Translation from Bulgarian!

Report
of the Independent Auditor
TO THE SHAREHOLDERS OF FIRST INVESTMENT BANK AD

Sofia, 31 March 2010

Report on the unconsolidated financial statements

We have audited the accompanying unconsolidated financial statements of First Investment Bank AD ("the Bank"), which comprise the unconsolidated statement of the financial position as at 31 December 2009, the unconsolidated statement of comprehensive income, the unconsolidated statement of changes in equity and the unconsolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these unconsolidated financial statements in accordance with International Financial Reporting Standards adopted by the European Commission. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

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

Opinion

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

Report on other legal and supervisory requirements

Annual unconsolidated management report of the Bank in accordance with Article 33 of the Law on Accounting

In accordance with the requirements of the Law on Accounting, we also report that the historical unconsolidated financial information prepared by the Management and presented in the unconsolidated annual management report of the Bank pursuant to Article 33 of the Law on Accounting corresponds in all material aspects to the financial information contained in the annual unconsolidated financial statements of the Bank for the year ended 31 December 2009.

Management is responsible for the preparation of the unconsolidated annual management report which was approved by the Managing Board of the Bank on 31 March 2010.

Gilbert McCall
Partner
KPMG Bulgaria OOD
45a Bulgaria Blvd.
Sofia 1404
Bulgaria

Margarita Goleva
Registered auditor

FIRST INVESTMENT BANK AD

UNCONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2009
WITH INDEPENDENT AUDITOR'S REPORT THEREON

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

in BGN '000

	Note	2009	2008
Interest income		359,724	333,421
Interest expense and similar charges:		(234,823)	(189,069)
Net interest income	**6**	**124,901**	**144,352**
Fee and commission income		55,993	69,656
Fee and commission expense		(7,174)	(9,046)
Net fee and commission income	**7**	**48,819**	**60,610**
Net trading income	**8**	**7,800**	**1,846**
Other net operating income/(expense)	**9**	**600**	**(1,581)**
TOTAL INCOME FROM BANKING OPERATIONS		**182,120**	**205,227**
Administrative expenses	10	(136,931)	(147,680)
Allowance for impairment	11	(8,615)	2,742
Other expenses, net		(291)	(4,264)
PROFIT BEFORE TAX		**36,283**	**56,025**
Income tax expense	**12**	**(4,262)**	**(5,094)**
NET PROFIT		**32,021**	**50,931**
Other comprehensive income for the period			
Revaluation reserve on available for sale investments		6,321	(6,117)
Total other comprehensive income		**6,321**	**(6,117)**
TOTAL COMPREHENSIVE INCOME		**38,342**	**44,814**
Basic and diluted earnings per share (BGN)	**13**	**0.29**	**0.46**

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 5 to 52.

Gilbert McCall
Partner
KPMG Bulgaria OOD

Margarita Goleva
Registered auditor

Unconsolidated statement of the financial position as at 31 December 2009

in BGN '000

	Note	2009	2008
ASSETS			
Cash and balances with Central Banks	14	597,574	735,533
Financial assets held for trading	15	9,023	9,681
Available for sale investments	16	313,986	311,544
Financial assets held to maturity	17	30,018	60,393
Loans and advances to banks and other financial institutions	18	21,359	10,168
Loans and advances to customers	19	2,943,239	2,945,516
Property and equipment	20	127,683	149,010
Intangible assets	21	18,115	5,164
Derivatives held for risk management		-	274
Other assets	23	34,281	28,851
TOTAL ASSETS		**4,095,278**	**4,256,134**
LIABILITIES AND CAPITAL			
Due to banks	24	6,863	53,415
Due to other customers	25	3,276,885	3,179,321
Liabilities evidenced by paper	26	232,326	490,398
Subordinated term debt	27	60,641	53,852
Perpetual debt	28	101,169	100,474
Deferred tax liability	22	1,881	1,681
Derivatives held for risk management		248	1,336
Other liabilities	29	6,453	5,187
TOTAL LIABILITIES		**3,686,466**	**3,885,664**
Issued share capital	31	110,000	110,000
Share premium	31	97,000	97,000
Statutory reserve	31	39,861	39,861
Revaluation reserve on available for sale investments	31	(146)	(6,467)
Retained earnings	31	162,097	130,076
SHAREHOLDERS' EQUITY		**408,812**	**370,470**
TOTAL LIABILITIES AND GROUP EQUITY		**4,095,278**	**4,256,134**

The statement of the financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 52.

Gilbert McCall
Partner
KPMG Bulgaria OOD

Margarita Goleva
Registered auditor

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

in BGN '000

	2009	2008
Net cash flow from operating activities		
Net profit	32,021	50,931
Adjustment for non-cash items		
Impairment, loans and advances to customers	5,577	(2,742)
Impairment, available for sale investments	3,038	-
Depreciation and amortization	17,822	16,796
Income tax expense	4,262	5,094
(Profit)/loss from sale and write-off of tangible and intangible fixed assets, net	(5,966)	310
	56,754	**70,389**
Change in operating assets		
Decrease in financial instruments held for trading	658	3,848
Decrease in available for sale investments	841	79,507
(Increase) in loans and advances to banks and financial institutions	(17,701)	(22)
(Increase) in loans to customers	(3,300)	(175,012)
(Increase) in other assets	(5,156)	(10,570)
	(24,658)	**(102,249)**
Change in operating liabilities		
Increase/(decrease) in deposits from banks	(46,552)	36,181
Increase/(decrease) in amounts owed to other depositors	97,564	(78,449)
Net increase in other liabilities	437	1,222
	51,449	**(41,046)**
Income tax paid	(4,321)	(7,185)
NET CASH FLOW FROM OPERATING ACTIVITIES	**79,224**	**(80,091)**
Cash flow from investing activities		
(Purchase) of tangible and intangible fixed assets	(10,900)	(59,681)
Sale of tangible and intangible fixed assets	7,420	112
Decrease in investments	30,375	44,313
NET CASH FLOW FROM INVESTING ACTIVITIES	**26,895**	**(15,256)**
Financing activities		
Increase/(decrease) in borrowings	(250,588)	49,402
NET CASH FLOW FROM FINANCING ACTIVITIES	**(250,588)**	**49,402**
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	**(144,469)**	**(45,945)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	**745,507**	**791,452**
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD (See Note 33)	**601,038**	**745,507**

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 5 to 52.

Gilbert McCall
Partner
KPMG Bulgaria OOD

Margarita Goleva
Registered auditor

Unconsolidated statement of shareholders' equity for the year ended 31 December 2009

in BGN '000

	Issued share capital	Share premium	Retained earnings	Revaluation reserve	Statutory reserve	Total
Balance as at 1 January 2008	**110,000**	**97,000**	**79,145**	**(350)**	**39,861**	**325,656**
Total comprehensive income for the period						
Net profit for the year ended 31 December 2008	-	-	50,931	-	-	50,931
Other comprehensive income for the period						
Revaluation reserve on available for sale investments	-	-	-	(6,117)	-	(6,117)
Balance at 31 December 2008 2008	**110,000**	**97,000**	**130,076**	**(6,467)**	**39,861**	**370,470**
Total comprehensive income for the period						
Net profit for the year ended 31 December 2009	-	-	32,021	-	-	32,021
Other comprehensive income for the period						
Revaluation reserve on available for sale investments	-	-	-	6,321	-	6,321
Balance at 31 December 2008 2009	**110,000**	**97,000**	**162,097**	**(146)**	**39,861**	**408,812**

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 5 to 52.

The financial statements have been approved by the Managing Board on 31 March 2010 and signed on its behalf by:

Matthew Mateev
Chairman of the Managing Board and Executive Director

Evgeni Lukanov
Executive Director

Jordan Skortchev
Executive Director

Radoslav Milenkov
Chief Financial Officer

Gilbert McCall
Partner
KPMG Bulgaria OOD

Margarita Goleva
Registered auditor

1. Basis of preparation

(a) Statute

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

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

The Bank has foreign operations in Cyprus.

Following the successful Initial Public Offering of new shares at the Bulgarian Stock Exchange – Sofia, on June 13th 2007 the Bank was registered as a public company in the Register of the Financial Supervision Commission pursuant to the provisions of the Law on the Public Offering of Securities.

(b) Statement of compliance

The unconsolidated financial statements were drawn up in accordance with the International Financial Reporting Standards (IFRS) endorsed 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 Bank's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 2 (p).

(c) Presentation

The financial statements are presented in Bulgarian Leva (BGN) rounded to the nearest thousand.
The Bank has made certain reclassifications to the financial statements as of 31 December 2008 in order to provide more clear and precise comparison figures.

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

The present financial statements of the Bank are not consolidated. These individual financial statements form an integral part of the consolidated financial statements.

2. Significant accounting policies

(a) Income recognition

(i) Interest Income

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

(ii) Fee and Commission

Fee and commission income arises on financial services provided by the Bank 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 includes 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 Bank.

(iv) Dividend income

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

(b) Basis of consolidation of subsidiaries

Investments in subsidiaries are stated at cost.

(c) Foreign currency transactions

(i) Functional and presentation currency

The financial statements are presented in Bulgarian leva, which is the Bank's functional and presentation currency.

(ii) Transactions and balances

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

(iii) Foreign operations

The functional currency of the foreign operations in Cyprus is determined by the management to be the Euro. In determining the functional currency of the foreign operations, the Bank takes into account the fact that they are carried out as an extension of the reporting entity.

2. Significant accounting policies, continued

(d) Financial assets

The Bank 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 assessed and monitored on the basis of its fair value. 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 Bank 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 Bank's management has the positive intention and ability to hold to maturity. Were the Bank to sell or re-classify other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available for sale.

(iv) Available-for-sale

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

(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.

2. Significant accounting policies, continued

(d) Financial assets, continued

(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 this 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 Bank's right to receive payment is established.

(vii) Fair value measurement principles

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 Bank 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 Bank 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 Bank, 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 Bank calibrates valuation techniques and tests them for validity using prices from observable current market transactions in 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

2. Significant accounting policies, continued

(d) Financial assets, continued

(vii) Fair value measurement principles, continued

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. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank 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 Bank believes a third-party market participant would take them into account in pricing a transaction.
The Bank assesses the fair value of financial instruments using the following fair-value hierarchy that reflects the significance of the inputs used in measuring fair values and contains the following three levels:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: fair value measurements based on market data either directly (i.e., as prices), or indirectly (i.e., derived from prices); This category includes quoted prices for instruments in an inactive market or instruments assessed by valuation techniques;
- Level 3: fair value measurements using inputs for the asset or liability that are not based on observable market data. In addition this level included capital investments in subsidiaries and other institutions related to the Bank's membership in certain organizations, stated at cost, for which there is no reliable market assessment.

The table below analyses financial instruments at fair value by valuation models.

in BGN '000	**Level 1**	**Level 2**	**Level 3**	**Total**
31 December 2009				
Financial assets held for trading	7,595	1,428	-	9,023
Available for sale investments	247,224	35,166	31,596	313,986
Derivatives for hedging	(248)	-	-	(248)
Total	**254,571**	**36,594**	**31,596**	**322,761**

2. Significant accounting policies, continued

(d) Financial assets, continued

(viii) Derecognition

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

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

The Bank enters into transactions whereby it transfers financial assets recognised in its statement of financial position, but retains either all or substantially all risks and rewards of the transferred asset. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised in the statement of financial position (an example of such transactions are repurchase transactions).

In transactions in which the Bank 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 Bank 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 the central bank and short-term highly liquid investments with maturity of up to three months.

(f) Investments

Investments that the Bank holds for the purpose of short-term profit taking are classified as trading instruments. Debt investments that the Bank 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 Bank 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

2. Significant accounting policies, continued

(g) Securities borrowing and lending business and repurchase transactions, continued

(ii) Repurchase agreements, continued

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 recognized in profit or loss over the period of the borrowings using the effective yield method.

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

(i) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when the Bank 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 of Assets

The carrying amounts of the Bank's assets are reviewed at each balance sheet date 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

Impairment loss on loans and receivables is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. Short-term balances are not discounted. The calculation of the present value of estimated future cash flows reflects not only interest and principal payments, but also cash flows that may result from foreclosure less costs for obtaining and selling the collateral for a given exposure.

Loans and advances are presented net of specific and general allowances for impairment. The carrying amount of the asset is reduced through use of an allowance account. Specific allowance for impairment is accounted for loans for which there is objective evidence of impairment as a result of a past event that occurred after initial recognition of the asset. Objective evidence of impairment includes significant financial difficulty of the obligor; a breach of contract, such as a default or delinquency in interest or principal payments; it becoming probable that the borrower will enter bankruptcy; observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets. General allowance is accounted for decreasing the carrying amount of

2. Significant accounting policies, continued

(j) Impairment, continued

(i) Loans and advances, continued

a portfolio of loans with similar credit risk characteristics, which are collectively assessed for impairment. The estimated cash flows for a group of similar assets are determined on the basis of past practice and historical loss experience for portfolios with comparable characteristics. Historical loss experience should be adjusted, on the basis of 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 recognized 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 directly.

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) Financial assets available-for-sale

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

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

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

(k) Property and equipment

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

Depreciation is calculated on a straight line basis at prescribed rates designed to decrease the cost or valuation of fixed assets over their expected useful lives. The annual rates of amortisation are as follows:

Assets	**%**
• Buildings	3 - 4
• Equipment	10 - 33
• Fixtures and fittings	10 - 20
• Motor vehicles	10 - 20
• Leasehold Improvements	2 - 67

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

2. Significant accounting policies, continued

(l) Intangible assets

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

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

Assets	%
• Licences	10 - 20
• Computer software	20 - 33

(m) Provisions

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

(n) Acceptances

An acceptance is created when the Bank agrees to pay, at a stipulated future date, a draft drawn on it for a specified amount. The Bank's acceptances primarily arise from documentary credits stipulating payment to be made a certain number of days after receipt of required documents. The Bank 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 statement of financial position date, and any adjustment of tax payable for previous years.

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

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

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

2. Significant accounting policies, continued

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

The Bank 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 Bank 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 Bank 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.

In 2009 the Management changed its assumptions regarding the number of days of delay in classifying loans in the respective risk categories. A comparison between the new and the old assumptions by risk category is presented in the table below:

Risk category	Assumptions as at 31 December 2009	Risk category	Assumptions as at 31 December 2008
Standard	0-30 days	Standard	0-30 days
Watch	30-90 days	Watch	30-60 days
Nonperforming	90-180 days	Substandard	60-90 days
Loss	More than 180 days	Nonperforming	More than 90 days

(ii) Income taxes

The Bank is subject to income taxes in numerous jurisdictions. Significant estimates are required in determining the worldwide 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 Bank 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 Bank presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss for the period 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 granted to employees.

2. Significant accounting policies, continued

(r) Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. The Government of Bulgaria is responsible for providing pensions in Bulgaria under a defined contribution pension plan. The Bank'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 Bank'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, § 3 of the Labour Code. According to these regulations in the LC, when a labour contract of a bank's employee, who has acquired a pension right, is ended, the Bank is obliged to pay him compensations amounted to two gross monthly salaries. In case the employee's length of service in the bank equals to or is greater than 10 or more years, as at retirement date, then the compensation amounts to six gross monthly salaries. As at balance sheet date, the Management of the Bank 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 Bank 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 Bank 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 Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably. The Bank 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.

2. Significant accounting policies, continued

(s) New standards and interpretations not applied earlier

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

New, amended or revised standards:

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

Revised IFRS 3 Business Combinations (2008) is effective for annual periods beginning on or after 1 July 2009. The Management considers that IFRS 3 (Revised) will not have any impact on the Bank's financial statements as the Bank has no interest in subsidiaries that will be affected by amendments to the standard.

Revised IFRS 27 *Consolidated and Separate Financial Statements* is effective for annual periods beginning on or after 1 July 2009. The Management considers that amendments to IFRS 27 will not have any impact on the Bank's financial statements as the Bank has no interest in subsidiaries that will be affected by amendments to the standard.

Changes to IAS 32 *Financial Instruments*. *Presentation. Classification of Rights Issues*, effective for annual periods beginning on or after 1 February 2010. The Management considers that these amendments to IAS 32 will not have any impact on the Bank's financial statements as the Bank has not issued such instruments in the past.

Changes to IAS 39 *Financial Instruments*. *Recognition and Measurement Eligible Hedged Items*, effective for annual periods beginning on or after 1 July 2010. The Management considers that these amendments to IAS 39 will not have any impact on the Bank's financial statements as the Bank does not account for hedging.

2. Significant accounting policies, continued

(s) New standards and interpretations not applied earlier, continued

New interpretations:

IFRIC 12 *Service Concession Arrangements* must be applied at the latest from the first day of the first financial year starting on or following 1 April 2009. Management considers that IFRIC 12 will not have any impact on the Bank's financial statements as the Bank is not a party to service concession agreements.

IFRIC 15 *Agreements for the Construction of Real Estate* is effective for annual periods beginning on or after 1 January 2010. Management considers that IFRIC 15 will not have any impact on the Bank's financial statements as the Bank does not provide construction services or construct real estate for sale.

IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* is effective for annual periods beginning on or after 1 July 2009. Management considers that IFRIC 16 will not have any impact on the Bank's financial statements as the Bank does not have investments in foreign operations.

IFRIC 17 *Distributions of Non-cash Assets to Owners* is effective for annual periods beginning on or after 1 November 2009. Due to the fact that this interpretation is to be applied prospectively and that it refers to future dividends which are within the powers of the General Meeting of Shareholders, it is not possible to determine in advance the effects of its application.

IFRIC 18 *Transfers of Assets from Customers* is to be applied prospectively, for annual periods beginning on or after 1 November 2009. Management considers that IFRIC 18 will not have any impact on the Bank's financial statements as the Bank does not usually receive transfers of assets from customers.

Documents issued by IASB/IFRICs not yet endorsed by the European Commission

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

- Improvements to IFRSs 2009 (issued in April 2009), effective as of different dates, the majority as of 1 January 2010.
- Amendments to IFRS 2 for group cash-settled share-based payment transactions (issued in June 2009), effective as of 1 January 2010.
- Amendments to IFRS 1 to provide additional exemption from first-time adoption (issued in June 2009), effective as of 1 January 2010.
- Amendments to IAS 32 Classification of Rights Issues (issued in October 2009), effective as of 1 February 2010.
- Revised IAS 24 Related Party Disclosures (issued in November 2009), effective as of 1 January 2011.
- IFRS 9 Financial Instruments (issue date November 2009), effective date 1 January 2013.
- Amended IFRIC 14 Prepayments of a Minimum Funding Requirement (issue date November 2009), effective date 1 January 2011.
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (issue date November 2009), effective date 1 July 2010.

The management has not yet completed the estimation of the potential effects of these amendments on the Bank's financial statements.

2. Significant accounting policies, continued

(t) Changes in the accounting policy

- IAS 1 *Presentation of Financial Statements*

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

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

- Operating Segments

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

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

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

- Fair value

The Bank has applied Improving Disclosures about Financial Instruments (Amendments to IFRS 7), issued in March 2009, that require enhanced disclosures about fair value measurement and liquidity risk in respect of financial instruments.

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

3. Risk management disclosures

A. Trading activities

The Bank maintains active trading positions in a limited number of non-derivative financial instruments. Most of the Bank's trading activities are customer driven. In anticipation of customer demand, the Bank 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 Bank to provide customers with money market products at competitive prices.

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

The Bank operates under conditions characteristic of a dynamically evolving global financial and economic crisis. The further deepening of this crisis may have a negative impact on the Bank's financial situation. The management of the Bank monitors on a daily basis all assets and liabilities, income and expense, and the situation on the international financial markets, applying best banking practices. On the basis of this the Management analyses profitability, liquidity and the cost of funding and applies adequate measures with respect to credit, market (mostly interest-rate) and liquidity risk, thus limiting the possible adverse effects of the global financial and economic crisis. The Bank thus meets the challenges of the market environment, retaining its stable capital and liquidity position.

(i) Credit risk

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 Bank 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 Bank'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 for buying or selling instruments set by senior management .

In a developing capital market, the prices with which transactions are realised can be different from quoted prices. While 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.

3. Risk management disclosures, continued

A. Trading activities, continued

(ii) Market risk, continued

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 per cent 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 Bank's ongoing risk management. The following table summarises the range of interest VaR for all positions carried at fair value that was experienced in 2009:

	31 December	2009			31 December
in BGN '000	**2009**	**average**	**low**	**high**	**2008**
VaR	531	1,191	508	2,648	1,373

B. Non-trading activities

Below is a discussion of the various risks the Bank 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 Bank will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk arises in the general funding of the Bank'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, other liabilities evidenced by paper, and share capital. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. The Bank 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 Bank continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Bank strategy.

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

3. Risk management disclosures, continued

B. Non-trading activities, continued

(i) Liquidity risk, continued

Maturity table as at 31 December 2009

in BGN '000	Up to 1 Month	From 1 to 3 Months	From 3 months to 1 year	More than 1 year	Maturity not defined	Total
Assets						
Cash and balances with Central Banks	597,574	-	-	-	-	**597,574**
Financial assets held for trading	9,023	-	-	-	-	**9,023**
Available for sale investments	39,101	-	175,059	68,230	31,596	**313,986**
Financial assets held to maturity	-	15,097	-	14,921	-	**30,018**
Loans and advances to banks and other financial institutions	6,273	-	6,422	8,664	-	**21,359**
Loans and advances to customers	328,316	130,181	533,513	1,951,229	-	**2,943,239**
Total financial assets	**980,287**	**145,278**	**714,994**	**2,043,044**	**31,596**	**3,915,199**
Liabilities						
Due to banks	6,863	-	-	-	-	**6,863**
Due to other customers	1,184,508	817,901	1,223,758	50,718	-	**3,276,885**
Liabilities evidenced by paper	107,508	23,626	9,359	91,833	-	**232,326**
Subordinated term debt	-	-	-	60,641	-	**60,641**
Perpetual debt	-	-	-	-	101,169	**101,169**
Other financial liabilities	248	-	-	-	-	**248**
Total financial liabilities	**1,299,127**	**841,527**	**1,233,117**	**203,192**	**101,169**	**3,678,132**
Net liquidity gap	**(318,840)**	**(696,249)**	**(518,123)**	**1,839,852**	**(69,573)**	**237,067**

3. Risk management disclosures, continued

B. Non-trading activities, continued

(i) Liquidity risk, continued

Maturity table as at 31 December 2008

in BGN '000	**Up to 1 Month**	**From 1 to 3 Months**	**From 3 months to 1 year**	**More than 1 year**	**Maturity not defined**	**Total**
Assets						
Cash and balances with Central Banks	735,533	-	-	-	-	**735,533**
Financial assets held for trading	9,681	-	-	-	-	**9,681**
Available for sale investments	58,598	78,053	58,288	89,647	26,958	**311,544**
Financial assets held to maturity	8,858	9,396	2,047	40,092	-	**60,393**
Loans and advances to banks and other financial institutions	10,168	-	-	-	-	**10,168**
Loans and advances to customers	252,578	230,815	530,430	1,931,693	-	**2,945,516**
Other trading assets	274	-	-	-	-	**274**
Total financial assets	**1,075,690**	**318,264**	**590,765**	**2,061,432**	**26,958**	**4,073,109**
Liabilities						
Due to banks	53,415	-	-	-	-	**53,415**
Due to other customers	1,106,403	565,150	1,429,831	77,937	-	**3,179,321**
Liabilities evidenced by paper	72,805	62,929	272,808	81,856	-	**490,398**
Subordinated term debt	-	-	-	53,852	-	**53,852**
Perpetual debt	-	-	-	-	100,474	**100,474**
Other financial liabilities	1,336	-	-	-	-	**1,336**
Total financial liabilities	**1,233,959**	**628,079**	**1,702,639**	**213,645**	**100,474**	**3,878,796**
Net liquidity gap	**(158,269)**	**(309,815)**	**(1,111,874)**	**1,847,787**	**(73,516)**	**194,313**

As at 31.12.09 the thirty largest non-bank depositors represent 6.43% of total deposits from other customers (2008: 32.03%).

3. Risk management disclosures, continued

B. Non-trading activities, continued

(i) Liquidity risk, continued

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

in BGN '000	**Up to 1 Month**	**From 1 to 3 Months**	**From 3 months to 1 year**	**More than 1 year**	**Maturity not defined**	**Total**
Due to banks	6,863	-	-	-	-	**6,863**
Due to other customers	1,186,430	828,680	1,284,038	58,717	-	**3,357,865**
Liabilities evidenced by paper	107,698	23,796	9,610	103,676	-	**244,780**
Subordinated term debt	-	-	7,277	98,728	-	**106,005**
Perpetual debt	-	4,910	6,826	63,590	95,245	**170,571**
Other financial liabilities	248	-	-	-	-	**248**
Total financial liabilities	**1,301,239**	**857,386**	**1,307,751**	**324,711**	**95,245**	**3,886,332**

(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 Bank'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 Bank is also exposed to basis risk, which is the difference in repricing characteristics of the various floating rate indices, such as the Bulgarian Basic 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 Bank measures the impact of a change in the market rates both on net interest income and on the Bank'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 Bank following a standardised shock of +100bp/-100bp as at 31 December 2009 is BGN +1.4/-1.4 Mio. The interest rate risk on the Group's net interest income one year forward following a standardised shock of +100bp/-100bp as at 31 December 2009 is BGN -4.7/+4 Mio

3. Risk management disclosures, continued

B. Non-trading activities, continued

(ii) Market risk, continued

Interest rate risk, continued

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

				Fixed rate instruments			
in BGN '000	**Total**	**Weighted average effective interest rate**	**Floating rate Instruments**	**Less than 1 month**	**Between 1 month and 3 months**	**Between 3 months and 1 year**	**More than 1 year**
Assets							
Cash and balances with Central Banks	201,387	0.21%	31,868	169,519	-	-	-
Financial assets held for trading	5,862	5.74%	-	-	70	-	5,792
Available for sale investments	282,390	1.84%	40,542	39,101	-	175,059	27,688
Financial assets held to maturity	30,018	2.78%	-	-	15,097	-	14,921
Loans and advances to banks and other financial institutions	17,896	6.81%	6,423	2,809	-	-	8,664
Loans and advances to customers	2,924,085	13.04%	2,376,438	73,422	45,384	162,262	266,579
Non-interest earning assets	633,640	-	-	-	-	-	-
Total assets	**4,095,278**		**2,455,271**	**284,851**	**60,551**	**337,321**	**323,644**
Liabilities							
Due to banks	6,863	0.31%	1,863	5,000	-	-	-
Due to other customers	3,273,393	6.57%	1,072,221	363,716	706,102	1,111,299	20,055
Liabilities evidenced by paper	232,326	4.24%	79,181	106,920	14,591	3,371	28,263
Subordinated term debt	60,641	13.55%	-	-	-	-	60,641
Perpetual debt	101,169	12.47%	-	-	-	-	101,169
Non-interest bearing liabilities	12,074	-	-	-	-	-	-
Total liabilities	**3,686,466**		**1,153,265**	**475,636**	**720,693**	**1,114,670**	**210,128**

3. Risk management disclosures, continued

B. Non-trading activities, continued

(ii) Market risk, continued

Interest rate risk, continued

The following table indicates the effective interest rates at 31.12.08 and the periods in which financial liabilities and assets reprice.

				Fixed rate instruments			
in BGN '000	**Total**	**Weighted average effective interest rate**	**Floating rate Instruments**	**Less than 1 month**	**Between 1 month and 3 months**	**Between 3 months and 1 year**	**More than 1 year**
Assets							
Cash and balances with Central Banks	150,039	1.98%	41,791	108,248	-	-	-
Financial assets held for trading	5,476	4.31%	-	-	-	-	5,476
Available for sale investments	284,585	3.08%	45,797	58,599	78,053	58,288	43,848
Financial assets held to maturity	60,393	3.25%	18,197	8,858	9,396	2,047	21,895
Loans and advances to banks and other financial institutions	3,920	3.50%	-	3,920	-	-	-
Loans and advances to customers	2,921,262	10.90%	2,505,727	21,056	11,034	148,778	234,667
Non-interest earning assets	830,459	-	-	-	-	-	-
Total assets	**4,256,134**		**2,611,512**	**200,681**	**98,483**	**209,113**	**305,886**
Liabilities							
Due to banks	53,035	4.68%	1,379	51,656	-	-	-
Due to other customers	3,169,876	5.58%	2,248,864	76,658	149,716	207,995	486,643
Liabilities evidenced by paper	490,398	6.77%	84,709	72,805	62,929	264,061	5,894
Subordinated term debt	53,852	13.10%	-	-	-	-	53,852
Perpetual debt	100,474	12.51%	-	-	-	-	100,474
Non-interest bearing liabilities	18,029	-	-	-	-	-	-
Total liabilities	**3,885,664**		**2,334,952**	**201,119**	**212,645**	**472,056**	**646,863**

3. Risk management disclosures, continued

B. Non-trading activities, continued

(ii) Market risk, continued

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 Bank is exposed to currency risk in performing transactions in foreign currencies and foreign-currency denominated financial instruments.

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 Bank presents it financial statements is the Bulgarian lev, the Bank's financial statements are effected by movements in the exchange rates between the Bulgarian lev and currencies other than the Euro.

The Bank's exposures give rise to net trading income from foreign exchange rate operations that are recognised in profit or loss as net trading income or expense. These exposures comprise the monetary assets and monetary liabilities of the Bank that are not denominated in the presentation currency of the Bank. These exposures were as follows:

in BGN '000	**2009**	**2008**
Monetary assets		
Euro	2,359,796	2,175,826
US dollar	260,568	240,813
Other	39,757	33,378
Gold bullion	7,509	7,817
Monetary liabilities		
Euro	1,991,653	2,154,161
US dollar	269,726	240,268
Other	38,442	35,414
Gold bullion	-	-
Net position		
Euro	368,143	21,665
US dollar	(9,158)	545
Other	1,315	(2,036)
Gold bullion	7,509	7,817

In respect of monetary assets and liabilities in foreign currencies that are not economically hedged, the Bank 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 Bank by failing to discharge an obligation. The Bank 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 guarantees. 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 Bank'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 on the balance sheet. These exposures are as follows:

3. Risk management disclosures, continued

B. Non-trading activities, continued

(iii) Credit risk, continued

31 December 2009		*in BGN '000*
Class of exposure	**Gross amount of loans and advances to customers**	**Carrying amount of loans and advances to customers**
Collectively impaired		
Standard	2,688,376	2,685,705
Individually impaired		
Watch	204,636	201,899
Nonperforming	31,456	25,505
Loss	91,174	30,130
Total	**3,015,642**	**2,943,239**

31 December 2008		*in BGN '000*
Class of exposure	**Gross amount of loans and advances to customers**	**Carrying amount of loans and advances to customers**
Collectively impaired		
Standard	2,890,929	2,887,855
Individually impaired		
Watch	24,723	23,688
Substandard	16,916	10,463
Nonperforming	79,792	23,510
Total	**3,012,360**	**2,945,516**

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

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

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

3. Risk management disclosures, continued

B. Non-trading activities, continued

(iii) Credit risk, continued

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

in BGN '000	**2009**	**2008**
Trade	755,883	644,657
Industry	651,115	704,072
Services	169,786	184,531
Finance	21,024	22,773
Transport, logistics	155,753	144,612
Communications	31,493	46,836
Construction	138,604	145,294
Agriculture	71,075	85,619
Tourist services	106,161	112,973
Infrastructure	126,091	106,212
Private individuals	734,994	761,441
Other	53,663	53,340
Allowance for impairment	(72,403)	(66,844)
Total	**2,943,239**	**2,945,516**

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

The Bank has extended loans, confirmed letters of credit and granted guarantees to 13 individual clients or groups (2008: 16) with each individual exposure exceeding 10% of the capital base of the Bank and based on the book value of the corresponding credit facility. The total amount of these exposures is BGN 804,532 thousand which represents 174.33% of the capital base (2008: BGN 1,109,642 thousand which represented 258.73 % of capital base) of which BGN 694,309 thousand (2008: BGN 938,241 thousand) represent loans and BGN 110,223 thousand (2008: BGN 171,401 thousand) represent guarantees, letters of credit and other commitments.

Loans extended by the branch in Cyprus amount to BGN 147,095 thousand (gross carrying amount before any allowances) (2008: BGN 130,871 thousand).

The amounts reflected in the tables represent the maximum accounting loss that would be recognised at the statement of financial position date 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.

3. Risk management disclosures, continued

B. Non-trading activities, continued

(iii) Credit risk, continued

The Bank's policy is to require suitable collateral to be provided by certain 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 Bank'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, plant and equipment, securities, or other property.

The table below shows a breakdown of total loans and advances extended to customers by the Bank by type of collateral, excluding credit cards in the amount of BGN 158,124 thousand (2008: BGN 149,796 thousand):

in BGN '000	**2009**	**2008**
Mortgage	1,373,154	1,346,172
Pledge of receivables	207,288	425,601
Pledge of commercial enterprise	433,880	286,287
Securities	68,904	144,981
Guarantee	4,159	155
Other guaranties	233,258	130,084
Pledge of goods	128,774	110,262
Pledge of machines	180,731	227,376
Money deposit	47,479	38,559
Stake in capital	28,006	36,559
Gold	18	33
Other collateral	127,958	100,272
Unsecured	23,909	16,223
Total	**2,857,518**	**2,862,564**

Other collateral includes insurance policies up to the amount of the insurance cover, future receivables, remuneration transfers, etc.

3. Risk management disclosures, continued

C. Solvency ratio (Capital adequacy)

The Bank's lead regulator, the Bulgarian National Bank (BNB) sets and monitors capital requirements both on consolidated and stand-alone basis. BNB issued new Ordinance 8 on Capital Adequacy of Credit Institutions effective from 01 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. In implementing current capital requirements the Bank is required to maintain a minimum prescribed ratio of 12% of total capital to total risk-weighted assets. Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

The Bank 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 balance sheet 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 balance sheet equivalents. The resulting equivalent amounts are then weighted for risk using different percentages (0%, 20%, 50%, 100%) depending on the class of exposure and its credit rating assessment. Various credit risk mitigation techniques are used, for example collateralised transactions and guarantees. Forwards and options based derivative instruments are weighted for counterparty credit risk.

In addition, the Bank 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 Bank'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 profit, translation reserve and minority interests after deductions for goodwill and other intangible assets and unrealised loss from available for sale investments.
- Tier 2 capital, which includes qualifying subordinated liabilities, namely perpetual debt and subordinated term debt.

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

The Bank has complied with all externally imposed capital requirements throughout the period.

3. Risk management disclosures, continued

C. Capital adequacy, continued

Capital adequacy level was as follows:

in BGN '000	**Balance sheet/notional amount**		**Risk weighted assets**	
	2009	**2008**	**2009**	**2008**
Risk weighted assets for credit risk				
Balance sheet assets				
Exposure class				
Central governments and central banks	529,322	706,316	2,657	3,011
Multilateral development banks	3,224	1,000	-	-
Institutions	263,477	231,376	64,633	75,716
Corporates	1,985,074	1,919,643	1,955,855	1,881,850
Retail	505,476	560,775	483,057	546,088
Claims secured by residential property	395,941	451,855	197,970	225,928
Overdue items*	41,766	-	41,766	-
Collective investment undertaking	2,004	1,964	2,004	1,964
Other items	307,021	339,604	158,798	173,733
Total	**4,033,305**	**4,212,533**	**2,906,740**	**2,908,290**
Off balance sheet items				
Exposure class				
Institutions	26,704	17,879	7,147	8,157
Corporates	489,955	645,543	207,150	202,591
Retail	189,369	234,459	1,094	1,079
Claims secured by residential property	4,640	8,069	1,142	1,963
Other items	-	-	15	28
Total	**710,668**	**905,950**	**216,548**	**213,818**
Derivatives				
Exposure class				
Institutions	311	1,359	62	272
Corporates	-	19	-	19
Total	**311**	**1,378**	**62**	**291**
Total risk-weighted assets for credit risk			**3,123,350**	**3,122,399**
Risk-weighted assets for market risk			**4,325**	**3,250**
Risk-weighted assets for operational risk			**317,838**	**254,125**
Total risk-weighted assets			**3,445,513**	**3,379,774**
Capital adequacy ratios	**Capital**		**Capital ratios %**	
	2009	**2008**	**2009**	**2008**
Tier 1 Capital	**355,511**	**318,884**	**10.32%**	**9.44%**
Total capital base	**461,493**	**428,887**	**13.39%**	**12.69%**

*new exposure class since March 2009

4. Segment Reporting

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

Measurement of segment assets and liabilities and segment revenues and results is based on the accounting policies set out in the accounting policy notes.

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

The Bank operates principally in Bulgaria, but also has operations in Cyprus.

In presenting information on the basis of geographical segments, revenue and operating income is allocated based on the location of the Bank branch that generated the revenue. Segment assets and liabilities are allocated based on their geographical location.

in BGN '000	**Bulgarian operations**		**Foreign operations**		**Total**	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**
Interest income	342,142	322,991	17,582	10,430	359,724	333,421
Interest expense and similar charges:	(234,030)	(188,632)	(793)	(437)	(234,823)	(189,069)
Net interest income	**108,112**	**134,359**	**16,789**	**9,993**	**124,901**	**144,352**
Fee and commission income	55,454	68,607	539	1,049	55,993	69,656
Fee and commission expense	(7,165)	(9,038)	(9)	(8)	(7,174)	(9,046)
Net fee and commission income	**48,289**	**59,569**	**530**	**1,041**	**48,819**	**60,610**
Net trading income	**7,735**	**1,821**	**65**	**25**	**7,800**	**1,846**
Administrative expenses	**(136,395)**	**(147,120)**	**(536)**	**(560)**	**(136,931)**	**(147,680)**
	2009	**2008**	**2009**	**2008**	**2009**	**2008**
Assets	**3,911,037**	**4,107,244**	**184,250**	**148,890**	**4,095,287**	**4,256,134**
Liabilities	**3,631,376**	**3,871,727**	**55,090**	**13,937**	**3,686,466**	**3,885,664**

4. Segment Reporting, continued

The table below shows assets and liabilities and income and expense by business segments as at 30 June 2009.

in BGN '000

Business	Assets	Liabilities	Interest income	Interest expense and similar charges:	Net fee and commission income	Net trading income	Other net operating income
Commercial banking	2,254,946	608,177	262,300	(48,314)	16,427	-	-
Retail Banking	688,293	2,668,708	87,015	(148,144)	5,070	-	-
International business	-	394,136	-	(37,055)	7,188	-	-
Card business	-	-	-	-	11,940	-	-
Liquidity ratio	937,203	6,863	10,409	(922)	7	608	671
Dealing	5,881	248	-	-	(4)	7,192	-
Customer service	-	-	-	-	7,759	-	-
Other	208,955	8,334	-	(388)	432	-	(71)
Total	**4,095,278**	**3,686,466**	**359,724**	**(234,823)**	**48,819**	**7,800**	**600**

5. Financial assets and liabilities

Accounting classification and fair values

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

in BGN '000	**Trading**	**Held-to-maturity**	**Loans and receivables**	**Available-for-sale**	**Other at amortised cost**	**Other**	**Net book value**	**Fair value**
ASSETS								
Cash and balances with Central Banks	-	-	456,389	-	-	141,185	597,574	597,574
Financial assets held for trading	9,023	-	-	-	-	-	9,023	9,023
Available for sale investments	-	-	-	313,986	-	-	313,986	313,986
Financial assets held to maturity	-	30,018	-	-	-	-	30,018	29,995
Loans and advances to banks and other financial institutions	-	-	21,359	-	-	-	21,359	21,359
Loans and advances to customers	-	-	2,943,239	-	-	-	2,943,239	2,943,239
	9,023	**30,018**	**3,420,987**	**313,986**	**-**	**141,185**	**3,915,199**	**3,915,176**
LIABILITIES								
Due to banks	-	-	-	-	6,863	-	6,863	6,863
Due to other customers	-	-	-	-	3,276,885	-	3,276,885	3,276,885
Liabilities evidenced by paper	-	-	-	-	232,326	-	232,326	232,326
Subordinated term debt	-	-	-	-	60,641	-	60,641	60,641
Perpetual debt	-	-	-	-	101,169	-	101,169	101,169
Other financial liabilities	-	-	-	-	-	248	248	248
	-	**-**	**-**	**-**	**3,677,884**	**248**	**3,678,132**	**3,678,132**

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 receivables from clients is approximately equal to their balance-sheet value due to the fact that the interest rate for most of the loan portfolio is floating and reflects changes in market conditions. The fair value of liabilities evidenced by paper is approximately equal to their balance-sheet value due to the fact that the interest rate for most of the long-term liabilities evidenced by paper is floating and reflects changes in market conditions.

5. Financial assets and liabilities, continued

Accounting classification and fair values, continued

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

in BGN '000	**Trading**	**Held-to-maturity**	**Loans and receivables**	**Available-for-sale**	**Other at amortised cost**	**Other**	**Net book value**	**Fair value**
ASSETS								
Cash and balances with Central Banks	-	-	574,689	-	-	160,844	735,533	735,533
Financial assets held for trading	9,681	-	-	-	-	-	9,681	9,681
Available for sale investments	-	-	-	311,544	-	-	311,544	311,544
Financial assets held to maturity	-	60,393	-	-	-	-	60,393	59,483
Loans and advances to banks and other financial institutions	-	-	10,168	-	-	-	10,168	10,168
Loans and advances to customers	-	-	2,945,516	-	-	-	2,945,516	2,945,516
Other trading assets	-	-	-	-	-	274	274	274
	9,681	**60,393**	**3,530,373**	**311,544**	**-**	**161,118**	**4,073,109**	**4,072,199**
LIABILITIES								
Due to banks	-	-	-	-	53,415	-	53,415	53,415
Due to other customers	-	-	-	-	3,179,321	-	3,179,321	3,179,321
Liabilities evidenced by paper	-	-	-	-	490,398	-	490,398	490,287
Subordinated term debt	-	-	-	-	53,852	-	53,852	53,852
Perpetual debt	-	-	-	-	100,474	-	100,474	100,474
Other financial liabilities	-	-	-	-	-	1,336	1,336	1,336
	-	**-**	**-**	**-**	**3,877,460**	**1,336**	**3,878,796**	**3,878,685**

6. Net interest income

in BGN '000	**2009**	**2008**
Interest income		
Receivables and accounts with banks and financial institutions	1,797	6,179
Retail Banking	87,015	78,274
Loans to corporate clients	228,821	200,725
Loans to SMEs	28,708	28,184
Microlending	4,771	6,089
Debt instruments	8,612	13,970
	359,724	**333,421**
Interest expense and similar charges:		
Deposits from banks	(922)	(628)
Deposits from other customers	(196,458)	(132,016)
Liabilities evidenced by paper	(17,732)	(38,041)
Subordinated term debt	(7,252)	(6,353)
Perpetual debt	(12,071)	(11,972)
Lease agreements and other	(388)	(59)
	(234,823)	**(189,069)**
Net interest income	**124,901**	**144,352**

For 2009 the recognized interest income from individually impaired financial assets (loans to customers) amounted to BGN 21,280 thousand (2008: BGN 7,028 thousand).

7. Net fee and commission income

in BGN '000 **Fee and commission income**	**2009**	**2008**
Letters of credit and guarantees	6,305	9,579
Payments transactions	7,645	9,195
Customer accounts	8,808	9,138
Cards business	17,581	18,753
Other	15,654	22,991
	55,993	**69,656**
Fee and commission expense		
Letters of credit and guarantees	(606)	(2,562)
Deposits to banks and other financial institutions	(862)	(630)
Cards business	(5,641)	(5,362)
Other	(65)	(492)
	(7,174)	**(9,046)**
Net fee and commission income	**48,819**	**60,610**

8. Net trading income

in BGN '000	**2009**	**2008**
Net trading income/(expense) arises from:		
- Debt instruments	608	520
- Equities	(665)	(5,298)
- Foreign exchange rate fluctuations	7,857	6,624
Net trading income	**7,800**	**1,846**

9. Other net operating income/(expense)

Other net operating income/(expense) includes profit/(loss| from sale of financial instruments, not assessed at fair value in profit or loss.

in BGN '000	**2009**	**2008**
Other net operating income/(expense) arising from:		
- Debt instruments	788	(1,551)
- other	(188)	(30)
Other net operating income/(expense)	**600**	**(1,581)**

10. Administrative expenses

in BGN '000	**2009**	**2008**
General and administrative expenses comprise:		
- Personnel cost	42,293	48,539
- Depreciation and amortisation	17,822	16,796
- Advertising	7,293	17,229
- Building rent expense	23,763	14,830
-Telecommunication, software and other computer maintenance	10,740	11,047
- Unclaimable VAT	9,607	10,159
- Administration, consultancy, audit and other costs	25,413	29,080
Administrative expenses	**136,931**	**147,680**

Personnel costs include salaries, social and health security contributions under the provisions of the local legislation. At 31 December 2009 the total number of employees was 2,360 (2008: 2,554).

11. Allowance for impairment

in BGN '000	**2009**	**2008**
Write-downs		
Loans and advances to customers	(33,628)	(27,722)
Available for sale investments	(3,038)	-
Reversal of write-downs		
Loans and advances to customers	28,051	30,464
Impairment, net	**(8,615)**	**2,742**

12. Income tax expense

in BGN '000	**2009**	**2008**
Current taxes	(4,062)	(4,781)
Deferred taxes (See Note 22)	(200)	(313)
Income tax expense	**(4,262)**	**(5,094)**

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

in BGN '000	**2009**	**2008**
Accounting profit before taxation	**36,283**	**56,025**
Corporate tax at applicable tax rate (10% for 2009 and 10% for 2008)	3,628	5,603
Tax effect of permanent tax differences	434	(822)
Tax effect of reversals of temporary differences	200	313
Income tax expense	**4,262**	**5,094**
Effective tax rate	11.75%	9.09%

13. Earnings per share

	2009	2008
Net profit attributable to shareholders (in thousands of BGN)	32,021	50,931
Weighted average number of ordinary shares (in 000's)	110,000	110,000
Earnings per share (BGN)	**0.29**	**0.46**

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

14. Cash and balances with Central Banks

in BGN '000	2009	2008
Cash on hand		
- in BGN	97,144	105,279
- in foreign currency	44,041	55,565
Balances with Central Banks	257,689	426,547
Current accounts and amounts with local banks	4,092	30,115
Current accounts and amounts with foreign banks	194,608	118,027
Total	**597,574**	**735,533**

15. Financial assets held for trading

in BGN '000	**2009**	**2008**
Bonds and notes issued by:		
Bulgarian government, rated BBB+ or BBB-:		
- denominated in Bulgarian Leva	2,638	5,476
Foreign banks assessed with AAA rating	3,224	-
Other issuers – equity instruments (unrated)	3,161	4,205
Total	**9,023**	**9,681**

16. Available for sale investments

In thousands of BGN	**2009**	**2008**
Bonds and notes issued by:		
Bulgarian Government		
- denominated in BGN	27,688	27,872
- denominated in foreign currencies	5,376	6,033
Foreign governments		
- short term	214,160	194,941
- long term	-	-
Foreign banks and other financial institutions	35,166	55,740
Other issuers	2,720	2,038
Investments in subsidiaries	28,876	24,920
Total	**313,986**	**311,544**

Investments in subsidiaries are as follows:

in BGN '000	% held	**2009**	**2008**
Entity:			
First Investment Finance B.V. The Netherlands	100%	3,947	3,947
Diners Club Bulgaria AD	87.93%	4,443	2,443
First Investment Bank − Albania Sh.a.	99.999838%	20,486	18,530
Total		**28,876**	**24,920**

17. Financial assets held to maturity

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

in BGN '000	**2009**	**2008**
Securities held to maturity issued by:		
Bulgarian Government	21,833	42,196
Foreign banks and other financial institutions	8,185	18,197
Total	**30,018**	**60,393**

18. Loans and advances to banks and other financial institutions

(a) Analysis by type

in BGN '000	**2009**	**2008**
Placements with banks	15,179	3,920
Receivables under repurchase agreements (see Note 30)	2,810	-
Other	3,370	6,248
Total	**21,359**	**10,168**

(b) Geographical analysis

in BGN '000	**2009**	**2008**
Domestic banks and financial institutions	3,491	625
Foreign banks and other financial institutions	17,868	9,543
Total	**21,359**	**10,168**

19. Loans and advances to customers

in BGN '000	**2009**	**2008**
Retail Banking		
- Consumer loans	208,118	227,610
- Mortgage loans	354,717	374,732
- Credit cards	158,124	149,796
Small and medium enterprises	204,647	251,455
Microlending	29,456	41,196
Corporate customers	2,060,580	1,967,571
Allowance for impairment	(72,403)	(66,844)
Total	**2,943,239**	**2,945,516**

(a) Movement in impairment allowances

in BGN '000	
Balance as at 1 January 2009	**66,844**
Additional allowances	33,628
Amounts released	(28,051)
Write - offs	(18)
Balance at 31 December 2009	**72,403**

20. Property and equipment

in BGN '000	Land and Buildings	Fixtures and fittings	Motor vehicles	Assets under Construction	Leasehold Improvements	Total
Cost						
At 1 January 2009	12,367	93,990	5,989	59,652	38,180	210,178
Additions	-	4	-	10,896	-	10,900
Disposals	(1,538)	(4,464)	(281)	(27)	(315)	(6,625)
Transfers	-	12,739	7	(35,725)	8,733	(14,246)
At 31 December 2009	10,829	102,269	5,715	34,796	46,598	200,207
Amortisation						
At 1 January 2009	3,603	44,030	3,600	-	9,935	61,168
Charge for the period	378	12,500	846	-	2,803	16,527
On disposals	(571)	(4,030)	(255)	-	(315)	(5,171)
At 31 December 2009	3,410	52,500	4,191	-	12,423	72,524
Net book value						
At 31 December 2009	**7,419**	**49,769**	**1,524**	**34,796**	**34,175**	**127,683**
At 1 January 2009	**8,764**	**49,960**	**2,389**	**59,652**	**28,245**	**149,010**

21. Intangible assets

in BGN '000	Software and licences	Total
Cost		
At 1 January 2009	8,006	8,006
Additions	-	-
Disposals	(91)	(91)
Transfers	14,246	14,246
At 31 December 2009	22,161	22,161
Amortisation		
At 1 January 2009	2,842	2,842
Charge for the period	1,295	1,295
On disposals	(91)	(91)
At 31 December 2009	4,046	4,046
Net book value		
At 31 December 2009	**18,115**	**18,115**
At 1 January 2009	**5,164**	**5,164**

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 BGN '000	**Assets**		**Liabilities**		**Net**	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**
Property, equipment and intangibles	-	-	2,273	1,942	2,273	1,942
Other	(392)	(261)	-	-	(392)	(261)
Net tax (assets)/liabilities	**(392)**	**(261)**	**2,273**	**1,942**	**1,881**	**1,681**

Movements in temporary differences in 2009 at the amount of BGN 200 000 are recognised in net profit for the period.

23. Other assets

in BGN '000	**2009**	**2008**
Deferred expense	4,158	6,138
Gold bullion	7,509	7,817
Other assets	22,614	14,896
Total	**34,281**	**28,851**

24. Due to banks

in BGN '000	**2009**	**2008**
Term deposits	5,000	51,656
Payable on demand	1,863	1,759
Total	**6,863**	**53,415**

25. Due to other customers

in BGN '000	2009	2008
Retail customers		
- payable on demand	312,678	393,915
- term deposits	2,356,030	1,342,358
Businesses and public institutions		
- payable on demand	278,983	408,908
- term deposits	329,194	1,034,140
Total	**3,276,885**	**3,179,321**

26. Liabilities evidenced by paper

in BGN '000	2009	2008
Bonds issued	-	19,911
Acceptances under letters of credit	14,151	353,179
Liabilities under repurchase agreements (see Note 30)	124,255	12,276
Other term liabilities	93,920	105,032
Total	**232,326**	**490,398**

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

Bonds issued include:

in BGN '000	2009	2008
Mortgage bonds		
EUR 10,000,000, 7%, due 2009	-	19,911
Total	**-**	**19,911**

27. Subordinated term debt

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

Subordinated liabilities can be analysed as follows:

in BGN '000

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

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

28. Perpetual debt

in BGN '000

	Principal amount	Amortised cost as at 31 December 2009
Step-up Guaranteed Perpetual Subordinated Bonds EUR 27 mio	52,807	55,851
Step-up Guaranteed Perpetual Subordinated Bonds EUR 21 mio	41,073	45,318
Total	**93,880**	**101,169**

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 and 100% owned by First Investment Bank AD 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 Bulgarian National Bank.

29. Other liabilities

in BGN '000	2009	2008
Liabilities to personnel	3,620	2,288
Current tax liability	1,009	1,102
Other payables	1,824	1,797
Total	**6,453**	**5,187**

30. Repurchase and resale agreements

The Bank 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-bearing assets, depending on the prevailing interest rates. At 31 December 2009 assets sold under repurchase agreements were as follows:

in BGN '000	**Fair value of underlying assets**	**Carrying amount of corresponding liabilities**
Bulgarian government securities	25,944	26,993
Other government securities	97,069	97,262
Total	**123,013**	**124,255**

At 31 December 2008 assets sold under repurchase agreements were as follows:

in BGN '000	**Fair value of underlying assets**	**Carrying amount of corresponding liabilities**
Bulgarian government securities	10,302	10,315
Other government securities	1,956	1,961
Total	**12,258**	**12,276**

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

in BGN '000	**Fair value of underlying assets**	**Carrying amount of liabilities**
Bulgarian government securities	2,945	2,810
Total	**2,945**	**2,810**

At 31 December 2008 there were no assets purchased under repurchase agreements.

31. Capital and reserves

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

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

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

(b) Shareholders

In October 2008 Balkan Holidays, London transferred in full its shares in FIBank to the minority shareholders Domenico Ventures Limited, British Virgin Islands and Rafaela Consultants Limited, British Virgin Islands, with which the shareholding in the Bank of each if them increased to 9.72% each.

The table below shows those shareholders of the Bank holding shares as at 31.12.09 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**

31. Capital and reserves, continued

(b) Shareholders, continued

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 Bulgarian Stock Exchange – Sofia.

(c) Statutory reserve

Statutory reserves include amounts set aside for purposes regulated by local legislation. According to Bulgarian legislation the Bank is obliged to set aside 1/10 of its annual profit as statutory reserve until the total amount of reserves reaches 1/10 of the Bank's share capital.

In 2009, as in the previous year, the Bank did not distribute dividends.

32. Commitments and contingent liabilities

(a) Contingent liabilities

The Bank 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 for contingent liabilities represent the maximum accounting loss that would be recognised in the statement of financial position if counterparts failed completely to perform as contracted and any collateral or security proved to be of no value.

in BGN '000	**2009**	**2008**
Guarantee		
- in BGN	165,731	202,558
- in foreign currency	182,348	194,462
Total guarantees	**348,079**	**397,020**
Unused credit lines	258,586	367,111
Promissory notes	14,295	15,677
Letters of credit in foreign currency	89,708	126,142
Total	**710,668**	**905,950**

These commitments and contingent liabilities have off balance-sheet credit risk and only organization 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 date of the report there are no other significant contingent liabilities and commitments requiring additional disclosure.

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

33. Cash and cash equivalents

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

in BGN '000	**2009**	**2008**
Cash and balances with Central Banks	597,574	735,533
Loans and advances to banks and financial institutions with original maturity less than 3 months	3,464	9,974
Total	**601,038**	**745,507**

34. Average balances

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

in BGN '000	**2009**	**2008**
FINANCIAL ASSETS		
Cash and balances with Central Banks	557,620	640,654
Financial assets held for trading	15,444	12,147
Available for sale investments	336,507	288,285
Financial assets held to maturity	35,381	73,408
Loans and advances to banks and other financial institutions	25,488	30,828
Loans and advances to customers	2,979,290	2,850,264
FINANCIAL LIABILITIES		
Due to banks	27,951	25,000
Due to other customers	3,201,075	2,920,683
Liabilities evidenced by paper	347,161	605,697
Subordinated term debt	57,176	52,368
Perpetual debt	100,229	99,592

35. Related party transactions

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

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

Type of related party	**Parties that control or manage the Bank**		**Enterprises under common control**	
in BGN '000	**2009**	**2008**	**2009**	**2008**
Loans				
Loans outstanding at beginning of the period	2,455	2,474	21,081	12,168
Loans issued during the period	(325)	(19)	8,229	8,913
Loans outstanding at end of the period	2,130	2,455	29,310	21,081
Deposits and loans received:				
At beginning of the period	6,419	1,062	466,752	857,195
Received/(paid) during the period	1,887	5,357	(298,606)	(390,443)
At the end of the period	8,306	6,419	168,146	466,752
Deposits placed				
Deposits at beginning of the period	-	-	11,735	11,735
Deposits placed during the year	-	-	(7,823)	-
Deposits at end of the period	-	-	3,912	11,735
OFF-BALANCE SHEET COMMITMENTS ISSUED BY THE BANK				
At beginning of the period	1,475	387	5,953	3,175
Issued during the period	805	1,088	7,196	2,778
At the end of the period	2,280	1,475	13,149	5,953

The key management personnel of the Bank received remuneration of BGN 2,780 thousand for 2009 (2008: BGN 2,617 thousand).

36. Subsidiaries

(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. The purpose for creating the entity 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 entity's issued and paid up share capital is EUR 90 thousand divided into 900 ordinary shares, each with nominal value of EUR 100. 180 shares have been issued and paid up.

36. Subsidiaries, continued

(b) Diners Club Bulgaria AD

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

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

In April 2006 the Bank acquired 99.9998% of the capital of First Investment Bank − Albania Sh.a. upon its incorporation. On 27 June 2007 First Investment Bank – Albania was granted a full banking licence by the Bank of Albania, and on 1 September 2007 it effectively took over the activities of the former branch FIB – Tirana, assuming all rights and obligations, assets and liabilities.

As at 31 December 2009 the share capital of First Investment Bank – Albania Sh.a. was EUR 10,475 thousand, fully paid up, and the Bank's shareholding is 99.999838%.

37. Post balance sheet events

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

With a resolution dated 23 February 2010 the Board of Directors of Diners Club Bulgaria AD increased the company's share capital to BGN 1,860 thousand by the issue of 500,000 registered shares, with nominal value and issue price of BGN 1 each. All newly-issued shares were purchased by the Bank, thus increasing the Bank's shareholding to 91.18%.

(b) Establishment of new subsidiaries

Debita OOD and Realtor OOD, established jointly by the Bank and First Financial Brokerage House OOD, were registered in the Commercial Register on 11 January 2010. The capital of the two companies is BGN 150,000 each, distributed as follows:

1. Debita OOD - 70%, i.e. 105,000 shares for the Bank and 30%, i.e. 45,000 shares for FFBH OOD.

2. Realtor OOD - 51%, i.e. 76,500 shares for the Bank and 49%, i.e. 73,500 shares for FFBH OOD.

The companies were established as servicing companies within the meaning of Article 18 of the Law on Special Investment Purpose Companies. The main lines of business for Debita OOD include acquisition, servicing, management and disposal of receivables and the related consultancy services; the main lines of business for Realtor OOD include management, servicing and maintenance of real estate, construction and refurbishment works and consultancy in the field of real estate.