Annual Report 2006

FIRST INVESTMENT BANK

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Message from the Managing Board

First Investment Bank ("FIBank" or "FIB") is the largest bank with primarily Bulgarian capital and the fifth largest bank in Bulgaria in terms of its assets. Last year FIBank continued to follow its long-term strategy of expansion and development as a universal commercial bank offering a wide range of products to large corporate clients, SMEs, farmers, freelancers and individuals.

2006 was a successful year for FIBank. An increase in the Bank's assets by 24.8% to BGN 3.1 billion; BGN 29 million in profit; a large sales network – 107 branches, distributors, the Virtual Banking Branch (e-banking), the Call Centre (telephone banking); an increase in deposits (BGN 1.7 billion in deposits from customers; bonds – BGN 0.5 billion), and a credit portfolio of BGN 1.7 billion are amongst the primary indicators of its increasing scope and capacity. They, together with financial indicators such as capital adequacy (15.81%), return on capital (ROE 19.23%), and return on assets (after tax) – ROA 1.12% show FIBank's prospects for growth and improvement.

from left to right:
Radoslav Milenkov, Yordan Skortchev, Maya Georgieva, Ivan Ivanov, Matthew Mateev, Maya Oyfalosh, Evgeni Lukanov

Corporate banking, international payments and card transactions are FIB's traditional strengths and they continued to develop in 2006. FIBank managed to retain and improve its markets share in corporate lending (9%), ATM terminals (14.7%), POS terminals (14%), and cross border trade financing operations (13%). Having branches in Cyprus and Albania (four by 2006) and by pursuing a strategy of continuing growth, FIBank has established itself as a bank with a significant presence in the Balkans.

We, the management of First Investment Bank, believe that our success is based on good corporate governance and culture. We discuss on a weekly basis with the heads of department the achievements, problems, prospects and strategies concerning all aspects of the bank's business. Each month we draft detailed reports on the development of the Bank which are submitted to our shareholders and the bank supervision authorities. We also prepare audited financial statements semi-annually.

Intensive competition in the local banking market (32 operating banks and branches of foreign banks; an increase in bank assets of 28.4% to BGN 42.2 billion compared to 2005) is a challenge we meet by understanding in depth our clients and the market, by offering flexible solutions and high quality services. With Bulgaria's full accession to the European Union we expect other experienced players to enter the local banking market, which will encourage us to develop yet further and to set even higher standards.

Good risk management is one of the strategic priorities of FIBank's management. The recommendations of the Basel Committee and the new regulatory requirements of the Bulgarian National Bank with respect to capital adequacy, monitoring, risk assessment and forecasting and their efficient management are our primary objectives. Our efforts in this respect include modernisation of the IT system, development of automated risk assessment modules (internal scoring models), and integrated assessment of the impact of various types of risk on capital.

FIBank has the full support of its shareholders. In 2006, apart from raising additional capital of BGN 10 million, for another year they resolved to reinvest profits in the Bank's capital rather than paying a dividend. The strategy of the Bank for 2007 envisages FIBank going public and issuing new shares. This will further increase our accountability to the shareholders.

Thanks to FIBank's employees, to their outstanding professionalism, attitude and hard work all help the Bank achieve its goals. Our personnel are the lifeblood of the Bank. Their input ensures that we are on the right track, encourages us and signals whenever changes are necessary.

We recognise the importance of our customers, partners and investors in the development of FIBank. They stimulate us to develop and improve our banking products and services, to be more progressive and flexible. We would like to express our gratitude to them for their support, trust, valuable input, loyalty and for staying with us through times of hardship, success and development. Over the years FIBank has proven to be their reliable and loyal partner.

Through 2006 FIBank continued its community involvement focusing on socially significant issues. Its donor programme supports socially disadvantaged children, medical centres and national charitable campaigns. FIBank is one of the most generous donors in Bulgaria.

We are committed to expanding further the business of First Investment Bank in Bulgaria and in the Balkans, while preserving our good reputation and the high quality of our services; to be proactive, progressive and proficient in order to meet the increasing expectations and demands of our clients and shareholders.

The Managing Board
of First Investment Bank AD

Sofia, March 2007

Macroeconomic Development

2006

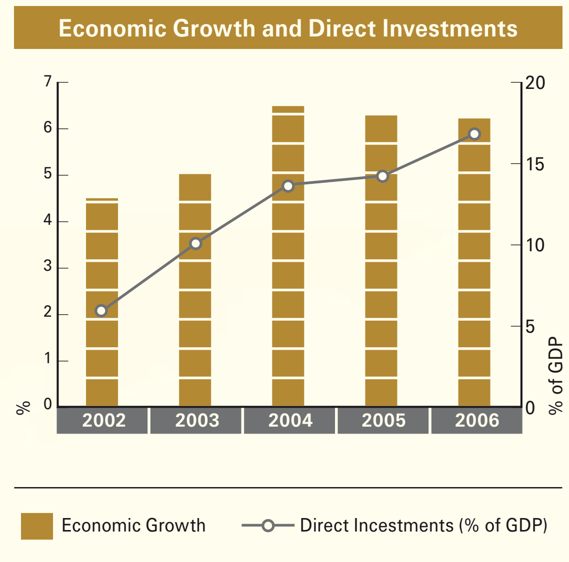
the year preceding the accession of Bulgaria to the European Union was one of intensive preparation for membership. There were expectations for rapid economic development, and growing interest in Bulgaria among foreign investors.

Republic of Bulgaria – Main indicators

	2001	2002	2003	2004	2005	2006
Gross Domestic Product, real growth, in %	4.1	4.5	5.0	6.6	6.2	6.1
Consumption, real growth, in %	4.4	3.6	6.6	5.1	6.8	6.5
Gross fixed capital formation, real growth, in %	23.3	8.5	13.9	13.5	19.0	17.6
Inflation at period-end, in %	4.80	3.80	5.6	4.0	6.5	6.5
Average annual inflation, in %	7.40	5.80	2.3	6.1	5.0	7.3
Unemployment, in %	17.9	16.3	13.5	12.2	11.5	9.6
Current account (% of GDP)	(5.6)	(2.4)	(5.5)	(6.7)	(12.2)	(15.8)
Trade balance (% of GDP)	(11.7)	(11.4)	(13.7)	(15.1)	(20.6)	(21.5)
Foreign exchange reserves of BNB, millions of Euro	4061.2	4574.8	5308.6	6770.4	7370.3	8926.4
Foreign direct investments (% of GDP)	5.9	5.9	10.5	14.0	14.5	16.4
Gross foreign debt (% of GDP)	78.6	65.1	60.2,	64.7	70.4	78.4
Public sector foreign debt (% of GDP)	63.8	48.2	39.9	33.6	24.1	17.9
Annual average exchange rate of USD (BGN for USD 1)	2.18479	2.07699	1.73156	1.57369	1.57533	1.55944

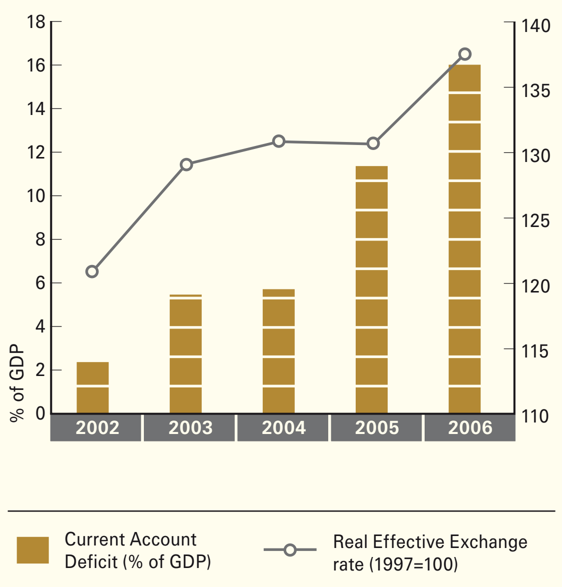
Sources: Ministry of the Economy, Bulgarian National Bank, National Statistics Institute

Over the past year economic growth speeded up, standing at 6.1% after the first nine months of 2006 (2005: 6.2%). This was mainly due to investment and private consumption. There was strong growth in gross value added both in production (8.3%) and in services (6.1%). Economic growth pushed the unemployment rate down even further to 9.6% for 2006, a sixth consecutive annual decrease.



The trade account deficit continued to grow, reaching 15.8% of GDP. The trade deficit amounted to 21.5% of GDP (2005: 20.6%). The positive balance of the other items on the current account (travel, income and transfers) decreased to 5.6% of GDP (2005: 8.2%). One reason for the current account deficit was the increased inflow of capital before the accession of Bulgaria to the European Union. The significant investments made in fixed capital over the last few years give grounds to expect a gradual decrease in the trade deficit.

Current Account Deficit and Real Effective Exchange rate



In 2006, direct investments in Bulgaria reached EUR 4,105 million (16.4% of GDP) against. EUR 2,736 million (14.2% of GDP) for the previous year. These include EUR 1,373 million as investments in real estate (2005: €598 million), followed by investments in the processing industry (EUR 788 million) and financial intermediation (EUR 740 million). The growth in productivity and the stabilisation of real estate prices will stimulate a diversification in investments.

The inflow of capital to Bulgaria was relflected in an increase in gross foreign debt, with liabilities amounting to EUR 19,670 million (78.4% of GDP) at the end of 2006. This was an increase of 30.4% over 2005. The largest area of growth was that of loans to non-financial institutions and intracompany loans. At the same time public sector foreign debt continued to fall, reaching 17.9% of GDP (2005: 24.1%).

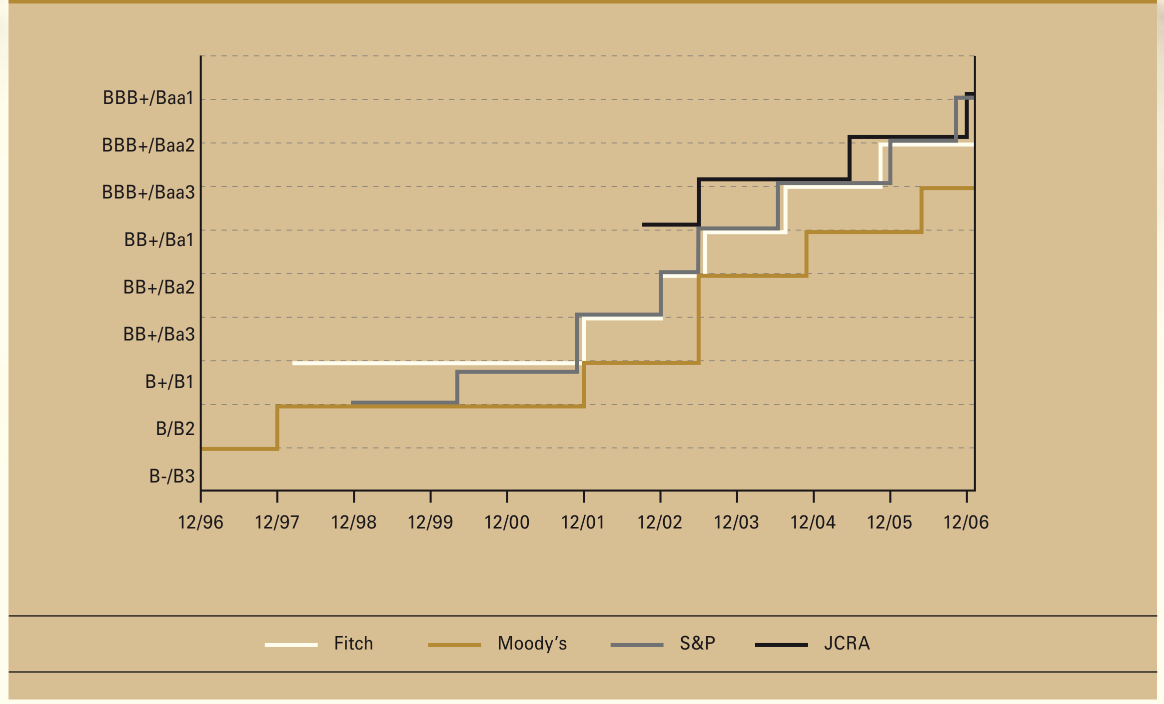
The state budget surplus rose to BGN 1,813 million (3.7% of GDP). The main contributors to this were bigger VAT revenues on imports, higher excise duties on tobacco and alcoholic drinks and growing corporate profits.

Average inflation in 2006 was 7.3%, a reflection to a large extent of the rise in world petrol prices. In 2007 inflation is expected to be influenced by renegotiated terms for natural gas supply and an increase in excise duties on fuels. The upward pressure may be moderated by a possible reduction in average petrol prices.

The Bulgarian Stock Exchange continued its development. At the end of September 2006 market capitalisation grew by 32.9% to reach BGN 11,272 million (23.8% of GDP). The free float represented 15.9% of market capitalisation.

Collective investment schemes had a strong year as well, with net assets growing by 121.5% during the first nine months of 2006 to reach BGN 208 million.

Credit Rating of Republic of Bulgaria



During the past year the credit rating of Bulgaria was raised by Moody's (Baa3), Standard&Poor's (BBB+) and the Japanese Credit Rating Agency (BBB+).

The results of reforms on a national level were recognised when on 1 January 2007 Bulgaria became a full member of the European Union. On the accession of Bulgaria the European Union did not apply the safeguard clauses provided for in the accession agreement. Bulgaria will,however, be monitored by the European Commission to ensure it fulfils the engagements undertaken in the fields of justice, utilisation of European funds, and food and aviation safety. Any failure to fulfil commitments may result in the activation of any of a number of safeguard clauses.

The country is about to join the exchange rate mechanism (ERM II) in 2007 as a step to full monetary union. The Euro may be introduced as the official currency in 2009. The Maastricht criteria must be met prior to then: price stability, defined limits to the budget deficit and to government debt; stable exchange rates; and converging long-term nominal interest rates. In 2006 Bulgaria fulfilled all the membership criteria except for price stability requirements.

The Banking System

The past year saw significant changes in the legal framework governing banking activity. These changes were dictated both by the need to align Bulgarian banking regulations with those in place in the European Union, as well as to harmonise the banking sector and economic developments more generally.

The Consumer Credit Law came into force in September 2006. This law regulates the right of individuals to receive complete information on the terms and conditions of consumer loans and the costs of their repayment, including a statement of the annual percentage rate charged,as calculated under a consistent methodology. Those obligations were laid down by a voluntary inter-banking agreement preceding changes in legislation. FIB was one of the first banks to join the agreement.

In June 2006, banks and settlement systems in Bulgaria completed a successful transition to the International Bank Account Number (IBAN). Bank account numbers thus became identifiable internationally, allowing automatic control over their validity and the straight-through processing (STP) of transfer payments.

The transition to IBAN was one of the most important steps in the accession of Bulgaria to the Single Euro Payment Area (SEPA).

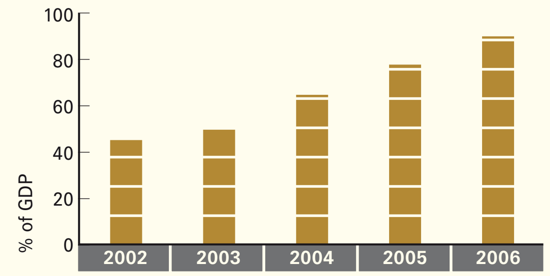
IBAN introduction was accompanied by a change in the payment documents for credit transfer and direct debit to conform with those effective in the European Economic Area.

The Bank's credit risk management was supported by a change in the Ordinance of the Bulgarian National Bank (BNB) for the central loan register. Banks must now register loans not only due to them but also loans due to third parties and serviced through them.

Over the year, BNB started gradually repealing the regulations aimed at restricting the loan portfolio growth of banks. I In the second half of 2006 the limits of the loan portfolios were reversed.

BNB Ordinance No.9 on the Evaluation and Classification of Risk Exposures was amended at the end of the year. Differentiated rates for impairment applicable to individuals were abolished as was the six-month period before re-classification of loans to individuals in a lower-risk group in the event of a resumption of loan performance.

Bank Assets



The role of the banking system in financial intermediation continued to grow. At the end of 2006 bank assets reached 86.0% of GDP against. 76.8% at the end of 2005. The balance sheet of the banking system amounted to BGN 42,195 million, marking an increase of 28.4% over 31 December 2005.

Deposits from individuals and firms increased by 34.8%, amounting to BGN 27,560 million Loan portfolios grew by 23.9%.

Banking system – loans and deposits

	2006	2005	2004
Loans to non-financial institutions (NFI) (in mln BGN)	22,771	18,379	13,811
Deposits from NFIs (in mln BGN)	27,560	20,446	16,732
Loans to NFIs (% of GDP)	46.4	42.9	35.6
Deposits from NFI (% of GDP)	56.1	47.8	43.1
Loans to NFIs (growth in %)	23.9	33.1	47.3
Deposits from NFIs (growth in %)	34.8	22.2	38.1

Loans to non-financial institutions constituted 52.4% of the banks' assets, a decrease of 1.6 percentage points. Receivables from banks and other financial institutions stood at 20.4% of assets,an increase of 2.6 percentage points.

Deposits from non-financial institutions were a major source of financing for the banking system, reaching 72.9% of liabilities against 69.5% as at 31 December 2005.

The profit of the banking system amounted to BGN 807,590 thousand, an increase of 38.2% over 2005.

The accelerated economic growth in 2006 and the rise in household income led to an increase in demand for loans and development of the lease market. As at 30 September 2006 the receivables of lease companies increased by 80.7% amounting to BGN 2,253 million. Finance leases represented 97.6% of total lease receivables. In most cases cars and lorries, as well as machines, installations and equipment were leased. Finance lease receivables were mainly from non-financial enterprises (85.8% of receivables).

With the accession of Bulgaria to the EU on 1 January 2007 a number of new laws governing banking operation came into force. The new Law on Credit Institutions (replacing the Law on Banks) introduced the single licence principle to Bulgaria. A bank that has obtained a licence in an EU member-state may now freely set up branches in any other member-state and carry out banking activities. In addition, the law enhances the rights of the Bulgarian National Bank to exercise its supervisory functions over the banking system and, if necessary, to undertake appropriate recovery measures. The law also governs the mutual recognition of EU members' supervisory systems and the supervision of overall activity by the state where the head office of the bank is located.

The new Law on Financial Collateral Agreements introduces to Bulgaria the requirements of the common regime within the EU relating to monetary receivables or securities being used as collateral.

The Law on Additional Supervision on Financial Conglomerates set up supervisory standards for conglomerates including banks, investment intermediaries, insurance companies and electronic-money companies.

The Law on Measures against Market abuse with Financial Instruments governs in a better way issues related to the manipulation of securities prices, insider trading, and the requirements and deadlines for the disclosure of significant information by the issuers of securities. The law will stimulate interest in investing in the organised financial markets in Bulgaria.

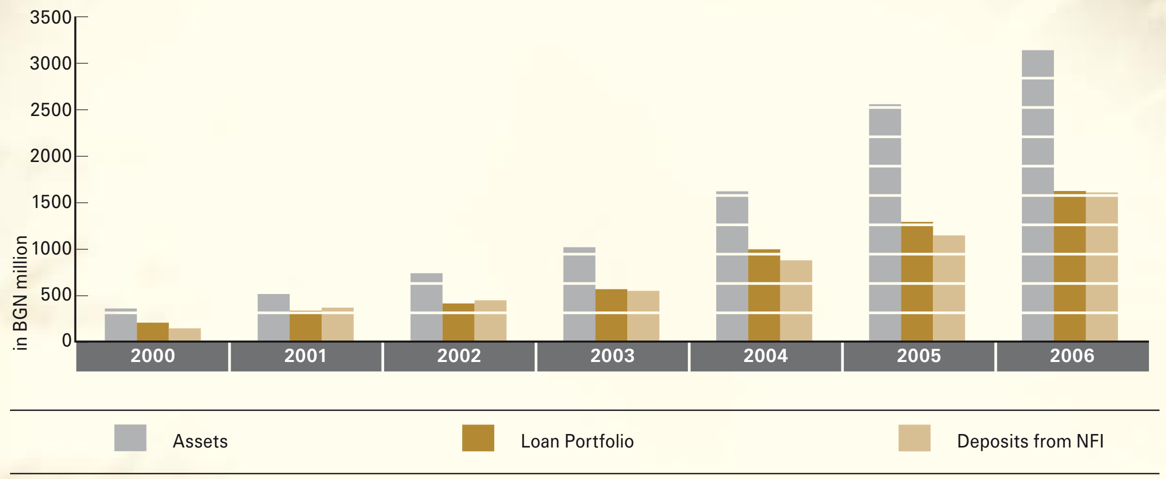
With the state's accession to the EU, the size of guaranteed deposits increased from BGN 25,000 to BGN 40,000.

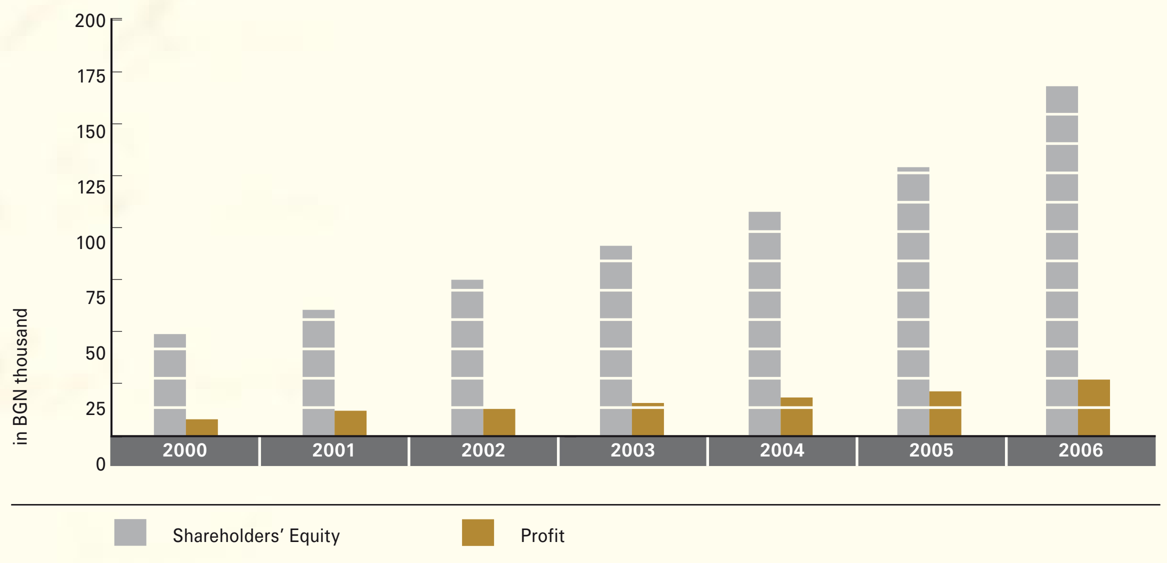
A new Ordinance of BNB on the capital adequacy of credit institutions came into force on 1 January 2007. It introduced the new capital accord (Basel II) and the EU directives on the capital adequacy of banks. As from 2007 banks must allocate capital not only for credit and market risks but also for the operational risks of their activity.

First Investment Bank Proudly Enters the European Union.

For a 13th consecutive year First Investment Bank has proven that it is among the leading institutions in the Bulgarian banking sector. The Bank's strong financial performance is due not only to improving macroeconomic indicators but mainly to the effective management of the Bank, to its innovative approach and to the professionalism, flexibility and morale of its team of employees.

FIB has shown itself to be a loyal and trusted partner for its clients and contractors in the local and international markets. European standards of banking services have long been an established practice of the Bank. 2006, yet again, was a successful year of growth.





Mission Statement

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

Bank Profile

Corporate Status

First Investment Bank is a joint-stock company, registered with Sofia City Court pursuant to a ruling dated 8 October 1993.

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

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

Participation and Membership:

- Association of Commercial Banks in Bulgaria;
- Bulgarian Stock Exchange;
- Central Depository;
- Bank Organisation for Servicing Payments by Bank Cards (BORICA);
- Bankservice;
- Real-Time Gross Settlement System (RINGS);
- MasterCard International;
- VISA International;
- S.W.I.F.T.;
- MoneyGram Agent;
- Express-M (domestic money transfers) Agent;
- EasyPay (domestic money transfers) Agent.

Subsidiaries

First Investment Bank owns three subsidiaries:

First Investment Finance B.V. (the Netherlands) – a special purpose entity, fully-owned by FIB.

Diners Club Bulgaria AD – the representative in Bulgaria of Diners Club International, issuer of credit cards and payment processor The Bank owns 80% of the company's capital.

First Investment Bank – Albania Sh.a. (Albania) – a company established in April 2006 and currently in the process of obtaining a licence for banking activity in the Republic of Albania.

Market Position

- Among the leading banks in international payments and trade finance;
- Among the leading banks in the cards business;
- Second in number of ATMs;
- Third in number of POS terminals;
- Third in terms of lending to corporate clients;
- Fifth in terms of assets;
- Fifth in terms of mortgage lending to individuals;
- Sixth in terms of deposits from corporate clients and individuals.

Market Share

- 13% of cross-border transactions (sent and received) instruments for trade financing;
- 7.5% of banks' assets in Bulgaria;
- 7.7% of lending to business and individuals;
- 4.7% of consumer lending;
- 6.7% of mortgage lending;
- 6.0% of deposits from non-financial institutions and individuals;
- 14.7% of ATMs;
- 14.0% of POS terminals.

Note: The market positions and shares are based on data by BNB, BORICA and SWIFT

Correspondent Relations

FIB maintains correspondent relationships with over 500 banks all over the world. It is one of the leading banks in terms of international payments and trade financing.

Branch Network

As at 31 December 2006, FIB had a total of 107 branches and offices: the head office, 102 branches and offices covering the territory of Bulgaria, two branches abroad (in Cyprus and Tirana) and two offices (in Tirana and Duras).

2006 Awards

- In September First Investment Bank was awarded a certificate by VISA International in recognition of the volume of payments made with VISA cards.
- The Bank was included in the catalogue of Superbrands as one of the most prestigious trademarks of 2006-2007;
- In December the Bulgarian Olympic Committee bestowed a Sports Icarus on FIB for making the greatest contribution to sports in Bulgaria;
- Tseko Minev, a shareholder and founder of FIB, was awarded a prize for his contribution to the overall development of the national economy in 2006. He was nominated for the award "Mister Economics" in the annual contest of 'Economics' magazine;
- First Investment Bank was awarded the Office of the Year 2006 award.

First Investment Bank: Dates and Facts

1993	First Investment Bank was established on 8 October 1993 in Sofia. It was granted a full banking licence for carrying out operations in Bulgaria and field.
1994/95	The Bank developed and specialised in servicing corporate clients.
1996	FIB was the first in Bulgaria to offer services enabling banking from home or from the office. FIB was the first bank to receive a 5-year loan from the European Bank for Reconstruction and Development for financing small and medium-size enterprises in Bulgaria.
1997	The Bank started issuing the debit cards Cirrus/Maestro, the credit cards Eurocard/Mastercard and the American Express card. FIB was the first Bulgarian bank to offer debit cards with international access. Thompson Bankwatch awarded FIB its first credit rating. The Bank opened its first branch abroad, in Cyprus.
1998	FIB obtained its first syndicated loan from foreign banks. The Bank negotiated financing for the import of investment goods from Austria, Belgium, Denmark, Finland, France, Germany, Italy, the Netherlands, Norway, Portugal, Spain, Sweden and Switzerland, guaranteed by export insurance agencies.
2000	First Investment Bank started developing its business in the field of retail banking.
2001	FIB launched its first Virtual Banking Branch in Bulgaria allowing banking to be carried out through the Internet. The Bank was awarded the prize "Bank of the Year" by 'Pari' ('Money') daily. Maya Georgieva, an Executive Director of FIB, received the prize "Banker of the Year" by 'The Banker' weekly.
2002	FIB was named "Bank of the Client " in the annual ranking of Pari daily.
2003	Products and services to individuals became the focus of the Bank. Loans to individuals increased 5 fold during the year. FIB was named "Bank of the Client" for the second time in the annual rating of 'Pari' daily.
2004	The Bank expanded its infrastructure – the branch network expanded by 27 new branches and offices, the ATM network more than doubled. The Bank was awarded the prize "Financial Product of the Year" for its Mortgage Overdraft product.
2005	FIB acquired 80% of the capital of Diners Club Bulgaria AD. The Bank issued Eurobonds at the amount of €200 million on the Luxemburg Stock Exchange. FIB was also the first Bulgarian bank to issue perpetual subordinated bonds. The Bulgarian Donors' Forum announced FIB to be the biggest corporate donor in the financial sector. FIB won second prize in the category "Human Capital Investor" in the annual business leaders' forum. Matthew Mateev, a Deputy Chief Executive Director of FIB, was awarded the prize "Banker of the Year" by 'The Banker' weekly.

2006 Highlights

January

- The issuance of International business credit cards without guarantee deposits (Mastercard and VISA) was launched

- A new service was introduced – the automatic settlement of payables as per credit cards VISA, MasterCard and Diners Club

February

- FIB negotiated a financing for SMEs, at the amount of USD 10 million for a 5-year term, covered by OPIC
- The virtual branch started operating with a modern, fast and convenient information system

- The Bank was presented at the exhibition “Banks, Investments, Money”

March

- FIB refreshed its programmes for granting loans to individuals with new, attractive conditions
- The Blitz loan promotional campaign – a fast loan for the purchase of goods from Technomarket stores

April

- The SMStatus service was launched – clients receive information, via SMS, on balances of and transactions from/to their accounts, along with interest and exchange rates
- FIB started opening accounts for insurance brokers, agents and civil enforcement agents
- The sale of golden Easter eggs, produced with Swiss technology, began

May

- FIB negotiated a bilateral trade financing facility with Wachovia Bank for a term of 2 years
- The joint product “Hospital Treatment”, developed with the insurance company AIG Bulgaria AD, was launched
- The Bank took part in the Plovdiv Fair and the Imoti Expo exhibition

June

- FIB completed successfully the transition to the new international bank account numbers – IBAN

- The Bank changed its payment documents in compliance with new EU regulations

July

- A joint product “Credit Cards FIB – BTC”

August

- Along with other precious metal articles, gold and silver medallions for newly-married couples were put on sale

September

- FIB was awarded a certificate by VISA International for the largest volume of transactions yet achieved.
- The Bank participated in the Plovdiv Fair

October

- A new specialised loan for doctors was launched
- Share capital was increased from BGN 10 million to BGN 20 million through the issuance of 1 million shares
- FIB received a syndicated loan, at the amount of €185 million, organised by Bayerische Landesbank and participated in by 33 banks

November

- A new SME loan product was created – a mortgage overdraft

- FIB became an agent of EasyPay – a payment system within Bulgaria
- FIB took part in the first exhibition of luxury articles in Bulgaria LUX ONLY
- FIB opened its own call centre

December

- FIB met the demands of its clients by issuing savings books: saving deposits on demand and children’s saving deposits

- A joint promotion with VISA was launched to raise card-payment awareness

- FIB was the first to introduce a system for client relations management (CRM)

Corporate Development

In 2006, First Investment Bank strengthened its position as one of the leading banks in the country, with positive indicators and development. FIB responded in a timely and professional way to economic and regulatory changes. Strong competition in the sector was met by FIB with an even better quality of services, greater variety of banking products, and a strong team of employees and management.

Key performance indicators

	2006	2005	2004	June 2006	June 2005
Financial results (in thousands of BGN)					
Net interest income	85,302	65,483	59,741	38,514	27,098
Net fee and commission income	38,824	22,188	15,388	17,311	10,166
Net trading income	8,066	13,419	7,080	3,232	9,193
Total income from banking operations	132,192	101,090	82,209	59,057	46,457
General administrative expenses	(82,720)	(63,849)	(53,145)	(36,958)	(29,664)
Net profit (after tax)	28,817	21,136	18,026	12,033	10,079
Balance sheet indicators (in thousands of BGN)					
Assets	3,147,766	2,521,264	1,653,323	2,610,141	2,227,723
Loans and advances to customers (less allowances for impairment)	1,709,773	1,338,091	983,823	1,419,303	1,215,735
Loans and advances to banks and other financial institutions	42,032	39,393	61,524	35,947	60,447
Customer deposits	1,659,513	1,177,693	849,583	1,253,327	948,662
Liabilities evidenced by paper	1,123,218	1,045,002	630,610	1,000,584	1,046,640
Shareholders' equity	168,563	129,867	108,868	141,848	118,938
Key ratios %					
Solvency ratio (Capital adequacy)	15.81	15.88	14.04	17.86	14.12
Liquidity ratio	34.61	35.50	32.24	35.49	32.16
Loan provisioning ratio	2.67	2.47	2.52	2.79	2.29
Income diversity ratio	64.53	64.78	72.67	65.21	58.33
ROE (after tax)	19.23	17.63	18.04	17.78	17.70
ROA (after tax)	1.12	1.03	1.54	1.01	1.02
Cost/income ratio	62.58	63.16	64.65	62.58	63.85
Resources (number)					
Branches and offices	107	93	76	96	81
Staff	1,598	1,269	968	1,445	1,101

Financial Results

In 2006 First Investment Bank realised a profit of BGN 28,817 thousand, a 36.3% increase over the previous year (BGN 7681 thousand). Net interest income rose by 30.3% (BGN 19,819 thousand) and net fee and commission income by 75.0% (BGN 16,636 thousand).

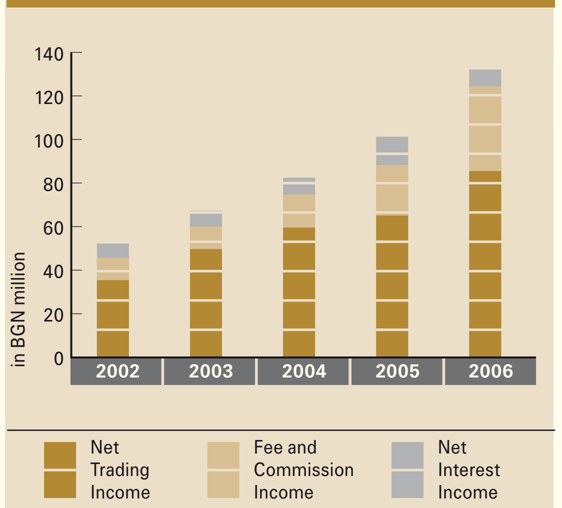
Net interest income amounted to BGN 85,302 thousand representing 64.5% of total income from banking operations. Interest income reached BGN 194,442 thousand, a rise of 21.3% (BGN 34,177 thousand). This growth was the result of higher income from loans to individuals (a rise of 51.3%, BGN 12,609 thousand) and loans to small and medium-sized enterprises (a rise of 152.1%, BGN 9,480 thousand). The higher income from loans to individuals and SMEs reflects their growth in the loan portfolio. Loans to corporate clients earned 59% of the Bank's interest income.

Interest expenses increased by 15.1% BGN 14,358 thousand), amounting to BGN 109,140 thousand. This was due to the expanded deposit base.

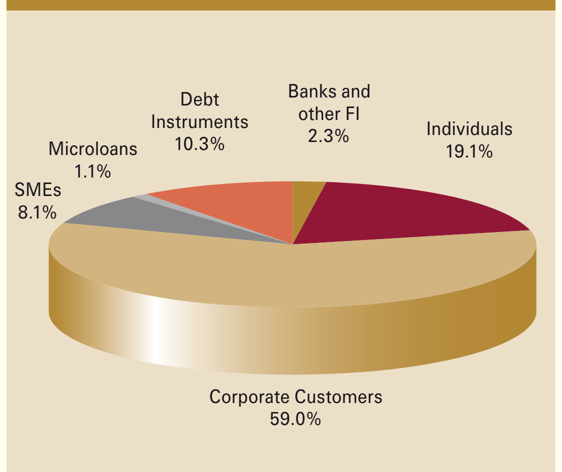
Net fee and commission income amounted to BGN 38,824 thousand, a stable growth resulting from the 55.9% (BGN 16,074 thousand) rise in fee and commission income and the decrease of commission costs by 8.6% (BGN 562 thousand). The highest share of fee and commission income was taken up by bank card transactions (25.0% of income), followed by fee and commission income from letters of credit and guarantees (23.8%). These results reflect the strong position of First Investment Bank in the card payments, documentary transactions and trade financing.

Net trading income amounted to BGN 8,066 thousand (2005: BGN 13,419 thousand).

Total Income from Banking Operations



Structure of Interest Income 2006



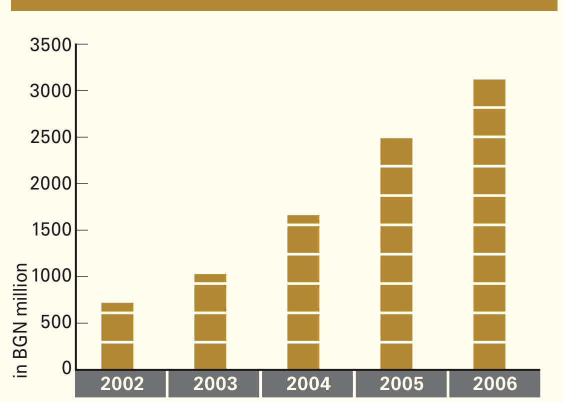
The Bank's general administrative expenses amounted to BGN 82,720 thousand, an increase of 29.6% (BGN 18,871 thousand). This was due mainly to personnel costs, rents, administrative, marketing and other expenses, related to a growth in staff, branch network development and the expansion of the Bank's business. The cost/income ratio improved, reaching 62.58% (2005: 63.16%, 2004: 64.65%).

Impairment losses amounted to BGN 12,826 thousand, a rise of 31.1% (BGN 3,040 thousand). This increase was due in part to the regulatory requirements relating to the calculation of the impairment allowances effective in 2006. It also reflected the loan portfolio growth and the risk of losses from individual exposures. Impairment is estimated each month to take into account changes occurring in respect of problematic receivables, accumulated historic experience and changes in related factors such as the development of relevant industries and other macroeconomic indicators. The quality of the loan portfolio was maintained, with a non-performing loan portion of 1.9% (2005: 1.6%, 2004: 2.2%).

The Balance Sheet

The total assets as at 31 December 2006 amounted to BGN 3,147,766 thousand. Compared to the previous year this was an increase of 24.8% (BGN 626,502 thousand). FIB's balance sheet places it fifth in Bulgaria with a market share of 7.5%.

Total Assets



The balance sheet structure showed little change over the previous year. The biggest share of assets belonged to the loan portfolio – 54.3% of total assets (2005: 53.1%), followed by cash and balances with central banks at 22.5% (2005: 21.2%) and available-for-sale investments at 16.1% (2005: 17.1%).

Cash and balances with central banks grew by 32.4% (BGN 173,191 thousand) reaching BGN 708,038 thousand. Balances with central banks contributed most to this increase – 62.6% (BGN 91,795 thousand), a consequence of the raised required minimum reserves which banks maintain with BNB.

The securities portfolio amounted to BGN 591,466 thousand, of which 85.9% were investments available for sale and 11.9% investments held to maturity. The portfolio comprises securities issued by the government of Bulgaria and by foreign issuers (governments and banks from the EU, the USA, and Australia).

Financial instruments held for trading amounted to BGN 13,239 thousand representing 0.4% of the Bank's assets.

The asset risk profile remained relatively unchanged compared to the previous year, with a ratio of risk-weighted assets to total assets rising by 0.5 percentage points to 54.4%. This was due both to the increase in the loan portfolio's share by 1.2 percentage points and to legislative changes relating to the risk weight of certain groups of assets.

The Loan Portfolio

Loans

Lending continued to be a core business, stimulated by the revival of the economy, intensified demand for the financing of corporate projects and by private consumption. Loans and advances to customers reached 54.3% of the Bank's assets (53.1% for 2005). In 2006 First Investment Bank increased its market share to 7.7% of the total loans in the banking system, placing it fourth among banks in Bulgaria.

The loan portfolio continued to follow an upward trend, being managed so as to achieve optimal diversification, balance and profitability. The total amount of the loan portfolio (before allowances for impairment) reached BGN 1,754,981 an increase of BGN 384,091 thousand (28.0%) over the previous year. This was 8 percentage points less than 2005/2004 growth (36.0%). The fall in the growth rate was supported by adherence to the Central Bank's normative requirements in respect of loan expansion.

(in BGN thousand / % of the total)

	2006	%	2005	%	2004	%
Loans to individuals	**453,881**	**26%**	**281,595**	**21%**	**168,268**	**17%**
Mortgage	*234,742*	13%	*136,727*	10%	*65,059*	6%
Consumer	*219,139*	12%	*144,868*	11%	*103,209*	10%
Loans to corporate clients	**1,301,100**	**74%**	**1,089,295**	**79%**	**839,586**	**83%**
Loans in Bulgaria	*1,697,688*	97%	*1,294,995*	94%	*959,978*	95%
Loans abroad	*57,292*	3%	*75,895*	6%	*47,876*	5%
Loan portfolio (before allowances)	**1,754,981**	**100%**	**1,370,890**	**100%**	**1,007,854**	**100%**
Specific allowances for impairment losses	*(45,208)*		*(32,799)*		*(24,031)*	(2%)
Loan portfolio	**1,709,773**		**1,338,091**		**983,823**	**98%**

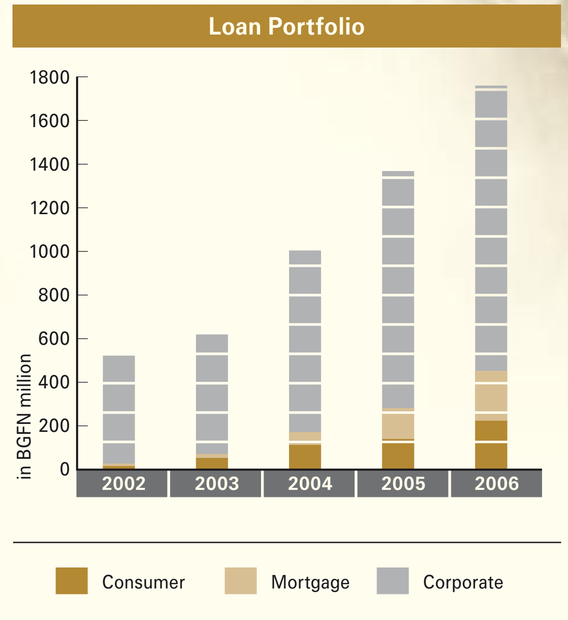
The Bank's loan policy continued to focus on local corporate market financing – the share of loans in Bulgaria was larger than that of loans abroad (Cyprus and Albania) which stood at 3% (BGN 57,292 thousand).

The trend of stable growth in the portfolio of loans to individuals (consumer and mortgage) also continued in 2006, 61.2% increase compared to the previous year or 26% of the Bank's total loan portfolio (2005:21%; 2004: 17%). This was a consequence of the consistent policy of FIB to develop its retail banking activities, to diversify services to individuals and to continue to expand in this market segment.

The 2005-2006 growth in the corporate portfolio (large corporate clients, SME, micro-lending) was 19.4%, 10.3 percentage points less than that for 2004/2005 (29.7%).

The loan portfolio has been diversified over the last five years, reflecting the Bank's growth in retail banking. Loans to individuals rose from 2.7% in 2002 to 26% in 2006.

The proportion of loans in Euros continued its upward trend reaching 59.4% against 52.1% in 2005 (2004: 45.51%), against a decline in loans in US dollars. Receivables in BGN represented 38.6% of the portfolio representing a slight growth of 1.4 percentage points (2005: 37.2%). This gradual increase in bank balances in Euros was in part a result of the accession of Bulgaria to the European Union and the growth in goods traded to member states of the European Economic Area.



Contingent Liabilities

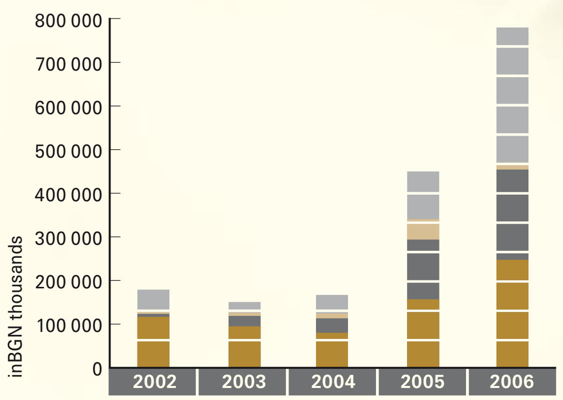
Contingent liabilities undertaken by FIB were predominated by bank guarantees, letters of credit in foreign currencies, credit lines and promissory notes. These were issued in compliance with the general loan policy of the Bank on risk assessment and collateral sufficiency.

	2006	%	2005	%	2004
Bank guarantees	244,550	31.1%	155,491	34.4%	76,114
Unutilised credit lines	211,228	26.9%	140,474	31.1%	35,349
Promissory notes	17,097	2.2%	39,602	8.8%	10,134
Letters of credit in foreign currency	313,722	39.9%	116,461	25.8%	42,455
Contingent liabilities (total)	**786,597**	**100%**	**452,028**	**100%**	**164,042**

In 2006 contingent liabilities showed a growth of 74.0%, a lower rate compared to 2004/2005 (175%). FIB's contingent liabilities portfolio at the end of 2006 were predominated by letters of credit in foreign currency (39.9%), followed by bank guarantees (31.1%). This was a reflection of First Investment Bank's reputation domestically and abroad as a credit institution meeting commitments duly and without delay.

FIB has been actively developing its instruments for servicing the cross-border payments of corporate clients by means of contingent commitments, thus increasing the share of fee and commission income from lower-risk operations.

Contingent Liabilities



Attracted Funds

The main source of financing for the Bank were deposits from non-financial institutions (NFI) which amounted to BGN 1,659,513 thousand as at 31 December 2006. Compared to the previous year deposits increased by 40.9% (BGN 481,820 thousand). Their share in the Bank's liabilities rose to 55.7% (compared to 49.2% at the end of 2005).

Deposit base by client type *(in BGN thousand / % of the total)*

	2006	%	2005	%	2004	%
Individuals	1,013,721	61.1%	731,002	62.1%	483,472	56.9%
Corporate clients	645,792	38.9%	446,691	37.9%	366,111	43.1%
TOTAL DEPOSITS FROM NFI	**1,659,513**	**100%**	**1,177,693**	**100%**	**849,583**	**100%**

The share of BGN deposits increased to 46.3% (2005: 43.2%), while EUR deposits represent 38.1% (2005: 28.8%) of total deposits from NFI.

Deposit base by foreign currency *(in BGN thousand / % of the total)*

	2006	%	2005	%	2004	%
Deposits from individuals						
in BGN	419,857	25.3%	301,583	25.6%	195,820	23.0%
in other currencies	593,864	35.8%	429,419	36.5%	287,651	33.9%
Deposits from corporate clients						
in BGN	348,592	21.0%	207,393	17.6%	180,822	21.3%
in other currencies	297,200	17.9%	239,299	20.3%	185,290	21.8%
TOTAL DEPOSITS FROM NFI	**1,659,513**	**100%**	**1,177,693**	**100%**	**849,583**	**100%**

Liabilities evidenced by paper (bonds and notes issued, syndicated loans, etc.) increased by 7.5% (BGN 78,216 thousand). Their share in the Bank's liabilities decreased to 37.7% (2005: 43.7%). The biggest change was the increase in liabilities on syndicated loans. Liabilities on issued bonds decreased on the repayment of a Eurobond on maturity, in September 2006, with a face value of EUR 40 million.

Liabilities under repurchase agreements grew by 8.7% (BGN 17,989 thousand) amounting to BGN 225,366 thousand as at 31 December 2006.

FIB negotiated a number of agreements with international institutions in order to provide its clients with effective access to specialised funding programs and financial facilities for the import of machines, equipment and related services from Europe and the USA. In 2004 FIB was the first and only Bulgarian bank to enter into a five-year financial agreement providing USD 15 million for the financing of SMEs covered by Overseas Private Investment Corporation (OPIC). Another such agreement for SME financing was concluded in February 2006, for the amount of USD 10 million and a term of 5 years, again covered OPIC.

In May 2006, FIB negotiated with Wachovia Bank a bilateral facility for trade financing for a term of 2 years.

In October 2006, the Bank negotiated a syndicated loan at the amount of EUR 185 million organised by Bayerische Landesbank and participated in by 33 banks from around the world.

In November 2006 FIB repaid a syndicated loan organised by Bayerische Landesbank at the amount of EUR 125 million.

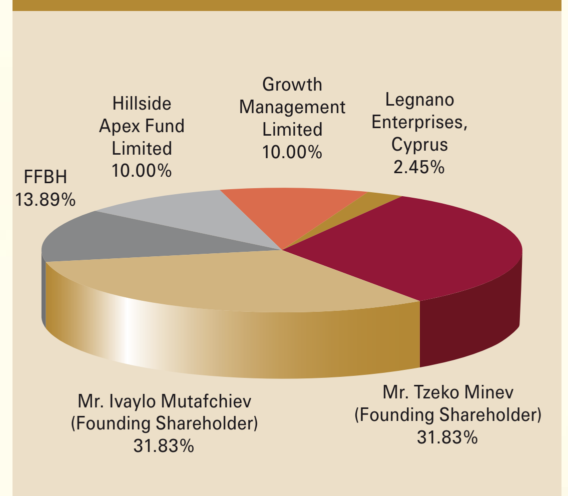
Capital

As at 31 December 2006, the total capital base of FIB amounted to BGN 301,292 thousand. This was an increase over the previous year of BGN 63,917 thousand (26.9%).

The shareholders' equity of the Bank group reached BGN 168,393 thousand by year end. This was BGN 38,491 thousand (29.6%) higher than 2005.

The Bank's share capital stands at BGN 100 million, allocated into 10 million ordinary dematerialised voting shares at the par value of BGN 10. Share capital was increased from BGN 10 million to BGN 20 million during the past year through the issue of 1 million shares. Since its establishment in 1993 FIB has not paid dividends. Retained earnings have thus been a main contributor to the Bank's capital increase. In December 2006 retained earnings were converted into 8 million new dematerialised voting shares, distributed among the Bank's shareholders in proportion to the shares held by them.

Shareholder's structure as at 31.12.2006



In February 2007 Growth Management Limited and Hillside Apex Fund Limited transferred their shares in FIBank to Domenico Ventures Limited (7%), Rafaela Consultants (7%) and Legnano Enterprises (6%).

In February 2007 was decided the shares with nominal of BGN 10 to be replaced with 10 demateralized shares with nominal of BGN 1.

As at 31st March 2007 the shareholders of FIBank are Mr Minev(31.83%), Mr Mutafchiev (31.83%), FFBH (13, 89%), Legnano Enterprises (8.45%), Domenico Ventures Ltd (7%) and Rafaela Consultants Ltd (7%).

Tier II capital increased by BGN 25,301 thousand (23.5%) in 2006. In March 2006 FIB issued perpetual subordinated bonds at the amount of €21 million. In August 2005, the Bank issued its first perpetual subordinated bonds with par value of €27 million, one of the first transactions of its kind in Central and Eastern Europe. The hybrid capital attracted through these issues increased the capital base of the Bank and supported the expansion of its operations in Bulgaria and abroad.

During the past year the Bank repaid before maturity a subordinate term debt under two agreements at the total par value of €8 million.

Risk Management

Risk management is a key indicator for the banking business. First Investment Bank treats this as a priority and allocates resources for the preventive management of risk factors, and the timely implementation of regulatory requirements, international standards and leading bank practices.

Risk management is carried out on the basis of written rules and policies, observing the principles of the double control of each transaction, centralised management, transparency and the prevention of conflicts of interests.

A system of clearly defined levels of competence and powers operates at the Bank.

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

Collective risk management bodies

For the purpose of managing various types of risks, observing the regulatory requirements of the Bulgarian National Bank, the Basel Committee recommendations and internationally recognised standards, the following collective management bodies operate at the Head Office of FIB:

The Credit Council administers the credit risk undertaken by the Bank by deciding or issuing opinions on loan transactions in accordance with the level of competence assigned thereto.

The Liquidity Council carries out current management of the Bank's assets, liabilities and liquidity. It performs systemic analyses of the interest and maturity structure of assets, liabilities, and liquidity indicators in order to optimise them.

The Credit Committee is a specialised body for monitoring loans with indicators for impairment. The Credit Committee members are employees of the Bank who are not directly involved in decision making on the extension of loans. The Committee monitors and analyses asset impairment and allowances both in general (by portfolios) and in terms of specific, individually significant exposures.

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

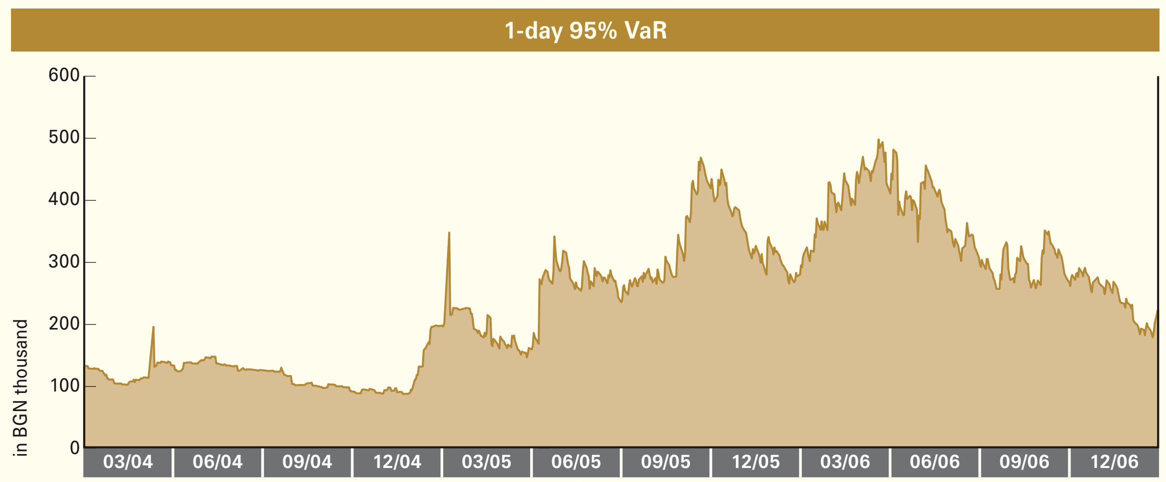
Rating models of FIB

In 2006 FIB continued working actively on the improvement of its internal rating systems. Some of the qualitative and financial indicators were redefined in order to unify the database for corporate and SME clients, while the weights of certain indicators were tuned to achieve more precise differentiation by rating categories.

Credit risk assessments are generated automatically by FIB's scoring system. Assessments consist of two components: a credit risk assessment on a ten-degree scale with defined rating categories expressed as a digit and a collateral assessment of ten degrees expressed as a letter.

The rating model of FIB was integrated into a new information system in 2006 (the Sirius module). It is a strategic goal of the Bank to develop this in order to meet regulatory requirements.

The market risk of the trading portfolio is currently monitored by applying VaR and Duration analyses. The Bank also applies standardised interest shocks to determine and analyse the effect of the changes in the interest rates on the value and profitability of the Bank's portfolio by seeking the optimum ratio between risk and profitability.



Information support in terms of both database maintenance and the setting up of new technological modules and risk management systems is a priority of FIB.

Liquidity risk is managed on a consolidated basis by taking into account legal, regulatory, tax, operational and other restrictions while analysing the possibilities for attracting or placing (lending, investing) funds. The policy towards the management of assets, liabilities and the liquidity of FIB is reviewed each year. To manage liquidity risk FIB applies a combination of financial instruments, product parameters, limits and procedures to maintain a balance between internal and external resources and liquid assets.

Servicing Clients and Alternative Distribution Channels

In 2006 FIB continued to maintain a high quality of client servicing, investing in new technologies and systems to expand its market share and increase sales through various distribution channels.

The Branch Network

At the end of 2006 the branch network of the Bank comprised head office,102 branches and offices in 43 populated areas in Bulgaria, a branch and two offices in Albania (in Tirana and Durr s), and a branch in Cyprus (Nicosia). During the past year, the Bank expanded its branch network by 10 new offices in Bulgaria and 1 office in Albania (Tirana). The branches of FIB have a contemporary design, are in convenient locations and are comfortable to clients.

Call Centre

FIB has set up its own call centre to service clients. The call centre provides information on products and services offered by the Bank, the location and working hours of the Bank's branches in the country and abroad, on ATM and POS terminals of the Bank, information on currency rates of the day and the validity of bank cards.

The call centre is also an active channel for the sale of target products and services. By calling the toll free number clients not only obtain detailed information during advertising campaigns but may place their order by telephone. Cross-sales campaigns and newly introduced products are offered to clients through the call centre.

Specialists from the call centre also assist clients with difficulties filling in bank documents.

In 2007 FIB will continue to develop the call centre's activities towards broadening the scope of information that customers may access as well as receiving orders by telephone.

Sales

A specialised structural unit, the Sales Division, was set up in 2006, pursuing the policy of bringing the Bank closer to clients. Some of the main tasks of the Division's employees are to sell directly banking products and services at the clients' offices, as well as to prepare comprehensive bank offers to large industrial clients of the Bank.

The Virtual Banking Branch

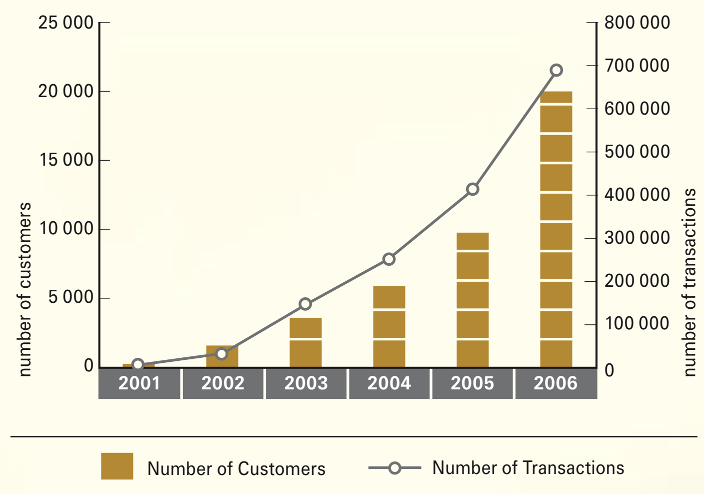
As early as 1996 FIB was the first bank to offer its clients banking from home and from the office. In 2001 the Bank launched its Virtual Banking Branch (banking through the Internet).

The activities of the Virtual Banking Branch continued to expand last year. The branch allows clients to operate their accounts swiftly, easily and securely, to order transfers in BGN and foreign currency, to make budget payments, exchange currency, check account balances and transactions, and to open deposit and current accounts in BGN or foreign currency.

FIB upgraded its Internet branch in 2006. As a result its speed and capacity were significantly enhanced and clients were enabled to open accounts in the Bank's other branches as well.

The Bank encouraged the use of this alternative distribution channel by cancelling charges for using the virtual branch. The Bank also created a demo-version of the branch last year, allowing potential clients to gain a precise idea of the services offered by the virtual branch. For clients who have no command of Bulgarian, the Bank also created a version of the Internet branch in English.

Number of Customers and Number of Transactions through the Virtual Banking Branch



As a result of these improvements interest in the Virtual Banking Branch continued to rise. The number of registered clients increased by 121% to number over 20,000. The number of accounts registered for transactions through the Internet exceeded 40,300, amounting to 5.9% of all accounts.

At the same time clients of the virtual branch are among the most active clients of the Bank. Transactions initiated through the branch accounted for 30.0% of total BGN transfers and to 29.8% of foreign currency transfers.

Information Technology

First Investment Bank, with its understanding of the primary role of information technology in improving the quality and efficiency of banking services, continued to develop its information systems in 2006. The development of information systems is directed by a clear definition of the Bank's requirements and is fully supported by management.

The Bank successfully completed the transition to international bank account numbers (IBAN) and related changes in the national payment system.

Work on the implementation of the core banking system (i-Flex FlexCube) continued last year. The new information system will handle the rapid growth in business and meet requirements for the fast and efficient servicing of clients.

In conformity with the new capital accord (Basel II), FIB is preparing to implement the i-Flex Reveleus module. The module implementation will allow for the improvement of credit, market and operational risk management, and will accelerate and facilitate the preparation of management, financial and regulatory statements.

The Bank introduced a customer relationship management system (PeopleSoft CRM). The new system allows for better client segmenting and analysis of the products and services used. This will enhance interaction among all units involved in the sale of banking products and services, identify particular client needs.

During the past year FIB purchased a new resource planning system (Atlantis ERP). This system will improve the quality and transparency of information management and the effectiveness of business processes.

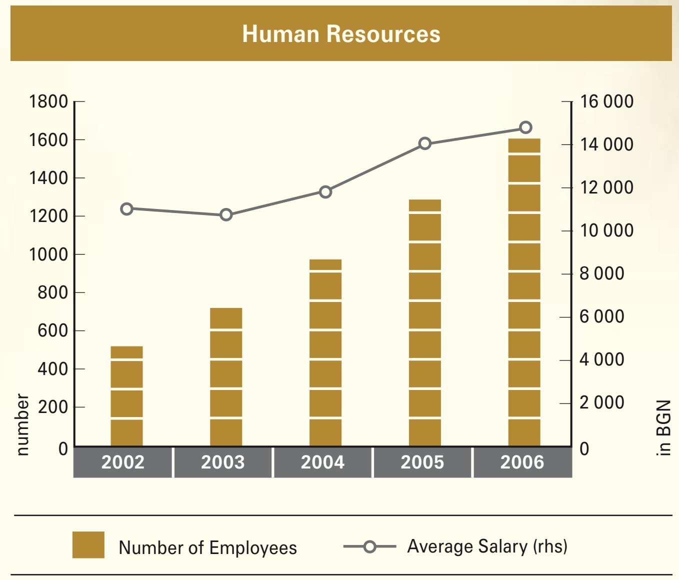
In 2006 the Bank prepared to implement a new card information system to process the rapidly growing number of bank cards. The system provides for the issue of credit and debit cards, charge-cards, co-branded cards, etc. The system also handles the issue of cards with an EMV2 chip which FIB has been issuing since the end of 2006. With these cards the security of payments will be improved.

Human Resources

FIB offers good working conditions, opportunities for development, for for applies creative approaches with clear rules and procedures, and thus attracts and retains motivated and talented employees.

In 2006, the employees of FIB numbered 1598, an increase of 26% over 2005, in line with the Bank's growth ib business.

FIB offers numerous employee incentives. At the end of each year staff at all levels are appraised according to standard criteria. The Bank has introduced a sales incentive programme. It assesses both the individual contribution of each employee and the team's achievements.



FIB pays special attention to the development of each employee and offers opportunities for growth within the Bank. Various forms of training are offered: intrabank seminars with leading internal or external experts, including foreign specialists, and participation in seminars, conferences, and forums in Bulgaria and abroad. Expenditure on training in 2006 amounted to BGN 119 thousand a rise of 6.3% compared to 2005 (BGN 112 thousand), and of more than 45% compared to 2004 (BGN 82 thousand). More than half the staff passed qualification enhancement courses.

A specialised internship programme gives young people (high school students or university students of finance) the opportunity to acquire banking knowledge and skills.

The Bank participes in several sports events (the Bansko Sports Fest, an interbank chess tournament, an office golf tournament), and offers opportunities for recreation, sports and tourism. This contributes to the creation of a close team of employees sharing similar views.

The employees' high level of professionalism, along with with their politeness and loyalty, contribute to the growing trust of clients and partners in First Investment Bank.


Heads of Divisions

Charity

First Investment Bank has continued to demonstrate its responsibility to the problems of society and its readiness to take part in resolving socially important issues.

The Bank gives priority to children's charity initiatives. In 2006, FIB again supported the children of Bulgaria – the talented, the ambitious, the ill and the abandoned . These charity initiatives included supporting a children's folklore ensemble, participating in an international mathematics Olympiad, and enabling blind children to take part in an international martial arts tournament. For another year FIB helped disadvantaged children graduating from school to enjoy their farewell ball.

In 2004, together with the "Workshop for Civil Initiatives" Foundation, First Investment Bank set up the FIB Social Responsibility Fund. Charitable funds are distributed on a project basis to achieve sustainable results. A total of 12 projects were supported within the first two sessions of the Fund, aimed at creating conditions for underprivileged children to continue their education and develop their personalities after they leave orphanages. For this purpose the Fund has established a scholarship for higher education. The first scholarship holder is from The Home for Raising Children Deprived of Parents' Care "Olga Skobeleva". She will continue her education at Plovdiv University "Paisij Hilendarski".

FIB continued the campaign begun in 2005 of issuing debit and credit cards FIB – Bulgarian Red Cross. Some of the income collected from those cards was used in the project "Partnership Network for Charity".

In 2006, First Investment Bank took active part in the national campaign to fight breast cancer. The Bank supported the International Women's Club Foundation in purchasing an echograph for the multi-profile hospital in Shumen, while the bank's branches distributed information leaflets about preventive measures.

Together with the Welmar Foundation the Bank made a charitable grant of part of the proceeds from the sale of the "Inspiration from Antiquity" jewel collection. This was put towards the Bulgarian cultural heritage programme "My Roots".

The charitable programme of FIB corresponds to the values of the Bank – responsibility, transparency, support in resolving socially important issues and those of society in general. The employees of FIB contribute personally by participating actively in blood donation campaigns organised annually at the Bank, and in other charitable campaigns.

Corporate Governance

Skilful governance creating good corporate spirit, combined with efficient results that are satisfactory to shareholders, are among the most important values of the Bank.

First Investment Bank operates in accordance with and in the interest of creditors, shareholders, employees, business partners and society in general. FIB's governance has been set up on the basis of internationally recognised corporate governance standards effective in the European Union, in compliance with changes introduced in the regulatory and economic environment, and in line with the increased capacity and significance of FIB in the country's financial market.

The corporate governance of FIB is a system with clearly defined functions, rights and responsibilities at all levels: The Supervisory Board, the Managing Board, structures at the Head Office, branches and offices. The underlying principles of the governance programme are transparency, publicity, objectivity and equality. There are the written rules and procedures for preventing conflicts of interests and the use of internal information, for keeping banking confidentiality, preventing money laundering, the financing of terrorism and for preventing financial malpractices. FIB requires all of its contractors to identify themselves before accepting requests or orders for the execution of banking transactions.

First Investment Bank has a two-tier management system, comprising a Supervisory Board and a Managing Board.

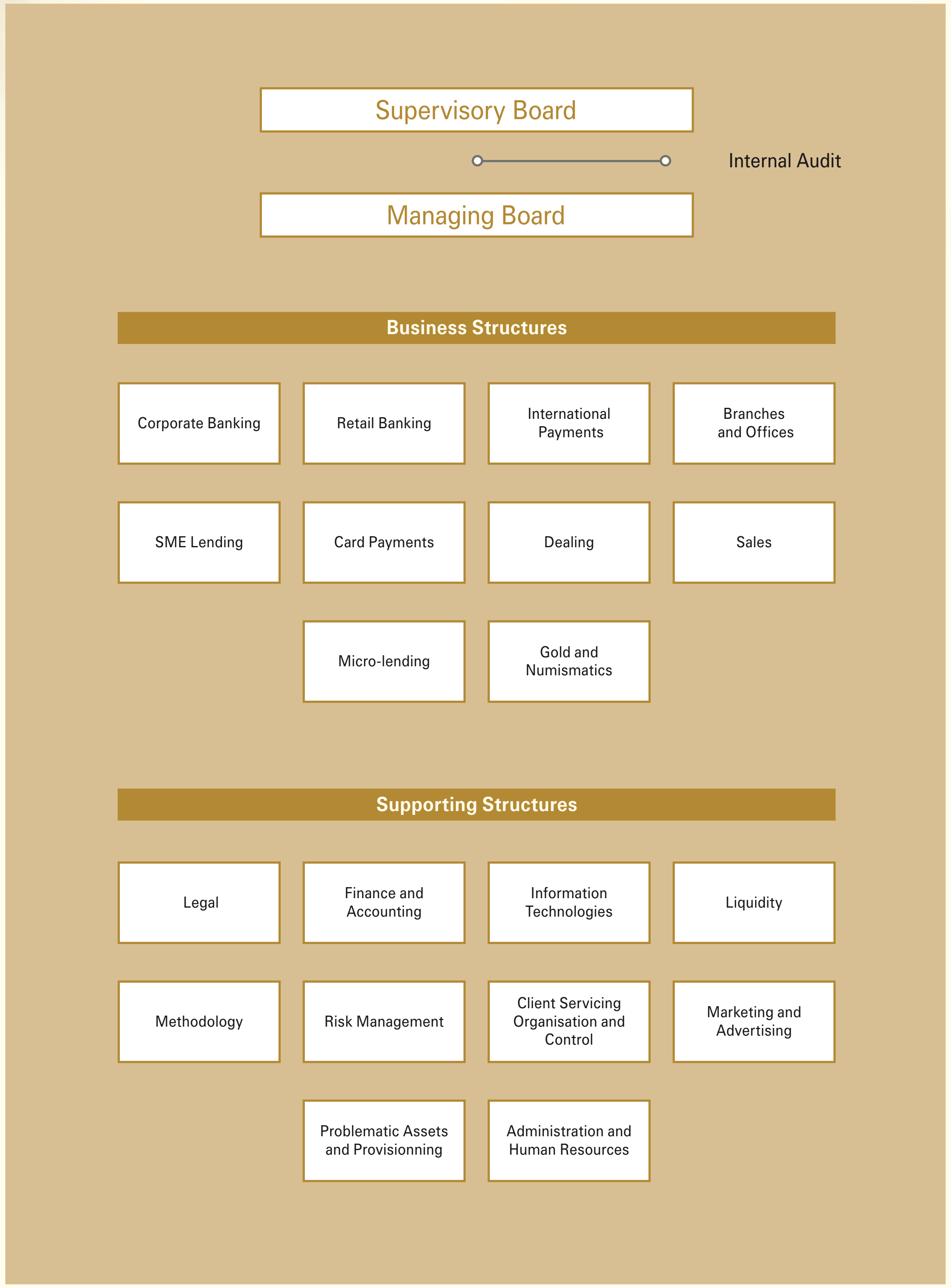
The Supervisory Board does not participate directly in the Bank's management. The Supervisory Board elects and discharges members of the Managing Board, and approves the more important strategic decisions of the Bank. In 2006, the Supervisory Board held 7 sessions in the presence of the members of the Managing Board.

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

The specialised internal audit service (SIAS) checks all the activities of the Bank on a regular basis It has the power to report directly to the Supervisory Board in the event of significant established irregularities. SIAS exercises control as to whether the effective regulatory provisions and internal banking requirements are observed in order to assist the managing bodies in their decision-making.

The Bank is managed in accordance with current legislation and the Bank's statutes, which provide for the shareholders' rights, ownership registration, share transfer, as well as the regular preparation and presentation of information regarding the Bank's financial position and corporate status. The annual and semi-annual financial statements of FIB are audited by an independent auditor. The Bank has been awarded credit ratings by internationally recognised rating agencies: BB- with a positive perspective (Fitch), Ba3 with a positive perspective (Moody's). In order to guarantee transparency and to enable all interested parties to know the results of FIB, the reports of the Bank are available at all of its branches as well as on its website: **www.fibank.bg**

Business Structure



Supervisory Board

Georgi Dimitrov Mutafchiev

Chairman of the Supervisory Board

Radka Vesselinova Mineva

Member of the Supervisory Board

Todor Ludmilov Breshkov

Member of the Supervisory Board

Nedelcho Vasilev Nedelchev

Member of the Supervisory Board

Kaloyan Yonchev Ninov

Member of the Supervisory Board

In February 2007, David Cameron Mathew and Stefan Pinter resigned from the Suppervisory Board, connected to the sale of Growth Management Limited and Hillside Apex Fund Limited shares. In February, the General Meeting of the Shareholders appointed Nedelcho Nedelchev and Kaloyan Ninov as members of the Suppervisory Board.

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

Managing Board

Matthew Alexandrov Mateev

Executive Director,

Chairman of the Managing Board

Maya Lubenova Georgieva

Executive Director

Yordan Velichkov Skortchev

Executive Director

Evgeni Krastev Lukanov

Executive Director

Ivan Stefanov Ivanov

Regional Director “Northeast Bulgaria”

Maya Ivanova Oyfalosh

Director “Corporate Banking”

Radoslav Todorov Milenkov

Director “Financial and Accounting”

At the end of 2006, as his mandate expired, Mr. Jonathan Harfield vacated the post of Chief Executive Director. Mr. Mathew Mateev was appointed chairman of the Managing Board.

Business Overview

Retail Banking

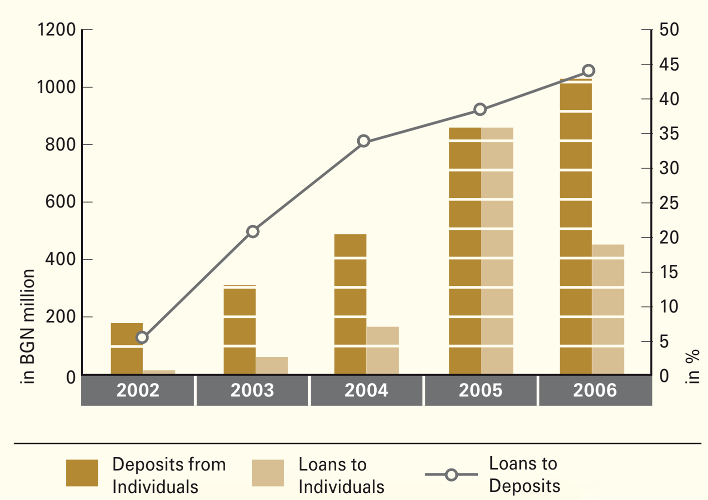
Deposits

As at 31 December 2006, deposits from individuals amounted to BGN 1,013,721 thousand, an increase of 38.7% (BGN 282,719 thousand) over the previous year. Fast growth was promoted both by the variety of deposit products offered by the Bank , which meet the needs of a broad scope of depositors, and the by the high quality of service offered by FIB. At the end of the year the Bank started opening saving accounts of children and adults.

Term deposits predominated among deposits from individuals, amounting to BGN 666,225 thousand (65.7% of deposits from individuals) vs. BGN 461,811 thousand (63.2%) at the end of 2005, representing an increase of 44.3% (BGN 204,414 thousand).

Funds in current accounts of individuals amounted to BGN 347,496 thousand at the end of 2006 against BGN 269,191 thousand at the end of 2005. This increase of 29.1% resulted from the growing number of debit and credit cards and from the value-added services offered by FIB such as the automatic settlement of payables, payments for utility services, SMS notices, acquiring information by telephone (Interactive Voice Response (IVR)) and others.

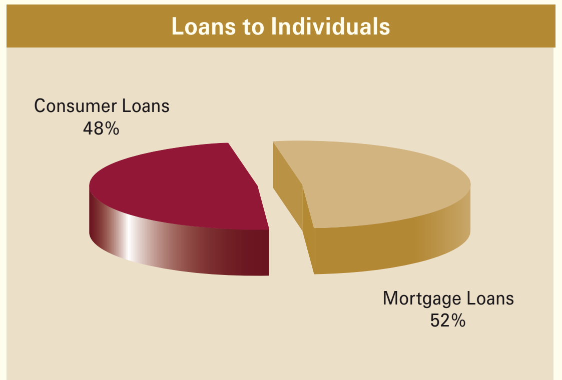
Deposits and Loans to Individuals



Most of the deposits from individuals were denominated in BGN and EUR, with their relative shares being 41.4% and 39.9% respectively. The share of deposits in BGN remained practically unchanged compared to the end of 2005, while the share of EUR deposits increased by 7.3 percentage points. That of USD deposits decreased by 7.6 points.

Loans

Over the last five years, First Investment Bank has actively developed its lending to individuals and succeeded in becoming one of the leading banks in the market. With a portfolio of BGN 453,881 thousand, the Bank achieved a market share of 5.6%, placing it among the market leaders at the end of 2006.



Consumer loans increased by BGN 74,271 thousand (51.3%) compared to the previous year, reaching BGN 219,139 thousand. Flexible lending programmes,fast risk assessment, and the automated scoring systems applied by FIB were among the high-quality services which attracted new clients. Despite strong competition, the Bank increased its market share from 3.5% at the end of 2005 to 4.7% at the end of 2006.

Mortgage loans totalled BGN 234,742 thousand, an increase of BGN 98,015 thousand or 71.7% over 2005. There was significant growth in construction and in the residential property market especially at the seaside and in mountain resorts, with demand from foreign buyers. With a market share of 6.7%, FIB retained fifth place in the local market of mortgage loans to individuals. This was due in part to the variety of products offered by the Bank.

In the past year FIB launched new credit products and optimised the parameters of existing ones. This raised interest and attracted new clients. These included specialised lending programmes for the purchase and construction of real estate, university student loans, and the loans "Professional", and "Technomarket". Some of the established products of FIB which had won prizes in previous years, such as the mortgage overdraft, continued to be in demand. These products were further developed to target other client groups such as SMEs and micro-lending.

Card Payments

In the past year, FIB continued to strengthen its position as a leading bank in Bulgaria in the field of card payments. The Bank offered its clients the debit cards VISA Electron and Maestro, and the credit cards VISA, MasterCard, Diners Club and American Express.

The Bank's leading role in card payments was recognised with a certificate for the realised volume of transactions through VISA cards, awarded by VISA International for the first time in Bulgaria.

In October 2006 FIB certified successfully its VISA card with an EMV chip, while in November 2006, the Bank also obtained certification for its MasterCard. The Bank was the first in Bulgaria to be authorised to issue EMV cards by both of these card organisations.

First Investment Bank continued to develop its range of products for individuals and legal entities. At the beginning of 2006, the Bank started issuing international business credit cards and in the middle of the year the joint business credit cards FIB-BTC were launched.

A focus of the Bank's 2006 activity was to stimulate the use of bank cards issued by FIB. In addition to bonus payment to cardholders on the basis of credit card payments made, FIB conducted a promotional campaign to popularise the products.

The conditions of use of the debit cards VISA Electron were also improved. During the year the Bank lowered the fees charged for using these cards and started authorizing transactions their use on the Internet.

This is a dynamic and growing market and FIB issued an increasing number of cards. During the year the number of credit cards rose by 93.7%. The number of debit cards Maestro and VISA Electron increased by 16.3%, reaching over 434,000.

Last year FIB also started issuing bank cards in its branch in Albania.

The number of POS terminals of FIB increased by 127.9% in 2006, exceeding 3250. The attractive conditions offered and the increasing number of cards issued by the Bank contributed to this rapid growth.

The Bank administers the second largest network of ATM terminals in Bulgaria, with 537 terminals at the end of the year (2005: 447).

Diners Club Bulgaria AD

Following the acquisition of 80% of the shares of Diners Club Bulgaria AD, the number of Diners Club cards issued rose, with 2006 growth reaching 127%. The number of Diners Club POS terminals increased by 88%. Turnover through them rose by 60%.

Gold and Numismatics.

In 2001 First Investment Bank started offering its clients articles of gold and precious metals – bars, gold coins, silver coins, medals,and medallion-shaped bars. By the end of 2006 they were offered in more than 100 branches all over the country.

High alloy gold and silver wedding medals turned out to be the great success of 2006. They were jointly developed by experts of FIB and designers from the world-famous Swiss mint PAMP (Produits Artistiques de Métaux Précieux).

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

EGO Club

For several years, First Investment Bank has been successfully developing private banking by offering professional services at branches of the Bank and assistance at clients' offices or over the telephone.

EGO Club clients are both individuals and corporate clients. They are holders of a platinum, gold or silver EGO card of FIB.

EGO Club clients receive banking services under non-standard schemes dependent on their specific needs: EGO CARD for preferential servicing, telephone banking, special conditions for use of all products of the Bank (bank cards, payments, account management, foreign currency transactions, cheques, loans, investments in gold), special conditions for the use of non-banking services – arrangements for business and tourist travels (reservations, visas, airplane tickets), preferential conditions for purchases from the list of the EGO Club traders, and trade intermediation.

Corporate Banking

Deposits

As at 31 December 2006, the accounts of legal entities with the Bank totalled BGN 645,792 thousand. This was an increase of 44.6% (BGN 199,101 thousand) compared to 2005. The majority was placed with current accounts (77.4%). The share of term deposits was 22.6%.

Compared to the previous year amounts held in current accounts increased by 84.9% (BGN 229,492 thousand) totalling BGN 499,825 thousand. This increase reflects the trust of corporate clients in First Investment Bank. Term deposits amounted to BGN 145,967 thousand (2005: BGN 176,358 thousand).

The biggest share placed in current and deposit accounts by corporate clients was in BGN accounts, which increased by 7.6 percentage points to reach 54.0%. The share of USD accounts was 8.4%, down 17.9 percentage points over the previous year (2005: 26.3%, 2004: 13.0%). The share of EUR deposits increased by 12.6 percentage points, reaching 35.4% (2005: 22.7%, 2004: 32.9%).

Loans

Corporate Lending

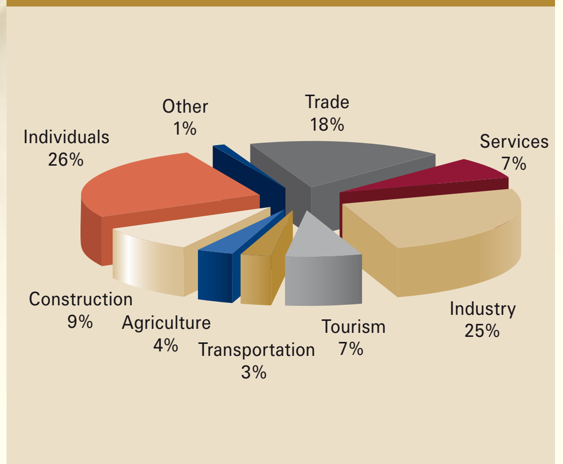
Traditionally strong in corporate lending, in 2006 FIB managed to maintain its market share of 9%, improving its market position to third place among banks in Bulgaria.

in BGN thousand / in %

	2006	%	2005	%	2004	%
Corporate	1,114,642	85.7%	985,170	90.4%	799,712	95.3%
SME	162,997	12.5%	94,742	8.7%	39,874	4.7%
Micro-lending	23,461	1.8%	9,383	0.9%	–	–
Total loans to corporate clients	**1,301,100**	**100%**	**1,089,295**	**100%**	**839,586**	**100%**

Loans to big corporate clients (with a net turnover exceeding BGN 5 million) continued to be a determinant of the Bank's portfolio structure at 85.7%, followed by loans to small and medium-size enterprises at 12.5% and micro-loans at 1.8%. Attracting new client groups and introducing specialised lending programmes responding to business specifics helped to achieve better risk management and diversify receivables over a broader base of clients and products.

Loan Portfolio as at 31st December 2006



Corporate business development and stabilisation in the country helped in maintaining a better balance in the Bank's corporate portfolio quality. Volumes in all major sectors of the economy increased. Demand in construction was the highest. Loans for construction purposes increased by approximately 170% compared to 2005 and took third place with a share of 9% of the Bank's portfolio, leaving behind traditionally strong industries such as tourism (7%) and services (7%). Production continued to take the biggest share, with loans for production purposes rising by BGN 65,172 thousand (17%) in 2006 to reach BGN 446,619 thousand or one quarter of the portfolio. The trade sector also maintained high levels (BGN 313,447 thousand or 18% of the portfolio) supported by the high-quality and volume of serviced international payments and financing by FIB. Agriculture marked a growth of BGN 23,070 thousand representing a 58% increase compared to 2005, reaching a total of BGN 62,760 thousand or 4% of the portfolio. As well as financing provided by FIB on national projects and programs such as SAPARD, the State Fund "Agriculture" and others, this increase was assisted by the specialised agricultural loan products of FIB.

The Bank's leading position in t corporate business is also a result of the variety of its loan products which meet the needs in corporate businesses and which meet international standards. In addition to established products including credit lines, overdrafts, investment project financing, working capital and revolving loans, promissory notes discounting and warranting, contingent loan engagements, guarantees, letters of credit and other credit instruments, during 2006 FIB also developed other products. These included "business credit cards", welcomed by both SME and micro-enterprises. FIB aligns its lending activity to the new standards and regulators effective in the European Union.

The Bank strives to provide corporate clients with comprehensive services, combining the needs of financing with appropriate payment instruments, card payments, fund management, and with banking services to their employees.

SME Lending

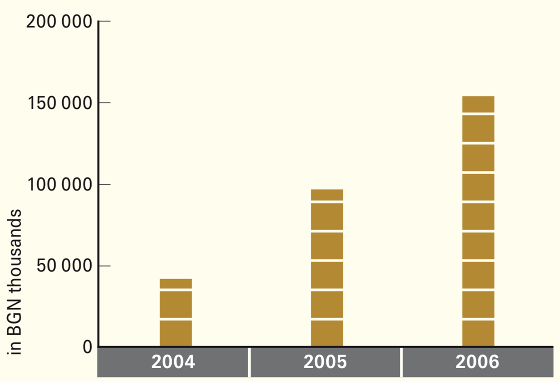
First Investment Bank has been developing specialised lending for small and medium-size businesses since 2004. This has grown actively and at the end of 2006 the portfolio reached BGN 162,997 thousand or 12.5% of the bank's corporate portfolio. There was an increase of BGN 68,255 thousand compared to 2005 (72%) promoted by the variety of products (about 15 types), created specifically to meet the needs of these clients.

The range of appropriate financial instruments with specific purposes ("Overdraft Account", investment overdraft, business mortgage loan) raised demand for the products of FIB among small and medium-size enterprises. It was also a precondition for the good servicing and maintenance of the portfolio quality.

In view of encouraging the development of agriculture FIBank extended loans for growing permanent plantations, and for purchasing new agricultural equipment, and agricultural land. This contributed to an increase in the share of loans for agriculture in the Bank's portfolio.

At the time of setting up the specialised department for servicing the SME segment First Investment Bank set up an automatic scoring system for risk assessment. This complies with the accounting specifics of small and medium-size enterprises, as well as international standards and the Basel Committee recommendations for internal rating systems. The experience gained has been helpful in enhancing and implementing risk assessment scoring systems for the other corporate clients of FIB

Loan Portfolio – SME's



Micro-lending

Micro-lending covers the financing of a wide range of traders, manufacturers, farmers, freelancers, including emerging businesses and companies with limited market experience. First Investment Bank appreciated the need of providing professional services to this segment of clients to support their development. In less than two years the micro-lending team set up the required technology and product base, supplemented with specialised products (Doctor's Business Loan, Business Credit Card FIB-BTC, POS overdraft). The Bank gained recognition in the market with a portfolio of BGN 23,461 thousand (1.8% of the Bank's corporate portfolio). There was an increase in the volume of micro-loans in 2006 of BGN 14,078 thousand (150%) compared to 2005. Because of the proper application of credit risk assessment methods, which are specific for this line of banking, the Bank achieved significant results in terms of profitability and in the quality of the Microlending portfolio.

The professional advice provided by the credit experts of FIB and the wide range of banking services offered (including loans, overdrafts, cards and specialised products), support borrowers and contribute to their business development.

International Payments

First Investment Bank is among the leading Bulgarian banks in the field of international payments and trade finance. The Bank executes transfers in approximately 60 foreign currencies and payments through documentary letters of credits and collections, stand-by letters of credit and bank guarantees. FIB also takes part in the forfeiting market discounting future proceeds under foreign and domestic trade transactions.

At the end of 2006, credit lines for confirming letters of credit and guarantees without money collateral, extended by over 40 first-class banks all over the world, reached about €100 million. The Bank has a network of over 500 correspondents.

The market share of FIB was 12.97% of outgoing and 13.18% of incoming transactions on trade financing. Regarding foreign currency transfers, the Bank's shares were 6.05% of outgoing and 5.90% of incoming transactions.

Capital Markets

First Investment Bank carries out transactions in government securities,, banks and corporate issuers in Bulgaria and abroad. FIB is a primary dealer of government securities. The Bank offers depository and trustee services to individuals and legal entities, including institutional investors: the keeping of registers of investment intermediaries, of accounts of securities, income payment and servicing payments under transactions in securities.

The Bank manages its own portfolio of securities by taking into account risks undertaken, the need for maintaining liquidity, expected yield, statutory and internal banking regulations concerning investments in securities. At the end of 2006, the portfolio of securities amounted to BGN 591,466 thousand, including BGN 508,006 thousand of investments available for sale and BGN 70,221 thousand of investments held to maturity.

Consolidated Financial Statements

as at 31 December 2006
with Independent Auditor's Report Thereon

Consolidated income statement for the year ended 31 December 2006

In thousands of BGN

	Note	2006	2005
Interest and similar income		194,442	160,265
Interest expense and similar charges		(109,140)	(94,782)
Net interest income	5	**85,302**	**65,483**
Fee and commission income		44,804	28,730
Fee and commission expense		(5,980)	(6,542)
Net fee and commission income	6	**38,824**	**22,188**
Net trading income	7	**8,066**	**13,419**
TOTAL INCOME FROM BANKING OPERATIONS		**132,192**	**101,090**
General administrative expenses	8	(82,720)	(63,849)
Impairment losses	9	(12,826)	(9,786)
Other expenses, net		(3,378)	(2,320)
PROFIT BEFORE TAX		**33,268**	**25,135**
Income tax expense	10	**(4,582)**	**(4,082)**
GROUP PROFIT AFTER TAX		**28,686**	**21,053**
Minority interests		131	83
NET PROFIT		**28,817**	**21,136**

The income statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 52 to 93.

Krassimir Hadjidinev
Registered auditor
Partner
KPMG Bulgaria OOD

София
Рег. №045
"КПМГ - България" ООД

Margarita Goleva
Registered auditor

0202 Маргарита Голева
Регистриран одитор

Consolidated balance sheet as at 31 December 2006

In thousands of BGN

	Note	2006	2005
ASSETS			
Cash and balances with Central Banks	11	708,038	534,847
Financial assets held for trading	12	13,239	7,151
Available for sale investments	13	508,006	432,337
Financial assets held to maturity	14	70,221	97,972
Loans and advances to banks and other financial institutions	15	42,032	39,393
Loans and advances to customers	16	1,709,773	1,338,091
Property and equipment	17	80,753	61,481
Intangible assets	18	840	589
Other assets	20	14,864	9,403
TOTAL ASSETS		**3,147,766**	**2,521,264**
LIABILITIES AND CAPITAL			
Due to banks and other financial institutions	21	43,120	41,964
Due to other customers	22	1,659,513	1,177,693
Liabilities evidenced by paper	23	1,123,218	1,045,002
Subordinated term debt	24	48,299	63,765
Perpetual debt	25	98,141	54,074
Deferred tax liability	19	1,169	1,520
Other liabilities	26	5,913	7,344
TOTAL LIABILITIES		**2,979,373**	**2,391,362**
Issued share capital	28	100,000	64,726
Share premium	28	–	1,304
Statutory reserve	28	39,861	22,709
Revaluation reserve on available for sale investments	28	(258)	(137)
Retained earnings	28	28,960	41,265
SHAREHOLDERS' EQUITY		**168,563**	**129,867**
Minority interests	28	(170)	,35
TOTAL GROUP EQUITY		**168,393**	**129,902**
TOTAL LIABILITIES AND GROUP EQUITY		**3,147,766**	**2,521,264**

The balance sheet is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 52 to 93.

Krassimir Hadjidinev
Registered auditor
Partner
KPMG Bulgaria OOD

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Рег. №045
"КПМГ - България" ООД

Margarita Goleva
Registered auditor

0202 Маргарита Голева
Регистриран одитор

Consolidated statement of cash flows for the year ended 31 December 2006

In thousands of BGN

	2006	2005
Net cash flow from operating activities		
Net profit	28,817	21,136
Adjustment for non-cash items		
Impairment losses	12,826	9,786
Depreciation and amortization	9,118	6,579
Income tax expense	4,582	4,082
	55,343	**41,583**
Change in operating assets		
(Increase)/decrease in financial instruments held for trading	(6,088)	180,751
(Increase) in available for sale investments	(75,787)	(432,248)
(Increase)/decrease in loans and advances to banks	(19,068)	48,757
(Increase) in loans to customers	(384,508)	(364,054)
(Increase) in other assets	(5,669)	(5,750)
	(491,120)	**(572,544)**
Change in operating liabilities		
Increase in deposits from banks and other financial institutions	1,156	13,878
Increase in amounts owed to other depositors	481,820	328,110
Net increase/(decrease) in other liabilities	(1,872)	2,223
	481,104	**344,211**
Income tax paid	(4,492)	(4,919)
NET CASH FLOW FROM OPERATING ACTIVITIES	**40,835**	**(191,669)**
Cash flow from investing activities		
(Purchase)/disposal of tangible fixed assets	(28,193)	(24,549)
(Purchase) of intangible fixed assets	(448)	(257)
(Acquisition)/decrease of investments	27,751	(70,073)
NET CASH FLOW FROM INVESTING ACTIVITIES	**(890)**	**(94,879)**
Financing activities		
Increase of shareholders' equity, fully paid-up	10,000	–
Increase in borrowings	106,817	503,533
NET CASH FLOW FROM FINANCING ACTIVITIES	**116,817**	**503,533**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**156,762**	**216,985**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	**574,049**	**357,064**
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD (See Note 30)	**730,811**	**574,049**

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 52 to 93.

Krassimir Hadjidinev
Registered auditor
Partner
KPMG Bulgaria OOD

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Margarita Goleva
Registered auditor

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Регистриран одитор

Consolidated statement of shareholders' equity for the year ended 31 December 2006

In thousands of BGN

	Note	Share capital	Share premium	Retained earnings	Revaluation reserve on available for sale investments	Statutory reserve	Minority interests	Total
Balance as at 01 January 2005	28	**64,726**	**1,304**	**27,389**	**–**	**15,449**	**–**	**108,868**
Transfer to statutory reserves		–	–	(7,260)	–	7,260	–	–
Minority interest upon business combination		–	–	–	–	–	115	115
Revaluation reserve on available for sale investments, net		–	–	–	(137)	–	3	(134)
Net profit for the year ended 31 December 2005		–	–	21,136	–	–	(83)	21,053
Balance as at 31 December 2005	28	**64,726**	**1,304**	**41,265**	**(137)**	**22,709**	**35**	**129,902**
Transfer to statutory reserves		–	–	(17,152)	–	17,152	–	–
Revaluation reserve on available for sale investments, net		–	–	–	(118)	–	–	(118)
Increase of shareholders' equity, fully paid-up		10,000	–	–	–	–	–	10,000
Increase of shareholders' equity, transfer of retained earnings		25,274	(1,304)	(23,970)	–	–	–	–
Disposal of subsidiary investment		–	–	–	(3)	–	(74)	(77)
Net profit for the year ended 31 December 2006		–	–	28,817	–	–	(131)	28,686
Balance as at 31 December 2006	**28**	**100,000**	**–**	**28,960**	**(258)**	**39,861**	**(170)**	**168,393**

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 52 to 93.

The financial statements have been approved by the Managing Board on 21 February 2007 and signed on its behalf by:

Matthew Mateev
Chairman of the Managing Board, Executive Director

Jordan Skorchev
Executive Director

Maya Georgieva
Executive Director

Radoslav Milenkov
Chief Financial Officer

Krassimir Hadjidinev
Registered auditor
Partner
KPMG Bulgaria OOD

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Margarita Goleva
Registered auditor

0202 Маргарита Голева
Регистриран одитор

1. Basis of preparation

(a) Statute

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

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

(b) Statement of compliance

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

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 consolidated financial statements, are disclosed in Note 2 (p).

(c) Basis of preparation

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

The Bank has made certain reclassifications to the financial statements as of 31 December 2005 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 and restated for the effects of hyperinflation where necessary. Prior to 1998 the Bulgarian economy experienced severe hyperinflation and the Bank's 1997 financial statements have been restated in accordance with IAS 29, Financial Reporting in Hyperinflationary Economies. Those financial statements have been restated for the changes in the general purchasing power of the Bulgarian Lev, and as a result, are stated in terms of the measuring unit current at 31 December, 1997.

2. Significant accounting policies

(a) Income recognition

Interest income and expense is recognised in the income statement 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.

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

Net trading income includes gains and losses arising from disposals and changes in the fair value of financial assets and liabilities held for trading.

(b) Basis of consolidation of subsidiaries

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

(c) Foreign currency transactions

(i) Functional and presentation currency

Items included in the financial statements of each of the Bank's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Bulgarian leva, which is the 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 income statement. Translation differences on non-monetary items are included in the fair value reserve in equity.

(iii) Foreign operations

The functional currency of the foreign operations (Albania and Cyprus) is determined by the management of the Bank 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.

(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. 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 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 transaction costs for all financial assets. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or when the Bank has transferred substantially all risks and rewards of ownership.

(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 included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity should be recognised in profit or loss.

However, interest calculated using the effective interest method is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the entity's right to receive payment is established.

(vii) Fair value measurement principles

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Bank establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

(viii) Disclosure of fair value

According to IAS 32 the Bank discloses fair value information on assets or liabilities for which published market information is readily available and where the fair value is materially different from their recorded amounts.

The fair value of cash, cash equivalents, demand and term deposits is approximately equal to the book value given, because of their short-term maturity. The fair value of the financial assets held to maturity as at 31 December 2006 is BGN 70,194 thousand and their amortised cost is BGN 70,221 thousand.

The fair value of loans and advances to customers is approximately equal to their carrying value due to fact that main part of the loan portfolio carry floating interest rates which reflect the changes in the market conditions.

(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 three months or less when purchased.

(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 balance sheet 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 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 balance sheet 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 sale and repurchase considerations is recognised on an accrual basis over the period of the transaction and is included in interest.

(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 the income statement over the period of the borrowings using the effective yield method.

If the Bank purchases its own debt, it is removed from the balance sheet and the difference between the carrying amount of a liability and the consideration paid is included in net trading income.

(i) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the balance sheet 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

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 the income statement.

(i) Loans and advances

The recoverable amount of loans and advances and purchased loans is calculated as the present value of the expected future cash flows, discounted at the instrument's original effective interest rate. Short-term balances are not discounted.

Loans and advances are presented net of specific and general allowances for impairment. Specific allowances are made against the carrying amount of loans and advances that are identified as being impaired based on regular reviews of outstanding balances to reduce these loans and advances to their recoverable amounts. General allowances are maintained to reduce the carrying amount of portfolios of similar loans and advances to their estimated recoverable amounts at the balance sheet date. The expected cash flows for portfolios of similar assets are estimated based on previous experience and considering the credit rating of the underlying customers and late payments of interest or penalties. Increases in the allowance account are recognised in the income statement. 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 write-down or allowance is reversed through the income statement.

(ii) Financial assets remeasured to fair value directly through equity

The recoverable amount of an equity instrument is its fair value. The recoverable amount of debt instruments and purchased loans remeasured to fair value is calculated as the present value of expected future cash flows discounted at the current market rate of interest.

Where an asset remeasured to fair value directly through equity is impaired, and a write down of the asset was previously recognised directly in equity, the write down is transferred to the income statement and recognised as part of the impairment loss. Where an asset measured to fair value directly through equity is impaired, and an increase in the fair value of the asset was previously recognised in equity, the increase in fair value of the asset recognised in equity is reversed to the extent the asset is impaired. Any additional impairment loss is recognised in the income statement.

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 write-down is reversed through the income statement.

(k) Property, plant and equipment

Items of property, plant and equipment are stated in the balance sheet at their acquisition cost less accumulated depreciation restated for the effects of hyperinflation.

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 following are approximations of the annual rates used:

Assets	**%**
• Buildings	3 – 4
• Equipment	15 – 20
• Fixtures and fittings	15 – 20
• Vehicles 15 – 20	

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

(l) Intangible assets

Intangible assets, which are acquired by the 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	15 – 20
• Computer software	20

(m) Provisions

A provision is recognised in the balance sheet 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 for the goods 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 balance sheet 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 the income statement, except to the extent that it relates to items previously charged or credited directly to equity.

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

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

The 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 the income statement, 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.

(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) Standards, Interpretations and amendments to published Standards that are not yet effective and are relevant to the Bank's activities

• IFRS 7 (effective from 1 January 2007) – Financial Instruments: Disclosure

The standard will require increased disclosure in respect of the Company's financial instruments. It supersedes IAS 30 – Disclosures in the Financial Statements of Banks and Similar Financial Institutions and is applicable to all entities that prepare financial statements in accordance with IFRSs.

• Amendments to IAS 1 (effective from 1 January 2007) – Presentation of Financial Statements – Capital Disclosures.

As a complimentary amendment arising from IFRS 7 the standard will require increased disclosure in respect of the Bank's capital.

• **IFRIC 9 Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June** 2006)

The Interpretation requires that a reassessment of whether an embedded derivative should be separated from the underlying host contract should be made only when there are changes in the terms of the contract that significantly modify the cash flows that otherwise would be required under the contract.

3. 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 and Albania.

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 are allocated based on the geographical location of the assets.

In thousands of BGN	Bulgarian operations 2006	Bulgarian operations 2005	Foreign operations 2006	Foreign operations 2005	Total 2006	Total 2005
Interest and similar income	187,528	152,740	6,914	7,525	194,442	160,265
Interest expense and similar charges	(108,126)	(93,930)	(1,014)	(852)	(109,140)	(94,782)
Net interest income	**79,402**	**58,810**	**5,900**	**6,673**	**85,302**	**65,483**
Fee and commission income	44,192	28,249	612	481	44,804	28,730
Fee and commission expense	(5,950)	(6,520)	(30)	(22)	(5,980)	(6,542)
Net fee and commission income	**38,242**	**21,729**	**582**	**459**	**38,824**	**22,188**
Net trading income	8,037	13,259	29	160	8,066	13,419
General administrative expenses	(79,549)	(61,603)	(3,171)	(2,246)	(82,720)	(63,849)
Segment Assets	**3,074,555**	**2,435,589**	**73,211**	**85,675**	**3,147,766**	**2,521,264**
Segment Liabilities	**2,850,566**	**2,318,613**	**128,807**	**72,749**	**2,979,373**	**2,391,362**

4. Risk management disclosures

A. Trading activities

The Bank maintains active trading positions in a limited number of derivatives, mainly short-term forward contracts and 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. As trading strategies depend on both market-making and proprietary positions, given the relationships between instruments and markets, those are managed in concert to maximise net trading income.

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

(i) Credit risk

The risk that counterparts to financial instruments might default on their obligations is monitored on an ongoing basis. In monitoring credit risk exposures related to trading instruments, consideration is given to instruments with a positive fair value and to the volatility of the fair value of trading instruments.

(ii) Market risk

All marked-to-market instruments are subject to market risk, the risk that future changes in market conditions may make an instrument less valuable or more onerous. The instruments are recognised at fair value based on quoted bid prices, and all changes in market conditions directly affect net trading income (through trading instruments) or equity value (through available for sale instruments). However, 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, the market information may not be fully reflective of the value that could be realised under the current circumstances.

Exposure to market risk is formally managed in accordance with risk limits set by senior management by buying or selling instruments. The quantitative measurement of market risk is performed by applying VaR (Value at Risk) approach. The Value at Risk estimates the maximum overnight loss that could occur due to adverse changes in market conditions if the marked-to-market positions remain unchanged for a time interval of one day. The confidence level used is 95% meaning that there is no more than 5% probability that a portfolio will incur a loss in one day greater than its VaR. Future price fluctuations are estimated on the basis of historical price changes of risk factors, exponentially weighted, over the preceding 250 trading days. Covariance adjustments are made only within risk categories but not between risk categories.

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 VaR for all marked-to-market positions that was experienced during 2006:

in thousands of BGN	31 December 2006	2006 average	2006 low	2006 high	31 December 2005
VaR	263	342	249	496	356

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 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.

In addition the Bank holds a portfolio of liquid assets as part of its liquidity risk management 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.

Maturity table as at 31 December 2006

In thousands of BGN	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	Over 1 year	Maturity not defined	Total
Assets						
Cash and balances with Central Banks	708,038	–	–	–	–	708,038
Financial assets held for trading	13,239	–	–	–	–	13,239
Available for sale investments	78,994	130,014	138,868	159,159	971	508,006
Financial assets held to maturity	–	15,681	8,430	46,110	–	70,221
Loans and advances to banks and other financial institutions	37,916	3,942	–	–	174	42,032
Loans and advances to customers	66,715	126,785	405,482	1,110,791	–	1,709,773
Property and equipment	–	–	–	–	80,753	80,753
Intangible assets	–	–	–	–	840	840
Other assets	14,864	–	–	–	–	14,864
Total assets	**919,766**	**276,422**	**552,780**	**1,316,060**	**82,738**	**3,147,766**
Liabilities						
Due to banks and other financial institutions	29,408	8,511	3,803	1,398	–	43,120
Due to other customers	1,231,117	159,715	214,200	54,481	–	1,659,513
Liabilities evidenced by paper	225,842	446	364,086	532,844	–	1,123,218
Subordinated term debt	–	–	–	48,299	–	48,299
Perpetual debt	–	–	–	–	98,141	98,141
Deferred tax liability	–	–	–	–	1,169	1,169
Other liabilities	5,606		6	301	–	5,913
Total liabilities	**1,491,973**	**168,672**	**582,095**	**637,323**	**99,310**	**2,979,373**
Net liquidity gap	**(572,207)**	**107,750**	**(29,315)**	**678,737**	**(16,572)**	**168,393**

As at 31 December 2006 the thirty largest non-financial depositors represent 17.28% of total deposits from other customers (2005: 17.30 %).

Maturity table as at 31 December 2005

In thousands of BGN	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	Over 1 year	Maturity not defined	Total
Assets						
Cash and balances with Central Banks	534,847	–	–	–	–	534,847
Financial assets held for trading	7,151	–	–	–	–	7,151
Available for sale investments	19,546	136,431	102,433	173,057	870	432,337
Financial assets held to maturity	–	16,600	19,721	61,651	–	97,972
Loans and advances to banks and other financial institutions	35,279	3,923	–	–	191	39,393
Loans and advances to customers	62,457	100,126	320,874	854,634	–	1,338,091
Property and equipment	–	–	–	–	61,481	61,481
Intangible assets	–	–	–	–	589	589
Other assets	9,403	–	–	–	–	9,403
Total assets	668,683	257,080	443,028	1,089,342	63,131	2,521,264
Liabilities						
Due to banks and other financial institutions	34,939	3,443	1,093	2,489	–	41,964
Due to other customers	864,206	111,218	163,739	38,530	–	1,177,693
Liabilities evidenced by paper	209,413	7,744	327,000	500,845	–	1,045,002
Subordinated term debt	–	–	–	63,765	–	63,765
Perpetual debt	–	–	–	–	54,074	54,074
Deferred tax liability	–	–	–	–	1,520	1,520
Other liabilities	6,607	–	–	737	–	7,344
Total liabilities	**1,115,165**	**122,405**	**491,832**	**606,366**	**55,594**	**2,391,362**
Net liquidity gap	**(446,482)**	**134,675**	**(48,804)**	**482,976**	**7,537**	**129,902**

(ii) Market risk

Interest rate risk

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. The interest rate risk on the economic value of the Bank following a standardised shock of +100bp/-100bp as at 31 December 2006 is BGN +2.2/-2.2 Mio. The interest rate risk on the Bank's net interest income one year forward following a standardised shock of +100bp/-100bp as at 31 December 2006 is BGN –0.2/+0.2 Mio.

The following table indicates the effective interest rates at 31 December 2006 and the periods in which financial liabilities and assets reprice.

In thousands of BGN	Total	Weighted average effective interest rate	Floating rate instruments	Fixed rate instruments: Less than 1 month	Fixed rate instruments: Between 1 month and 3 months	Fixed rate instruments: Between 3 months and 1 year	Fixed rate instruments: More than 1 year
Assets							
Cash and balances with Central Banks	375,044	3.67%	22,416	352,628	–	–	–
Financial assets held for trading	8,627	3.66%	73	–	7,417	–	1,137
Available for sale investments	502,114	3.98%	72,096	78,545	126,808	137,911	86,754
Financial asstes held to maturity	69,265	3.50%	36,763	–	21,458	2,134	8,910
Loans and advances to banks and other financial institutions	37,152	3.66%	258	32,982	3,912	–	–
Loans and advances to customers	1,678,388	11.13%	1,490,522	10,922	13,812	18,023	145,109
Non-interest earning assets	477,176	–	–	–	–	–	–
Total assets	**3,147,766**		**1,622,128**	**475,077**	**173,407**	**158,068**	**241,910**
Liabilities							
Due to banks and other financial institutions	41,410	2.88%	33,003	7,197	954	256	–
Due to other customers	1,607,649	2.39%	1,550,995	27,557	6,357	22,318	422
Liabilities evidenced by paper	1,095,682	6.11%	419,286	225,188	443	1,023	449,742
Subordinated term debt	45,312	13.30%	–	–	–	–	45,312
Perpetual debt	93,880	12.56%	–	–	–	–	93,880
Non-interest bearing liabilities	95,440	–	–	–	–	–	–
Total liabilities	**2,979,373**		**2,003,284**	**259,942**	**7,754**	**23,597**	**589,356**

The following table indicates the effective interest rates at 31 December 2005 and the periods in which financial liabilities and assets reprice.

In thousands of BGN	Total	Weighted average effective interest rate	Floating rate instruments	Fixed rate instruments: Less than 1 month	Fixed rate instruments: Between 1 month and 3 months	Fixed rate instruments: Between 3 months and 1 year	Fixed rate instruments: More than 1 year
Assets							
Cash and balances with Central Banks	315,879	2.34%	35,141	280,738	–	–	–
Financial assets held for trading	3,941	4.87%	79	–	–	–	3,862
Available for sale investments	428,986	3.47%	75,345	19,546	136,431	102,109	95,555
Financial asstes held to maturity	96,338	3.69%	37,627	295	17,155	18,739	22,522
Loans and advances to banks and other financial institutions	35,989	3.35%	128	31,949	3,912	–	–
Loans and advances to customers	1,314,751	11.50%	997,318	20,600	17,959	42,745	236,129
Non-interest earning assets	325,380	–	–	–	–	–	–
Total assets	**2,521,264**		**1,145,638**	**353,128**	**175,457**	**163,593**	**358,068**
Liabilities							
Due to banks and other financial institutions	40,860	3.90%	29,965	9,267	1,384	244	–
Due to other customers	1,150,137	2.56%	1,068,751	46,535	5,685	28,154	1,012
Liabilities evidenced by paper	1,019,003	5.98%	280,768	207,373	5,868	78,233	446,761
Subordinated term debt	60,265	13.85%	–	–	–	–	60,265
Perpetual debt	52,807	13.01%	–	–	–	–	52,807
Non-interest bearing liabilities	68,290	–	–	–	–	–	–
Total liabilities	**2,391,362**		**1,379,484**	**263,175**	**12,937**	**106,631**	**560,845**

Currency risk

The Bank is exposed to currency risk through transactions in foreign currencies.

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 transactional exposures give rise to foreign currency gains and losses that are recognised in the income statement. 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 thousands of BGN	2006	2005
Monetary assets		
Euro	1,791,518	1,522,291
US dollar	307,381	411,061
Other	67,226	73,519
Gold	3,134	,1,480
Monetary liabilities		
Euro	1,944,038	1,622,232
US dollar	308,620	410,987
Other	67,308	73,758
Gold	–	–
Net position		
Euro	(152,520)	(99,941)
US dollar	(1,239)	74
Other	(82)	(239)
Gold	3,134	1,480

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

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. In this respect, the credit risk for the Bank stems from the possibility that different counterparties might default on their contractual obligations. 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. In addition, the Bank is exposed to off-balance sheet credit risk through commitments to extend credit and guarantees issued (See Note 29).

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 Bank's investments, loans and advances, commitments to extend credit and guarantees issued.

Total on balance sheet economic sector credit risk concentrations are presented in the table below.

In thousands of BGN	2006	2005
Trade	298,586	250,266
Industry	460,032	381,447
Services	128,129	107,984
Finance	1,620	6,804
Transport, logistics	47,870	87,493
Communications	5,646	863
Construction	160,910	59,849
Agriculture	62,760	39,690
Tourist services	119,488	145,017
Private individuals	453,881	281,595
Other	16,059	9,882
Less allowance of impairment	(45,208)	(32,799)
	1,709,773	**1,338,091**

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 2006 with total exposures amounting to BGN 11,102 thousand (2005: BGN 53,540 thousand) – ferrous metals, BGN 25,705 thousand (2005: BGN 15,974 thousand) – cable and electrics and BGN 69,938 thousand (2005: BGN 55,822 thousand) – power engineering.

The Bank has extended loans, confirmed letters of credit and granted guarantees to 10 individual clients or groups (2005: 9) 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 463,399 thousand which represents 153.80% of the Bank's capital base (2005: BGN 364,233 thousand which represented 153.44% of capital base) of which BGN 298,812 thousand (2005: BGN 257,506 thousand) represent loans and BGN 164,587 thousand (2005: BGN 106,727 thousand) represent guarantees, letters of credit and other commitments. Exposures secured by cash and highly liquid assets for which there is ascertainable market value have been excluded from the calculation of the large exposures.

The loans extended by the overseas branches amount to BGN 57,292 thousand (2005: BGN 75,895 thousand) (gross carrying amount before any allowances) from which BGN 53,986 thousand (2005: BGN 73,970 thousand) are in Cyprus and BGN 3,306 thousand (2005: BGN 1,925 thousand) in Albania.

The amounts reflected in the tables represent the maximum accounting loss that would be recognised at the balance sheet 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.

The Bank's policy is to require suitable collateral to be provided by certain customers prior to the disbursement of approved loans. All of the balance of outstanding loans is collateralised. 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 cash, mortgage inventory, listed investments, or other property.

The table below shows a breakdown of total credit extended to customers, other than financial institutions, by the Bank by type of collateral:

In thousands of BGN	2006	2005
Secured by mortgages	929,928	744,233
Cash collateral	32,564	20,419
Other collateral	747,281	573,439
Total	**1,709,773**	**1,338,091**

C. Capital adequacy

(i) Regulations

The Bank monitors the adequacy of its capital using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ("BIS rules / ratios"). The BIS ratios compare the amount of the Bank's eligible capital (in total and Tier 1) with the total of its risk weighted assets (RWAs).

While the Bank monitors and reports its capital ratios under BIS rules, it is the rules established by the Bulgarian regulator, the Bulgarian National Bank (BNB), which ultimately determine the statutory capital required to underpin its business. The Bank has complied with all BIS and BNB regulatory capital rules for all periods reported. According to the requirements of Regulation 8 of BNB on Capital Adequacy of Banks as at 31 December 2006 the Tier 1 capital ratio of the Bank is 6.89% and the total capital ratio is 13.05%, calculated on unconsolidated basis.

(ii) BIS Eligible capital

BIS eligible capital consists of two parts: Tier 1 capital comprises equity, Tier 2 capital includes subordinated long-term debt. Tier 1 capital is required to be at least 4% and Total eligible capital at least 8% of RWAs.

(iii) BIS Risk-Weighted Assets (RWAs)

The market risk approach covers the general market risk and the risk of open positions in currencies and debt and equity securities. Assets are weighted according to broad categories of notional risk, being assigned a risk weighting according to the amount of capital deemed to be necessary to support them. Four categories of risk weights (0%, 20%, 50%, 100%) are applied; for example cash and money market instruments have a zero risk weighting which means that no capital is required to support the holding of these assets. Property and equipment carries a 100% risk weighting, meaning that it must be supported by capital equal to 8% of the carrying amount.

Off-balance-sheet credit related commitments and forwards and options based derivative instruments are taken into account by applying different categories of conversion factors, designed to convert these items into balance sheet equivalents. The resulting equivalent amounts are then weighted for risk using the same percentages as for on-balance-sheet assets.

Capital adequacy level was as follows:

In thousands of BGN	Balance sheet/notional amount 2006	Balance sheet/notional amount 2005	Risk Weight amount 2006	Risk Weight amount 2005
BALANCE SHEET ASSETS				
Cash and balances with Central Banks	708,038	534,847	74,759	63,430
Financial assets held for trading	13,239	7,151	4,523	3,117
Available for sale investments	508,006	432,337	14,361	15,438
Financial assets held to maturity	70,221	97,972	9,222	7,722
Loans and advances to banks and other financial institutions	42,032	39,393	4,589	7,884
Loans and advances to customers	1,709,773	1,338,091	1,507,485	1,191,251
Property and equipment	80,753	61,481	80,753	61,481
Intangible assets	840	589	743	491
Other assets	14,864	9,403	14,864	9,403
TOTAL ASSETS	**3,147,766**	**2,521,264**	**1,711,299**	**1,360,217**
Off balance sheet positions				
Credit related commitments	786,597	452,028	188,575	129,961
Forward based derivative instruments	52,745	142,341	818	1,284
Unassigned market risk components	–	–	5,134	3,265
TOTAL	**839,342**	**594,369**	**194,527**	**134,510**
TOTAL RISK WEIGHTED ASSETS			**1,905,826**	**1,494,727**

BIS CAPITAL RATIOS	CAPITAL 2006	CAPITAL 2005	BIS% 2006	BIS% 2005
Tier 1 Capital	168,554	129,938	8,84%	8,69%
BIS Capital base	301,292	237,375	15,81%	15,88%

5. Net interest income

In thousands of BGN	2006	2005
Interest and similar income		
Interest and similar income arises from:		
– Loans and advances to banks and other financial institutions	4,535	5,193
– Loans to individuals and households	37,185	24,576
– Loans to corporate clients	114,810	111,762
– Loans to SME	15,712	6,232
– Microlending	2,196	333
– Debt instruments	20,004	12,169
	194,442	**160,265**
Interest expense and similar charges		
Interest expense and similar charges arise from:		
– Deposits from banks and other financial institutions	(1,690)	(1,090)
– Deposits from other customers	(31,953)	(25,575)
– Liabilities evidenced by paper	(57,695)	(57,552)
– Subordinated term debt	(7,213)	,(7,211)
– Perpetual debt	(10,429)	(3,266)
– Lease agreement and other	(160)	(88)
	(109,140)	**(94,782)**
Lease agreement and other	**85,302**	**65,483**

6. Net fee and commission income

In thousands of BGN	2006	2005
Fee and commission income		
Letters of credit and guarantees	10,656	8,298
Payments transactions	6,076	4,336
Customer accounts	6,203	5,350
Cards business	11,215	7,093
Other	10,654	3,653
	44,804	**28,730**
Fee and commission expense		
Letters of credit and guarantees	(994)	(2,918)
Deposits to banks and other financial institutions	(879)	(676)
Cards business	(3,960)	(2,661)
Other	(147)	(287)
	(5,980)	**(6,542)**
Net fee and commission income	**38,824**	**22,188**

7. Net trading income

In thousands of BGN	2006	2005
Net trading income arises from:		
– Debt instruments and related derivatives	1,363	5,899
– Foreign exchange rate fluctuations	6,703	7,520
Net trading income	**8,066**	**13,419**

8. General administrative expenses

In thousands of BGN	2006	2005
General and administrative expenses comprise:		
– Personnel cost	23,484	17,820
– Depreciation and amortisation	9,118	6,579
– Advertising	9,338	7,707
– Building rent expense	8,637	5,240
– Telecommunication, software and other computer maintenance	5,909	4,832
– Unclaimable VAT	4,953	4,305
– Administration, consultancy and other costs	21,281	17,366
General administrative expenses	**82,720**	**63,849**

Personnel costs include salaries, social and health security contributions under the provisions of the local legislation. At 31 December total number of employees is 1,598 (December 2005: 1,269).

9. Impairment losses

In thousands of BGN	2006	2005
Write-downs		
Loans and advances to customers	(30,485)	(17,845)
Reversal of write-downs		
Loans and advances to customers	17,659	8,059
Net impairment losses	**(12,826)**	**(9,786)**

10. Income tax expense

In thousands of BGN	2006	2005
Current taxes	(4,933)	(3,681)
Deferred taxes (See Note 19)	351	(401)
Income tax expense	**(4,582)**	**(4,082)**

Reconciliation between tax (income)/expense and the accounting profit is as follows:

In thousands of BGN	2006	2005
Accounting profit before taxation	**33,268**	**25,135**
Corporate tax at applicable tax rate (15% for 2006 and 15% for 2005)	4,990	3,770
Effect of tax rates of foreign subsidiaries and branches	198	223
Tax effect of permanent tax differences	(255)	(312)
Tax effect of reversals of temporary differences	156	401
Tax effect of reduction of applicable tax rate (10% for 2007)	(507)	–
Income tax expense	**4,582**	**4,082**
Effective tax rate	13,77%	16,24%

11. Cash and balances with Central Banks

In thousands of BGN	2006	2005
Cash on hand		
– In Bulgarian Leva	61,550	49,062
– In foreign currencies	32,245	23,214
Gold bullion	3,134	1,480
Balances with Central Banks	238,337	146,542
Current accounts and amounts with local banks	1,142	1,023
Current accounts and amounts with foreign banks	371,630	313,526
Total	**708,038**	**534,847**

12. Financial assets held for trading

In thousands of BGN	2006	2005
Debt and other fixed income instruments		
Bonds and notes issued by:		
Bulgarian Government		
– denominated in Bulgarian Leva	–	2,917
– denominated in foreign currencies	1,245	1,118
Foreign governments	7,471	–
Other issuers	4,523	3,116
Total	**13,239**	**7,151**

Income from debt and other fixed-income instruments is recognised in interest and similar income. Gains and losses arising from changes in fair value of trading instruments are recognised in net trading income.

13. Available for sale investments

In thousands of BGN	2006	2005
Debt and other fixed income instruments		
Bonds and notes issued by:		
Bulgarian Government		
– denominated in Bulgarian Leva	83,958	72,459
– denominated in foreign currencies	7,651	9,104
Foreign governments		
– short term	194,453	233,437
– long term	143,963	33,318
Foreign banks	66,950	72,841
Other issuers	11,031	11,178
Total	**508,006**	**432,337**

14. 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 thousands of BGN	2006	2005
Securities held to maturity issued by:		
Bulgarian government	6,296	6,523
Foreign governments	17,816	52,838
Foreign banks	46,109	38,611
	70,221	**97,972**

15. Loans and advances to banks and other financial institutions

(a) Analysis by type

In thousands of BGN	2006	2005
Placements with banks	18,007	35,955
Receivables under repurchase agreements (see Note 26)	19,085	–
Other	4,940	3,438
Total	**42,032**	**39,393**

(b) Geographical analysis

In thousands of BGN	2006	2005
Domestic banks and other financial institutions	30,204	8,059
Foreign banks and other financial institutions	11,828	31,334
Total	**42,032**	**39,393**

16. Loans and advances to customers

In thousands of BGN	2006	2005
Retail customers		
– Consumer loans	219,139	144,868
– Mortgage loans	234,742	136,727
Small and medium enterprises	162,997	94,742
Microlending	23,461	9,383
Corporate customers		
– Public sector customers	21,362	22,108
– Private sector customers	1,093,280	963,062
Less allowance for impairment	(45,208)	(32,799)
	1,709,773	**1,338,091**

Specific allowances for impairment in the amount of BGN 29,458 thousand (2005: BGN 24,043 thousand) have been made in respect of loans with total gross carrying value of BGN 75,707 thousand (2005: 92,629 thousand). General allowances for portfolios of similar loans amount to BGN 15,750 thousand (2005: BGN 8,756 thousand).

(a) Movement in impairment allowances

In thousands of BGN	
Balance at 01 January 2006	**32,799**
Additional allowances	30,485
Amounts released	(17,659)
Write – offs	(417)
Balance at 31 December 2006	**45,208**

All impaired loans have been written down to their recoverable amounts.

17. Property and equipment

In thousands of BGN	Land and buildings	Fixturesand fittings	Motor vehicles	Assets under construction	Leasehold improvements	Total
Cost						
At 1 January 2006	9,055	43,985	4,002	26,643	7,214	90,899
Additions	–	1,120	–	27,630	–	28,750
Disposals	–	(1,148)	(360)	–	(19)	(1,527)
Transfers	–	12,141	1,497	(28,718)	14,637	(443)
At 31 December 2006	9,055	56,098	5,139	25,555	21,832	117,679
Depreciation						
At 1 January 2006	2,539	22,327	1,920	–	2,632	29,418
Charge for the period	286	5,890	836	–	1,909	8,921
On disposals	–	(1,141)	(265)	,–	(7)	(1,413)
At 31 December 2006	2,825	27,076	2,491	–	4,534	36,926
Net book value						
At 31 December 2006	**6,230**	**29,022**	**2,648**	**25,555**	**17,298**	**80,753**
At 1 January 2006	**6,516**	**21,658**	**2,082**	**26,643**	**4,582**	**61,481**

18. Intangible assets

In thousands of BGN	Software and licences	Goodwill	Total
Cost			
At 1 January 2006	2,048	97	2,145
Additions	5	–	5
Disposals	–	–	–
Transfers	443	–	443
At 31 December2006	2,496	97	2,593
Amortisation			
At 1 January 2006	1,556	–	1,556
Charge for the period	197	–	197
On disposals	–	–	–
At 31 December 2006	1,753	–	1,753
Net book value			
At 31 December 2006	**743**	**97**	**840**
At 1 January 2006	**492**	**97**	**589**

19. Deferred Taxation

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 15% for 2006 and 10% for 2007.

Deferred income tax balances are attributable to the following items:

In thousands of BGN	Assets		Liabilities		Net	
	2006	2005	2006	2005	2006	2005
Property, equipment and intangibles	–	–	1,279	1,631	1,279	1,631
Other items	(110)	(111)	–	–	(110)	(111)
Net tax (assets)/liabilities	**(110)**	**(111)**	**1,279**	**1,631**	**1,169**	**1,520**

Movements in temporary differences during the year at the amount of 351 thousand leva are recognised in income statement. 507 thousand leva of them are due to the changes in the tax rate.

20. Other assets

In thousands of BGN	2006	2005
Deferred expense	3,314	2,482
Other assets	11,550	6,921
Total	**14,864**	**9,403**

21. Due to banks and other financial institutions

In thousands of BGN	2006	2005
Term deposits	29,866	34,828
Payable on demand	13,254	7,136
Total	**43,120**	**41,964**

22. Due to other customers

In thousands of BGN	2006	2005
Retail customers		
– payable on demand	347,496	269,191
– term deposits	666,225	461,811
Corporate customers		
– payable on demand	499,825	270,333
– term deposits	145,967	176,358
Total	1,659,513	1,177,693

23. Liabilities evidenced by paper

In thousands of BGN	2006	2005
Bonds and notes issued	457,330	534,517
Acceptances under letters of credit	1,634	8,919
Liabilities under repurchase agreements (see Note 27)	225,366	207,377,
Syndicated loans	362,758	244,225
Other term liabilities	76,130	49,964
	1,123,218	**1,045,002**

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

Bonds and notes issued comprise of the following:

In thousands of BGN	2006	2005
Long term bonds payable		
EUR,6,000,000 8.5% due 2008	12,007	12,000
EUR 40,000,000 8% due 2006	–	79,438
EUR 200,000,000 7.5% due 2008	415,651	413,429,
Total bonds payable	**427,658**	**504,867**
Mortgage bonds		
EUR 5,000,000 7% due 2008	9,832	9,830
EUR 10,000,000 7% due 2009	19,840	19,820
Total mortgage bonds	**29,672**	**29,650**
Total bonds and notes issued	**457,330**	**534,517**

The bonds and notes are payable to third parties in the years listed above. The long term bonds payable have been issued by First Investment Finance B.V., The Netherlands, guaranteed by the Bank and are listed on the Luxemburg stock exchange. The mortgage bonds have been listed on the Bulgarian stock exchange.

24. Subordinated term debt

As at 31 December 2006 the Bank has entered into eight separate subordinated Loan Agreements with five 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 thousands of BGN Lender	Principal amount	Final maturity	Amortised cost as at 31 December 2006
Growth Management Limited	1,956	10 years	2,669
Growth Management Limited	5,867	10 years	7,605
Hillside Apex Fund Limited	1,956	9 years	2,783
Growth Management Limited	3,912	10 years	4,777
Hillside Apex Fund Limited	9,779	10 years	11,863
Global Emerging markets Bond Fund Inc	1,956	10 years	2,326
Standard Bank	9,779	10 years	11,631
Hypo – Alpe – Adria Bank	3,912	10 years	4,645
	39,117		**48,299**

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.

25. Perpetual debt

In thousands of BGN	Principal amount	Amortised cost as at 31 December 2006
Step-up Guaranteed Perpetual Subordinated Bonds EUR 27 mio	52 807	54 222
Step-up Guaranteed Perpetual Subordinated Bonds EUR 21 mio	41 073	43 919
	93 880	**98 141**

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 capital adequacy Regulation 8 issued by BNB. The amounts received for the perpetual subordinated bonds are included in Tier 2 capital after respective Permissions by Bulgarian National Bank.

26. Other liabilities

In thousands of BGN	2006	2005
Liabilities to personnel	918	635
Current tax liability	2,329	2,275
Other payables	2,666	4,434
	5,913	**7,344**

27. 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 2006 assets sold under repurchase agreements were as follows:

In thousands of BGN	Fair value of underlying assets	Carrying amount of corresponding liabilities
Bulgarian government securities	39,952	39,806
Other government securities	184,996	185,560
	224,948	**225,366**

At 31 December 2005 assets sold under repurchase agreements were as follows:

In thousands of BGN	Fair value of underlying assets	Carrying amount of corresponding liabilities
Bulgarian government securities	1,802	1,798
Other government securities	207,564	205,579
	209,366	**207,377**

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 2006 assests purcased subject to agreements to resell them are as follows:

In thousands of BGN	Fair value of underlying assets	Carrying amount of corresponding liabilities
Albanian government securities	300	300
Bulgarian government securities	18,765	18,785
	19,065	**19,085**

At 31 December 2005 there were no outstanding reverse repurchase agreements and therefore no comparatives have been provided.

28. Capital and reserves

(a) Number and face value of registered shares as at 31 December 2006

At 31 December 2006 the authorised share capital comprised of 10,000,000 ordinary dematerialized shares (31 December 2005: 1,000,000) with voting rights of BGN 10 par value each. All the shares have been fully paid-up.

On 20 October 2006, following a decision of Sofia City Court, the capital of First Investment Bank AD was increased from BGN 10,000 thousand to BGN 20,000 thousand by the issue of 1,000,000 new ordinary dematerialized shares with voting rights of BGN 10 par value each. All of the newly issued shares have been fully paid-up. Each of the shareholders acquired new shares pro rata from the capital increase.

On 27 December 2006 the capital of First Investment Bank AD was increased from BGN 20,000 thousand to BGN 100,000 thousand by transforming the retained earnings and share premium at the amount of BGN 25,274 thousand and registering the hyperinflationary adjustments (See Note 1(c)) at the amount of BGN 54,726 thousand. These movements in the share capital are registered with a decision of Sofia City Court No 39 from 27 December 2006 by issuing 8,000,000 new ordinary dematerialized shares with voting rights of BGN 10 par value each. Each of the shareholders acquired new shares pro rata from the capital increase and the percentage of shares owned by the shareholders remained unchanged.

(b) Shareholders

The table below shows those shareholders holding shares as at 31 December 2006 together with the number and percentage of total issued shares.

	Number of shares	%
Mr T. Minev (Founding Shareholder)	3,183,000	31.83
Mr I. Mutafchiev (Founding Shareholder)	3,183,000	31.83
FFBH	1,389,000	13.89
Hillside Apex Fund Limited	1,000,000	10.00
Growth Management Limited	1,000,000	10.00
Legnano Enterprises, Cyprus	245,000	2.45
Total	**10,000,000**	**100.00**

On 16 December 2005, Growth Management Limited ("Growth"), 47-49 La Motte Street, St. Helier, Jersey JE4 8XR, Channel Islands, an open-ended investment fund incorporated in Jersey, Channel Islands, acquired from the European Bank for Reconstruction and Development, 100,000 shares of First Investment Bank AD, representing 10% of the share capital of the Bank. Prior to its completion, the transaction received the written permission of the Bulgarian National Bank.

Growth was launched as an open-ended investment fund in May 1998 and has been operating since that time. The Fund Manager, Administrator and Registrar of Growth is Standard Bank Fund Managers Jersey Limited, which is regulated by the Jersey Financial Services Commission. Ernst & Young LLP, Jersey act as auditors to Growth.

The Investment Adviser to Growth is, and has been since Growth's launch in May 1998, GML International Limited, London ("GML"), a privately-owned investment banking firm authorised and regulated by the UK Financial Services Authority. GML was incorporated in 1983, and provides a broad range of investment banking services focused primarily on Central and Eastern Europe, Central Asia, Turkey, Africa and the Middle East. From its headquarters in London, GML maintains Representative Offices in Almaty, Genoa, Istanbul, Kyiv and Moscow.

Also, on 16 December 2005, Hillside Apex Fund Limited ("Hillside"), Clifton House, 75 Fort Street, Grand Cayman, Cayman Islands, a limited liability company incorporated in the Cayman Islands (registration number CR-83363) acquired from European Bank for Reconstruction and Development, 100,000 shares of First Investment Bank AD, representing 10 per cent of the share capital of the Bank. Prior to its completion, the transaction received the written permission of the Bulgarian National Bank.

Hillside was incorporated on 20 July 1998 as the trading subsidiary of the Hillside Apex Fund, a separate portfolio of Thames River Global Funds Limited. Thames River Global Funds Limited is an open-ended, multi-class exempted company incorporated with limited liability in the Cayman Islands. Hillside is 100 per cent owned by Thames River Global Funds Limited.

The Manager of the Thames River Global Funds Limited and its subsidiaries is Thames River Capital Holdings Limited. Thames River Capital Holdings Limited has appointed Thames River Capital LLP as investment adviser to the Thames River Global Funds Limited and its subsidiaries.

Thames River Capital LLP is authorised and regulated by the Financial Services Authority in the United Kingdom. Thames River Capital LLP had approximately US$7.2 billion of assets under management as at 30 November 2005.

The Administrator of Thames River Global Funds Limited and its subsidiaries is Northern Trust Fund Administration Services (Ireland) Limited, which is regulated in Ireland by the Irish Financial Services Regulatory Authority. PricewaterhouseCoopers, Cayman Islands act as auditors to Thames River Global Funds Limited and its subsidiaries.

Founded in March 1991, FFBH was the first Bulgarian private brokerage institution, licensed to deal in equities and foreign exchange, and was the first operator authorised to auction Bulgarian Treasury bills. FFBH deals in the primary and secondary markets for fixed-income securities and stocks and is also a shareholder in the Bulgarian Stock Exchange. In addition FFBH provides corporate financing advice for finance and investments, privatisation, corporate structurings, leveraged buy-outs and initial public offerings. FFBH is an original shareholder of the Bank and currently holds 13.89% of the total share capital.

Among the remaining shareholders Mr. Tzeko Minev and Mr. Ivaylo Mutafchiev each hold a 31.83% stake in the total share of the Bank. This shareholding gives the Founding Shareholders, acting together, effective control of the Bank at a shareholders' meeting.

Legnano Enterprises (a holding company incorporated in Cyprus) holds 2.45% of the total share capital of the Bank.

(c) Statutory reserve

Statutory reserves comprise amounts appropriated for purposes defined by the local legislation. Under local legislation, the Bank is required to set aside one fifth of its profit in a statutory reserve until it reaches 1.25 % of the banks' total assets and off-balance-sheet liabilities.

29. Commitments and contingent liabilities

(a) Memorandum items

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 guarantees and letters of credit represent the maximum accounting loss that would be recognised at the balance sheet date if counterparts failed completely to perform as contracted.

In thousands of BGN	2006	2005
Bank guarantees		
– in BGN	136,458	101,052
– in foreign currency	108,092	54,439
Total guarantees	**244,550**	**155,491**
Unused credit lines	211,228	140,474
Promissory notes	17,097	39,602
Letters of credit in foreign currency	313,722	116,461
	786,597	**452,028**

These commitments and contingent liabilities have off balance-sheet credit risk because only organization fees and accruals for probable losses are recognised in the balance sheet until the commitments are fulfilled or expire. Many 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.

At 31 December 2006 the extent of collateral held for guarantees and letters of credit is 100 percent.

30. 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 thousands of BGN	2006	2005
Cash and balances with Central Banks	708,038	534,847
Loans and advances to banks and other financial institutions with original maturity less than 90 days	22,773	39,202
	730,811	**574,049**

31. Average balances

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

In thousands of BGN	2006	2005
FINANCIAL ASSETS		
Cash and balances with Central Banks	400,142	321,711
Financial assets held for trading	18,459	151,163
Available for sale investments	480,218	204,632
Financial assets held to maturity	80,333	100,788
Loans and advances to banks and other financial institutions	26,691	56,648
Loans and advances to customers	1,459,229	1,218,335
FINANCIAL LIABILITIES		
Due to banks and other financial institutions	47,091	43,591
Due to other customers	1,303,305	977,700
Liabilities evidenced by paper	911,499	888,979
Subordinated term debt	55,170	55,295
Perpetual debt	90,065	22,062

32. 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:

Вид свързаност	**Directors**		**Enterprises under common control**	
In thousands of BGN	**2006**	**2005**	**2006**	**2005**
Loans:				
Loans outstanding at beginning of the year	1,554	819	3,660	3,642
Loans issued during the year	322	735	691	18
Loans outstanding at end of the year	1,876	1,554	4,351	3,660
Deposits received:				
Deposits at beginning of the year	273	206	1,975	9,292
Deposits received during the year	274	67	850	(7,317)
Deposits at end of the year	547	273	2,825	1,975
Deposits placed				
Deposits at beginning of the year	–	–	7,823	6,063
Deposits placed during the year	–	–	–	1,760
Deposits at end of the year	–	–	7,823	7,823
Off-balance sheet commitments issued by the Bank				
At beginning of the year	–	–	130	50
Granted	–	–	987	80
At the end of the year	–	–	1,117	130

The key management personnel of the Bank received remuneration of BGN 2,079 thousand for 2006.

33. Subsidiary undertakings

(a) First Investment Finance B.V.

In April 2003 the Bank has 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 issuing bonds, listed on the Luxemburg Stock Exchange and guaranteed by the Bank. The entity's issued and paid up share capital is EUR 18 thousand and is 100 % owned by the Bank. Consequently the Bank consolidates its investment in this company.

(b) First Insurance Brokerage Company AD

In September 2003 the Bank acquired 50% of the issued share capital of First Insurance Brokerage Company AD upon its incorporation. Total share capital of the company is BGN 100 thousand. The Bank considers this undertaking to be a controlling interest as the management of the Bank also manages this company. On 22 December 2006 the Bank sold its shares in FIBC.

(c) Diners Club Bulgaria AD

In May 2005 the Bank acquired 80% of the share capital of Diners Club Bulgaria AD. The share capital of the company is BGN 2,745 thousand. The company was incorporated in 1996 as a franchise and processing agent of Diners Club International. Consequently the Bank consolidates its investment in this company.

(d) 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. The authorized share capital of the entity is ALL 1 billion, of which EUR 2,050 thousand (approximately ALL 250 million) have been already paid-in. The shareholders of First Investment Bank – Albania Sh.a. are expected to pay the remainder of the share capital up to ALL 1 billion until the end of July 2007, which is a precondition for issuance of a permanent banking licence by the Bank of Albania.

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34. Post balance sheet events

(a) Change of the shareholders' shareholding

Following a permission granted by the Extraordinary General Meeting of Shareholders of FIB held on 31 January 2007, Growth Management Limited, Jersey, Channel Islands and Hillside Apex Fund Limited, Cayman Islands transfer their own 2,000,000 dematerialized shares with a nominal value of BGN 10 each, issued by First Investment Bank AD, to First Financial Brokerage House OOD, Sofia, Bulgaria. The latter company acquires the shares as a commission agent on its own behalf and on the account of Domenico Ventures Limited, British Virgin Islands, Rafaela Consultants Limited, British Virgin Islands, and Legnano Enterprises Limited, Nicosia, Cyprus. On 13 February 2007 First Financial Brokerage House OOD transfers the acquired shares to the above companies in proportions as follows:

(i) 700,000 dematerialized shares (representing 7% of the FIB's capital) – to Domenico Ventures Limited, British Virgin Islands;

(ii) 700,000 dematerialized shares (representing 7% of the FIB's capital) – to Rafaela Consultants Limited, British Virgin Islands; and

(ii) 600,000 dematerialized shares (representing 6% of the FIB's capital) – to Legnano Enterprises Limited, Nicosia, Cyprus.

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

By virtue of court decision of Sofia City Court as of 05 February 2007 the capital of Diners Club Bulgaria AD is increased from BGN 2,745 thousand to BGN 3,645 thousand by the issue of 900,000 new registered shares with voting rights with a nominal value and issue price of BGN 1 each. The capital increase is effected in accordance with the provision of Art.195 of the Bulgarian Commercial Law – under the condition that all shares from the capital increase would be acquired by two of the shareholders – First Investment Bank AD and Diners Club Adriatic d.d., Zagreb. All newly issued shares have been fully paid up and acquired by the shareholders mentioned above as follows: 720,000 shares – by First Investment Bank AD, and 180,000 shares – by Diners Club Adriatic d.d., Zagreb.

Report of the Independent Auditor

To the Shareholders of First Investment Bank AD

Sofia, 21 February 2007

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of First Investment Bank AD ("the Bank"), which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of First Investment Bank AD as at 31 December 2006, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Krassimir Hadjidinev
Registered auditor
Authorised represents

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Рег. №045
"КПМГ - България" ООД

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