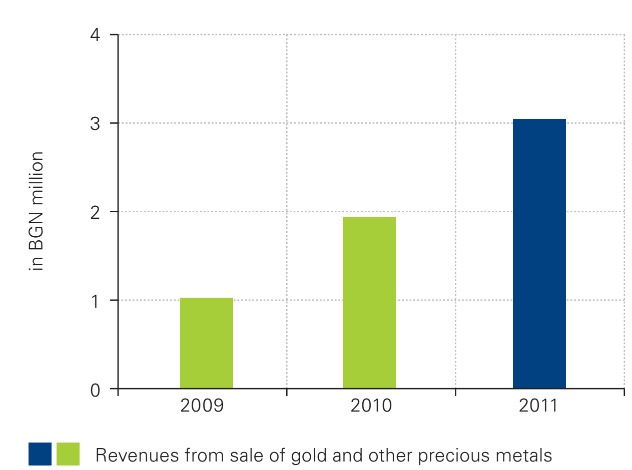
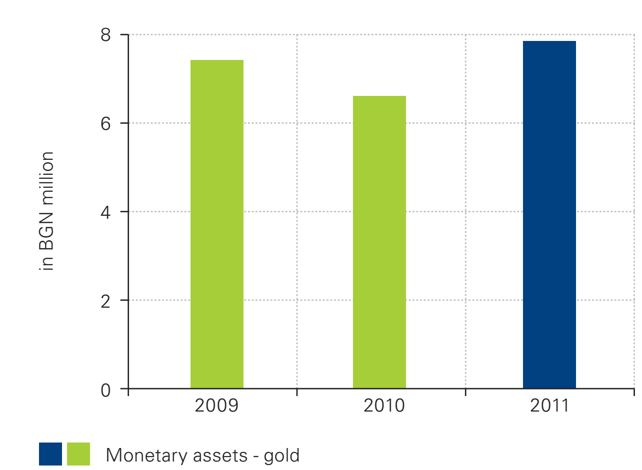


Chart 43: Monetary assets – gold



Source: First Investment Bank

In 2011, revenues from the sale of investment gold and other precious metals articles increased reaching BGN 3,167 thousand compared to BGN 1,854 thousand a year earlier.

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

Private banking

First Investment Bank has successfully offered private banking for individuals since 2003 and for corporate customers since 2005. Private banking gives the opportunity for 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: 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.

During the year efforts were made for an extension of the offering channels and the scope of the services offered by private banking, including offices outside Sofia.

Corporate banking

Deposits

Attracted funds from corporate, state-owned and public institutions increased by 40.0% (BGN 265 732 thousand) to BGN 929,798 thousand compared to BGN 664,066 thousand (2009: BGN 630,338 thousand) a year earlier.

The relative share of term deposits in the structure of funds attracted from corporate customers showed an increase – up to 66.0% or BGN 613,782 thousand (2010: 60.3% or BGN 400,651 thousand; 2009: 52.6% or BGN 331,327 thousand). Current accounts also increased by 20.0% (52,601 thousand) to BGN 316,016 thousand (2010: BGN 263,415 thousand; 2009: BGN 299,011 thousand), but their relative share decreased to 34.0% of attracted funds from corporate, state-owned and public institutions (2010: 39.7%; 2009: 47.4%).

As at 31 December 2011 the funds of the thirty largest non-bank depositors represented 5.62% of total deposits from other customers (2010: 4.59%; 2009: 6.52%).

Loans

Corporate lending

In 2011 the portfolio of loans granted to corporate customers increased by 26.9% (BGN 746,983 thousand) and reached BGN 3,519,229 thousand (2010: BGN 2,772,246 thousand; 2009: BGN 2,301,746 thousand) as a result of a growth of loans to large corporate customers which reached BGN 3,224,455 thousand (2010: BGN 2,505,101 thousand; 2009: BGN 2,053,237 thousand). The Bank provides varied financing to its corporate customers including working capital loans, investment loans, guarantees etc.

The market share of the Bank in regard to this indicator grew to 9.66% of corporate loans in the banking system (2010: 8.09%; 2009: 7.00%) and the competitive market position of Fibank improved to third place (2010: fourth place; 2009: fifth place) among banks in the country on an unconsolidated basis.

Loans to large corporate customers increased their predominant share in the corporate loan portfolio of the Group – up to 91.6% at the end of the year (2010: 90.4%; 2009: 89.2%), at the expense of loans to small and medium enterprises which decreased their share to 7.6% (2010: 8.6%; 2009: 9.5%) and microlending to 0.8% (2010: 1.0%; 2009: 1.3%).

Table 13: Corporate loans

in BGN thousand / % of total	**2011**	%	2010	%	2009	%
Corporate customers	3,224,455	91.6	2,505,101	90.4	2,053,237	89.2
Small and medium enterprises	268,162	7.6	240,128	8.6	219,053	9.5
Microlending	26,612	0.8	27,017	1.0	29,456	1.3
Total corporate loans	**3,519,229**	**100**	**2,772,246**	**100**	**2,301,746**	**100**

Source: First Investment Bank

During the year the biggest growth was in loans to industry, by 69.2% (BGN 462,224 thousand) to BGN 1,130,651 thousand (2010: BGN 668,427 thousand; 2009: BGN 652,808 thousand). The Bank continued to support sound projects in accordance with the necessities of the business for financing with risk assessment and return. The loans in this sector increased their predominant share to 26.2% of the total Group's loans (2010: 19.0%; 2009: 21.5%).

Chart 44: Corporate portfolio

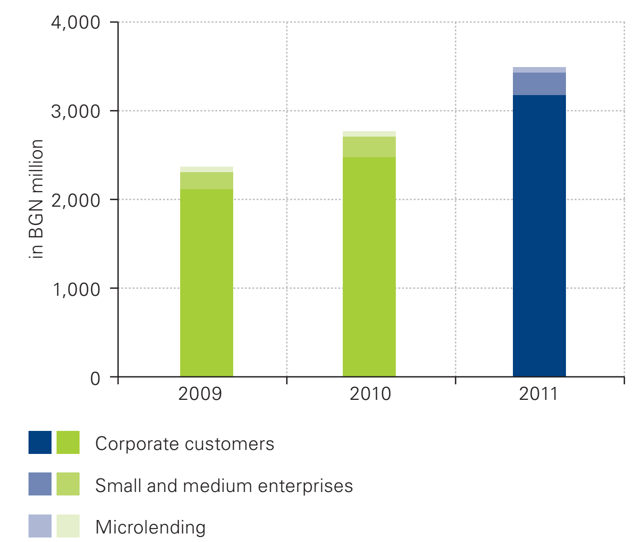
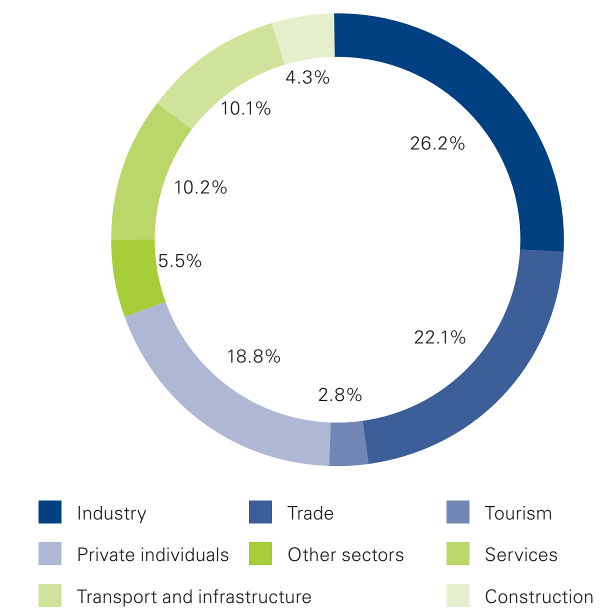


Chart 45: Loan portfolio by industry



Source: First Investment Bank

Loans in the sector of services grew by 86.6% (BGN 205,338 thousand) and reached BGN 442,324 thousand (2010: BGN 236,986 thousand; 2009: BGN 171,282 thousand) increasing their share in the Group's portfolio to 10.3% compared to 6.7% a year earlier (2009: 5.6%). Loans in the sector of trade increased by 7.0% (BGN 62,160 thousand) to BGN 953,599 thousand (2010: BGN 891,439 thousand; 2009: BGN 758,855 thousand) sustained mainly by the successful development of export-oriented companies. An increase was registered in almost all economic sectors including the sectors of transport and infrastructure – by 8.8% to BGN 434,396 thousand (2010: BGN 399,248 thousand; 2009: BGN 283,408 thousand), the sector of communications – by 49.0% to BGN 56,632 thousand (2010: BGN 38,018 thousand; 2009: BGN 31,580 thousand), in the sector of construction – by 7.0% to BGN 183,957 thousand (2010: BGN 170,447 thousand; 2009: BGN 143,110 thousand), in the sector of agriculture – by 14.9% to BGN 85,503 thousand (2010: BGN 74,408 thousand; 2009: BGN 71,192 thousand) as well as in the finance sector – by 166.1% up to BGN 82,315 thousand (2010: BGN 30,931 thousand; 2009: BGN 13,295 thousand).

SME Lending

In 2011 loans to small and medium enterprises grew by 11.7% and reached BGN 268,162 thousand by the end of the period compared to BGN 240,128 thousand a year earlier (2009: BGN 219,053 thousand). During the reporting period two new mortgage products with facilitated procedure were worked out – the mortgage business overdraft (for working capital) and mortgage business loan (for working capital and investment goals). The offering of a new "Super Loan" was started for micro and small and medium enterprises at the amount of EUR 500,000 thousand with a possibility for using an overdraft for the first year of the loan's term.

Chart 46: SME loans

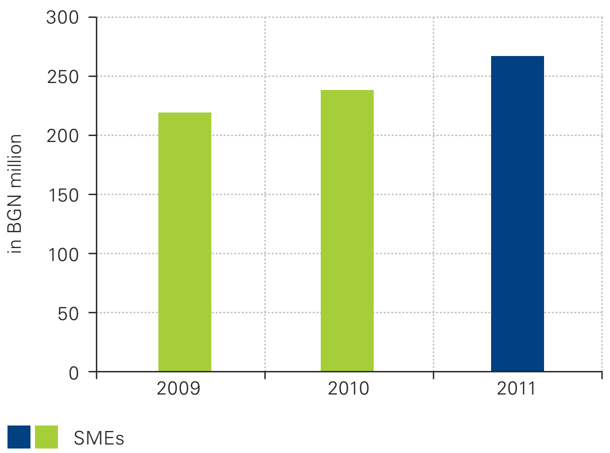
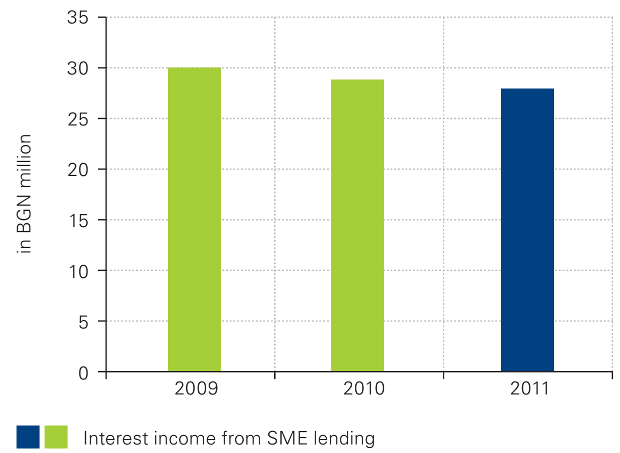


Chart 47: Interest income from SME lending



Source: First Investment Bank

In financing SMEs the Bank has a successful cooperation using guarantee schemes of the National Guarantee Fund, the Bulgarian Agency for Export Insurance and the Municipal Guarantee Fund of Sofia Municipality. Through its flexible financing Fibank also actively supports companies/beneficiaries under programs for the utilization of funds from the European structural and cohesion funds.

Microlending

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

Chart 48: Microlending

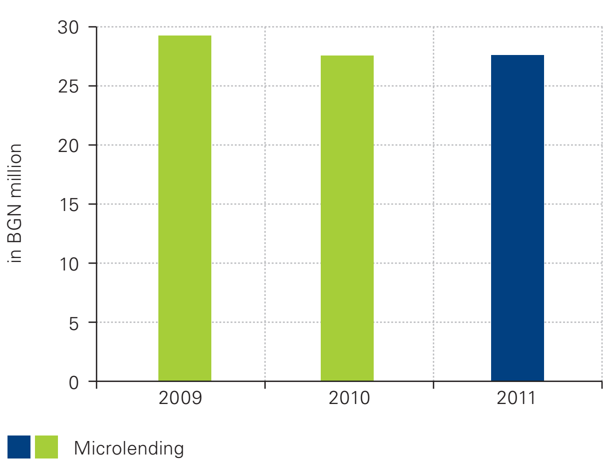
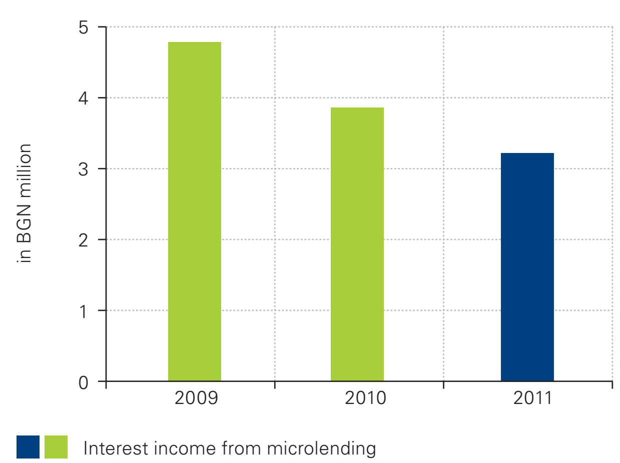


Chart 49: Interest income from microlending



Source: First Investment Bank

During the year the microlending loan portfolio slightly decreased to BGN 26,612 thousand (2010: BGN 27,017 thousand; 2009: BGN 29,456 thousand) in accordance with the tendency of the last years and raised requirements in relation to credit risk and creditworthiness specific for this segment.

Europrograms

In 2011, the Bank created a new External Partners, European Programs and Correspondent Banking Department for the purpose of development services in financing and the management of projects under European programs, including providing of clients with full administrative and financial support at each stage of the project cycle.

In this connection, at the end of the year, a new service Full Support was introduced for integrated customer assistance in the utilization of resources from European funds. It includes preliminary research of the administrative and financial eligibility of the project idea, providing expert assistance in the development and implementation of the project, and full servicing of the implementation phase following approval.

In order to provide additional security to the beneficiaries and more active participation of small and medium companies in the process of the absorption of European funds, Fibank was among the first banks to provide letters of intent for the funding of projects approved for grants.

The Bank offers a wide range of products and services related to the utilization of funds under the Operational Program Competitiveness of the Bulgarian Economy, the Program for Rural Development and others, including investment loans for the overall implementation of projects, bridge financing to the amount of the approved financial assistance, issuance of bank guarantees to secure advance payments of approved grant amounts, and other banking products specifically tailored to cover customer needs.

Fibank also actively monitors opportunities for the participation of the Bank and its customers in other European programs and initiatives, including those related to the instruments proposed under the initiatives Jeremie, Jessica, and other donor programs available to Bulgaria.

Payment services

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 that of the European Community in regards to Payment Services Directive and reflects contemporary European tendencies in the establishment of the single European market for payment services.

In 2011 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

International payments

First Investment Bank is among the leading banks in Bulgaria in the sphere of international payments and trade financing. Fibank is a popular, reliable and correct business partner which has built a good reputation during the years among international financial institutions and has gained valuable experience and know-how from its numerous international business partners, investors, customers and contractors.

In 2011 the Bank reported better market shares in international transfers in foreign currency (as per SWIFT's data) at 5.93% of outgoing transfers (2010: 5.75%) and 8.11% of incoming transfers (2010: 7.43%). A measure of the good results in this sphere were the two prizes awarded to Fibank by Deutsche Bank and Commerzbank during the period for exceptional quality and for meeting global standards in international payments which the Bank receives for a second year in a row.

During the year Fibank negotiated increasing a credit line granted by International Finance Corporation (IFC) for a guarantee of trade finance transactions of up to USD 40 millions, of which USD 20 millions were granted for deals of up to two years and USD 20 millions for deals up to one year. As at 31 December 2011 the Bank carried out 7.54% of the outgoing transactions (2010: 9.94%) and 9.17% of the incoming transactions (2010: 9.77%) on trade finance as per SWIFT data. Evidence of the development and the experience of the Bank in this area was the international recognition received from IFC as the most active bank in the trade finance sphere in Southeast Europe.

In December 2011 Fibank signed a framework agreement with Eximbank Taiwan for granting loans meant to effect shipments of goods from Taiwan. The agreement provides financing terms from 6 months to 5 years for deliveries of non-consumer goods from Taiwan and from 6 to 12 months for consumer goods. During 2009 First Investment Bank was the first Bulgarian bank to conclude a long-term banking partnership agreement with Eximbank China (The Export-Import Bank of China).

Chart 50: Letters of credit

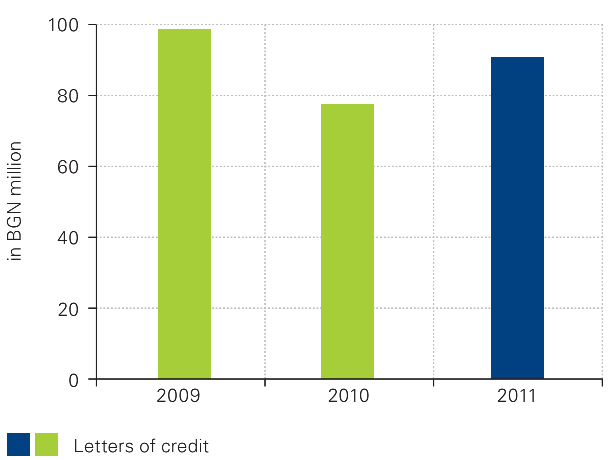
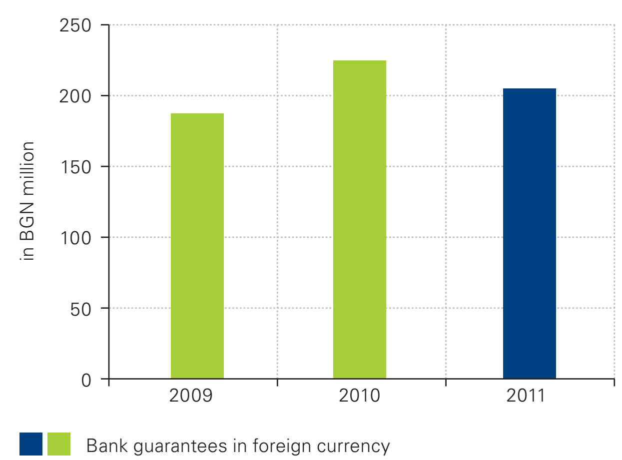


Chart 51: Bank guarantees in foreign currency



Source: First Investment Bank

During the reporting period the letters of credit and bank guarantees in foreign currency issued by Fibank to guarantee the performance of customers to third parties amounted to BGN 293,881 thousand (2010: BGN 298,991 thousand; 2009: BGN 283,947 thousand) forming 35.3% of the Group's off-balance sheet commitments (2010: 41.9%; 2009: 37.7%). Fibank maintains a wide network of correspondent banks and services international bank guarantees and letters of credit in almost every part of the world.

Capital markets

In 2011 the net trading income of the Group increased and reached BGN 11,294 thousand (2010: BGN 8,752 thousand; 2009: BGN 10,321 thousand) mainly as a result of the increased net trading gains from debt instruments.

The portfolio of financial instruments as at the end of the year reached BGN 738 470 thousand compared to BGN 789,148 thousand a year earlier (2009: BGN 329,558 thousand) of which available for sale investments were BGN 663,925 thousand (2010: BGN 715,405 thousand; 2009: BGN 285,110 thousand), financial assets held for trading were BGN 8,659 thousand (2010: BGN 16,641 thousand; 2009: BGN 9,023 thousand) and financial assets held to maturity were BGN 65,886 thousand (2010: BGN 57,102 thousand; 2009: BGN 35,425 thousand).

Chart 52: Net trading income

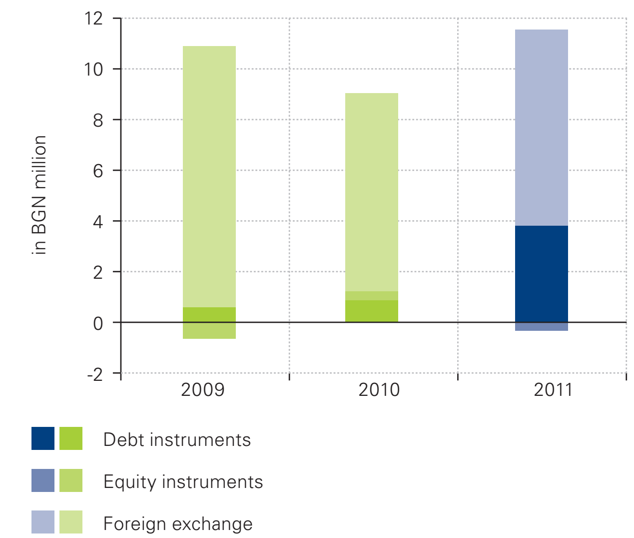
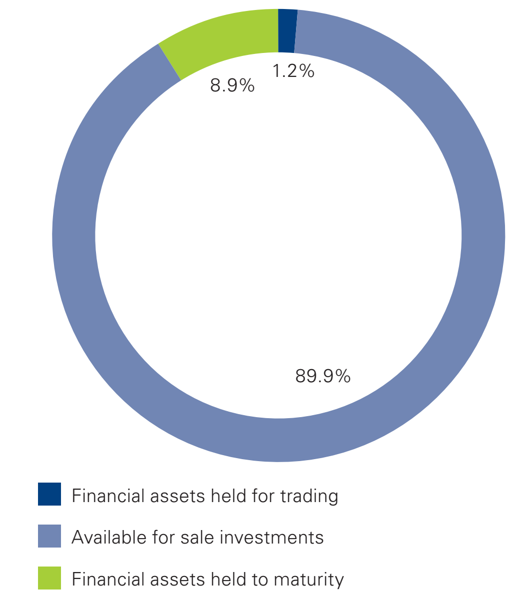


Chart 53: Portfolio of financial instruments



Source: First Investment Bank

During the year a new "Asset Management" unit was established aimed at the development of investment banking services including trust portfolio management and investment consultation. At the end of 2012 the entire activity related to investment services on local and foreign markets was developed into a new unified structure – the Treasury Department. During the period resources and efforts were spared for the development of services related to the Bank's activities as a registration agent.

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 regulations in accordance with the Markets in Financial Instruments Act and Ordinance №38 of the Financial Supervision Commission, which ensures 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.

Orders for the subscription/redemption of units in four mutual funds (FIB Garant Mutual Fund, FIB Classic Mutual Fund, FIB Avangard Mutual Fund and FIB Vostok Mutual Fund, managed by the Management company FFBH Asset Management AD) can be accepted in Fibank's offices which are registered with the Financial Supervision Commission.

Events after the reporting period

- In January 2012 Ms. Maya Lubenova Georgieva, Mr. Jordan Velichkov Skortchev and Mr. Evgeni Krastev Lukanov were dismissed as Executive Directors and members of the Managing Board of the Bank. In February 2012 they were registered as members of the Supervisory Board of the Bank. Mr. Evgeni Krastev Lukanov was elected Chairman of the Supervisory Board of the Bank, while Ms. Maya Lubenova Georgieva was elected Deputy Chair of the Supervisory Board of the Bank.
- During March 2012 the international rating agency Fitch Ratings removed the watch rating action placed on Fibank, by confirming the Bank's ratings as follows: long-term rating „BB-" with a stable outlook, short-term rating „B", support rating „3" and support rating floor „BB-". Viability rating was changed from „b+" to „b".

CONSOLIDATED FINANCIAL STATEMENTS

as at 31 December 2011

WITH INDEPENDENT AUDITOR'S REPORT THEREON

KPMG

Independent Auditors' Report

To the shareholders of First Investment Bank AD

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 2011, 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 Consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Bank's preparation and fair presentation of the consolidated 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 Bank'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 consolidated 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 the Bank as at 31 December 2011, 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 representative
KPMG Bulgaria OOD
Sofia, 27 March 2012

Krassimir Hadjidinev
Registered auditor

Consolidated statement of comprehensive income for the year ended 31 December 2011

In thousands of BGN

	Note	2011	2010
Interest income		440,803	397,790
Interest expense		(278,814)	(259,936)
Net interest income	**6**	**161,989**	**137,854**
Fee and commission income		80,758	63,976
Fee and commission expense		(8,430)	(8,053)
Net fee and commission income	**7**	**72,328**	**55,923**
Net trading income	**8**	**11,294**	**8,752**
Other operating income/(expenses)	**9**	**(2,139)**	**4,447**
TOTAL INCOME FROM BANKING OPERATIONS		**243,472**	**206,976**
General administrative expenses	10	(157,926)	(144,568)
Impairment losses	11	(35,263)	(27,099)
Other expenses, net		(10,224)	(3,993)
PROFIT BEFORE TAX		**40,059**	**31,316**
Income tax expense	**12**	**(4,097)**	**(3,465)**
GROUP PROFIT AFTER TAX		**35,962**	**27,851**
Other comprehensive income			
Exchange differences on translating foreign operations		34	(105)
Available for sale financial assets		842	118
Other comprehensive income for the period		**876**	**13**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**36,838**	**27,864**
Profit attributable to:			
Owners of the Bank		35,864	27,958
Non-controlling interests		98	(107)
Total comprehensive income attributable to:			
Owners of the Bank		36,740	27,971
Non-controlling interests		98	(107)
Basic and diluted earnings per share (in BGN)	**13**	**0.33**	**0.25**

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 68 to 106.

Dimitar Kostov
Executive Director
Chairman of the Managing Board

Svetoslav Moldovansky
Executive Director

Tzvetelinka Koleva
Authorized representative
KPMG Bulgaria OOD

Vassil Christov
Executive Director

Ianko Karakolev
Chief Financial Officer

Krassimir Hadjidinev
Registered auditor

ПЪРВА ИНВЕСТИЦИОННА БАНКА АД • СОФИЯ •

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

Consolidated statement of financial position as at 31 December 2011

In thousands of BGN

	Note	2011	2010
ASSETS			
Cash and balances with central banks	14	926,394	556,861
Financial assets held for trading	15	8,659	16,641
Available for sale investments	16	663,925	715,405
Financial assets held to maturity	17	65,886	57,102
Loans and advances to banks and financial institutions	18	100,427	21,736
Loans and advances to customers	19	4,182,236	3,417,094
Property and equipment	20	119,242	128,563
Intangible assets	21	19,074	20,997
Current tax assets		4,560	6,513
Other assets	23	84,049	57,864
TOTAL ASSETS		**6,174,452**	**4,998,776**
LIABILITIES AND CAPITAL			
Due to credit institutions	24	1,782	8,826
Due to other customers	25	5,388,310	4,285,693
Liabilities evidenced by paper	26	112,306	116,725
Subordinated term debt	27	50,596	47,169
Perpetual debt	28	99,376	99,201
Hybrid debt	29	42,800	–
Deferred tax liability	22	3,636	3,248
Derivative liabilities held for risk management		358	247
Current tax liabilities		368	1,080
Other liabilities	30	4,918	3,412
TOTAL LIABILITIES		**5,704,450**	**4,565,601**
Issued share capital	32	110,000	110,000
Share premium	32	97,000	97,000
Statutory reserve	32	39,861	39,861
Revaluation reserve on available for sale investments		814	(28)
Reserve from translation of foreign operations		(2,700)	(2,734)
Retained earnings		222,751	186,799
SHAREHOLDERS' EQUITY		**467,726**	**430,898**
Non-controlling interests		2,276	2,277
TOTAL GROUP EQUITY		**470,002**	**433,175**
TOTAL LIABILITIES AND GROUP EQUITY		**6,174,452**	**4,998,776**

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 68 to 106.

Dimitar Kostov
Executive Director
Chairman of the Managing Board

Svetoslav Moldovansky
Executive Director

Tzvetelinka Koleva
Authorized representative
KPMG Bulgaria OOD

Vassil Christov
Executive Director

Ianko Karakolev
Chief Financial Officer

Krassimir Hadjidinev
Registered auditor

ПЪРВА ИНВЕСТИЦИОННА БАНКА АД • СОФИЯ •

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

Consolidated statement of cash flows for the year ended 31 December 2011

In thousands of BGN

	2011	2010
Net cash flow from operating activities		
Profit for the period	35,962	27,851
Adjustment for non-cash items		
Impairment losses, loans to customers	35,263	27,099
Depreciation and amortisation	22,043	21,421
Income tax expense	4,097	3,465
(Profit)/loss from sale and derecognition of tangible and intangible fixed assets, net	60	(4,216)
	97,425	**75,620**
Change in operating assets		
(Increase)/decrease in financial instruments held for trading	7,982	(7,618)
(Increase)/decrease in available for sale investments	52,322	(430,177)
(Increase) in loans and advances to banks and financial institutions	(20,432)	(421)
(Increase) in loans to customers	(800,405)	(477,732)
(Increase) in other assets	(24,232)	(28,427)
	(784,765)	**(944,375)**
Change in operating liabilities		
Increase/(decrease) in deposits from banks	(7,044)	1,176
Increase in amounts owed to other depositors	1,102,617	946,147
Net (decrease) in other liabilities	(1,455)	(1,532)
	1,094,118	**945,791**
Income tax paid	(1,310)	(3,148)
NET CASH FLOW FROM OPERATING ACTIVITIES	**405,468**	**73,888**
Cash flow from investing activities		
(Purchase) of tangible and intangible fixed assets	(10,890)	(21,593)
Sale of tangible and intangible fixed assets	31	5,164
(Increase) of investments	(8,784)	(21,677)
Acquisition of subsidiaries, net of cash received	(16)	2,276
NET CASH FLOW FROM INVESTING ACTIVITIES	**(19,659)**	**(35,830)**
Financing activities		
Increase/(decrease) in borrowings	41,983	(89,861)
NET CASH FLOW FROM FINANCING ACTIVITIES	**41,983**	**(89,861)**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**427,792**	**(51,803)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	**560,281**	**612,084**
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD (see note 34)	**988,073**	**560,281**

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 68 to 106.

Dimitar Kostov
Executive Director
Chairman of the Managing Board

Svetoslav Moldovansky
Executive Director

Tzvetelinka Koleva
Authorized representative
KPMG Bulgaria OOD

Vassil Christov
Executive Director

Ianko Karakolev
Chief Financial Officer

Krassimir Hadjidinev
Registered auditor

Consolidated statement of changes in equity for the year ended 31 December 2011

In thousands of BGN

	Share capital	Share pre-mium	Retained earnings	Revaluation reserve on available for sale invest-ments	Reserve from translation of foreign operations	Statu-tory reserve	Non-controlling interests	Total
Balance as at 1 January 2010	**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)
Transaction with owners recognised directly in equity								
Acquisition of subsidiaries	–	–	(16)	–	–	–	2,292	2,276
Balance as at 31 December 2010	**110,000**	**97,000**	**186,799**	**(28)**	**(2,734)**	**39,861**	**2,277**	**433,175**
Total comprehensive income								
Profit for the year ended 31 December 2011	–	–	35,864	–	–	–	98	35,962
Other comprehensive income								
Revaluation reserve on available for sale investments	–	–	–	842	–	–	–	842
Reserve from translation of foreign operations	–	–	–	–	34	–	–	34
Transaction with owners recognised directly in equity								
Acquisition of subsidiaries	–	–	88	–	–	–	(99)	(11)
Balance as at 31 December 2011	**110,000**	**97,000**	**222,751**	**814**	**(2,700)**	**39,861**	**2,276**	**470,002**

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 68 to 106.

The financial statements have been approved by the Managing Board on 26 March 2012 and signed on its behalf by:

Dimitar Kostov
Executive Director
Chairman of the Managing Board

Svetoslav Moldovansky
Executive Director

Tzvetelinka Koleva
Authorized representative
KPMG Bulgaria OOD

Vassil Christov
Executive Director

Ianko Karakolev
Chief Financial Officer

Krassimir Hadjidinev
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 2011 comprise the Bank and its subsidiaries (see note 37), 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

Transactions in foreign currencies are translated into the respective functional currencies of the operations at the spot exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date. Foreign currency differences arising on translation are difference between amortised cost in functional currency in the beginning of period, adjusted with effective interest and received payments during the period, and amortised cost in foreign currency at the spot exchange rate at the reporting date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined.

(iii) Foreign operations

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

(d) Financial assets

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

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

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

(ii) Loans and receivables

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

(iii) Held-to-maturity

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

(iv) Available-for-sale

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

(v) Recognition

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

(vi) Measurement

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

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

(vii) Fair value measurement

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

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

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

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss depending on the individual facts and circumstances of the transaction but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

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

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

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

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

in thousands of BGN

31 December 2011	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets held for trading	8,659	–	–	8,659
Available for sale investments	630,453	26,934	6,538	663,925
Derivatives held for risk management	–	(358)	–	(358)
Total	**639,112**	**26,576**	**6,538**	**672,226**

in thousands of BGN

31 December 2010	**Level 1**	**Level 2**	**Level 3**	**Total**
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	**688,475**	**37,305**	**6,019**	**731,799**

(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.

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(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

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is removed from equity and recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

If, in a subsequent period, the fair value of a financial instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. Any subsequent increase in the fair value of impaired equity security, available for sale, is recognized directly in the comprehensive income.

(k) Property, plant and equipment

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

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

Assets	%
• Buildings	3 – 4
• Equipment	10 – 33
• Fixtures and fittings	10 – 15
• 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, trademarks	15 – 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.

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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 2011, 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.

Standards, Interpretations and amendments to published Standards that are not yet effective and have not been early adopted – endorsed by the European Commission

- Amendments to IFRS 7 *Disclosures – Transfers of Financial Assets* (issued October 2010) – effective from the first financial year that starts after 1 July 2011.

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

Management believes that it is appropriate to disclose that the following new or 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 consolidated financial statements. The actual effective dates for them will depend on the endorsement decision by the European commission.

- IFRS 9 *Financial Instruments* (issued November 2009) and Additions to IFRS 9 (issued October 2010) has an effective date 1 January 2015 and could change the classification and measurement of financial instruments.
- In May 2011 the IASB issued IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint arrangements*, IFRS 12 *Disclosures of Interests in Other Entities* and IFRS 13 *Fair Value Measurement*, which all have an effective date of 1 January 2013. The IASB also issued IAS 27 *Separate Financial Statements* (2011) which supersedes IAS 27 (2008) and IAS 28 *Investments in Associates and Joint Ventures* (2011) which supersedes IAS 28 (2008). All of these standards have an effective date of 1 January 2013.

- Amendments to IAS 12 Deferred Tax: *Recovery of Underlying Assets* (issued December 2010) has an effective date 1 January 2012.
- 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.
- In June 2011 the IASB issued *Presentation of Items of Other Comprehensive Income* (Amendments to IAS 1) with an effective date of 1 July 2012.
- In June 2011 the IASB issued an amended IAS 19 *Employee Benefits* with an effective date of 1 January 2013.
- In December 2011 the IASB issued amendments to IFRS 7 *Disclosures – Offsetting Financial Assets and Financial Liabilities* with an effective date of 1 January 2013.
- In December 2011 the IASB issued amendments to IAS 32 *Offsetting Financial Assets and Financial Liabilities* with an effective date of 1 January 2014.
- IFRIC Interpretation 20: *Stripping Costs in the Production Phase of a Surface Mine* with an effective date of 1 January 2013.

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.

(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 2011:

in thousands of BGN	31 December 2011	Twelve months ended 31 December 2011			31 December 2010
		average	low	high	
VaR	243	380	238	608	538

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 2011

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	926,394	–	–	–	–	**926,394**
Financial assets held for trading	–	–	–	5,523	3,136	**8,659**
Available for sale investments	234,775	201,444	89,152	132,016	6,538	**663,925**
Financial assets held to maturity	–	–	1,796	64,090	–	**65,886**
Loans and advances to banks and financial institutions	74,362	–	17,404	8,661	–	**100,427**
Loans and advances to customers	293,894	297,741	1,011,165	2 ,579, 436	–	**4,182,236**
Total financial assets	**1,529,425**	**499,185**	**1,119,517**	**2,789,726**	**9,674**	**5,947,527**
Liabilities						
Due to credit institutions	1,782	–	–	–	–	**1,782**
Due to other customers	1,336,818	1,028,593	2,536,795	486,104	–	**5,388,310**
Liabilities evidenced by paper	24,094	51,835	4,261	32,116	–	**112,306**
Subordinated term debt	–	–	–	50,596	–	**50,596**
Perpetual debt	–	–	–	–	99,376	**99,376**
Hybrid debt	–	–	–	–	42,800	**42,800**
Other financial liabilities	358	–	–	–	–	**358**
Total financial liabilities	**1,363,052**	**1,080,428**	**2,541,056**	**568,816**	**142,176**	**5,695,528**
Net liquidity gap	**166,373**	**(581,243)**	**(1,421,539)**	**2,220,910**	**(132,502)**	**251,999**

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**

As at 31 December 2011 the funds by the thirty largest non-bank depositors represent 5.62% of total deposits from other customers (2010: 4.59%).

The following table provides a remaining maturities analysis of the financial liabilities of the Group as at 31 December 2011 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	1,782	–	–	–	**1,782**
Due to other customers	1,338,318	1,039,220	2,634,754	546,205	**5,558,497**
Liabilities evidenced by paper	24,125	52,107	4,345	35,144	**115,721**
Subordinated term debt	337	334	2,703	72,604	**75,978**
Perpetual debt	–	4,851	6,798	135,915	**147,564**
Hybrid debt	–	–	5,630	59,066	**64,696**
Other financial liabilities	358	–	–	–	**358**
Total financial liabilities	**1,364,920**	**1,096,512**	**2,654,230**	**848,934**	**5,964,596**

(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 2011 is BGN +1.0/-1.0 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 2011 is BGN +2.2/-2.2 Mio.

The following table indicates the effective interest rates at 31 December 2011 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	**155,920**	0.24%	75,318	80,602	–	–	–
Financial assets held for trading	**5,523**	4.61%	–	–	–	–	5,523
Available for sale investments	**657,387**	1.61%	32,828	234,775	201,444	89,152	99,188
Financial assets held to maturity	**65,886**	5.58%	–	–	–	1,796	64,090
Loans and advances to banks and financial institutions	**97,802**	2.01%	374	71,363	–	17,404	8,661
Loans and advances to customers	**3,979,089**	11.62%	3,439,308	74,695	20,847	124,267	319,972
Non-interest earning assets	**1,212,845**	–	–	–	–	–	–
Total assets	**6,174,452**	–	**3,547,828**	**461,435**	**222,291**	**232,619**	**497,434**
Liabilities							
Due to credit institutions	**1,782**	0.29%	1,740	42	–	–	–
Due to other customers	**5,385,493**	5.41%	750,243	583,758	1,028,593	2,536,795	486,104
Liabilities evidenced by paper	**112,306**	3.10%	55,237	22,739	5,212	–	29,118
Subordinated term debt	**50,596**	15.16%	–	–	–	–	50,596
Perpetual debt	**99,376**	12.55%	–	–	–	–	99,376
Hybrid debt	**42,800**	12.86%	–	–	–	–	42,800
Non-interest bearing liabilities	**12,097**	–	–	–	–	–	–
Total liabilities	**5,704,450**	–	**807,220**	**606,539**	**1,033,805**	**2,536,795**	**707,994**

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**

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	2011	2010
Monetary assets		
Euro	4,360,034	3,422,525
US dollar	423,633	381,025
Other currencies	114,867	81,936
Gold	7,983	6,723
Monetary liabilities		
Euro	2,930,874	2,475,250
US dollar	424,823	382,068
Other currencies	122,575	86,387
Gold	–	–
Net position		
Euro	1,429,160	947,275
US dollar	(1,190)	(1,043)
Other currencies	(7,708)	(4,451)
Gold	7,983	6,723

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 2011		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	3,656,207	3,651,517
Individually impaired		
Watch	409,356	393,524
Nonperforming	30,538	21,749
Loss	218,958	115,446
Total	**4,315,059**	**4,182,236**

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**

In addition, the Group is exposed to off-balance sheet credit risk through commitments to extend credits and issue contingent liabilities (see note 33).

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	2011	2010
Trade	953,599	891,439
Industry	1,130,651	668,427
Services	442,324	236,986
Finance	82,315	30,931
Transport, logistics	272,403	256,342
Communications	56,632	38,018
Construction	183,957	170,447
Agriculture	85,503	74,408
Tourist services	121,215	137,996
Infrastructure	161,993	142,906
Private individuals	811,133	742,982
Other	13,334	124,038
Less allowance for impairment	(132,823)	(97,826)
Total	**4,182,236**	**3,417,094**

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 2011 with total exposures amounting to BGN 116,335 thousand (2010: BGN 78,336 thousand) - ferrous and non-ferrous metallurgy, BGN 61,015 thousand (2010: BGN 68,850 thousand) – mining industry and BGN 104,836 thousand (2010: BGN 108,113 thousand) - power engineering.

The Group has extended loans and issued contingent liabilities to 21 individual clients or groups (2010:17) with each individual exposure exceeding 10% of the capital base of the Group. The total amount of these exposures is BGN 1,668,778 thousand which represents 289.26% of the Group's capital base (2010: BGN 1,324,378 thousand which represented 261.89% of capital base) of which BGN 1,498,781 thousand (2010: BGN 1,102,284 thousand) represent loans and BGN 169,997 thousand (2010: BGN 222,094 thousand) represent guarantees, letters of credit and other commitments.

The loans extended by the Cyprus branch amount to BGN 290,861 thousand amortized cost before allowance (2010: BGN 214,895 thousand) and in Albania – BGN 60,148 thousand (2010: BGN 45,607 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 202,495 thousand (2010: BGN 187,266 thousand):

In thousands of BGN	2011	2010
Mortgage	1,692,112	1,489,092
Pledge of receivables	197,134	241,395
Pledge of commercial enterprise	789,238	443,797
Securities	80,069	130,044
Bank guarantee	13,759	7,127
Other guarantees	466,166	305,410
Pledge of goods	185,501	164,800
Pledge of machines	203,484	219,301
Money deposit	48,566	37,146
Stake in capital	144,694	29,013
Gold	18	18
Other collateral	243,628	227,206
Unsecured	48,195	33,305
Total	**4,112,564**	**3,327,654**

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

(iv) Government debt exposures

During the year ended 31 December 2011, concerns became apparent of the credit risk related to government debt issued by member states of the Eurozone. The Group closely manages this risk throughout the year and as a result the overall quality of the government debt portfolio is very high.

The table below shows the carrying amount of the government debt portfolio by country issuer. The assets are presented without any allowance for impairment. The Group does not recognise allowance for impairment against the exposures which are measured at amortised cost as at 31 December 2011 and 31 December 2010 as well as those classified as available for sale.

31 December 2010				in thousands of BGN
Portfolio	**Bulgaria**	**France**	**Belgium**	**Albania**
Financial assets held for trading	5,523	–	–	–
Available for sale investments	103,649	371,465	136,894	18,445
Financial assets held to maturity	36,054	–	–	10,925
Total	**145,226**	**371,465**	**136,894**	**29,370**

31 December 2010					in thousands of BGN
Portfolio	**Bulgaria**	**France**	**Belgium**	**The Netherlands**	**Albania**
Financial assets held for trading	11,472	–	–	–	–
Available for sale investments	40,636	273,446	234,377	117,158	6,217
Financial assets held to maturity	29,371	–	–	–	18,895
Total	**81,479**	**273,446**	**234,377**	**117,158**	**25,112**

Maturity table of government debt securities by country issuer as at 31 December 2011

in thousands of BGN

Country issuer	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Bulgaria	78	–	–	120,767	24,381	**145,226**
France	97,782	195,552	78,131	–	–	**371,465**
Belgium	136,894	–	–	–	–	**136,894**
Albania	21	5,892	12,817	10,640	–	**29,370**
Total	**234,775**	**201,444**	**90,948**	**131,407**	**24,381**	**682,955**

Maturity table of government debt securities by country issuer as at 31 December 2010

in thousands of BGN

Country issuer	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Bulgaria	5,445	1,391	13,720	33,613	27,310	**81,479**
France	58,651	78,196	136,599	–	–	**273,446**
Belgium	58,646	78,167	97,564	–	–	**234,377**
The Netherlands	–	78,147	39,011	–	–	**117,158**
Albania	1,244	7,776	8,215	7,877	–	**25,112**
Total	**123,986**	**243,677**	**295,109**	**41,490**	**27,310**	**731,572**

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, non-controlling interests and hybrid instruments without incentive to redeem 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; qualifying term subordinated loan capital may not exceed 50 percent of tier 1 capital; and qualifying hybrid debt without incentive to redeem cannot exceed 35 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	
	2011	2010	2011	2010
Risk weighted assets for credit risk				
Assets				
Exposure class				
Central governments and central banks	1,334,276	1,111,542	42,841	36,403
Institutions	291,315	123,335	78,284	37,492
Corporates	3,124,169	2,462,179	3,068,530	2,433,889
Retail	521,031	508,642	378,162	369,494
Claims secured by residential property	402,106	383,677	140,737	134,287
Past due exposures	126,510	51,909	126,510	51,909
Collective investment undertaking	1,936	2,100	1,936	2,100
Other items	335,410	323,709	199,892	195,795
Total	**6,136,753**	**4,967,093**	**4,036,892**	**3,261,369**
Off-balance sheet items				
Exposure class				
Central governments and central banks	97	851	–	–
Institutions	15,266	15,464	3,458	3,468
Corporates	552,625	465,959	179,903	187,034
Retail	261,614	226,751	2,834	3,515
Claims secured by residential property	3,468	4,109	601	708
Other items	–	–	13	13
Total	**833,070**	**713,134**	**186,809**	**194,738**
Derivatives				
Exposure class				
Central governments and central banks	1,760	–	–	–
Institutions	171	830	34	166
Corporates	390	72	390	72
Total	**2,321**	**902**	**424**	**238**
Total risk-weighted assets for credit risk			**4,224,125**	**3,456,345**
Risk-weighted assets for market risk			**6,100**	**5,988**
Risk-weighted assets for operational risk			**358,364**	**358,675**
Total risk-weighted assets			**4,588,589**	**3,821,008**

Capital adequacy ratios	Capital		Capital ratios %	
	2011	2010	2011	2010
Tier 1 Capital	**467,303**	**390,169**	**10.18%**	**10.21%**
Total capital base	**576,921**	**505,695**	**12.57%**	**13.23%**

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	
	2011	2010	2011	2010	2011	2010
Interest income	409,194	374,459	31,609	23,331	440,803	397,790
Interest expense	(273,743)	(255,584)	(5,071)	(4,352)	(278,814)	(259,936)
Net interest income	**135,451**	**118,875**	**26,538**	**18,979**	**161,989**	**137,854**
Fee and commission income	79,649	62,997	1,109	979	80,758	63,976
Fee and commission expense	(8,271)	(7,883)	(159)	(170)	(8,430)	(8,053)
Net fee and commission income	**71,378**	**55,114**	**950**	**809**	**72,328**	**55,923**
General administrative expenses	**(151,729)**	**(138,233)**	**(6,197)**	**(6,335)**	**(157,926)**	**(144,568)**
	2011	**2010**	**2011**	**2010**	**2011**	**2010**
Segment assets	**5,773,283**	**4,692,799**	**401,169**	**305,977**	**6,174,452**	**4,998,776**
Segment liabilities	**5,568,094**	**4,452,439**	**136,356**	**113,162**	**5,704,450**	**4,565,601**

The following table presents the allocation of assets and liabilities, income and expenses based on business segments as at 31 December 2011 and for the year then ended:

in thousands of BGN

Business segment	Assets	Liabilities	Interest income	Interest expense	Net fee and commission income	Net trading income	Other operating expenses
Commercial banking	3,411,346	1,206,925	330,230	(58,080)	42,821	–	–
Retail banking	770,890	4,458,512	96,811	(219,441)	13,915	–	–
Cards business	–	–	–	–	14,900	–	–
Liquidity	1,755,617	29,733	13,762	(1,272)	14	3,943	(2,176)
Dealing	9,674	–	–	–	(137)	7,351	–
Other	226,925	9,280	–	(21)	815	–	37
Total	**6,174,452**	**5,704,450**	**440,803**	**(278,814)**	**72,328**	**11,294**	**(2,139)**

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 2011.

in thousands of BGN	Trading	Held-to-maturity	Loans and receiva-bles	Available for sale	Other amortised cost	Other	Total carrying amount	Fair value
ASSETS								
Cash and balances with central banks	–	–	796,491	–	–	129,905	926,396	926,396
Financial assets held for trading	8,659	–	–	–	–	–	8,659	8,659
Available for sale investments	–	–	–	663,925	–	–	663,925	663,925
Financial assets held to maturity	–	65,886	–	–	–	–	65,886	65,522
Loans and advances to banks and financial institutions	–	–	100,427	–	–	–	100,427	100,427
Loans and advances to customers	–	–	4,182,236	–	–	–	4,182,236	4,182,236
Total	**8,659**	**65,886**	**5,079,154**	**663,925**	**–**	**129,905**	**5,947,529**	**5,947,165**
LIABILITIES								
Due to credit institutions	–	–	–	–	1,782	–	1,782	1,782
Due to other customers	–	–	–	–	5,388,310	–	5,388,310	5,388,310
Liabilities evidenced by paper	–	–	–	–	112,306	–	112,306	112,306
Subordinated term debt	–	–	–	–	50,596	–	50,596	50,596
Perpetual debt	–	–	–	–	99,376	–	99,376	100,830
Hybrid debt	–	–	–	–	42,800	–	42,800	42,800
Other financial liabilities	–	–	–	–	–	358	358	358
Total	**–**	**–**	**–**	**–**	**5,695,170**	**358**	**5,695,528**	**5,696,982**

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 2010.

in thousands of BGN	Trading	Held-to-maturity	Loans and receiva-bles	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
Total	**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
Total	**–**	**–**	**–**	**–**	**4,557,614**	**247**	**4,557,861**	**4,555,460**

6. Net interest income

in thousands of BGN	2011	2010
Interest income		
Accounts with and placements to banks and financial institutions	3,537	1,507
Retail customers	93,466	89,491
Loans to corporate clients	303,170	266,262
Loans to small and medium enterprises	27,060	28,331
Microlending	3,345	3,942
Debt instruments	10,225	8,257
	440,803	**397,790**
Interest expense		
Deposits from banks	(731)	(20)
Deposits from other customers	(250,862)	(238,319)
Liabilities evidenced by paper	(4,769)	(4,048)
Subordinated term debt	(6,867)	(5,884)
Perpetual debt	(11,551)	(11,625)
Hybrid debt	(4,013)	–
Lease agreements and other	(21)	(40)
	(278,814)	**(259,936)**
Net interest income	**161,989**	**137,854**

For 2011 the recognised interest income on individually impaired financial assets (loans and advances to customers) amounts to BGN 41,056 thousand (2010: BGN 31,791 thousand).

7. Net fee and commission income

in thousands of BGN	2011	2010
Fee and commission income		
Letters of credit and guarantees	8,466	6,199
Payments transactions	9,233	8,126
Customer accounts	16,345	13,930
Cards business	21,630	21,223
Other	25,084	14,498
	80,758	**63,976**
Fee and commission expense		
Letters of credit and guarantees	(840)	(360)
Correspondent accounts	(679)	(812)
Cards business	(6 ,730)	(6,348)
Other	(181)	(533)
	(8,430)	**(8,053)**
Net fee and commission income	**72,328**	**55,923**

8. Net trading income

in thousands of BGN	2011	2010
Net trading gains/(losses) arise from:		
– Debt instruments	3,943	943
– Equity instruments	(284)	30
– Foreign exchange	7,635	7,779
Net trading income	**11,294**	**8,752**

9. Other operating income/(expenses)

in thousands of BGN	2011	2010
Other operating income/(expenses) arise from:		
– Debt instruments	(2,176)	449
– Equity instruments	–	4,016
– Other	37	(18)
Other operating income/(expenses)	**(2,139)**	**4,447**

10. General administrative expenses

in thousands of BGN	2011	2010
General and administrative expenses comprise:		
– Personnel cost	51,813	44,522
– Depreciation and amortisation	22,043	21,421
– Advertising	6,718	5,367
– Building rent expense	26,623	25,497
– Telecommunication, software and other computer maintenance	11,657	10,926
– Unclaimable VAT	9,745	9,824
– Administration, consultancy, audit and other costs	29,327	27,011
General administrative expenses	**157,926**	**144,568**

Personnel costs include salaries, social and health security contributions under the provisions of the local legislation. At 31 December 2011 the total number of employees of the Group is 2,838 (2010: 2,690).

11. Impairment losses

in thousands of BGN	2011	2010
Write-downs		
Loans and advances to customers	(46,148)	(38,437)
Reversal of write-downs		
Loans and advances to customers	10,885	11,338
Net impairment losses	**(35,263)**	**(27,099)**

12. Income tax expense

in thousands of BGN	2011	2010
Current taxes	(3,709)	(2,161)
Deferred taxes (see note 22)	(388)	(1,304)
Income tax expense	**(4,097)**	**(3,465)**

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

in thousands of BGN	2011	2010
Accounting profit before taxation	**40,059**	**31,316**
Corporate tax at applicable tax rate (10% for 2011 and 10% for 2010)	4,006	3,132
Effect of tax rates of foreign subsidiaries and branches	47	19
Tax effect of permanent tax differences	(344)	(990)
Tax effect of temporary differences	388	1,304
Income tax expense	**4,097**	**3,465**
Effective tax rate	10.23%	11.06%

13. Earnings per share

	2011	2010
Net profit attributable to shareholders (in thousands of BGN)	35,864	27,958
Weighted average number of ordinary shares (in thousands)	110,000	110,000
Earnings per share (in BGN)	**0.33**	**0.25**

The basic earnings per share, calculated in accordance with IAS 33, are based on the profit attributable to ordinary equity holders of the Bank. During 2011 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	2011	2010
Cash on hand		
– In Bulgarian leva	91,555	85,366
– In foreign currencies	38,350	37,347
Balances with central banks	655,739	383,064
Current accounts and amounts with resident banks	103	7,000
Current accounts and amounts with foreign banks	140,647	44,084
Total	**926,394**	**556,861**

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15. Financial assets held for trading

in thousands of BGN	2011	2010
Bonds, notes and other instruments issued by:		
Bulgarian government, assessed with BBB rating :		
– denominated in Bulgarian leva	3,518	3,898
– denominated in foreign currencies	2,005	7,574
Bulgarian banks, assessed with BBB- rating	–	1,956
Other issuers – equity instruments (unrated)	3,136	3,213
Total	**8,659**	**16,641**

16. Available for sale investments

in thousands of BGN	2011	2010
Bonds, notes and other instruments issued by:		
Bulgarian government		
– denominated in Bulgarian leva	18,115	31,839
– denominated in foreign currencies	85,534	8,797
Foreign governments		
– treasury bills and bonds	526,804	631,198
Foreign banks	26,934	37,552
Other issuers – equity instruments	6,538	6,019
Total	**663,925**	**715,405**

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	2011	2010
Securities held to maturity issued by:		
Bulgarian government	36,054	29,371
Foreign governments	10,925	18,895
Foreign banks	18,907	8,836
Total	**65,886**	**57,102**

18. Loans and advances to banks and financial institutions

(a) Analysis by type

in thousands of BGN	2011	2010
Placements and other amounts due from banks	85,512	13,316
Receivables under resale agreements (see note 31)	12,683	5,910
Other	2,232	2,510
Total	**100,427**	**21,736**

(b) Geographical analysis

in thousands of BGN	2011	2010
Resident banks and financial institutions	13,093	6,298
Foreign banks and financial institutions	87,334	15,438
Total	**100,427**	**21,736**

19. Loans and advances to customers

in thousands of BGN	2011	2010
Retail customers		
– Consumer loans	238,603	199,671
– Mortgage loans	354,732	355,737
– Credit cards	202,495	187,266
Small and medium enterprises	268,162	240,128
Microlending	26,612	27,017
Corporate customers	3,224,455	2,505,101
Less allowance for impairment	(132,823)	(97,826)
Total	**4,182,236**	**3,417,094**

(a) Movement in impairment allowances

In thousands of BGN

Balance at 1 January 2011	**97,826**
Additional allowances	46,148
Amounts released	(10,885)
Write – offs	(301)
Effects of changes in foreign currencies rates	35
Balance at 31 December 2011	**132,823**

20. Property and equipment

in thousands of BGN	Land and buildings	Fixtures and fittings	Motor vehicles	Assets under construction	Leasehold improve-ments	Total
Cost						
At 1 January 2010	**10,829**	**105,640**	**5,959**	**35,331**	**48,136**	**205,895**
Additions	–	56	31	16,982	168	17,237
Foreign exchange differences	–	(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**
Additions	–	215	–	10,415	78	10,708
Foreign exchange differences	–	(2)	–	–	(2)	(4)
Acquired through business combination	–	17	–	–	–	17
Disposals	–	(833)	(298)	(58)	(88)	(1,277)
Transfers	276	4,909	228	(8,497)	2,985	(99)
At 31 December 2011	**12,915**	**120,638**	**6,113**	**27,269**	**60,405**	**227,340**
Depreciation						
At 1 January 2010	**3,410**	**53,485**	**4,243**	**–**	**12,964**	**74,102**
Foreign exchange differences	–	(9)	–	–	(3)	(12)
Acquired through business combination	–	2	–	–	–	2
Charge for the year	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**
Foreign exchange differences	–	7	1	–	1	9
Acquired through business combination	–	9	–	–	–	9
Charge for the period	438	14,792	628	–	3,991	19,849
On disposals	–	(825)	(298)	–	(78)	(1,201)
At 31 December 2011	**4,017**	**78,705**	**5,264**	**–**	**20,112**	**108,098**
Net book value						
At 1 January 2010	**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**
At 31 December 2011	**8,898**	**41,933**	**849**	**27,269**	**40,293**	**119,242**

21. Intangible assets

in thousands of BGN	Software and licences	Greenhouse allowances	Goodwill	Total
Cost				
At 1 January 2010	**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**
Additions	40	–	–	40
Exchange differences on translating foreign operations	(3)	–	–	(3)
Acquired through business combinations	–	–	134	134
Disposals	(4)	–	–	(4)
Transfers	99	–	–	99
At 31 December 2011	**22,487**	**3,820**	**721**	**27,028**
Amortisation				
At 1 January 2010	**4,251**	**–**	**–**	**4,251**
Acquired through business combination	81	–	–	81
Charge for the year	2,178	–	–	2,178
On disposals	(745)	–	–	(745)
At 31 December 2010	**5,765**	**–**	**–**	**5,765**
Exchange differences on translating foreign operations	(1)	–	–	(1)
Charge for the period	2,194	–	–	2,194
On disposals	(4)	–	–	(4)
At 31 December 2011	**7,954**	**–**	**–**	**7,954**
Net book value				
At 1 January 2010	**18,436**	**–**	**107**	**18,543**
At 31 December 2010	**16,590**	**3,820**	**587**	**20,997**
At 31 December 2011	**14,533**	**3,820**	**721**	**19,074**

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	
	2011	2010	2011	2010	2011	2010
Property, equipment and intangibles	–	–	3,502	3,017	3,502	3,017
Other items	(208)	(208)	342	439	134	231
Net tax (assets)/liabilities	**(208)**	**(208)**	**3,844**	**3,456**	**3,636**	**3,248**

Movements in temporary differences for 2011 at the amount of BGN 388 thousand are recognised in the net profit for the period.

23. Other assets

in thousands of BGN	2011	2010
Deferred expense	10,614	10,288
Gold bullion	7,983	6,723
Other assets	65,452	40,853
Total	**84,049**	**57,864**

24. Due to credit institutions

in thousands of BGN	2011	2010
Term deposits	42	7,000
Payable on demand	1,740	1,826
Total	**1,782**	**8,826**

25. Due to other customers

in thousands of BGN	2011	2010
Retail customers		
– current accounts	430,325	353,540
– term and savings deposits	4,028,187	3,268,087
Corporate, state-owned and public institutions		
– current accounts	316,016	263,415
– term deposits	613,782	400,651
Total	**5,388,310**	**4,285,693**

26. Liabilities evidenced by paper

in thousands of BGN	2011	2010
Acceptances under letters of credit	9,217	15,375
Liabilities under repurchase agreements (see note 31)	27,951	21,208
Other term liabilities	75,138	80,142
Total	**112,306**	**116,725**

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

27. Subordinated term debt

As at 31 December 2011 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 2011
Growth Management Limited	5,867	10 years	27.08.2014	15,175
Growth Management Limited	3,912	10 years	24.02.2015	7,820
Hillside Apex Fund Limited	9,779	10 years	01.03.2015	9,839
Growth Management Limited	1,956	10 years	17.03.2015	3,856
ING Bank NV/ Atlantic Forfaitierungs AG	9,779	10 years	22.04.2015	9,721
Hypo-Alpe-Adria Bank	3,912	10 years	14.04.2015	4,185
Total	**35,205**			**50,596**

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 2011
Step-up guaranteed perpetual subordinated bonds EUR 27 mio	52,807	54,973
Step-up guaranteed perpetual subordinated bonds EUR 21 mio	41,073	44,403
Total	**93,880**	**99,376**

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.

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29. Hybrid debt

in thousands of BGN	Principal amount	Amortised cost as at 31 December 2011
Hybrid debt with original principal EUR 20 mio	39,117	42,800
Total	**39,117**	**42,800**

In March 2011 the Bank issued a hybrid instrument (bond issue) and, after obtaining permission from the Bulgarian National Bank, included it as 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, deeply subordinated and without incentive to redeem.

30. Other liabilities

in thousands of BGN	2011	2010
Liabilities to personnel	1,892	1,822
Other payables	3,026	1,590
Total	**4,918**	**3,412**

31. 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 2011 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	23,123	22,740
Other government securities	5,211	5,211
Total	**28,334**	**27,951**

At 31 December 2010 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	1,938	1,970
Other government securities	22,107	19,238
Total	24,045	21,208

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 2011 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	12,913	12,683
Total	**12,913**	**12,683**

At 31 December 2010 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	5,863	5,910
Total	**5,863**	**5,910**

32. Capital and reserves

(a) Number and face value of registered shares as at 31 December 2011

As at 31 December 2011 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 2011 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 2011, as in the previous year, the Bank has not distributed dividends.

33. 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	2011	2010
Bank guarantees		
– in BGN	148,694	102,650
– in foreign currency	202,611	221,186
Total guarantees	**351,305**	**323,836**
Unused credit lines	385,569	303,400
Promissory notes	4,926	8,093
Letters of credit	91,270	77,805
Total	**833,070**	**713,134**

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 2011 the extent of collateral held for guarantees and letters of credit is 100 percent.

34. 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	2011	2010
Cash and balances with central banks	926,394	556,861
Loans and advances to banks and financial institutions with maturity less than 90 days	61,679	3,420
Total	**988,073**	**560,281**

35. 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	2011	2010
FINANCIAL ASSETS		
Cash and balances with central banks	730,580	589,865
Financial assets held for trading	16,144	11,330
Available for sale investments	650,152	526,513
Financial assets held to maturity	55,947	43,804
Loans and advances to banks and financial institutions	70,351	22,561
Loans and advances to customers	3,837,553	3,167,615
FINANCIAL LIABILITIES		
Due to credit institutions	23,689	4,572
Due to other customers	4,797,374	3,842,321
Liabilities evidenced by paper	127,175	135,475
Subordinated term debt	48,562	53,994
Perpetual debt	98,505	98,280
Hybrid debt	24,916	–

36. 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	2011	2010	2011	2010
Loans				
Loans outstanding at beginning of the period	2,997	2,130	19,055	21,721
Loans issued/(repaid) during the period	(1,323)	867	4,106	(2,666)
Loans outstanding at end of the period	1,674	2,997	23,161	19,055
Deposits and other financing received				
Deposits at beginning of the period	7,994	8,306	14,197	25,075
Deposits received/(repaid) during the period	3,472	(312)	(1,402)	(10,878)
Deposits at end of the period	11,466	7,994	12,795	14,197
Deposits placed				
Deposits at beginning of the period	–	–	3,922	3,912
Deposits placed/(matured) during the period	–	–	(6)	10
Deposits at end of the period	–	–	3,916	3,922
Off-balance sheet commitments issued by the Group				
At beginning of the period	1,204	2,280	1,289	1,322
Granted/(expired)	639	(1,076)	827	(33)
At the end of the period	1,843	1,204	2,116	1,289

The key management personnel of the Bank received remuneration of BGN 6,319 thousand for 2011.

37. 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 2011 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 2011 the share capital of First Investment Bank – Albania Sh.a. is EUR 11,975 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 in January 2010. Each of the new companies has a capital of BGN 150,000, which is divided in the following way:

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

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

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

In the second half of 2010 the Bank acquired a majority stake capital of Health Insurance Fund FI Health AD (formerly Health Insurance Fund Prime Health AD), a company engaged in voluntary health insurance as well as acquisition, management and sale of investments in other companies. As at 31 December 2011 the share capital of Health Insurance Fund FI Health AD is BGN 5,000 thousand and the Bank's shareholding is 59.10%. The Bank consolidates its investment in the company.

(f) Framas Enterprises Limited

In 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.

(g) Balkan Financial Services EOOD

In 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.

38. Subsequent events

There are no events after the reporting period that required additional disclosures or adjustments to the Group's financial statements.

Fullfilment of the goals for 2011

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 improved its market positions – in terms of assets (from sixth to fifth place), in terms of corporate lending (from fourth to third place), in terms of deposits (from fifth to third place), keeping second position in deposits from individuals among the Banks in Bulgaria.
2.	To increase its capital base with an emphasis on tier 1 capital.	The capital base increased by 14.1% (BGN 71,226 thousand) and tier 1 capital by 19.8% (BGN 77,134 thousand), as a result of profits capitalization and a newly issued hybrid debt included in tier 1 of the Bank.
3.	To continue to maintain an adequate liquidity ratio, corresponding to the market environment.	Fibank maintains an adequate amount of liquid assets – as of 31 December 2011 the liquidity ratio was 26.17% (2010: 26.06%; 2009: 19.79%).
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 the market conditions.	Fibank improved its market position in terms of deposits (from fifth to third place), keeping second position in deposits from individuals among the Banks in Bulgaria, while optimizing deposit product's conditions 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.	In 2011 the gross loan portfolio of the Group increased by 22.8% (BGN 800,139 thousand) and reached BGN 4,315,059 thousand, in accordance with market conditions.
6.	Development of new loan products and flexible financing schemes tailored to the needs of corporate clients, with focusing on project funding for programs related to the utilization of EU funds.	Fibank established a new "External partners, Euro programs and Correspondent banking Department" in order to develop services on EU programs financing and management. A new "Full support" service for complex assistance of clients for EU Funds utilization started during the year, including by providing clients with full administrative and financial support at every stage of the project cycle.
7.	To retain its position as a leading bank in Bulgaria in terms of international payments and trade finance and to continue offering to its customers specialized credit lines for international financing from Fibank correspondent banks.	Fibank increased its market share, and at the end of 2011 performed 5.93% of the outgoing payments in foreign currency (2010: 5.75%) and 8.11% of the incoming payments in foreign currency (2010: 7.43%). For a second consecutive year the Bank received awards for exceptional quality and coverage of high world standards in the field of international transfers by Deutsche Bank and Commerzbank. Fibank was announced by IFC as the most active Bank in the field of trade finance in South East Europe.
8.	Development of investment banking services, including trust portfolio management and investment consultations.	A new "Assets management" unit was established in order to develop 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 products used per bank's customer.	New consumer loans („For excellent students" and „Christmas loan") and mortgage loans („Advantage", credit „Chance" and „Home in the present") were offered. Fibank offers various current accounts, including specialized accounts, customized to the specific needs of given clients such as: customers-condominium, notaries, insurance brokers and others.
10.	To maintain its market positions with a gradual growth in mortgage and consumer lending, and a focus on credit cards.	Deposits from individuals increased by 7.2% (BGN 53,156 thousand), as a result of a growth in consumer loans and credit limits utilized on credit cards and overdrafts (growth of 8.1% or BGN 15,229 thousand). Fibank maintained its market position – seventh in terms of consumer loans and eight in terms of mortgage loans among the banks in Bulgaria.
11.	To reinforce its position as a technological leader among banks in Bulgaria, raising the quality and reliability of customer service.	During the year Fibank received international acknowledgment from the Euromoney magazine as "The Best Bank in Bulgaria" for 2011, which has implemented the most innovative market solutions and products and has shown strong growth and sustained indicators for effectiveness and profit.

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.	Fibank continued to develop its Yes loyalty program. In 2011 20,000 cards were issued to loyal bank clients, and the program partner network reached over 460 commercial points throughout the territory of Bulgaria. Fibank continued to promote the cards for contactless payments based on PayPass technology, including by developing the POS network for this type of payments. In order to widen the segment of card products offered, the Bank worked during the year on a new project for offering contactless VISA cards.
13.	Activating private banking by expanding existing supply channels, including offices outside Sofia and broadening the range of services.	During the year resources were allocated for the development of private banking in branch network, including by trainings carried out in Sofia, V.Tarnovo, Plovdiv and Varna.
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.	In 2011 the Bank actively developed its electronic banking. The mass payment service via Internet was integrated with the Virtual banking branch (e-fibank), a new mobile version of the Virtual branch was developed, and virtual banking of the branch in Cyprus was also launched (e-fibank Cyprus). During the year a new type of service for distance banking was added – telephone banking, which allows active bank operations over the telephone in the bank's working time and passive banking without limits every day – 24 hours, 7 days a week.
15.	Expansion of the online services offered and the introduction of new alternative channels for servicing of Fibank customers.	During the year the alternative channels for client service were developed such as My Fibank - new services were prepared for launch at the beginning of 2012 such as utility payments (for utility payments and other liabilities on accounts and cards with Fibank), registration for 3D Security of cards (new functionality which strengthens security while paying over the Internet via MasterCard SecureCode and Verified by Visa programs), as well as new functionalities on the reporting information.
16.	Maintaining its strategic focus on high standards of customer service and expanding the field of existing financial services.	Appraisal for high quality of customer service was the "Favorite brand of 2010" award of the Bulgarian consumer, received in 2011, in the Financial institution category of the BGBusiness Review magazine competition.
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.	Five new offices in Razgrad, Targovishte, Kyustendil, Montana and Yambol were transformed into separate branches during the year in order to widen the range of products offered and to achieve deeper market penetration in their locations.
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.	Fibank aims to constantly develop, update, and improve its risk management systems, in order to meet the challenges of the market environment and the changes in the legal frame to the highest extent. The Bank updated its risk management policies in compliance with the market environment and BNB guides and corporate government policies in compliance with the guidelines of the European Bank Authority.
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.	The net fee and commission income of the Group rose by 29.3% (BGN 16,405 thousand), increasing its relative share to 29.7% of the total income from banking operations (2010: 27.0%; 2009: 26.8%).
20.	Increasing the effectiveness of human capital management in the direction of staff development and establishing a working environment which promotes initiative.	During the year the Bank focused on employee motivation for a higher contribution and the achievement of individual and corporate goals by improving personal and professional skills for people management, client service and bank products and services offered. Training for the improvement of key competences of 366 bank employees were carried out, separated in two target groups – for development of management potential and for improvement of skills for client service, as well as training projects in the field of financial and credit analysis, cash activity, investment products and private banking.

Goals for development during 2012

1. To continue to rank among the 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 increase its loan portfolio in accordance with the market conditions, while maintaining its high standards of risk management.
5. To continue to finance competitive projects, with an emphasis on programs for the utilization of EU funds.
6. 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.
7. To preserve its leadership in the field of card payments offering innovative market solutions and products, including by developing and populizing card conctless payments.
8. To continue to be among the leading credit institutions in Bulgaria in the area of international transactions and trade finance, as a demanded, relaible and fair partner.
9. To further develop electronic banking in accordance with the necessities and the needs of the customers.
10. Maintaining its strategic focus on high standards of customer service.

Other information

Members of the Supervisory Board

Evgeni Lukanov – Chairman of the Supervisory Board

Mr. Lukanov joined First Investment Bank AD in 1998 as Deputy Director, and later as Director and General Manager of the Tirana Branch, Albania. From 2001 to 2003 he was Director of the Bank's Vitosha Branch (Sofia).

Mr. Lukanov has occupied a number of senior positions with Fibank.

From 2003 to 2007 he was Director of the Risk Management Department and Member of the Managing Board.

From 2004 to 2012 – Executive Director and Member of the Managing Board of First Investment Bank AD.

During his 14-year experience with the Bank, Mr. Lukanov has been Chairman of the Credit Council and the Liquidity Council of the Bank. He has been in charge of the following departments: Risk Management, Impaired Assets and Provisioning, Loan Administration, Specialized Monitoring and Control, Retail Banking, Methodology, and Liquidity.

Mr. Lukanov has also been member of the Managing Board of First Investment Bank – Albania Sh.a.

In the beginning of February 2012, Mr. Lukanov was elected as Chairman of the Supervisory Board of First Investment Bank AD and as Chairman of the Risk Committee to the Supervisory Board of the Bank.

Mr. Lukanov holds a Masters Degree in Economics from the University of National and World Economy, Sofia. Prior to joining Fibank, Mr. Evgeni Lukanov has worked as currency broker with First Financial Brokerage House OOD.

Besides his position on the Supervisory Board of the Bank, Mr. Lukanov is also Chairman of the Audit Committee of First Investment Bank – Albania Sh.a, Chairman of the Boards of Directors of FFBH Asset Management AD and Health Insurance Fund FiHealth AD, and Manager of Debita OOD and Realtor OOD. He is owner of ET Imeksa-Evgeni Lukanov and holds more than 10% of the capital of Avea OOD.

Maya Georgieva – Deputy Chair of the Supervisory Board

Prior to joining Fibank, Ms. Maya Georgieva worked for 19 years with the Bulgarian National Bank where she gained considerable experience in international banking. Her last appointment with BNB was as Head of the Balance of Payments Division.

Ms. Maya Georgieva joined Fibank in 1995 as Director of the International Department. From 1998 to 2012 she served as Executive Director of First Investment Bank and Member of the Managing Board. During her 17-year experience with the Bank she has been responsible for the following departments: SME Lending Department, HR Department, Administrative Department, Sales Department, Retail Banking, Marketing, Advertising and PR, Branch Network, Private Banking and the Vault.

Alongside her responsibilities at the Bank, Ms Georgieva has also occupied a number of other senior executive positions.

From 2003 to 2011 she chaired the Supervisory Board of CaSys International – a Macedonia-based card processing company servicing card payments in Bulgaria, Macedonia and Albania.

From 2009 to 2011 she was Chair of the Board of Directors of Diners Club Bulgaria AD – a franchise company of Diners Club International, owned by First Investment Bank. In this capacity she inspired the launch of a number of products, including the first female-oriented credit card.

From 2006 to 2011 she was also member of the Managing Board of First Investment Bank – Albania Sh.a., a subsidiary of First Investment Bank.

At the beginning of February 2012, Ms. Georgieva was elected as Deputy Chair of the Supervisory Board of Fibank and Chair of the Presiding Committee to the Supervisory Board of Fibank.

Ms Georgieva holds a Masters Degree in Macroeconomics from the University of National and World Economy in Sofia and has post-graduate specializations in International Payments with the International Monetary Fund and the Bulgarian Union of Science and Technology.

In both 2001 and 2011, she was granted the “Banker of the Year” award of the Bulgarian financial weekly “Banker”.

Ms. Georgieva is also Member of the Managing Board of the Association of Banks in Bulgaria.

Georgi Mutafchiev, Ph.D. – Member of the Supervisory Board

Mr. Mutafchiev began his career in 1985 as an expert, and later as a senior expert on development of the system for management and coordination of enterprises of the Electronic Industry Association.

In 1987 he joined Techno-Import-Export Foreign Trade Company as a senior expert with the Department of Coordination and Development under the Executive Director.

In 1991 Mr. Georgi Mutafchiev started work at the Bulgarian National Bank as Head Reserve Manager with the Foreign Currency Operations Department. During his six-year experience with the National Bank, he was responsible for the investment of foreign currency reserve and controlled the management thereof.

From 1997 to 2011 he was Executive Director of Flavia AD and Flavin AD. Flavia AD is one of the largest light industry companies in Bulgaria.

Along with its responsibilities in Flavia, as of the year 2000 Mr. Mutafchiev was elected as member of the Supervisory Board of First Investment Bank.

Mr. Mutafchiev graduated in law at the Sofia University St. Kliment Ohridski in 1982. From 1982 to 1984 he studied at the Sorbonne in Paris, where he received a PhD degree in Business Law. The same year Mr. Mutafchiev also acquired an MBA degree from the Schiller University, Paris.

He is a member of the Board of Directors of Flavia AD and owns more than 25% of the company capital.

Radka Mineva – Member of the Supervisory Board

Prior to joining Fibank Mrs. Mineva worked in the Bulgarian National Bank as a capital markets dealer where she gained considerable experience in banking. During her work at the Central bank she has specialized at the Frankfurt Stock Exchange and at the London Stock Exchange as a capital markets dealer.

Mrs. Mineva started her career as an expert in the foreign trade company Main Engineering Department where she worked for 9 years. She worked as an expert at RVM Trading Company for 3 years.

Since 2000 Mrs. Mineva was a Member of the Supervisory Board of First Investment Bank AD.

She is a graduate of the University of National and World Economy in Sofia, with a degree in Trade and Tourism.

Besides her position on the Supervisory Board of the Bank, Mrs. Mineva is a manager of Balkan Holidays Services OOD and manager of Balkan Holidays Partners OOD. Mrs. Mineva owns more than 25% of the capital of Balkan Holidays Partners OOD.

Jordan Skortchev – Member of the Supervisory Board

Before joining Fibank, Mr. Jordan Skortchev worked for two years with the Central and Latin America Department of the foreign trade organization Intercommerce, followed by five years with First Private Bank, Sofia as an FX Dealer and Head of the Dealing Division.

Mr. Skortchev joined First Investment Bank in 1996 as Chief Dealer, FX Markets.

From 2000 to 2012 Mr. Skortchev was Member of the Managing Board and Executive Director of the Bank.

During his 16-year experience with the Bank, Mr. Skortchev has been responsible for the following departments: Card Payments, Operations, Gold and Numismatics, Internet Banking, Dealing, Security and Office Network-Sofia.

Alongside his responsibilities at the Bank, Mr. Skortchev has also occupied other senior executive positions.

Mr. Skortchev has been Chairman of the Supervisory Board of UNIBank, Republic of Macedonia, member of the Supervisory Board of CaSys International, Republic of Macedonia, member of the Board of Directors of Diners Club Bulgaria AD, member of the Board of Directors of Bankservice AD, member of the Board of Directors of Medical center FiHealth AD, and Manager of FiHealth OOD.

In the begining of February 2012, as a Member of the Supervisory Board of the Fibank, Mr. Skortchev was elected as Chairman of the Remuneration Committee to the Supervisory Board of the Bank.

Mr. Skortchev holds a Masters Degree in International Economic Relations from the Higher Institute of Economics (now the University of National and World Economy) in Sofia. He has specialized in banking in Luxembourg, in swap deals at Euromoney, and in futures and options at the Chicago Stock Exchange.

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

Members of the Managing Board

Dimitar Kostov – Chairman of the Managing Board and 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. Since the end of 2011 Mr. Kostov has been an Executive Director of the Bank and at the beginning of 2012 was elected Chairman of the Managing Board of the Bank.

Previously, Mr. Kostov had worked as a manager “Customer relations” at Raiffeisenbank (Bulgaria) EAD 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”. Mr.Kostov is a CFA charterholder.

In the Bank he is responsible for the Corporate Banking Department, the Management of Loan Portfolios of Foreign Branches and Companies Department, the SME Lending Department, the Treasury Department and the Sales Department.

Besides his position in the Bank, Mr. Kostov is also a member of the Supervisory Board of UNIBank, Republic of Macedonia.

Vassil Christov – Member of the Managing Board and 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. Since the end of 2011 Mr. Christov has been an Executive Director of the Bank.

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.

In the Bank he is responsible for the Retail Banking Department, the Branch Network Department, the Administration Department, the Marketing, Advertising and PR Department, the Private Banking Department, the Organization and Control of Customer Service Department and the Vault.

Besides his position in the Bank, Mr. Christov is also a Chairman of the Managing Board (Steering Council) of the First Investment Bank – Albania Sh.a. and a member of the Board of Directors of Diners Club Bulgaria AD. Mr. Christov is a member of the Board of Directors of Medical centers FiHealth AD and Medical centers FiHealth Plovdiv AD.

Svetoslav Moldovansky – Member of the Managing Board and Executive Director

Mr. Svetoslav 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. Since the end of 2011 Mr. Moldovansky has been an Executive Director of the Bank.

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 (now Deloitte), 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), USA.

In the Bank he is responsible for the Operations Department, the Card Payments Department, the E-banking Department, the Gold and Commemorative Coins Department, the Human Capital Management Department and the Security Department.

Besides his position in the Bank, Mr. Moldovansky is also a member of the Audit Committee of First Investment Bank – Albania Sh.a., a member of the Supervisory Board of UNIBank, Republic of Macedonia, a member of the Supervisory Board of CaSys International, Republic of Macedonia, a member of the Board of Directors of Diners Club Bulgaria AD, a chairman of the Board of Directors of Balkan Financial Services EAD. Mr. Moldovansky possesses more than 10% of Next DC OOD and more than 10% of the capital of Club 12 OOD.

Stanislav Bozhkov – Member of the Managing Board and Deputy Executive Director

Mr. Stanislav Bozhkov joined Fibank's team in 2004 as a methodologist in the "Methodology" Department. Soon after that he was promoted to head of "External institutions" Division, and from 2005 to 2007 he was a deputy director of the "Methodology" Department. From 2007 to 2010 he was a head of "Market risk"Division in the "Risk Management" Department. In 2010, Mr. Bozhkov was elected as a director "Specialized internal audit service". In May 2011, Mr. Bozhkov was elected as a member of the Managing Board of Fibank and appointed as a Deputy Executive Director.

Previously, Mr. Bozhkov had worked as an economist at the "Balance of payments" department at the Bulgarian National Bank. He holds a Bachelor's degree in Marketing and Management from the University of Economics in Varna, a Master's degree in Economics from the Central European University in Budapest, Hungary. Mr. Bozhkov is a CFA charterholder.

In the Bank Mr. Bozhkov is responsible for the Risk Management Department, the Loan Administration Department, the Specialized Monitoring and Control Department, the Impaired Assets and Provisioning Department, the Methodology Department and the Legal Department.

Besides his position in the Bank, Mr. Bozhkov is also a member of the Managing Board (Steering Council) of the First Investment Bank – Albania Sh.a. and a member of the Board of Directors of Balkan Financial Services EAD.

Maya Oyfalosh – Member of the Managing Board and Director of Management of Loan Portfolios of Foreign Branches and Companies 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. In 2004, Mrs. Oyfalosh was appointed Director of Corporate Banking Department and elected as a member of the Managing Board. In the beginning of 2011 she has been appointed as a Director of the "Management of Loan Portfolios of Foreign Branches and Companies" Department and is a member of the Managing Board of Fibank.

Previously, Mrs. Oyfalosh had worked as a department director at First West Finance House and as a credit specialist at First Private Bank.

Mrs. Oyfalosh does not hold outside professional positions.

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