Table of Contents:

Message from the Managing Board

Dear shareholders, clients and colleagues,

2008 was a year of significant challenges – for the global economy, for world financial markets, for the banking sector and for First Investment Bank. The tremors of the global financial crisis reached Eastern Europe most noticeably in the second half of the year, although some alerts had appeared earlier. The financial crisis obliquely influenced the local market in the guise of limited access to financial resources and funds at higher prices from international financial markets. If up till now the word "globalization" had been a synonym of worldwide importance, now global financial turmoil left no illusions that the new economic order had arrived, and governments on all levels should reorient towards the new situation.

As a major financial group with a predominately Bulgarian shareholding, First Investment Bank withstood the challenges with integrity, professionalism and unity. Our advantages are good knowledge of the local requirements and flexible management that contributed to fast and effective reorientation to the changing conditions.

During 2008, FIBank reported good financial results – sixth place in terms of assets (BGN 4,271 million), net profit of BGN 49 million (2007: BGN 51 million). The card business, corporate banking, international payments and serving customers continue to be the focus of our activity. The challenges of the environment demanded a more conservative model of growth and strengthened risk assessment requirements. The loan portfolio (BGN 3,038 million before allowances) grew by 7% compared to 2007, return on equity (after taxes) was 14.08%, and the return on assets (after taxes) was 1.21%. The increase in total capital adequacy to 13.18% (2007: 12.98%), of Tier 1 ratio to 9.60% (2007: 8.78%) and the maintenance of a good liquidity level of 25.67% (2007: 29.92%) are a solid base for development in the conditions of a changing environment.

FIBank continued to be among the bank leaders in the area of international payments with a market share of above 8% and strengthened its reputation as an accurate and precise partner, by repaying on maturity long-term bonds and borrowings on the total amount of EUR 290 million. Amidst strong competition in the local market, FIBank maintained its sixth place, increasing attracted funds from retail and corporate customers (different from banks) by 15% up to BGN 2,855 million. Continuing trust and higher standards of service contributed to a branch network expansion of 43 new offices within the country and 4 abroad, to reach 171.

As one of the first banks to introduce the chip bank cards technology in the country during 2008, FIBank continued to develop innovative card payments. In line with the increased number of issued credit cards, POS and ATM terminals, FIBank won an award OSCARDS of Publi-News for its co-branded credit card VISA vivatel-FIBank. Through its subsidiary Diners Club Bulgaria AD, FIBank introduced exclusive credit cards acknowledged worldwide.

During 2008 we enhanced the development of products and services without credit risk. The unique articles of gold and precious metals offered by the Bank are enjoying special customer interest. With the appearance of financial turmoil the demand for gold and precious metals increased. In addition to the offering of coins issued by the Bulgarian National Bank, FIBank offers its customers a number of coins issued by international banks and institutions. During the last two years FIBank has become the official representative of the New Zealand Mint and the Mexican Mint for Bulgaria.

FIBank successfully concluded the first stage of the implementation of a new bank information system (FlexCube), and introduced the main modules for customers servicing. During 2009 we will continue with the implementation of modules for profitability analyses by business cost centres, customers and products, and for more reliable risk management, capital adequacy and liquidity through generating analytical and simulation modules.

Corporate values and culture are of primary importance for the future development of the Bank and for the carrying out of its strategic goals. Thanks to the well established internal organization, to the engagement and support of all employees, we have proved that we are able to operate in a volatile environment and in a situation of high uncertainty in the markets just as well as we did in better years.

As a socially responsible institution involved in society issues, during 2008 FIBank continued to perform its donation program in support of disadvantaged children, and the recovery and renovation of school libraries. This year FIBank's employees actively participated in charity initiatives. This was recognized with an awarded for social engagement.

During 2008, we celebrated 15 years of the establishment of First Investment Bank. These were years of dynamic growth, surmounting difficulties, constructiveness, with a strong will to be among the first and among the best. We are proud that we have created a new benchmark in quality banking service – First Investment Bank. We could not have achieved all of this without our shareholders. We give them our thanks for their support. We could not cope without the trust of our partners and of our clients – thank you for the ideas, for the recommendations, for the patience, for the thousands of letters, which have helped us to become better bankers, and human beings. We would like to say something very special to our employees – to all who have grown up in FIBank, and to all newcomers – your solidarity in hard times, your willingness and persistence, ingenuity and professionalism, your smiles when wearing the blue scarves have helped us become more confident and stronger – Thank You!

We accept the major challenges standing in front of us. We assure you that we will continue to work hard and purposefully, applying all of our knowledge, experience and will for success so that First Investment Bank will continue to be your first choice.

The Managing Board of First Investment Bank AD

Sofia, April 2009

Managing Board

1

Maya Lubenova Georgieva

Executive Director

2

Evgeni Krastev Lukanov

Executive Director

3

Jordan Velichkov Skortchev

Executive Director

4

Ivan Stefanov Ivanov

Regional Director „Northeast Bulgaria“

5

Matthew Alexandrov Mateev

Executive Director, Chairman of the Managing Board

6

Maya Ivanova Oyfalosh

Director "Corporate Banking"

7

Radoslav Todorov Milenkov

Chief Financial Officer

Macroeconomic Development

During the last quarter of 2008 Bulgaria started to face more seriously the effects of the global financial and economic crisis. A slow-down in economic growth, a decreased inflow of investments into the country, as well as impeded export growth, are just some of the effects of the turbulence on the international markets.

Despite global financial uncertainty, the Bulgarian economy maintained its macroeconomic stability and level of trust. A stable fiscal position, supported by a steady maintained budget surplus and decreasing public debt, growing foreign exchange reserves, along with the functioning of a Currency Board, are just part of the measures used as a cushion against external imbalances for the economy.

In times of economic and financial instability maintaining stability in the financial sector, convening of reasonable fiscal policy, as well as improving flexibility of the economy by stimulating market mechanisms and competition, are among the most important priorities for the Bulgarian economy.

	2008	2007	2006	2005	2004
Gross Domestic Product, real growth (in %)	6.0	6.2	6.3	6.2	6.6
Consumption, real growth (in %)	3.9	4.9	6.5	5.3	5.4
Gross fixed capital formation, real growth (in %)	20.4	21.7	17.6	23.3	13.5
Inflation at period-end (in %)	7.8	12.5	6.5	6.5	4.0
Average annual inflation (in %)	12.4	8.4	7.3	5.0	6.1
Unemployment (in %)	6.3	6.9	9.1	10.7	12.2
Current account (in % of GDP)	(25.3)	(25.1)	(18.4)	(12.4)	(6.6)
Trade balance (in % of GDP)	(25.7)	(25.1)	(22.0)	(20.2)	(14.9)
Foreign exchange reserves of BNB (in EUR million)	12,713	11,937	8,926	7,370	6,854
Foreign direct investment (in % of GDP)	18.1	29.4	24.4	14.4	13.8
Gross foreign debt (in % of GDP)	107.4	99.8	81.7	70.9	63.8
Public sector foreign debt (in % of GDP)	12.0	14.2	18.0	23.8	33.2
Average exchange rate of USD (BGN for USD 1)	1.39	1.33	1.49	1.66	1.44

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

Eurozone

During the third and fourth quarter of 2008 most of the Eurozone countries entered a state of recession. The rate of GDP growth declined to 0.9% due to a decrease in investments, consumption and net export year-on-year.

The serious decline in oil and raw materials prices during the last months of 2008 resulted in a strong drop in average annual inflation in the Eurozone to 3.3%.

Expectations are for a continuing slow-down in GDP over the first half of 2009, due to existing impediment in companies' access to fresh financing. Inflation is expected to decline further, a result of the stabilizing of oil prices and a slow-down in the growth in labour costs.

Balkan region

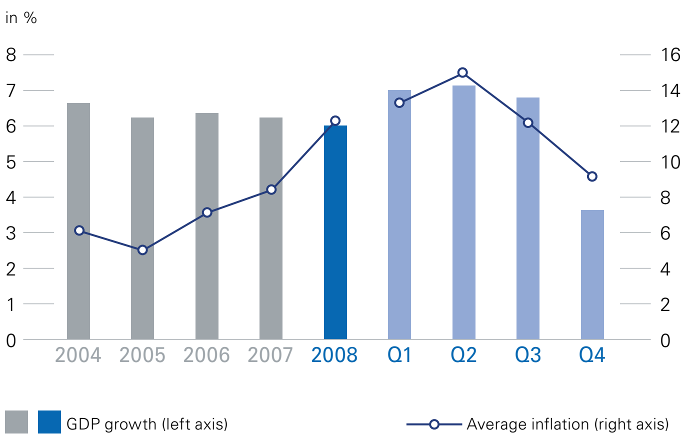
As at the end of 2008 the countries from the Balkan region started to indicate a slow-down in economic growth, resulting from stagnation on the international markets.

Despite this the average level of GDP growth remained relatively high – around 5%, due to a still strong inflow of foreign investments and to improved agricultural production.

Inflation in the region started to slow down as well, affected mainly by the decline in fuel prices and by decrease in private consumption.

The decline in external demand resulting from the volatile international situation is expected to negatively influence the inflow of foreign direct investments during the first half of 2009. This will further slow down the rate of economic growth.

Economic Growth and Inflation



In 2008 real economic growth in Bulgaria remained relatively high, amounting to 6.0% year-on-year (2007: 6.2%, 2006: 6.3%), compared to average GDP growth in the developed EU countries (1.0%) and in the Eurozone (0.9%), some of which reported a state of economic recession.

A main contributor to this growth was a 24.6% increase in the gross value added in the agricultural sector, which reported a good year after the bad climate conditions. EU funds and subsidies for agriculture, stock-breeding and fishing development also had a positive effect. A growth of 5.9% was registered in services, while an increase of 3.0% in value added in the production sector.

There remains a serious challenge for maintaining economic growth and enhancing competition in Bulgaria in the effective utilization of EU funds, including funds from the pre-accession programmes (PHARE, SAPARD, ISPA), from the EU Structural funds (European Fund for Regional Development, European Social Fund), from the Cohesion Fund (CF), from the EU funds for rural development and fishing.

The total amount of cash inflows from the EU during 2008 reached EUR 761 million, of which EUR 223 million were funds from the Structural funds and from the Cohesion fund, and EUR 538 million were funds from the pre-accession programmes, from the EU programmes for rural development and fishing, as well as from direct payments toward farmers.

The inflow of funds from the Structural and from the Cohesion fund increased by 53.9% compared to a year earlier, forming 3.3% of the total budget plan. The largest share of funds utilized were under the Operating Programmes "Transport" and "Environment" – 3.8% (EUR 61 million) and 3.7% (EUR 54 million) of all budgeted funds, respectively. A total of EUR 368 million were received under the three EU funds (EFRD, ESF and CF) for the period 1 January 2007 – 31 December 2008, representing a 5.5% of all operating programmes' budgeted funds.

In 2008 Bulgaria deposited EUR 368 million (1.1% of GDP) in the EU budget, compared to EUR 304 million a year earlier. As a result of this the net cash flow of funds from the EU amounted to EUR 393 million.

Against the background of increasing budget deficits among the Eurozone countries, Bulgaria continued to report a budget surplus on its consolidated fiscal programme, using it as a cushion against external imbalances for the economy. As at 31 December 2008 the surplus amounted to BGN 2,001 million or 3% of GDP (2007: BGN 2,112 million, 3.7% of GDP). A main contributor to this was the increase in tax revenues, including: by 13.4% (BGN 887 million) from VAT, by 22.2% (BGN 736 million) from excise duties, by 22.8% (BGN 383 million) from corporate profits and by 7.8% (BGN 142 million) from the incomes of individuals. A flat income tax rate of 10% was adopted for individuals effective from 1 January 2008. Non-tax revenues had a positive effect as well, and more specifically single revenues in connection to the foreign debt repayment arrangement between Iraq and Bulgaria, including BGN 286 million of interest.

Labour Market

The unemployment rate fell further to 6.3% in 2008 (2007: 6.9%, 2006: 9.1%, 2005: 10.7%, 2004: 12.2%). A contributor to this was the ensured macroeconomic stability, the measures and programmes for professional qualification undertaken throughout the year, as well as the intermediacy of the labour bureaus. During the last quarter of 2008 the unemployment rate increased by 0.5 percentage points, moving in line with the negative trend in the Eurozone and in reflection of the negative expectations for economic activity over the next year.

Annual inflation in the country decreased to 7.8% as at the end of 2008 (2007: 12.5%), due to a drop in internal demand and in fuel and food prices on the international markets. The average annual inflation throughout the year remained high at 12.3%, compared to 3.3% in the Eurozone, a result of fluctuations in external and internal prices, as well as of an increase in excise duties for fuel and tobacco.

The current account deficit and the increasing gross foreign debt continued to be worrying macro indicators for Bulgaria.

As at 31 December 2008 the current account deficit amounted to EUR 8,634 million (25.3% of GDP), compared to EUR 7,267 million (25.1% of GDP) a year earlier. A main factor for this was the EUR 1,513 million increase in the trade deficit.

As at the end of the year the real growth in export volumes slowed to 2.9% year-on-year (2007: 5.2%), while for the last quarter it dropped by 6.0%, compared to the same period a year earlier, due to the worsening economic environment. A slow-down of growth in import volumes was registered as well – to 4.9% in 2008, compared to 9.9% a year earlier. The Bulgarian economy remained tightly engaged with that of Europe, as the EU countries continued to be the largest trade partner of Bulgaria accounting for 60.1% of its exports and for 58.6% of its imports.

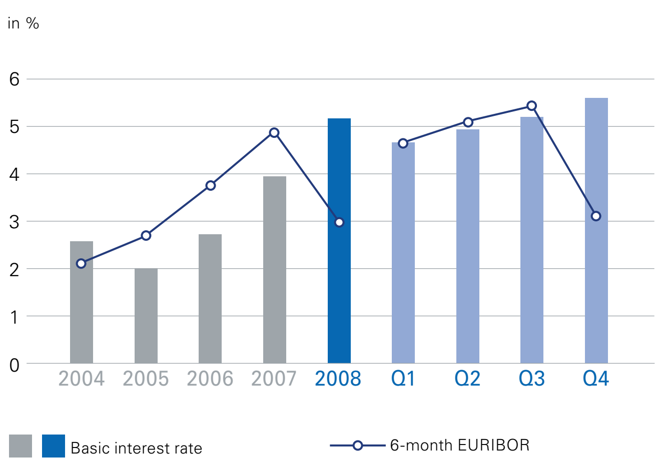
Foreign Direct Investments in Bulgaria

The inflow of foreign direct investments towards the country remained at relatively high levels in 2008, despite the 27.4% decrease registered year-on-year. As at 31 December 2008 FDI amounted to EUR 6,163 million (18.1% of GDP) compared to EUR 8,488 million (29.4% of GDP) a year earlier. Investments in real estate and business services accounted for the largest share of all foreign direct investments (30.8%), followed by investments in financial intermediation (24.1%), in the processing industry (13.2%), in trade (12.9%) and in construction (7.5%). Austria, the Netherlands and Germany were the countries that invested the most in Bulgaria during 2008 – 20.3%, 14.8% and 11.2% of the total, respectively.

As at the end of 2008 FDI covered 71.4% of the current account deficit, compared to 116.8% a year earlier. Nevertheless, the total inflow of funds towards the country mitigated the negative influence of the current account, in result of which the balance of payments remained positive on the amount of EUR 674 million (2007: EUR 3,164 million). This along with the conservative fiscal policy contributed to a increase in foreign exchange reserves by EUR 777 million to EUR 12,713 million at the end of the year (2007: EUR 11,973 million).

Gross foreign debt rose by 27% to EUR 36,648 million (107.4% of GDP), compared to EUR 28,854 million at the end of 2007. The increase was due to the rising private unguaranteed foreign debt – by 31.5% (EUR 7,799 million) and more specifically to a rise of 28.5% (EUR 2,894 million) in loans, related to foreign investments (intracompany loans) and of 52.4% (EUR 2,055) in short-term deposits attracted in local banks. Public and publicly guaranteed foreign debt remained almost unchanged compared to 2007 amounting to EUR 4,086 million (2007: EUR 4,092 million). Throughout the year Bulgaria negotiated new public investment loans from the European Investment Bank (EUR 95 million) and from the World Bank (EUR 36 million) for consequently implementing structural reforms within the country. At the same time obligations on the amount of EUR 392 million towards the World Bank and EU were repaid.

BIR and EURIBOR



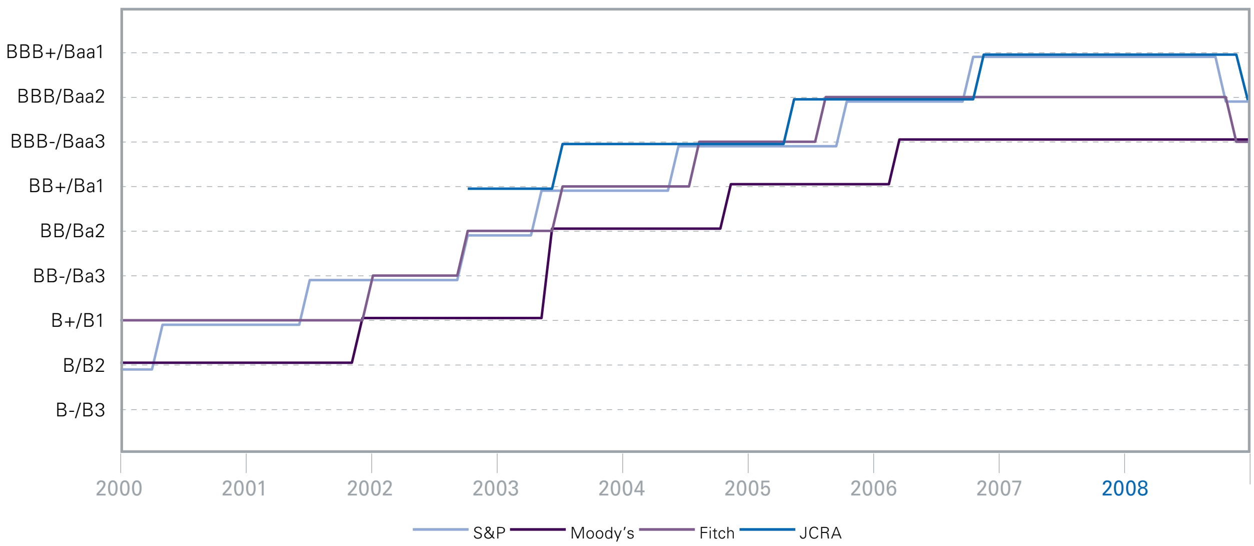
The basic interest rate rose by 1.2 percentage points throughout the year to reach 5.77% at the end of the period (2007: 4.58%). During the last quarter of the year the interest differentials towards the Eurozone increased as a result of stagnation on the international financial markets. At the beginning of 2009 the BNB reacted to this by sharply decreasing the basic interest rate to 3.92%.

The unstable international situation stimulated demand in investment gold as an internationally recognized financial asset, which retains its value in the long term and assures high liquidity. Investors increased their purchases in gold and other precious metals with the aim of diversifying their investment portfolios. First Investment Bank, which is one of the main intermediaries for selling investments in gold and other precious metals within the country, reported a similar trend.

The Bulgarian stock market was amongst the most affected by the effects of the global financial crisis. The market capitalization of public companies decreased by 57% to BGN 12.5 billion (2007: BGN 29.0 billion), due to sales and outflow of foreign investors off the stock market. The drop in financial instruments prices, traded at the exchange decreased the values of the main stock indices by nearly 80% (SOFIX by 79.7%, BG40 by 79.2%). Initial public offering of securities throughout 2008 was launched by just two companies, compared to eleven a year earlier.

In 2008 as a result of the higher external instability and risk of disbalances for the economy due to the increasing current account deficit and the impeded inflow of investments towards the country, Bulgaria's credit rating was downgraded: Standard & Poor's (BBB, negative outlook), Fitch Ratings (BBB-, stable outlook), Japan Credit Ratings (BBB, negative outlook), Moody's (rating confirmed at Baa3, outlook downgraded to "stable"). The credit rating remained at an investment grade due to improving production capacity, the conservative fiscal policy, the maintenance of high foreign exchange reserves and the functioning of a Currency Board Agreement within the country.

Credit Rating of Republic of Bulgaria



Bulgaria continued to be observed by the European Commission through the existing Cooperation and Control Mechanism, which monitors progress in judiciary system reforms, as well as in fighting organized crime and corruption. During 2008 Bulgaria made progress under the six indicators defined by the EC, as the country will continue to work on structural and legislative reforms in the problem areas.

- In 2009 the Bulgarian economy is expected to face more seriously the effects of the economic and financial crisis. Launching measures against the unfavourable external situation will be among the main challenges for Bulgaria, aiming at:
- maintaining fiscal stability (registering budget surplus; increasing the collection of public receivables)
- supporting stability in the financial system (maintaining the Currency Board Arrangement, conservative management of the foreign exchange reserves, guaranteeing liquidity and capital adequacy of the banking system)
- improving flexibility and competitiveness of the economy (maintaining a favourable tax regime, enhancing EU funds utilization, facilitating regulatory regimes).

The Banking System

2008 will be remembered as the year of the global financial crisis. After the bankruptcy of the American investment bank "Lehman Brothers" in September 2008, the crisis quickly spread and grew globally. This was followed by collapses of large international financial corporations and by turbulence on the financial markets in Europe and Asia. Subsequently this led to a slow-down in the economic growth of the industrial countries and some of them fell into recession.

The expansion of the global financial crisis led to urgent measures taken by different governments to support the banking system and stimulate economic growth, as well as quick intervention from the leading central banks – for granting liquidity and lowering the reference interest rates. The supervisory bodies for financial control pointed out the necessity of tighter cooperation and exchange of information, as well as revising banks standards and creating new regulations.

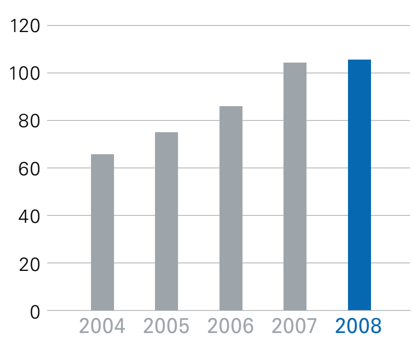
The financial markets in Bulgaria faced more tangibly the turbulence of the global financial crisis during the last quarter of 2008. The local market was affected indirectly, mostly resulting in reduced attracted financial resources from the international markets and in a considerable increase in its price.

Despite the worsened situation, the banking system in Bulgaria reported very good results for 2008 – capital adequacy increased by 1.03 percentage points up to 14.86%, compared to 13.83% for 2007 (2006: 14.50); shareholders' equity increased as well by 27.7% to BGN 7,931 million (2007: BGN 6,208 million; 2006: BGN 4,389 million); net profit rose by 21.24%, compared to a year earlier, reaching BGN 1,387 million (2007: BGN 1,144 million, 2006: BGN 808 million); liquidity was maintained at good levels, amounting to 21.71% as at the end of 2008.

This was due to a number of factors, such as:

- macroeconomic and financial stability in the country, maintained by a Currency Board Arrangement and fixed rate of the local currency against the Euro;
- traditional banking techniques – the banks in Bulgaria offer standard banking products and services, based on the traditional way of attracting funds and granting of loans. The high-risk financial instruments traded on the stock exchanges in America and Western Europe which led to the financial collapse, have not entered the local market;
- a highly regulated banking system – the financial sector is one of the most highly regulated sectors in the country. This is supported by synchronization with the effective regulations in the European Union and by the consistently led conservative policy of the Bulgarian National Bank. The operative standards and requirements towards the banks in the country related to capital adequacy, minimal required reserves, liquidity, impairment and allowances for risk exposures, risk assumption of large exposures, of risk instruments and of off-balance sheet commitments up to 2008, are still much higher and restrictive compared to the international standards.
- last, but not least – banks in Bulgaria have not forgotten the lesson they learned from the late 90s. Even though the reasons are fundamentally different, the local market is familiar with the financial cataclysms that the countries in the West have lived through, which makes local banks more cautious and conservative concerning risk assumption.

Bank Assets



Despite the lower activity during the fourth quarter, assets of the banking sector increased by 17.72% to reach BGN 69,560 million in 2008, compared to the previous year (2007: BGN 59,090 million; 2006: BGN 42,195 million).

In 2008 banks in Bulgaria managed to maintain the quality of their loan portfolios, as the nonperforming loans (NPL) ratio (with 90 days overdue) was 2.26%, exceeding by 0.59 percentage points its value compared to the end of 2007 – 1.67% (2006: 1.57%). The NPL coverage ratio was 115%.

The heightened criteria towards borrowers' creditworthiness, the increased price of borrowed funds, as well as the reduced demand from customers due to the uncertain economic environment, resulting from the negative turbulence on the international markets, had its impact on lending activity growth.

Banking system in 2008 – loans and deposits

	in BGN million	% of GDP	Growth 2008/2007 in %
Loans to corporate clients	31,883	48.2	**31.2**
Loans to individuals	17,357	26.3	**33.8**
Customer deposits	41,736	63.1	**7.5**

In 2008 lending growth slowed down to 24.1%, reaching BGN 56,939 million, compared to a 46.1% growth in 2007 year-on-year (2007: BGN 45,876 million; 2006: BGN 31,393 million). Loans to corporate clients increased by 31.2% and reached BGN 31,883 million compared to a 67.5% growth in 2007 towards 2006 (2007: BGN 24,305 million; 2006: BGN 14,514 million). A slow-down in lending towards individuals was reported as well, amounting to BGN 17,357 million in 2008, or an increase of 33.8% compared to 2007 – BGN 12,972 million (2006: BGN 8,171 million). Mortgage loans marked comparatively high growth of BGN 2,367 million, although their annual increase slowed to 40.2% as at the end of December. Consumer loans amounted to BGN 2,018 million, representing an increase of 28.5% compared to the previous year.

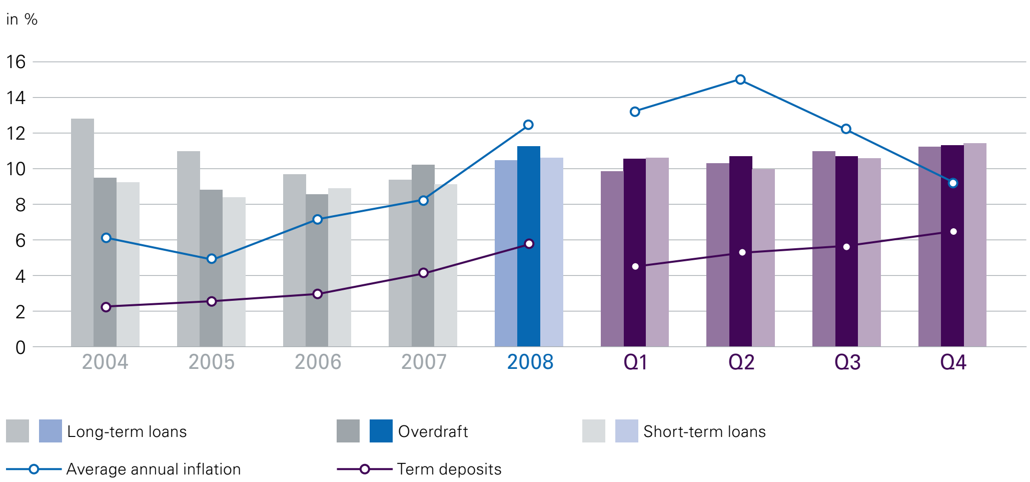
In terms of currency structure loans in BGN were dominant – amounting to BGN 12,181 million or 70.2% of total loans to individuals, while loans in EUR amounted to BGN 5,008 million or 28.9%. Loans in EUR dominated the loans to corporate clients with BGN 21,905 million or 68.7% of total loans to corporates, compared to loans in BGN which totalled BGN 9,034 million or 28.3%.

The decrease in lending growth slowed economic growth, but on the other hand had a positive effect, condensing high levels of growth in lending volumes in the past years.

Deposits from individuals and households on the amount of BGN 3,181 million were attracted in the banking system during the year (an increase of 16.8%), reaching BGN 22,168 million. The attracted funds in EUR continued their permanent growth, as at the end of 2008 they formed 47.1% of the total deposits, while the share of deposits in BGN was 42.9%. The increase in deposits at the end of the year was a result of higher interest rates and by the amendments in the Bank Deposit Guarantee Act which raised the guaranteed amount to BGN 100 thousand.

Despite active interventions from the European Central Bank on financial markets in the Eurozone, leading to a considerable decrease in intrabank reference interest rates, their margin towards the term interest rates on the intrabank market, although decreasing, still stayed yet quite large over a three and six month period.

Interest Rates on Loans and Deposits



In 2008 interest rates in the country increased due to difficulties in attracting financial resources from the international money markets. This resulted from attracting resources at higher prices, thus increasing the importance and the price of resources on the local market. The average price of bank resources, attracted as deposits, increased from 4.05% for 2007 to 5.58% as at the end of 2008. Yet specific deposit products, though short-term, reached annual interest rates of above 10% as at the end of 2008. This reflected on the average price of loans which increased as well, reaching 10.69% for short-term loans (up to 1 year) and 10.55% for long-term loans (above 1 year) as at the end of the reporting period.

Considering the frozen liquidity on the international markets which began to have visible effects on the local money market, the Bulgarian National Bank undertook regulatory amendments with an anti-cyclic purpose. Amendments in Ordinance №21 of the BNB for the minimal required reserves kept in the Central Bank by all trade banks were accepted in the last quarter of 2008. They included: recognition of 50% of the available cash funds of the banks for reserve assets, facilitating the access of the banks to their reserves in BNB (effective of 1 October 2008), decreasing the rate of the minimal required reserves on all attracted funds from 12% to 10% (effective of 1 December 2008) and removing the minimal required reserves on attracted funds from the state and the local budgets, effective from 1 January 2009.

Aiming to support the credit institutions when assessing and managing credit risk, the Central Credit Register in the BNB was updated as the data range of the separate loans was supplemented, including also information in the credit history of their service.

The bank community in Bulgaria, under the supervision of the Bulgarian National Bank and under the coordination of the Association of banks in Bulgaria, continued to work actively for the implementation of instructions from the European regulating bodies and for joining pan-European projects, applicable and required for all member-states of the European Union. The main efforts in this respect are concentrated on the implementation of SEPA payment instruments – credit transfers and direct debit; creating a new regulatory framework for payment services and payment systems; starting a project for joining TARGET 2 payment system for real time execution of transfers in EUR between the European Economic Area countries; and the introduction of higher requirements to banks for providing information to customers.

As at the end of 2008 there were 30 banks in the country, including Bank Leumi Romania C.A. – Branch Sofia which joined the local market in September. In June the existing Encouragement Bank was transformed into the Bulgarian Bank for Development, while its capital was increased, with the aim of enhancing Bulgaria’s export potential, strengthen the competitiveness of Bulgarian companies, and assisting business in complying with European standards and encouraging the utilization of EU funds.

Mission Statement

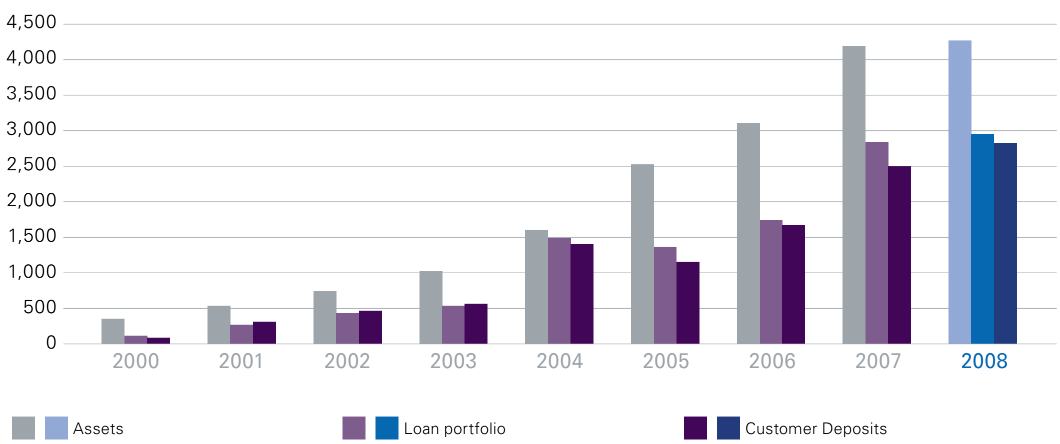
First Investment Bank AD aspires to be one of the finest banks in Bulgaria and the Balkan region, recognised as a rapidly growing, innovative, customer-oriented bank, offering outstanding products and services, ensuring excellent careers for its people, and contributing to the community. The Bank aims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

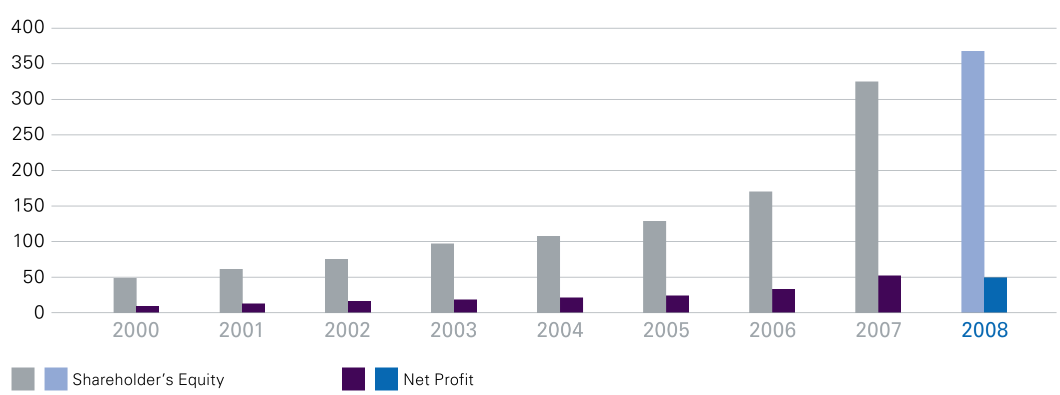
Trust – FIBank's Greatest Achievement

In 2008, to the backdrop of the volatile and unstable situation on the international financial markets and despite intensified competition and certain negative speculation in the local market, First Investment Bank achieved good financial results and its clients and partners once again confirmed their trust in the institution.

The Management of the Bank focussed on balanced growth based on a limited risk framework, the introduction of new information technologies, an expansion of the product range and distribution channels and on maintaining a high quality of service.

In 2008 First Investment Bank – the largest bank in the country with a predominantly Bulgarian shareholding - was again amongst the leading banks in Bulgaria, with an established reputation as a loyal partner to its clients and contractors and as an innovative credit institution which responds in a timely manner to the changing environment.





Bank Profile

Corporate Status

First Investment Bank is a joint-stock company, registered with Sofia City Court pursuant to a ruling dated 8 October 1993. Since 28 February 2008 the Bank has been registered in the Commercial Register at the Registry Agency.

First Investment Bank is a public company registered in the Commercial Register of Sofia City Court with a decision dated 4 June 2007 and in the register of public companies and other issuers held by the Financial Supervision Commission with a decision dated 13 June 2007.

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

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

Participations and Memberships

- Association of Banks in Bulgaria
- Bulgarian Stock Exchange – Sofia AD
- Central Depository AD
- Bank Organisation for Servicing Payments by Bank Cards (BORICA)
- Bankservice AD
- Real-Time Gross Settlement System (RINGS)
- MasterCard International
- VISA International
- S.W.I.F.T.
- Single Euro Payment Area (SEPA) – indirect participant
- MoneyGram Agent
- Express-M (domestic money transfers) Agent
- EasyPay (domestic money transfer) Agent

Subsidiaries

First Investment Bank owns three subsidiaries:

First Investment Finance B.V. (Netherlands)

First Investment Finance B.V. was created for a special investment purpose – to provide additional financing for the Bank in the form of bonds and other debt instruments. The company has a registered seat in the Netherlands and complies with local corporate governance practices. The entity's issued and paid up share capital is EUR 90 thousand divided into 900 ordinary shares, each with a nominal value of EUR 100. 180 shares have been issued and paid up. First Investment Bank is the sole owner and shareholder of First Investment Finance B.V.

Diners Club Bulgaria AD

Diners Club Bulgaria AD is a company registered in Bulgaria as an issuer of credit cards and a processor of payments. In May 2005 First Investment Bank became the majority shareholder in Diners Club Bulgaria AD by acquiring 80% of the company's share capital. After the increase of the company's capital, as of the end of 2007 First Investment Bank has held 85.02% of the capital of Diners Club Bulgaria AD.

First Investment Bank – Albania Sh.a (Albania)

The company was incorporated in April 2006. In June 2007 First Investment Bank – Albania Sh.a. was granted a full banking license by the Central Bank of Albania. On 1 September 2007 the new bank took over all assets and liabilities of the pre-existing Tirana Branch of First Investment Bank. The company has a registered capital of EUR 9,475 thousand, 99.9998% of which is owned by First Investment Bank AD.

Market Position*

- Among the leading banks in the cards business
- Among the leading banks in international settlements and trade financing
- Sixth in assets
- Sixth in lending
- Sixth in deposits
- Seventh in shareholders' equity
- Eighth in terms of profit

Market Share*

- 15.1% of VISA credit cards
- 7.1% of MasterCard credit cards
- 13.2% of ATM terminals
- 26.1% of POS terminals
- 8.31% (sent) and 8.64% (received) of cross-border transactions – instruments for trade financing
- 6.1% of banks' assets in Bulgaria
- 6.1% of loans in the country
  - – 7.1% of corporate lending
  - – 4.6% of mortgage lending
  - – 4.2% of consumer lending
- 7.9% of deposits from individuals

* The market positions and shares are based on unconsolidated data by the BNB, BORICA and SWIFT

Correspondent Relations

FIBank maintains correspondent relationships with over 600 banks all over the world and performs international money transfers in more than 60 currencies. It is one of the leading banks in the country in terms of international payments and trade financing.

Branch Network

As at 31 December 2008, FIBank had a total of 160 branches and offices: Head Office, 159 branches and offices throughout the country and one branch in Cyprus.

Awards 2008

- FIBank received the prestigious card business award OSCARDS for its co-branded credit card VISA vivatel-FIBank.
- First Investment Bank won the prize for „Largest donation of services and employee time" at the annual awards of the Bulgarian Donor Forum and the Corporate Donors Club.
- FIBank received an award for best customer service at the Sixth International Financial Expo „Banks – Investments – Money".
- First Investment Bank received a prize in the "Social responsibility to employees" category in the contest for Socially Responsible Company of the Year, organised by "Pari" Daily.
- FIBank was ranked third in the Dnevnik Daily ranking of the best public companies on the Bulgarian Stock Exchange.
- Diners Club Bulgaria received a prize for best small franchise from Diners Club International for its activities in 2007.

First Investment Bank: Dates and Facts

1993	First Investment Bank was established on 8 October 1993 in Sofia. It was granted a full banking licence for carrying out operations in Bulgaria and abroad.
1994 – 1995	The Bank developed and specialised in servicing corporate clients.
1996	FIBank was the first in Bulgaria to offer services enabling banking from home or from the office. FIBank was the first bank to receive a 5-year loan from the European Bank for Reconstruction and Development for financing small and medium-sized enterprises in Bulgaria.
1997	The Bank started issuing Cirrus/Maestro debit cards, Eurocard/Mastercard credit cards and the American Express card. FIBank was the first Bulgarian bank to offer debit cards with international access. Thompson Bankwatch awarded FIBank its first credit rating. The Bank opened its first branch abroad, in Cyprus.
1998	FIBank obtained its first syndicated loan from foreign banks. The Bank negotiated financing for the import of investment goods from Austria, Belgium, Denmark, Finland, France, Germany, Italy, the Netherlands, Norway, Portugal, Spain, Sweden and Switzerland, guaranteed by export insurance agencies.
2000	First Investment Bank started developing its business in the field of retail banking. Deposits from private individuals grew 2.3 times.
2001	First Investment Bank launched the first virtual bank branch in Bulgaria allowing customers to bank via the Internet. The Bank was awarded the prize "Bank of the Year" by 'Pari' ('Money') daily. Maya Georgieva, Executive Director of FIBank, received the prize "Banker of the Year" from 'The Banker' weekly.
2002	FIBank was named "Bank of the Client" in the annual rating of 'Pari' daily.
2003	Products and services to individuals became the focus of the Bank's activities. Loans to individuals increased over five times during the year. FIBank was named "Bank of the Client" for the second time in the annual rating of 'Pari' daily.

2004	The Bank expanded its infrastructure. The branch network expanded by 27 new branches and offices, the ATM network more than doubled. The Bank was awarded the prize "Financial Product of the Year" for its Mortgage Overdraft product.
2005	FIBank acquired 80% of the capital of Diners Club Bulgaria AD. The Bank issued Eurobonds at the amount of EUR 200 million on the Luxembourg Stock Exchange. FIBank was also the first Bulgarian bank to issue perpetual subordinated bonds. Matthew Mateev, Deputy Chief Executive Director of FIBank, was awarded the prize "Banker of the Year" by 'The Banker' weekly.
2006	FIBank negotiated financing for SMEs, at the amount of USD 10 million for a 5-year term, covered by OPIC. Share capital was increased from BGN 10 million to BGN 20 million through the issuance of 1 million shares. FIBank received a syndicated loan, at the amount of EUR 185 million, organised by Bayerische Landesbank in which 33 banks participated. FIBank's share capital was increased from BGN 20 million to BGN 100 million through transforming retained profits in 8 million new shares with a nominal value of BGN 10 each.
2007	FIBank realized the biggest banking initial public offering of shares in Bulgaria. The Bank became a public company and increased its issued share capital from BGN 100 million to BGN 110 million. „FIBank Mobile" – the first banking mobile portal created by FIBank with useful financial information for its customers, started functioning. FIBank was one of the first banks in Bulgaria to implement the new chip technology when issuing debit and credit cards. The processing of card transactions was transferred to the new authorization centre in Macedonia – CaSys International. The Albanian Central Bank issued a full banking licence to First Investment Bank – Albania Sh.a. FIBank became the official representative of the New Zealand Mint for Bulgaria and the Balkans – unique limited collections of silver coins can be bought from FIBank's offices.

Highlights 2008

January

- First Investment Bank joint the Single Euro Payment Area (SEPA) as an indirect participant to perform SEPA credit transfers.
- FIBank offered a new exclusive product – the black credit card FIB-Diners Club Privé for celebrities and wealthy people.
- Repaid on maturity EUR 200 million of principal and EUR 15 million of interest on a long-term bond, issued by First Investment Finance B.V.

February

- FIBank won the prize for best customer service at the Sixth International Financial Exhibition "Bank–Investment–Money".
- First Investment Bank offered specialized programmes for servicing farmers – beneficiaries for subsidies from the EU funds, including loan disbursement with a facilitated procedure on the amount up to 100% of the expected subsidy.
- Deposit „In Seventh Heaven" – a one year deposit in BGN and EUR with 7.5% annual interest.
- FIBank repaid before maturity a 10-year subordinated term debt on the amount of EUR 1 million of principal.

March

- First Investment Bank launched an attractive card product – MasterCard UEFA Euro 2008.
- FIBank and Diners Club Bulgaria opened a new luxury office for VIP customers in Sofia at 35, Vasil Levski Blvd.

April

- FIBank offered a promotional "Easter deposit" – a three-month deposit in BGN and EUR with 7.3% annual interest for the first three month period.
- First Investment Bank started issuing bank guarantees to farmers, providing them with up to 20% advance payment from the subsidies for agricultural projects, approved by the Ministry of Agriculture and Food.

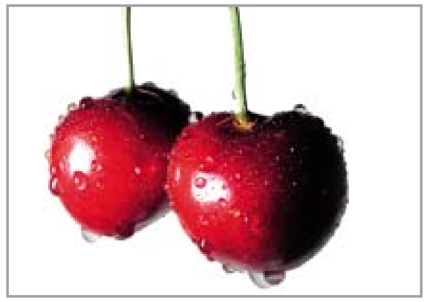
May

- FIBank successfully completed the first stage of the new centralized and integrated core banking information system FlexCube, suitable for retail banking as well as for corporate banking, with a module for Internet banking and a module for work processes management.
- FIBank was ranked third in the Dnevnik daily ranking of the best public companies on the Bulgarian Stock Exchange.
- A limited collection of golden and silver medallion-shaped bars „Skins" of the Swiss mint PAMP were offered.
- FIBank started offering joint accounts – joint current account or deposit, opened in the name of more than one person at the same time for a specific purpose.
- FIBank repaid on maturity a bilateral trade facility with Wachovia Bank on the amount of EUR 10 million, as well as a bond with a nominal amount of EUR 6 million.

June

- First Investment Bank received a syndicated loan on the amount of EUR 65 million from 11 leading banks all over the world.
- FIB became the first bank in Bulgaria with own corporate blog space – an Internet platform where clients, employees and fans of FIBank can exchange ideas, share impressions of the Bank in general, its products and services, its initiatives and values.
- First Investment Bank started a programme for its loyal customers, with the aim of offering preferential service and specific facilitations for its loyal customers.

July



- FIBank signed a contract with the German investment bank KfW for a five year credit line for financing small and medium-sized businesses in Bulgaria on the amount of EUR 10 million.
- A "Free deposit" was launched – a one year deposit with monthly increasing interest from 6% to 11% at the end of the period.
- FIBank increased its requirements regarding the corporate behaviour and ethics of its employees by issuing a Code of Conduct, which summarizes the basic principles, ethical norms and corporate values, all in compliance with European standards and best practices.

August

- FIBank granted financing for projects, aiming at the renovation and reconstruction of school libraries within the country under the programme "Library for Bulgarian Schools", administered by the "Workshop for Civil Initiatives" Foundation.
- First Investment Bank offered a new facility for customers using the POS terminals of the Bank – a credit line of up to BGN 100 thousand.

September

- Shares of First Investment Bank were admitted for trade to the Official equity market, segment B of the Bulgarian Stock Exchange.
- FIBank updated its programme for wealthy customers, organized in a separate business line in the Bank's activities – the "Private Banking" department.
- In line with the changing situation on the international financial markets the rating agencies Fitch Ratings and Moody's confirmed FIBank's credit ratings, downgrading the outlook.
- FIBank's team won the second interbank sporting tournament.

October

- First Investment Bank received a prize in the "Social responsibility to employees" category in the contest for Socially Responsible Company of the Year, organised by "Pari" Daily.
- First Investment Bank started its official cooperation with the Mexican national bank in connection with the offering of golden and silver investment coins and continued its successful cooperation with the New Zealand mint and with the Swiss mint PAMP.
- FIBank re-negotiated EUR 117 million from the existing syndicated loan on the amount of EUR 185 million, signed in October 2007, for one more year, using its extension option.

November

- FIBank updated the design and optimized the customers' interface of its Virtual banking branch.
- A „Serious deposit" was launched – a six-month deposit in BGN and EUR with a 9% annual interest for the first half year.
- FIBank's corporate Internet web site – www.fibank.bg was completely renovated.
- FIBank repaid on maturity a mortgage bond on the amount of EUR 5 million, issued for trade on the Bulgarian Stock Exchange.
- The Bank organized several seminars for its corporate clients under the grant schemes of the Operating Programme "The Improvement of the Competitiveness of the Bulgarian Economy 2007-2013" and of the "Rural Development Programme".

December

- First Investment Bank celebrated its 15th anniversary.
- FIBank received the prestigious card business award OSCARDS of Publi-News in the Europe region for innovation in the card business for its co-branded credit card VISA vivatel-FIBank.
- „Christmas deposit" – a three-month deposit in BGN and EUR with 9.75% annual interest for the first quarter.
- First Investment Bank won the prize for „largest donation of services and employee time" at the annual awards of the Bulgarian Donor Forum and the Corporate Donors Club.

Corporate Development

In 2008 First Investment Bank responded in a timely and efficient manner to the changing economic and financial situation on the international markets and domestically and retained its sixth place amongst the banks in Bulgaria.

Positive financial results, high liquidity and good capital adequacy are just some of the Bank's achievements last year.

In 2008 FIBank heightened its risk requirements in the management of the loan portfolio and adopted a policy of moderate growth.

Key Performance Indicators

	2008	2007	2006	June 2008.	June 2007
Financial results (in BGN thousand)					
Net interest income	147,509	132,609	85,302	78,531	58,674
Net fee and commission income	63,383	50,962	38,824	30,495	22,864
Net trading income	4,258	11,827	8,139	1,883	4,687
Total income from banking operations	213,631	195,197	132,192	108,468	85,875
Administrative expenses	(156,169)	(107,325)	(82,720)	(72,350)	(47,265)
Impairment losses	1,109	(26,958)	(12,826)	(7,258)	(14,289)
Net profit	49,237	51,113	28,817	24,025	19,239
Earnings per share (in BGN)	0.45	0.48	0.29	0.22	0.19
Balance sheet indicators (in BGN thousand)					
Assets	4,270,751	4,201,377	3,147,766	4,071,767	3,465,541
Loans and advances to customers	2,969,984	2,778,123	1,709,773	2,802,228	2,217,996
Loans and advances to banks and other financial institutions	10,244	189,575	42,032	12,808	41,942
Customer deposits	2,855,327	2,475,139	1,692,197	2,336,268	1,869,678
Liabilities evidenced by paper	832,620	1,238,113	1,123,218	1,213,729	1,142,122
Total shareholders' equity	368,734	325,979	168,393	349,798	294,586
Key ratios (in %)					
Solvency ratio (Capital adequacy)	13.18	12.98	15.81	13.80	15.34
Liquidity ratio	25.67	29.92	34.61	24.12	26.33
Loan provisioning ratio	2.32	2.62	2.67	2.76	2.67
Net interest income / income from banking operations	69.05	67.94	64.53	72.40	68.33
ROE (after tax)	14.08	20.54	19.23	14.25	19.98
ROA (after tax)	1.21	1.50	1.12	1.21	1.26
Operating expenses / Income from banking operations	73.10	54.98	62.58	66.70	55.04
Resources (number)					
Branches and offices	171	127	107	146	116
Staff	2,689	2,289	1,598	2,509	1,761

Ratings

In May 2008 the rating agency Fitch Ratings changed the outlook on FIBank's ratings from "positive" to "stable", in view of the currently more challenging operating environment for credit institutions. The same month Moody's placed on review FIBank's ratings, due to a possible negative impact from the turbulence on the international financial markets, as well as to certain speculation interests with a short-term effect on the local market.

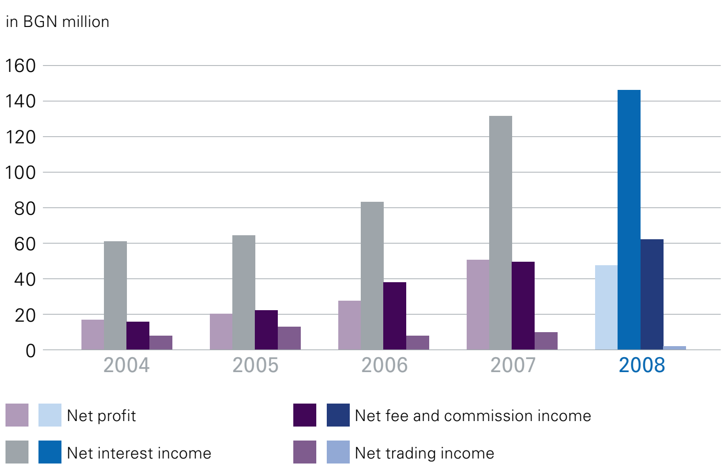
In September 2008 FIBank's credit ratings were confirmed by both rating agencies, taking into account the Bank's well developed franchise, the good business diversification, as well as the adequate risk management framework and capital adequacy. The outlooks on FIBank's ratings were changed to "stable" and to "negative" by Moody's and Fitch Ratings respectively.

	2008	**2007**	**2006**
Moody's / Fitch Ratings			
Long-term	**Ba1 / BB-**	Ba1 / BB-	Ba3 / BB-
Short-term	**NP / B**	NP / B	NP / B
Financial stability/ Individual	**D / D**	D / D	D / D
Outlook	**Stable / Negative**	Positive / Positive	Positive / Positive

In January 2009 Moody's changed the outlook on FIBank's ratings from "stable" to "negative", due to the volatile situation on the international financial markets globally.

Financial Results

Profit and Income



In 2008 the Group of First Investment Bank realized a net profit of BGN 49,237 thousand compared to a net profit of BGN 51,113 thousand a year earlier. In this respect the Bank ranks eighth (on an unconsolidated basis) in the banking system with a market share of 3.7%.

The interest income of the Group reached BGN 335,937 thousand, a rise of 24.4% (BGN 65,892 thousand). This was the result of the effective management of the Bank's loan portfolio, as well as of the increase in the average interest rate on loans (due to the higher reference interest rates – the Basic Interest Rate (BIR) and the Euribor).

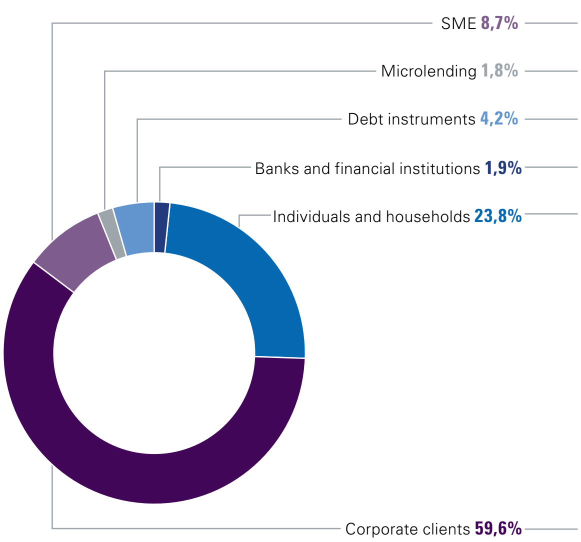
Interest income from corporate clients continued to dominate the Bank's interest income, forming 59.6% of the total interest income, followed by income from individuals and households (23.7%) and from small and medium-sized enterprises (8.7%).

Interest expenses increased by 37.1% (BGN 50,992 thousand), amounting to BGN 188,428 thousand at the end of the period. The increase reflected the higher cost of funding on both the international and the domestic market.

Net interest income amounted to BGN 147,509 thousand, a rise of 11.2 % year-on-year (2007: BGN 132,609 thousand). In 2008 foreign operations (Cyprus and Albania) contributed 8.2% of the total net interest income, compared to 6.2% in 2007.

Net fee and commission income increased by 24.4% to BGN 63,383 thousand (2007: BGN 50,962 thousand) and constituted 29.7% of the total income from banking operations. The increase was due to the larger volume of services related to card operations, payment transactions and customer account maintenance.

Interest Income 2008



Most of the net fee and commission income in 2008 was formed by card operations in which the Bank retained its strong position. Fee and commission income from the card related business increased by 50.9%, reaching BGN 21,964 thousand. At the same time fee and commission expenses for card operations decreased to BGN 5,712 thousand, compared to BGN 5,767 thousand a year earlier. The net income from card business formed 25.6% of the total net fee and commission income (2007: 17.3%). Fee and commission income related to customer accounts increased by 10.1% to BGN 9,213 thousand, while that related to payment transactions by 9.2% to BGN 9,192 thousand. As a consequence of the stagnation on the international financial markets, fee and commission income from letters of credit and guarantees dropped by 20.6% to BGN 9,602 thousand at the end of 2008.

In 2008 foreign operations (Cyprus and Albania) contributed 1.7% of the total net fee and commission income, compared to 1.8% in 2007.

Net trading income decreased significantly as a result of the decrease in securities portfolios due to the restructuring of assets to achieve better profitability with a view to the changes in the international stock markets. In 2008 net trading income amounted to BGN 4,258 thousand (2007: BGN 11,827 thousand).

General and administrative expenses increased by 45.5% reaching BGN 156,169 thousand (2007: BGN 107,325 thousand). This was due mostly to expenses for branch network expansion (FIBank opened 43 new offices throughout the country), expenses for personnel, for rent, administrative, marketing and other expenses. The cost/income ratio was 73.10%. The general and administrative expenses in the Group's foreign operations also increased – by 35.9% to BGN 6,626 thousand in absolute terms, forming 4.2% of all general and administrative expenses (2007: 4.5%).

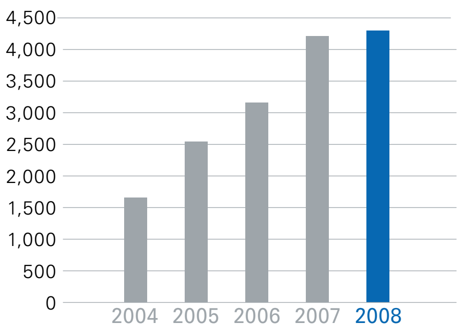
In 2008 FIBank made a net reversal of write-downs on the amount of BGN 1,109 thousand after an analysis of the cash flows and the loan portfolio, in combination with heightened criteria and centralized credit risk management. The quality of the loan portfolio was maintained, with non-performing loans (90+ days overdue) forming 2.6% of the loan portfolio (2007: 1.7%).

The Bank applies a conservative provisioning policy, as the total allowances for impairment amounted to 2.2% of the gross loan portfolio.

Balance Sheet

Total Assets

in BGN million



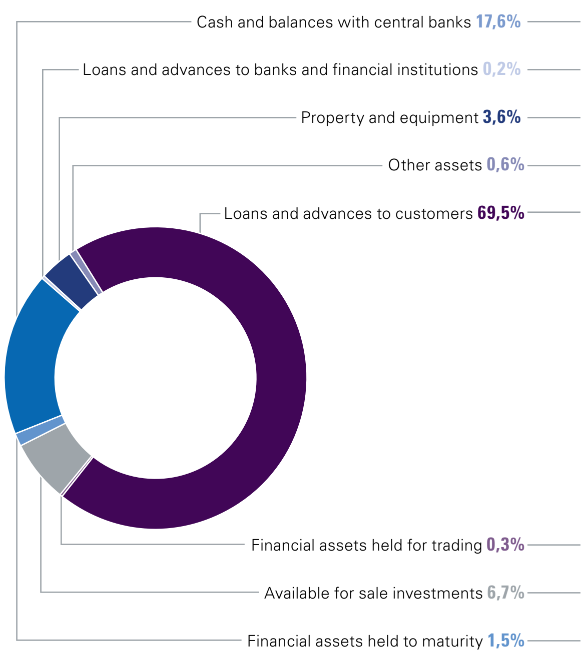
As at 31 December 2008 First Investment Bank retained its sixth place in terms of assets in the banking system with a market share of 6.1%.

The assets of the Group of FIBank amounted to BGN 4,270,751 thousand, an increase of BGN 69,374 thousand (1.7%) year-on-year. The decrease in assets resulting from the repayment of the 3-year EUR 200-million bond which matured at the beginning of the year was fully compensated by the growth in deposits from households and individuals, as well as by the new EUR 65-million syndicated loan negotiated in June. The growth of the Bank's balance sheet reflects the adopted policy of moderate loan portfolio growth, as well as the higher risk requirements taking into account the situation on the international financial markets and its possible impact on the macro level.

Loans and advances to customers formed the predominant share in assets (69.5%), amounting to BGN 2,969,984 thousand (2007: BGN 2,778,123 thousand), followed by cash and balances with central banks (17.6%) at BGN 751,864 thousand (2007: BGN 611,262 thousand) and securities portfolios (8.4%) at BGN 358,699 thousand (2007: BGN 493,816 thousand).

In the reporting period cash and balances with central banks grew by 23.0% (BGN 140,602 thousand) in regards to the increasing deposit base and the maintained current liquidity. The largest increase – by 129.3% (BGN 83,558 thousand) – was reported in the amounts in current accounts and amounts with local and foreign banks, followed by the amounts in cash on hand – by 27.9% (BGN 35,676 thousand).

Asset structure as of 31 December 2008



The 27.4% decrease in securities portfolios was due to the restructuring of liquid assets throughout the year with a view to optimizing profitability and in response to the challenges of the competitive environment while maintaining a stable liquid position. The largest decrease by 41.2% to BGN 62,395 thousand was registered in the financial assets held to maturity, followed by the financial assets held for trading – by 28.4% to BGN 9,681 thousand and by the available for sale investments – by 23.4% to BGN 286,623 thousand.

The foreign operations of the Bank (in Albania and Cyprus) represent a small share at 4.7% of the total assets or BGN 201,007 thousand (2007: 4.1%, BGN 170,425 thousand).

Loan Portfolio

Loans

As at 31 December 2008 the loan portfolio of the Group of First Investment Bank amounted to BGN 3,037,733 thousand before allowances, an increase of BGN 189,301 thousand or 6.6% compared to 2007. The growth of the portfolio resulted from the Bank's policy of moderate growth and heightened risk management requirements, corresponding to the expected slow-down in economic growth.

FIBank retained a stable market share of 6.1% in lending, being ranked sixth (on unconsolidated basis) in the banking system in terms of this indicator.

(in BGN thousand / % of the total)	2008	%	2007	%	2006	%
Loans to individuals	770,962	25.4	756,767	26.6	453,881	25.9
SME Lending	267,158	8.8	270,565	9.5	162,997	9.3
Microlending	41,196	1.4	43,476	1.5	23,461	1.3
Loans to corporate clients	1 958,417	64.4	1 777,624	62.4	1,114,642	63.5
Loan portfolio before allowances for impairment	**3 037,733**	**100.0**	**2,848,432**	**100.0**	**1 754,981**	**100.0**
Specific allowances for impairment losses	(67,749)		(70,309)		(45,208)	
Loan portfolio	**2 969,984**		**2,778,123**		**1,709,773**	

Loan Portfolio

The portfolio of loans to corporate clients increased by 10.2% (BGN 180,793 thousand) year-on-year and continued to comprise a dominant share in the total loan portfolio of the Group.

The portfolio of loans to SMEs and micro enterprises decreased compared to 2007 – in absolute terms by 1.3% (BGN 3,407 thousand) and by 5.2% (BGN 2,280 thousand), respectively and in relative terms as a share of the total loan portfolio to 8.8% (2007: 9.5%) and to 1.4% (2007: 1.5%), respectively.

Loans to individuals and households increased by 1.9% (BGN 14,195 thousand) while its relative share in the Bank's portfolio decreased from 26.6% in 2007 to 25.4% in 2008. This reflects heightened creditworthiness criteria and a decreased demand for loan products as a result of the changed economic environment.

The portfolio of loans extended by the Bank's foreign operations (in Cyprus and Albania) amounted to BGN 154,290 thousand, compared to BGN 148,673 thousand a year earlier, registering an increase of 3.8% (BGN 5,617 thousand). Loans extended in Cyprus amounted to BGN 130,871 thousand (2007: BGN 140,128 thousand), and BGN 23,419 thousand (2007: BGN 8,545 thousand) in Albania.

The criteria applied by FIBank for the classification and impairment of risk exposures are in compliance with the criteria provided for by Ordinance No. 9 of the Bulgarian National Bank.

The portfolio of exposures classified as non-performing (90+ days overdue) increased at the end of 2008, reaching BGN 79,800 thousand (2007: BGN 48,708 thousand). Nevertheless, their share in the gross portfolio remains at a level comparable to the average for the banking sector at 2.6%.

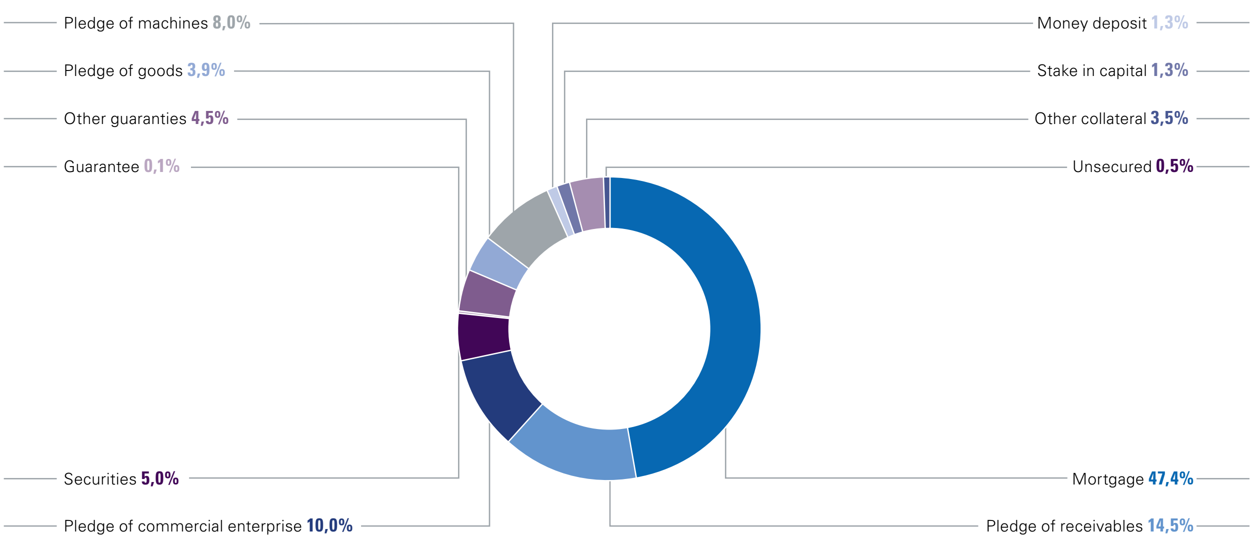
(in BGN thousand)	2008		2007	
Class of exposure	**Gross portfolio**	**Carrying amount**	**Gross portfolio**	**Carrying amount**
Standard	**2,911,251**	**2,907,981**	2,776,759	2,753,629
Watch	**27,620**	**26,379**	15,363	14,528
Substandard	**19,062**	**12,114**	7,602	6,368
Non-performing	**79,800**	**23,510**	48,708	3,598
Total	**3,037,733**	**2,969,984**	**2,848,432**	**2,778,123**

In 2008 the allowances for impairment decreased to 2.23% of the Bank's gross loan portfolio (2007: 2.47%, 2006: 2.58%), mostly on account of standard exposures, taking into consideration the moderate growth of the portfolio as a whole, the Bank's heightened criteria for credit risk and the emphasis on the centralised approach to its management.

In 2008 receivables amounting to BGN 1,451 thousand, mostly from private individuals, were recorded off balance sheet.

FIBank requires collateral for its risk exposures. It accepts all types of collaterals permitted by law and applies discount rates depending on the expected realizable net value of the respective collateral. As of the end of 2008 the collateral with the largest share in the Bank's portfolio were mortgages at 47.4%, pledges of receivables at 14.5%, which include receivables from bank accounts with the Bank, followed by pledges of commercial enterprises at 10.0% and pledges of machines and equipment at 8.0%.

Collateral as of 31 December 2008



Related Party Transactions

A number of banking transactions were entered into with related parties in the normal course of business. These transactions were carried out on market terms and conditions.

(in BGN thousand)

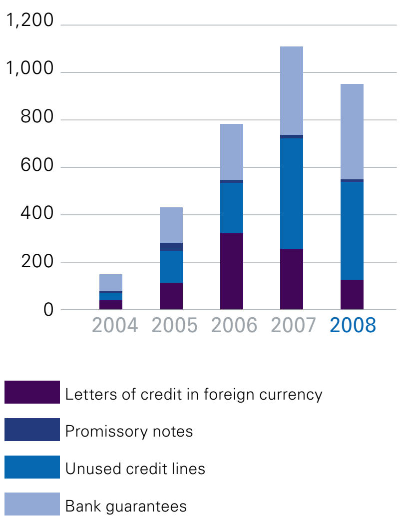
Type of Relationship	2008	2007	2006
Loans			
Enterprises under common control	11,728	8,110	4,351
Off-balance sheet commitments			
Enterprises under common control	2,102	2,108	1,117
Loans to Directors	**2,455**	**2,474**	**1,876**

The internal rules and regulations of the Bank with respect to such loans are in compliance with the effective legislation.

Commitments and Contingent Liabilities

Contingent Liabilities

in BGN million



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

Contingent liabilities are preferred by credit institutions because they carry lower credit risk and at the same time are good sources of fee and commission income. They are predominantly used by clients in the foreign trade business because these instruments not only facilitate payments with foreign partners but also reduce the cost of financing as compared to direct financing and immediate payment.

In 2008 contingent liabilities decreased by 14.5% to BGN 953,764 thousand (2007: BGN 1,115,077 thousand) due to a drop of 51.9% in letters of credit in foreign currencies and of 11.0% in unused credit lines.

Bank guarantees in BGN and foreign currencies, on the other hand, increased by 9.1% to BGN 401,253 thousand (2007: BGN 367,812 thousand).

(in BGN thousand / % of the total)

	2008	%	2007	%	2006	%
Bank guarantees	401,253	42.1	367,812	33.0	244,550	31.1
Unused credit lines	407,465	42.7	457,669	41.0	211,228	26.8
Promissory notes	15,752	1.6	21,034	1.9	17,097	2.2
Letters of credit in foreign currency	129,294	13.6	268,562	24.1	313,722	39.9
Total contingent liabilities	**953,764**	**100.0**	**1,115,077**	**100.0**	**786,597**	**100.0**

First Investment Bank continued to maintain its good image amongst banks and business entities in Bulgaria and abroad and the trust it enjoys as a credit institution which meets its commitments promptly and accurately.

Attracted Funds

As at 31 December 2008 deposits from customers other than credit institutions amounted to BGN 2,855,327 thousand or 73.2% of all attracted funds.

A growth trend was registered in deposits from individuals, which increased by 20.5% to form 61.4% of all customer deposits. The growth was due to the new, more flexible deposit products offered by FIBank throughout the year at competitive terms and conditions, and to the active development of the Bank's branch network. Another contributing factor was the high quality of customer service. In 2008 the local market increased its importance as a source of funding, thus intensifying competition between banks.

First Investment Bank regularly sets aside the required annual premiums in accordance with the Bank Deposit Guarantee Act, which additionally increases the safety of the Bank's depositors. According to the amendments in the Act (effective from 18 November 2008) the amount guaranteed by the Fund reached BGN 100,000 per client.

(in BGN thousand / % of the total)	2008	%	2007	%	2006	%
Deposits from individuals	**1,753,561**	**61.4**	**1,454,745**	**58.8**	**1,013,721**	**59.9**
in BGN	684,979	24.0	571,535	23.1	419,857	24.8
In EUR	901,194	31.6	692,564	28.0	404,301	23.9
in other currencies	167,388	5.9	190,646	7.7	189,563	11.2
Deposits from corporate, state-owned and public institutions	**1,101,766**	**38.6**	**1,020,394**	**41.2**	**678,476**	**40.1**
in BGN	788,101	27.6	633,158	25.6	364,745	21.6
In EUR	235,624	8.2	314,892	12.7	242,830	14.3
in other currencies	78,041	2.7	72,344	2.9	70,901	4.2
Total customer deposits	**2,855,327**	**100.0**	**2,475,139**	**100.0**	**1,692,197**	**100.0**

Deposits from corporate, state-owned and public institutions increased as well – by 8.0% year-on-year, forming 38.6% of all customer deposits.

Deposits in EUR and BGN continued to increase their relative share in the deposit base from individuals, respectively to 31.6% and to 24.0% of all deposits (2007: 28.0% and 23.1%, 2006: 23.9% and 24.8%). Deposits in EUR from corporate, state-owned and public institutions decreased to 8.2% of all deposits, as compared to 12.7% in 2007. Deposits in BGN continued to grow – up to 27.6% in 2008 (2007: 25.6%, 2006: 21.6%).

Due to its long-standing reputation amongst international financial institutions as a reliable and trustworthy partner and despite the global stagnation in the financial markets, FIBank negotiated new foreign funding, thus diversifying its attracted funds.

In June First Investment Bank received a new syndicated loan amounting to EUR 65 million from 11 leading international banks, while in October 2008 the Bank used its extension option and renegotiated for one more year EUR 117 million from the EUR 185 million syndicated loan, signed in October 2007.

In July FIBank signed an agreement with the German encouragement bank KfW for a EUR 10 million 5-year credit line for small and medium-sized enterprises in Bulgaria.

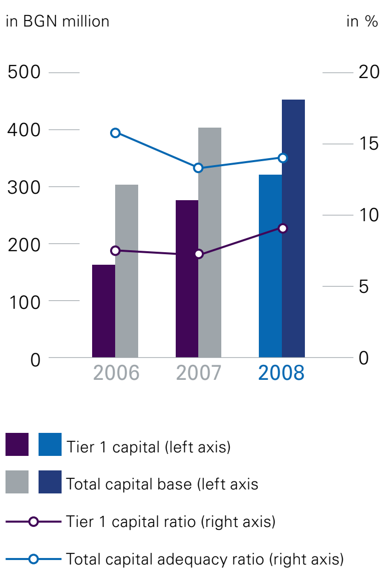
FIBank continued meeting its commitments and obligations towards partners and contractors, as during the reporting period the following repayments were made:

- **at maturity**: EUR 200 million long-term bond (in January), EUR 6 million long-term bond (in May), EUR 10 million loan on bilateral trade facility (in May), EUR 68 million partial repayment on a syndicated loan (in October) and EUR 5 million mortgage bond (in November).
- **before maturity**: EUR 1 million subordinated term debt.

As at 31 December 2008 liabilities evidenced by paper amounted to BGN 832,620 thousand, a decrease of 32.8% compared to December 2007, as a result of repaid at maturity bonds and loans throughout the year. At the end of the reporting period letters of credit increased by 13.4% to BGN 353,179 thousand (2007: BGN 311,491 thousand). Other term liabilities increased as well by 1.8% to BGN 105,097 thousand (2007: BGN 103,274 thousand), as the latter comprise mainly financing obtained from financial institutions through the extension of loan facilities. At the end of the year the Bank had no liabilities under repurchase agreements.

Capital

Capital Adequacy



As at 31 December 2008 the total capital base of First Investment Bank amounted to BGN 451,322 thousand, an increase of 11.5% or BGN 46,708 thousand, compared to a year earlier. Tier 1 capital amounted to BGN 328,859 thousand and increased by 20.2% (BGN 55,286 thousand) year-on-year. The shareholder's equity of the Group reached BGN 368,734 thousand by year end, an increase of BGN 42,755 thousand (13.1%) compared to 2007.

Since 1 January 2007 FIBank has applied the provisions of Basel II as formulated in the applicable EC directives and Ordinance No.8 of the Bulgarian National Bank, and sets aside additional provisions for credit, market and operational risk.

In 2008 FIBank continued implementing its strategy for Tier 1 capital development and capitalized retained earnings from past years. Thus in March 2008 the General Meeting of Shareholders decided that the net profit for 2007 be retained as other general reserves. In July 2008, the Extraordinary General Meeting of Shareholders decided not to distribute dividends or make other deductions from the profit for 2008 with a view to its capitalization and increase of the shareholder's equity.

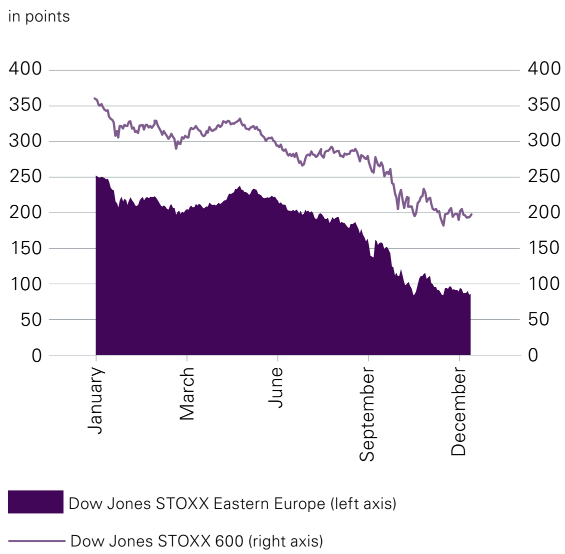
(in BGN thousand / % of risk-weighted assets)	**2008**	**%**	**2007**	**%**	**2006**	**%**
Tier 1 Capital	**328,859**	**9.60**	273,573	8.78	168,554	8.84
BIS Capital base	**451,322**	**13.18**	404,614	12.98	301,292	15.81
Risk weighted assets	**3,424,859**		**3,116,968**		**1,905,826**	

To develop its capital base FIBank also uses debt instruments which are included in the Tier 2 capital namely subordinated term debt and perpetual debt. As at 31 December 2008 FIBank had entered into six separate subordinated loan agreements with four different lenders on the total amount of BGN 53,852 thousand and signed two perpetual subordinated bonds for the total amount of BGN 98,658 thousand. In 2008 the Bank repaid a subordinated term debt with a nominal amount of EUR 1 million.

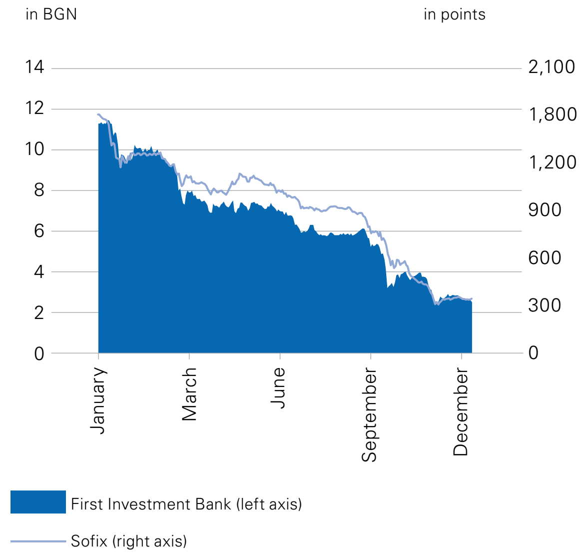
Throughout the reporting period the shares of First Investment Bank were included in the SOFIX index, which represents the largest and the most liquid public companies, traded on the Bulgarian Stock Exchange, as well as in the BG40 index, which comprises the forty public companies with the largest number of deals entered on the Exchange during a preceding period of six months. In September 2008 the shares of the Bank were moved from the unofficial market and admitted for trade to the official market, segment B of the BSE – Sofia.

During last year the share price of First Investment Bank decreased due to the worsened situation on the international capital markets which also reflected on the public companies traded on the Bulgarian Stock Exchange. As at the end of the reporting period the share price of the Bank defined by the Exchange was BGN 2.50 per share.

European Stock Indices in 2008

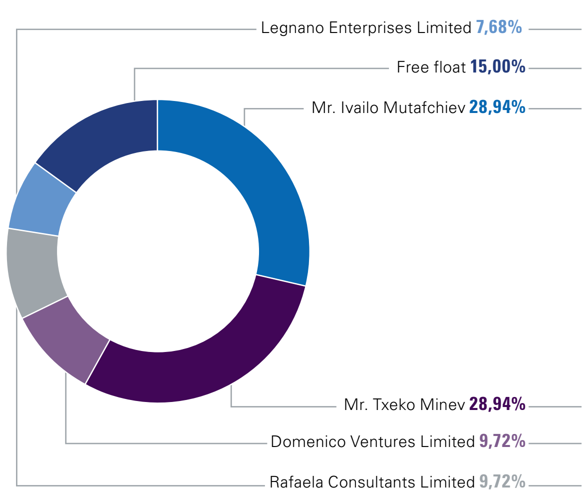


FIBank AD Share Price in 2008



By the end of 2008 FIBank had more than 3,200 shareholders. In October Balkan Holidays Limited sold its share of 6.72% (7,390 thousand ordinary shares) in the capital of the Bank to two other existing shareholders – Rafaela Consultants Limited and Domenico Ventures Limited, which acquired 3,695 thousand shares each, thus increasing their shareholdings in the Bank from 6.36% to 9.72%. Currently 16,500 thousand shares, issued in May 2007 under the terms of initial public offering, are freely traded on the Bulgarian Stock Exchange – Sofia AD.

Shareholding Structure as of 31 December 2008



As at 31 December 2008 the major shareholders of First Investment Bank were Mr. Tzeko Minev (28.94%), Mr. Ivailo Mutafchiev (28.94%), Domenico Ventures Limited (9.72%), Rafaela Consultants Limited (9.72%), Legnano Enterprises Limited (7.68%) and free floating capital (15.00%).

Risk Management Disclosures

Challenges for the banking sector due to the turmoil on international financial markets and slowing economic growth at a global level, are further proof of the necessity for a refinement and fine-tuning in risk management systems aimed at making them more predictable in terms of potential, expected and extreme events, and more precise in terms of the impact on the Bank and possible scenarios under changed conditions.

Risk management policy is carried out on the basis of written rules and procedures established and developed in accordance with the principles of dual control in each operation, centralised management, clearly defined levels of competence and authorisation.

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

Collective Risk Management Bodies

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

The Credit Council administers the credit risk undertaken by the Bank by issuing opinions on loan transactions in accordance with the level of competence assigned thereto. The Credit Council consists of seven members (of which at least five must attend its meetings) elected by the Managing Board. The Credit Council is chaired by the executive director responsible for the Risk Management Department, while the other members include the directors of the Legal, Corporate Banking, SME Lending and Branch Network departments.

The Liquidity Council performs the day-to-day management of the Bank's assets, liabilities and liquidity. It conducts systemic analyses of the interest and maturity structure of assets, liabilities, and liquidity indicators with a view to their optimisation. As at the end of 2008 it comprised three members of the Managing Board, the head of the Liquidity Department, the Chief Dealer, and a representative of the Risk Management Department.

The Credit Committee is a specialised body for monitoring loans with indicators for impairment. It has five members elected by the Managing Board – representatives of the Legal, Corporate Banking, Risk Management, Finance and Accounting, and Impaired Assets and Provisioning departments. The Credit Committee members are employees of the Bank who are not directly involved in decision-making on the extension of loans. The Credit Committee monitors and analyses asset impairment and allowances both in general (by portfolios) and in terms of specific, individually significant exposures.

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

Having regard to the changes in the external environment, in 2008 the management of the Bank placed emphasis on conservative risk management and took additional measures to strengthen its resilience to the adverse effects of the global financial crisis. In accordance with the requirements of the BNB the Bank undertook steps for the enhancement of its internal capital adequacy assessment programme (ICAAP), and the stress test scenarios in use; the existing limits were revised, and centralised portfolio management was strengthened.

The primary mechanisms and tools for risk management for the respective types of risk are summarised below:

Credit Risk

Credit risk is the main source of risk in the banking industry and its effective assessment and management is crucial for the long-term success of credit institutions. FIBank regularly updates its internal rules and procedures for optimising the process of timely detection, analysis and minimization of potential and existing risks.

The Bank has a system of limits for its exposures to credit risk, including to individual customers / customer groups, types of instruments, sectors and others. At the end of 2008 more conservative limit levels were applied, taking into account the turmoil in international financial markets and their impact on the market in the region.

During the reporting period, FIBank continued to work actively to develop and improve its internal rating systems used for assessing credit risk, according to the recommendations of the Basel Committee and the requirements of BNB. Based on information collected over the past five years on its customers, FIBank has tools to assess the probability of default for certain classes of exposures, which makes possible the determination of risk-adjusted returns. All credit risk exposures are monitored on a daily basis. In addition, FIBank requires exposures to be fully collateralised, including contingent obligations, which expose the Bank to credit risk.

Market Risk

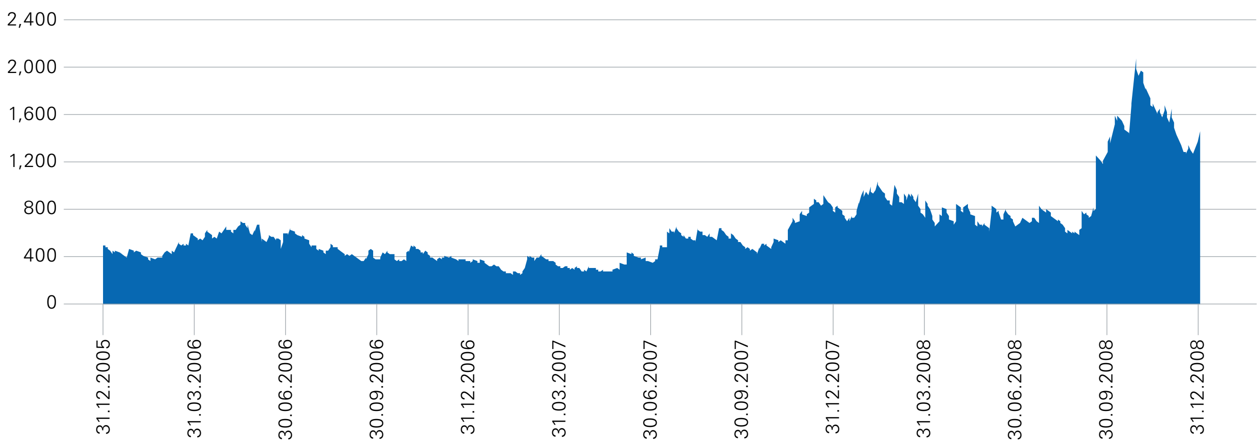
Market risk is the risk of losses resulting from changes in interest rates, exchange rates, or prices of financial instruments.

Interest rate risk – the current or potential risk of changes in the income of the Bank as a result of the unfavourable change in interest rates.

FIBank manages interest rate risk in the banking book by written rules, limits and procedures, aiming to implement advanced models and techniques. FIBank applies an internal methodology to calculate the potential change in economic value of the Bank resulting from the changes in interest rates in line with the Bank's risk profile and risk management policy. To manage interest rate risk in the trading book FIBank applies VaR analysis (see chart below), duration analysis, and standardised interest rate shocks.

1-day 99% VaR

in BGN'000



Currency risk – the risk of loss due to the unfavourable change in exchange rates. FIBank control this risk through the application of internal rules and limits on open foreign currency positions at bank level, stop-loss and take-profit limits on open positions, and positions management on a daily basis.

Liquidity Risk

Liquidity risk arises due to the funding of the banking business and in positions management. It includes the risk of failure to meet a payment when due, or failure to sell certain assets at a fair price and in the short term to meet an obligation.

FIBank manages liquidity risk through an internal system for monitoring and daily liquidity management, maintenance of adequate availability of funds given the maturity and currency structure of assets and liabilities, monthly gap analysis of liquidity, maintaining a low risk portfolio of assets to meet current liabilities and operations on the interbank market. FIBank's policy on liquidity management is specified and pursued so as to ensure that the Bank can meet all obligations under external (systemic) or idiosyncratic stress.

In 2008 FIBank repaid liabilities with a total face value of EUR 290 million (EUR 200 million eurobond, EUR 6 million bond, EUR 10 million loan agreement under bilateral trade cooperation, EUR 5 million mortgage bonds, EUR 68 million partial settlement in a syndicated loan, and EUR 1 million subordinated loan capital), and raised EUR 192 million (EUR 65 million syndicated loan, EUR 10 million loan to finance SMEs, EUR 117 million in syndicated loan renegotiated). Stagnation of the global credit markets at the end of 2008 impeded the use of the European markets as a source of funding and increased the importance of internal reserves and local markets.

In the past year, the Bank maintained high liquidity, as 31 December 2008 the liquidity ratio was 25.67% (2007: 29.92%, 2006: 34.61%).

Operational Risk

In the context of the Basel II accord operational risk is the risk of loss resulting from inadequate or failed processes, people or systems or from external events. In order to mitigate the risks arising from operational events FIBank applies written policies, rules and procedures that are based on the requirements laid down in the Bulgarian, European legislation and good banking practices.

In 2008 a framework of rules and procedures for identifying, timely reporting and assessment of operational risks in FIBank was developed: the Operational Risk Management Policy, internal rules and an instruction for the collection of information on operational events. The Risk Management Department defines and categorizes operational events by type and business lines, inherent in the banking business, as well as the duties of employees of FIBank in connection with their registration and reporting.

Risk-weighted Assets

Since January 1, 2007 FIBank has applied the standardized approach for calculation of risk-weighted assets for credit risk under Basel II and the provisions of Ordinance No.8 of the BNB on the capital adequacy of credit institutions. Due to the limited volume of financial instruments in the trading book (bonds and other securities) capital requirements are calculated in accordance with the requirements of Ordinance No.8 of the BNB as applied to the banking book. The calculation of the capital requirement to cover losses from operational risk the bank applies the basic indicator approach.

(in BGN thousand) Risk-weighted assets	2008	2007	2006	% change 2008/2007	% change 2007/2006
For credit risk	**3,162,584**	2,922,976	1,900,692	8.2	53.8
For market risk	**3,250**	3,341	5,134	(2.7)	(34.9)
For operational risk	**259,025**	190,651	–	35.9	–
Total risk-weighted assets	**3,424,859**	**3,116,968**	**1,905,826**	**9.9**	**63.5**

Besides regulatory purposes, FIBank also calculates economic capital that will ensure its solvency and business continuity in adverse market conditions. For that purpose FIBank uses analytical tools and techniques, stress tests, forecasting models, which allow more detailed assessment of the capital adequacy in accordance with the Bank's risk profile and current operating environment.

In 2009 FIBank will continue to develop its infrastructure to prepare for the introduction of Internal Ratings Based approach in line with Basel II – an improvement in the rating models applied by the Bank, a statistical approach to assessing potential risks, centralised management of credit risk while maintaining flexibility and adaptability of the Bank to market needs.

Distribution Channels

Since its establishment First Investment Bank has sought to develop its distribution channels, offering its customers a balanced choice between visits to bank offices, use of ATM terminals and POS terminals, distant access to information and services through our call centre, direct sales and Internet banking.

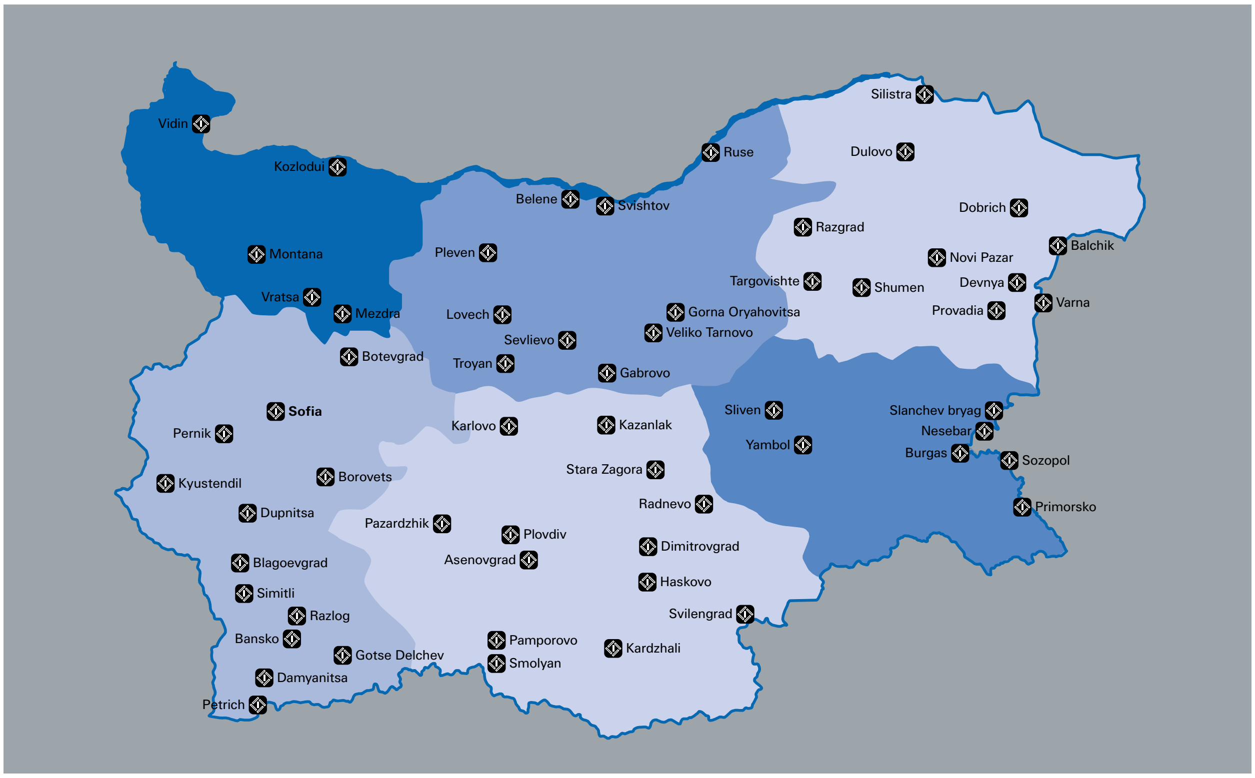
Branch Network

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

In 2008 the Bank took steps for the active expansion of its branch network within the country, aiming to provide a stable basis for the long-term growth of the business.

In twelve months only, FIBank increased its branches and offices by over 30% reaching the total number of 160 (2007: 120, 2006: 107, 2005: 93). During the last year, 43 new offices in 19 cities in Bulgaria were opened (Sofia, Bansko, Razlog, Botevgrad, Blagoevgrad, Plovdiv, Stara Zagora, Yambol, Mezdra, Ruse, Burgas, Razgrad, Kazanlak, Gabrovo, Asenovgrad, Devnya, Novi Pazar, Kardzhali and Sozopol) and 3 offices were closed.

As at 31 December 2008 FIBank's branch network included a Head Office, 44 branches and offices in Sofia, 114 branches and offices in the rest of the country and 1 branch in Nicosia, Cyprus. FIBank also has a subsidiary bank in Albania, which at the end of the reporting period operated through a Head Office in Tirana and 10 branches and offices in the country.



Call Centre – 0800 11 011

A Call Centre for customer service has been functioning in FIBank since 2006. It started by providing current information on the products and services offered by the Bank, subsequently developing into an active channel for the sale of specific products and services.

The Call Centre takes incoming calls and conducts outgoing regular telemarketing and information campaigns with current and potential customers of FIBank, and also accepts applications for issuing bank cards.

In 2008 the unit extended the capacity of its outgoing campaigns, starting to conduct direct telemarketing and additionally developed campaigns for the collection of overdue liabilities. The Call Centre seeks to maintain compliance with the 80/20 international standard for call centres when processing incoming calls (80% of incoming calls must be answered within 20 seconds).

Customers can receive accurate and correct information as well as professional assistance from the Call Centre employees, in cases of questions or problems occurring.

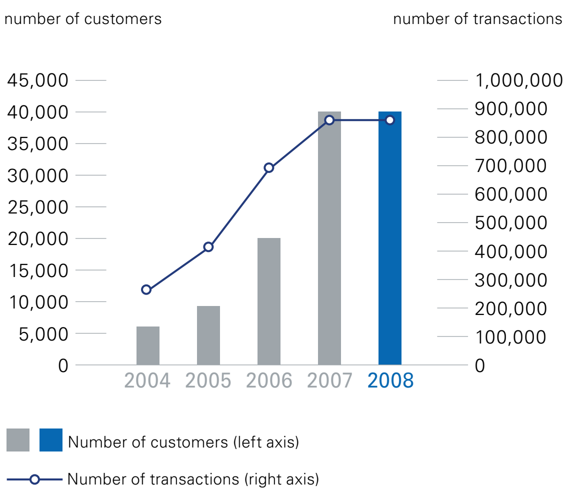
Sales

Since 2006 FIBank has managed direct sales of banking products and set comprehensive offers for institutional and corporate customers. The Bank provides services to the client's office and has created a distribution network of agents throughout the country.

Sales Department employees represent FIBank at trade fairs and exhibitions and actively take part in FIBank's services promotional campaigns. The Department also contributes to the winning of new customers and to establishing long-term relations with key clients.

Virtual Branch

Virtual Banking Branch



FIBank has been successfully developing its virtual banking for more than 8 years. The Bank is a pioneer in this field in the country and is continuously working on the improvement of its internet banking products and services.

FIBank's virtual banking is designed for both individuals and companies ensuring a modern, fast, inexpensive and secure way for offering a wide range of products and services: information on account balance, information on received payments and payment orders, opening deposit and current accounts in BGN and foreign currency, initiating requests for direct debit, currency exchange, domestic and cross border payments, tax payments and others.

In 2008 FIBank renovated the design and optimized the user interface of its Virtual banking branch. The new conception for intuitive navigation was the result of joint cooperation between clients who have sent constructive proposals and recommendations for better, easier and client–oriented functioning of the Virtual banking branch and the team of FIBank.

The emphasis during the year was on the improvement of the security and the speed of Internet banking, in order to build a solid base for its future development, aiming to extend the operations` volume and the number of serviced clients.

In 2008 the number of registered accounts through the Virtual banking branch increased by 30% compared to the previous year and reached 85,000, or 9.5% of all accounts. The number of operations totaled 850,000, while the number of registered clients was about 40,000.

During the reporting period the Virtual branch's clients generated approximately 30% of FIBank transfers.

Information Technologies

FIBank's aspiration to offer the best bank products and services, customized to the needs of different market segments, requires a banking information system which is flexible and innovative.

In May 2008 First Investment Bank completed the first phase of its most extensive project in the field of information technologies, successfully launching the bank services` modules for retail, corporate and investment banking of the information system FlexCube. The second phase of the project is at an advanced stage – the implementation of the Reveleus module for analysis of the profitability by business centers, clients and products, for credit risk management and the application of the international framework for capital adequacy (Basel II).

The system is supplied by Oracle Financial Services Software, a company owned by Oracle Global (Mauritius) Ltd. More than 350 financial institutions in 120 countries around the world use Flexcube.

During the development of the new information system all the main principals for assuming risk, including the principle for double control, which is applied in the daily bank activity, were implemented.

The new system increases the level of system security, optimizes the work processes and leads to enhanced productivity. It enables faster and easier parameterization of new innovative bank products and services which FIBank already offers to its clients.

The change in the hardware and software infrastructure of the Bank required reorganization and transformation in order to implement entirely structured processes in the field of information technologies as a response to the increasing needs of the business units. A new Operations Department was created, which includes the existing Information Technologies Department.

After the launching of the Flexcube credit module, FIBank switched to a centralized loan administration, which contributes to stricter control of loan procedures and faster processing of loan deals.

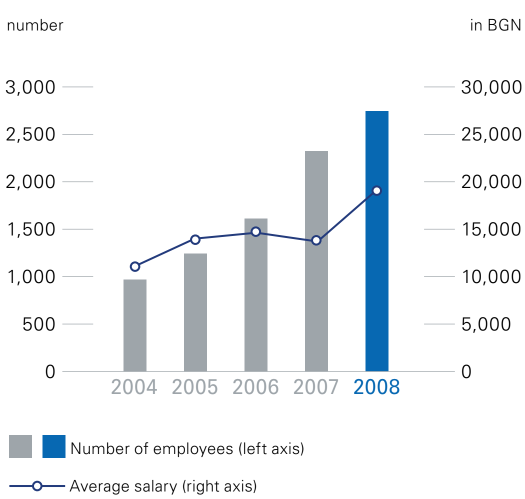
A documentary information system Workflow was integrated to the modules of the information system, used for the advancing and approval of loan applications, the acceptance and registration of foreign currency transfers and the acceptance and authorization of bank checks. Due to Workflow, the time for examination and approval of loan deals has been considerably reduced.

Human Capital

In 2008 "A Question of Team" continued to be an accent in FIBank's policy for human capital development. The joint project with Deloitte was completed, and as a result, along with the accepted strategy for human capital development:

- a new organizational structure of Human Capital Management Department was created, including two completely new divisions in connection to activity and personnel – the "Internal Consultants" division and the "Human Capital Development" division;
- separate directions were structured and functionally differentiated – for recruitment, selection and appointment of new employees; for organizational-structural development; for training and development, and for personnel administration.

Human Capital



As at 31 December 2008 the total number of employees, on a consolidated base, reached 2,689 (2007: 2,289, 2006: 1,598, 2005: 1,269, 2004: 968), an increase of 17.5%, compared to a year earlier.

FIBank's policy concerning remunerations is in line with its goals – to be competitive in the attraction and retention of the best professionals, to differentiate the levels of responsibilities, to be flexible enough to answer the market changes and to motivate and encourage excellent employee performance.

The Bank applies various reward schemes to stimulate performance – a bonus system aimed at sales stimulation and evaluation forms to measure the performance of all employees according to standard criteria. In 2008 a special program for long-term stimulation of key employees was created in the Bank.

The training and the increase of employee's qualification continued to be one of the priority tasks of the Bank, and the accent was put on perfecting employee's skills for servicing clients and for offering banking products and services. During 2008, over 50% of the staff completed different forms of training, including internal training, seminars and conferences, held in the country and abroad. A "Guide to Business Etiquette" was developed with rules, standards and recommendations for working with clients, as well as requirements for business dress code, communication, and behavior.

Maintaining high standards in servicing clients continues to be FIBank's basic priority and this important strategic goal lies at the core of the Bank's policy for human capital management and development.

Talent, professionalism and combined teamwork are the foundation of FIBank's successful business development.

Charity

In 2008 First Investment Bank proved again its public involvement by taking part in different charity and social initiatives. The values of the Bank are responsibility, transparency and assistance in important social problems.

For the third consecutive year, in 2008 FIBank organized a Day of Open Doors in nine cities in the country with the assistance of the "Workshop for Civil Initiatives" foundation, which manages "FIBank's Social Responsibility" fund. This fund has the objective to give an opportunity for development to children and youths from Orphanages in the country, by assisting their social adaptation, realization and preparation for an independent life.

The Bank successfully finished the financing of several projects for the renovation and rehabilitation of school libraries in the country, which were organized under the "Libraries for Bulgarian Schools" programme, administered by the "Workshop for Civil Initiatives" foundation. The program "Libraries for Bulgarian Schools" is a new initiative in FIBank's policy for corporate social responsibility, which aims at long-term investment in society. The chosen libraries for the program were nominated by employees of the Bank, who also individually donated funds. In this way the Bank and its employees engaged in renewing the old librarian fund in a number of schools, hoping to stimulate students' interest so that they can meet the new requirements to education.

An appraisal for First Investment Bank's actions during the year was the winning of two awards in connection to the social engagement of the Bank to society:

- FIBank took the prize for "The largest donation of service and employees time" at the fourth annual nominations of the "Bulgarian Donation Forum" and the "Corporate Donors Club". The award is a reflection of the generosity that FIBank's employees have shown, warmly welcoming children deprived of parental cares, actively participating in blood donation campaigns and assisting in the renovation of libraries in Bulgaria;
- The Bank received a prize in "Social responsibility to the employees" category in the "Socially Responsible Company of the Year" competition, organized by 'Pari' daily.

Corporate Governance

To First Investment Bank good corporate governance means reaching its strategic goals and attaining long-term sustainable results on behalf of its shareholders, lenders, employees, clients and the public in general.

FIBank's governance has been set up on the basis of internationally recognised corporate governance standards effective in the European Union, as well as the National Corporate Governance Code, which is advisable for public companies in Bulgaria. FIBank is also managed in accordance with the effective legislation and the Bank's statutes, which provide for the shareholders' rights, ownership registration, share transfer, as well as the regular preparation and presentation of information regarding the Bank's financial position and corporate status. Being a bank operating in an EU member state, FIBank complies in its activities with the requirements of European Union legislation.

Throughout the years the Bank has worked systematically towards improving its policy for good corporate governance. In this respect, in 2008 FIBank developed a Code of Conduct, which determines the major principles, ethical norms and corporate values which underlie the policies and business plans, rules, procedures and daily operational work of the Group. The Code is meant to contribute to the establishment of contemporary professional and ethical standards, required and applicable for the Bank as a business company, working environment and credit institution. The corporate values, principles and norms set out in the Code of Conduct outline the general framework of business ethics and conduct which are to support the maintenance of a good image of First Investment Bank, corresponding to its objectives and tasks.

FIBank's corporate governance is a system with clearly defined functions, rights and responsibilities at all levels: the General Meeting of Shareholders, the Supervisory Board, the Managing Board, structures at the Head Office and the branches. First Investment Bank has a two-tier management system, comprising the Supervisory Board and the Managing Board.

The Supervisory Board does not participate directly in the Bank's management. The Supervisory Board elects and discharges members of the Managing Board, and approves the major strategic decisions of the Bank. In 2008 the Supervisory Board had 21 meetings.

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

The General Meeting of Shareholders of FIBank has the right to amend and supplement the Bank's statutes, to increase and reduce the share capital and to transform and terminate the Bank. The General Meeting of Shareholders has competences to elect and dismiss the members of the Supervisory Board and the management of the Specialised internal audit service (SIAS) of the Bank. In 2008 the General Meetings of Shareholders had two meetings – an Annual meeting and an Extraordinary meeting.

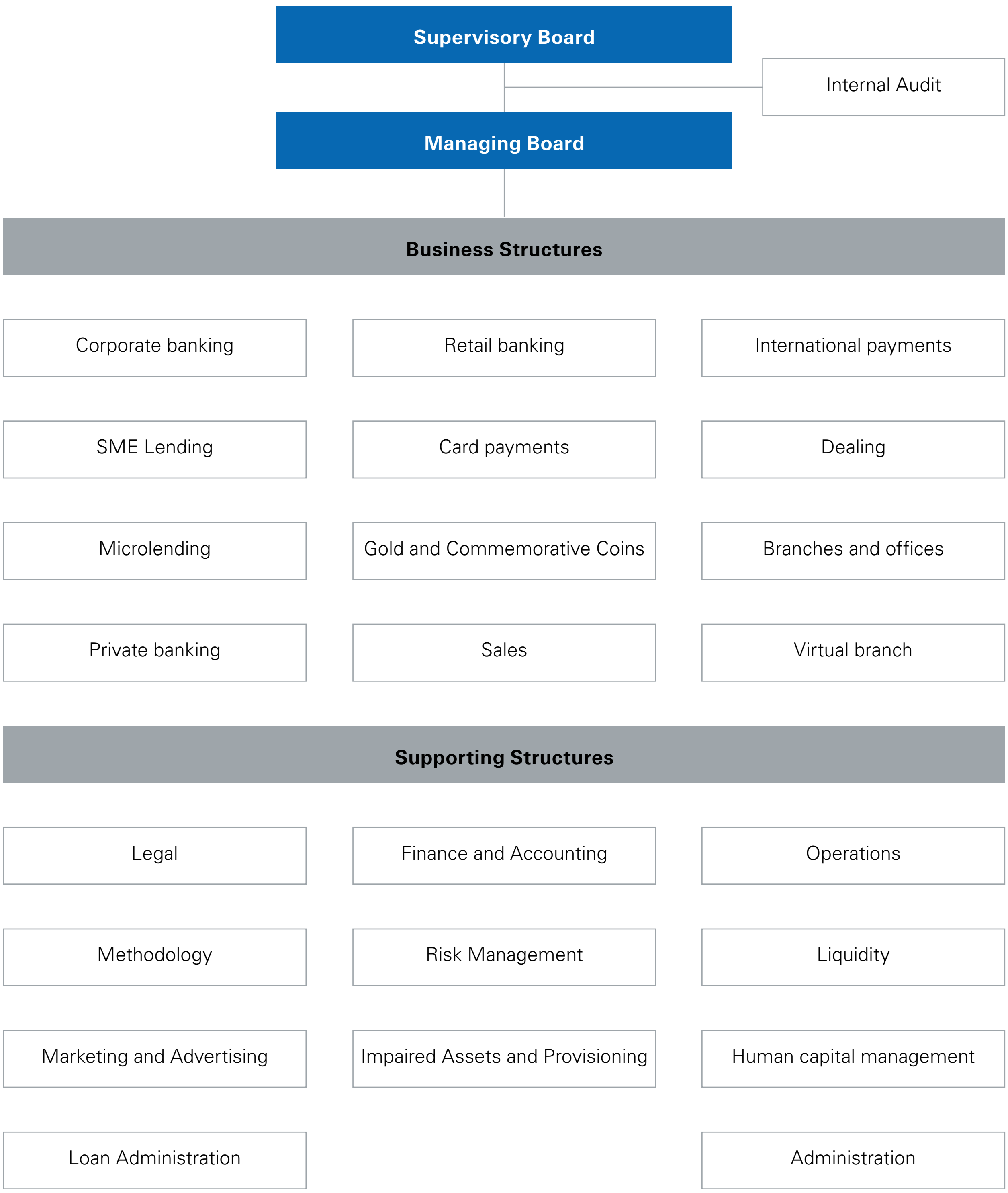
Being a public company and issuer of financial instruments, First Investment Bank complies with the principles of transparency, equality, accountability, and objectivity which constitute key elements of its Programme for the Implementation of Internationally Recognised Good Corporate Governance Standards. They are also at the heart of its business practice and facilitate the establishment and functioning of effective controls and risk management, timely compliance with legislative changes and the disclosure of information to the market. An essential part of it are the written rules and procedures for preventing conflicts of interests and the use of internal information, for preserving banking and commercial confidentiality, preventing money laundering, the financing of terrorism and financial malpractice.

The Bank prepares annual and semi-annual financial statements, audited by an independent auditor, which are available free of charge in the Bank's branches and offices, as well as on FIBank's website: www.fibank.bg. Being a public company, the Bank also prepares interim quarterly activity reports, which are disclosed to the investment society through the Bulgarian Stock Exchange information system and available on the FIBank's website. In compliance with effective legislation requirements the Bank discloses additional 'ad hoc' information regarding important events in connection to its business activity.

In 2008 FIBank met the requirements set in its Programme for the Implementation of Internationally Recognised Good Corporate Governance Standards, including the requirements for regularly disclosure of information and such information in connection to its financial calendar for 2008.

In compliance with the requirements of the independent Financial Audit Act for the creation of an Audit Committee, necessary actions were undertaken for making a motion and forwarding an application for approval at the General Meeting of Shareholders.

Business Structure



Supervisory Board

Georgi Dimitrov Mutafchiev	Chairman of the Supervisory Board
Radka Vesselinova Mineva	Member of the Supervisory Board
Todor Ludmilov Breshkov	Member of the Supervisory Board
Nedelcho Vassilev Nedelchev	Member of the Supervisory Board
Kaloyan Yonchev Ninov	Member of the Supervisory Board

There were no changes in the Supervisory Board in 2008.

As at 31 December 2008 the members of the Supervisory Board held a total of 98 374 FIBank shares and none of them owned more than 1% of the registered capital.

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

Managing Board

Matthew Alexandrov Mateev	Executive Director, Chairman of the Managing Board
Maya Lubenova Georgieva	Executive Director
Jordan Velichkov Skortchev	Executive Director
Evgeni Krastev Lukanov	Executive Director
Maya Ivanova Oyfalosh	Director "Corporate Banking"
Radoslav Todorov Milenkov	Chief Financial Officer
Ivan Stefanov Ivanov	Regional Director "Northeast Bulgaria"

There were no changes in the Managing Board in 2008.

As at 31 December 2008 the members of the Managing Board held a total of 235 642 FIBank shares and none of them owned more than 1% of the registered capital.

In 2008 the key management personnel of the Group received remuneration amounting to BGN 3,000 thousand.

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

Investor Relations Director

Vassilka Momchilova Stamatova	Investor Relations Director

The business address of the Investor Relations Director is
37, Dragan Tsankov Blvd., 1797 Sofia,
tel. +359 2/ 81 71 430,
e-mail: vstamatova@fibank.bg

Business Overview

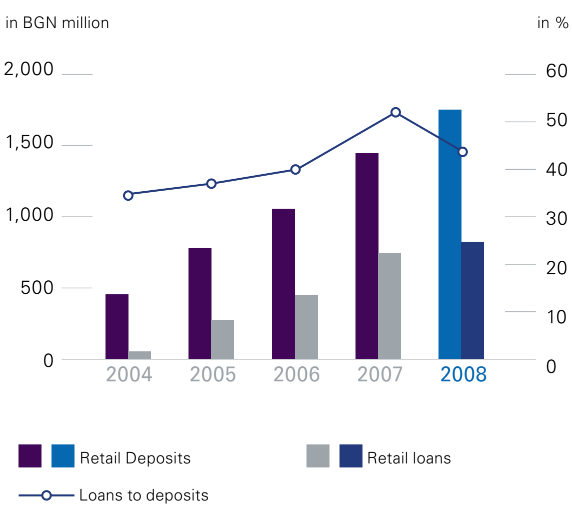
Retail Banking

Deposits

The deposits of the Group from individuals as of 31 December 2008 amounted to BGN 1,753,561 thousand, an increase of BGN 298,816 thousand or 20.5%, compared to the end of December 2007. The increase was due to the new promotional deposit products offered by the Bank, as well as to the pro-active policy for branch network expansion.

In 2008 the new bank information system gave FIBank the opportunity to react faster and in a more flexible manner to the needs of a large number of depositors. New three-month, six-month and one-year deposits with increasing interest were offered, including new specialized products in consistent with the requirements of specific segments of clients.

Retail Loans and Deposits



New term deposits "Pension" and "Salary" were launched especially for pensioners and workers where the accrued interest is transferred to a client's card account. A new "Free deposit" was launched as well – a one-year term deposit with a monthly increasing interest starting from 6% up to 11% at the end of the period.

The structure of deposits from individuals continued to be dominated by term deposits, which amounted to BGN 1,355,671 thousand (77.3% of the deposits from individuals), compared to BGN 989,124 thousand (68.0%) at the end of 2007. The current and saving accounts of individuals and households as at the end of 2008 amounted to BGN 397,890 thousand (2007: BGN 465,621 thousand).

As at 31 December 2008 FIBank ranked sixth (on an unconsolidated basis), in terms of deposits from individuals thus remaining among the leading banks in the country with a market share of 7.9%.

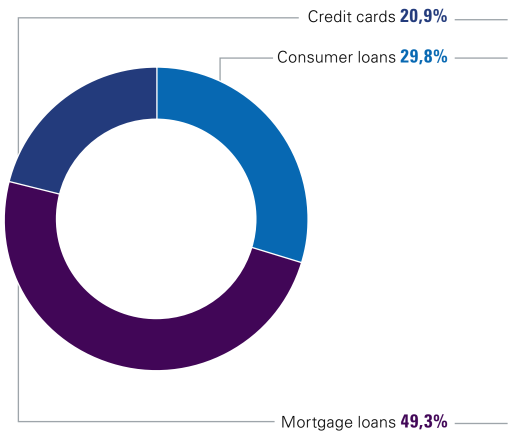
Loans

The loans of the Group to individuals as at 31 December 2008 amounted to BGN 770,962 thousand, increasing by BGN 14,195 thousand or 1.9% year-on-year, compared to the end of 2007. The registered increase of the loan portfolio to individuals was due to the more conservative lending policy undertaken by the Bank, as well as to the heightened risk requirements set in managing the loan portfolio, in line with the volatile situation on the financial markets and their expected reflection on the economy in the country.

As at 31 December 2008 FIBank ranked sixth (on an unconsolidated basis), in terms of loans to individuals and households.

Mortgage loans continued to form a prevailing share of 49.3% of the Group's loan portfolio to individuals. At the end of 2008 they were down by 2.6% to BGN 380,141 thousand (2007: BGN 390,256 thousand). The Bank offers its customers mortgage loans for the purchase of real estate, as well as for current expenses. The mortgage loan portfolio dynamics in 2008 reflected the situation in the construction sector in the country and the decrease of foreign direct investments in the real estate sector, resulting from the overall worsened economic situation, globally. As at 31 December 2008 FIBank ranked seventh (on unconsolidated basis) in the banking system, in terms of mortgage loans with a market share of 4.6% (2007: 6.6%).

Retail loans



Consumer loans constituted 29.8% of the retail loan portfolio as at the end of 2008 and amounted to BGN 229,858 thousand (2007: BGN 277,765 thousand), registering a decrease of 17.2%. The Bank maintained its seventh position (on unconsolidated basis) in the bank system in terms of this indicator with a market share of 4.2%.

The utilized credit limits on credit cards and overdrafts as of the end of December 2008 registered a high growth of 81.4% (BGN 72,217 thousand), reaching BGN 160,963 thousand (2007: BGN 88,746 thousand). The increase was due to the variety of credit cards offered by FIBank including the development of new co-branded products responding to the needs of a large number of clients.

Since the middle of 2008, a new Loan Administration Department has been functioning separately performing a centralized service of all retail loans. The new approach in administering loans is expected to contribute to strengthening the control over loan procedures and to the faster processing of loan deals.

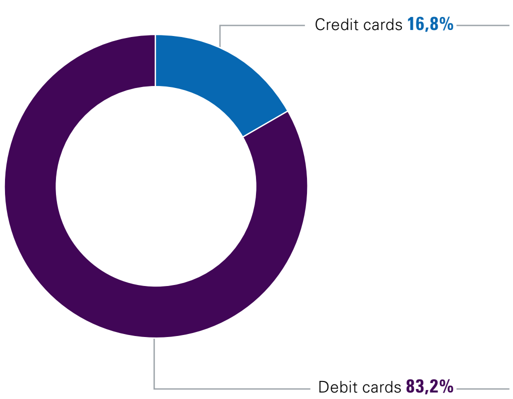
FIBank continues to offer a high quality service to its clients through optimized and improved lending programs using different distribution channels – the branch network, Internet banking, the private (personal) banking.

Card Payments

In 2008 FIBank retained its leading position in card payment business in the country. Proof of this was the prestige award OSCARDS from Publi-News won for the co-branded credit card VISA vivatel-FIBank.

During the last year the Bank offered a new card product – MasterCard credit card UEFA Euro 2008, as well as other products with attractive terms and promotions. A new black Diners club credit card – FIBank-Diners Club Privé – was launched as well, intended for famous and wealthy people.

Bank Cards 2008



As a result of the optimized criteria for risk management the number of issued credit cards VISA and MasterCard in 2008 increased by 3.1% (2007: 216.6%), forming 14.7% of all bank cards issued by the Group (2007: 16.0%). The credit cards issued by Diners Club Bulgaria constituted 2.1% of all cards at the end of the period.

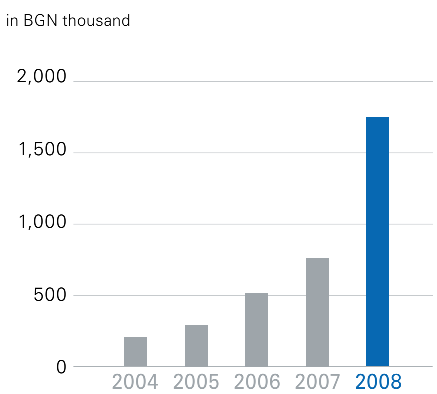
The number of issued debit cards Maestro and VISA Electron increased by 16.2%, compared to the end of 2007, forming 83.2% of all bank cards issued by the Group. A contribution to this was the implementation of a modern fraud protection chip and PIN technology, attractive interests on current accounts with a debit card issued in relation to them, free of charge withdrawal from FIBank's well developed ATM terminals network, as well as a variety of additional services such as automatic pay-off of obligations, utilities payments etc.

During 2008 the number of POS terminals increased by about 1,800, exceeding the number of 7,600. The ATM terminals network of the Group increased by 80 devices, reaching the total number of 656, including those abroad. The main contributors to the ATM and POS terminals network expansion were the new attractive terms and flexible schemes for POS commission pricing, the increasing number of issued cards, as well as people's increasing need of card products usage.

After implementing the chip technology (under the EMV compliance standard) for bank cards issuance, in 2008 FIBank successfully completed the migration of all credit and debit cards, ATMs and POS terminals to the new standard. After transferring all card operations to the card operator CaSys International in Macedonia in 2008, FIBank successfully integrated its card system TransMaster to the new bank information system FlexCube implemented in May 2008.

Gold and Commemorative Coins

Income from the sale of gold and precious metals



Since 2001 First Investment Bank has been offering intermediary services to its clients for trade with investments in gold and other precious metals. Gradually, the Bank has laid the foundations for joint cooperation with leading financial institutions around the globe, such as the world famous Swiss mint PAMP (Produits Artistiques de Métaux Précieux), the New Zealand Mint, the Mexican National Bank and others, which has made FIBank one of the leading banks in this market segment in Bulgaria.

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

In 2008 the total income from the sale of gold and precious metals articles reached BGN 1,732 thousand, increasing by 123% compared to BGN 777 thousand at the end of 2007. The growth was due to the extended branch network within the country, offering bars, investment coins, medallion-shaped bars, different subject products, as well as collections of gold and other precious metals. The growth was also a result of the worsened financial situation on the international markets, which made customers and investors look for investments in gold and other precious metals as an internationally recognised monetary and financial asset that retains its value in the long term, ensures high liquidity and diversifies their investment portfolios.

In the past year FIBank offered its customers a new limited collection of the Swiss mint PAMP – golden and silver medallion-shaped bars "Skins", the world premiere of which took place in Bulgaria. Four new limited collections of gold and silver coins produced by the New Zealand Mint were presented as well.

In 2008 FIBank started its official cooperation with the Mexican National Bank and the Austrian Mint, in connection with the offering of golden and silver investment coins. In this respect the Bank is already offering its customers the gold and silver coin "Libertad" of one ounce.

FIBank intends to strengthen its leading positions and continue developing its activities in this market segment, recognizing the possibilities for the additional expansion of its business in the future, in reply to the increasing demand for articles of precious metals with an investment or a numismatic value.

Private Banking

In 2008 First Investment Bank further developed its private banking by transforming the existing from several years EGO Club into a newly structured unit – the Private Banking Department.

This change was due to FIBank's desire to additionally enhance its activities in this still undeveloped market segment in the country, considering its future growth potential.

The new department offers personal banking services to wealthy customers – individuals and legal entities matching a number of criteria, such as: a definite amount of collections and turnovers on accounts with the Bank at monthly basis, a minimum number of products and services of the Bank used, etc.

The private banking is done by a private contact person who is responsible for the entire servicing of a client. A joint working team is formed, in case of performing more complex banking services.

Corporate Banking

Deposits

As at 31 December 2008 the deposits of the Group from corporate, state-owned and public institutions increased by 8.0% to reach BGN 1,101,766 thousand (2007: BGN 1,020,394 thousand).

The amounts on term deposits increased by 71.7% to BGN 678,936 thousand, forming the predominate share of the corporate deposit base – 61.6% (2007: 38.7%). The increase was due to the newly developed, more flexible deposit products under competitive conditions.

The amounts on current accounts decreased by 32.3% to BGN 422,830 thousand, forming 38.4% of the total attracted funds from corporate clients (2007: 61.3%).

Loans

Corporate Lending

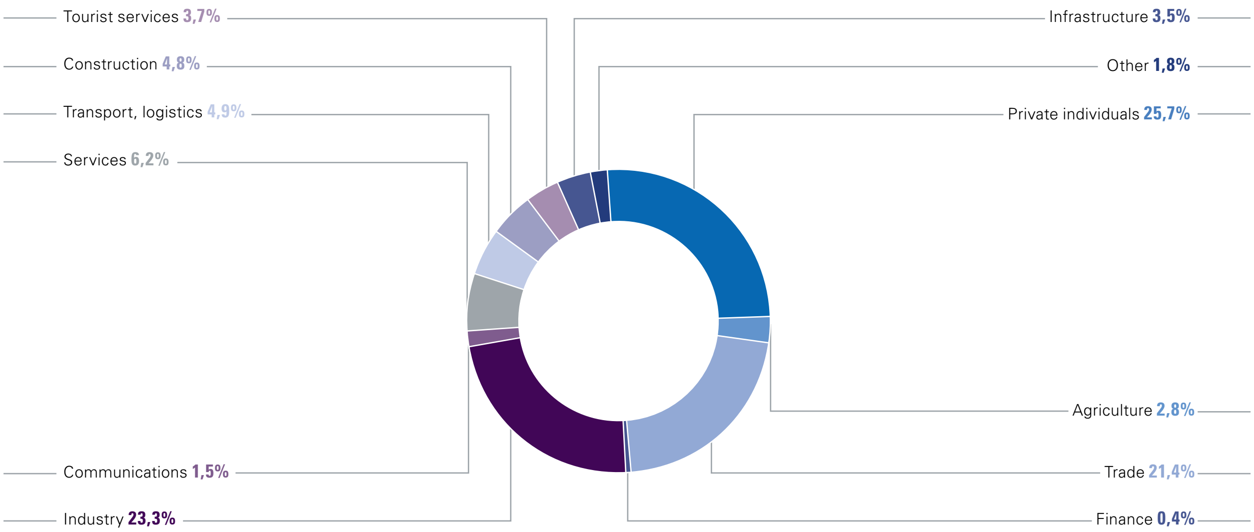
In 2008 First Investment Bank continued to optimize its lending in accordance with the new market conditions. During the past year the Bank increased the risk management criteria as a result of the worsened situation on the international markets and the global economic crisis. FIBank remained among the leading participants on the market in this segment, with a market share of 7.1% (on unconsolidated basis) as at 31 December 2008.

The structure of the corporate loan portfolio remained unchanged with loans to large corporate clients still dominating the total portfolio – 86.4% (2007: 85.0%), followed by loans to SMEs – 11.8% (2007: 12.9%) and loans for microlending – 1.8% (2007: 2.1%).

The total loans to corporate clients increased by 8.4% (BGN 175,106 thousand) as of the end of the year and reached BGN 2,266,771 thousand. This was due to the 10.2% growth in loans to large corporate clients who have long-term relations with the Bank. The quality of the corporate loan portfolio continued to be balanced.

(in BGN thousand / % of total)	**2008**	**%**	**2007**	**%**	**2006**	**%**
Corporate clients	1,958,417	86.4	1,777,624	85.0	1,114,642	85.7
SME	267,158	11.8	270,565	12.9	162,997	12.5
Microlending	41,196	1.8	43,476	2.1	23,461	1.8
Total loans to corporate clients	**2,266,771**	**100.0**	**2,091,665**	**100.0**	**1,301,100**	**100.0**

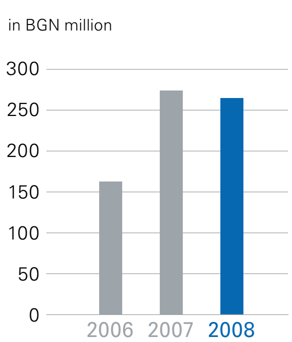
Loan Portfolio as of 31 December 2008



Loans to industry, which remained almost unchanged at BGN 708,836 thousand, compared to BGN 709,331 thousand a year earlier, continued to form the largest share (23.3%) of the loan portfolio, following the slow-down in growth in the industry sector at a macro level. The percentage of loans for trading increased from 18.7% in 2007 to 21.4% in 2008. As at the end of the reporting period these loans amount to BGN 649,185 thousand, registering an increase of 21.6% year-on-year. As a result of the pro-active government policy for development of the infrastructure within the country, loans in this sector as at the end of 2008 rose by 63.3% to reach BGN 106,212 thousand or 3.5% of total portfolio. Loans to the construction sector increased with 31.5% to BGN 145,293 thousand, forming a 4.8% share of the total loan portfolio.

SME Lending

Loan Portfolio – SME's



In 2008 First Investment Bank continued to develop its lending to small and medium enterprises, offering diverse credit products and facilities, as well as specialized Programmes for farmers – recipients of subsidies from EU structural funds. FIBank offered a loan allowing farmers to utilize in advance up to 100% of the subsidy they are entitled to, and for those of them who are applying for financial aid on the Rural Regions Development Programme – FIBank began issuing bank guarantees amounting to up to 20% advance payment of the financial subsidy approved by the Ministry of Agriculture and Food.

As well as providing proper financing for small and medium-sized business, FIBank also supported its corporate clients with updated information by organizing several seminars regarding the grant schemes of the Operating Programme "The Improvement of the Competitiveness of the Bulgarian Economy 2007-2013" and of the "Rural Regions Development Programme".

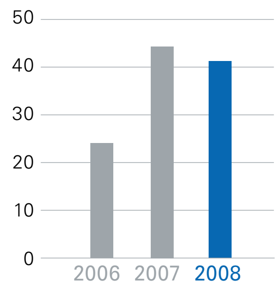
In 2008 FIBank negotiated a 5-year credit line with the German investment bank KfW for financing small and medium-sized business on the amount of EUR 10 million. The maximum amount of the loans on this credit line is EUR 250 thousand and their minimum term is five years.

As at 31 December 2008 the SME loan portfolio registered a decrease of 1.3%, amounting to BGN 267,158 thousand, compared to BGN 270,565 thousand in 2007.

Microlending

Loan Portfolio – Microlending

in BGN million



For more than four years First Investment Bank has supported the needs of small business by financing a wide spectrum of traders, producers, farmers and freelancers, including start-up companies and companies with less market experience.

The professional consultations from FIBank's specialists and the offering of a wide range of banking services – loans, overdrafts, business credit cards and specialized products – assist borrowers and contribute to their business growth.

As at 31 December 2008 the microlending portfolio amounted to BGN 41,196 thousand, compared to BGN 43,476 thousand a year earlier.

International Payments

First Investment Bank continues to be a preferred, reliable and correct partner in international payments and trade finance. Throughout the years FIBank has built a reputable name among financial institutions worldwide and gained valuable experience and know-how from its numerous international business partners, investors, customers and counter-parties.

First Investment Bank effects international payments in more than 60 foreign currencies, issues travelers` and bank checks and carries out documentary operations including the issue of letters of credit, international bank guarantees and the collection of financial and/or trade documents.

FIBank effects its international payments and trade finance operations all over the world through a wide network of more than 600 correspondent banks built throughout the years.

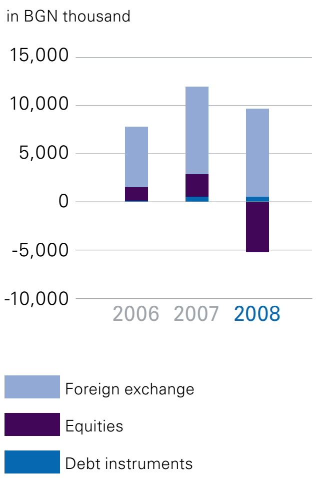
In 2008, the bank guarantees and letters of credit provided by FIBank for ensuring the performance of customers to third parties, amounted to BGN 530,547 thousand representing 55.6% of the contingent liabilities as at the end of the year.

As at the end of 2008, First Investment Bank had a market share of 8.3% of the outgoing (2007: 11.37%, 2006: 12.98%) and 8.64% of the incoming (2007: 11.58%, 2006: 13.05%) trade finance operations in Bulgaria and 6.11% of the outgoing (2007: 6.71%, 2006: 6.06%) and 6.57% of the incoming (2007: 6.93%, 2006: 5.92%) foreign currency international payments. The decrease in market shares at the end of the reported period was due to the fact that the international payments and related operations were directly affected by the turmoil in the international financial markets.

In 2008, FIBank became an indirect participant in the Single Euro Payment Area (SEPA) for performing SEPA credit transfers.

Capital Markets

Net trading income



In 2008, bearing in mind the volatile situation in the international financial markets, First Investment Bank continued to manage its portfolio of financial instruments with increased attention in regards to the risks taken and the need for liquidity.

FIBank reported a decrease of 64.0% (BGN 7,569 thousand) in the net trading income at the end of the year. The decrease was a result of the reduced securities portfolio due to asset restructuring with the aim at improving profitability and in reflection of changes on the international capital markets and the local stock exchange.

The net decrease of trading income from equities in the portfolio of the Group was compensated by the trading income from foreign exchange transactions and from debt instruments, as a result of which the net trading income at the end of the reported period amounted to BGN 4,258 thousand (2007: BGN 11,827 thousand).

As at 31 December 2008 the portfolio of financial instruments of the Group amounted to BGN 358,699 thousand out of which, BGN 286,623 thousand were available for sale investments, BGN 62,395 thousand were investments held to maturity and BGN 9,681 thousand were financial assets held for trading.

In its capacity as an investment intermediary and a primary dealer of government securities, First Investment Bank carries out transactions with financial instruments in the country and abroad including transactions with government securities, shares, corporate and municipal bonds, compensatory instruments as well as money market instruments.

FIBank offers units in three mutual funds: FIB Garant Mutual Fund, FIB Classic Mutual Fund and FIB Avangard Mutual Fund, managed by the management company FFBH Asset Management AD.

FIBank offers also depositary and custodian services to private individuals and corporates, including maintaining of registers of investment intermediaries, of accounts of securities, income payment and servicing payments under transactions in financial instruments.

FIBank's activities are in compliance with the new MiFID regulation in accordance with the Markets in Financial Instruments Act, which ensure higher level of protection for the non-professional customers.

Consolidated Financial Statements as at 31 December 2008 with Independent Auditor's Report Thereon

KPMG

Report of the independent auditor to the shareholders of First Investment Bank AD

Sofia, 3 April 2009

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of First Investment Bank AD ("the Bank"), which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards adopted by 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 consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

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

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

Opinion

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

Krassimir Hadjidinev
Registered auditor,
Authorised representative

KPMG Bulgaria OOD
37 Fridtjof Nansen Str.
1142 Sofia
Bulgaria

Margarita Goleva
Registered auditor

Consolidated income statement for the year ended 31 December 2008

In thousands of BGN	Note	2008	2007
Interest income		335,937	270,045
Interest expense		(188,428)	(137,436)
Net interest income	**6**	**147,509**	**132,609**
Fee and commission income		72,816	60,799
Fee and commission expense		(9,433)	(9,837)
Net fee and commission income	**7**	**63,383**	**50,962**
Net trading income	**8**	**4,258**	**11,827**
Other operating expenses	**9**	**(1,519)**	**(201)**
TOTAL INCOME FROM BANKING OPERATIONS		**213,631**	**195,197**
General administrative expenses	10	(156,169)	(107,325)
Impairment (losses)/loss reversals	11	1,109,	(26,958)
Other expenses, net		(4,231)	(4,261)
PROFIT BEFORE TAX		**54,340**	**56,653**
Income tax expense	**12**	**(5,170)**	**(5,640)**
GROUP PROFIT AFTER TAX		**49,170**	**51,013**
Minority interests		67	100
NET PROFIT		**49,237**	**51,113**
Basic and diluted earnings per share (in BGN)	**13**	**0.45**	**0.48**

The income statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 59 to 95.

Krassimir Hadjidinev
Registered auditor,
Authorised representative
KPMG Bulgaria OOD

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

Margarita Goleva
Registered auditor

0202 Маргарита Голева
Регистриран одитор

Consolidated balance sheet as at 31 December 2008

In thousands of BGN	Note	2008	2007
ASSETS			
Cash and balances with central banks	14	**751,864**	611,262
Financial assets held for trading	15	**9,681**	13,529
Available for sale investments	16	**286,623**	374,203
Financial assets held to maturity	17	**62,395**	106,084
Loans and advances to banks and financial institutions	18	**10,244**	189,575
Loans and advances to customers	19	**2,969,984**	2,778,123
Property and equipment	20	**153,359**	115,010
Intangible assets	21	**5,631**	848
Other assets	23	**20,970**	12,743
TOTAL ASSETS		**4,270,751**	**4,201,377**
LIABILITIES AND CAPITAL			
Due to credit institutions	24	**53,034**	3,195
Due to other customers	25	**2,855,327**	2,475,139
Liabilities evidenced by paper	26	**832,620**	1,238,113
Subordinated term debt	27	**53,852**	51,005
Perpetual debt	28	**98,658**	98,386
Deferred tax liability	22	**1,729**	1,417
Other liabilities	29	**6,797**	8,143
TOTAL LIABILITIES		**3,902,017**	**3,875,398**
Issued share capital	30	**110,000**	110,000
Share premium	30	**97,000**	97,000
Statutory reserve	30	**39,861**	39,861
Revaluation reserve on available for sale investments	30	**(6,467)**	(350)
Reserve from translation of foreign operations	30	**(813)**	(515)
Retained earnings	30	**129,095**	79,858
SHAREHOLDERS' EQUITY		**368,676**	**325,854**
Minority interests	30	**58**	125
TOTAL GROUP EQUITY		**368,734**	**325,979**
TOTAL LIABILITIES AND GROUP EQUITY		**4,270,751**	**4,201,377**

The balance sheet is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 59 to 95.

Krassimir Hadjidinev
Registered auditor,
Authorised representative
KPMG Bulgaria OOD

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

Margarita Goleva
Registered auditor

0202 Маргарита Голева
Регистриран одитор

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

In thousands of BGN	2008	2007
Net cash flow from operating activities		
Net profit	49,237	51,113
Adjustment for non-cash items		
Impairment losses/(loss reversals)	(1,109)	26,958
Depreciation and amortisation	17,477	11,668
Income tax expense	5,170	5,640
Loss on derecognition of fixed assets	541	–
	71,316	**95,379**
Change in operating assets		
(Increase)/decrease in financial instruments held for trading	3,848	(290)
Decrease in available for sale investments	81,463	133,711
(Increase)/decrease in loans and advances to banks	(22)	19,087
(Increase) in loans to customers	(190,752)	(1,095,308)
(Increase)/decrease in other assets	(8,227)	2,121
	(113,690)	**(940,679)**
Change in operating liabilities		
Increase/(decrease) in deposits from banks	49,839	(7,241)
Increase in amounts owed to other depositors	380,188	782,942
Net increase in other liabilities	854	1,455
	430,881	**777,156**
Income tax paid	(7,423)	(5,232)
NET CASH FLOW FROM OPERATING ACTIVITIES	**381,084**	**(73,376)**
Cash flow from investing activities		
(Purchase) of tangible and intangible fixed assets	(61,150)	(45,933)
(Acquisition)/decrease of investments	43,689	(35,863)
NET CASH FLOW FROM INVESTING ACTIVITIES	**(17,461)**	**(81,796)**
Financing activities		
Increase of shareholders's equity, fully paid-up	–	10,000
Increase of share premium	–	97,000
Capital increase of subsidiary	–	180
Increase/(decrease) in borrowings	(402,374)	117,846
NET CASH FLOW FROM FINANCING ACTIVITIES	**(402,374)**	**225,026**
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**(38,751)**	**69,854**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	**800,665**	**730,811**
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD (see note 32)	**761,914**	**800,665**

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 59 to 95.

Krassimir Hadjidinev
Registered auditor,
Authorised representative
KPMG Bulgaria OOD

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

Margarita Goleva
Registered auditor

0202 Маргарита Голева
Регистриран одитор

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

In thousands of BGN	Share capital	Share premium	Retained earnings	Revaluation reserve on available for sale investments	Reserve from translation of foreign operations	Statutory reserve	Minority interests	Total
Balance as at 1 January 2007	**100,000**	**–**	**28,960**	**(258)**	**–**	**39,861**	**(170)**	**168,393**
Increase of shareholders' equity, fully paid-up	10,000	97,000	–	–	–	–	–	**107,000**
Revaluation reserve on available for sale investments	–	–	–	(92)	–	–	–	**(92)**
Capital increase of subsidiary	–	–	–	–	–	–	180	**180**
Movement related to the changes in minority interest's shareholding	–	–	(215)	–	–	–	215	**–**
Reserve from translation of foreign operations	–	–	–	–	(515)	–	–	**(515)**
Net profit for the year ended 31 December 2007	–	–	51,113	–	–	–	(100)	**51,013**
Balance as at 31 December 2007	**110,000**	**97,000**	**79,858**	**(350)**	**(515)**	**39,861**	**125**	**325,979**
Revaluation reserve on available for sale investments	–	–	–	(6,117)	–	–	–	**(6,117)**
Reserve from translation of foreign operations	–	–	–	–	(298)	–	–	**(298)**
Net profit for the year ended 31 December 2008	–	–	49,237	–	–	–	(67)	**49,170**
Balance as at 31 December 2008	**110,000**	**97,000**	**129,095**	**(6,467)**	**(813)**	**39,861**	**58**	**368,734**

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 59 to 95.

The financial statements have been approved by the Managing Board on 3 April 2009 and signed on its behalf by:

Matthew Mateev
Chairman of the Managing Board, Executive Director

Evgeni Lukanov
Executive Director

Radoslav Milenkov
Chief Financial Officer

Krassimir Hadjidinev
Registered auditor,
Authorised representative
KPMG Bulgaria OOD

Margarita Goleva
Registered auditor

1. Basis of preparation

(a) Statute

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

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

As a result of a successful initial public offering (IPO) of new shares on the Bulgarian Stock Exchange – Sofia the Bank is registered as a public company at the Register of the Financial Supervision Commission in accordance with the provisions of the Bulgarian Public Offering of Securities Act on 13 June 2007.

The consolidated financial statements of the Bank as at and for the year ended 31 December 2008 comprise the Bank and its subsidiaries (see note 35), together referred to as the "Group".

The Group has foreign operations in Cyprus and Albania.

(b) Statement of compliance

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the European Commission.

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

(c) Basis of preparation

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

The Group 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.

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 Group and is recognised when the corresponding service is provided.

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

(b) Basis of consolidation of subsidiaries

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

(c) Foreign currency transactions

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Bulgarian leva, which is the Group's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the exchange rates at the 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 assets and liabilities of foreign operations are translated to Bulgarian leva at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Bulgarian leva at exchange rates at the dates of the transactions. Foreign currency differences are recognised directly in equity. The functional currency of the foreign operations in Cyprus is determined by the management to be the Euro. The functional currency of the foreign operations in Albania is determined by the management to be the Albanian lek.

(d) Financial assets

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

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

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

(ii) Loans and receivables

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

(iii) Held-to-maturity

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

(iv) Available-for-sale

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

(v) Recognition

Purchases and sales of financial assets at fair value through profit or loss, held to maturity and available for sale are recognised on the date of the actual delivery of the assets. Loans are recognised when cash is advanced to the borrowers. Financial assets are initially recognised at fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or when the Group has transferred substantially all risks and rewards of ownership.

(vi) Measurement

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

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

(vii) Fair value measurement

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

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

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

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

The next table analyses the financial instruments measured at fair value by valuation models, excluding investments in equity instruments measured at cost.

In thousands of BGN	Observable market prices in active markets	Valuation techniques - using market data	Total
31 December 2008			
Financial assets held for trading	9,681	–	**9,681**
Available for sale investments	229,845	54,740	**284,585**
Total	**239,526**	**54,740**	**294,266**
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 central banks and short-term highly liquid investments with maturity of three months or less.

(f) Investments

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

(g) Securities borrowing and lending business and repurchase transactions

(i) Securities borrowing and lending

Investments lent under securities lending arrangements continue to be recognised in the 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 Group enters into purchases (sales) of investments under agreements to resell (repurchase) substantially identical investments at a certain date in the future at a fixed price. Investments purchased subject to commitments to resell them at future dates are not recognised. The amounts paid are recognised in loans to either banks or customers. The receivables are shown as collateralised by the underlying security. Investments sold under repurchase agreements continue to be recognised in the 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 recognised in the income statement over the period of the borrowings using the effective yield method.

If the Group 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 Group has a legally enforceable right to set off the recognised amounts and the transactions are intended to be settled on a net basis.

(j) Impairment

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

(i) Loans and advances

The amount of the loss is determined as the difference between the assets's carrying amount and the present value of estimated future cash flows discounted at the instrument's original effective interest rate. If a loan has a variable interest rate, the discount rate is the current effective interest rate determined under the contract. Short-term balances are not discounted. Calculation of the present value of estimated future cash flows includes interest and principal repayments as well as the cash flows that could arise from high-liquid collateral.

Loans and advances are presented net of specific and general allowances for impairment. The carrying amount of the assets is reduced through use of an allowance account. Specific allowances are made against the carrying amount of loans and advances for which objective evidence of impairment exists as a result of past events that occurred after the initial recognition of the asset. Objective evidence of impairment include significant financial difficulty of the obligor; a breach of contract, such as a default or delinquency in interest or principal payments; the borrower will probably enter bankruptcy; observable data indicating that there is a measurable decrease in the estimated cash flows from a group of financial assets. General allowances are maintained to reduce the carrying amount of portfolios of loans and advances with similar credit risk characteristics that are collectively assessed for impairment. The expected cash flows for portfolios of similar assets are estimated on the basis of historical loss experience for assets with characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of 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.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the write down, the allowance is reversed through the income statement.

(ii) Available for sale financial assets

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

When an asset remeasured to fair value directly through equity is impaired, and the decline in the fair value 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 though the financial asset has not been derecognised.

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

(k) Property, plant and equipment

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

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

Assets	**%**
Buildings	3 – 4
Equipment	10 – 33
Fixtures and fittings	10 – 20
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, which are acquired by the Group, are stated at cost less accumulated amortisation and any impairment losses.

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

Assets	**%**
Licences	10 – 20
Computer software	10 – 33

(m) Provisions

A provision is recognised in the balance sheet when the Group 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 Group agrees to pay, at a stipulated future date, a draft drawn on it for a specified amount. The Group's acceptances primarily arise from documentary credits stipulating payment for the goods to be made a certain number of days after receipt of required documents. The Group negotiates most acceptances to be settled at a later date following the reimbursement from the customers. Acceptances are accounted for as liabilities evidenced by paper.

(o) Taxation

Tax on the profit for the year comprises current tax and the change in deferred tax. Current tax comprises tax payable calculated on the basis of the expected taxable income for the year, using the tax rates enacted by the balance sheet date, and any adjustment of tax payable for previous years.

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

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

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

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

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(i) Impairment losses on loans and advances

The Group reviews its loan portfolios to assess impairment on a monthly basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(ii) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant estimates are required in determining the overall provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(q) Earnings per share

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

(r) New standards and interpretations not yet effective

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 Group as the Group does not have any share-based compensation plans.
- IFRS 8 Operating Segments (effective 1 January 2009). The Standard introduces the "management approach" to segment reporting and requires segment disclosure based on the components of the entity that management monitors in making decisions about operating matters. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the Group's Chief Operating Decision Maker in deciding how to allocate resources and in assessing performance. The Standard will have no effect on the profit or loss or equity and the management expects the new Standard not to alter significantly the presentation and disclosure of its 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 and 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 Group 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 Group's 2009 financial statements and will constitute a change in accounting policy for the Group. In accordance with the transitional provisions the Group will apply the revised IAS 23 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date.
- IFRIC 13 Customer Loyalty Programs addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programs for their customers. It relates to customer loyalty programs 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 Group's 2009 financial statements, is not expected to have significant impact on the financial statements.

Management believes that it is appropriate to disclose 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.

3. Risk management disclosures

A. Trading activities

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

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

The Group operates in the condition of a dynamically developing global financial and economic crisis. Its further extension might result in negative implications on the financial position of the Group. The management of the Group performs daily monitoring over all positions of assets and liabilities, income and expenses, as well as the development of the international financial markets, applying the best banking practices. The management based on this analyses profitability, liquidity and the cost of funds and implements adequate measures in respect to credit, market (primarily interest rate) and liquidity risk, thus limiting the possible negative effects from the global financial and economic crisis. In this way the Group responds to the challenges of the market environment, maintaining a stable capital and liquidity position.

(i) Credit risk

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

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

(ii) Market risk

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

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

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). In a developing capital market, the prices with which transactions are realised can be different from quoted prices. While management has used available market information in estimating fair value, it may not be fully reflective of the value that could be realised under the current circumstances.

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

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

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

B. Non-trading activities

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

(i) Liquidity risk

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

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

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

Maturity table as at 31 December 2008

In thousands of BGN	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	Over 1 year	Maturity not defined	Total
Assets						
Cash and balances with central banks	751,864	–	–	–	–	**751,864**
Financial assets held for trading	9,681	–	–	–	–	**9,681**
Available for sale investments	58,599	78,053	58,288	89,645	2,038	**286,623**
Financial assets held to maturity	8,858	10,645	2,800	40,092	–	**62,395**
Loans and advances to banks and financial institutions	10,244	–	–	–	–	**10,244**
Loans and advances to customers	264,034	231,804	533,501	1,940,614	31	**2,969,984**
Property and equipment	–	–	–	–	153,359	**153,359**
Intangible assets	–	–	–	–	5,631	**5,631**
Other assets	20,970	–	–	–	–	**20,970**
Total assets	**1,124,250**	**320,502**	**594,589**	**2,070,351**	**161,059**	**4,270,751**
Liabilities						
Due to credit institutions	53,034	–	–	–	–	**53,034**
Due to other customers	1,130,154	569,565	1,077,328	78,280	–	**2,855,327**
Liabilities evidenced by paper	60,594	62,929	627,241	81,856	–	**832,620**
Subordinated term debt	–	–	–	53,852	–	**53,852**
Perpetual debt	–	–	–	–	98,658	**98,658**
Deferred tax liability	–	–	–	–	1,729	**1,729**
Other liabilities	6,797	–	–	–	–	**6,797**
Total liabilities	**1,250,579**	**632,494**	**1,704,569**	**213,988**	**100,387**	**3,902,017**
Net liquidity gap	**(126,329)**	**(311,992)**	**(1,109,980)**	**1,856,363**	**60,672**	**368,734**

Maturity table as at 31 December 2007

In thousands of BGN	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	Over 1 year	Maturity not defined	Total
Assets						
Cash and balances with central banks	611,262	–	–	–	–	**611,262**
Financial assets held for trading	13,529	–	–	–	–	**13,529**
Available for sale investments	20,019	38,729	191,131	123,247	1,077	**374,203**
Financial assets held to maturity	–	15,562	10,660	79,862	–	**106,084**
Loans and advances to banks and financial institutions	185,483	3,920	–	–	172	**189,575**
Loans and advances to customers	177,971	211,217	541,472	1,847,463	–	**2,778,123**
Property and equipment	–	–	–	–	115,010	**115,010**
Intangible assets	–	–	–	–	848	**848**
Other assets	12,743	–	–	–	–	**12,743**
Total assets	**1,021,007**	**269,428**	**743,263**	**2,050,572**	**117,107**	**4,201,377**
Liabilities						
Due to credit institutions	3,195	–	–	–	–	**3,195**
Due to other customers	1,612,663	431,992	337,719	92,765	–	**2,475,139**
Liabilities evidenced by paper	418,135	39	722,046	97,893	–	**1,238,113**
Subordinated term debt	–	–	–	51,005	–	**51,005**
Perpetual debt	–	–	–	–	98,386	**98,386**
Deferred tax liability	–	–	–	–	1,417	**1,417**
Other liabilities	7,871	–	–	272	–	**8,143**
Total liabilities	**2,041,864**	**432,031**	**1,059,765**	**241,935**	**99,803**	**3,875,398**
Net liquidity gap	**(1,020,857)**	**(162,603)**	**(316,502)**	**1,808,637**	**17,304**	**325,979**

As at 31 December 2008 the thirty largest non-bank depositors represent 23.38% of total deposits from other customers (2007: 16.61%).

The following table provides a remaining maturities analysis of the financial liabilities of the Group as at 31 December 2008 based on the contractual undiscounted cash flows.

In thousands of BGN	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	Over 1 year	Maturity not defined	Total
Due to credit institutions	53,081	–	–	–	–	**53,081**
Due to other customers	1,131,175	576,435	1,124,048	88,667	–	**2,920,325**
Liabilities evidenced by paper	60,772	63,681	655,247	99,409	–	**879,109**
Subordinated term debt	–	–	–	115,946	–	**115,946**
Perpetual debt	–	4,775	6,601	73,028	93,880	**178,284**
Total financial liabilities	**1,245,028**	**644,891**	**1,785,896**	**377,050**	**93,880**	**4,146,745**

(ii) Market risk

Interest rate risk

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

In order to quantify the interest rate risk of its non-trading activities, the Group measures the impact of a change in the market rates both on net interest income and on the Group's economic value defined as the difference between fair value of assets and fair value of liabilities. The interest rate risk on the economic value of the Group following a standardised shock of +100bp/-100bp as at 31 December 2008 is BGN +3.6/-3.6 Mio. As at 31 December 2008 the effect of interest rate risk on the economic value of the Group following a standardised shock of +50/-50 basis points on spot rates with maturities over 1 year is BGN -1.0/+1.0 Mio. The interest rate risk on the Group's net interest income one year forward following a standardised shock of +100bp/-100bp as at 31 December 2008 is BGN +0.5/-0.5 Mio.

The following table indicates the effective interest rates at 31 December 2008 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	**155,873**	1.99%	47,625	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	**62,394**	3.37%	18,197	8,858	10,644	2,800	21,895
Loans and advances to banks and financial institutions	**6,231**	2.84%	1,674	4,557	–	–	–
Loans and advances to customers	**2,932,968**	10.89%	2,503,319	21,745	11,540	161,697	234,667
Non-interest earning assets	**823,224**	–	–	–	–	–	–
Total assets	**4,270,751**	**–**	**2,616,612**	**202,007**	**100,237**	**222,785**	**305,886**
Liabilities							
Due to credit institutions	**53,034**	4.68%	1,379	51,655	–	–	–
Due to other customers	**2,844,371**	5.32%	1,905,735	82,127	154,150	215,716	486,643
Liabilities evidenced by paper	**832,619**	7.05%	439,142	60,594	62,929	264,060	5,894
Subordinated term debt	**53,852**	13.10%	–	–	–	–	53,852
Perpetual debt	**98,658**	12.51%	–	–	–	–	98,658
Non-interest bearing liabilities	**19,483**	–	–	–	–	–	–
Total liabilities	**3,902,017**	**–**	**2,346,256**	**194,376**	**217,079**	**479,776**	**645,047**

The following table indicates the effective interest rates at 31 December 2007 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	**66,503**	3.21%	33,387	33,116	–	–	–
Financial assets held for trading	**2,074**	4.38%	68	–	–	–	2,006
Available for sale investments	**370,154**	3.96%	87,666	19,549	38,729	191,131	33,079
Financial assets held to maturity	**104,904**	3.06%	35,994	–	8,679	1,377	58,854
Loans and advances to banks and financial institutions	**165,613**	4.48%	–	161,701	3,912	–	–
Loans and advances to customers	**2,757,035**	10.71%	2,512,597	41,795	19,981	51,752	130,910
Non-interest earning assets	**735,094**	–	–	–	–	–	–
Total assets	**4,201,377**	**–**	**2,669,712**	**256,161**	**71,301**	**244,260**	**224,849**
Liabilities							
Due to credit institutions	**3,071**	2.25%	1,406	1,665	–	–	–
Due to other customers	**2,388,689**	3.31%	2,328,192	34,984	4,972	17,525	3,016
Liabilities evidenced by paper	**1,221,044**	6.51%	449,596	391,206	–	350,651	29,591
Subordinated term debt	**47,507**	13.25%	–	–	–	–	47,507
Perpetual debt	**93,880**	12.56%	–	–	–	–	93,880
Non-interest bearing liabilities	**121,207**	–	–	–	–	–	–
Total liabilities	**3,875,398**	**–**	**2,779,194**	**427,855**	**4,972**	**368,176**	**173,994**

Currency risk

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

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

The Group's transactional exposures give rise to foreign currency gains and losses that are recognised as net trading income in the income statement. These exposures comprise the monetary assets and monetary liabilities of the Group that are not denominated in the presentation currency of the Group. These exposures were as follows:

In thousands of BGN	2008	2007
Monetary assets		
Euro	**2,179,633**	2,567,522
US dollar	**241,828**	345,274
Other	**49,266**	60,394
Gold	**7,848**	4,761
Monetary liabilities		
Euro	**2,151,577**	2,624,214
US dollar	**241,744**	345,841
Other	**52,386**	60,236
Gold	**–**	–
Net position		
Euro	**28,056**	(56,692)
US dollar	**84**	(567)
Other	**(3,120)**	158
Gold	**7,848**	4,761

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

(iii) Credit risk

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

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

31 December 2008 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	2,911,251	2,907,981
Individually impaired		
Watch	27,620	26,379
Substandard	19,062	12,114
Nonperforming	79,800	23,510
Total	**3,037,733**	**2,969,984**

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	2,776,759	2,753,629
Individually impaired		
Watch	15,363	14,528
Substandard	7,602	6,368
Nonperforming	48,708	3,598
Total	**2,848,432**	**2,778,123**

In addition, the Group is exposed to off-balance sheet credit risk through commitments to extend credits and issue contingent liabilities (see note 31).

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

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

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

In thousands of BGN	2008	2007
Trade	**649,185**	534,009
Industry	**708,836**	709,331
Services	**187,411**	222,270
Finance	**13,280**	2,030
Transport, logistics	**148,266**	154,311
Communications	**46,836**	45,445
Construction	**145,293**	110,511
Agriculture	**85,620**	89,340
Tourist services	**112,973**	122,173
Infrastructure	**106,212**	65,042
Private individuals	**780,481**	756,767
Other	**53,340**	37,203
Less allowance for impairment	**(67,749)**	(70,309)
Total	**2,969,984**	**2,778,123**

The Group has extended loans to enterprises involved in different types of activities but within the same economic sector – industry. As such the exposures share a similar industry risk. There are three such groups of enterprises at 31 December 2008 with total exposures amounting to BGN 40,968 thousand (2007: BGN 37,028 thousand) – ferrous and non-ferrous metallurgy, BGN 77,149 thousand (2007: BGN 68,772 thousand) – mining industry and BGN 107,972 thousand (2007: BGN 118,539 thousand) – power engineering.

The Group has extended loans and issued contingent liabilities to 16 individual clients or groups (2007: 15) with each individual exposure exceeding 10% of the capital base of the Group 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 245.86% of the Group's capital base (2007:

BGN 872,776 thousand which represented 215.71%of capital base) of which BGN 938,241 thousand (2007: BGN 632,521 thousand) represent loans and BGN 171,401 thousand (2007: BGN 240,255 thousand) represent guarantees, letters of credit and other commitments. Exposures secured by cash have been excluded from the calculation of the large exposures.

The loans extended in Cyprus amount to BGN 130,871 thousand (2007: BGN 140,128 thousand) and in Albania – BGN 23,419 thousand (2007: BGN 8,545 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.

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

Collateral for loans, guarantees and letters of credit is usually in the form of mortgage, cash, pledge of inventory, listed investments or other property.

The table below shows a breakdown of total loans and advances extended to customers by the Group by type of collateral, excluding credit cards in the amount of BGN 160,963 thousand (2007: BGN 88,746 thousand):

In thousands of BGN	**2008**	**2007**
Mortgage	**1,364,319**	1,532,707
Pledge of receivables	**416,239**	267,251
Pledge of commercial enterprise	**286,287**	296,050
Securities	**144,981**	97,330
Bank guarantee	**2,135**	7,159
Other guaranties	**130,084**	59,075
Pledge of goods	**111,366**	93,672
Pledge of machines	**229,057**	150,918
Money deposit	**38,735**	115,390
Stake in capital	**36,559**	41,661
Gold	**33**	32
Other collateral	**100,752**	92,018
Unsecured	**16,223**	6,423
Total	**2,876,770**	**2,759,686**

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

C. Capital adequacy

The Group's lead regulator, the Bulgarian National Bank (BNB) sets and monitors capital requirements both on consolidated and stand-alone basis. Individual banking operations are directly supervised by their local regulators. BNB issued Ordinance 8 on Capital Adequacy of Credit Institutions effective from 1 January 2007 that is the Bulgarian supervisory implementation of the International Convergence of Capital Measurement and Capital Standards (Revised Framework), known as Basel II and complies with EU Directives 2006/48/EC and 2006/49/EC. In implementing current capital requirements the Group is required to maintain a minimum prescribed ratio of 12% of total capital to total risk-weighted assets. 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 Group calculates requirements for credit risk for its exposures in banking and trading portfolios based on standardised approach defined by the BNB. Exposures are taken into account using their balance sheet amount. Off-balance sheet credit related commitments are taken into account by applying different categories of conversion factors, designed to convert these items into balance sheet equivalents. The resulting equivalent amounts are then weighted for risk using 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 Group is required to hold capital for operational risk. The basic indicator approach is used. Required capital is equal to the average gross annual income over the previous three years multiplied by a fixed percentage (15%). Respective risk-weighted assets are calculated by further multiplication by 12.5.

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

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

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

The Group has complied with all capital requirements.

Capital adequacy level was as follows:

In thousands of BGN	Balance sheet/notional amount		Risk-weighted amount	
	2008	**2007**	**2008**	**2007**
Risk-weighted assets for credit risk				
Balance sheet assets				
Exposure class				
Central governments and central banks	**714,120**	764,021	**10,814**	6,085
Multirateral development banks	**1,000**	2,763	**–**	–
Institutions	**231,482**	381,313	**75,068**	94,549
Corporates	**1,910,057**	1,856,251	**1,872,264**	1,742,146
Retail	**594,829**	534,031	**580,142**	523,553
Claims secured by residential property	**451,855**	387,841	**225,928**	193,920
Collective investment undertaking	**1,964**	3,011	**1,964**	3,011
Other items	**346,296**	270,475	**179,474**	139,354
Total	**4,251,603**	**4,199,706**	**2,945,654**	**2,702,618**
Off-balance sheet items				
Exposure class				
Central governments and central banks	**–**	782	**–**	–
Institutions	**17,879**	8,163	**8,157**	3,625
Corporates	**653,005**	796,840	**205,413**	208,066
Retail	**274,811**	280,077	**1,078**	4,934
Claims secured by residential property	**8,069**	29,215	**1,963**	2,970
Other items	**–**	–	**28**	56
Total	**953,764**	**1,115,077**	**216,639**	**219,651**
Derivatives				
Exposure class				
Institutions	**1,359**	2,773	**272**	707
Corporates	**19**	–	**19**	–
Total	**1,378**	**2,773**	**291**	**707**
Total risk-weighted assets for credit risk			**3,162,584**	**2,922,976**
Risk-weighted assets for market risk			**3,250**	**3,341**
Risk-weighted assets for operational risk			**259,025**	**190,651**
Total risk-weighted assets			**3,424,859**	**3,116,968**

Capital adequacy ratios	**Capital**		**Capital ratios %**	
	2008	**2007**	**2008**	**2007**
Tier 1 Capital	**328,859**	**273,573**	**9.60%**	**8.78%**
Total capital base	**451,322**	**404,614**	**13.18%**	**12.98%**

4. Segment Reporting

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

Measurement and reporting of segment assets and liabilities and segment revenues and expenses are based on the accounting policies set out in the accounting policy note.

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

The Group operates principally in Bulgaria, but also has operations in Cyprus and Albania.

In presenting information on the basis of geographical segments, income and expenses are allocated based on the location of the Group affiliate that generates them. Segment assets and liabilities are allocated based on their geographical location.

	Bulgarian operations		Foreign operations		Total	
In thousands of BGN	2008	2007	2008	2007	2008	2007
Interest income	322,420	260,660	13,517	9,385	335,937	270,045
Interest expense	(186,941)	(136,331)	(1,487)	(1,105)	(188,428)	(137,436)
Net interest income	**135,479**	**124,329**	**12,030**	**8,280**	**147,509**	**132,609**
Fee and commission income	71,560	59,855	1,256	944	72,816	60,799
Fee and commission expense	(9,283)	(9,797)	(150)	(40)	(9,433)	(9,837)
Net fee and commission income	**62,277**	**50,058**	**1,106**	**904**	**63,383**	**50,962**
General administrative expenses	**(149,543)**	**(102,449)**	**(6,626)**	**(4,876)**	**(156,169)**	**(107,325)**
	2008	**2007**	**2008**	**2007**	**2008**	**2007**
Segment assets	**4,069,744**	**4,030,952**	**201,007**	**170,425**	**4,270,751**	**4,201,377**
Segment liabilities	**3,852,576**	**3,835,372**	**49,441**	**40,026**	**3,902,017**	**3,875,398**

The following table presents the allocation of assets and liabilities, income and expenses based on business segments as at 31 December 2008:

In thousands of BGN **Business segment**	**Assets**	**Liabilities**	**Interest income**	**Interest expense**	**Net fee and commission income**	**Net trading income**	**Other operating expenses**
Commercial banking	2,238,580	1,101,767	235,484	(35,013)	18,128	–	–
Retail banking	731,404	1,753,560	79,769	(67,513)	4,985	–	–
International business	–	985,130	–	(85,130)	12,134	–	–
Cards business	–	–	–	–	16,252	–	–
Liquidity	1,114,566	53,034	20,684	(713)	(667)	530	(2,267)
Dealing	6,243	–	–	–	–	3,728	716
Clients services	–	–	–	–	11,979	–	–
Other	179,958	8,526	–	(59)	572	–	32
Total	**4,270,751**	**3,902,017**	**335,937**	**(188,428)**	**63,383**	**4,258**	**(1,519)**

5. Financial assets and liabilities Accounting classification and fair values

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

In thousands of BGN	Trading	Held to maturity	Loans and receivables	Available for sale	Other amortised cost	Other	Total carrying amount	Fair value
ASSETS								
Cash and balances with central banks	–	–	580,519	–	–	171,345	751,864	751,864
Financial assets held for trading	9,681	–	–	–	–	–	9,681	9,681
Available for sale investments	–	–	–	286,623	–	–	286,623	286,623
Financial assets held to maturity	–	62,395	–	–	–	–	62,395	61,485
Loans and advances to banks and financial institutions	–	–	10,244	–	–	–	10,244	10,244
Loans and advances to customers	–	–	2,969,984	–	–	–	2,969,984	2,969,984
Other financial assets						274	274	274
	9,681	**62,395**	**3,560,747**	**286,623**	**–**	**171,619**	**4,091,065**	**4,090,155**
LIABILITIES								
Due to credit institutions	–	–	–	–	53,034	–	53,034	53,034
Due to other customers	–	–	–	–	2,855,327	–	2,855,327	2,855,327
Liabilities evidenced by paper	–	–	–	–	832,620	–	832,620	832,509
Subordinated term debt	–	–	–	–	53,852	–	53,852	53,852
Perpetual debt	–	–	–	–	98,658	–	98,658	98,332
Other financial liabilities	–	–	–	–	–	1,336	1,336	1,336
	–	**–**	**–**	**–**	**3,893,491**	**1,336**	**3,894,827**	**3,894,390**

The fair value of cash, cash equivalents, demand and term deposits is approximately equal to the carrying value given, because of their short-term maturity. The fair value of loans and advances to customers is approximately equal to their carrying value due to the fact that main part of the loan portfolio carry floating interest rates which reflect the changes in the market conditions.

The table below sets out the Group's classification of each class of financial assets and liabilities, and their fair values as at 31 December 2007.

In thousands of BGN	Trading	Held to maturity	Loans and receivables	Available for sale	Other amortised cost	Other	Total carrying amount	Fair value
ASSETS								
Cash and balances with central banks	–	–	478,680	–	–	132,582	611,262	611,262
Financial assets held for trading	13,529	–	–	–	–	–	13,529	13,529
Available for sale investments	–	–	–	374,203	–	–	374,203	374,203
Financial assets held to maturity	–	106,084	–	–	–	–	106,084	104,878
Loans and advances to banks and financial institutions	–	–	189,575	–	–	–	189,575	189,575
Loans and advances to customers	–	–	2,778,123	–	–	–	2,778,123	2,778,123
Other financial assets	–	–	–	–	–	823	823	823
	13,529	**106,084**	**3,446,378**	**374,203**	**–**	**133,405**	**4,073,599**	**4,072,393**
LIABILITIES								
Due to credit institutions	–	–	–	–	3,195	–	3,195	3,195
Due to other customers	–	–	–	–	2,475,139	–	2,475,139	2,475,139
Liabilities evidenced by paper	–	–	–	–	1,238,113	–	1,238,113	1,211,375
Subordinated term debt	–	–	–	–	51,005	–	51,005	51,005
Perpetual debt	–	–	–	–	98,386	–	98,386	99,450
Other financial liabilities	–	–	–	–	–	1,924	1,924	1,924
	–	**–**	**–**	**–**	**3,865,838**	**1,924**	**3,867,762**	**3,842,088**

6. Net interest income

In thousands of BGN	2008	2007
Interest income		
Accounts with and placements to banks and financial institutions	6,530	6,251
Retail customers	79,769	61,508
Loans to corporate clients	200,114	153,974
Loans to small and medium enterprises	29,281	26,227
Microlending	6,089	4,554
Debt instruments	14,154	17,531
	335,937	**270,045**
Interest expense		
Deposits from banks	(713)	(297)
Deposits from other customers	(102,526)	(51,173)
Liabilities evidenced by paper	(67,134)	(68,073)
Subordinated term debt	(6,353)	(6,212)
Perpetual debt	(11,643)	(11,616)
Lease agreement and other	(59)	(65)
	(188,428)	**(137,436)**
Net interest income	**147,509**	**132,609**

For 2008 the recognised interest income on individually impaired financial assets (loans and advances to customers) amounts to BGN 7,028 thousand (2007: BGN 9,692 thousand respectively).

7. Net fee and commission income

In thousands of BGN	2008	2007
Fee and commission income		
Letters of credit and guarantees	9,602	12,091
Payments transactions	9,192	8,419
Customer accounts	9,213	8,371
Cards business	21,964	14,558
Other	22,845	17,360
	72,816	**60,799**
Fee and commission expense		
Letters of credit and guarantees	(2,562)	(627)
Correspondent accounts	(666)	(953)
Cards business	(5,712)	(5,767)
Other	(493)	(2,490)
	(9,433)	**(9,837)**
Net fee and commission income	**63,383**	**50,962**

8. Net trading income

In thousands of BGN	2008	2007
Net trading income arises from:		
– Debt instruments	520	517
– Equities	(5,298)	2,245
– Foreign exchange	9,036	9,065
Net trading income	**4,258**	**11,827**

9. Other operating expneses

Other operating expneses represent net losses from disposal of financial instruments not carried at fair value through profit or loss.

In thousands of BGN	2008	2007
Other operating expenses arise from:		
– Debt instruments	(1,551)	(201)
– Other	32	–
Other operating expenses	**(1,519)**	**(201)**

10. General administrative expenses

In thousands of BGN	2008	2007
General and administrative expenses comprise:		
– Personnel cost	51,036	31,993
– Depreciation and amortisation	17,477	11,668
– Advertising	18,210	11,046
– Building rent expense	15,952	11,291
– Telecommunication, software and other computer maintenance	11,898	8,909
– Unclaimable VAT	10,271	6,607
– Administration, consultancy and other costs	31,325	25,811
General administrative expenses	**156,169**	**107,325**

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 of the Group is 2,689 (2007: 2,289).

11. Impairment losses

In thousands of BGN	2008	2007
Write-downs		
Loans and advances to customers	(29,371)	(42,995)
Reversal of write-downs		
Loans and advances to customers	30,480	16,037
Net impairment (losses)/loss reversals	**1,109**	**(26,958)**

12. Income tax expense

In thousands of BGN	2008	2007
Current taxes	(4,858)	(5,392)
Deferred taxes (see note 22)	(312)	(248)
Income tax expense	**(5,170)**	**(5,640)**

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

In thousands of BGN	2008	2007
Accounting profit before taxation	**54,340**	**56,653**
Corporate tax at applicable tax rate (10% for 2008 and 10% for 2007)	5,434	5,665
Effect of tax rates of foreign subsidiaries and branches	246	131
Tax effect of permanent tax differences	(822)	(404)
Tax effect of reversals of temporary differences	312	248
Income tax expense	**5,170**	**5,640**
Effective tax rate	9.51%	9.96%

13. Earnings per share

	2008	2007
Net profit attributable to shareholders (in thousands of BGN)	49,237	51,113
Weighted average number of ordinary shares (in thousands)	110,000	106,137
Earnings per share (in BGN)	**0.45**	**0.48**

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 Bulgarian leva	**47,340**	89,814
– In foreign currencies	**116,157**	38,007
Gold bullion	**7,848**	4,761
Balances with central banks	**432,349**	414,068
Current accounts and amounts with local banks	**30,118**	67
Current accounts and amounts with foreign banks	**118,052**	64,545
Total	**751,864**	**611,262**

15. Financial assets held for trading

In thousands of BGN	2008	2007
Bonds, notes and other instruments issued by:		
Bulgarian government, assessed with BBB+ or BBB rating:		
– denominated in Bulgarian leva	**5,476**	2,046
– denominated in foreign currencies	**–**	70
Other issuers – equity instruments (unrated)	**4,205**	11,413
Total	**9,681**	**13,529**

16. Available for sale investments

In thousands of BGN	2008	2007
Bonds, notes and other instruments issued by:		
Bulgarian government		
– denominated in Bulgarian leva	**27,872**	29,765
– denominated in foreign currencies	**6,033**	6,323
Foreign governments		
– short term	**194,940**	229,860
– long term	**–**	20,019
Foreign banks	**55,740**	87,159
Other issuers	**2,038**	1,077
Total	**286,623**	**374,203**

17. Financial assets held to maturity

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

In thousands of BGN	2008	2007
Securities held to maturity issued by:		
Bulgarian government	42,196	60,492
Foreign governments	2,002	1,378
Foreign banks	18,197	44,214
Total	**62,395**	**106,084**

In May 2008 the Bank sold held to maturity investments at the nominal amount of EUR 10,000 thousands. This sale did not represent a change in the Bank's intention and ability to hold the investments to their maturity, because it was attributable to an isolated, non-recurring event that was beyond the Bank's control and was not anticipated by the Bank.

18. Loans and advances to banks and financial institutions

(a) Analysis by type

In thousands of BGN	2008	2007
Placements with banks	6,231	165,954
Other	4,013	23,621
Total	**10,244**	**189,575**

(b) Geographical analysis

In thousands of BGN	2008	2007
Domestic banks and financial institutions	625	24,902
Foreign banks and financial institutions	9,619	164,673
Total	**10,244**	**189,575**

19. Loans and advances to customers

In thousands of BGN	2008	2007
Retail customers		
– Consumer loans	229,858	277,765
– Mortgage loans	380,141	390,256
– Credit cards	160,963	88,746
Small and medium enterprises	267,158	270,565
Microlending	41,196	43,476
Corporate customers	1,958,417	1,777,624
Less allowance for impairment	(67,749)	(70,309)
Total	**2,969,984**	**2,778,123**

(a) Movement in impairment allowances

In thousands of BGN	
Balance at 1 January 2008	**70,309**
Additional allowances	29,371
Amounts released	(30,480)
Write - offs	(1,451)
Balance at 31 December 2008	**67,749**

20. Property and equipment

In thousands of BGN	Land and buildings	Fixtures and fittings	Motor vehicles	Assets under construction	Leasehold improvements	Total
Cost						
At 1 January 2008	12,367	67,686	5,826	49,114	26,623	**161,616**
Additions	–	605	–	60,249	143	**60,997**
Disposals	–	(636)	(364)	(309)	(154)	**(1,463)**
Transfers	–	29,541	799	(48,950)	12,856	**(5,754)**
At 31 December 2008	**12,367**	**97,196**	**6,261**	**60,104**	**39,468**	**215,396**
Depreciation						
At 1 January 2008	3,186	33,877	2,879	–	6,664	**46,606**
Charge for the year	417	11,375	957	–	3,624	**16,373**
On disposals	–	(611)	(204)	–	(127)	**(942)**
At 31 December 2008	**3,603**	**44,641**	**3,632**	**–**	**10,161**	**62,037**
Net book value						
At 31 December 2008	**8,764**	**52,555**	**2,629**	**60,104**	**29,307**	**153,359**
At 1 January 2008	**9,181**	**33,809**	**2,947**	**49,114**	**19,959**	**115,010**

21. Intangible assets

In thousands of BGN	Software and licences	Goodwill	Total
Cost			
At 1 January 2008	2,607	107	**2,714**
Additions	153	–	**153**
Disposals	(27)	–	**(27)**
Transfers	5,754	–	**5,754**
At 31 December 2008	**8,487**	**107**	**8,594**
Amortisation			
At 1 January 2008	1,866	–	**1,866**
Charge for the year	1,104	–	**1,104**
On disposals	(7)	–	**(7)**
At 31 December 2008	**2,963**		**2,963**
Net book value			
At 31 December 2008	**5,524**	**107**	**5,631**
At 1 January 2008	**741**	**107**	**848**

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	**–**	–	**1,969**	1,549	**1,969**	1,549
Other items	**(261)**	(181)	**21**	49	**(240)**	(132)
Net tax (assets)/liabilities	**(261)**	**(181)**	**1,990**	**1,598**	**1,729**	**1,417**

Movements in temporary differences during the year at the amount of BGN 312 thousand are recognised in the income statement.

23. Other assets

In thousands of BGN	2008	2007
Deferred expense	**6,174**	3,858
Other assets	**14,796**	8,885
Total	**20,970**	**12,743**

24. Due to credit institutions

In thousands of BGN	2008	2007
Term deposits	51,655	1,567
Payable on demand	1,379	1,628
Total	**53,034**	**3,195**

25. Due to other customers

In thousands of BGN	2008	2007
Retail customers		
– payable on demand	397,890	465,621
– term deposits	1,355,671	989,124
Corporate, state-owned and public institutions		
– payable on demand	422,830	625,022
– term deposits	678,936	395,372
Total	**2,855,327**	**2,475,139**

26. Liabilities evidenced by paper

In thousands of BGN	2008	2007
Bonds and notes issued	19,911	459,884
Acceptances under letters of credit	353,179	311,491
Syndicated loans	354,433	363,464
Other term liabilities	105,097	103,274
Total	**832,620**	**1,238,113**

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

Bonds and notes issued comprise the following:

In thousands of BGN	2008	2007
Long term bonds payable		
EUR 6,000,000, 8.5%, due 2008	–	12,256
EUR 200,000,000, 7.5%, due 2008	–	417,885
Total bonds payable	–	**430,141**
Mortgage bonds		
EUR 5,000,000, 7%, due 2008	–	9,855
EUR 10,000,000, 7%, due 2009	19,911	19,888
Total mortgage bonds	**19,911**	**29,743**
Total bonds and notes issued	**19,911**	**459,884**

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

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 with funds raised outside the Republic of Bulgaria.

Subordinated liabilities can be analysed as follows:

In thousands of BGN

Lender	Principal amount	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 Ltd.	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	54,545
Step-up Guaranteed Perpetual Subordinated Bonds EUR 21 mio	41,073	44,113
Total	**93,880**	**98,658**

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

29. Other liabilities

In thousands of BGN	2008	2007
Liabilities to personnel	2,350	1,564
Current tax liability	1,084	2,484
Other payables	3,363	4,095
Total	**6,797**	**8,143**

30. Capital and reserves

(a) Number and face value of registered shares as at 31 December 2008

As at 31 December 2008 the registered share capital of the Bank is BGN 110,000,000 divided into 110,000,000 ordinary dematerialized shares with voting rights of BGN 1 par value each. All the shares have been fully paid-up.

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

(b) Shareholders

In October 2008 the shareholder Balkan Holidays Limited, London transferred all its FIB shares by splitting them in equal parts between Domenico Ventures Limited, British Virgin Islands and Rafaela Consultants Limited, British Virgin Islands, as a result of which their shareholdings in FIB increased to 9.72% each.

The table below shows those shareholders of the Bank holding shares as at 31 December 2008 together with the number and percentage of total issued shares.

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

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

(c) Statutory reserve

Statutory reserves comprise amounts appropriated for purposes defined by the local legislation. Under Bulgarian law, the Bank is required to allocate 1/10 of its annual profit as statutory reserves until their aggregate amount reaches 1/10 of the Banks' share capital.

31. Commitments and contingent liabilities

(a) Memorandum items

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to two years.

The contractual amounts of commitments and contingent liabilities are set out in the following table by category. The amounts reflected in the table represent the maximum accounting loss that would be recognised at the balance sheet date if counterparts failed completely to perform as contracted.

In thousands of BGN	2008	2007
Bank guarantees		
– in BGN	202,558	186,268
– in foreign currency	198,695	181,544
Total guarantees	**401,253**	**367,812**
Unused credit lines	407,465	457,669
Promissory notes	15,752	21,034
Letters of credit in foreign currency	129,294	268,562
Total	**953,764**	**1,115,077**

These commitments and contingent liabilities have off-balance sheet credit risk because only organisation fees and accruals for probable losses are recognised in the balance sheet until the commitments are fulfilled or expire. Most of the contingent liabilities and commitments will expire without being advanced in whole or in part. Therefore, the amounts do not represent expected future cash flows.

As at the balance sheet date there are no significant commitments and contingencies which require additional disclosure.

At 31 December 2008 the extent of collateral held for guarantees and letters of credit is 100 percent.

32. Cash and cash equivalents

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

In thousands of BGN	2008	2007
Cash and balances with central banks	751,864	611,262
Loans and advances to banks and financial institutions with maturity less than 90 days	10,050	189,403
Total	**761,914**	**800,665**

33. 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	652,617	523,059
Financial assets held for trading	12,147	14,758
Available for sale investments	264,506	339,188
Financial assets held to maturity	75,719	101,753
Loans and advances to banks and financial institutions	30,140	38,479
Loans and advances to customers	2,866,998	2,298,340
FINANCIAL LIABILITIES		
Due to credit institutions	12,357	7,006
Due to other customers	2,531,518	1,929,610
Liabilities evidenced by paper	1,013,065	1,082,630
Subordinated term debt	52,368	51,131
Perpetual debt	97,949	97,702

34. 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.

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 years 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	**8,110**	4,351
Loans issued during the year	**(19)**	598	**3,618**	3,759
Loans outstanding at end of the year	**2,455**	2,474	**11,728**	8,110
Deposits received:				
Deposits at beginning of the year	**1,062**	547	**3,449**	2,825
Deposits received during the perid	**5,357**	515	**641**	624
Deposits at end of the year	**6,419**	1,062	**4,090**	3,449
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 Group				
At beginning of the year	**387**	–	**2,108**	1,117
Granted	**1,088**	387	**(6)**	991
At the end of the year	**1,475**	387	**2,102**	2,108

The key management personnel of the Group received remuneration of BGN 3,000 thousand for 2008 (2007: BGN 1,966 thousand).

35. Subsidiary undertakings

(a) First Investment Finance B.V.

In April 2003 the Bank created a special purpose entity, incorporated in the Netherlands, First Investment Finance B.V., which is wholly owned by the Bank. Its purpose is to accomplish a narrow and well-defined objective of receiving loans from foreign financial institutions and attracting investors by issuing bonds and other financial instruments, guaranteed by the Bank, the proceeds from which are used to finance the operations of the Bank. The authorised share capital of the company amounts to EUR 90 thousand, divided into 900 common shares of EUR 100 each. Issued and paid up are 180 shares. The Bank consolidates its investment in this company.

(b) Diners Club Bulgaria AD

In May 2005 the Bank acquired 80% of the share capital of Diners Club Bulgaria AD. The share capital of the company is BGN 5,000 thousand. As at 31 December 2008 the Bank holds 85.52% of the share capital of Diners Club Bulgaria AD. The company was incorporated in 1996 as a franchise and processing agent of Diners Club International. The Bank consolidates its investment in this company.

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

In April 2006 the Bank founded First Investment Bank – Albania Sh.a. with a 99.9998% shareholding. On 27 June 2007 First Investment Bank – Albania was granted a full banking licence by the Bank of Albania, and on 1 September 2007 effectively took over the activities of the former FIB-Tirana Branch by assuming all its rights and obligations, assets and liabilities.

In July 2008, First Investment Bank – Albania Sh.a. increased its share capital with EUR 1,000,000 by issuing new shares. First Investment Bank A.D. was the only contributor there by further slightly increasing its shareholding to 99.999821%. As at 31 December 2008 the share capital of First Investment Bank – Albania Sh.a. is EUR 9,475 thousand and is fully paid in.

The Bank consolidates its investment in this company.

36. Post balance sheet events

In February 2008, First Investment Bank – Albania Sh.a. increased its share capital with EUR 1,000,000 by issuing new shares. First Investment Bank A.D. was the only contributor there by further slightly increasing its shareholding.

37. 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 Resources
IFRS 7	Financial Instruments: Disclosures
IAS 1	Presentation of Financial Statements
IAS 2	Inventories
IAS 7	Cash Flow Statements
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10	Events after the Balance Sheet Date
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
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: 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
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 Rehabilitation
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 IAS 19	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 Ventures
SIC–15	Operating Leases — Incentives
SIC–21	Income Taxes – Recovery of Revalued Non-Depreciable Assets
SIC–25	Income Taxes – Changes in the Tax Currently effective version of an Entity or its Shareholders
SIC–27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease
SIC–29	Disclosure – Service Concession Arrangements
SIC–31	Revenue – Barter Transactions Involving Advertising Services
SIC–32	Intangible Assets – Web Site Costs

Post Balance-sheet Events

- In January 2009 Moody's changed the outlook of the credit rating of FIBank from "stable" to "negative" as a result of the volatile environment on the international financial markets.
- In February 2009 First Investment Bank – Albania Sh.a. increased its share capital by EUR 1 million by issuing new shares, registered and fully paid-up by First Investment Bank AD. Consequently, the share participation of FIBank increased insignificantly.

Fullfilment of the Strategic Goals for 2008

Irrespective of the negative influence of the global financial crisis in 2008, First Investment Bank fulfilled its planned strategic goals:

Goals	Fulfillment
Be the fifth or sixth largest bank in Bulgaria in terms of assets and market share of 8%.	FIBank was the sixth largest (on unconsolidated basis) bank in Bulgaria in terms of assets with a market share of 6.1%.
Continue developing as a universal bank offering various loan and deposit products both to corporate clients and to private individuals	FIBank successfully continued to develop as a universal bank as reflected in the Annual Report for 2008.
Retain and expand its position as a leader among the banks in Bulgaria in the area of international transactions and trade finance.	Continued to be a leader in Bulgaria in the area of international transactions and trade finance. FIBank effects international payments in more than 60 foreign currencies and has a wide network of more than 600 correspondent banks. As at 31 December 2008, FIBank fulfilled 8.31% of the outgoing and 8.64% of the incoming trade finance transactions and 6.11% of the outgoing and 6.57% of the incoming international payments.
Be amongst the top five banks in the country servicing the SME sector	Continued to develop special programs for the small and medium-size business in the country with a total portfolio of BGN 251,455 thousand at the end of the reported period.
Continue diversifying its loan portfolio by increasing the share of loans to SMEs and micro-enterprises.	As a result of the global financial crisis FIBank increased its risk requirements in 2008 with regard to loan portfolio management reflected in some segments like SME and micro lending according to the general decrease of lending in the country.
Develop and introduce new products, based on fee and commission income.	Developed and introduced new products: • Co-branded credit cards: co-branded credit card vivatel – FIBank; • Other: other bank services and services related to Internet banking

Continue being a model bank in terms of customer service with an emphasis on key customers – further development of the Ego Club, both for private individuals and for corporate clients.	Continued to be a model bank in terms of customer service and was awarded the Best Customer Service prize of the "Banks Investments Money" exhibition. Further developed the Ego Club and set up a new "Private Banking" unit servicing key customers, both private individuals and corporate clients.
Develop an active approach to sales in all branches by emphasizing cross-sales.	FIBank implemented a bonus system stimulating cross-sales.
Expand the branch network in Bulgaria.	Expanded considerably its branch network opening 43 new offices in the country.
Corporate Banking	
Continue promoting a more pro-active culture of sales in corporate banking	Increased its corporate loan portfolio by 10.2% reaching BGN 1,958 million.
Continue determining relations with customers on the basis of total profitability for the Bank	FIBank continued to develop the project for automated assessment of profitability of the customers and the profit centers.
Refine and expand investment services and activities related to the market of financial instruments.	The goal was not fulfilled due to the capital markets global crisis.
International Operations	
Increase the number, volume and type of operations related to trade financing, documentary transactions, forfeiting, etc.	Irrespective of the worsened environment in the international financial markets, FIBank continued its active mediation in international operations and preserved its high market share in Bulgaria - 8.64% in incoming and 8.31% in outgoing trade finance operations.
Provide further opportunities to FIBank customers to use specialized credit lines by way of international financing from FIBank correspondent banks.	Considerable growth of credit lines for confirmation of letters of credit and bank guarantees without cash collateral – up to EUR 120 million.
Increase market share in terms of payments with an emphasis on cross-border transactions, including by promoting payments in EUR via SEPA.	The market share of FIBank in the incoming international payments is 6.57% while the outgoing account for 6.11%. FIBank offers its customers the service of EUR SEPA payments within the member-states of the European Economic Area and Switzerland.
Expand the network of correspondent banks with a view to further satisfying client needs and expanding banking operations to new market niches.	FIBank strengthened its position as a reliable and preferred partner evidenced by the reported results. FIBank increased the number of its correspondents to more than 600.
Small and medium-sized enterprises and micro-enterprises	
Direct efforts towards developing specialized programmes facilitating the use of European Union funds and develop special packages for the SME sector.	Implemented specialized programmes for SMEs facilitating the use of European Union funds including: • Specialized programmes for the agricultural producers – beneficiaries under the subsidies from the EU funds, including the use of loans with reduced requirements up to 100% of the expected subsidy; • Issue of bank guarantees in favor of farmers ensuring up to 20% of the advance payments under the financial aid for agricultural projects approved by the Ministry of Agriculture and Food.

Retail Banking	
Introduce a loyalty programme for private customers.	Introduced a loyalty programme aimed at offering priority services and different facilitations for FIBank`s loyal customers.
Give priority to developing retail banking, particularly by emphasizing retail lending.	The loan portfolio of private individuals increased to BGN 770,962 thousand being second in percentage of the total loan portfolio of FIBank.
Introduce innovative mortgage loan products.	FIBank developed the offered mortgage loan products and introduced a new one – a mortgage loan for finishing works up to BGN 100 per sq.m.
Develop card payments towards standardizing processes in accordance with the requirements of the Single Euro Payment Area – SEPA and double the number of chip-based credit card.	In 2008 FIBank successfully migrated all bank (credit and debit) cards to the new chip-based technology pursuant to the requirements of the Single Euro Payment Area.
Expand the ATM and POS terminal networks and improve the use of existing networks.	FIBank expanded its ATM network by 13.9% reaching 656 ATMs and the POS terminal network by 31% reaching 7,600 POS terminals.
Develop and introduce new co-branded payment cards.	FIBank offered to the market a new co-branded credit card vivatel – FIBank.
Financing Activities	
Develop new deposit products suitable both for corporate clients and for private individuals.	FIBank introduced new deposit products including: • „In Seventh Heaven" – a one year deposit in BGN and EUR with an annual interest rate of 7.5%; • „Easter Deposit" – a three months deposit in BGN and EUR with an annual interest rate of 7.3%; • „Free Deposit" – a one year deposit with an interest rate growing on a monthly basis from 6% up to 11%; • „Serious Deposit" – a six months deposit in BGN and EUR with an annual interest rate of 9%.
Organize new international financing.	FIBank received a syndicated loan facility of EUR 65 million from 11 first-class international banks. FIBank signed a five-year EUR 10 million Loan Agreement with the German KfW Bank for financing small and medium-size enterprises in Bulgaria.

Strategic Goals for 2009

- Continue being a leading credit institution trusted by both its shareholders and its clients, while maintaining an adequate balance between risk, capital and profitability
- Further develop the internal rating approach for risk assessment in accordance with the Basel II with a view to meet the BNB requirements for approval of internal models
- Increase the capital base with an emphasis on Tier 1 capital
- Continue maintaining a liquidity ratio adequate to the market environment
- Increase operating efficiency by optimising the volume and structure of expenses
- Optimise its corporate structure by emphasizing a centralised approach, while preserving decision-making flexibility in accordance with market demand and changes in the external environment
- Maintain its position as a leader among banks in Bulgaria in card payments, international transactions and trade finance, as well as develop its programme for inclusion in the TARGET 2 interbank payment system for real-time processing of cross-border transfers between EU member states
- Provide further opportunities for FIBank clients to use specialised credit lines through external funding from FIBank's correspondent banks
- Retain its position as one of the leading banks in corporate financing, with an emphasis on programmes for the utilisation of EU structural and cohesion funds
- Optimise distribution channels, including the branch network, ATM and POS terminal network
- Increase the share of the net fee and commission income in the total income from banking operations by developing and introducing new competitive commission-related products and services, as well as by increasing the number of clients
- Further improve customer service quality

Other Information

Members of the Supervisory Board

Georgi Mutafchiev – Chairman of the Supervisory Board

In 1991, he joined the Bulgarian National Bank (BNB) as Foreign Currency Reserve Manager. In 1997, he was appointed as Executive Director of Flavia AD. He is a graduate of Sofia University and has a Master's Degree in Law. He also attended the Sorbonne, Paris from where he has a PhD in Business Law. He also has an MBA in Business Administration from Schiller University, Paris.

Besides his position on the Supervisory Board of First Investment Bank, Mr. Mutafchiev also participates in the Management of Flavia AD and Flavin AD.

Todor Breshkov – Member of the Supervisory Board

In 1999 Mr. Todor Breshkov started work at First Financial Brokerage House OOD in the ''Corporate Finance and Analyses'' department, and since 2001 he has been the General Manager of FFBH. Mr. Breshkov graduated with a degree in Business Administration from Sofia University ''St. Kliment Ohridski".

Besides his position on the Supervisory Board and in the Management of First Financial Brokerage House OOD, Mr. Breshkov is also a member of the Board of Directors of Bulgarian Stock Exchange – Sofia AD; a member of the Board of Directors of Bulgarian Real Estate Fund REIT; and a member of the Board of Directors of Vitosha Ventures AD.

Mr. Breshkov is a partner in and holds more than 25% of the capital of Breshkov i Sinove OOD, and is also a shareholder in FFBH Asset Management AD.

Radka Mineva – Member of the Supervisory Board

Since 1999 Mrs. Mineva has been a manager of Balkan Holidays Company. She is a graduate of the University of National and World Economy in Sofia, with a degree in trade and tourism.

As at 31 December 2008, apart from her position on the Supervisory Board of First Investment Bank, Mrs. Mineva participates in the Management of Balkan Holidays Services.

Nedelcho Nedelchev – Member of Supervisory Board

Mr. Nedelcho Nedelchev was appointed a member of the Supervisory Board in February 2007. From 1997 he worked as a financial analyst in First Financial Brokerage House OOD and in 2001 became one of its managers and a partner. In 2003 he assumed the duties of Deputy Minister of Transportation and Communications. From September 2005 till July 2006 Mr. Nedelchev was an advisor to the Minister of State Administration.

Mr. Nedelchev graduated with a Master's degree in International Economic Relations from the University of National and World Economy in Sofia. Mr. Nedelchev was awarded a certificate from the Wholesale Markets Brokers' Association (London) for working at the international financial and commodities markets in 2000.

Besides his position on the Supervisory Board of the Bank, Mr. Nedelchev is a manager and a partner in Project Synergy OOD, a member of the Board of Directors and an Executive Director of Expat Capital AD, Bulgarian Alternative Energy Company AD, Expat Asset Management EAD and Solarfin Bulgaria Energy AD, and he is a member of the Board of Directors of Bianor Holding AD and of Expat Alpha AD.

Mr. Nedelchev holds more than 25% of the capital of Expat Capital AD, Expat Asset Management EAD, and more than 10% of the capital of Bulgarian Alternative Energy Company AD.

Kaloyan Ninov – Member of the Suprvisory Board

Mr. Kaloyan Ninov was appointed member of the Supervisory Board of First Investment Bank in February 2007. Mr. Ninov had previously worked as an investment manager and a member of the Managing Board in the National Privatisation Fund "Nadezhda" (Bulgaria). In 1993 he joined First Financial Brokerage House OOD as securities broker and was subsequently promoted to Head of the Securities Department and manager. Mr. Ninov has sat as a member of the Managing Board of the Bulgarian Association of Licenced Investment Intermediaries and in 2000-2001 was president of the Association. In 2001 he was appointed Deputy Minister of Economy. From 2004 to 2006 he was a manager of Balkan Holidays Services OOD.

In addition to his position on the Supervisory Board of FIBank, Mr. Ninov holds more than 10% of the capital of Sofia Asset Management REIT and is a partner in and holds more than 10% of the capital of MNI OOD.

Members of the Managing Board

Matthew Mateev – Chairman of the Managing Board and Executive Director

Mr. Matthew Mateev joined the Bank in 1993. In 1998 he was appointed member of the Managing Board and Executive Director. In 2006 he was appointed the Chairman of the Managing Board. His previous experience is in corporate banking. Mr. Mateev holds a Master's in International Economic Relations and a Bachelor's in accounting and financial control from the Higher Institute of Economics (now the University of National and World Economy) in Sofia. In 2006, he was named ''Banker of the Year'' by the Bulgarian financial weekly "The Banker".

In the Bank he is responsible for the Corporate Banking Department, the Microlending Department, the Legal Department, the Impaired Assets and Provisioning Department and the Loan Administration Department.

Besides his position in the Bank, Mr. Matthew Mateev is also a member of the Board of Directors of First Investment Bank – Albania, Tirana and a member of the Managing Board of UNIBank, Republic of Macedonia.

Maya Georgieva – Member of the Managing Board and Executive Director

Ms. Maya Georgieva joined the Bank in 1995 as a director of the International Department. In 1998 she was appointed Executive Director of the Bank. Before joining the Bank Ms. Georgieva was a Deputy General Director responsible for money markets in the Bank for Agricultural Credit. Previously she spent 19 years of her career at Bulgarian National Bank and has considerable experience in international banking. Her last appointment at BNB was as the Head of the "Balance of Payments" Division.

She holds a Master's in Macroeconomics from the Higher Institute of Economics (now the University of National and World Economy) in Sofia. She has a specialisation in international payments at the International Monetary Fund and a post-graduate specialisation with the Bulgarian Scientific-Technical Union. In 2001, she was named ''Banker of the Year'' by the Bulgarian financial weekly "The Banker".

In the Bank she is responsible for the International Payments Department, the Marketing and Advertising Department, the SME Lending Department, the Sales Department, the Human Capital Management Department and the Administration Department.

Besides her position in the Bank, Ms. Georgieva is also a member of the Supervisory Board of CaSys International, Republic of Macedonia, a member of the Board of Directors of Diners Club Bulgaria AD and a member of the Board of Directors of First Investment Bank – Albania.

Jordan Skortchev – Member of the Managing Board and Executive Director

Mr. Jordan Skortchev joined the Bank in 1996 and has been Executive Director since 2000. Mr. Skortchev's career started as an assistant manager in the Central and Latin America Department of the foreign trade organisation "Intercommerce" in Bulgaria and Head of the Treasury Division in First Private Bank, Sofia. He has a degree in International Economic Relations from the Higher Institute of Economics (now the University of National and World Economy) in Sofia. He has specialised in banking in Luxembourg, swap deals at Euromoney, and futures and options at the Chicago Stock Exchange.

In the Bank he is responsible for the Card Payments Department, the Operations Department, the Dealing Department, the Gold and Commemorative Coins Department, the Private Banking Department, the Security Department and the Vault.

Besides his position in the Bank, Mr. Skortchev is also a member of the Managing Board of UNIBank, Republic of Macedonia; a member of the Board of Directors of Bankservice AD; a member of the Supervisory Board of CaSys International, Republic of Macedonia; and a member of the Board of Directors of Diners Club Bulgaria AD.

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

Evgeni Lukanov – Member of the Managing Board and Executive Director

Mr. Evgeni Lukanov joined the Bank in 1998 first as Deputy Director, then as Director and General Manager of the Tirana Branch, Albania. From 2001 to 2003 he was a Director of the Bank's Vitosha Branch (Sofia). From 2003 to 2007 he was a Director of the Risk Management Department and a member of the Managing Board, and since 2004 he has been an Executive Director and a member of the Managing Board. Previously, Mr. Lukanov worked as a currency dealer in FFBH. He holds a Master's in Economics from the University of National and World Economy, Sofia.

In the Bank he is responsible for the Risk Management Department, the Methodology Department, the Retail Banking Department, and the Liquidity Department; jointly with Mr. Mateev - for the Impaired Assets and Provisioning Department and the Loan Administration Department and jointly with Mr. Skorchev for the Private Banking Department.

Besides his position in the Bank, Mr. Lukanov is also a member of the Board of Directors of First Investment Bank – Albania and of the Board of Directors of FFBH Asset Management AD, as well as a partner in Avea OOD.

Maya Oyfalosh – Member of the Managing Board and Director of the Corporate Banking Department

Mrs. Maya Oyfalosh joined the Bank in 1993 as a credit specialist. Later she was promoted to a Director of ''Analysis of Corporate Loans'' and elected as a member of the Credit Council of the Bank. Previously, Mrs. Oyfalosh had worked as a department director at First West Finance House and as a credit specialist at First Private Bank. In 2004, Mrs. Oyfalosh was appointed Director of Corporate Banking Department and elected as a member of the Managing Board.

Mrs. Oyfalosh does not hold outside professional positions.

Radoslav Milenkov – Member of the Managing Board and Chief Financial Officer

Mr. Radoslav Milenkov has been the Chief Financial Officer and a member of the Managing Board since 2005. He joined the Bank in 2003 as a head of the Internal Audit Department. Previously, Mr. Milenkov had worked as an external auditor in Deloitte&Touche. He holds a Master's in Finance from the University of National and World Economy in Sofia.

Besides his position in the Bank, Mr. Milenkov is also a member of the Supervisory Board of CaSys International, Republic of Macedonia, a member of the Supervisory Board of UniBank, Republic of Macedonia and a member of the Audit Committee of First Investment Bank – Albania.

Ivan Ivanov – Member of the Managing Board and Regional Director for North-Eastern Bulgaria

Mr. Ivan Ivanov has been a member of the Managing Board since 2003. From 2003 to 2004 he was a Director of the Branch Network Department, and since 2004 he has been the Regional Director for North-Eastern Bulgaria. He joined the Bank in 1999 as a Director of the Varna Branch. Previously, Mr. Ivanov was a Director at First Private Bank.

He holds a degree in Economics and a Master's degree in Construction Economics from the Higher Institute for National Economy (now the University of Economics) in Varna.

Besides his position in the Bank, Mr. Ivanov is also a private owner and a manager of ICON 54 EOOD. Mr. Ivanov is a partner in and holds more than 25% of the capital of Dives plus OOD, Zhivotni i Ptitsi OOD and Bratya VG OOD.

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AER – Kozloduy
3321 Kozloduy, Nuclear Power Station,
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