Translation from Bulgarian!

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

Sofia, 30 March 2009

Report on the unconsolidated financial statements

We have audited the accompanying unconsolidated financial statements of First Investment Bank AD ("the Bank"), which comprise the unconsolidated balance sheet as at 31 December 2008, and the unconsolidated income statement, unconsolidated statement of changes in equity and unconsolidated 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 unconsolidated financial statements in accordance with International Financial Reporting Standards adopted by the European Commission. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the unconsolidated financial statements give a true and fair view of the unconsolidated financial position of First Investment Bank AD as at 31 December 2008, and of its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with International Financial Reporting Standards adopted by the European Commission.

Report on other legal and supervisory requirements

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

In accordance with the requirements of the Law on Accounting, we also report that the historical unconsolidated financial information prepared by the Management and presented in the unconsolidated annual management report of the Bank pursuant to Article 33 of the Law on Accounting corresponds in all material aspects to the financial information contained in the annual unconsolidated financial statements of the Bank for the year ended 31 December 2008. Management is responsible for the preparation of the unconsolidated annual management report which was approved by the Managing Board of the Bank on 30 March 2009.

Krassimir Hadjidinev
Partner
Registered auditor
KPMG Bulgaria OOD
37, Fridtjof Nansen Street
Sofia 1142

Margarita Goleva
Registered auditor

Translation from Bulgarian

FIRST INVESTMENT BANK AD

UNCONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2008

Translation from Bulgarian

Unconsolidated Income Statement for the Year Ended 31 December 2008

In thousands of BGN

	Note	2008	2007
Interest income		333,421	269,669
Interest expense and similar charges:		(189,069)	(138,918)
Net interest income	**6**	**144,352**	**130,751**
Fee and commission income		69,656	59,253
Fee and commission expense		(9,046)	(9,637)
Net fee and commission income	**7**	**60,610**	**49,616**
Net trading income	**8**	**1,846**	**10,388**
Other operating expenses	**9**	**(1,581)**	**(230)**
TOTAL INCOME FROM BANKING OPERATIONS		**205,227**	**190,525**
Administrative expenses	10	(147,680)	(104,079)
Allowance for impairment	11	2,742	(26,408)
Other expenses, net		(4,264)	(4,258)
PROFIT BEFORE TAX		**56,025**	**55,780**
Income tax expense	**12**	**(5,094)**	**(5,373)**
NET PROFIT		**50,931**	**50,407**
Basic and diluted earnings per share (BGN)	**13**	**0.46**	**0.47**

The income statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 50.

Krassimir Hadjidinev

Registered auditor
Partner
KPMG Bulgaria OOD

Margarita Goleva

Registered auditor

Translation from Bulgarian

Unconsolidated balance sheet as at 31 December 2008

In thousands of BGN

	Note	2008	2007
ASSETS			
Cash and balances with Central Banks	14	745,083	608,685
Financial assets held for trading	15	9,681	13,529
Available for sale investments	16	311,544	397,168
Financial assets held to maturity	17	60,393	104,706
Loans and advances to banks and other financial institutions	18	10,168	189,154
Loans and advances to customers	19	2,945,516	2,767,762
Property and equipment	20	149,010	111,282
Intangible assets	21	5,164	429
Other assets	23	19,575	12,340
TOTAL ASSETS		**4,256,134**	**4,205,055**
LIABILITIES AND CAPITAL			
Due to banks	24	53,415	17,234
Due to other customers	25	3,179,321	3,257,770
Liabilities evidenced by paper	26	490,398	444,443
Subordinated term debt	27	53,852	51,005
Perpetual debt	28	100,474	99,874
Deferred tax liability	22	1,681	1,368
Other liabilities	29	6,523	7,705
TOTAL LIABILITIES		**3,885,664**	**3,879,399**
Issued share capital	31	110,000	110,000
Share premium	31	97,000	97,000
Statutory reserve	31	39,861	39,861
Revaluation reserve on available for sale investments	31	(6,467)	(350)
Retained earnings	31	130,076	79,145
SHAREHOLDERS' EQUITY		**370,470**	**325,656**
TOTAL LIABILITIES AND GROUP EQUITY		**4,256,134**	**4,205,055**

The balance sheet is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 50.

Krassimir Hadjidinev

Registered auditor
Partner
KPMG Bulgaria OOD

Margarita Goleva

Registered auditor

Unconsolidated statement of cash flows for the year ended 31 December 2008

In thousands of BGN

	2008	2007
Net cash flow from operating activities		
Net profit	50,931	50,407
Adjustment for non-cash items		
Allowance for impairment	(2,742)	26,408
Depreciation and amortization	16,796	11,541
Income tax expense	5,094	5,373
Loss on derecognition of fixed assets	422	-
	70,501	**93,729**
Change in operating assets		
(Increase)/decrease in financial instruments held for trading	3,848	(290)
Decrease in available for sale investments	79,507	119,061
(Increase)/decrease in loans and advances to banks and financial institutions	(22)	19,675
(Increase) in loans to customers	(175,012)	(1,084,676)
(Increase)/decrease in other assets	(7,235)	3,597
	(98,914)	**(942,633)**
Change in operating liabilities		
Increase in due to banks	36,181	6,798
Increase/(decrease) in amounts owed to other depositors	(78,449)	768,289
Net increase in other liabilities	1,222	1,681
	(41,046)	**776,768**
Income tax paid	(7,185)	(4,290)
NET CASH FLOW FROM OPERATING ACTIVITIES	**(76,644)**	**(76,426)**
Cash flow from investing activities		
(Purchase) of tangible and intangible fixed assets	(59,681)	(41,885)
(Acquisition)/decrease of investments	44,313	(34,485)
NET CASH FLOW FROM INVESTING ACTIVITIES	**(15,368)**	**(76,370)**
Financing activities		
Increase of shareholders' equity, fully paid-up	-	10,000
Increase in share premium	-	97,000
Increase in borrowings	49,402	114,904
NET CASH FLOW FROM FINANCING ACTIVITIES	**49,402**	**221,904**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**(42,610)**	**69,108**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	**797,667**	**728,559**
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD (See Note 33)	**755,057**	**797,667**

The cash flow statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 50.

Krassimir Hadjidinev

Registered auditor
Partner
KPMG Bulgaria OOD

Margarita Goleva

Registered auditor

Unconsolidated statement of shareholders' equity for the year ended 31 December 2008

In thousands of BGN

	Share capital	Share premium	Retained earnings	Revaluation reserve	Statutory reserve	Total
Balance as at 1 January 2007	**100,000**	**-**	**28,738**	**(258)**	**39,861**	**168,341**
Increase of shareholders' equity, fully paid-up	10,000	97,000	-	-	-	107,000
Revaluation reserve on available for sale investments	-	-	-	(92)	-	(92)
Net profit for the year ended 31 December 2007	-	-	50,407	-	-	50,407
Balance as at 31.12.07	**110,000**	**97,000**	**79,145**	**(350)**	**39,861**	**325,656**
Revaluation reserve on available for sale investments	-	-	-	(6,117)	-	(6,117)
Net profit for the year ended 31 December 2008	-	-	50,931	-	-	50,931
Balance as at 31.12.08	**110,000**	**97,000**	**130,076**	**(6,467)**	**39,861**	**370,470**

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 50.

The financial statements have been approved by the Managing Board on 30 March 2009 and signed on its behalf by:

Matthew Mateev
Chairman of the Managing Board and Executive Director

Evgeni Lukanov
Executive Director

Jordan Skortchev
Executive Director

Maya Georgieva
Executive Director

Radoslav Milenkov
Chief Financial Officer

Krassimir Hadjidinev
Registered auditor

Margarita Goleva
Registered auditor

Partner
KPMG Bulgaria OOD

Notes to the financial statements

1. Basis of preparation

(a) Statute

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

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

The Bank has foreign operations in Cyprus and until 31 August 2007 – in Albania.

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

(b) Statement of compliance

The unconsolidated financial statements were drawn up in accordance with the International Financial Reporting Standards (IFRS) endorsed by the European Commission.

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

(c) 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 2007 in order to provide more clear and precise comparison figures.

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

The present financial statements of the Bank are not consolidated. These individual financial statements form an integral part of the consolidated financial statements which will be drawn up and published by 30 June 2009 pursuant to the Law on Accounting.

Notes to the financial statements

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

Investments in subsidiaries are stated at cost.

(c) Foreign currency transactions

(i) Functional and presentation currency

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

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the exchange rates at the balance sheet date of monetary assets and liabilities denominated in foreign currencies are recognised in the 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 in Cyprus is determined by the management to be the Euro. In determining the functional currency of the foreign operations, the Bank takes into account the fact that they are carried out as an extension of the reporting entity.

2. Significant accounting policies, continued

(d) Financial assets

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

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

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. 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.

2. Significant accounting policies, continued

(d) Financial assets, continued

(vi) Measurement

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are 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.

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

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

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

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

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

2. Significant accounting policies, continued

(d) Financial assets, continued

(vii) Fair value measurement principles, continued

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank entity and counterparty where appropriate. . Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Bank believes a third-party market participant would take them into account in pricing a transaction.

The table below analyses financial instruments at fair value by valuation models. Data does not include investments in subsidiaries and associates and other equity instruments measured at cost.

In thousands of BGN	**Quoted market prices at active markets**	**Valuation techniques using market inputs**	**Total**
31 December 2008			
Financial assets held for trading	9,681	-	9,681
Available for sale investments	229,846	54,740	284,586
Total	**239,527**	**54,740**	**294,267**
31 December 2007			
Financial assets held for trading	13,529	-	13,529
Available for sale investments	288,730	84,396	373,126
Total	**302,259**	**84,396**	**386,655**

(e) Cash and cash equivalents

Cash and cash equivalents comprise cash balances on hand, cash deposited with the central bank and short-term highly liquid investments with maturity of up to three months.

(f) Investments

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

2. Significant accounting policies, continued

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

(h) Borrowings

Borrowings are recognised initially at ‘cost’, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost and any difference between net proceeds and the redemption value is recognized in 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 of Assets

The carrying amounts of the Bank’s assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset’s recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Notes to the financial statements

2. Significant accounting policies, continued

(j) Impairment, continued

(i) Loans and advances

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

Loans and advances are presented net of specific and general allowances for impairment. The carrying amount of the asset is reduced through use of an allowance account. Specific allowance for impairment is accounted for loans for which there is objective evidence of impairment as a result of a past event that occurred after initial recognition of the asset. Objective evidence of impairment includes significant financial difficulty of the obligor; a breach of contract, such as a default or delinquency in interest or principal payments; it becoming probable that the borrower will enter bankruptcy; observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets. General allowance is accounted for decreasing the carrying amount of a portfolio of loans with similar credit risk characteristics, which are collectively assessed for impairment. The estimated cash flows for a group of similar assets are determined on the basis of past practice and historical loss experience for portfolios with comparable characteristics. Historical loss experience should be adjusted, on the basis of observable data, to reflect the effects of current conditions. An asset that is individually assessed for impairment and found to be impaired should not be included in a group of assets that are collectively assessed for impairment. 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 even if the asset is not derecognised.

If in a subsequent period the fair value of the asset increases and the increase can be linked objectively to an event occurring after the write-down, the write-down is reversed through the income statement.

2. Significant accounting policies, continued

(k) Property 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 annual rates of amortisation are as follows:

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

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

(l) Intangible assets

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

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

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

(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 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.

2. Significant accounting policies, continued

(o) Taxation, continued

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.

Notes to the financial statements

2. Significant accounting policies, continued

(q) Earnings per share

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

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

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2008, and have not been adopted in preparing these financial statements:

- Amendment to IFRS 2 *Share-based Payment – vesting and termination conditions* (effective 1 January 2009). The amendments to the Standard clarify the definition of vesting conditions and introduce the concept of non-vesting conditions. Non-vesting conditions are to be reflected in grant-date fair value and failure to meet non-vesting conditions will generally result in treatment as a cancellation. The amendments to IFRS 2 will be effective for financial statements for 2009 and will be adopted retrospectively. Management considers that the amendments to the Standard will not have any impact on the Bank as the Bank does not have any share-based compensation plans.
- *IFRS 8 Operating Segments (effective as of 1 January 2009*). The Standard requires segment disclosure based on the components of the Bank that management monitors in making decisions about operating matters. Operating segments are components of the Bank about which separate financial information is available that is evaluated regularly by the Chief Operating Decision Maker in deciding how to allocate resources and in assessing performance. The Bank considers that the standard will have no effect on the profit or loss or equity and will not alter significantly the presentation and disclosure of operating segments in the financial statements.
- Revised IAS 1 Presentation of Financial Statements (effective from 1 January 2009). The revised Standard requires information in financial statements to be aggregated on the basis of shared characteristics. The Standard introduces a statement of comprehensive income.

  Items of income and expense and components of other comprehensive income may be presented either in a single statement of comprehensive income (effectively combining the income statement and all non-owner changes in equity in a single statement), or in two separate statements (a separate income statement followed by a statement of comprehensive income).

  The Bank is currently evaluating whether to present a single statement of comprehensive income, or two separate statements.
- Revised IAS 23 Borrowing Costs removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become mandatory for the Bank's 2009 financial statements and will constitute a change in accounting policy for the Bank.

2. Significant accounting policies, continued

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

In accordance with the transitional provisions the Bank will apply the revised IAS 23 to qualifying assets for which capitalization of borrowing costs commences on or after the effective date.

- IFRIC 13 Customer Loyalty Programmes addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes for their customers. It relates to customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. Such entities are required to allocate some of the proceeds of the initial sale to the award credits and recognise these proceeds as revenue only when they have fulfilled their obligations. IFRIC 13, which becomes mandatory for the Bank's 2009 financial statements, is not expected to have significant impact on the financial statements.

Management believes that it is appropriate to disclose that the following revised standards, new interpretations and amendments to current standards, which are included under the accounting IFRS framework as approved by the International Accounting Standards Board (IASB), but are not yet endorsed for adoption by the European commission, and therefore are not taken into account in preparing these financial statements:

- 35 Improvements to 24 IFRSs and IASs (2008)
- Revised IFRS 3 *Business Combinations* (2008)
- Revised IFRS 1 *First-time adoption of IFRS*
- Amendments to IFRS 1 and IAS 27 related to *Cost of an Investment in a Subsidiary, Jointly-Controlled Entity or Associate*
- Amendments to IAS 32 and IAS 1 related to *Puttable financial instruments and obligations arising on liquidation*
- Amendments to IAS 39 related to Eligible hedged items; effective date and transition
- IFRIC 12 *Service Concession Arrangements*
- IFRIC 15 *Agreements for the Construction of Real Estate*
- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*
- IFRIC 17 *Distributions of Non-cash Assets to Owners.*

As at the date of preparation of these financial statements, management have not completed the process of evaluating the impact that will result from adopting these revised standards, new interpretations and amendments to current standards in future, once they are endorsed by the European commission for adoption by the European Union.

Notes to the financial statements

3. Risk management disclosures

A. Trading activities

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

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

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

(i) Credit risk

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

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

(ii) Market risk

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

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

All marked-to-market instruments are recognised and measured at fair value, 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.

3. Risk management disclosures, continued

A. Trading activities, continued

(ii) Market risk, continued

While management has used available market information in estimating fair value, it may not be fully reflective of the value that could be realised under the current circumstances.

Notes to the financial statements

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

The Value at Risk is calculated and monitored on a daily basis as part of the Group's ongoing risk management. The following table summarises the range of interest rate VaR for all positions carried at fair value that was experienced in 2008:

	31 December	**Year ended 31 December 2008**			**31 December**
In thousands of BGN	**2008**	**average**	**low**	**high**	**2007**
VaR	1,465	1,021	602	1,926	796

B. Non-trading activities

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

(i) Liquidity risk

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

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

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

Notes to the financial statements

3. Risk management disclosures, continued

B. Non-trading activities, continued

(i) Liquidity risk, continued

Maturity table as at 31 December 2008

In thousands of BGN	**Up to 1 Month**	**From 1 to 3 Months**	**From 3 months to 1 year**	**More than 1 year**	**Maturity not defined**	**Total**
Assets						
Cash and balances with Central Banks	745,083	-	-	-	-	**745,083**
Financial assets held for trading	9,681	-	-	-	-	**9,681**
Available for sale investments	58,598	78,053	58,288	89,646	26,959	**311,544**
Financial assets held to maturity	8,858	9,396	2,047	40,092	-	**60,393**
Loans and advances to banks and other financial institutions	10,168	-	-	-	-	**10,168**
Loans and advances to customers	252,578	230,815	530,430	1,931,693	-	**2,945,516**
Property and equipment	-	-	-	-	149,010	**149,010**
Intangible assets	-	-	-	-	5,164	**5,164**
Other assets	19,575	-	-	-	-	**19,575**
Total assets	**1,104,541**	**318,264**	**590,765**	**2,061,431**	**181,133**	**4,256,134**
Liabilities						
Due to banks	53,415	-	-	-	-	**53,415**
Due to other customers	1,106,403	565,150	1,429,831	77,937	-	**3,179,321**
Liabilities evidenced by paper	72,805	62,929	272,808	81,856	-	**490,398**
Subordinated term debt	-	-	-	53,852	-	**53,852**
Perpetual debt	-	-	-	-	100,474	**100,474**
Deferred tax liability		-	-	-	1,681	**1,681**
Other liabilities	6,523	-	-	-	-	**6,523**
Total liabilities	**1,239,146**	**628,079**	**1,702,639**	**213,645**	**102,155**	**3,885,664**
Net liquidity gap	**(134,605)**	**(309,815)**	**(1,111,874)**	**1,847,786**	**78,978**	**370,470**

Notes to the financial statements

3. Risk management disclosures, continued

B. Non-trading activities, continued

(i) Liquidity risk, continued

Maturity table as at 31.12.07

In thousands of BGN	**Up to 1 Month**	**From 1 to 3 Months**	**From 3 months to 1 year**	**More than 1 year**	**Maturity not defined**	**Total**
Assets						
Cash and balances with Central Banks	608,685	-	-	-	-	**608,685**
Financial assets held for trading	13,529	-	-	-	-	**13,529**
Available for sale investments	20,019	38,729	191,131	123,247	24,042	**397,168**
Financial assets held to maturity	-	15,562	9,283	79,861	-	**104,706**
Loans and advances to banks and other financial institutions	185,062	3,920	-	-	172	**189,154**
Loans and advances to customers	175,906	211,022	540,887	1,839,947		**2,767,762**
Property and equipment	-	-	-	-	111,282	**111,282**
Intangible assets	-	-	-	-	429	**429**
Other assets	12,340	-	-	-	-	**12,340**
Total assets	**1,015,541**	**269,233**	**741,301**	**2,043,055**	**135,925**	**4,205,055**
Liabilities						
Due to banks	17,234	-	-	-	-	**17,234**
Due to other customers	2,012,425	425,798	727,621	91,926	-	**3,257,770**
Liabilities evidenced by paper	185	39	346,325	97,894	-	**444,443**
Subordinated term debt	-	-	-	51,005	-	**51,005**
Perpetual debt	-	-	-	-	99,874	**99,874**
Deferred tax liability	-	-	-	-	1,368	**1,368**
Other liabilities	7,433	-	-	272	-	**7,705**
Total liabilities	**2,037,277**	**425,837**	**1,073,946**	**241,097**	**101,242**	**3,879,399**
Net liquidity gap	**(1,021,736)**	**(156,604)**	**(332,645)**	**1,801,958**	**34,683**	**325,656**

As at 31.12.08 the thirty largest non-bank depositors represent 32.03% of total deposits from other customers (2007: 35.73%).

Notes to the financial statements

3. Risk management disclosures, continued

B. Non-trading activities, continued

(i) Liquidity risk, continued

The following table provides a remaining maturities analysis of the financial liabilities of the Bank as at 31.12.08 based on the contractual undiscounted cash flows.

In thousands of BGN	Up to 1 Month	From 1 to 3 Months	From 3 months to 1 year	More than 1 year	Maturity not defined	Total
Due to banks	53,461	-	-	-	-	**53,461**
Due to other customers	1,107,457	571,971	1,492,462	88,278	-	**3,260,168**
Liabilities evidenced by paper	73,017	63,675	284,902	99,285	-	**520,879**
Subordinated term debt	-	-	-	115,946	-	**115,946**
Perpetual debt	-	4,855	6,790	74,722	94,493	**180,860**
Total financial liabilities	**1,233,935**	**640,501**	**1,784,154**	**378,231**	**94,493**	**4,131,314**

(ii) Market risk

Interest rate risk

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

In order to quantify the interest rate risk of its non-trading activities, the Bank measures the impact of a change in the market rates both on net interest income and on the Bank's economic value defined as the difference between fair value of assets and fair value of liabilities. The interest rate risk on the economic value of the Group following a standardised shock of +100bp/-100bp as at 31.12.08 is BGN +3.6/-3.6 Mio.

As at 31 December 2008 the effect of interest-rate risk on the Bank's economic value following a standardised shock of +50bp/-50bp is BGN +1.0/-1.0 Mio. for the section of profitability curves above 1 year.

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 2008 is BGN +0.5/-0.5 Mio.

Notes to the financial statements

3. Risk management disclosures, continued

B. Non-trading activities, continued

(ii) Market risk, continued

Interest rate risk, continued

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

				Fixed rate instruments			
In thousands of BGN	**Total**	**Weighted average effective interest rate**	**Floating rate Instruments**	**Less than 1 month**	**Between 1 month and 3 months**	**Between 3 months and 1 year**	**More than 1 year**
Assets							
Cash and balances with Central Banks	150,039	1.98%	41,791	108,248	-	-	-
Financial assets held for trading	5,476	4.31%	-	-	-	-	5,476
Available for sale investments	284,585	3.08%	45,797	58,599	78,053	58,288	43,848
Financial assets held to maturity	60,393	3.25%	18,197	8,858	9,396	2,047	21,895
Loans and advances to banks and other financial institutions	3,920	3.50%	-	3,920	-	-	-
Loans and advances to customers	2,921,262	10.90%	2,505,727	21,056	11,034	148,778	234,667
Non-interest earning assets	830,459	-	-	-	-	-	-
Total assets	**4,256,134**		**2,611,512**	**200,681**	**98,483**	**209,113**	**305,886**
Liabilities							
Due to banks	53,035	4.68%	1,379	51,656	-	-	-
Due to other customers	3,169,876	5.58%	2,248,864	76,658	149,716	207,995	486,643
Liabilities evidenced by paper	490,397	6.77%	84,709	72,805	62,929	264,060	5,894
Subordinated term debt	53,852	13.10%	-	-	-	-	53,852
Perpetual debt	100,474	12.51%	-	-	-	-	100,474
Non-interest bearing liabilities	18,030	-	-	-	-	-	-
Total liabilities	**3,885,664**		**2,334,952**	**201,119**	**212,645**	**472,055**	**646,863**

Notes to the financial statements

3. Risk management disclosures, continued

B. Non-trading activities, continued

(ii) Market risk, continued

Interest rate risk, continued

The following table indicates the effective interest rates at 31.12.07 and the periods in which financial liabilities and assets reprice.

				Fixed rate instruments			
In thousands of BGN	**Total**	**Weighted average effective interest rate**	**Floating rate Instruments**	**Less than 1 month**	**Between 1 month and 3 months**	**Between 3 months and 1 year**	**More than 1 year**
Assets							
Cash and balances with Central Banks	64,930	3.24%	31,814	33,116	-	-	-
Financial assets held for trading	2,074	4.38%	68	-	-	-	2,006
Available for sale investments	370,154	3.96%	87,666	-	-	-	282,488
Financial assets held to maturity	103,527	3.00%	35,994	-	-	13,149	54,384
Loans and advances to banks and other financial institutions	162,529	4.49%	-	158,617	3,912	-	-
Loans and advances to customers	2,753,220	10.72%	2,508,782	41,795	19,981	51,752	130,910
Non-interest earning assets	748,621	-	-	-	-	-	-
Total assets	**4,205,055**		**2,664,324**	**233,528**	**23,893**	**64,901**	**469,788**
Liabilities							
Due to banks	17,048	4.89%	15,383	1,665	-	-	-
Due to other customers	3,153,419	4.18%	2,328,192	34,984	396,138	391,089	3,016
Liabilities evidenced by paper	456,315	5.22%	87,767	-	-	-	368,548
Subordinated term debt	47,507	13.25%	-	-	-	-	47,507
Perpetual debt	93,880	12.56%	-	-	-	-	93,880
Non-interest bearing liabilities	111,230	-	-	-	-	-	-
Total liabilities	**3,879,399**		**2,431,342**	**36,649**	**396,138**	**391,089**	**512,951**

Notes to the financial statements

3. Risk management disclosures, continued

B. Non-trading activities, continued

(ii) Market risk, continued

Currency risk

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

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

The Bank's 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	**2008**	**2007**
Monetary assets		
Euro	2,175,826	2,594,721
US dollar	240,813	344,688
Other	33,378	51,782
Gold bullion	7,817	4,730
Monetary liabilities		
Euro	2,154,161	2,661,873
US dollar	240,268	344,698
Other	35,414	52,042
Gold bullion	-	-
Net position		
Euro	21,665	(67,152)
US dollar	545	(10)
Other	(2,036)	(260)
Gold bullion	7,817	4,730

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

(iii) Credit risk

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

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

Notes to the financial statements

3. Risk management disclosures, continued

B. Non-trading activities, continued

(iii) Credit risk, continued

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

31 December 2007		*In thousands of BGN*
Class of exposure	**Gross amount of loans and advances to customers**	**Carrying amount of loans and advances to customers**
Collectively impaired		
Standard	2,766,350	2,743,268
Individually impaired		
Watch	15,363	14,528
Substandard	7,602	6,368
Nonperforming	48,298	3,598
Total	**2,837,613**	**2,767,762**

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

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

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

3. Risk management disclosures, continued

B. Non-trading activities, continued

(iii) Credit risk, continued

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

In thousands of BGN	**2008**	**2007**
Trade	644,657	532,680
Industry	704,072	708,216
Services	184,531	225,261
Finance	22,773	1,957
Transport, logistics	144,612	153,074
Communications	46,836	45,445
Construction	145,294	108,893
Agriculture	85,619	89,340
Tourist services	112,973	122,173
Infrastructure	106,212	65,042
Private individuals	761,441	748,552
Other items	53,340	36,980
Allowance for impairment	(66,844)	(69,851)
Total	**2,945,516**	**2 ,767,762**

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 2008 with total exposures amounting to BGN 40,968 thousand (2007: BGN 37,028 thousand) - ferrous and non-ferrous metals, BGN 77,149 thousand (2007: BGN 68,772 thousand) – mining and BGN 107,972 thousand (2007: BGN 118,539 thousand) - power engineering.

The Bank has extended loans, confirmed letters of credit and granted guarantees to 16 individual clients or groups (2007: 16) with each individual exposure exceeding 10% of the capital base of the Bank and based on the book value of the corresponding credit facility. The total amount of these exposures is BGN 1,109,642 thousand which represents 258.73% of the capital base (2007: BGN 911,798 thousand which represented 238.13% of capital base) of which BGN 938,241 thousand (2007: BGN 667,792 thousand) represent loans and BGN 171,401 thousand (2007: BGN 244,006 thousand) represent guarantees, letters of credit and other commitments. Exposures secured by cash have been excluded from the calculation of the large exposures.

Loans extended by the branch in Cyprus amount to BGN 130,871 thousand (gross carrying amount before any allowances) (2007: BGN 140,128 thousand).

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.

3. Risk management disclosures, continued

B. Non-trading activities, continued

(iii) Credit risk, continued

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

Collateral for loans, guarantees, and letters of credit is usually in the form of mortgages, cash, inventory, securities, 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, excluding credit cards amounting to BGN 149,796 thousand (2007: BGN 81,819 thousand):

In thousands of BGN	**2008**	**2007**
Mortgage	1,346,172	1,525,826
Pledge of receivables	425,601	267,153
Pledge of commercial enterprise	286,287	296,050
Securities	144,981	97,330
Bank guarantee	155	7,015
Other guaranties	130,084	59,075
Pledge of goods	110,262	92,965
Pledge of machines	227,376	150,380
Money deposit	38,559	115,390
Stake in capital	36,559	41,661
Gold	33	32
Other collateral	100,272	96,494
Unsecured	16,223	6,423
Total	**2,862,564**	**2,755,794**

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

3. Risk management disclosures, continued

C. Solvency ratio (Capital adequacy)

The Bank's lead regulator, the Bulgarian National Bank (BNB) sets and monitors capital requirements both on consolidated and stand-alone basis. BNB issued new Ordinance 8 on Capital Adequacy of Credit Institutions effective from 01 January 2007 that is the Bulgarian supervisory implementation of the International Convergence of Capital Measurement and Capital Standards (Revised Framework), known as Basel II and complies with EU Directives 2006/48/EC and 2006/49/EC. In implementing current capital requirements the Bank is required to maintain a minimum prescribed ratio of 12% of total capital to total risk-weighted assets. Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

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

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

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

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

Following limits are applied to elements of the capital base: qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying term subordinated loan capital may not exceed 50 percent of tier 1 capital. Capital base decreases include the balance-sheet value of unconsolidated investments and the specific provisions for credit risk.

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

Notes to the financial statements

3. Risk management disclosures, continued

C. Capital adequacy, continued

Capital adequacy level was as follows:

In thousands of BGN	Balance sheet/notional amount		Risk weighted assets	
	2008	**2007**	**2008**	**2007**
Risk weighted assets for credit risk				
Balance sheet assets				
Class of exposure				
Central governments and central banks	706,316	761,098	3,011	3,162
International banks for development	1,000	2,763	-	-
Institutions	231,376	379,891	75,716	95,063
Corporates	1,919,643	1,860,647	1,881,850	1,746,542
Retail exposures	560,775	519,274	546,088	508,796
Receivables collateralized with real property	451,855	387,841	225,928	193,921
Collective investment schemes	1,964	3,011	1,964	3,011
Other positions	339,604	266,313	173,733	135,418
Total	**4,212,533**	**4,180,838**	**2,908,290**	**2,685,913**
Off balance sheet positions				
Class of exposure				
Central governments and central banks	-	782	-	-
Institutions	17,879	8,163	8,157	3,625
Corporates	645,543	796,841	202,591	208,066
Retail exposures	234,459	224,962	1,079	4,713
Receivables collateralized with real property	8,069	29,215	1,963	2,970
Other positions	-	-	28	57
Total	**905,950**	**1,059,963**	**213,818**	**219,431**
Derivatives				
Class of exposure				
Institutions	1,359	2,773	272	707
Corporates	19	-	19	-
Total	**1,378**	**2,773**	**291**	**707**
Total risk-weighted assets for credit risk			**3,122,399**	**2,906,051**
Risk-weighted assets for market risk			**3,250**	**3,341**
Risk-weighted assets for operational risk			**254,125**	**188,375**
Total risk-weighted assets			**3,379,774**	**3,097,767**

Capital adequacy ratios	**Capital**		**Capital ratios %**	
	2008	**2007**	**2008**	**2007**
Tier 1 Capital	**318,884**	**263,337**	**9.44%**	**8.50%**
Total capital base	**428,887**	**382,895**	**12.69%**	**12.36%**

Notes to the financial statements

4. Segment Reporting

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

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

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

The Bank operates principally in Bulgaria, but also has operations in Cyprus 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 and liabilities are allocated based on their geographical location.

In thousands of BGN	**Bulgarian operations**		**Foreign operations**		**Total**	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**
Interest income	322,991	260,542	10,430	9,127	333,421	269,669
Interest expense and sir charges:	(188,632)	(138,021)	(437)	(897)	(189,069)	(138,918)
Net interest income	**134,359**	**122,521**	**9 993**	**8,230**	**144 352**	**130,751**
Fee and commission inc	68,607	58,348	1,049	905	69,656	59,253
Fee and commission expense	(9,038)	(9,604)	(8)	(33)	(9,046)	(9,637)
Net fee and commissic income	**59,569**	**48,744**	**1,041**	**872**	**60,610**	**49,616**
Net trading income	**1,821**	**10,318**	**25**	**70**	**1,846**	**10,388**
Administrative expenses	**(147,120)**	**(100,879)**	**(560)**	**(3,200)**	**(147,680)**	**(104,079)**

	2008	**2007**	**2008**	**2007**	**2008**	**2007**
Assets	**4,107,244**	**4,053,369**	**148,890**	**151,686**	**4,256,134**	**4,205,055**
Liabilities	**3,871,727**	**3,855,649**	**13,937**	**23,750**	**3,885,664**	**3,879,399**

4. Segment Reporting, continued

The table below shows assets and liabilities and income and expense by business segments as at 31 December 2008.

In thousands of BGN

Business	Assets	Liabilities	Interest income	Interest expense and similar charges:	Net fee and commission income	Net trading income	Other net operating expense
Commercial banking	2,223,084	1,443,048	234,998	(64,952)	18,278	-	-
Retail Banking	722,432	1,736,273	78,274	(67,064)	4,985	-	-
International business	-	644,724	-	(56,366)	12,090	-	-
Card business	-	-	-	-	13,391	-	-
Liquidity ratio	1,130,626	53,415	20,149	(628)	(630)	530	(2,267)
Dealing	6,243	-	-	-	-	1,316	716
Customer service	-	-	-	-	11,928	-	-
Other items	173,749	8,204	-	(59)	568	-	(30)
Total	**4,256,134**	**3,885,664**	**333,421**	**(189,069)**	**60,610**	**1,846**	**(1,581)**

Notes to the financial statements

5. Financial assets and liabilities

Accounting classification and fair values

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

In thousands of BGN	**Trading**	**Held-to-maturity**	**Loans and receivables**	**Available-for-sale**	**Other at amortised cost**	**Other items**	**Net book value**	**Fair value**
ASSETS								
Cash and balances with Central Banks	-	-	745,083	-	-	-	745,083	745,083
Financial assets held for trading	9,681	-	-	-	-	-	9,681	9,681
Available for sale investments	-	-	-	311,544	-	-	311,544	311,544
Financial assets held to maturity	-	60,393	-	-	-	-	60,393	59,483
Loans and advances to banks and other financial institutions	-	-	10,168	-	-	-	10,168	10,168
Loans and advances to customers	-	-	2,945,516	-	-	-	2,945,516	2,945,516
Other trading assets	-	-	-	-	-	274	274	274
	9,681	**60,393**	**3,700,767**	**311,544**	**-**	**274**	**4,082,659**	**4,081,749**
LIABILITIES								
Due to banks	-	-	-	-	53,415	-	53,415	53,415
Due to other customers	-	-	-	-	3,179,321	-	3,179,321	3,179,321
Liabilities evidenced by paper	-	-	-	-	490,398	-	490,398	490,287
Subordinated term debt	-	-	-	-	53,852	-	53,852	53,852
Perpetual debt	-	-	-	-	100,474	-	100,474	98,332
Other financial liabilities	-	-	-	-	-	1,336	1,336	1,336
	-	**-**	**-**	**-**	**3,877,460**	**1,336**	**3,878,796**	**3,876,543**

The fair value of cash, cash equivalents, demand and term deposits is approximately equal to the carrying value given, because of their short-term maturity. The fair value of receivables from clients is approximately equal to their balance-sheet value due to the fact that the interest rate for most of the loan portfolio is floating and reflects changes in market conditions.

5. Financial assets and liabilities, continued

Accounting classification and fair values, continued

The table below sets out the classification of each class of financial assets and liabilities, and their fair values as at 31.12.07.

In thousands of BGN	**Trading**	**Held-to-maturity**	**Loans and receivables**	**Available-for-sale**	**Other at amortised cost**	**Other items**	**Net book value**	**Fair value**
ASSETS								
Cash and balances with Central Banks	-	-	608,685	-	-	-	608,685	608,685
Financial assets held for trading	13,529	-	-	-	-	-	13,529	13,529
Available for sale investments	-	-	-	397,168	-	-	397,168	397,168
Financial assets held to maturity	-	104,706	-	-	-	-	104,706	103,500
Loans and advances to banks and other financial institutions	-	-	189,154	-	-	-	189,154	189,154
Loans and advances to customers	-	-	2,767,762	-	-	-	2,767,762	2,767,762
Other trading assets	-	-	-	-	-	823	823	823
	13,529	**104,706**	**3,565,601**	**397,168**	**-**	**823**	**4,081,827**	**4,080,621**
LIABILITIES								
Due to banks	-	-	-	-	17,234	-	17,234	17,234
Due to other customers	-	-	-	-	3,257,770	-	3,257,770	3,257,770
Liabilities evidenced by paper	-	-	-	-	444,443	-	444,443	444,450
Subordinated term debt	-	-	-	-	51,005	-	51,005	51,005
Perpetual debt	-	-	-	-	99,874	-	99,874	99,450
Other financial liabilities	-	-	-	-	-	1,924	1,924	1,924
	-	**-**	**-**	**-**	**3,870,326**	**1,924**	**3,872,250**	**3,871,833**

6. Net interest income

In thousands of BGN	2008	2007
Interest income		
Interest income:		
Receivables and accounts with banks and financial institutions	6,179	6,230
Retail Banking	78,274	61,201
Loans to corporate clients	200,725	154,171
Loans to SMEs	28,184	26,008
Microlending	6,089	4,554
Debt instruments	13,970	17,505
	333,421	**269,669**
Interest expense and similar charges:		
Interest expense and similar charges arise from:		
Deposits from banks	(628)	(848)
Deposits from other customers	(132,016)	(103,934)
Liabilities evidenced by paper	(38,041)	(15,996)
Subordinated term debt	(6,353)	(6,212)
Perpetual debt	(11,972)	(11,881)
Lease agreements and other	(59)	(47)
	(189,069)	**(138,918)**
Net interest income	**144,352**	**130,751**

For 2008 the recognized interest income from individually impaired financial assets (loans to customers) amounted to BGN 7,028 thousand (2007: BGN 9,692 thousand).

7. Net fee and commission income

In thousands of BGN	2008	2007
Fee and commission income		
Letters of credit and guarantees	9,579	12,086
Payments transactions	9,195	8,413
Customer accounts	9,138	8,370
Cards business	18,753	12,996
Other items	22,991	17,388
	69,656	**59,253**
Fee and commission expense		
Letters of credit and guarantees	(2,562)	(626)
Deposits to banks and other financial institutions	(630)	(953)
Cards business	(5,362)	(5,586)
Other items	(492)	(2,472)
	(9,046)	**(9,637)**
Net fee and commission income	**60,610**	**49,616**

8. Net trading income

In thousands of BGN	**2008**	**2007**
Net trading income/(expense) arises from:		
- Debt instruments	520	517
- Equities	(5,298)	2,245
- Foreign exchange rate fluctuations	6,624	7,626
Net trading income	**1,846**	**10,388**

9. Other net operating expense

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

In thousands of BGN	**2008**	**2007**
Other net operating expense arising from:		
- Debt instruments	(1,551)	(230)
- other	(30)	-
Other net operating expense	**(1,581)**	**(230)**

10. Administrative expenses

In thousands of BGN	**2008**	**2007**
General and administrative expenses comprise:		
- Personnel cost	48,539	31,020
- Depreciation and amortisation	16,796	11,541
- Advertising	17,229	10,690
- Building rent expense	14,830	10,939
-Telecommunication, software and other computer maintenance	11,047	8,738
- Unclaimable VAT	10,159	6,552
- Administration, consultancy, audit and other costs	29,080	24,599
Administrative expenses	**147,680**	**104,079**

Personnel costs include salaries, social and health security contributions under the provisions of the local legislation. At 31 December 2008 the total number of employees was 2,554 (2007: 2,182).

11. Allowance for impairment

In thousands of BGN	**2008**	**2007**

Write-downs		
Loans and advances to customers	(27,722)	(42,430)
Reversal of write-downs		
Loans and advances to customers	30,464	16,022
Impairment, net	**2,742**	**(26,408)**

12. Income tax expense

In thousands of BGN	**2008**	**2007**
Current taxes	(4,781)	(5,174)
Deferred taxes (See Note 22)	(313)	(199)
Income tax expense	**(5,094)**	**(5,373)**

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

In thousands of BGN	**2008**	**2007**
Accounting profit before taxation	**56,025**	**55,780**
Corporate tax at applicable tax rate (10% for 2008 and 10% for 2007)	5,603	5,578
Tax effect of permanent tax differences	(812)	(404)
Tax effect of reversals of temporary differences	303	199
Income tax expense	**5,094**	**5,373**
Effective tax rate	9.09%	9.63%

13. Earnings per share

	2008	2007
Net profit attributable to shareholders (in thousands of BGN)	50,931	50,407
Weighted average number of ordinary shares (in 000's)	110,000	106,137
Earnings per share (BGN)	**0.46**	**0.47**

The basic earnings per share, calculated in accordance with IAS 33, are based on the profit attributable to ordinary equity holders of the Bank. In 2008 as in the previous year, no conversion or option rights were outstanding. The diluted earnings per share, therefore, correspond to the basic earnings per share.

14. Cash and balances with Central Banks

In thousands of BGN	2008	2007
Cash on hand		
- in BGN	47,338	89,814
- in foreign currency	115,239	39,492
Gold bullion	7,817	4,730
Balances with Central Banks	426,547	409,705
Current accounts and amounts with local banks	30,115	64
Current accounts and amounts with foreign banks	118,027	64,880
Total	**745,083**	**608,685**

15. Financial assets held for trading

In thousands of BGN	**2008**	**2007**
Debt and other fixed income instruments		
Bonds and notes issued by:		
Bulgarian government, rated BBB+ or BBB:		
- denominated in Bulgarian Leva	5,476	2,046
- denominated in foreign currencies	-	70
Other issues of equity instruments (not rated)	4,205	11,413
Total	**9,681**	**13,529**

16. Available for sale investments

In thousands of BGN	**2008**	**2007**
Bonds and notes issued by:		
Bulgarian Government		
- denominated in BGN	27,872	29,765
- denominated in foreign currencies	6,033	6,323
Foreign governments		
- short term	194,941	229,860
- long term	-	20,019
Foreign banks and other financial institutions	55,740	87,159
Other issuers	2,038	1,077
Subsidiary investments	24,920	22,965
Total	**311,544**	**397,168**

Investments in subsidiaries are as follows:

In thousands of BGN	% held	**2008**	**2007**
Entity:			
First Investment Finance B.V. The Netherlands	100%	3,947	3,947
Diners Club Bulgaria AD	85.52%	2,443	2,443
First Investment Bank − Albania Sh.a.	99.999821%	18,530	16,575
Total		**24,920**	**22,965**

17. Financial assets held to maturity

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

In thousands of BGN	**2008**	**2007**
Securities held to maturity issued by:		
Bulgarian Government	42,196	60,492
Foreign banks and other financial institutions	18,197	44,214
Total	**60,393**	**104,706**

In May 2008 the Bank sold investments held to maturity with nominal value of EUR 10,000. This sale does not constitute a change in the Bank's intent and ability to hold investments to maturity, as it refers to an isolated event which is beyond the Bank's control, is not recurrent and the Bank had no reasonable grounds to anticipate it.

18. Loans and advances to banks and other financial institutions

(a) Analysis by type

In thousands of BGN	**2008**	**2007**
Placements with banks	3,920	162,870
Other items	6,248	26,284
Total	**10,168**	**189,154**

(b) Geographical analysis

In thousands of BGN	**2008**	**2007**
Domestic banks and financial institutions	625	24,902
Foreign banks and other financial institutions	9,543	164,252
Total	**10,168**	**189,154**

19. Loans and advances to customers

Notes to the financial statements

In thousands of BGN	**2008**	**2007**
Retail Banking		
- Consumer loans	227,610	278,431
- Mortgage loans	374,732	388,302
- Credit cards	149,796	81,819
Small and medium enterprises	251,455	264,185
Microlending	41,196	43,476
Corporate customers	1,967,571	1,781,400
Allowance for impairment	(66,844)	(69,851)
Total	**2,945,516**	**2,767,762**

(a) Movement in impairment allowances

In thousands of BGN	
Balance as at 01.01.08	**69,851**
Additional allowances	27,722
Amounts released	(30,464)
Write - offs	(265)
Balance as at 31.12.08	**66,844**

20. Property and equipment

In thousands of BGN	Land and Buildings	Fixtures and fittings	Motor Vehicles	Assets under Construction	Leasehold Improvements	Total
Cost						
As at 1 January 2008	12,367	65,994	5,527	48,014	25,700	157,602
Additions	-	14	-	59,667	-	59,681
Disposals	-	(624)	(264)	(309)	(154)	(1,351)
Transfers	-	28,606	726	(47,720)	12,634	(5,754)
As at 31.12.08	12,367	93,990	5,989	59,652	38,180	210,178
Amortisation						
As at 1 January 2008	3,186	33,607	2,869	-	6,658	46,320
Charge for the period	417	11,021	935	-	3,404	15,777
On disposals	-	(598)	(204)	-	(127)	(929)
As at 31.12.08	3,603	44,030	3,600	-	9,935	61,168
Net book value						
As at 31.12.08	**8,764**	**49,960**	**2,389**	**59,652**	**28,245**	**149,010**
As at 1 January 2008	**9,181**	**32,387**	**2,658**	**48,014**	**19,042**	**111,282**

21. Intangible assets

In thousands of BGN	Software and licences	Total
Cost		
As at 1 January 2008	2,252	2,252
Additions	-	-
Disposals	-	-
Transfers	5,754	5,754
As at 31.12.08	8,006	8,006
Amortisation		
As at 1 January 2008	1,823	1,823
Charge for the period	1,019	1,019
On disposals	-	-
At 31 December 2008	2,842	2,842
Net book value		
On 31 December 2008	**5,164**	**5,164**
As at 1 January 2008	**429**	**429**

22. Deferred Taxation

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

Deferred income tax balances are attributable to the following items:

In thousands of BGN	Assets		Liabilities		Net	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**
Property, equipment and intangibles	-	-	1,942	1,549	1,942	1,549
Other items	(261)	(181)	-	-	(261)	(181)
Net tax (assets)/liabilities	**(261)**	**(181)**	**1,942**	**1,549**	**1,681**	**1,368**

Movements in temporary differences in 2008 at the amount of BGN 313 000 are recognised in income statement.

23. Other assets

In thousands of BGN	**2008**	**2007**
Deferred expense	6,138	3,802
Other assets	13,437	8,538
Total	**19,575**	**12,340**

24. Due to banks

In thousands of BGN	**2008**	**2007**
Term deposits	51,656	13,030
Payable on demand	1,759	4,204
Total	**53,415**	**17,234**

25. Due to other customers

In thousands of BGN	2008	2007
Retail customers		
- payable on demand	393,915	461,966
- term deposits	1,342,358	973,289
Businesses and public institutions		
- payable on demand	408,908	620,802
- term deposits	1,034,140	1,201,713
Total	**3,179,321**	**3,257,770**

26. Liabilities evidenced by paper

In thousands of BGN	2008	2007
Bonds issued	19,911	29,743
Acceptances under letters of credit	353,179	311,491
Liabilities under repurchase agreements (see Note 30)	12,276	-
Other term liabilities	105,032	103,209
Total	**490,398**	**444,443**

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

Bonds issued include:

In thousands of BGN	2008	2007
Mortgage bonds		
EUR 5,000,000, 7%, due 2008	-	9,855
EUR 10,000,000, 7%, due 2009	19,911	19,888
Total	**19,911**	**29,743**

The mortgage bonds are payable to third parties in the years listed above and have been listed on the Bulgarian stock exchange.

27. Subordinated term debt

As at 31 December 2008 the Bank has entered into six separate subordinated Loan Agreements with four different lenders. All these subordinated Loan Agreements are governed by English Law and the funds raised outside the Republic of Bulgaria.

Subordinated liabilities can be analysed as follows:

In thousands of BGN

Lender	Principal amount	Final maturity	Amortised cost as at 31 December 2008
Growth Management Limited	1,956	10 years	2,938
Growth Management Limited	3,912	10 years	5,974
Hypo-Alpe-Adria Bank	3,912	10 years	5,781
Growth Management Limited	5,867	10 years	9,732
Standard Bank London Ltd.	9,779	10 years	14,545
Hillside Apex Fund Limited	9,779	10 years	14,882
Total	**35,205**		**53,852**

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

28. Perpetual debt

In thousands of BGN

	Principal amount	Amortised cost as at 31 December 2008
Step-up Guaranteed Perpetual Subordinated Bonds EUR 27 mio	52,807	55,391
Step-up Guaranteed Perpetual Subordinated Bonds EUR 21 mio	41,073	45,083
Total	**93,880**	**100,474**

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

29. Other liabilities

In thousands of BGN	**2008**	**2007**
Liabilities to personnel	2,288	1,542
Current tax liability	1,102	4,310
Other payables	3,133	1,853
Total	**6,523**	**7,705**

30. Repurchase and resale agreements

The Bank raises funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate. Repurchase agreements are commonly used as a tool for short-term financing of interest-bearing assets, depending on the prevailing interest rates. At 31.12.08 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	10,302	10,315
Other government securities	1,956	1,961
Total	**12,258**	**12,276**

As at 31 December 2007 no assets had been sold under repurchase agreements, therefore comparative information is not supplied.

31. Capital and reserves

(a) Number and face value of registered shares as at 31.12.08

As at 31.12.08 the registered share capital of the Bank is BGN 110,000,000 divided into 110,000,000 ordinary dematerialized shares with voting rights of BGN 1 par value each.

The share capital of the Bank was increased from BGN 100,000,000 to BGN 110,000,000 as a result of the successful IPO of new 10,000,000 dematerialized shares through the Bulgarian Stock Exchange – Sofia and was registered at the Commercial Register of Sofia City Court on 4 June 2007.

31. Capital and reserves, continued

(b) Shareholders

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

The table below shows those shareholders of the Bank holding shares as at 31.12.08 together with the number and percentage of total issued shares.

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

31. Capital and reserves, continued

(b) Shareholders, continued

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

(c) Statutory reserve

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

32. 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	**2008**	**2007**
Guarantee		
- in BGN	202,558	186,268
- in foreign currency	194,462	181,103
Total guarantees	**397,020**	**367,371**
Unused credit lines	367,111	402,996
Promissory notes	15,677	21,034
Letters of credit in foreign currency	126,142	268,562
Total	**905,950**	**1,059,963**

These commitments and contingent liabilities have off balance-sheet credit risk and 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.

As at the date of the report there are no significant contingent liabilities and commitments requiring additional disclosure.

At 31.12.08 the extent of collateral held for guarantees and letters of credit is 100 percent.

33. Cash and cash equivalents

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

In thousands of BGN	**2008**	**2007**
Cash and balances with Central Banks	745,083	608,685
Loans and advances to banks and other financial institutions with original maturity less than 3 months	9,974	188,982
Total	**755,057**	**797,667**

34. Average balances

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

In thousands of BGN	**2008**	**2007**
FINANCIAL ASSETS		
Cash and balances with Central Banks	648,536	521,875
Financial assets held for trading	12,147	14,758
Available for sale investments	288,285	356,175
Financial assets held to maturity	73,408	101,393
Loans and advances to banks and other financial institutions	30,828	37,254
Loans and advances to customers	2,850,264	2,294,636
FINANCIAL LIABILITIES		
Due to banks	25,000	15,649
Due to other customers	2,920,683	2,709,589
Liabilities evidenced by paper	605,697	302,583
Subordinated term debt	52,368	51,131
Perpetual debt	99,592	99,056

35. Related party transactions

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

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

Type of related party	**Parties that control or manage the Bank**		**Enterprises under common control**	
In thousands of BGN	**2008**	**2007**	**2008**	**2007**
Loans:				
Loans outstanding at beginning of the year	2,474	1,876	12,168	6,104
Loans issued during the year	(19)	598	8,913	6,064
Loans outstanding at end of the year	2,455	2,474	21,081	12,168
Deposits and loans received:				
At beginning of the year	1,062	547	857,195	862,464
Deposits placed during the year	5,357	515	(390,443)	(5,269)
At the end of the year	6,419	1,062	466,752	857,195
Deposits placed				
Deposits at beginning of the year	-	-	11,735	7,823
Deposits placed during the year	-	-	-	3,912
Deposits at end of the year	-	-	11.735	11,735
Off-balance sheet commitments issued by the Bank				
At beginning of the year	387	-	3,175	1,860
Granted	1,088	387	2,778	1,315
At the end of the year	1,475	387	5,953	3,175

The key management personnel of the Bank received remuneration of BGN 2,617 thousand for 2008 (2007: BGN 1,796 thousand).

36. Subsidiaries

(a) First Investment Finance B.V.

In April 2003 the Bank created a special purpose entity, incorporated in the Netherlands, First Investment Finance B.V. The purpose for creating the entity is to accomplish a narrow and well-defined objective of receiving loans from foreign financial institutions and attracting investors by issuing bonds and other financial instruments guaranteed by the Bank. The entity's issued and paid up share capital is EUR 90 thousand divided into 900 ordinary shares, each with nominal value of EUR 100. 180 shares have been issued and paid up.

36. Subsidiaries, continued

(b) Diners Club Bulgaria AD

In May 2005 the Bank acquired 80% of the share capital of Diners Club Bulgaria AD. As at 31.12.08 the Bank held 85.52% of the registered share capital of the entity which amounts to BGN 5,000 thousand. The company was incorporated in 1996 as a franchise and processing agent of Diners Club International.

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

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

In July 2008 the share capital of First Investment Bank – Albania Sh.a. was increased by EUR 1 million through the issue of new shares, fully subscribed and paid by First Investment Bank AD. Thus the Bank's shareholding increase insignificantly to 99.999821%. As at 31 December 2008 the share capital of First Investment Bank – Albania Sh.a. was EUR 9,475 thousand, fully paid up.

37. Post balance sheet events

In February 2009 the share capital of First Investment Bank – Albania Sh.a. was increased by EUR 1 million through the issue of new shares, fully subscribed and paid by First Investment Bank AD. Thus the Bank's shareholding increase insignificantly.

38. Applicable standards

IFRS 1	First-time Adoption of International Financial Reporting Standards
IFRS 2	Share-based Payment
IFRS 3	Business Combinations
IFRS 4	Insurance Contracts
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations
IFRS 6	Exploration for and Evaluation of Mineral Assets
IFRS 7	Financial Instruments: Recognition and Measurement Disclosures
IAS 1	Presentation of Financial Statements
IAS 2	Inventories
IAS 7	Statement of Cash Flows
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10	Events After the Reporting Period
IAS 11	Construction Contracts
IAS 12	Income Taxes
IAS 14	Segment Reporting
IAS 16	Property, Plant and Equipment
IAS 17	Leases
IAS 18	Revenue
IAS 19	Employee Benefits
IAS 20	Accounting for Government Grants and Disclosure of Government Assistance
IAS 21	The Effects of Changes in Foreign Exchange Rates
IAS 23	Borrowing Costs
IAS 24	Related Party Disclosures
IAS 26	Accounting and Reporting by Retirement Benefit Plans

Notes to the financial statements

IAS 27	Consolidated and Separate Financial Statements
IAS 28	Investments in Associates
IAS 29	Financial Reporting in Hyperinflationary Economies
IAS 31	Interests In Joint Ventures
IAS 32	Financial Instruments: Recognition and Measurement Presentation
IAS 33	Earnings per share
IAS 34	Interim Financial Reporting
IAS 36	Impairment of Assets
IAS 37	Provisions, Contingent Liabilities and Contingent Assets
IAS 38	Intangible assets
IAS 39	Financial Instruments: Recognition and Measurement Recognition and
IAS 40	Investment Property
IAS 41	Agriculture
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities
IFRIC 2	Members' Shares in Co-operative Entities and Similar Instruments
IFRIC 4	Determining Whether an Arrangement Contains a Lease
IFRIC 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Funds
IFRIC 6	Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
IFRIC 7	Applying the Restatement approach under IAS 29
IFRIC 8	Scope of IFRS 2
IFRIC 9	Reassessment of Embedded Derivatives
IFRIC 10	Interim Financial Reporting and Impairment
IFRIC 11	Group and Treasury Share Transactions
IFRIC 12	Service Concession Arrangements
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
SIC 7	Introduction of the Euro
SIC 10	Government Assistance – No Specific Relation to Operating Activities
SIC 12	Consolidation – Special Purpose Entities
SIC 13	Jointly Controlled Entities – Non-Monetary Contributions by Venturers
SIC 15	Operating Leases – Incentives
SIC 21	Income Taxes – Recovery of Revalued Non-Depreciable Assets
SIC 25	Income Taxes – Changes in the Tax Status of an Enterprise or its Shareholders

Notes to the financial statements

SIC 27	Evaluating the Substance of Transactions in the Legal Form of a Lease
SIC 29	Disclosure – Service Concession Arrangements
SIC 31	Revenue – Barter Transactions Involving Advertising Services
SIC 32	Intangible Assets – Website Costs