FIRST INVESTMENT BANK AD

UNCONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2007
WITH INDEPENDENT AUDITOR'S REPORT THEREON

KPMG

REPORT
OF THE INDEPENDENT AUDITOR
TO THE SHAREHOLDERS OF FIRST INVESTMENT BANK AD

Sofia, 15 February 2008

Report on the unconsolidated financial statements

We have audited the accompanying unconsolidated financial statements of First Investment Bank AD ("the Bank"), which comprise the unconsolidated balance sheet as at 31 December 2007, and the unconsolidated income statement, unconsolidated statement of changes in equity and unconsolidated cash flow statement for the year then ended, and a *summary* of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the 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 financial statements.

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

Opinion

In our opinion, the unconsolidated financial statements give a true and fair view of the unconsolidated position of First Investment Bank AD as at 31 December 2007, and of its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with International Financial Reporting Standards adopted by European Commission.

Report on other legal and supervisory requirements

Annual unconsolidated report on the activity of the Bank pursuant to Article 33 of the Law on Accounting

Pursuant to the requirements of the Law on Accounting we also report that the financial information prepared by the Management and presented in the unconsolidated annual report on the activity of the Bank in accordance with Article 33 of the Law on Accounting corresponds in all significant aspects to the financial information contained in the annual unconsolidated financial statements of the Bank for the year ended 31 December 2007. The Management of the Bank is responsible for the preparation of the annual unconsolidated report approved by the Managing Board of the Bank on 15 February 2008.

Krassimir Hadjidinev *(signed and stamped)*
Registered Auditor
Authorised representative
KPMG Bulgaria OOD
37 Fridtjof Nansen Str.
1142 Sofia
Bulgaria

Margarita Goleva *(singed and stamped)*
Registered auditor

Unconsolidated Income Statement for the Year Ended 31 December 2007

In thousands of BGN

	Note	2007	2006
Interest income		269,669	194,367
Interest expense		(138,918)	(110,206)
Net interest income	**6**	**130,751**	**84,161**
Fee and commission income		59,253	44,121
Fee and commission expense		(9,637)	(5,901)
Net fee and commission income	**7**	**49,616**	**38,220**
Net trading income	**8**	**10,388**	**8,126**
Other operating income	**9**	**(230)**	**(73)**
TOTAL INCOME FROM BANKING OPERATIONS		**190,525**	**130,434**
General administrative expenses	10	(104,079)	(81,385)
Impairment losses	11	(26,408)	(12,671)
Other expenses, net		(4,258)	(3,281)
PROFIT BEFORE TAX		**55,780**	**33,097**
Income tax expense	**12**	**(5,373)**	**(4,359)**
NET PROFIT		**50,407**	**28,738**
Basic and diluted earnings per share (BGN)	**13**	**0.47**	**0.29**

The income statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 46.

Krassimir Hadjidinev
(signed and stamped)
Registered auditor
Partner
KPMG Bulgaria OOD

Margarita Goleva
(signed and stamped)
Registered auditor

Unconsolidated balance sheet as at 31 December 31 2007

In thousands of BGN

	Note	2007	2006
ASSETS			
Cash and balances with Central Banks	14	608,685	707,937
Financial assets held for trading	15	13,529	13,239
Available for sale investments	16	397,168	516,321
Financial assets held to maturity	17	104,706	70,221
Loans and advances to banks and other financial institutions	18	189,154	40,469
Loans and advances to customers	19	2,767,762	1,709,494
Property and equipment	20	111,282	80,662
Intangible assets	21	429	705
Other assets	23	12,340	15,937
TOTAL ASSETS		**4,205,055**	**3,154,985**
LIABILITIES AND CAPITAL			
Due to banks	24	17,234	10,436
Due to other customers	25	3,257,770	2,489,481
Liabilities evidenced by paper	26	444,443	332,738
Subordinated term debt	27	51,005	48,299
Perpetual debt	28	99,874	99,381
Deferred tax liability	22	1,368	1,169
Other liabilities	29	7,705	5,140
TOTAL LIABILITIES		**3,879,399**	**2,986,644**
Issued share capital	30	110,000	100,000
Share premium	30	97,000	-
Statutory reserve	30	39,861	39,861
Revaluation reserve on available for sale investments	30	(350)	(258)
Retained earnings	30	79,145	28,738
SHAREHOLDERS' EQUITY		**325,656**	**168,341**
TOTAL LIABILITIES AND GROUP EQUITY		**4,205,055**	**3,154,985**

The balance sheet is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 46.

Krassimir Hadjidinev
(signed and stamped)
Registered auditor
Partner
KPMG Bulgaria OOD

Margarita Goleva
(signed and stamped)
Registered auditor

Unconsolidated statement of cash flows for the year ended 31 December 2007

In thousands of BGN

	2007	2006
Net cash flow from operating activities		
Net profit	50,407	28,738
Adjustment for non-cash items		
Impairment losses	26,408	12,671
Depreciation and amortization	11,541	9,075
Income tax expense	5,373	4,359
	93,729	**54,843**
Change in operating assets		
(Increase) in financial instruments held for trading	(290)	(6,088)
(Increase)/decrease in available for sale investments	119,061	(79,808)
(Increase)/decrease in loans and advances to banks and financial institutions	19,675	(19,656)
(Increase) in loans to customers	(1,084,676)	(384,718)
(Increase)/decrease in other assets	3,597	(6,531)
	(942,633)	**(496,801)**
Change in operating liabilities		
Increase in due to banks	6,798	4,963
Increase in amounts owed to other depositors	768,289	523,767
Net increase/(decrease) in other liabilities	1,681	(1,751)
	776,768	**526,979**
Income tax paid	(4,290)	(4,430)
NET CASH FLOW FROM OPERATING ACTIVITIES	**(76,426)**	**80,591**
Cash flow from investing activities		
(Purchase) of tangible and intangible fixed assets	(41,885)	(28,601)
(Acquisition)/decrease of investments	(34,485)	27,751
NET CASH FLOW FROM INVESTING ACTIVITIES	**(76,370)**	**(850)**
Financing activities		
Increase of shareholders' equity, fully paid-up	10,000	10,000
Increase in share premium	97,000	-
Increase in borrowings	114,904	66,423
NET CASH FLOW FROM FINANCING ACTIVITIES	**221,904**	**76,423**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**69,108**	**156,164**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	**728,559**	**572,395**
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD (See Note 32)	**797,667**	**728,559**

The cash flow statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 46.

Krassimir Hadjidinev
(signed and stamped)
Registered auditor
Partner
KPMG Bulgaria OOD

Margarita Goleva
(signed and stamped)
Registered auditor

Unconsolidated statement of shareholders' equity for the year ended 31 December 2007

In thousands of BGN

	Note	Share capital	Share premium	Retained earnings	Revaluation reserve on available for sale	Statutory reserve	Total
Total Balance as at 01 January 2006	**30**	**64,726**	**1,304**	**41,122**	**(141)**	**22,709**	**129,720**
Transfer to statutory reserves		-	-	(17,152)	-	17,152	-
Revaluation reserve on available for sale investments, net		-	-	-	(117)	-	(117)
Increase of shareholders' equity, fully paid-up		10,000	-	-	-	-	10,000
Increase of shareholders' equity, transfer of retained earnings		25,274	(1,304)	(23,970)	-	-	-
Net profit for the year ended 31 December 2006		-	-	28,738	-	-	28,738
Balance at 31 December 2006	**30**	**100,000**	**-**	**28,738**	**(258)**	**39,861**	**168,341**
Increase of shareholders' equity, fully paid-up		10,000	97,000	-	-	-	107,000
Revaluation reserve on available for sale investments, net		-	-	-	(92)	-	(92)
Net profit for the year ended 31 December 2007		-	-	50,407	-	-	50,407
Balance at 31 December 2007	**30**	**110,000**	**97,000**	**79,145**	**(350)**	**39,861**	**325,656**

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 46.

The financial statements have been approved by the Managing Board on 15 February 2008 and signed on its behalf by:

Matthew Mateev (signed)
Chairman of the Managing Board and Executive Director

Evgeni Lukanov (signed)
Executive Director

Radoslav Milenkov (signed)
Director
Finance and Accounting

Krassimir Hadjidinev (signed)
Registered auditor

Margarita Goleva (signed)
Registered auditor

Partner
KPMG Bulgaria OOD

1. Basis of preparation

(a) Statute

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

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

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

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

(b) Statement of compliance

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

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

In preparing the financial statements the Bank applied IFRS 7 Financial Instruments: Disclosures. The adoption of IFRS 7 impacted the type and amount of disclosures made in these financial statements, but had no impact on the reported profit or financial position of the Bank. In accordance with the transitional requirements of the standards, the Bank has provided full comparative information.

(c) Basis of preparation

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

The Bank has made certain reclassifications to the financial statements as of 31 December 2006 in order to provide more clear and precise comparison figures.

The financial statements are prepared on a fair value basis for derivative financial instruments, financial assets and liabilities held for trading, and available-for-sale assets, except those for which a reliable measure of fair value is not available. Other financial assets and liabilities and non-financial assets and liabilities are stated at amortised cost or historical cost convention and restated for the effects of hyperinflation where necessary. Prior to 1998 the Bulgarian economy experienced severe hyperinflation and the Bank's 1997 financial statements have been restated in accordance with IAS 29, Financial Reporting in Hyperinflationary Economies. Those financial statements have been restated for the changes in the general purchasing power of the Bulgarian Lev, and as a result, are stated in terms of the measuring unit current at 31 December, 1997.

The present financial statements of First Investment Bank AD are not consolidated. Pursuant to the national accounting legislation the consolidated financial statements will be drawn up and published by 30 June 2008. These individual financial statements form an integral part of the consolidated financial statements.

2. Significant accounting policies

(a) Income recognition

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

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

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

(b) Basis of consolidation of subsidiaries

Investments in subsidiaries are measured at cost.

(c) Foreign currency transactions

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

(iii) Foreign operations

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

2. Significant accounting policies, continued

(d) Financial assets

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

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

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

(ii) Loans and receivables

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

(iii) Held-to-maturity

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

(iv) Available-for-sale

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

(v) Recognition

Purchases and sales of financial assets at fair value through profit or loss, held to maturity and available for sale are recognised on the date of the actual delivery of the assets. Loans are recognised when cash is advanced to the borrowers. Financial assets are initially recognised at fair value plus transaction costs for all financial assets. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or when the Bank has transferred substantially all risks and rewards of ownership.

2. Significant accounting policies, continued

(d) Financial assets, continued

(vi) Measurement

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

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

(vii) Fair value measurement principles

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

(e) Cash and cash equivalents

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

(f) Investments

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

2. Significant accounting policies, continued

(g) Securities borrowing and lending business and repurchase transactions

(i) Securities borrowing and lending

Investments lent under securities lending arrangements continue to be recognised in the balance sheet and are measured in accordance with the accounting policy for assets held for trading or available-for-sale as appropriate. Cash collateral received in respect of securities lent is recognised as liabilities to either banks or customers. Investments borrowed under securities borrowing agreements are not recognised. Cash collateral placements in respect of securities borrowed are recognised under loans and advances to either banks or customers. Income and expenses arising from the securities borrowing and lending business are recognised on an accrual basis over the period of the transactions and are included in interest income or expense.

(ii) Repurchase agreements

The Bank enters into purchases (sales) of investments under agreements to resell (repurchase) substantially identical investments at a certain date in the future at a fixed price. Investments purchased subject to commitments to resell them at future dates are not recognised. The amounts paid are recognised in loans to either banks or customers. The receivables are shown as collateralised by the underlying security. Investments sold under repurchase agreements continue to be recognised in the balance sheet and are measured in accordance with the accounting policy for either assets held for trading or available-for-sale as appropriate. The proceeds from the sale of the investments are reported as liabilities to either banks or customers.

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

(h) Borrowings

Borrowings are recognised initially at 'cost', being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost and any difference between net proceeds and the redemption value is recognized in the income statement over the period of the borrowings using the effective yield method.

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

(i) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when the Bank has a legally enforceable right to set off the recognised amounts and the transactions are intended to be settled on a net basis.

2. Significant accounting policies, continued

(j) *Impairment of Assets*

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

(i) Loans and advances

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

Loans and advances are presented net of specific and general allowances for impairment. Specific allowances are made against the carrying amount of loans and advances that are identified as being impaired based on regular reviews of outstanding balances to reduce these loans and advances to their recoverable amounts. General allowances are maintained to reduce the carrying amount of portfolios of similar loans and advances to their estimated recoverable amounts at the balance sheet date. The expected cash flows for portfolios of similar assets are estimated based on previous experience and considering the credit rating of the underlying customers and late payments of interest or penalties. Increases in the allowance account are recognised in the income statement. When a loan is identified to be not recoverable, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off directly.

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

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

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

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

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

2. Significant accounting policies, continued

(k) Property and equipment

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

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

Assets	%
▪ Buildings	3 - 4
▪ Equipment	15 – 20
▪ Fixtures and fittings	15 – 20
▪ Motor Vehicles	15 – 20
▪ Leasehold Improvements	10 – 33

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

(l) Intangible assets

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

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

Assets	%
Licences	15 - 20
Computer software	20

(m) Provisions

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

(n) Acceptances

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

(o) Taxation

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

2. Significant accounting policies, continued

(o) Taxation, continued

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

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

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

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

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

(i) Impairment losses on loans and advances

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

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

(ii) Income taxes

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

2. Significant accounting policies, continued

(q) Earnings Per Share

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

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

- *IFRS 8 Operating Segments* (effective as of 1 January 2009) which becomes mandatory for the Bank's 2009 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Bank's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them.
- *Revised IAS 23 Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become mandatory for the Bank's 2009 financial statements. It is not expected to have any impact on the financial statements.
- *IFRIC 11 IFRS 2 – Group and Treasury Share Transactions* requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments are obtained. IFRIC 11 will become mandatory for the Bank's 2008 financial statements and, is not expected to have any impact on the financial statements.
- *IFRIC 12 – Service Concession Arrangements Defined (effective as of 1 January 2008)* provides guidance on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. IFRIC 12, which becomes mandatory for the Bank's 2008 financial statements, is not expected to have any effect on the financial statements.
- *IFRIC 13 Customer Loyalty Programmes* addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes for their customers. It relates to customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13, which becomes mandatory for the Bank's 2009 financial statements, is not expected to have any impact on the financial statements.
- *IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective as of 1 January 2008) is not expected to have any impact on the Bank's financial statements.

3. Risk management disclosures

A. Trading activities

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

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

(i) Credit risk

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

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

(ii) Market risk

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

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

All marked-to-market instruments are recognised and measured at fair value, and all changes in market conditions directly affect net trading income (through trading instruments) or equity value (through available for sale instruments). However, in a developing capital market, the prices at which transactions are realised can be different from quoted prices. While management has used available market information in estimating fair value, the market information may not be fully reflective of the value that could be realised under the current circumstances.

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

3. Risk management disclosures, continued

A. Trading activities, continued

(ii) Market risk, continued

The Value at Risk is calculated and monitored on a daily basis as part of the Bank's ongoing risk management. The following table summarises the range of VaR for all positions carried at fair value that was experienced in 2007:

	31 December	**2007**	**2007**	**2007**	**31 December**
in thousands of BGN	**2007**	**average**	**low**	**high**	**2006**
VaR	796	468	251	916	363

B. Non-trading activities

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

(i) Liquidity risk

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

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

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

3. Risk management disclosures, continued

B. Non-trading activities, continued

(i) Liquidity risk, continued

Maturity table as at 31 December 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	608,685	-	-	-	-	**608,685**
Financial assets held for trading	13,529	-	-	-	-	**13,529**
Available for sale investments	20,019	38,729	191,131	123,247	24,042	**397,168**
Financial assets held to maturity	-	15,562	9,283	79,861	-	**104,706**
Loans and advances to banks and other financial institutions	185,062	3,920	-	-	172	**189,154**
Loans and advances to customers	175,906	211,022	540,887	1,839,947		**2,767,762**
Property and equipment	-	-	-	-	111,282	**111,282**
Intangible assets	-	-	-	-	429	**429**
Other assets	12,340	-	-	-	-	**12,340**
Total assets	**1,015,541**	**269,233**	**741,301**	**2,043,055**	**135,925**	**4,205,055**
Liabilities						
Due to credit institutions	17,234	-	-	-	-	**17,234**
Due to other customers	2,012,425	425,798	727,621	91,926	-	**3,257,770**
Liabilities evidenced by paper	185	39	346,325	97,894	-	**444,443**
Subordinated term debt	-	-	-	51,005	-	**51,005**
Perpetual debt	-	-	-	-	99,874	**99,874**
Deferred tax liability	-	-	-	-	1,368	**1,368**
Other liabilities	7,433	-	-	272	-	**7,705**
Total liabilities	**2,037,277**	**425,837**	**1,073,946**	**241,097**	**101,242**	**3,879,399**
Net liquidity gap	**(1,021,736)**	**(156,604)**	**(332,645)**	**1,801,958**	**34,683**	**325,656**

3. Risk management disclosures, continued

B. Non-trading activities, continued

(i) Liquidity risk, continued

Maturity table as at 31 December 2006

In thousands of BGN	Up to 1 Month	From 1 to 3 Months	From 3 months to 1 year	More than 1 year	Maturity not defined	Total
Assets						
Cash and balances with Central Banks	707,937	-	-	-	-	**707,937**
Financial assets held for trading	13,239	-	-	-	-	**13,239**
Available for sale investments	78,994	130,014	138,868	159,159	9,286	**516,321**
Financial assets held to maturity	-	15,681	8,430	46,110	-	**70,221**
Loans and advances to banks and other financial institutions	35,765	3,942	-	-	762	**40,469**
Loans and advances to customers	66,436	126,785	405,482	1,110,791	-	**1,709,494**
Property and equipment	-	-	-	-	80,662	**80,662**
Intangible assets	-	-	-	-	705	**705**
Other assets	15,937	-	-	-	-	**15,937**
Total assets	**918,308**	**276,422**	**552,780**	**1,316,060**	**91,415**	**3,154,985**
Liabilities						
Due to credit institutions	10,436	-	-	-	-	**10,436**
Due to other customers	1,254,295	168,226	580,761	486,199	-	**2,489,481**
Liabilities evidenced by paper	225,777	446	1,329	105,186	-	**332,738**
Subordinated term debt	-	-	-	48,299	-	**48,299**
Perpetual debt	-	-	-	-	99,381	**99,381**
Deferred tax liability	-	-	-	-	1,169	**1,169**
Other liabilities	4,832	-	7	301	-	**5,140**
Total liabilities	**1,495,340**	**168,672**	**582,097**	**639,985**	**100,550**	**2,986,644**
Net liquidity gap	**(577,032)**	**107,750**	**(29,317)**	**676,075**	**(9,135)**	**168,341**

As at 31 December 2007 the thirty largest non-financial depositors represent 35.73% of total deposits from other customers (2006: 41.73 %).

3. Risk management disclosures, continued

B. Non-trading activities, continued

(i) Liquidity risk, continued

The following table provides a remaining maturities analysis of the financial liabilities of the Bank as at 31 December 2007 based on the contractual undiscounted cash flows.

In thousands of BGN	Up to 1 Month	From 1 to 3 Months	From 3 months to 1 year	More than 1 year	Maturity not defined	Total
Due to credit institutions	17,271	-	-	-	-	17,271
Due to other customers	2,020,916	427,962	726,719	107,468	-	3,283,065
Liabilities evidenced by paper	185	41	361,200	109,160	-	470,586
Subordinated term debt	-	-	-	99,116	-	99,116
Perpetual debt		5,083	7,214	104,099	93,880	210,276
Total financial liabilities	**2,038,372**	**433,086**	**1,095,133**	**419,843**	**93,880**	**4,080,314**

(ii) *Market risk*

Interest rate risk

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

In order to quantify the interest rate risk of its non-trading activities, the Bank measures the impact of a change in the market rates both on net interest income and on the Bank's economic value defined as the difference between fair value of assets and fair value of liabilities. The interest rate risk on the economic value of the Bank following a standardised shock of +100bp/-100bp as at 31 December 2007 is BGN -3.5/+3.5 Mio.

The interest rate risk on the Bank's net interest income one year forward following a standardised shock of +100bp/-100bp as at 31 December 2007 is BGN -2.3/+2.3 Mio.

An analysis of the Bank's sensitivity to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant balance sheet position) is as follows:

	100 bp parallel increase	*50 bp increase after 1 year*
Minimum of the period	(3,449)	(2,330)
Maximum of the period	1,556	666
Average of the period	(864)	(1,505)

3. Risk management disclosures, continued

B. Non-trading activities, continued

(ii) Market risk, continued

Interest rate risk, continued

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

3. Risk management disclosures, continued

B. Non-trading activities, continued

(ii) Market risk, continued

Interest rate risk, continued

The following table indicates the effective interest rates at 31 December 2006 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	374,945	3.67%	22,317	352,628	-	-	-
Financial assets held for trading	8,627	3.66%	73	-	7,417	-	1,137
Available for sale investments	502,114	3.98%	72,096	78,545	126,808	137,911	86,754
Financial assets held to maturity	69,265	3.50%	36,763	-	21,458	2,134	8,910
Loans and advances to banks and other financial institutions	35,001	3.71%	258	30,831	3,912	-	-
Loans and advances to customers	1,680,118	11.13%	1,490,522	12,652	13,812	18,023	145,109
Non-interest earning assets	484,915	-	-	-	-	-	-
Total assets	**3,154,985**		**1,622,029**	**474,656**	**173,407**	**158,068**	**241,910**
Liabilities							
Due to credit institutions	10,175	4.66%	2,978	7,197			
Due to other customers	2,407,682	3.57%	1,946,917	27,557	7,311	22,574	403,323
Liabilities evidenced by paper	330,952	4.58%	57,457	225,188	443	1,023	46,841
Subordinated term debt	45,312	13.30%	-	-	-	-	45,312
Perpetual debt	93,880	12.56%	-	-	-	-	93,880
Non-interest bearing liabilities	98,643	-	-	-	-	-	-
	2,986,644		**2,007,352**	**259,942**	**7,754**	**23,597**	**589,356**

3. Risk management disclosures, continued

B. Non-trading activities, continued

(ii) Market risk, continued

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Bank is exposed to currency risk 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 Bank presents it financial statements is the Bulgarian lev, the Bank's financial statements are effected by movements in the exchange rates between the Bulgarian lev and currencies other than the Euro.

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

In thousands of BGN	**2007**	**2006**
Monetary assets		
Euro	88,507	1,789,313
US dollar	344,688	307,378
Other	51,905	67,226
Gold bullion	4,730	3,134
Monetary liabilities		
Euro	291,182	1,951,369
US dollar	344,698	308,287
Other	52,165	67,308
Gold bullion	-	-
Net position		
Euro	(202,675)	(162,056)
US dollar	(10)	(909)
Other	(260)	(82)
Gold bullion	4,730	3,134

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

(iii) Credit risk

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

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

3. Risk management disclosures, continued

B. Non-trading activities, continued

(iii) Credit risk, continued

31 December 2007			*In thousands of BGN*
Class of exposure	**Gross amount of loans and advances to customers**	**Allowance for impairment**	**Carrying amount of loans and advances to customers**
Collectively impaired			
Standard	2,766,350	(23,082)	2,743,268
Individually impaired			
Watch	15,363	(835)	14,528
Substandard	7,602	(1,234)	6,368
Nonperforming	48,298	(44,700)	3,598
Total	**2,837,613**	**(69,851)**	**2,767,762**

31 December 2006			*In thousands of BGN*
Class of exposure	**Gross amount of loans and advances to customers**	**Allowance for impairment**	**Carrying amount of loans and advances to customers**
Collectively impaired			
Standard	1,679,012	(15,767)	1,663,245
Individually impaired			
Watch	22,083	(1,661)	20,422
Substandard	20,679	(2,691)	17,988
Nonperforming	32,802	(24,963)	7,839
Total	**1,754,576**	**(45,082)**	**1,709,494**

In addition, the Group is exposed to off-balance sheet credit risk through commitments to extend credit 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, commitments to extend credit and guarantees issued.

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

In thousands of BGN	**2007**	**2006**
Trade	531,010	300,035
Industry	708,174	460,032
Services	227,217	128,129
Finance	1,957	1,620
Transport, logistics	153,074	47,870
Communications	45,445	5,646
Construction	180,151	160,910
Agriculture	89,340	62,760
Tourist services	115,713	119,488
Private individuals	748,552	452,027
Other items	36,980	16,059
Less allowance for impairment	(69,851)	(45,082)
	2,767,762	**1,709,494**

3. Risk management disclosures, continued

B. Non-trading activities, continued

(iii) Credit risk, continued

The Bank has extended loans to enterprises involved in different types of activities but within the same economic sector - industry. As such the exposures share a similar industry risk. There are three such groups of enterprises at 31 December 2007 with total exposures amounting to BGN 14,628 thousand (2006: BGN 11,102 thousand) - ferrous metals, BGN 22,400 thousand (2006: BGN 25,705 thousand) - cable and electrics and BGN 118,539 thousand (2006: BGN 69,938 thousand) - power engineering.

The Bank has extended loans, confirmed letters of credit and granted guarantees to 16 individual clients or groups (2006: 10) with each individual exposure exceeding 10% of the capital base of the Bank and based on the book value of the corresponding credit facility. The total amount of these exposures is BGN 911,798 thousand which represents 238.13% of the Bank's capital base (2006: BGN 463,399 thousand which represented 158.14% of capital base) of which BGN 667,792 thousand (2006: BGN 298,812 thousand) represent loans and BGN 244,006 thousand (2006: BGN 164,587 thousand) represent guarantees, letters of credit and other commitments. Exposures secured by cash have been excluded from the calculation of the large exposures.

Loans extended by the branch in Cyprus amount to BGN 140,128 thousand (gross carrying amount before any allowances) (2006: BGN 53,986 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 Bank's policy is to require suitable collateral to be provided by certain customers prior to the disbursement of approved loans. Guarantees and letters of credit are also subject to strict credit assessments before being provided. The agreements specify monetary limits to the Bank's obligations. The extent of collateral held for guarantees and letters of credit is 100 percent.

Collateral for loans, guarantees, and letters of credit is usually in the form of mortgage, cash, plant and equipment, securities, or other property.

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

In thousands of BGN	**2007**	**2006**
Mortgage	1,525,826	964,955
Pledge of receivables	267,153	322,465
Pledge of commercial enterprise	296,050	127,113
Securities	144,558	74,726
Guarantee	18,862	61,306
Pledge of goods	92,965	53,379
Pledge of machines	150,380	39,559
Money deposit	115,390	32,564
Stake in capital	41,661	23,425
Gold	32	32
Other collateral	178,313	48,633
Unsecured	6,423	6,419
Less allowance of impairment	(69,851)	(45,082)
Total	**2,767,762**	**1,709,494**

3. Risk management disclosures, continued

C. Solvency ratio (Capital adequacy)

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

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

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

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

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

Following limits are applied to elements of the capital base: qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying term subordinated loan capital may not exceed 50 percent of tier 1 capital. Other deductions from capital include the carrying amounts of unconsolidated investments.

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

3. Risk management disclosures, continued

C. Capital adequacy, continued

Capital adequacy level was as follows:

In thousands of BGN	Balance sheet/notional amount		Risk weighted assets	
	2007	**2006**	**2007**	**2006**
Risk weighted assets for credit risk				
Balance sheet assets				
Cash and balances with Central Banks	608,685	707,937	14,854	74,739
Financial assets held for trading	13,529	13,239	11,413	4,523
Available for sale investments	397,168	516,321	34,319	14,361
Financial assets held to maturity	104,706	70,221	13,843	9,222
Loans and advances to banks and other financial institutions	189,154	40,469	38,642	4,276
Loans and advances to customers	2,767,762	1,709,494	2,450,043	1,507,207
Property and equipment	111,282	80,662	111,282	80,662
Intangible assets	429	705	-	705
Other assets	12,340	15,937	11,517	15,937
Total assets	**4,205,055**	**3,154,985**	**2,685,913**	**1,711,632**
Off balance sheet positions				
Commitments and contingent liabilities	1,059,963	786,597	219,431	188,575
Forward and option derivative instruments	111,821	52,745	707	818
Total risk-weighted assets for credit risk			**2,906,051**	**1,901,025**
Risk-weighted assets for market risk			**2,789**	**5,134**
Risk-weighted assets for operational risk			**188,375**	**-**
Total risk-weighted assets			**3,097,215**	**1,906,159**

Capital adequacy ratios	**Capital**		**Capital ratios %**	
	2007	**2006**	**2007**	**2006**
Tier 1 Capital	**263,337**	**168,599**	**8.50%**	**8.84%**
Total capital base	**382,895**	**293,023**	**12.36%**	**15.37%**

4. Segment Reporting

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

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

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

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

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

In thousands of BGN	**Bulgarian operations**		**Foreign operations**		**Total**	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**
Interest income	260,542	187,453	9,127	6,914	269,669	194,367
Interest expense and sir charges	(138,021)	(109,192)	(897)	(1,014)	(138,918)	(110,206)
Net interest income	**122,521**	**78,261**	**8,230**	**5,900**	**130,751**	**84,161**
Fee and commission inc	58,348	43,509	905	612	59,253	44,121
Fee and commission expense	(9,604)	(5,871)	(33)	(30)	(9,637)	(5,901)
Net fee and commissic income	**48,744**	**37,638**	**872**	**582**	**49,616**	**38,220**
Net trading income	**10,318**	**8,097**	**70**	**29**	**10,388**	**8,126**
Administrative expenses	(100,879)	(78,214)	(3,200)	(3,171)	(104,079)	(81,385)

	2007	**2006**	**2007**	**2006**	**2007**	**2006**
Assets	**4,053,369**	**3,081,774**	**151,686**	**73,211**	**4,205,055**	**3,154,985**
Liabilities	**3,855,649**	**2,857,837**	**23,750**	**128,807**	**3,879,399**	**2,986,644**

5. Financial assets and liabilities
Accounting classification and fair values

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

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

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 fact that the main part of the loan portfolio carries floating interest rates which reflect the changes in the market conditions.

5. Financial assets and liabilities

Accounting classification and fair values, continued

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

In thousands of BGN	Trading	Held-to-maturity	Loans and receivables	Available-for-sale	Other at amortised cost	Net book value	Fair value
ASSETS							
Cash and balances with Central Banks	-	-	707,937	-	-	707,937	707,937
Financial assets held for trading	13,239	-	-	-	-	13,239	13,239
Available for sale investments	-	-	-	516,321	-	516,321	516,321
Financial assets held to maturity	-	70,221	-	-	-	70,221	70,194
Loans and advances to banks and other financial institutions	-	-	40,469	-	-	40,469	40,469
Loans and advances to customers	-	-	1,709,494	-	-	1,709,494	1,709,494
Other trading assets	111	-	-	-	-	111	111
	13,350	**70,221**	**2,457,900**	**516,321**	**-**	**3,057,792**	**3,057,765**
LIABILITIES							
Due to banks	-	-	-	-	10,436	10,436	10,436
Due to other customers	-	-	-	-	2,489,481	2,489,481	2,489,481
Liabilities evidenced by paper	-	-	-	-	332,738	332,738	332,916
Subordinated term debt	-	-	-	-	48,299	48,299	48,299
Perpetual debt	-	-	-	-	99,381	99,381	105,423
	-	**-**	**-**	**-**	**2,980,335**	**2,980,335**	**2,986,555**

6. Net interest income

In thousands of BGN	**2007**	**2006**
Interest income		
Interest income:		
Loans and advances to banks and financial institutions	6,230	4,465
Loans to individuals and households	61,201	37,077
Loans to corporate clients	154,171	114,913
Loans to SMEs	26,008	15,712
Microlending	4,554	2,196
Debt instruments	17,505	20,004
	269,669	**194,367**
Interest expense and similar charges:		
Interest expense and similar charges arise from:		
Deposits from banks and financial institutions	(848)	(497)
Deposits from other customers	(103,934)	(83,651)
Liabilities evidenced by paper	(15,996)	(7,980)
Subordinated term debt	(6,212)	(7,213)
Perpetual debt	(11,881)	(10,705)
Lease agreements and other	(47)	(160)
	(138,918)	**(110,206)**
Net interest income	**130,751**	**84,161**

For the financial years ended 31 December 2007 and 31 December 2006 the recognised interest income on individually impaired financial assets (loans and advances to customers) amounts to BGN 9,692 thousand and BGN 21,121 thousand respectively.

7. Net fee and commission income

In thousands of BGN	**2007**	**2006**
Fee and commission income		
Letters of credit and guarantees	12,086	10,656
Payments transactions	8,413	6,122
Customer accounts	8,370	6,203
Cards business	12,996	10,487
Other items	17,388	10,653
	59,253	**44,121**
Fee and commission expense		
Letters of credit and guarantees	(626)	(994)
Deposits to banks and other financial institutions	(953)	(875)
Cards business	(5,586)	(3,888)
Other items	(2,472)	(144)
	(9,637)	**(5,901)**
Net fee and commission income	**49,616**	**38,220**

8. Net trading income

In thousands of BGN	**2007**	**2006**
Net trading income arises from:		
- Debt instruments	517	38
- Equities	2,245	1,399
- Foreign exchange rate fluctuations	7,626	6,689
Net trading income	**10,388**	**8,126**

9. Other operating income

Other operating income represents losses from disposal of available for sale investments.

In thousands of BGN	**2007**	**2006**
Other operating income arising from:		
- Debt instruments	(230)	(73)
Other operating income	**(230)**	**(73)**

10. Administrative expenses

In thousands of BGN	**2007**	**2006**
General and administrative expenses comprise:		
- Personnel cost	31,020	23,213
- Depreciation and amortisation	11,541	9,075
- Advertising	10,690	9,054
- Building rent expense	10,939	8,637
- Telecommunications, software and other computer maintenance	8,738	5,798
- Unclaimable VAT	6,552	4,953
- Administration, consultancy and other costs	24,599	20,655
Administrative expenses	**104,079**	**81,385**

Personnel costs include salaries, social and health security contributions under the provisions of the local legislation. At 31 December 2007 the total number of employees was 2,182 (2005: 1,586).

11. Impairment losses

In thousands of BGN	**2007**	**2006**
Write-downs		
Loans and advances to customers	(42,430)	(30,313)
Reversal of write-downs		
Loans and advances to customers	16,022	17,642
Net impairment losses	**(26,408)**	**(12,671)**

12. Income tax expense

In thousands of BGN	**2007**	**2006**
Current taxes	(5,174)	(4,710)
Deferred taxes (See Note 22)	(199)	351
Income tax expense	**(5,373)**	**(4,359)**

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

In thousands of BGN	**2007**	**2006**
Accounting profit before taxation	**55,780**	**33,097**
Corporate tax at applicable tax rate (10% for 2007 and 15% for 2006)	5,578	4,965
Tax effect of permanent tax differences	(404)	(255)
Tax effect of reversals of temporary differences	199	156
Tax effect of decreased tax rate	-	(507)
Income tax expense	**5,373**	**4,359**
Effective tax rate	9.63%	13.17%

13. Earnings per share

	2007	2006
Net profit attributable to shareholders (in thousands of BGN)	50,407	28,738
Weighted average number of ordinary shares (in 000's)	106,137	99,183
Earnings per share (BGN)	**0.47**	**0.29**

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 2007 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	2007	2006
Cash on hand		
- in BGN	89,814	61,550
- in foreign currency	39,492	32,245
Gold bullion	4,730	3,134
Balances with Central Banks	409,705	238,337
Current accounts and amounts with local banks	64	1,141
Current accounts and amounts with foreign banks	64,880	371,530
Total	**608,685**	**707,937**

15. Financial assets held for trading

In thousands of BGN	2007	2006
Debt and other fixed income instruments		
Bonds and notes issued by:		
Bulgarian Government		
- denominated in Bulgarian Leva	2,046	-
- denominated in foreign currencies	70	1,245
Foreign governments	-	7,471
Other issuers	11,413	4,523
Total	**13,529**	**13,239**

16. Available for sale investments

In thousands of BGN	2007	2006
Bonds and notes issued by:		
Bulgarian Government		
- denominated in BGN	29,765	83,958
- denominated in foreign currencies	6,323	7,651
Foreign governments		
- short term	229,860	194,453
- long term	20,019	143,963
Foreign banks and other financial institutions	87,159	66,950
Other issuers	1,077	11,032
Investments in subsidiaries	22,965	8,314
	397,168	**516,321**

Investments in subsidiaries are as follows:

In thousands of BGN

Entity:	% held	2007	2006
First Investment Finance B.V. The Netherlands	100%	3,947	3,947
Diners Club Bulgaria AD	85.52%	2,443	358
First Investment Bank − Albania Sh.a.	99.9998%	16,575	4,009
		22,965	**8,314**

17. Financial assets held to maturity

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

In thousands of BGN	2007	2006
Securities held to maturity issued by:		
Bulgarian Government	60,492	6,296
Foreign governments	-	17,816
Foreign banks and other financial institutions	44,214	46,109
	104,706	**70,221**

18. Loans and advances to banks and other financial institutions

(a) Analysis by type

In thousands of BGN	2007	2006
Placements with banks	162,870	15,856
Receivables under repurchase agreements	-	19,085
Other items	26,284	5,528
Total	**189,154**	**40,469**

(b) Geographical analysis

In thousands of BGN	2007	2005
Domestic banks and financial institutions	24,902	30,204
Foreign banks and other financial institutions	164,252	10,265
Total	**189,154**	**40,469**

19. Loans and advances to customers

In thousands of BGN	**2007**	**2006**
Retail customers		
- Consumer loans	360,250	217,285
- Mortgage loans	388,302	234,742
Small and medium enterprises	264,185	162,997
Microlending	43,476	23,461
Corporate customers		
- Public sector customers	33,972	21,362
- Private sector customers	1,747,428	1,094,729
Less allowance for impairment	(69,851)	(45,082)
	2,767,762	**1,709,494**

(a) Movement in impairment allowances

In thousands of BGN	
Total Balance as at 01 January 2007	**45,082**
Additional allowances	42,430
Amounts released	(16,056)
Write - offs	(1,605)
Balance at 31 December 2007	**69,851**

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

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 2007	9,055	55,778	5,139	25,555	21,832	117,359
Additions	361	35	-	45,309	351	46,056
Disposals	-	(2,391)	(924)	(902)	(1,365)	(5,582)
Transfers	2,951	12,572	1,312	(21,948)	4,882	(231)
At 31 December 2007	12,367	65,994	5,527	48,014	25,700	157,602
Amortisation						
At 1 January 2007	2,825	26,847	2,491	-	4,534	36,697
Charge for the period	361	7,615	973	-	2,393	11,342
On disposals	-	(855)	(595)	-	(269)	(1,719)
At 31 December 2007	3,186	33,607	2,869	-	6,658	46,320
Net book value						
At 31 December 2007	**9,181**	**32,387**	**2,658**	**48,014**	**19,042**	**111,282**
At 1 January 2007	**6,230**	**28,931**	**2,648**	**25,555**	**17,298**	**80,662**

21. Intangible assets

In thousands of BGN	Software and licences	Total
Cost		
At 1 January 2007	2,418	2,418
Additions	121	121
Disposals	(518)	(518)
Transfers	231	231
At 31 December 2007	2,252	2,252
Amortisation		
At 1 January 2007	1,713	1,713
Charge for the period	199	199
On disposals	(89)	(89)
At 31 December 2007	1,823	1,823
Net book value		
At 31 December 2007	**429**	**429**
At 1 January 2007	**705**	**705**

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**	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**
Property, equipment and intangibles	-	-	1,549	1,279	1,549	1,279
Other items	(181)	(110)	-	-	(181)	(110)
Net tax (assets)/liabilities	**(181)**	**(110)**	**1,549**	**1,279**	**1,368**	**1,169**

Movements in temporary differences during the year at the amount of BGN 199 000 are recognised in income statement.

23. Other assets

In thousands of BGN	**2007**	**2006**
Deferred expense	3,802	3,277
Other assets	8,538	12,660
Total	**12,340**	**15,937**

24. Due to credit institutions

In thousands of BGN	**2007**	**2006**
Term deposits	13,030	9,247
Payable on demand	4,204	1,189
Total	**17,234**	**10,436**

25. Due to other customers

In thousands of BGN	**2007**	**2006**
Retail customers		
- payable on demand	461,966	347,496
- term deposits	973,289	665,623
Corporate customers		
- payable on demand	620,802	512,689
- term deposits	1,201,713	963,673
Total	**3,257,770**	**2,489,481**

26. Liabilities evidenced by paper

In thousands of BGN	**2007**	**2006**
Bonds and notes issued	29,743	29,672
Acceptances under letters of credit	311,491	1,634
Liabilities under repurchase agreements	-	225,366
Other term liabilities	103,209	76,066
	444,443	**332,738**

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

Bonds and notes issued comprise of the following:

In thousands of BGN	**2007**	**2006**
Mortgage bonds		
EUR 5,000,000 7% due 2008	9,855	9,832
EUR 10,000,000 7% due 2009	19,888	19,840
	29,743	**29,672**

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

27. Subordinated term debt

As at 31 December 2007 the Bank has entered into seven separate subordinated Loan Agreements with four different lenders. All these subordinated Loan Agreements are governed by English Law and the funds raised outside the Republic of Bulgaria.

Subordinated liabilities can be analysed as follows:

In thousands of BGN

Lender	Principal amount	Final maturity	Amortised cost as at 31 December 2007
Growth Management Limited	1,956	10 years	3,001
Growth Management Limited	5,867	10 years	8,553
Growth Management Limited	3,912	10 years	5,344
Hillside Apex Fund Limited	9,779	10 years	13,297
Growth Management Limited	1,956	10 years	2,613
Standard Bank	9,779	10 years	13,012
Hypo-Alpe-Adria Bank	3,912	10 years	5,185
	37,161		**51,005**

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 2007
Step-up Guaranteed Perpetual Subordinated Bonds EUR 27 mio	52,807	54,975
Step-up Guaranteed Perpetual Subordinated Bonds EUR 21 mio	41,073	44,899
	93,880	**99,874**

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

29. Other liabilities

In thousands of BGN	**2007**	**2006**
Liabilities to personnel	1,542	896
Current tax liability	4,310	1,882
Other payables	1,853	2,362
	7,705	**5,140**

30. Capital and reserves

(a) Number and face value of registered shares as at 31 December 2007

As at 31 December 2007 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 Shareholders without affecting the aggregate amount of the share capital and the individual shareholdings.

(b) Shareholders

On 13 February 2007 Growth Management Limited, Channel Islands and Hillside Apex Fund Ltd., Cayman Islands transferred their entire 20% shareholding in the Bank to the offshore companies Domenico Ventures Limited, British Virgin Islands – 7%; Rafaela Consultants Limited, British Virgin Islands – 7%; and Legnano Enterprise Limited Cyprus – 6% respectively. As a result Legnano Enterprises Ltd. increased its aggregate shareholding to 7.68%.

Furthermore, as provided under the terms and conditions of the IPO First Financial Brokerage House Ltd. sold 6,500,000 of the existing shares of the Bank that it holds to new investors, thereby effectively reducing its shareholding from 13.89 % to 6.72%. Subsequently, on 20 December 2007, First Financial Brokerage House Ltd. transferred its remaining share of 6.72% to Balkan Holidays Limited, Great Britain.

30. Capital and reserves, continued

(b) Shareholders, continued

The table below shows those shareholders of the Bank holding shares as at 31 December 2007 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
Balkan Holidays Limited, Great Britain	7,390,000	6.72
Legnano Enterprise Limitedq Cyprus	8,450,000	7.68
Domenico Ventures Limited, British Virgin Islands	7,000,000	6.36
Rafaela Consultants Limited, British Virgin Islands	7,000,000	6.36
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 Bulgarian Stock Exchange – Sofia.

*In accordance with a Placement Agreement concluded between the Bank and the existing shareholders (Mr. Ivailo Mutafchiev, Mr. Tzeko Minev, First Financial Brokerage House Ltd,.Sofia, Legnano Enterprise Limited Cyprus, Domenico Ventures Limited, British Virgin Islands, and Rafaela Consultants Limited, British Virgin Islands) as part of the IPO, t*he existing shareholders agreed to a lock-up arrangement whereby they shall not, except for any shares sold as part of the IPO, for a period of 180 days as of 21 March 2007, and without the prior written consent of First Financial Brokerage House Ltd. as Lead Manager of the issue, directly or indirectly (A) offer, pledge, sell, sell any option or contract to purchase, purchase any option, directly or indirectly, or contract to sell, grant any option, right or warrant to purchase, deposit into any depositary receipt facility or otherwise transfer or dispose of any shares or any securities convertible into or exercisable or exchangeable for shares, and not file any registration statement under the US Securities Act of 1933 with respect to any of the foregoing; or (B) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic risk of ownership of the Shares, whether any such swap or transaction described in (A) or (B) above is to be settled by delivery of shares or such other securities, in cash or otherwise.

On its part the Bank agreed to a similar lock-up arrangements in the Placement Agreement for a period of 360 days as of 21 March 2007, with the exception that the Bank also agreed not to allot, issue or contract to issue any shares or other securities, specified in item (A) above.

30. Capital and reserves, continued

(c) Statutory reserve

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

(d) Share price

As at 31 December 2007 the last price of the shares of the Bank traded on the Bulgarian Stock Exchange – Sofia was BGN 11.60.

31. Commitments and contingent liabilities

(a) Memorandum items

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

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

In thousands of BGN	**2007**	**2006**
Bank guarantees		
- in BGN	186,268	136,458
- in foreign currency	181,103	108,092
Total guarantees	**367,371**	**244,550**
Unused credit lines	402,996	211,228
Promissory notes	21,034	17,097
Letters of credit in foreign currency	268,562	313,722
	1,059,963	**786,597**

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

At 31 December 2007 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 flow statement, cash and cash equivalents comprises the following balances with less than 90 days original maturity:

In thousands of BGN	**2007**	**2006**
Cash and balances with Central Banks	608,685	707,937
Loans and advances to banks and other financial institutions with original maturity less than 3 months	188,982	20,622
	797,667	**728,559**

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	**2007**	**2006**
FINANCIAL ASSETS		
Cash and balances with Central Banks	521,875	399,088
Financial assets held for trading	14,758	18,459
Available for sale investments	356,175	486,829
Financial assets held to maturity	101,393	80,333
Loans and advances to banks and other financial institutions	37,254	26,998
Loans and advances to customers	2,294,636	1,458,477
FINANCIAL LIABILITIES		
Due to credit institutions	15,649	12,435
Due to other customers	2,709,589	2,076,640
Liabilities evidenced by paper	302,583	177,894
Subordinated term debt	51,131	55,170
Perpetual debt	99,056	91,037

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 with the Bank.

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

Type of related party	**Directors**		**Enterprises under common control**	
In thousands of BGN	**2007**	**2006**	**2007**	**2006**
Loans:				
Loans outstanding at beginning of the year	1,876	1,554	6,104	3,660
Loans issued during the year	598	322	6,064	2,444
Loans outstanding at end of the year	2,474	1876	12,168	6,104
Deposits received:				
At beginning of the year	547	273	862,464	774,289
Deposits placed during the year	515	274	(5,269)	88,175
At the end of the year	1,062	547	857,195	862,464
Deposits placed				
Deposits at beginning of the year	-	-	7,823	7,823
Deposits placed during the year	-	-	3,912	-
Deposits at end of the year	-	-	11,735	7,823
OFF-BALANCE SHEET COMMITMENTS ISSUED BY THE BANK				
At beginning of the year	-	-	1,860	130
Granted	387	-	1,315	1,730
At the end of the year	387	-	3,175	1,860

In 2007 the key management personnel of the Bank received remuneration of BGN 1,796 thousand (2006: BGN 2,079 thousand).

35. Subsidiaries

(a) First Investment Finance B.V.

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

35. Subsidiaries, continued

(b) Diners Club Bulgaria AD

In May 2005 the Bank acquired 80% of the share capital of Diners Club Bulgaria AD. As at 31 December 2007 the Bank held 85.52% of the registered share capital of the entity which amounts to BGN 5,000 thousand. The company was incorporated in 1996 as a franchise and processing agent of Diners Club International.

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

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

36. Post balance sheet events

On 31 January 2008 the Group repaid on maturity principal of EUR 200 million and interest of EUR 15 million of a long term bond, issued by First Investment Finance B.V. and guaranteed by the Bank.

37. Statement of compliance

IFRS 1	First-time Adoption of International Financial Reporting Standards
IFRS 2	Share-based Payment
IFRS 3	Business Combinations
IFRS 4	Insurance Contracts
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations
IFRS 6	Exploration for and Evaluation of Mineral Assets
IFRS 7	Financial Instruments: Disclosures
IAS 1	Presentation of Financial Statements
IAS 2	Inventories
IAS 7	Statement of Cash Flows
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10	Events After the Reporting Period
IAS 11	Construction Contracts
IAS 12	Income Taxes
IAS 14	Segment Reporting
IAS 16	Property, Plant and Equipment
IAS 17	Leases
IAS 18	Revenue
IAS 19	Employee Benefits
IAS 20	Accounting for Government Grants and Disclosure of Government Assistance
IAS 21	The Effects of Changes in Foreign Exchange Rates
IAS 23	Borrowing Costs
IAS 24	Related Party Disclosures
IAS 26	Accounting and Reporting by Retirement Benefit Plans
IAS 27	Consolidated and Separate Financial Statements
IAS 28	Investments in Associates
IAS 29	Financial Reporting in Hyperinflationary Economies

37. Statement of compliance, continued

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 Funds
IFRIC 6	Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
IFRIC 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
IFRIC 8	Scope of IFRS 2
IFRIC 9	Reassessment of Embedded Derivatives
IFRIC 10	Interim Financial Reporting and Impairment
SIC 7	Introduction of the Euro
SIC 10	Government Assistance – No Specific Relation to Operating Activities
SIC 12	Consolidation – Special Purpose Entities
SIC 13	Jointly Controlled Entities – Non-Monetary Contributions by Venturers
SIC 15	Operating Leases – Incentives
SIC 21	Income Taxes – Recovery of Revalued Non-Depreciable Assets
SIC 25	Income Taxes – Changes in the Tax Status of an Enterprise or its Shareholders
SIC 27	Evaluating the Substance of Transactions in the Legal Form of a Lease
SIC 29	Disclosure – Service Concession Arrangements
SIC 31	Revenue – Barter Transactions Involving Advertising Services
SIC 32	Intangible Assets – Website Costs