PROSPECTUS DATED 20 April 2007

First Investment Bank AD

(incorporated as a joint stock company with limited liability under the laws of Bulgaria)

Offering of up to 16,500,000 Ordinary Shares

This Prospectus relates to the public offer of up to 16,500,000 ordinary shares issued by First Investment Bank AD ("**FIBank**" or the "**Bank**"), each one with a nominal value of BGN 1 (the "**Offering**"). The Offering comprises 10,000,000 New Shares offered for subscription in the process of the Bank's capital increase (**"New Shares"**) and up to 5,000,000 Existing Shares ("**Existing Shares"**). In addition, the manager specified herein has been granted an Over-Allotment option for up to a further 1,500,000 Shares (the "**Over-allotment Shares**" and, together with the New Shares, the "**Offer Shares**"). This Prospectus is issued in compliance with Bulgarian law and the listing rules of the Bulgarian Stock Exchange – Sofia AD (the "**Bulgarian Stock Exchange**" or "**BSE**") and is approved by the Bulgarian Financial Supervision Commission (the "**Financial Supervision Commission**" or "**FSC**"). Immediately following the registration of the New Shares at the Bulgarian Commercial Register, the Bulgarian Central Depository and the FSC an application shall be made to list the Offer Shares and all FIBank's Shares (the "**Shares**") on the Unofficial Market of the Bulgarian Stock Exchange. It is expected that FIBank's Shares will be listed and that trading in the Offer Shares will commence on or about 22 June 2007 under the symbol "FIB".

The Offer Shares are being offered outside the United States in offshore transactions in accordance with Regulation S ("**Regulation S**") of the U.S. Securities Act of 1933, as amended (the "**US Securities Act**"). The Offer Shares have not and will not be registered under the US Securities Act or with any securities regulatory authority of any jurisdiction outside Bulgaria and may not be offered or sold within the United States either to, or for the benefit of, U.S. persons (as defined in Regulation S) except pursuant to an exemption from registration.

Investment in shares is subject to certain risks. It is in the interest of investors to read this Prospectus in its entirety, and, in particular, the section entitled "Risk Factors" on page 23 **before deciding whether to invest in the Offer Shares.**

This Prospectus contains all the information on FIBank necessary for taking a decision on whether to invest in the Offer Shares. In accordance with Bulgarian law the members of the FIBank Managing Board and First Financial Brokerage House OOD, in its capacity of a selling shareholder, shall be jointly and severally liable for any and all damages caused by false, misleading or incomplete data in the Prospectus. The persons, responsible for preparation of the financial statements of the Bank shall be jointly and severally liable with the FIBank Managing Board members for any and all damages caused by false, misleading or incomplete data in the financial statements of FIBank, and the auditor of the Bank for damage caused by the audited financial statements of the Bank. In this regard the above persons have declared the relevant circumstances as required by the law.

THE FINANCIAL SUPERVISION COMMISSION HAS APPROVED THIS PROSPECTUS WITH DECISION 586-E OF 25 APRIL 2007, WHICH IS NOT A RECOMMENDATION TO INVEST IN THE OFFERED SHARES. THE FINANCIAL SUPERVISION COMMISSION SHALL NOT BE LIABLE FOR THE ACCURACY AND THE COMPLETENESS OF THE DATA CONTAINED IN THIS PROSPECTUS.

Lead Manager of the Offered Shares

First Financial Brokerage House OOD

20 April 2007

Potential investors can receive this Prospectus free of charge at the following addresses:

- From the central office of First Investment Bank AD, 37 Dragan Tsankov Str., Sofia, tel.: +359 (2) 9100 100, website: www.fibank.bg; contact persons: Vasilka Momchilova Stamatova, from 8.45 a.m. till 17.45. p.m.;
- From the office of First Financial Brokerage House OOD in Sofia, 2 Enos Street., tel.: +359 (2) 810 64 00, website: www.ffbh.bg; contact person: Nadejda Dafinkicheva, from 9:00 a.m. till 17:00 p.m.

This Prospectus and additional public information about FIBank may also be obtained from the public register of the Financial Supervision Commission (www.fsc.bg) and from the Bulgarian Stock Exchange after the Admission of the Offered Shares becomes effective.

The Offer Shares rank *pari passu* in all respects with the other issued Shares and carry the right to receive all dividends and distributions declared made or paid on or in respect of the issued Shares.

First Financial Brokerage House OOD acting as a lead manager of the Offering (the "**Lead Manager**" "**Manager**" or "**FFBH**") is acting for the Bank and for its own account in its capacity of a shareholder offering Existing Shares in the Offering (the "**Selling Shareholder**") and of a stabilising manager (see bellow "*Over-allotment and Stabilisation*") and no one else in connection with the Offering, and will not be responsible to anyone other than the Bank for providing the protections afforded to its clients, or for providing advice in relation to the Offering or any transaction or arrangement referred to in this document.

The distribution of this document and the offer of the Shares in certain jurisdictions may be restricted by law.

No action has been or will be taken by the Bank, the Bank's shareholders at the date of this document, the Manager or any other person to permit a public offering of the Shares, or to permit the possession or distribution of this document (or any other offering or publicity materials or application form(s) relating to the Shares) in any jurisdiction where action for that purpose may be required.

Accordingly, neither this document nor any advertisement nor any other offering material may be distributed or published in any jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this document comes should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities law of any such jurisdictions. For information on restrictions relating to the Offering and the distribution of this document, see "*Subscription and Sale*".

Prospective investors should rely only on the information in this document. No person has been authorised to give any information or make any representations other than those contained in this document and, if given or made, such information or representations must not be relied on as having been authorised by the Bank or the Manager. Without prejudice to any obligation of the Bank to publish a supplementary prospectus pursuant to the Bulgarian Public Offer of Securities Act 1999, neither the delivery of this document nor any subscription or purchase of Shares made pursuant to this document shall, under any circumstances, create any implication that there has been no change in the affairs of the Bank since, or that the information contained herein is correct at any time subsequent to, the date of this document.

The contents of this document are not to be construed as legal, financial, business or tax advice. Each prospective investor should consult his, her or its own legal adviser, financial adviser or tax adviser for legal, financial or tax advice. If you are in any doubt about the contents of this document you should consult a stockbroker, bank manager, solicitor, accountant or other financial adviser. It should be remembered that the price of securities and the income from them can go down as well as up.

In connection with the Offering, the Manager acting as an investor for its own account may acquire Shares and, in that capacity, may retain, purchase, sell, offer to sell or otherwise deal for its own account in such securities, any other securities of the Bank or other related investments in connection with the Offering or otherwise. The Manager does not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

OVER-ALLOTMENT AND STABILISATION

In connection with the Offering, the Bank has appointed the Lead Manager as Stabilising Manager (the "**Stabilising Manager**"). The Bank and the Lead Manager has agreed the form and content of the placement agreement for the Offer Shares ("**Placement Agreement**") pursuant to which FFBH, acting as Stabilising Manager and shareholder in FIB, may sell additional Shares, owned by FFBH ("**Over-allotted Shares**", respectively "**Over-allotment**"), representing up to 10 % of the total number of Shares to be made available in the Offering (excluding any Over-allotment Shares) at the Offer Price to cover over-allotments, if any and/or to generate proceeds for funding stabilisation transactions (the "**Over-allotment Arrangements**"). Any Existing Shares represented by Over-allotment Shares made available pursuant to the Over-allotment Arrangements will rank *pari passu* with the Shares, including for all dividends and other distributions declared, made or paid on the Shares and will form a single class for all purposes with the other Shares.

In connection with the Offering, the Stabilising Manager may, to the extent permitted by applicable law, at its discretion over-allot or effect transactions with a view to supporting the market price of the Shares at a level higher than that which might otherwise prevail in the open market. The Stabilising Manager is entitled, but is not required to enter into such transactions and such transactions, if any, may be effected on the Bulgarian Stock Exchange only and up to the amount of the over-allotted Shares. Such stabilising measures, if commenced, may be discontinued at any time and may only be undertaken during the 30-day period from the commencement of trading on the Bulgarian Stock Exchange. In no event will measures be taken to stabilise the market price of the Shares above the Offer Price.

The Stabilising Manager will notify in advance the FSC and BSE about the first and the last date of the 30-day stabilising period. The Stabilising Manager will submit to the BSE after each period of five business days during the stabilization period a report which sets out the number of Shares which were traded in stabilisation transactions during that five day period and the prices at which those Shares were traded. Within one week following the end of the stabilisation period, the following information will be published on the daily bulletin of the Bulgarian Stock Exchange:

- whether or not stabilisation was undertaken; and
- for each stabilisation transaction that was carried out (a) the date at which stabilisation started, and last occurred and (b) the price range within which stabilisation was carried out;
- the total number of Shares which were traded in stabilisation transactions on each day on which such transactions took place.

Save as specified above, neither the Stabilising Manager nor any of its agents intends to disclose the extent of any over-allotments and/or stabilisation transactions under the Offering.

FORWARD LOOKING STATEMENTS

This document contains forward-looking statements which reflect the current view of the Bank or, as appropriate, of the members of the Supervisory Board of the Bank (the "**Supervisory Board**") and the members of the Managing Board (the "**Managing Board**") of the Bank (together, the "**Directors**") with respect to financial performance, business strategy, plans and the objectives of Management for future operations (including development plans relating to the Bank's products and services).

These forward-looking statements relate to the Bank and the sectors and industries in which the Bank operates. Statements which include the words "***expects***", "***intends***", "***plans***", "***believes***", "***projects***", "***anticipates***", ***"assumes"***, "***will***", "***targets***", "***aims***", "***may***", "***would***", "***could***", "***continue***" and similar statements of a future or forward-looking nature identify forward-looking statements for purposes of the US federal securities laws or otherwise.

All forward-looking statements included in this document address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause the Bank's actual results to differ materially from those indicated in these statements. These factors include but are not limited to those described in the part of this document entitled "***Risk Factors***", which should be read in conjunction with the other cautionary statements that are included in this document. Any forward-looking statements in this document reflect the Bank's current views with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to the Bank's operations, results of operations, growth strategy and liquidity.

Any forward-looking statements speak only at the date of this document. Subject to any obligations under Bulgarian law and the Rules of the Bulgarian Stock Exchange, the Bank undertakes no obligation to update publicly or review any forward-looking statement, whether as a result of new information, future developments or otherwise. All subsequent written and oral forward-looking statements attributable to the Bank or individuals acting on behalf of the Bank are expressly qualified in their entirety by this paragraph. Prospective investors should specifically consider the factors identified in this document which could cause actual results to differ before making an investment decision.

PRESENTATION OF FINANCIAL INFORMATION

Unless otherwise indicated, the financial information in this document has been prepared in accordance with International Financial Reporting Standards ("**IFRS**"). Anyone considering acquiring Shares must rely on their own examination of the Bank, the terms of the Offering and the financial information in this document.

Certain figures contained in this document, including financial information, have been subject to rounding adjustments. Accordingly, in certain instances, the sum of the numbers in a column or a row in tables, or percentage calculations contained in this document, may not conform exactly to the total figure given for that column or row.

PRESENTATION OF MARKET AND INDUSTRY INFORMATION

Market, economic and industry data used throughout this document have been derived from various industry and other independent sources. The accuracy and completeness of such information is not guaranteed.

Information contained in this document relating to the banking industry and the competitors of the Bank (which may include estimates and approximations) was derived from publicly available information, including press releases and filings under various securities laws and other regulations. The Bank confirms that such information has been accurately reproduced from its sources and, as far as the Bank is aware and is able to ascertain, no facts have been omitted that would render the reproduced information inaccurate or misleading. However, the Bank has relied on the accuracy of this information without carrying out an independent verification. Certain of the information in this document in relation to Bulgaria has been extracted from documents and other publications released by, and is presented on the authority of, various officials and other public and private sources, including participants in the capital markets and financial sector in Bulgaria. There is not necessarily any uniformity of views among such sources as to the information provided therein. Accordingly, the Bank only accepts responsibility for accurately reproducing such extracts from the relevant informational sources. It accepts no further or other responsibility in respect of such information.

NO INCORPORATION OF WEBSITE INFORMATION

The contents of the Bank's website do not form part of this document.

CURRENCY PRESENTATION

Unless otherwise indicated, all references in this document to "**Euro**", “EUR” or "**€**" are to the lawful currency of some countries of the European Union, all references to "**US$**", "**$**" or "**US Dollars**" are to the lawful currency of the United States and all references to "**BGN**", "**Lev**" or "**Leva**" are to the lawful currency of the Republic of Bulgaria.

EXCHANGE RATES

From 1997 the Lev was pegged to the Deutsche Mark and subsequently to the Euro. Currently, the exchange rate is fixed by the Bulgarian National Bank at €1=BGN 1.95583 (BGN1.00 = €0.51).

The following table sets forth, for the periods indicated, the average, high, low and period-end daily reference exchange rate in Bulgarian Leva as published by the Bulgarian National Bank ("**BNB**") expressed in Leva per $1.00:

	To 22 March 2007	Year Ended 31 December 2006	2005	2004
		(Leva per $1.00)		
Period End	1.46493	1.48506	1.65790	1.43589
Average[(1)]	1.49544	1.55944	1.57482	1.57369
High	1.51697	1.65021	1.67638	1.65720
Low	1.46493	1.46713	1.44801	1.43463

(1) The average of the daily reference exchange rates during the relevant period.

Except as otherwise stated in this document, all translations from Leva to Euro contained in this document are based on the exchange rate fixed by BNB of €1=BGN 1.95583.

NOTICE TO NON-BULGARIAN INVESTORS

FIBank is a joint-stock company established in Bulgaria and substantially all of its assets are located in Bulgaria. In addition, the members of the Supervisory and Managing Board of FIBank are residents of Bulgaria and substantially all of their personal assets are located in Bulgaria. As a result, it may be difficult for investors in jurisdictions outside Bulgaria to effect service of process on FIBank or members of its Supervisory and Managing Board in connection with any lawsuits against such persons related to the Offer Shares. Furthermore, foreign investors may encounter difficulties in enforcing judgements of foreign courts and other authorities against the Bank or members of its Supervisory and Managing Boards (the procedure for recognition and admission for enforcement of foreign court judgements and other acts is applied in compliance with the Bulgarian Private International Law Code).

REFERENCES TO DEFINED TERMS

Certain terms used in this document, including certain capitalised terms, are defined in "***Definitions***" at the end of the document.

First Investment Bank AD is a company operating under a two-tier managing system.

The **Supervisory Board** of the Bank consists of the following persons:

- Georgi Dimitrov Mutafchiev – chairman of the Supervisory Board;
- Radka Vesselinova Mineva – member of the Supervisory Board;
- Todor Lyudmilov Breshkov – member of the Supervisory Board;
- Nedelcho Vassilev Nedelchev – member of the Supervisory Board;
- Kaloyan Yonchev Ninov – member of the Supervisory Board.

The **Managing Board** of the Bank consists of the following persons:

- Mattew Alexandrov Mateev – chairman of the Managing Board and executive director;
- Maya Lubenova Georgieva – executive director;
- Jordan Velichkov Skorchev – executive director;
- Evgeni Krastev Lukanov – executive director;
- Ivan Stefanov Ivanov – member of the Managing Board, regional director for Northeastern Bulgaria;
- Maya Ivanova Oyfalosh – member of the Managing Board, corporate banking director;
- Radoslav Todorov Milenkov – member of the Managing Board, chief financial officer.

As at the date of preparation of this Prospectus, the Managing Board has not authorized a procurator or other commercial representative.

The Bank shall be represented jointly by any two of the executive directors: Mattew Alexandrov Mateev, Maya Lubenova Georgieva, Jordan Velichkov Skorchev and Evgeni Krastev Lukanov.

The Lead Manager of the Offering, advising the Bank with respect to the Offering and this Prospectus and authorised *inter alia* to offer for subscription the New Shares, is *First Financial Brokerage House OOD*, with headquarters and address of administration: 1408 Sofia, 2 Enos Street, Bulgaria.

The Legal Advisor to the Bank with respect to the Offering and this Prospectus is *Dimitrov, Tchompalov & Todorova OOD*, with headquarters and address of administration: 1408 Sofia, 22-24 Major Parvan Toshev Street, Bulgaria.

The Auditor of the Bank for 2004, 2005 and 2006 is *KPMG Bulgaria OOD*, address: 1421 Sofia, 1 Cherni Vrah Boulevard., Bulgaria.

Escrow Agent: Payments for the Shares allotted in the Offering shall be addressed to *Citibank N.A. – Sofia Branch*, address: 2 Maria Louisa Blv, Sofia 1000, Bulgaria

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The Persons responsible for the information given in the Prospectus are: *Maya Georgieva*, executive director of FIbank; *Evgeni Lukanov,* executive director of FIbank and *Radoslav Milenkov*, member of the Managing Board of Fibank. The persons responsible for the drafting of the Prospectus declare that:

1) they have taken all reasonable care to ensure that the information in this Prospectus meets the requirements of the law, and

2) to the best of their knowledge, the information included in this Prospectus is in accordance with the facts, is not misleading and contains no omission likely to affect its import, and fairly presents in all material respects the business, financial and legal conditions with respect of the Bank and the rights attached to its Shares.

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EXPECTED TIMETABLE FOR THE OFFERING

Each of the times and dates set out below is subject to change without further notice. References to a time of day are to Eastern European time (unless stated otherwise).

Dates after the announcement of the Offer Price and allocations are indicative only and the Bank and the Manager will proceed to ensure as soon as possible Admission and the commencement of trading on the Bulgarian Stock Exchange. Exact dates will be published, in addition to any other publications with the BSE, FSC and other publications pursuant to Bulgarian law, on the webpages of the Bank and the Manager as specified on page ii of this document.

Date of publication of this document	on 27 April 2007
Date of publication of an Offering notice in the Bulgarian *State Gazette* and a daily newspaper (1)	on 27 April 2007
Bookbuilding period and acceptance of buy orders from investors	from 7 May to 18 May 2007
Pricing and allocation meeting	on or about 18 May 2007
Announcement of the Offer Price and allocations	on or about 21 May 2007
Registration of the New Shares from the increase of the Bank's capital in the commercial register	on or about 25 May 2007 (2)
Investors' accounts credited with New Shares at the Bulgarian Central Depository	on or about 30 May 2007 (2)
Admission for trading at the Bulgarian Stock Exchange	on or about 12 June 2007 (2)
Transfer of allocated Existing Shares on the BSE and commencement of trading	on or about 22 June 2007 (2)
Investors' accounts credited with Existing Shares at the Bulgarian Central Depository (3)	on or about 26 June 2007 (2)

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(1) At least 7 days before commencement of accepting buy orders from investors for the Offer Shares;

(2) The indication of such date is based on the assumptions that: (i) the timetable so far is followed without delay; and (ii) the respective institution will proceed within the shortest terms according to its practice. The exact date could be more or less behind the indicated date;

(3) Settlement will be on T+2 basis.

SUMMARY

This section should be read as an introduction to the Prospectus and any decision for investing in the Shares should be based on consideration of the Prospectus as a whole by the investors. Investors, in particular foreign investors, should take into consideration where a claim relating to the information contained in this Prospectus is brought before a court, the plaintiff investor might have to bear the costs of translating the Prospectus before the legal proceedings are initiated. Civil liability attaches to those persons who have tabled the summary including any translation thereof, and applied for its notification, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of the Prospectus.

Business Overview

FIBank is one of the top ten private sector banks in Bulgaria. As of 31 December 2006, according to data compiled by BNB, the Bank ranked fifth amongst Bulgarian banks as measured by total assets (BGN 3,148 million), fourth as measured by loan portfolio (BGN 1,755 million) and sixth as measured by total deposits from non-financial institutions (BGN 1,660 million). In 2006 the Bank ranked tenth in terms of net profits (BGN 29 million) and eight in terms of shareholders' equity. The Bank's current long-term rating is Ba3/Positive outlook (Moody's) and BB−/Positive outlook (Fitch).

Strengths

FIBank's main advantages over its competitors in Bulgaria are:

- well established market position;
- a streamlined decision making process allowing for prompt response to client needs in a rapidly changing business environment;
- an efficient distribution network;
- a good understanding of Bulgarian market, product innovation, high quality services; and
- funding flexibility.

Strategy

The principal aspects of the Bank's strategy are:

- to continue to increase its loan portfolio and market share through continuing expansion in Bulgaria and in the Balkan region;
- to maintain its leading position in corporate banking, international and card payments;
- to further develop its position in Bulgaria as a provider of retail banking services, services to small- and medium-sized businesses and microlending;

Summary of Historical Financial and Operating Information

Unless otherwise stated, the summary of information set out below has been derived from and should be read in conjunction with the Bank's historical audited consolidated balance sheets, statements of income and cash flows at and for the years ended 31 December 2004, 2005 and 2006, statements of changes in shareholders equity for the years ended 31 December 2004, 2005 and 2006, the related notes thereto, as well as the unaudited consolidated financial report of the Bank at 31 March 2007, included elsewhere in this document.

The Bank has prepared its audited financial statements for the years ended 31 December 2004, 2005 and 2006 in compliance with the IAS ("International Accounting Standards") and the IFRS ("International Financial Reporting Standards") (together "**IAS**"), as well as its annual financial statements in compliance with the Bulgarian law. Save as disclosed in this document, the figures quoted in this prospectus are in compliance with the IAS. The following information should be examined with the "*Operating and Financial Review and Results of Operations*", the financial information related to and the notes in this Prospectus.

	As at 31 March		As at 31 December		
	2007	**2006**	**2006**	**2005**	**2004**
	(unaudited) *(BGN '000)*			*(audited)* *(BGN '000)*	
Income Statement Data /consolidated basis/					
Interest and similar income	56,916	44,357	194,442	160,265	106,169
Interest expense and similar charges	(29,431)	(25,533)	(109,140)	(94,782)	(46,428)
Net interest income	**27,485**	**18,824**	**85,302**	**65,483**	**59,741**
Fee and commission income	12,669	8,757	44,804	28,730	18,086
Fee and commission expense	(1,829)	(1,145)	(5,980)	(6,542)	(2,698)
Net fee and commission income	**10,840**	**7,612**	**38,824**	**22,188**	**15,388**
Net trading income	**2,419**	**1,101**	**8,066**	**13,419**	**7,080**
TOTAL INCOME FROM BANKING OPERATIONS	**40,744**	**27,537**	**132,192**	**101,090**	**82,209**
General administrative expenses	(21,766)	(17,830)	(82,720)	(63,849)	(53,145)
Impairment losses	(6,211)	(2,204)	(12,826)	(9,786)	(4,772)
Other net expenses	(1,426)	(1,080)	(3,378)	(2,320)	(2,022)
PROFIT BEFORE TAXATION	**11,341**	**6,423**	**33,268**	**25,135**	**22,270**
Tax expense	**(1,223)**	**(1,115)**	**(4,582)**	**(4,082)**	**(4,244)**
PROFIT OF THE GROUP	**10,118**	**5,308**	**28,686**	**21,053**	**18,026**
Minority interests	5	29	131	83	-
NET PROFIT	**10,123**	**5,337**	**28,817**	**21,136**	**18,026**

	As at 31 March	As at 31 December		
	2007	2006	2005	2004
	(unaudited) *(BGN '000)*		*(audited)* *(BGN 000)*	
Balance sheet data /consolidated basis/				
ASSETS				
Cash and balances with Central Banks	573,887	708,038	534,847	344,488
Financial assets held for trading	23,866	13,239	7,151	187,902
Available for sale investments	426,577	508,006	432,337	226
Financial assets held to maturity	99,617	70,221	97,972	27,899
Receivables from banks and other financial institutions	12,306	42,032	39,393	61,524
Loans and advances to customers	1,816,194	1,709,773	1,338,091	983,823
Property and equipment	84,663	80,753	61,481	43,228
Intangible assets	913	840	589	615
Other assets	17,926	14,864	9,403	3,618
TOTAL ASSETS	**3,055,949**	**3,147,766**	**2,521,264**	**1,653,323**
LIABILITIES AND SHAREHOLDERS' EQUITY				
Due to banks and other financial institutions [(1)]	3,672	43,120	41,964	28,086
Due to other customers [(1)]	1,619,025	1,659,513	1,177,693	849,583
Liabilities evidenced by paper	1,101,288	1,123,218	1,045,002	630,610
Subordinated term debt	49,659	48,299	63,765	28,698
Perpetual debt	96,271	98,141	54,074	-
Referred tax liabilities	1,234	1,169	1,520	1,119
Other liabilities	6,372	5,913	7,344	6,359
TOTAL LIABILITIES	**2,877,521**	**2,979,373**	**2,391,362**	**1,544,455**
Shareholders' Equity	100,000	100,000	64,726	64,726
Share premium		-	1,304	1,304
Statutory reserves	39,861	39,861	22,709	15,449
Revaluation reserve on available for sale investments	(521)	(258)	(137)	-
Retained earnings	39,083	28,960	41,265	27,389
TOTAL EQUITY	**178,423**	**168,563**	**129,867**	**108,868**
Minority interests	5	(170)	35	-
GROUP TOTAL EQUITY	**178,428**	**168,393**	**129,902**	**108,868**
TOTAL LIABILITIES AND EQUITY	**3,055,949**	**3,147,766**	**2,521,264**	**1,653,323**
Off-balance liabilities		786,597	452,028	164,042

(1) As at 31 March 2007 Liabilities due to banks and other financial institutions cover only liabilities to banks. Liabilities to other financial institutions are re-classified in "Liabilities due to other customers". As at 31 December 2006, 2005 and 2004 the amounts due to other financial institutions are respectively BGN 32.7million, BGN 36.5 million and 14.7 million.

	As at 31 March	As at 31 December		
	2007	2006	2005	2004
Key ratios /consolidated basis/				
Return on assets (%) (1)	1.37%	1.12%	1.03%	1.54%
Return on shareholders' equity (%) (2)	23.66%	19.23%	17.63%	18.04%
Earnings per share (BGN) (3)	0.41	0.36	0.42	0.48
Cost/income ratio (%) (4)	53.42%	62.58%	63.16%	64.65%
Shareholders' equity/Total assets (%) (5)	5.84%	5.36%	5.15%	6.58%
Total capital ratio (6)	13.29%	15.81%	15.88%	14.04%
Tier 1 capital ratio (6)	7.40%	8.84%	8.69%	11.11%

(1) Return on average total assets is calculated by dividing net income for the period by the average of total assets by the end of every month of the relevant year. As at 31 March 2007 the income was re-calculated on an annual basis (divided to 90 days and multiplied by 365 days).

(2) Return on shareholders equity is calculated by dividing net income by the average shareholders' equity as at the end of the preceding period and at the end of the current period. As at 31 March 2007 the income was re-calculated on an annual basis (divided to 90 days and multiplied by 365 days).

(3) Earnings per share is calculated by dividing profit attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the period. Ordinary shares outstanding amounted to 1,000,000 till 20 October 2006 when 1,000,000 new shares were issued at nominal and issue price of BGN 10, which has been taken into consideration when calculating the average number of ordinary shares outstanding for 2006. On 27 December 2006 the issued share capital was increased to BGN 100,000,000 by transforming the retained earnings and share premium and registering the hyperinflationary adjustments and the number of shares increased to 10,000,000. Due to the fact that the additional 8,000,000 shares did not involve raising additional resources from the shareholders, when calculating the ratio's denominator, the latter has been adjusted to reflect this increase for all three periods – 2004, 2005 and 2006. As at 31 March 2007 the income is re-calculated on an annual basis (divided to 90 days and multiplied by 365 days).

(4) Cost/income ratio is calculated by dividing general and administrative expenses for the period by total income from banking operations

(5) Shareholder equity/Total assets is calculated by dividing shareholders equity at the end of the period by total assets at the end of the period.

(6) As per the requirements set out by the Basel Committee for Banking Supervision ("BIS rules"). The values as of 31 March 2007 have been calculated according to the amendments of Regulation 8 of BNB, in effect since 1st January 2007, in relation to Basel Accord (Basel II).

Current trading and prospects

Bulgarian banking sector has been facing new challenges since Bulgaria joined the European Union. The banking sector is becoming more competitive, the growing financial awareness of customers has created demand for new financial products tailored to meet customer needs and expectations, and all market participants are facing changes in the regulatory environment. Management believes that the Bank is well prepared to succeed in this environment, and that the Bank's flexible management, its expert understanding of the Bulgarian and regional markets and its streamlined decision making process will allow a prompt response to client needs and to the changing business environment.

In particular, Management believes that the Bank's strategy and expertise in the targeted markets and service segments, and its continuous improvement of cost efficiency, prudent risk management and further additional capital supports will continue to allow for sustained asset growth and profitability, resulting in growth in shareholder value.

The Bank’s objectives for the current financial year are focused on continuing stable growth in assets and earnings in existing product lines, gaining the largest possible market share, improving asset quality through enhanced risk management and increasing revenue diversification beyond traditional interest income, to protect the Bank’s earnings from adverse effects arising from interest rate movements and interest margin compression. In order to expand its domestic presence and cope with the competitive presence of banks currently operating in Bulgaria as well as new entrants, FIBank plans to continue to build up its relations with existing customer and to attract new customers by expanding lines of services, refining its existent products, and further improving customer service.

In addition, Management intends to complete the implementation of its core banking information system.

Since 31 December 2006, the Bank's level of business activity and growth has continued to develop as expected. Overall, the outlook for the Bank’s trading for 2007 remains in line with Management’s expectations and Management is confident of the Bank’s prospects for the year.

Summary of the Offering

Under the terms and subject to the conditions contained in an agreement between FIBank and First Financial Brokerage House OOD acting in the capacity of Lead Manager and a Selling Shareholder, the latter has agreed to make available for subscription and sale up to 16,500,000 Offer Shares, including 10,000,000 New Shares offered for subscription and up to 5,000,000 Existing Shares offered for sale (and, in addition, further 1,500,000 Shares may be made available pursuant to the Over-allotment Arrangements). The Lead Manager has agreed to use its best endeavours for placement of for these Shares in aggregate. The Bank intends to use the net proceeds from the subscription of the New Shares for general corporate purposes, including to sustain growth and capture new growth opportunities and redeem a portion of FIBank’s highest interest-bearing debt instruments. The Bank will not receive any of the proceeds from the sale of the Existing Shares, the net proceeds of which will be paid to the Selling Shareholder. The Offer Shares are being offered outside the United States in offshore transactions in conformity with Regulation S of the US Securities Act.

Risk Factors

An investment in the Offer Shares involves risks, including those relating to or arising from the regulatory regime to which the Bank is subject, competition within the Bulgarian banking industry, dependence on key personnel and fluctuations in the market price of the Shares. For more information on these and other risk factors which investors should take into account, see "*Risk Factors*".

THE OFFERING

The Bank	First Investment Bank AD
The Selling Shareholder..........................	First Financial Brokerage House OOD
The Major Shareholders.........................	Mr. Tzeko Minev and Mr. Ivaylo Mutafchiev, the founders of the Bank
The Existing Shareholders......................	Mr. Tzeko Minev, Mr. Ivaylo Mutafchiev, First Financial Brokerage House OOD and the other shareholders of the Bank as of the date of this document, see "*Major Shareholders and Selling Shareholder*" Immediately prior to the Offering, Mr.Tzeko Minev, Mr. Ivaylo Mutafchiev, First Financial Brokerage House OOD owned approximately 77.55% in aggregate of the Bank's issued share capital. Immediately after the Offering, the Existing Shareholders will own approximately 65.96% in aggregate of the Bank's issued share capital (assuming that no Shares are sold pursuant to the Over-allotment Arrangements).
Risk factors	For a discussion of certain factors regarding the Bank and the Shares, see "*Risk Factors*".
Shares	The Shares are ordinary shares in the share capital of the Bank, each with a nominal value of BGN 1. For more information, see "*Description of the Shares and Applicable Bulgarian Legislation*".
The Offering..	The Offering is a public offer in Bulgaria of up to 16,500,000 Shares and will consist of 10,000,000 new shares offered for subscription in the process of the Bank's Capital Increase (**"New Shares"**) and up to 5,000,000 existing shares ("**Existing Shares**"), plus up to a further 1,500,000 Shares pursuant to the Over-allotment Arrangements (the "**Over-allotment Shares**" together with the New Shares and the Existing Shares, the **"Offer Shares"**). The Shares are being offered outside the United States to selected investors in accordance with Regulation S. Pursuant to a Placement Agreement (the "**Placement Agreement**") to be signed on or about 18 May 2007 between the Bank, the Lead Manager and the other Existing Shareholders, the Lead Manager has agreed, subject to certain other conditions, to use its best endeavours to procure acquirers for the number of Offer Shares and Over-allotted Shares agreed with the Bank after determining the Offer Price.
The Capital Increase	The increase of FIBank's capital via a public offer for subscription of 10,000,000 New Shares, voted by the Managing Board on 13 February 2007, according to an

	authorisation from the Shareholders' meeting held on 9 February 2007.
Over-allotment Arrangements	Provisions in the Placement Agreement according to which FFBH, acting as Stabilising Manager, shall be entitled acting on its own account to sell up to 1,500,000 additional shares (Over-allotted Shares), owned by FFBH, at the Offer Price for covering the Over-allotments, if any, and/or to generate proceeds for funding of stabilisation transactions.
Bookbuilding Period and Acceptance of Orders	From 7 May to 18 May 2007
Allocation Date	The Offer Shares are expected to be allocated to investors on or about 21 May 2007.
Offer Price Anouncement Date	The next business day in Bulgaria after the Allocation Date, expected to occur on or around 19 May 2007
Payment Deadline Date...........................	Payments for the Offer Shares allotted must be received with the Escrow Agent not later than the end of the third business day in Bulgaria following the day of the Offer Price Announcement Date, which is expected to occur on or around 23 May 2007.
Lead Manager..	First Financial Brokerage House OOD
Escrow Agent..	Citibank, N.A. - Sofia branch
Shares issued and outstanding immediately prior to the Offering..........	100,000,000 Shares
Shares issued and outstanding after the Offering...	110,000,000 Shares
Transfer restrictions...............................	The Shares will be subject to certain restrictions on transfer. For more information, see "*Subscription and Sale—Selling Restrictions*".
Voting rights and ownership limitations...	Matters coming before shareholders for a vote are generally determined by a poll. Each Share gives the holder one vote. The decisions of the general meeting of shareholders are taken by a simple or a super majority of votes of Shares whose holders are present in person or represented by a proxy at the meeting. At the date of the document, the Bank's articles of association do not contain any limitations on the number of Shares or voting rights that may be held by any one or more persons. For more information, see "*Description of the Shares and Applicable Bulgarian Legislation - Meetings of Shareholders*".
Use of proceeds	We intend to use the net proceeds from the subscription of the New Shares for general corporate purposes, including to sustain growth and capture new growth opportunities, and potentially to redeem a portion of FIBank's highest interest bearing debt instruments, currently part of the Bank's tier 2 capital, thus decreasing the cost of funds. The Bank will not receive any of the proceeds from the sale

	of the Existing Shares, the net proceeds of which will be paid to the Selling Shareholder.
Dividends and dividend policy	Since its formation, FIBank has adopted a policy of retaining earnings rather than paying dividends or making distributions to shareholders, in order to sustain its high growth rate and to improve its creditworthiness. Given the positive prospects, a change in current dividend policy is unlikely in the short-to mid-term.
Listing and market	Prior to the Offering, there has been no market for the Shares. Immediately following the registration of the New Shares at the Bulgarian commercial register, the Bulgarian Central Depository (the "**Central Depository**") and the FSC an application shall be made to list all the Shares on the Unofficial Market of the Bulgarian Stock Exchange.
Commencement of trading on the Bulgarian Stock Exchange......................	It is expected that the decision for Admission for trading will be taken on or about 12 June 2007 and dealings in the Shares will commence at the Bulgarian Stock Exchange at 9:30 (Eastern European time) on or about 22 June 2007.
Delivery of the Offer Shares	It is expected that investors' accounts with the Central Depository should be credited with the New Shares on or about 30 May 2007 and with the Existing/Over-allotment Shares on or about 22 June 2007. Upon Admission, the Shares will be traded through the Bulgarian Stock Exchange and prices will be quoted in Leva. Trades in Shares on the Bulgarian Stock Exchange will be settled through the Central Depository on a T+2 basis, payable in Leva.
Lock up...	The Bank and the Existing Shareholders will enter into certain lock-up arrangements in the Placement Agreement. The Existing Shareholders will agree that, except for any Shares sold as part of the Offering (including any Shares sold under the Over-allotment Arrangements), they will not, for a period of 180 days after the Allocation Date, without the prior written consent of the Lead Manager, 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. The Bank will agree to similar lock-up arrangements in the

	Placement Agreement for a period of 360 days after the Allocation Date, with the exception that the Bank will also agree not to allot, issue or contract to issue any Shares or securities listed in paragraph (A) above.
Directors interests....................................	At the date of this document, the Directors of the Bank, in aggregate directly and indirectly beneficially owned no Shares of the Bank's issued share capital. Certain of the Directors and employees plan to acquire Offer Shares in the Offering or thereafter.
Law/Jurisdiction......................................	Bulgarian law / Bulgaria

RISK FACTORS

Before investing in the Shares, potential investors should carefully consider the following risk factors in addition to the other information contained in this document. If any of the risks described below were to occur, it could have a material adverse effect on the Bank's business, results of operations or financial condition. If this were to lead to a decline in the trading price of the Shares, investors may lose all or part of their investment. The risks and uncertainties described below are not the only ones the Bank faces. Additional risks and uncertainties not currently known or currently deemed immaterial may also have a material adverse effect on the Bank's business, results of operations or financial condition. Potential investors should read this document as a whole and not rely solely on the information set out in this section.

General Risks

Emerging Markets

Investors in emerging markets such as Bulgaria should be aware that these markets are subject to greater risks than more developed markets, including in some cases significant legal, economic and political risks. In addition, adverse political or economic developments in other countries could have a significant negative impact on, among other things, Bulgaria's GDP, foreign trade and economy in general. Investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in the light of those risks, an investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved. Investors should also note that a feature of emerging markets is that they are subject to rapid change and the information contained in this document may become outdated relatively quickly.

Risks relating to the Shares

Risks relating to there being no prior trading market

Prior to the Offering there has been no trading market for the Shares. While application has been made to list the Shares on the Bulgarian Stock Exchange, there can be no assurance that an active trading market in the Shares will develop or be sustained after the Offering, or that the Offer Price will correspond to the price at which the Shares will trade in the public market subsequent to the Offering. If an active trading market in the Shares is not maintained, the market price and liquidity of the Shares may be adversely affected.

Risks relating to the Bulgarian securities market

There may be less information available in the Bulgarian securities market than is available on companies in other securities markets.

There is a difference in the regulation and monitoring of the Bulgarian securities markets, and the activities of investors, brokers and other participants, compared with markets in Western Europe and the United States. The Financial Supervision Commission is responsible for disclosure and other regulatory standards for the Bulgarian securities markets. The Financial Supervision Commission monitors compliance with laws, and issues regulations and guidelines on disclosure requirements, insider trading and other matters. There may, however, be less publicly available information about Bulgarian companies than is regularly made available by public companies in other securities markets. This could affect the market for the Shares.

The Bulgarian Stock Exchange is substantially smaller and less liquid than securities markets in certain other countries

The Bulgarian Stock Exchange is substantially smaller and less liquid than securities markets in certain other countries, such as those in the United States or the United Kingdom.

At 31 March 2007, equity securities representing 355 companies and a market capitalisation of approximately BGN 18.2 billion were registered for trading at the Bulgarian Stock Exchange. Of that, equity securities representing 339 companies were registered for trading on the Unofficial Market and represented 75% of the total equity market capitalisation at 31 March 2007 and 65% of trading volume in equities during the period from 1 January 2007 to 31 March 2007. The equity securities representing the ten largest companies registered for trading on the BSE represented 56% of the total equity market capitalisation at 31 March 2007 and 43% of the trading volume on the BSE for the period from 1 January 2007 to 31 March 2007.

Accordingly, a very small number of companies represent the large majority of the market capitalisation and a significant part of the trading volumes of the Bulgarian Stock Exchange. This low liquidity also leads to other complications, such as excessive volatility, with the market arguably also vulnerable to speculative activity because liquidity is occasionally so low that prices can be manipulated by relatively small trades. Consequently, there is no guarantee that the Shares, even though quoted on the Unofficial Market of the Bulgarian Stock Exchange, will be actively traded, and if they are not, this is likely to increase price volatility.

Any additional equity financing may be dilutive to the Bank's shareholders

The Bank may issue additional Ordinary Shares in subsequent offerings in the future. The Bank is required under Bulgarian law and Stock Exchange regulations to offer any such Ordinary Shares to existing shareholders on a pre-emptive basis. Nevertheless, existing shareholders may choose not to participate in such future issues of Ordinary Shares, which would dilute their existing interest in the company.

Substantial future sales of Shares could affect their market price

If a substantial number of the Shares are offered for sale, the trading price of the Shares may be depressed. Sales of additional Shares on the public market following the Offering could adversely affect the market price of the Shares. Upon completion of the Offering, the Existing Shareholders will hold 95,000,000 Shares (or 93,500,000 Shares if all the Over-allotment Shares are sold and delivered by fully exercising the over-allotment option), representing 86.36% of the issued Shares (or 85.00%, if all the Over-allotment Shares are sold). These Shares will be subject to lock-up arrangements, described in more detail in "*Subscription and Sale - Lock-up Arrangements*". Upon expiration of the lock-up period, all of the Shares may be available for sale on the Bulgarian Stock Exchange.

Sales of substantial amounts of Shares, or the perception that these sales could occur following the expiry of the lock-up period or the release of the Existing Shareholder from its lock-up obligations, could adversely affect the prevailing market price of the Shares. These sales may also make it difficult for the Bank to issue equity securities in the future at a time and at a price that the Bank deems appropriate.

There is no guarantee that cash dividends will be distributed to the shareholders

The Bank has not declared, recommended, paid or made any dividends or other distribution in respect of its share capital, but has chosen to use retained profits to enhance its capital base. Any future payment of dividends will depend upon the level of the Bank's earnings and cashflow, as well as the Bank's expenditure and investment plans and the intentions of the principal shareholders.

Risks relating to Bulgaria

Political Risks

Since 1989, Bulgaria has pursued a programme of political and economic structural reform designed to establish a free market economy through the privatisation of state enterprises and deregulation of the economy.

The current Bulgarian government was inaugurated in Parliament on 16 August 2005. The governing coalition is one of the most fragmented in recent history and was not finalised until almost two months after the election. The prime minister is Sergey Stanishev, leader of the Bulgarian Socialist Party (the "**BSP**"), who had failed to form a government under the mandate of the BSP several weeks earlier. The BSP is the main partner in the governing coalition and holds eight of the seventeen ministries; the other partners are the former ruling party National Movement Simeon II and the ethnic formation Movement for Rights and Freedoms. Bulgaria was invited to join the North Atlantic Treaty Organisation ("**NATO**") at the NATO summit in Prague on 22 November 2002. On 18 March 2004 the Bulgarian Parliament ratified the North Atlantic Treaty and Bulgaria was officially recognised as a member of the alliance on 29 March 2004.

Bulgaria joined the European Union ("**EU**") in 2007. The final Monitoring Report of the European Commission on Bulgaria was released on 26 September 2006 with a membership recommendation and on 17 October 2006 the European Council officially approved Bulgarian membership of the EU on 1 January 2007. However, the European Commission will continue to keep a watchful eye on how Bulgaria carries out its commitments with regard to implementing reforms, notably putting into practice an enhanced monitoring system to oversee whether Bulgaria complies with the terms of its accession treaty. If supervision shows that Bulgaria does not meet the requirements of the EU concerning the transparency of the spending of public resources, fighting corruption, the efficiency and independence of the judicial system, as well as food safety, there is a significant risk that protective clauses in the sphere of the internal market, internal affairs and the judicial system might be activated later on, and some of the subsidies and transfers from the Eurofunds may be reduced or cut off. For more information, see "*The Republic of Bulgaria - NATO and European Union Accession*".

Bulgaria's accession to the EU legitimates the economic reforms that have been undertaken in the name of the country's integration to the Union. The future growth of the economy, however, will continue to depend on the political will to carry on with economic reforms and apply the best market practices of the EU. The government's ability to implement reforms, in turn, is conditional on the extent to which the members of the government can continue to co-operate in promoting a common agenda. No assurance can be given that a change of administration will not result in a significant and rapid change in the political and economic conditions in the country which may have a materially adverse effect on the Bank's business, results of operations and financial condition. For more information, see "*The Republic of Bulgaria - Political Overview*".

The current Bulgarian political system is vulnerable to economic hardship, widespread dissatisfaction with reform and EU membership due to unrealistic expectations, as well as social instability and changes in government policies, organized crime and corruption, any of which could have a materially adverse effect on the Bank's business, results of operations and financial condition. The next scheduled Parliamentary elections are due in 2009.

Economic Risks

Until 1989, the Bulgarian economy had been administered by the central authorities. Since the end of Communist rule in 1989 successive governments have implemented policies of economic reform and stabilisation. These policies have involved liberalising prices, reducing defence expenditure and subsidies to state-owned enterprises, privatising state-owned enterprises, reforming the tax and bankruptcy systems, introducing legal structures designed to facilitate private, market-based activities, stabilising the currency and encouraging foreign trade and investment. The scope, speed and nature of any future economic reforms remain uncertain. Certain measures intended to improve the country's economic condition have been and are expected to remain unpopular. Accordingly, levels of popular and political support for the government have tended to vary. For more information, see "*The Republic of Bulgaria - The Bulgarian Economy*".

Continued economic reform will also depend in part on presidential support for the reform programme. The current president, re-elected at the last presidential elections, held in October 2006, is a former leader of the BSP and a fallout with the BSP-led government seems unlikely. For more information, see "*The Republic of Bulgaria - Political Overview*".

Like other transitional countries, Bulgaria runs trade and current account deficits. Bulgaria has an open-type of economy and its development is directly influenced by international market conditions. The country is an importer of crude oil; accordingly, increases in oil prices reduce the competitiveness of the Bulgarian economy, and dependence on oil imports subjects the economy to additional US Dollar currency risk. A huge current account deficit, combined with the inability of the Bulgarian National Bank to pursue appropriate monetary policy because of the constrictions ot the Currency Board, may put pressure on macroeconomic stability. The privatisation of state-owned enterprises is essentially complete and future capital inflows will depend on the stability of the economic and institutional environment.

Banking activity in Bulgaria is dependent on the overall level of economic activity in the country. As a result the Bank's business, the results of its operations and its financial condition largely depend on the condition of the Bulgarian economy, which in turn affects loan growth, interest costs and customers' ability to meet their obligations on time. Any negative change in one or more macroeconomic factors, such as interest rates, which are influenced by Eurozone interest rates by virtue of the Currency Board arrangements that peg the Lev to the Euro, inflation, wage levels, unemployment, foreign investment and international trade, could have a materially adverse effect on the Bank's business, results of operations and financial condition.

Businesses in Bulgaria have a limited operating history in free market conditions. Accordingly, when compared to Western companies, such businesses are characterised by a lack of management experienced in responding to the market, limited capital resources with which to develop their operations, and low labour efficiency. In addition, Bulgaria has a limited infrastructure to support a market system.

Legal Risks and Enforcement of Judgments

Bulgaria's legal system is in the process of transformation, matching that of the developing market economy of Bulgaria. The practice of the judiciary remains problematic and parties seeking to rely on the Bulgarian courts for effective redress in respect of a breach of law or regulation, or in an ownership dispute, may find that it is difficult to obtain. The majority of Bulgarian law has been brought in line with that of EU member states, although Bulgarian law does continue to evolve, occasionally in ways that do not always coincide with market developments, resulting in ambiguities and inconsistencies and ultimately in investment risk that would not be a consideration when investing in a bank located in a jurisdiction with a more developed legal system. However, civil and banking legislation has become relatively comprehensive and complete in the last five years. The adoption of further new laws and the expected introduction of legislation in areas such as corporate and securities laws, aimed at achieving full compliance of Bulgarian laws with EU regulations following Bulgaria's accession to the EU, is expected to contribute to the more consistent development of civil legislation in the near future.

There are, as a result, two major legal threats to the development of the legal system in Bulgaria: Firstly the possible failure of the development of the Bulgarian legal system to keep pace with rapidly developing commercial practices may create uncertainties. And secondly flaws in the legal infrastructure may result in doubt arising in relation to corporate actions, compliance and other matters, performance of which may be taken for granted in other jurisdictions.

Exchange Rates and the Currency Board

Since 1997, a Currency Board arrangement has been in place under which the Bulgarian currency, the Lev, has been pegged, initially to the Deutsche mark and subsequently, on creation of the Eurozone, to the Euro. Maintenance of the Currency Board arrangement is considered to be a critical element of economic reform in Bulgaria and requires continuous political support for non-inflationary policies. The rigidity of the Currency Board which rules out both devaluation and independent monetary policy may not be responsive to the future needs of the Bulgarian economy. It is widely expected that the Currency

Board arrangement will be kept until Bulgaria joins the Euro, but there can be no assurance whatsoever that this will be achieved.

Any significant devaluation of the Lev could have a materially adverse effect on the Bank's customers and, as a result, on the Bank's business, results of operations and financial condition. For more information on the Currency Board arrangement, see "*The Republic of Bulgaria – The Bulgarian Economy – Currency Board Arrangement*".

Taxation

Taxes payable by Bulgarian companies include withholding taxes, municipal taxes, corporate profit tax, value-added tax, excise duties, export and import duties and property taxes. The taxation system in Bulgaria is still developing, which may result in inconsistent enforcement at both state and municipal levels.

Investors should also be aware that the value of an investment in the Shares may be adversely affected by changes in, and the application and interpretation of, current tax laws and regulations.

Bulgaria's accession to the European Union may result in increased competition and additional and more onerous regulations

Accession to the European Union could result in increased competition for the Bank as competitors from other member states may enter the market in Bulgaria, benefiting from the single EU passport and merely having to notify BNB. It could also result in downward pressure on the Bank's margins and revenues as competition increases, and compliance with European Union competition laws and other regulations is required and enforced. Any changes in the law could require the Bank to comply with additional and more onerous regulations and could have a materially adverse effect on the Bank's business, results of operations and financial condition.

Risks relating to the Bank

The rapid growth of the Bank could challenge its operational, administrative and financial control systems

The Bank was one of the first private banks to be established in Bulgaria and has thirteen years of operational experience. The Bank is in the early phases of its commercial operations. Its rapid pace of expansion has grown and is expected to continue to put demands on its management and operational resources. The Bank is endeavouring to improve its operational structure, control systems and financial systems and is in the process of recruiting and retraining qualified personnel and expanding its administrative and back office staff.

As the Bank proceeds with its development there will be additional demands on the Bank’s customer support, banking systems, sales and marketing and administrative resources and branch network infrastructure. The Management of the Bank believes that the Bank is well placed to expand its business and has adopted new rules and regulations to govern its activities. There can be no assurance, however, that the Bank’s operating and financial control systems will be adequate to maintain and effectively manage its expected future growth.

Increased competition may adversely affect the Bank

Since the Bulgarian government’s programme to reduce its ownership and involvement in the Bulgarian banking sector was virtually completed, the sector has undergone a major restructuring. Foreign strategic investors have acquired stakes in the majority of the largest Bulgarian banks, pursuing aggressive growth strategies and introducing modern systems, technology and expertise. The entry of such foreign investors has also involved some Bulgarian banks in broader international consolidation processes thus significantly strengthening their domestic market position.

At present, the Bank regards the foreign banks and foreign-owned banks which have established operations in Bulgaria to be its major competitors and such competition is likely to increase if further foreign banks and foreign-owned banks establish such operations. With the accession of the country to the EU, the entry of foreign competitors is facilitated as the Credit Institutions Act guarantees the right of establishment in Bulgaria of credit institutions licensed in other EU countries.

Experience in other emerging markets suggests that as the banking sector in a particular country becomes more competitive, the most imminent effect for the banks in that country is the decline in interest rate margins earned. If the competition in the Bulgarian banking sector continues to grow, the Bank's interest rate margins may fall. This could have a materially adverse effect on the Bank's business, results of operation and financial condition.

Other possible consequences of increased competition include increased prepayments by the Bank's customers, loss of existing customers and a reduction in the growth of the Bank's loan portfolio. The Bank plans to capitalise on its developed branch network, its knowledge of the specificities of the local market and its established customer relations in order to cope with increased competition. However, there can be no assurance that the Bank will retain its competitiveness within a tighter competitive environment.

A substantial percentage of the Bank's customer base is concentrated in a limited number of economic sectors

The largest sector exposure of the Bank in 2006 is to the industry sector where 26% of the Bank' loans are concentrated (28% as of 31 December 2005), followed by trade with 17% of the loan portfolio as of end 2006 (18% in 2005), and construction with 9% of total loans as of 31 December 2006 (4% in end 2005). The aggregate concentration of loans in these three economic sectors was 52% of the Bank's loan portfolio as of 31.12.2006.

Within the industry sector in particular, the Bank has extended loans to enterprises involved in different types of activities but in the same sub-sector. As such, the exposures share a similar industry risk. There were three such groups of enterprises as at 31 December 2006 with total exposures amounting to 0.6 % of the loan portfolio (2005: 3.9%) - ferrous metals, 1.5% of total loans (2005: 1.2%) - cable and electrics and 4.0% of total loans (2005: 4.1%) - power engineering.

Although the Bank's loan book is reasonably diversified by sector, a downturn in any one or more of the key economic sectors in which the Bank's customers are involved may cause financial difficulties for the Bank's customers in those sectors, increasing the risk of default, which may have a materially adverse effect on the Bank's business, results of operations and financial condition.

A substantial percentage of the Bank's loan and deposit portfolio is concentrated in a limited number of customers

While in the last two years the Bank has reduced the concentration of its credit risk, as at 31 December 2006, the Bank's top 20 borrowers comprised 28 % of its credit portfolio before allowances.. As at 31 December 2006 the Bank had extended loans, confirmed letters of credit and granted guarantees to 10 individual clients or groups (2005: 9) with each individual exposure exceeding 10% of the capital base of the Bank based on the book value of the corresponding credit facility. The total amount of these exposures is BGN 463.4 million which represents 153.80% of the Bank's capital base (2005: BGN 364.2 million which represented 153.44% of capital base) of which BGN 298.8 million (2005: BGN 257.5 million) represent loans and BGN 164.6 million (2005: BGN 106.7 million) represent guarantees, letters of credit and other commitments.

In addition, as at 31 December 2006, the 20 largest customers deposits from represented 15.3 % of the total deposits and accounts from non-financial institutions made with the Bank and 14.9% of all deposits (from FI and NFI) with Bank.

A substantial portion of the Bank's loans are secured by property interests

55% of the Bank's total loans are secured by interests in Bulgarian real estate. If there is a downturn in the Bulgarian real estate market, this could have a materially adverse effect on the Bank's business, results of operations and financial condition.

Risks concerning borrower credit quality and general economic conditions are inherent in the Bank's business

Risks arising from changes in credit quality and the recoverability of loans and amounts due from counterparties are inherent in a large part of the Bank's business. Adverse changes in the credit quality of the Bank's borrowers or a general deterioration in Bulgarian, European or global economic conditions, or problems arising from systemic risks in the financial systems, could reduce the recoverability and value of the Bank's assets and require an increase in the Bank's level of provisions for substandard and non-performing debts.

The Bank may choose an inappropriate market strategy

The future profits and the economic value of the Bank depend on the strategy chosen by the Bank's management team. Choosing an inappropriate market strategy may result in losses or missed opportunities. The Bank strives to manage strategic risk by continually monitoring the bank's strategy implementation and results in order to react as early as possible if changes in strategy are necessary. An incorrect or delayed change in the Bank's strategy might have a seriously adverse effect on the Bank's business, results or operations or financial condition.

A failure to adequately manage and monitor growth in the Bank's loans could have a materially adverse effect on the business

The Bank's loans to corporate and retail customers have increased rapidly in the last years , growing by 28% in 2006 and 36% in 2005 (before allowances). This significant increase in credit exposure will require continued emphasis by the Bank on credit quality and the adequacy of its provisioning levels and continued development of administrative capacity and financial, credit and management control. Growth such as this also requires the Bank to attract and retain qualified personnel and to train new personnel. A failure to successfully manage growth and development and to maintain the quality of its assets could have a materially adverse effect on the Bank's results of operations and financial condition.

The Bank is dependent on long-term funding sources

The Bank historically has extended short-term loans of less than one year matching the deposits held by the customers of the Bank. However, there has been a trend in lengthening the maturity of loans. In order to maintain its portfolio growth, the Bank has been seeking to lengthen the maturities offered to its customers for both deposits and loans. In order to do this it has focused on lengthening the maturity profile of its funding.

Whilst the Bank has been successful to date in securing long-term funding from international financial institutions or from the debt capital markets, there can be no assurance that the Bank will continue to be able to do so. Failure to do so may result in the Bank's liquidity and financial position being adversely affected, and the Bank may be required to seek funding from more expensive sources, which could have a materially adverse effect on the Bank's business, results of operations and financial condition.

A reduction in the Bank's credit ratings could adversely affect the Bank's liquidity and competitive position and increase borrowing costs

The Bank's borrowing costs and access to the debt capital markets depend significantly on the Bank's credit ratings. These ratings are assigned by rating agencies, which may reduce or withdraw their ratings. A reduction in the Bank's credit ratings could increase the Bank's borrowing costs and limit access to the capital markets. This, in turn, could reduce the Bank's earnings and adversely affect the Bank's liquidity.

The Bank faces several types of risks that could adversely affect it should its risk management policies not succeed

As with any bank, the Bank faces a number of types of risk that could adversely affect it. These include interest rate, liquidity, foreign exchange, credit, investment and operational risk. Although the Bank invests substantial time and effort in its risk management strategies and systems, these strategies and systems may nevertheless fail in certain circumstances, particularly when confronted with risks that the Bank did not identify correctly or in a timely fashion. Also, the Bank may not be able to make a correct evaluation of the risks to which it is exposed. The methods, ratings and models used might prove imprecise. The risk methodologies and techniques may not cover the entire spectrum of risks to which the Bank may be subject. If any such risks materialise, the associated losses could be greater than the Bank may have anticipated, which could have a material effect on the Bank's business, results of operation and financial condition.

Limited ownership of shares and possible conflicts of interest

Upon completion of the Offering, the Major Shareholders of the Bank, Mr. Tzeko Minev and Mr. Ivaylo Mutafchiev (see ''*Business Overview - History and Development*'') will hold 31,830,000 Shares each, representing each 28.94% of the issued Shares. Being the Bank's principal shareholders, Mr Tzeko Minev and Mr Ivaylo Mutafchiev will be able to exercise together significant influence over substantially all matters requiring approval by the Bank's shareholders, including amending the Bank's articles of association, appointing and removing Directors and approving significant transactions other than the approval of transactions in which Mr. Tzeko Minev and Mr. Ivaylo Mutafchiev either directly or via related parties are considered "interested persons" under Bulgarian law (see ''*Description of the Shares and Applicable Bulgarian Legislation*"). Disposal of shares by such persons might also have a material effect on the Bank.

After the Offering, the Bank will continue to have contractual and other business relationships with the Major Shareholders. Although the Management of the Bank anticipates that any future transactions and agreements will be on terms no less favourable to the Bank than it could obtain in comparable contracts with unaffiliated third parties, conflicts of interest could arise between the Bank and the Major Shareholders.

The Bank is a highly regulated entity and changes to applicable law or regulations, the interpretation or enforcement of such law or regulations, or the failure to comply with such law or regulations could have a materially adverse effect on the Bank

The Bank is subject to a number of regulations designed to maintain the safety and soundness of banks, ensure their compliance with economic and other obligations and limit their exposure to risk. These regulations include Bulgarian laws and regulations, particularly those of the Bulgarian National Bank. These regulations may limit the Bank's activities and increase the Bank's cost of doing business. For example, the increase in the minimum reserve requirements applicable to Bulgarian banks may adversely affect the ability of the Bank to grow its loan portfolio and its net interest margin. In addition, a breach of regulatory guidelines could expose the Bank to potential liabilities and sanctions, including, in extreme cases, loss of licence. Changes in these laws and regulations, for example to implement *The International Convergence of Capital Measurement and Capital Standards − A Revised Framework* ("**Basel II**", or the "**New Basel Accord**") released by the Basel Committee on Banking Supervision, or in the manner in which they are interpreted or enforced may have a materially adverse effect on the Bank's business, results of operations and financial condition.

The Bank may incur significant losses from its trading and investment activities due to market fluctuations and volatility

As part of its liquidity risk management strategy the Bank holds a portfolio of liquid assets, including securities. The Bank is also exposed to currency risk through its assets and liabilities, denominated in foreign currency and transactions in foreign currencies, resulting in long positions. Although the Bank has set strict limits to its securities portfolio structure and strives to maintain a broadly neutral foreign exchange open position on balance-sheet level and has placed individual transaction limits on each dealer, a downturn in any of the fixed income, currency or equity markets could result in losses from the decline in the value of the corresponding assets. In addition, the Bank's trading positions can be adversely affected by the level of volatility in the financial markets, i.e., the degree to which trading prices fluctuate over a particular period, in a particular market, regardless of market levels.

The Bank may need to raise additional capital in the future

The Bank's capital requirements depend on numerous factors, including the growth of its balance sheet and earnings, regulatory capital requirements, its credit ratings and potential acquisitions. The management of the Bank cannot accurately predict the timing and amount of these requirements.

To the extent that the Bank departs from its current business plan, such as through the development of additional products, the entry by the Bank into new lines of business or the rapid growth of the Bank's loan portfolio, or if the Bank fails to generate sufficient profit to ensure consistent growth in equity through retained earnings, the Bank's debt and equity capital requirements may be greater than currently anticipated. Events outside the Bank's control may also result in additional funding requirements, including the requirement to comply with regulatory capital requirements. If adequate capital is not available, the Bank may be subject to increased regulatory supervision or even intervention, and its business, operating results and financial condition could be adversely affected.

The competition for experienced bank personnel is intense

The Bank competes with other banking companies specifically, and other Bulgarian employers generally, for qualified operating, finance and technical personnel. The success of the Bank's expansion plans will depend in part upon its continued ability to hire and retain such personnel. The Bank has instituted programmes for the training of its personnel and the development of management functions, however the inability of the Bank to recruit and retain sufficient qualified personnel, or the loss of the services of its Directors could have a materially adverse effect on the operations, financial condition or prospects of the Bank.

Employee misconduct could harm the Bank and is difficult to detect and deter

The Bank runs the risk of employee misconduct. Misconduct by employees could include binding the Bank to transactions that exceed authorized limits or present unacceptable risks, hiding from the Bank unauthorised or unsuccessful activities, which, in either case, may result in unknown and unmanaged risk or losses. Employee misconduct could also involve the improper use of disclosure or confidential information, which could result in regulatory sanctions and serious reputational or financial harm. It is not always possible to deter employee misconduct and the precautions the Bank takes to prevent and detect this activity may not be effective in all cases. Employee misconduct could hurt the Bank's business, operations or financial condition.

The Bank's reputation may be negatively affected by the release of true or untrue information about its operations

The Bank's customers or counterparts may lose confidence in the Bank as a result of information they have on it, whether true or not, and on the banking system as a whole. The Bank manages this reputational risk by improving the transparency of its operations and providing reliable and timely information to the interested public. Still, there is no guarantee that other sources will not release information which could adversely affect the Bank's business, results or operations or financial condition.

The Bank's compliance systems might not be fully effective

The Bank's ability to comply with all applicable laws and rules is largely dependent on the establishment and maintenance of compliance, audit and reporting systems and procedures, as well as its ability to retain qualified compliance and other risk management personnel. The management of the Bank cannot assure potential investors that these systems and procedures are fully effective. The Bank is subject to extensive oversight by regulatory authorities, including regular examination activity. In the case of actual or alleged non-compliance with regulations, the Bank could be subject to investigation and judicial or administrative proceedings that may result in substantial penalties or civil lawsuits, including by customers for damages. Any of these could have a material effect on the Bank's business, results of operations or financial condition.

The Bank depends on complex information technology systems

The Bank depends on sophisticated information technology systems to conduct its operations and the failure, ineffectiveness or disruption of these systems could have a materially adverse effect on the Bank.

Information technology systems in general are vulnerable to a number of problems such as computer virus infection, malicious hacking, physical damage to vital information technology centres and software or hardware malfunctions. Any failure or interruption or breach in security of these systems could result in failures or interruptions in customer relationship management, risk management, general ledger, deposit, servicing and/or loan organisation systems. If the Bank's information technology systems were to fail, even for a short period of time, the Bank may be unable to serve some customers' needs on a timely basis and could thus lose their business. Likewise, a temporary shut down of information systems could result in extraordinary costs for information retrieval and verification. In addition, any failure to update and develop the existing information systems as effectively as competitors do may result in a competitive disadvantage. Although the Management of the Bank believes that it has adequate security and continuity-of-business programmes and protocols in place, no assurance can be given that these will be sufficient to prevent these problems or to ensure that the Bank's operations are not significantly disrupted as a consequence.

Any of these or other systems-related problems could have a materially adverse effect on the Bank's business, results or operations or financial condition.

USE OF PROCEEDS

The Bank intends to use the proceeds from the offering for general corporate purposes. The additional capital is needed to implement the strategy of the Bank for a bigger market share through further growth of the corporate, SME and retail loan portfolio and the continuous expansion of the branch network keeping the sound capital adequacy ratios and the low-risk profile of the Bank In the short to mid-term this capital increase will allow the Bank to redeem part of its highest interest bearing debt instrument, currently part of the Tier 2 capital, thus decreasing the cost of funds.

The Bank will not receive any of the proceeds from the sale of the Existing Shares, the net proceeds of which will be paid to the Selling Shareholder.

DIVIDENDS AND DIVIDEND POLICY

Since its establishment, FIBank has adopted a policy of retaining earnings rather than paying dividends or making distributions to shareholders in order to sustain its high growth pace and to improve its creditworthiness. Given the positive future prospects, a change in the current dividend policy is unlikely in the short term to mid-term.

Any decision for the distribution of dividends in the future will be at the discretion of the shareholders and generally depends on the ability of the Bank to generate profit in excess of the capital needed to sustain its growth. More specifically, the Managing Board's recommendation to the shareholders for the distribution of dividends on the Shares will take into account, among other factors, the overall financial condition of the Bank and its capital expenditure and working capital adequacy requirements, any contractual requirements as well as other factors deemed relevant by the Managing Board. For more information, see *"Description of the Shares and Applicable Bulgarian Legislation"*.

BUSINESS OVERVIEW

Overview

FIBank is one of the top ten private sector banks in Bulgaria. As of 31 December 2006, according to data compiled by BNB, the Bank ranked fifth amongst Bulgarian banks, as measured by total assets (BGN 3,148 million), fourth as measured by loan portfolio (BGN 1,755 million) and sixth as measured by total deposits from non-financial institutions (BGN 1,660 million). In 2006 the Bank ranked tenth in terms of net profits (BGN 29 million) and eighth in terms of shareholders' equity.

FIBank was founded in 1993. Initially specialised in offering complex services to corporate clients, over the years the Bank has developed into a universal bank, providing a range of corporate and retail banking services (see "*Business Overview – Operations - Corporate Banking, SMEs and Microlending*" and "*Business Overview – Operations - Retail Banking*"). In recent years, the main focus of the Bank's operations has been the expansion of its retail banking business. The Bank has its headquarters in Sofia and as at 31 December 2006 had 23 branches in Bulgaria and international branches in Cyprus and Albania. Each domestic branch offers a wide range of banking products and services. The Bank also has 80 offices, each of which reports to an associated branch.

The Bank was assigned its first credit rating in 1997 by Thompson Bankwatch. As of the date of this Prospectus the Bank's long-term rating was Ba3/Positive outlook (Moody's) and BB−/Positive outlook (Fitch).

Strengths

FIBank's success depends on its ability to capitalise on its strengths and to utilize efficiently all opportunities, while managing any threat. The Bank believes that its main competitive advantages over its competitors in Bulgaria are:

Well established market positions

Against the backdrop of intense competition from over 30 banks operating in Bulgaria, FIBank has gained recognition in a number of segments with high growth potential such as the cards business and international payments and trade finance. Furthermore, the Bank has managed to increase its share in lending operations. In 2006 the Bank ranked second in Bulgaria in terms of the number of ATM terminals, third in POS terminals, third in corporate lending, and fifth in residential mortgage lending.

A streamlined decision-making process allowing for prompt response to client needs in a rapidly changing business environment

A quick and efficient decision-making process combined with a flexible customer-oriented philosophy are critical to success in a dynamic and growing business. The Bank promotes efficient decision-making by encouraging cooperation and free communication among all units, Management and staff.

An efficient distribution network

In the past couple of years the Bank has substantially expanded its branch network and is now represented in the major population centres of Bulgaria. The Bank will continue to expand its network based on analysis of the potential business volume generated through each outlet. The Bank also benefits from its pioneering role in developing e-banking services. In 2006 approximately 30% of all transfer orders were received through the Internet banking branch. The fine balance between the branch network, the ATM network and e-banking should promote the further growth of the Bank while containing the fixed cost associated with such growth.

A good understanding of the Bulgarian market, product innovation, and high quality services

Understanding and anticipating customer needs and their unique circumstances has underpinned the growth of the Bank since its establishment back in 1993. This has boosted confidence in the Bank as evidenced in the growing business volumes and deposit base. FIBank was the first Bulgarian bank to offer international debit cards and internet banking services and has repeatedly pioneered credit and deposit products. We believe that much of our growth is directly attributable to our innovative approach, and our commitment to meeting the needs and servicing best our clients.

Funding flexibility

In the past years FIBank has relied on a mix of deposits and borrowings to finance its growth. While medium-term borrowings come at a higher cost, they have also benefited the Bank by reducing maturity mismatches and establishing the Bank in the international funding markets, allowing it to raise larger amounts and reducing the costs of such borrowing in the future.

A proven track record in managing risks and a moderate exposure to market risks

The Bank is committed to sound lending practices and processes. This has led to a reduction in non-performing exposures and reasonable recovery rates. The processes of granting loans are well structured and all the Bank's employees are required to adhere to them. The internal threshold of BGN 500,000 for large exposure is much lower than regulatory requirements. FIBank believes it has low exposure to interest rate risk due to its balanced duration matching of assets and liabilities. The Bank also strives to diversify its funding sources by balancing interest income and fee and commission income in order to mitigate the effect of interest rates on profits. In order to control exchange rate risk, the Bank aims at maintaining a broadly neutral foreign exchange open position on balance-sheet level. The proprietary trading and investments of the Bank are primarily low-risk.

Strategy

In the past years FIBank has achieved rapid growth through the sustained expansion of its retail and corporate business. From operating as a specialized bank offering premium-quality services to corporate customers, in the last –4-5 years the Bank has developed as a universal bank.

The Bank's strategic goals include the increase of its loan portfolio and market share through continuing expansion in Bulgaria and in the Balkan region. In order to expand its domestic presence and cope with competition from banks currently operating in Bulgaria as well as new entrants, the Bank plans to continue to build up its relations with existing customers and to attract new customers by expanding the lines of services, refining its existing products, and improving customer service.

Retail banking

The Bank is seeking to continue to develop its position in Bulgaria as a provider of retail banking services. Retail customers are a crucial funding source for the Bank and it will continue to serve them well by offering new deposit account products tailored to meet customer objectives and constraints. The prominence of retail lending operations, particularly mortgage lending, overdrafts on debit cards and credit through credit cards should continue to increase.

Card Payments

In the past years the Bank has successfully developed its card payments business, which has contributed to the expansion of the deposit base, consumer lending and the positive image of the Bank. The Bank will continue its efforts in this direction, recognizing that the cards business is still in a relatively early stage of development in Bulgaria with the penetration of credit cards and payments at POS terminals still significantly below levels in fellow members of the EU. The Bank's aim is to maintain its leading position in card payments and ATM and POS terminals in Bulgaria, expanding further the Bank's ATM and POS network.

To support its growing card business The Bank is committed to updating its information technology function. The Bank recognizes its importance in providing a convenient and reliable service. In 2007 the Bank is to deploy its new card payments system from the vendor TietoEnator. Simultaneously the Bank is to start using the services of a new card processor − CaSys (Macedonia), which should significantly reduce the costs associated with servicing cards payments and thus improve the competitiveness of the Bank. The Bank will also gradually replace issued cards with EMV2 chip cards.

Corporate Banking

Services to corporate customers have been the major source of interest income and fee and commission income for the Bank. The Bank is seeking to maintain its relationships with existing customers and strengthen its position with new Bulgarian corporations. The Bank is also seeking to broaden the range of its corporate banking products by offering packages designed to cover all of the Bank's corporate customers' principal banking requirements. A specific focus will be placed on crediting business sectors that are expected to benefit from the EU's structural and cohesion funds.

Small and medium-sized enterprises and microlending

The importance of small and medium-sized enterprises (SMEs) and entrepreneurs should continue to grow as the Bulgarian economy converges with those of the older member states of the EU. In recognition of this trend and of the requirements and the specificities of these businesses, the Bank has developed special programmes for SME businesses both to attract deposits and to expand the Bank's loan portfolio with these customers. The Bank defines its SME target sector as Bulgarian enterprises with an annual turnover of up to BGN 5 million, employing up to 50 employees and financing up to BGN 500,000. In 2005 the Bank established a separate department dedicated to developing the Bank's micro business entrepreneurs, to which the Bank provides financing of up to BGN 50,000. The Bank expects the volume of business from SMEs and micro businesses to continue to experience strong growth.

Funding

The Bank's funding objectives are to continue to expand its deposit base, particularly from retail customers, while at the same time seeking to extend the maturity profile of its funding base. Whilst the Bank is attempting to increase the average maturity of its domestic deposit base through new product offerings (deposits in Bulgaria have traditionally tended to be relatively short-term) and new deposit products, the Bank has focused and is likely to continue to focus on the international markets in order to raise funding with longer maturities and mitigate the maturity mismatch of its assets and liabilities.

International Operations

The Bank has expanded its network of correspondent banks and is seeking to extend further the credit limits and maturities it currently has with them in order to continue to meet the requirements of its customers for such facilities. The Bank is seeking to maintain its leading position as the second largest bank in Bulgaria according to its share in the market of trade finance instruments. In view of the general trend towards a Single Euro Payments Area (SEPA), the Bank will optimize its network of correspondent banks and will continue to refine its payments services.

Distribution Channels

At the end of 2006 the Bank had a network of 107 outlets in Bulgaria. The branch network is well-suited to serving the expansion of the Bank towards retail and smaller corporate customers. The Bank intends to maintain the pace of its network expansion and to double the number of its outlets in the coming 2-3 years.

The importance of alternative distribution channels is set to increase. These provide convenience for customers by allowing them to receive information or to effect transactions from their home, office or while on the move. Alternative distribution channels are also cost effective - they reduce the need to further expand the branch network. The Bank intends to continue to develop its internet banking facilities. The Call Centre of the Bank should develop to its full capacity.

Regional Initiatives

The Bank’s strategy is to increase its presence in the Balkan region. The Bank currently has branches in Cyprus and Albania. The Bank is in the process of transforming its branch in Albania into a subsidiary bank which should develop its position in Albania, capitalizing on the Bank’s expertise in retail banking and card payments. The Bank will also continue to expand its role in servicing regional trade flows through its Cyprus branch, its Albanian subsidiary and its excellent business co-operation with UNIBank, Macedonia.

History and Development

FIBank was founded in 1993 as a joint-stock company duly organised pursuant to the Bulgarian Commercial Act. FIBank is registered as a bank under the Banks Act 1997 and is licensed by BNB. Effective from 1 January 2007 banking activity in Bulgaria is governed by the Credit Institutions Act 2007 (see "*The Bulgarian Banking Sector*").

Business Development

FIBank focused initially on providing services to corporate customers, its customers ranging from large corporations to small and medium-sized companies to which it provided loans for working capital purposes, overdrafts, letters of credit, bank guarantees and other credit facilities. In 1996, FIBank was the first bank in Bulgaria to launch "in-house banking" by installing software enabling corporate customers that are not near a branch to access their accounts from their own offices.

Steadily, the Bank started to establish a reputation in international trade financing. After its first syndicated loan from foreign banks and the first credit rating by Thompson Bankwatch, 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. At the end of 2006, the Bank effected transfers in approximately 60 foreign currencies and offers payments through documentary letters of credit and collections, stand-by letters of credit and bank guarantees. Credit lines for the confirmation of letters of credit and letters of guarantee without cash collateral approved by more than 40 first class banks all over the world reached around EUR 100 million. The Bank has a network of over 500 correspondent banks across Europe, Asia, Africa and North America.

In 1997 FIBank started to develop its retail banking activities. This process has been facilitated by the Bank's contractual arrangements with international credit and debit card operators. In 1997 the Bank was the first bank in Bulgaria to enter into licences to use the Eurocard, MasterCard, Cirrus, Maestro and Eurocheque trade marks internationally. The Bank introduced a debit card service to the Bulgarian market, domestically and internationally, through the Cirrus/Maestro and Eurocard/MasterCard networks. Since 1998, the Bank has provided residential mortgage loans, consumer loans, retail overdrafts and bank debit and credit cards. At the end of 2006 the Bank had a distribution network consisting of 107 branches and offices, 537 automated teller machines (ATMs) and 3,250 point-of-sale (POS) terminals.

In 1997 the Bank established a branch in Nicosia, Cyprus. It is licensed by the Central Bank of Cyprus to carry out all types of banking activities and provides funding and lending operations in US Dollars and Euro, as well as trade finance and foreign exchange products and services to companies registered in Cyprus and Bulgaria with business interests and activities in Bulgaria. In 1999, the Bank established a branch in Tirana, Albania, offering a wide range of banking services to Albanian companies and individuals. In particular, this branch provides banking services for trade between Albania and Bulgaria. In 2004 the Bank opened an office in Durres (Albania). To further strengthen its operations in this market, the Bank intends to establish a subsidiary bank in Albania. In 2006 a subsidiary company was registered in Albania and the process of obtaining a banking licence was initiated. In 2007 and onwards the Bank plans to expand its presence in the country by opening new offices and developing its card business there.

In 2001 FIBank launched the first virtual banking branch in Bulgaria providing the opportunity to operate through the Internet. The branch allows individuals and corporate customers to conveniently manage their accounts, to order transfers in Bulgarian Leva and foreign currency, to effect taxation payments,, to exchange currency, check account balances and transactions, and open deposit and current accounts. The Bank updated its Internet branch in 2006, as a result of which its speed, functionality and capacity were enhanced. The number of registered clients increased by 121% in 2006 to reach over 20,000.

Shareholdings

FIBank was founded by the Major Shareholders Mr. Tzeko Minev and Mr. Ivaylo Mutafchiev together with First Financial Brokerage House OOD ("**FFBH**").

In 1997 EPIC, an investment finance institution originally founded in 1989 as part of Oesterreichische Landesbank for investments in Eastern Europe and the former Soviet Union, became a shareholder in the Bank, holding the legal title to 39% of the total share capital of the Bank. However, pursuant to certain legal agreements between EPIC and the Founding Shareholders entered into in connection with EPIC's shareholding in the Bank, the Founding Shareholders maintained voting control of EPIC's shares and the right, exercisable at any time, to call for the legal title thereto. In February 2005 EPIC sold and transferred its Shares in equal proportions to the two Major Shareholders.

In 1997, the European Bank for Reconstruction and Development made an equity investment of USD $4.2 million in subscribing newly issued shares representing 20% of the shareholder capital of the Bank, which was one of the first of such equity investments made by EBRD in a Bulgarian bank. Under arrangements agreed in accordance with its original investment strategy and pursuant to the shareholders' agreement, EBRD had the right at any time after 5 June 2001, continuing indefinitely, to sell all of the Shares owned by it to the Founding Shareholders and FFBH. In July 2004, EBRD exercised that put option. The Founding Shareholders and FFBH applied for the approval of the Bulgarian National Bank ("**BNB**") in respect of the exercise by EBRD of the put option, but such approval was not granted. In November 2004, EBRD appealed against BNB's decision to the Supreme Administrative Court. The Supreme Administrative Court rejected EBRD's appeal.

In December 2005 Growth Management Limited ("**GML**"), an open-ended investment fund incorporated in Jersey, Channel Islands, with the written permission of BNB acquired from EBRD 100,000 shares in the Bank, representing 10% of the share capital of the Bank. The Investment Adviser to GML was GML International Limited, London, a privately-owned investment banking firm authorised and regulated by the UK Financial Services Authority.

In December 2005, Hillside Apex Fund Limited, a limited liability company incorporated in the Cayman Islands, acquired from EBRD a 10% shareholding in the Bank. Hillside was incorporated on 20 July 1998 as the trading subsidiary of the Hillside Apex Fund, a separate portfolio of Thames River Global Funds Limited, an open-ended, multi-class exempted company incorporated with limited liability in the Cayman Islands.

In compliance with the permission of the General Meeting of FIBank's Shareholders, held on January 31, 2007 GML and Hillside Apex Fund Limited transferred their shares in the Bank, representing 20% of the capital of the Bank, to FFBH. The latter company acquired the shares as a commission agent on its own behalf and on the account of Domenico Ventures Limited, Rafaela Consultants Limited, and Legnano Enterprises Limited. In February 2007 FFBH transferred 700,000 shares (representing 7% of the Bank's capital) to Domenico Ventures Limited, British Virgin Islands, 700,000 shares (representing 7% of the Bank's capital) to Rafaela Consultants Limited, British Virgin Islands; and 600,000 shares (representing 6% of the Bank's capital) to Legnano Enterprises Limited, Nicosia, Cyprus.

History of Funding

The Bank has accessed international finance markets raising wholesale financing through bilateral loans, syndicated loans, and the issuance of bonds. The Bank has also raised funds domestically through the issuance of three mortgage bonds. Such funding facilities have supported the expansion of the Bank but have also contributed towards the mitigation of liquidity and interest risk. Some of the facilities are redeemable at the option of the holders thereof under certain circumstances.

Loan Facilities and Debt Issues.

In 1996, EBRD made a medium-term loan facility of USD 4 million with a maturity of five years available to the Bank for financing small and medium-sized enterprises in Bulgaria. The Bank was one of the first banks in Bulgaria to be granted such a facility by EBRD. In 1998, EBRD's medium-term loan facility was increased to USD 6 million, which was used by the Bank for medium-term loans to private companies. This facility was fully repaid by the Bank in August 1999.

In 1998 FIBank was the first Bulgarian bank to be granted a syndicated loan by international banks when eight European banks participated in a one-year USD 10 million loan. In 1999, the Bank entered into a further syndicated loan, arranged by EBRD, with two facilities, one for two years, extended by foreign and Bulgarian banks for EUR 7.5 million, and a second facility extended by EBRD for EUR 5 million, with a maturity of three years. At the end of 1999, a medium-term loan financing of EUR 6.6 million was granted to the Bank by a German government entity to finance companies involved in the Bulgarian transportation, construction and services sectors. These loans were fully repaid at maturity.

In December 2000, the Bank was granted its third syndicated loan facility by certain European banks for EUR 10 million for a term of two years. This facility was fully repaid by the Bank at maturity.

In 2001 the Bank issued a EUR 5 million mortgage bond placed at the Bulgarian Stock Exchange. The loan matured and was repaid in 2003.

In May 2003, the Bank issued EUR 6 million 8.5% bonds due 2008. In July 2003, the Bank issued USD 10 million 6% bonds due 2004. The Bonds matured and were fully repaid. In September 2003, the Bank issued EUR 40 million 8% bonds due in 2006, which matured and were repaid in 2006. In November 2003, the Bank issued in Bulgaria EUR 5 million 7% Mortgage Bonds due in 2008. In December 2003, the Bank entered into a EUR 12 million syndicated loan with a term of 364 days, extendable for a further year at the option of the Bank, granted by certain European banks. The Bank exercised the extension option, the facility was extended for a further 364 days and was repaid in 2005.

In January 2004, the Bank entered into a bilateral two year loan agreement with Dresdner Bank AG, Frankfurt for EUR 2 million for general short-term funding purposes. In May 2004, the Bank issued USD 10 million 6.125% bonds due in 2005. In September 2004, Wachovia Bank N.A. (New York) provided a five-year loan of USD 15 million to the Bank. This loan is guaranteed by Overseas Private Investment Corporation (OPIC), a governmental agency of the United States of America.

On 21 September 2004, the Bank issued in Bulgaria EUR 10 million 7% Mortgage Bonds due 2009. In December 2004, a syndicate of banks led by Bayerische Landesbank and Raiffeisen Zentralbank Oesterreich provided a loan of EUR 36.5 million to the Bank for a term of 364 days, extendable for a further year at the option of the Bank.

In January 2005, the Bank issued a EUR 200 million Eurobond due in 2008, organized by Dresdner Bank and ABN Amro for general funding purposes.

In October 2005 the Bank was granted a syndicated loan facility for EUR 125 million for 364 days with an extension option for another 364 days with the participation of 21 banks worldwide. The facility was fully repaid in November 2006.

In February 2006 a second USD 10 million five-year SME facility covered by OPIC was signed with Wachovia Bank N.A.

In May 2006 the Bank signed a EUR 10 million bilateral trade finance facility with Wachovia Bank for a period of two years

In November 2006 a new syndicated loan facility was organized for EUR 185 million for 364 days with an extension option for another year with the participation of 33 banks worldwide.

On 7 February 2007 First Investment Bank and LRP Landesbank Rheinland-Pfalz, Germany signed a EUR 20 million Credit Facility Agreement. The Facility Agreement is for general-purpose financing and for a period of five years.

Save for the mortgage bonds, all the Bank's external borrowings are unsecured.

Capital Instruments

Historically the Bank has sought to support the expansion of its capital base by retaining profits and, in the last couple of years, by raising tier II capital through subordinated term debt and perpetual subordinated bonds. Such instruments are eligible for inclusion in the capital base of the Bank subject to regulatory approval from BNB. The repayment of such instruments before maturity is subject to prior approval by BNB. All such loans have been approved by BNB for inclusion in the capital base of the Bank. Details on the use of such funds are provided under "*Operating and Financial Review and Results of Operations – Capital Resources*" below.

In April 2003, the Bank was provided with an eight-year unsecured subordinated facility of up to EUR 3 million by Growth Management Limited ("**GML**"). After receiving the necessary approvals, the Bank repaid this loan in 2006.

In July 2003, the Bank was provided with an eight-year unsecured subordinated facility of up to EUR 5 million by Hillside Apex Fund Limited. After receiving the necessary approvals, the Bank repaid this loan in 2006.

In December 2003, the Bank was provided with a nine-year unsecured subordinated facility of up to EUR 1 million by Hillside Apex Fund Limited.

In March 2004, the Bank was provided with a ten-year unsecured subordinated facility of up to EUR 1 million by GML.

In August 2004, the Bank was provided with a ten-year unsecured subordinated facility of up to EUR 3 million by GML.

In February 2005 the Bank received a EUR 2 million 10-year subordinated term debt from GML.

In March 2005 the Bank received a EUR 5 million 10-year subordinated term debt from Hillside Apex Fund Limited.

In March 2005 the Bank received a EUR 1 million 10-year subordinated term debt from Global Emerging Markets Bond Fund.

In April 2005 the Bank received a EUR 2 million 10-year subordinated term debt from Hypo-Alpe-Adria Bank International AG.

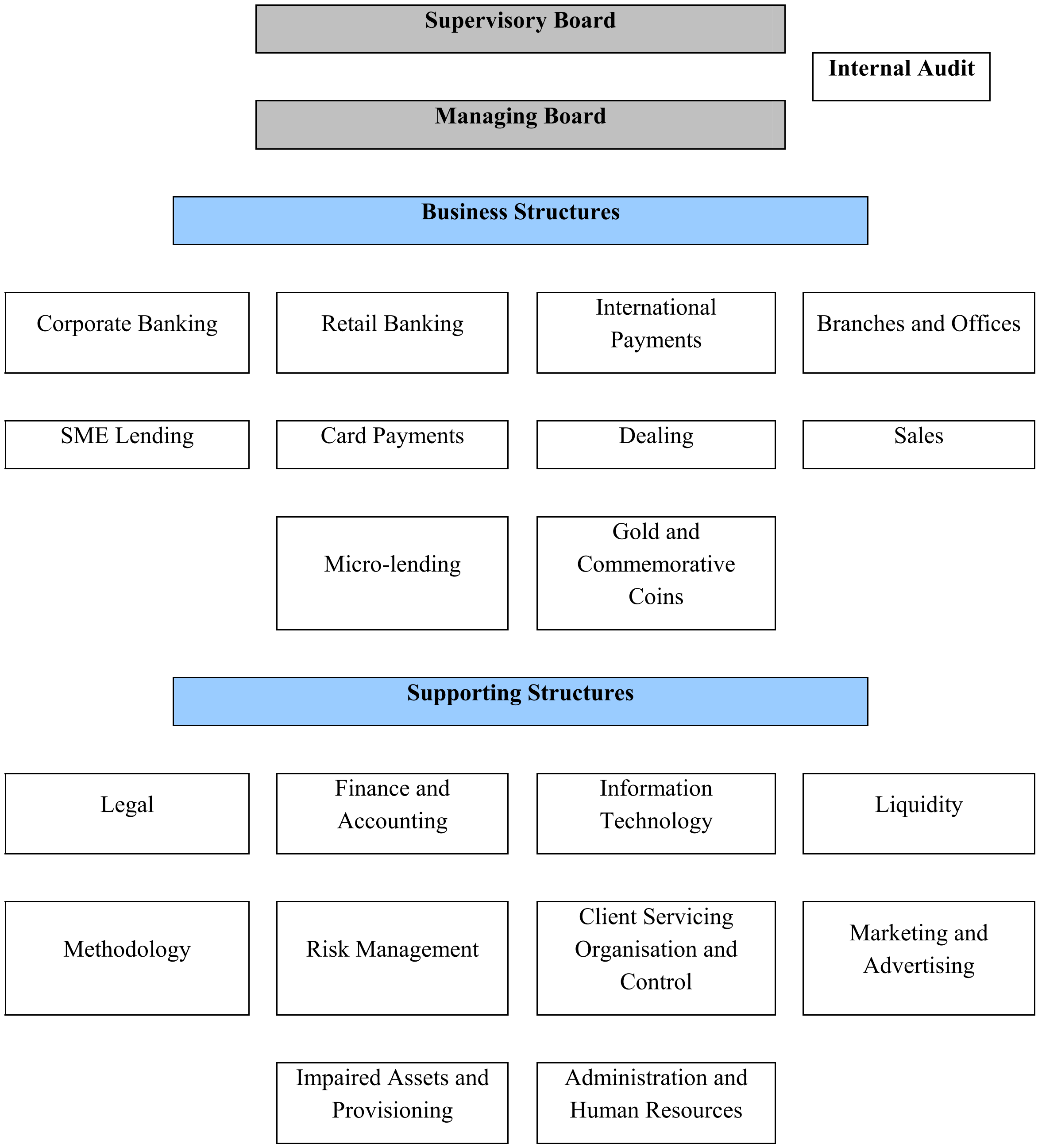
In April 2005 the Bank received a EUR 5 million 10-year subordinated term debt from Standard Bank London Limited.

In August 2005 in a landmark transaction for Bulgarian banking, and amongst the first transactions of its type in Eastern Europe, the Bank raised EUR 27 million of Upper Tier II hybrid capital through the issuance of step-up perpetual subordinate bonds.

In March 2006 First Investment Bank raised another EUR 21 million of Upper Tier II hybrid capital through the issuance of step-up perpetual subordinate bonds.

Organisational Structure

The following chart sets out the Bank's organisational structure:



The activities of the major departments are described below.

The Corporate Banking Department

The Corporate Banking Division is primarily responsible for the Bank's corporate customer relationships. These include analysing loan applications, negotiating the terms of loans and credit facilities, consulting customers regarding the products offered by the Bank, on-site visits to customers, the inspection of pledged collateral, the making of credit proposals to the Bank's Credit Council in relation to the currency, type and maturity of loans, the formulating of lending budgets, consulting the Bank's branches regarding the terms of the Bank's lending facilities and analysis of customer creditworthiness, the administration of granted loans, monitoring corporate customers' payments and promoting the Bank's lending products to its existing and new corporate customers. The corporate banking division supports the Bank's Impaired Assets and Provisioning Department in recovering non-performing corporate loans, although the Credit Committee supervises the quality of the overall portfolio and proposes the restructuring and renegotiation of loans if necessary.

The SME Lending Department

The SME Lending Department is responsible for the Bank's relationships with Small and Medium-sized Enterprises (SMEs). The Bank defines SMEs as corporate customers with an annual turnover of up to BGN 5 million, up to 50 employees and fixed assets up to BGN 1 million. The department is responsible for developing lending facilities tailored to meet the needs of SMEs, maintenance of the Bank's relationships with such customers, analysis and evaluation of applications, preparation of proposals regarding the granting or renegotiation of loans, and supporting the branches in negotiating and structuring loans for SMEs.

Microlending

The Microlending Department was established in 2005 and is responsible for servicing entrepreneurs, sole proprietors, farmers, providing financing of up to BGN 50,000. The department develops loans and overdrafts, meeting the unique circumstances of such customers, negotiates the terms of the granted loans and overdrafts, and advises customers and prospects regarding the financing of their projects.

The Retail Banking Department

This department is primarily responsible for the Bank's retail products. The Retail Banking Department originates, co-ordinates and monitors the Bank's retail operations − consumer and mortgage loans, overdrafts on bank cards, and deposits. The department formulates the Bank's strategy for the expansion of retail banking services, the development of new retail banking products and services, and markets them to the Bank's customers. The department monitors on an ongoing basis the performance of the granted loans and co-operates with the Impaired Assets and Provisioning Department in recovering such loans.

The Card Department

The Card Department performs administrative functions in respect of the Bank's operation of Visa and MasterCard. This includes the issuing of debit and credit cards, maintaining the Bank's ATM and POS networks, exchanging data with clearing organizations, and processing complaints. The risk unit within the Card Department monitors card authorisations within the guidelines set by the card payment systems. The department is also responsible for the Bank's relationship with merchants as well as the marketing of card products.

The International Department

The International department co-ordinates, organises and carries out the Bank's foreign currency payment operations. The department is divided into three:: (i) documentary payments, which deals with export letters of credit, collections and assignment letters, import letters of credit and guarantees; (ii) international payments, which deals with outgoing payment orders, SWIFT operations and correspondent banking; and (iii) and Nostro accounts, which deals with incoming payment orders and monitors incoming and outgoing foreign currency payments. It also manages Nostro accounts and monitors balances with foreign banks. The department also structures trade finance operations, negotiates foreign loans and other credit lines for the Bank, monitors all such loans and credit lines and is responsible for international forfeiting.

The Dealing Department

The Dealing Department is divided into two: foreign exchange and capital markets. Capital Markets covers proprietary trading (including repurchase and resale agreements) and dealing for customer accounts, principally in local government securities. Foreign Exchange is responsible for any currency trades undertaken by the Bank and is responsible for setting the Bank's currency rates offered to its customers. The Bank keeps its trading activities strictly separated from its customer services as prescribed by the Bulgarian Financial Supervision Commission.

The Gold and Commemorative Coin Department

This is responsible for the sale of gold bars, bullion coins, and items made of precious metals. The Bank also participates in the design and production of unique items such as anniversary medals, awards, company brand items, delivers precious metals with specific quality requirements, and renders advisory services on portfolio investments in precious metals. The Bank also sells commemorative coins issued by BNB.

The Sales Department

This department was established in 2006 and is responsible for the direct sale of Bank products and the preparation of comprehensive offers to corporate and institutional customers. The employees of the department present the Bank's products to existing and prospective customers, represent the Bank at trade fairs and exhibitions, and actively participate in campaigns to promote the Bank's services.

The Liquidity Department

This manages, co-ordinates and implements the asset and liability activities of the Bank. The asset and liability strategy, including the measurement of the Bank's liquidity, exchange-rate and interest-rate risk is devised in conjunction with the Managing Board. The Department is responsible for recommending to the Asset and Liability Management Committee the level of interest rates on deposits and loans. It also performs treasury related market analysis and activities, including managing the Bank's liquidity position, and advises the Managing Board on the Bank's funding position. It is also responsible for the management of the Bank's required reserves held with the BNB.

The Risk Management Department

The Risk Management Department is responsible for the supervision and administration of the Bank's exposure to credit and market risks. The department develops and implements methods for the evaluation and quantification of credit risks, ongoing monitoring of the loan portfolio, developing a set of limits to safeguard the Bank's capital, analysis and the evaluation of specific risk exposures, backtesting the scoring methodologies. With regard to market risk, the division is responsible for developing methods for the measurement of the interest rate and foreign exchange risk, setting and enforcing VaR and position limits, the validation of deployed models, and running stress tests for the effect risk factors have on the Bank's balance sheet and income statement.

The Impaired Assets and Provisioning Department

This department's activities are directed primarily towards actively managing impaired loans, including the collection of information, negotiations with borrowers, preparing proposals for the restructuring of exposures, and foreclosure procedures. The department also assists the Bank's branches in the management of exposures, coordinates the process of setting impairment allowances based on regulatory requirements and past experience, and the preparation of regulatory and internal reports regarding the quality of the Bank's portfolio of risk exposures.

The Finance and Accounting Department

The Finance and Accounting Department administers, supervises and maintains the accounting records of the Bank's head office and branches. It interprets and applies consistently accounting policies and standards and is responsible for preparing the Bank's financial statements and regulatory reports. The department supports decision making by providing timely management information. It also has certain back office functions in respect of the administration of settlement operations and taxation. The Bank prepares all of its reports and accounts in accordance with International Financial Reporting Standards.

The Information Technology Department

This department draws up the Bank's strategy for acquiring and utilising information technology within the head office and branch network. It is also responsible for the operation of the data communication network system, the implementation of new IT systems, the analysis and development of new software applications, the security of the Bank’s software and IT infrastructure, and contingency and disaster recovery plans.

The Legal Department

This reviews the Bank's legal documentation and represents the Bank in litigious matters and in its dealings with legal and regulatory bodies, prepares model contracts, terms and conditions, and other contracts entered into by the Bank.

The Methodology Department

This is responsible for the development and maintenance of internal rules, procedures and reports in accordance with Bulgarian legal and regulatory requirements. The department also supports the implementation of new Bank products and relations with external institutions, including rating agencies and regulators.

The Marketing and AdvertisingDepartment

This department collects marketing information, conducts surveys of present and potential customers, analyses market opportunities and proposes new banking products. The division approves the designs of promotional materials and devises promotional programmes for banking products and services in conjunction with advertising and marketing agencies.

The Administration and Human Resources Department

This is responsible for selecting, recruiting and training employees. In conjunction with the management of the Bank's other departments it draws up projections for staff levels and informs the Bank's Management of general personnel performance levels. It is also responsible for the administration of the Bank’s fixed assets, warehouses, and the delivery of stationery. The department is also responsible for keeping document registers and archives.

The Branch Network Department

This department is responsible for the operational administration of the Bank's branch and office network, including the opening and closing of branches in accordance with the resolutions of the Managing Board, analysis of the financial results of the branch network, and setting budgets and performance targets.

The Organisation and Control of Client Servicing Department

This is responsible for the selection and appointment of customer service (front office) staff, training of new employees, issuing of guidelines to customer service personnel regarding their duties, and the ongoing monitoring and control of customer service operations.

The Internal Control Department

The Internal Control Department is the internal audit body of the Bank. The scope of the functions of Internal Control is regulated by rules prescribed by BNB. The management team of Internal Control is appointed at a general meeting of shareholders and reports to the Executive Directors of the Bank. The main function of Internal Control is to plan, develop and monitor the Bank's internal control and audit procedures, including anti-money laundering procedures. The Internal Audit Department applies international principles and standards for internal audit. The unit checks the veracity of all reports of misconduct of Bank employees, controls the accuracy and completeness of the accounting function, controls the execution of contracts of the Bank with its counterparts, verifies reporting procedures, and controls the compliance of the conduct of Bank employees and the processes with the requirements set forth in all applicable legislation, internal rules, procedures and policies.

Operations

Corporate Banking, SMEs and Microlending

Deposit and current accounts

The Bank currently offers the following accounts to its corporate customers:

- Current accounts (demand deposits) denominated in Lev, Euro, US Dollars, Sterling and Swiss Francs on terms such that customers can withdraw their monies at any time. Current account balances bear interest at the Bank's interest rate;
- Special purpose accounts such as escrow accounts, accounts for lawyers, insurance agents, brokers and public execution officers. These accounts are maintained by the Bank according to their specific legislative requirements;
- Deposit accounts (time deposits) in Lev, Euro, US Dollars, Sterling and Swiss Francs with 1, 3, 6 and 12 month maturity and above. The interest rate paid on deposits is commensurate with the term of the deposit. Although amounts may be withdrawn by the customer at any time, in the event of early withdrawal the interest accrued on the account since the last interest payment date is reversed.

Since 2005 the Bank has offered a new deposit product – the multi-currency deposit account in Lev, Euro and US Dollars. Companies may convert the principal from the currency at the time of opening the deposit account into another without losing the accrued interest.

The Bank offers a range of banking services and products to its corporate customers including payment orders, documentary collections, export letters of credit, corporate credit cards and payment of employees' remunerations. The Bank encourages services by electronic banking (the internet branch).

Corporate Lending

The Bank's commercial lending products include investment loans (loans in respect of the financing of fixed assets), short-term loans and factoring and forfeiting facilities. The principal credit facilities available to the Bank's corporate customers are medium and long-term investment loans, general working capital lines, export credit, import letters of credit, standby letters of credit, guarantees and factoring services. All corporate loans are collateralised by assets or by third-party guarantees. Most investment loans are granted for up to seven years, and overdraft facilities for up to three years on the basis of a revolving facility. Occasionally loans and overdrafts may be granted for a longer period if the life-cycle of the business or project warrants it.. Loans may also be granted to companies from sectors with seasonal needs, such as the agricultural sector, the food industry and the tourist sector. In respect of loans to the agricultural sector, the Bank participates in the State Fund "Agriculture" and in a financing programme provided by the European Union under which the Special Accession Programme for Agriculture and Rural Development ("SAPARD") repays to the Bank a proportion of amounts lent by it upon the completion by the customer of SAPARD sponsored agricultural projects and developments, and others.

As at 31 December 2006, the loans granted to private sector corporate customers amounted to BGN 1,114.6 million. Compared to the end of 2004 the corporate portfolio increased by approximately BGN 315 million or 39.4%. Loans to private sector corporate customers constitute the predominant proportion (98.1%) of the corporate loan portfolio. Please refer to "*Operating and Financial Review and Results of Operations*" and "*Selected Statistical Information*" for further details of the structure of the loan portfolio.

The Bank also extends loans to corporate customers secured against future receivables from credit transfers and other type of discount operations with a repayment term of up to 90 days, but no later than the maturity date.

SME Lending

The Bank has been developing specialized lending for small and medium-size businesses since April 2004. As at 31 December 2006 the SME portfolio amounted to BGN 163 million (2005: BGN 95 million; 2004: BGN 39.9 million) or 12.5% of the bank's corporate portfolio (2005:8.7%, 2004:4.7%). The Bank's lending products to SMEs include investment loans, short term loans, general working capital lines, export credit and import letters of credit. All SME loans are collateralised by assets or third party guarantees. Most investment loans to SMEs are granted for up to seven years but may be granted for longer in exceptional circumstances. Overdraft facilities are granted to SMEs for no longer than three years on the basis of a revolving facility.

Micro-lending

Micro-lending covers the financing of traders, manufacturers, farmers, freelancers, including emerging businesses and companies with limited market experience with demands for financing up to BGN 50,000 and not exceeding aggregate exposures to the Bank of BGN 100,000. The Bank has been developing specialized micro lending since 2005. As at 31 December 2006 the portfolio amounted to BGN 23 million (2005: BGN 9 million) or 1.8% of the corporate portfolio (2005: 0.9%). The Bank's specialised Micro-lending programme includes standard loans, overdrafts as well as specialized products such as loans for physicians, Business Credit Card, and POS overdrafts.

Retail Banking

Retail Deposits

The Bank currently offers the following accounts to its retail customers:

- Current accounts (demand deposits) denominated in Lev, Euro, US Dollars, Sterling and Swiss Francs on terms such that customers can withdraw their monies at any time. Current account balances bear interest at the published interest rate; and
- Deposit accounts (time deposits) denominated in Lev, Euro, US Dollars, Sterling and Swiss Francs with 1, 3, 6 and 12 months maturity and above. The longer the deposit term, the higher the interest rate applicable. Although monies may be withdrawn by the customer at any time, no interest is paid on these accounts if monies are withdrawn prior to the agreed maturity.

The Bank offers deposit accounts with a term of over one year in an attempt to promote an increase in its long term deposit base (such as the three year term deposit product). This product pays interest monthly in advance at a higher rate than the Bank's other deposit products. Although the deposit may be withdrawn by the customer at any time, such withdrawals will result in an interest adjustment which will be deducted from the principal amount of the deposit.

Since 2005 the Bank has offered a variety of long-term accounts such as multi-currency time-deposit accounts for a period of two to three years. There are also time-deposit accounts with progressive interest rate (For the first 6 months the annual interest rate on 6 months deposits in the relevant currency is applied. For each subsequent 6 month period a cumulative increase in the interest rate is applied at 0.50% for deposits in BGN and 0.25% annually for deposits in EUR and USD),. There are also pensioner and children's time deposit accounts.

Since December 2006 the Bank has been offering savings books (savings accounts and children's accounts).

Although there are no legal restrictions on the offering of deposit accounts with a term greater than 12-months, socio-economic experience in Bulgaria has historically resulted in few customers choosing such a product (see "*The Bulgarian Banking System*".*)* Accordingly it is not possible to estimate the likelihood of the success of longer term deposits in Bulgaria.

The Money-Gram, Express-M, and EasyPay international and domestic funds transfer facilities are also provided by the Bank.

In recent years the Bank has been developing private banking by offering personalized services at the offices of the Bank and assistance at the client's offices or by telephone.

Retail Lending

As discussed under "*Business Overview - Strategy*" above, the diversification and improvement of the quality of the retail products and services together with the expansion of the branch and office network are the key instruments of the Bank in attracting new retail customers. The Bank offers retail customers standard lending facilities, such as mortgage loans, consumer goods loans, and personal loans. The Bank also offers retail customers overdraft facilities pursuant to issued debit cards (subject to the requirement that the customers receive their remuneration into their accounts with the Bank) and credit limits on credit cards. Over the last three years the Bank has developed specialized lending programmes for the purchase and construction of real estate, university students' loans, and loans "Professional" and "Technomarket". The Bank has experience in developing and providing special credit products for groups of particular retail customer segments, including financing for customers purchasing goods from certain retail companies.

The Bank analyses every loan application by a retail scoring system and strictly follows its credit policy and procedures (see "*Risk Management and Internal Control - Credit Risk Management*").

The table below provides details on the structure and the terms of the Bank's retail lending programmes as at 31 December 2006:

	As at 31st December 2006		
Loan type	**Mortgage loans**	**Consumer loans**	**Credit cards**
Amount (in BGN thousand)	234,742	193,161	25,978
Loan Maturities Range (yrs.)	1-30	0.25-10	2
Average Maturity (yrs.)	15.3	5.2	2
Usual currency	BGN/EUR	BGN	BGN
Required collateral	Mortgage	Promissory note	Promissory note

Although mortgage loans are a relatively safer product for the Bank, operating on 90% loan-to-value basis when the loan is used to fund the purchase of a property (75% loan-to-value when the proceeds of the loan are used for other purposes), and are less capital intensive than other loan products, the Bulgarian mortgage loan market is highly competitive, which may affect the ability of the Bank to grow its mortgage loan portfolio and affect the interest margins achievable. Still, the Bank is committed to continue offering competitive mortgage lending and re-mortgaging products. One of the top-performing mortgage products of the Bank is the so-called "Mortgage Overdraft", offered since 2004, where a 20-year residential mortgage loan product operates on a committed revolving basis for the first five years, allowing the customer flexibility of utilisation.

Debit and Credit Cards

The Bank began to develop a credit card and bank card business in 1996. By 1997, the Bank had become a fully recognised and licensed member of MasterCard. The bank cards offered by the Bank include Maestro debit cards, Visa Electron debit cards, Visa and MasterCard credit cards and Diners Club credit cards. At 31 December 2006 the total number of bank cards issued by the Bank amounted to 465,558 (31st December 2005: 389,858, 2004: 301,281).

In October 2006, the Bank certified successfully its VISA card with an EMV chip, and in November 2006 the Bank also obtained certification from MasterCard. .

The number of FIB's POS terminals increased by 127.9% in 2006, thus exceeding 3,250 (2005: 1,429, 2004: 594). The Bank estimates that it operates the second-in-size network of ATM terminals in Bulgaria, 537 terminals at the end of 2006 (2005: 447; 2004: 335).

The Bank has a dedicated card department to administer the Bank's retail credit card capabilities. At the beginning of 2007 the Bank started to convert the processing of its card payments from the Bulgarian operator BORIKA (Bank Organisation for Payments Initiated by Cards) to the card payment operator CaSys, established in Macedonia, owned by the Major Shareholders of the Bank.

Other Banking Activities

Capital Markets

The Bank enters into purchases and sales for its own account and for the account of its customers in government securities such as local government securities and securities issued by foreign governments. Dealings in corporate securities and shares (other than mortgage-backed bonds) for its own account have been very limited and any such dealings are typically on behalf of the Bank's customers.

The Bank is registered as an investment intermediary with the Bulgarian Financial Supervision Commission and as a shareholder in, and dealer on, the Bulgarian Stock Exchange, which allows the Bank to deal in securities and offer brokerage services.

The Bank is also a primary dealer in government securities which authorizes it to participate in auctions for government securities.

The Bank manages its own portfolio of securities by taking into account risks undertaken, liquidity needs, and statutory and internal banking regulations concerning investments in securities. While the Bank expects a return on its security portfolio commensurate with its risk profile, in managing its portfolio it puts first its liquidity needs and invests in securities issued by investment-grade issuers, foreign banks and governments as well as Bulgarian treasury bills. In view of this investment policy, the majority of the securities portfolio is classified as investments available for sale or investments held to maturity, while the share of assets held for trading (i.e. with the purpose of achieving short-term gains from fluctuations in the price of the securities) is minor.

The Inter-Bank Market

The Bank offers standard services such as FX trading and arbitrages, as well as FX contracts trading for its own account and for the account of its customers. The Bank has limited treasury operations consisting of the placement of unutilised foreign currency funds in deposits with banks outside Bulgaria, the placement of BGN funds with BNB and other domestic banks and the placement of BGN funds in treasury bills and government bonds.

Trade Financing

The Bank participates in the forfaiting market, discounting future proceeds under foreign and domestic trade transactions. It issues letters of credit and bank guarantees, performs documentary collections, assigns letters of credit and discounts the proceeds thereof. At the end of 2006 the credit lines for confirmation of letters of credit and letters of guarantee without cash collateral, approved by more than 40 first class banks all over the world, reached around EUR 100 million.

First Investment Bank has a number of agreements signed with international institutions, by means of which its clients have effective access to specialised programmes and financial concessions for the import of machines, equipment and related services from European countries and the USA. These agreements finance up to 85% of the contracted value of imports and are covered by the state insurance agencies of the country of the exporter. Financing is realised for a period of up to five years, depending on the contracted amount of deliveries.

International Transfers

The Bank has SWIFT bilateral key exchange agreements with more than 500 banks. The Bank effects international transfers in about 60 currencies through 30 correspondent bank accounts. The Bank estimates that, in 2006, it accounted for approximately 6.05% of the outgoing and 5.90% of the incoming foreign currency transfers from and to Bulgaria.

Bullion

At the end of 2001 the Bank started to provide a service for customers to trade gold in the form of bullion coins and gold bars. Revenues from the sale of bullion in 2006 amounted to BGN 539,000 (2005: BGN 322,000, 2004: BGN 202,000).

Private Banking

Since 2003 the Bank has offered private banking services to a limited number of high net-worth individuals (EGO Club). The customers receive a personalized service, and preferential terms for the products of the Bank and from third parties. In 2005 the Bank started a similar service for corporate customers – the Business EGO Club.

The Loan Portfolio

In the past five years there has been a trend towards growth in the Bank's loan portfolio. During the same period the portfolio has diversified across types of customers and industries corresponding to the development of the economy and the strategy of Management to position the bank as a universal bank, offering a wide range of products.

The Loan Portfolio by Type of Customer

Historically corporate banking has been the main strength of the Bank. The Bank offers a range of traditional banking services to private sector corporate businesses. As at 31 December 2006 loans to private corporate customers (including SMEs and microenterprises) accounted for approximately 73.0% of the Bank's loan portfolio (2005: 77.8%, 2004: 81.4%). As at 31 December 2006, the Bank's corporate customer loan portfolio (including loans to state-owned corporate customers) amounted to approximately BGN 1,301 million (31 December 2005: BGN 1,089 million). Please refer to "*Selected Statistical Information*" for further details of FIBank's loan portfolio

Corporate lending remained domestically-oriented with loans in Bulgaria accounting for 97% of the loan portfolio. The share of loans extended in Cyprus and Albania was a modest 3%. In 2006 the Bank started a procedure to establish a subsidiary bank in Albania. Depending on the market environment in Albania, the share of lending abroad might gradually increase in the years to come.

The Bank's strategy is to increase the diversification of its loan portfolio by increasing the share of retail loans in the portfolio and the share of loans to medium, small and micro enterprises in its corporate portfolio. The share of retail loans increased from 2.7% in 2002 to 26% at the end of 2006. In 2006 alone the growth in the retail portfolio was 61.2% to BGN 453.9 million. Loans extended under the SME and microlending programmes accounted for 14.3% of the Bank's corporate loan portfolio (2005: 9.6%, 2004: 4.7%).

The Loan Portfolio by Economic Sector

	As at 31 December					
	2006	**%**	**2005**	**%**	**2004**	**%**
	BGN 000/% total					
Trade	298,586	17.01	250,266	18.26	269,995	26.79
Industry	460,032	26.21	381,447	27.82	264,659	26.26
Services	128,129	7.30	107,984	7.88	42,366	4.20
Finance	1,620	0.09	6,804	0.50	18,151	1.80
Transport, logistics	47,870	2.73	87,493	6.38	64,677	6.42
Communications	5,646	0.32	863	0.06	38	0.00
Construction	160,910	9.17	59,849	4.37	20,585	2.04
Agriculture	62,760	3.58	39,690	2.90	26,227	2.60
Tourist services	119,488	6.81	145,017	10.58	114,618	11.37
Private individuals	453,881	25.86	281,595	20.54	168,268	16.70
Other	16,059	0.92	9,882	0.72	18,270	1.81
Loan portfolio (before allowances)	**1,754,981**	**100.00**	**1,370,890**	**100.00**	**1,007,854**	**100.00**

The growth and stabilization of corporate business contributed to preserving the quality of the Bank's loan portfolio. The amount of loans extended to all major industry sectors increased in 2006, with the largest increase of 170% in construction loans which accounted for 9% of the loan portfolio. Industry retained the largest share in the structure of the portfolio increasing by 17% to reach BGN 446.6 million, or 25% of all loans. The share of trade also remains high (18%) on the back of the Bank's strong position in international payments and trade finance. Agricultural loans increased by 58% to reach BGN 62.8 million (4% of the portfolio) with financing under national schemes such as SAPARD, the State Agriculture Fund, and the Bank's specialized lending programmes contributing to that end.

Large Exposures

In accordance with the Credit Institutions Act (2007) and Ordinance No. 7 of BNB, the Bank calculates its total exposure to single customers, or parties economically related or connected thereto, by taking into account loans and all other credit facilities granted to a customer or a group of economically related parties. The Credit Institutions Act defines large exposures as those exceeding 10% of the Bank's shareholders equity. The law requires that decisions that will result in large exposure must be adopted by the Managing Board. When the exposure exceeds 15% of the Bank's shareholders equity the decision of the Managing Board must be unanimous. The maximum exposure to a person or a group of economically related persons must not exceed 25% of the Bank's shareholders equity, and the total amount of all exposures that meet the criteria for large exposures must not exceed 8 times the Bank's shareholders equity. Similar requirements were spelled out in the repealed Banks Act (1997).

As at 31 December 2006 the Bank had extended loans, confirmed letters of credit and granted guarantees to 10 individual clients or groups (2005: 9) with each individual exposure exceeding 10% of the BIS capital base of the Bank. The total amount of these exposures is BGN 463.4 million, which represents 153.80% of the Bank's BIS capital base (2005: BGN 364.2 million which represented 153.44% of BIS capital base) of which BGN 298.8 million (2005: BGN 257.5 million) represent loans and BGN 164.6 million (2005: BGN 106.7 million) represent guarantees, letters of credit and other commitments. Exposures secured by cash and highly liquid assets, for which there is an ascertainable market value, have been excluded from the calculation of large exposures. The Bank has extended loans to enterprises involved in different types of activities but within the same industry. As such the exposures share a similar industry risk. There were three such groups of enterprises as at 31 December 2006: ferrous metals with total exposures amounting to BGN 11.1 million (2005: BGN 53.5 million), cable and electrics , at BGN 25.7 million (2005: BGN 16 million) and power-engineering at BGN 69.9 million (2005: BGN 55.8 million).

Loan Portfolio Maturity and Currency Profile

The stable market environment in Bulgaria and the improved financial condition of Bulgarian banks has increased the demand for financing investment projects. This, together with increased competition among banks has led to a gradual increase of the maturity of the Bank's loan portfolio in recent years. As at 31 December 2006, 65.0% of the Bank's total loan portfolio had a maturity of over one year (2005: 63.9%, 2004: 53.3%). The Bank's improved access to international borrowings with longer maturities underpinned its ability to offer loans with longer maturity. Please refer to "*Selected Statistical Information*" for information regarding the maturity profile of loans.

Loans denominated in Euro represent the largest component of the Bank's total loan portfolio. They increased from 45.51% in 2004 to 59.40% as at the end of 2006, whereas the share of loans in US Dollars over the same two-year period declined from 16.33% to 1.94%. The preference towards the Euro and the declining share of loans in Dollars is attributable to the integration of Bulgaria into the European economy, and the volatility of the exchange rate between the Euro (to which the Bulgarian Lev is pegged) and the US Dollar. The share of loans denominated in Bulgarian Leva has remained stable over the last two years (2006: 38.64%, 2004: 37.81%). Please refer to "*Operating and Financial Review and Results of Operations*" for information regarding the currency profile of the Bank's loan portfolio as at 31 December 2006, 2005 and 2004.

Funding Sources

General

The Bank raises funds using a broad range of instruments including deposits, syndicated loans, Eurobonds and mortgage bonds. 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's major sources of funding are deposits from private companies, state-owned companies, financial institutions, retail customers and liabilities evidenced by paper. As at 31 December 2006, the total amount of deposits from financial and non-financial customers held by the Bank was BGN 1,702.6 million or 57.1% of its total liabilities (31 December 2005: BGN 1,219.7 million, or 51.0%), and its liabilities evidenced by paper were BGN 1,123.2 million (31 December 2005: BGN 1,045.0 million). In the past three years the importance of liabilities evidenced by paper as a funding source has increased and these reached BGN 1,123.2 million compared to BGN 283.5 million at the end of 2003. The increase in these liabilities is principally accounted for by the issue of bonds and notes by the Bank and borrowings under syndicated facilities. The use of external borrowings has supported the expansion of the Bank's operations and allowed it to extend the maturity of the loan portfolio by mitigating maturity mismatches.

The Bank has benefited from a number of external investments from various sources that have contributed to the Bank's wider funding base. See "*Business Overview - History and Development — History of Funding*".

For a detailed breakdown of the Bank's sources of funding by category and maturity please refer to "*Selected Statistical Information*"

Customer Deposits

Deposits from individuals and corporate customers are the single most important source of funding. These include current accounts, standard term deposit accounts, savings accounts, and specific deposit products designed to meet the specific needs of certain customer niches, e.g. structured deposits, deposits for retired individuals, multicurrency deposits, deposits with progressive interest, current accounts meeting specific requirements set out under Bulgarian legislation (e.g. accounts for insurance brokers and agents, accounts of private bailiffs, accounts of attorneys) et al.

Customer deposits generally pay lower interest compared to liabilities evidenced by paper but are also short-term. Historically, the maturity profile of such funding sources has been stable and primarily had maturities of less than one year, although the Bank's loans to customers have longer maturities. At the end of 2006 customer deposits totalled BGN 1,660 million (2005: BGN 1,178 million, 2004: BGN 850 million).

Deposits from Banks and Other Financial Institutions

Deposits from banks and other financial institutions comprise current accounts and placements of banks and other financial institutions. At the end of 2006 these amounted to BGN 43 million (2005: BGN 42 million, 2004: BGN 28 million).

Wholesale Funding

The Bank's wholesale funding comprises of bonds and notes issued, syndicated and bilateral loans, and repurchase agreements.

Syndicated Loans and Bonds

As at the end of 2006 the Bank had one syndicated loan worth EUR 185 million, due in November 2007 and having a one year extension option. In 2006 the Bank repaid one syndicated loan for the amount of EUR 125 million. The Bank also has four bonds outstanding – two Eurobonds and two mortgage bonds.

The following is a description of certain material outstanding indebtedness of the Bank. The descriptions set forth below do not purport to be complete and are subject in their entirety by reference to the actual provisions of each respective agreement or instrument described.

Euro 200,000,000 Guaranteed Bonds

On 1 February 2005 First Investment Finance B.V., wholly-owned subsidiary of FIBank, issued Euro 200,000,000 Bonds guaranteed by the Bank (the "**Bonds**"). The Bonds bear interest at a rate of 7.50% per annum and have a maturity of three years. Interest is payable annually in arrears on 1 February each year commencing on 1 February 2006. The principal amount is due on 1 February 2008. Under certain conditions the Bonds may be redeemed at the option of the issuer and bondholders. The Bonds are represented by a temporary global bond deposited with a common depository on behalf of Euroclear and Clearstream, Luxembourg. The Bonds are registered with the Central Depository and admitted to the Luxembourg Stock Exchange.

The terms and conditions of the Bonds provide for negative pledge provisions, i.e. prohibition for creation any security interest upon the present and future business, undertakings, assets or revenues of the issuer and FIBank. In addition, the Bonds contain certain affirmative covenants, including restrictions on certain transactions and dividend payments.

Euro 185,000,000 Syndicated Term Loan Agreement

First Investment Finance B.V. as borrower, and FIBank, as guarantor, entered into a Euro 185,000,000 syndicated term loan agreement dated 30 October 2006 arranged by Bayerische Landesbank (the "**Loan**"). The Loan shall be repaid in full in one instalment 364 days after the date of the Loan agreement. The obligations under the facility agreement are unsecured. The rate of interest on each loan under the facility is the percentage rate per annum, which is the aggregate of the applicable margin (0.80% per annum), Euribor and mandatory cost, if any, and is payable on the last day of each interest period. The facility agreement includes certain customary covenants, among others a restriction on the creation of security, disposal of assets and reorganizations and certain financial covenants.

Other Wholesale Funding

Repurchase agreements are a means of raising short-term finance where securities from the Bank's trading or available-for-sale portfolio serve as collateral. The amounts raised through repo agreements vary during the year depending on the Bank's liquidity needs and other specific goals and investment objectives. Repo transactions are governed under the ISMA master repo agreement. As at the end of 2006 liabilities under repurchase agreements amounted to BGN 225 million.

Acceptances under letters of credit are created when the Bank agrees to pay, at a stipulated future date, a draft drawn on it for a specified amount. The Bank's acceptances primarily arise from documentary credits stipulating payment for the goods to be made a certain number of days after receipt of the required documents. The Bank usually negotiates acceptances to be settled at a later date following reimbursement from the customers. As at the end of 2006 liabilities under letters of credit amounted to BGN 1.6 million.

Other term liabilities include primarily bilateral loans received by the Bank. In 2006 the Bank received a second USD 10 million five-year SME facility with Wachovia Bank N.A., covered by OPIC. In May 2006 the Bank also signed a EUR 10 million bilateral trade finance facility with Wachovia Bank for a period of two years.

Capital Adequacy

First Investment Bank is subject to the capital adequacy requirements of BNB (Ordinance No. 8, Credit Institutions Act 2007). In Bulgaria, the required capital adequacy ratio set by BNB for banks is 12% whereas the new Basle Accord (Basel II) and the European directives on capital adequacy require 8%. The Tier 1 capital ratio set by BNB is 6%, whilst the BIS requirement is 4%. Furthermore, certain national discretions result in a difference between the capital adequacy as per the national regulation and the Basle Accord. Calculated in accordance with the Basle Capital Accord guidelines, the Bank's capital adequacy ratio as of 31 December 2006 was 15.81%, and as of 31 December 2005 and 31 December 2004 it was 15.88% and 14.04%, respectively. Total capital adequacy as per national regulations was 13.05% as of 31 December 2006, 13.96% as of 31 December 2005 and 13.40% as of 31 December 2004 on an unconsolidated basis. See "*The Bulgarian Banking System*" and "*Operating and Financial Review and Results of Operations - Capital Resources*".

The Basel II rules came into effect in Bulgaria on 1 January 2007. Basel II envisages new, more risk-sensitive rules for the calculation of the capital required to support the various risks based on internal models developed by banks and approved by BNB. The Bank will strive to meet the requirements for internal measurement of risks through the use of internal risk models. In the meantime the main difference between the rules effective before and after 31 December 2006 is the new capital charge for operational risks.

In addition, the Bank is obliged to keep minimum reserves with BNB (in accordance with Ordinance No. 21) amounting to 8% of the Bank's deposit base.

The Distribution Network

The distribution network is one of the most important market advantages of the Bank. The balance established between the branch network, the ATM and POS networks and e-banking provides a sustainable base for growth and cost optimisation.

The expansion of the branch network is the major instrument in the penetration of the Bank into the most prosperous and populated areas of Bulgaria. As at the end of 2006 the Bank's domestic branch network consisted of 107 outlets (2005: 93, 2004: 76), including the Head Office, 23 branches and 79 offices in Bulgaria, two branches and two offices abroad (Cyprus and Albania). In 2006 the Bank started a procedure to establish a subsidiary bank in Albania. Eventually, after completing all procedures and receiving a banking licence for the subsidiary, the assets and liabilities of the Albanian branch of the Bank should be transferred to the new bank.

The locations of the Bank's Bulgarian branches are indicated below.

The number of accounts registered for transactions through the Internet exceeded 40,300 corresponding to 5.9% of all accounts. The transactions initiated through the branch account for 30.0% of all transfers in Bulgarian Leva and to 29.8% of foreign currency transfers.

After outsourcing call centre services since 2004, in 2006 the Bank decided to set up its own call centre for customer service. The Call Centre provides information on the products and services offered by the Bank, the locations and working hours of the branches and the operational ATM and POS terminals, current exchange rates, etc. The Call Centre also serves as an active marketing channel for target products and services. Specialists from the Call Centre also assist clients with difficulties filling in Bank documents.

Legal Proceedings

General

The Bank is involved in various litigation proceedings which have arisen in the ordinary course of the Bank's business. However, the Bank is not involved in any litigation or arbitration proceedings which may have, or have had during the 12 months preceding the date of this Prospectus, a significant effect on the financial position of the Bank, nor is the Bank aware that any such proceedings are pending or threatened.

Litigation involving Directors of The Bank

One previous member and two current members of the Managing Board were cited in December 2002 as co-defendants in a criminal prosecution in relation to offences alleged to have taken place during a bidding procedure for the privatisation in the year 2000 of a Bulgarian telecom company in respect of which the Bank provided certain finance to one of the two selected bidders. The criminal proceedings were initiated by the prosecutor's office on behalf of the State on the basis of allegations made by a consultant to the other selected bidder after the bidder financed by the Bank was chosen to acquire the shares in the privatised company. The prosecution resulted in the suspension of the privatisation procedure and none of the selected bidders were consequently able to conclude a privatisation deal.

The prosecution raised charges against a number of persons involved in the privatisation procedure, including persons employed by the Bulgarian Privatisation Agency, the chosen bidder and the Bank. In particular, it was alleged that the members of the Managing Board of the Bank had violated their professional duties by providing finance to the chosen bidder so as to enable the Bank indirectly to acquire the privatised company. It was also alleged that as a result of the actions of all those charged, the State suffered material and immaterial damages.

All of the persons charged by the prosecution were acquitted by the first-instance court. Their acquittal was subsequently appealed by the prosecution, who filed an appeal with the second-instance court. The second-instance court in turn confirmed the verdict of the first-instance court, again acquitting all the accused.

The verdict of the second-instance court was then appealed by the prosecution and the case was reviewed by the Bulgarian Supreme Court of Cessation. On 31 March 2005 the Supreme Court of Cessation confirmed the verdict of the second-instance court acquitting the accused. This verdict is final and cannot be appealed.

Related Party Transactions

The Bank enters into transactions with related parties in the ordinary course of its business. These transactions are carried out on arm's length terms.

Information about the parties related to the Bank, the type of relatedness and the types of the credit deals with them for the last three years is provided in the table below:

Type of Relatedness	31.12.2006	31.12.2005	31.12.2004
		in BGN '000	
loans			
enterprises under common control	4,351	3,660	3,642
off-balance sheet commitments			
enterprises under common control	1,117	130	50
loans to directors	1,876	1,554	819

For more information, see "*Description of the Shares and Applicable Bulgarian Legislation — Major Transactions and Transactions with Interested Parties*", *"Selected Statistical Information – Related Party Transactions"*, "*General Information — Present and Future Transactions with Interested Persons*" and "*General Information — Unusual or Material Transactions with Related Persons*"

Loans to Employees and Key Management Personnel

The Bank provides mortgage loans and consumer loans in Bulgarian Leva, Euros and US Dollars to its employees on arm's length terms and, in particular, at interest rates not below the interest rates offered to clients. The Bank's internal policies for such loans are in compliance with the Bulgarian Credit Institutions Act.

For more information on related party transactions, see also the Bank' s financial statements for the years ending 31 December 2004, 2005 and 2006 included elsewhere in the document.

Subsidiaries

The Bank has three subsidiaries: Diners Club Bulgaria AD, the franchise in Bulgaria of Diners Club International involved in card issuance and payment processing, in which the Bank holds 80% of the capital; First Investment Bank − Albania Sh.a (Albania) − a company established in April 2006 and currently in the process of obtaining a banking licence in the Republic of Albania, 99.99%-owned by the Bank; and First Investment Finance B.V. (the Netherlands) − a special purpose entity, wholly-owned by the Bank.

Information Technology

Currently the Bank operates a unified core banking system developed by a local vendor. The system is centralised and all Bank transactions are serviced by this system, including all branches and offices in Bulgaria. The system provides real-time information in respect of the Bank's deposits and lending activities.

In 2007 the Bank will continue to work on the implementation of a number of important technologies.

When selecting IT solutions, the Bank is guided by clearly defined requirements. The development of IT systems is fully supported by management.

After examining the growing need of the Bank for a scalable solution capable of meeting the growing volume and sophistication of the Bank's business, the Bank selected a new core banking system by i-Flex Solutions B.V. As at the date of this offering circular work on the implementation of the core banking system i-Flex FlexCube, FlexCube@ (internet banking) and Workflow (enterprise workflow management) continues.

In late 2006 the Bank introduced a client relations management system (PeopleSoft CRM). The new system allows better client segmenting and analyses of the products and services used. This should improve interaction among all units involved in the sale of banking products and services, and identify particular client needs and on this basis offer the most appropriate products to best meet client requirements.

In view of the new capital accord (Basel II), the Bank is preparing to implement the i-Flex Reveleus module. The module implementation should improve the analysis and management of credit and market risks, and accelerate and facilitate the preparation of management, financial and regulatory reports.

In 2006, the Bank prepared to implement a new card information system to allow processing and responding to the rapidly growing number of bank cards. The system provides for the issuance of credit and debit cards, charge-cards, co-branded cards, etc. The system also supports the issuance of cards with an EMV2 chip, which the Bank has been issuing since the end of 2006, whereby the safety of payments made with the Bank's cards will be improved.

Also in 2006 the Bank purchased a new resource planning system (Atlantis ERP). The system implementation should improve the quality and transparency of management information and business processes effectiveness.

For information on the Bank's practices in managing risk stemming from information technologies please refer to the section on operational risks in "*Risk Management, Internal Controls and Compliance*"

Property

As at 31 March 2007 the Bank owns eight of the offices from which it operates and leases the remainder. The cost of these premises (before depreciation) was BGN 9.1 million. The Bank neither rents nor leases any of its properties to third parties, see also "*General information – Principal establishments*".

Competition

The Bank's market position, according to published BNB statistics, is shown in the following tables. These comparisons are based on the provisional financial statements that banks prepare and submit to BNB on an unconsolidated basis.

Total Assets — Top 10 Bank Ranking as at 31 December 2006

		(BGN '000)	(BGN '000)	Market share (%)	Market share (%)
		December 2006	**December 2005**	**December 2006**	**December 2005**
	TOTAL Sector, of which	42,194,864	32,850,884	100	100
1	DSK	6,060,414	4,468,423	14.4	13.6
2	Bulbank	4,209,525	3,407,232	10.0	10.4
3	UBB	3,960,705	3,175,650	9.4	9.7
4	RZB	3,906,235	2,806,953	9.3	8.5
5	**FIBank**	**3,155,046**	**2,522,983**	**7.5**	**7.7**
6	HVB – Biochim	2,914,560	2,822,793	6.9	8.6
7	Post Bank	2,870,185	1,697,051	6.8	5.2
8	Piraeus	1,572,518	539,593	3.7	1.6
9	EIBank	1,378,530	1,180,132	3.3	3.6
10	SG Express	1,249,442	1,084,894	3.0	3.3

Net Profit — Top 10 Bank Ranking as at 31 December 2006

		(BGN '000)	(BGN '000)	Market share (%)	Market share (%)
		December 2006	**December 2005**	**December 2006**	**December 2005**
	TOTAL Sector, of which	807,590	584,235	100	100
1	DSK	186,691	122,537	23.1	21.0
2	UBB	142,608	93,864	17.7	16.1
3	Bulbank	77,390	94,517	9.6	16.2
4	RZB	67,636	45,594	8.4	7.8
5	Post Bank	43,193	14,231	5.3	2.4
6	HVB – Biochim	42,912	18,120	5.3	3.1
7	SG Express	40,494	26,060	5.0	4.5
8	BACB	33,678	24,097	4.2	4.1
9	EIBank	29,978	33,761	3.7	5.8
10	**FIBank**	**28,747**	**21,018**	**3.6**	**3.6**

Deposits from non-financial institutions — Top 10 Bank Ranking as at 3t December 2006

		(BGN '000)	(BGN '000)	Market share (%)	Market share (%)
		December 2006	December 2005	December 2006	December 2005
	TOTAL Sector, of which	27,560,011	20,446,133	100.00	100.00
1	DSK	3,987,603	3,324,764	14.5	16.3
2	Bulbank	3,198,423	2,551,852	11.6	12.5
3	UBB	2,625,009	2,126,430	9.5	10.4
4	RZB	2,256,184	1,562,781	8.2	7.6
5	Post bank	2,214,228	985,790	8.0	4.8
6	**FIBank**	**1,663,694**	**1,177,067**	**6.0**	**5.8**
7	HVB – Biochim	1,477,305	1,211,098	5.4	5.9
8	EIBank	993,564	839,767	3.6	4.1
9	CCB	902,270	635,531	3.3	3.1
10	SG Express	899,180	764,432	3.3	3.7

Loans to non-financial institutions — Top 10 Bank Ranking as at 31st December 2006

	(BGN '000)	(BGN '000)	Market share (%)	Market share (%)
	December 2006	December 2005	December 2005	December 2006
TOTAL Sector, of which	22,770,569	18,379,092	100.00	100.00
1 DSK	3,536,429	2,990,620	15.5	16.3
2 UBB	2,748,680	2,057,724	12.1	11.2
3 Bulbank	2,022,996	1,641,014	8.9	8.9
4 FIBank	**1,754,577**	**1,370,166**	**7.7**	**7.5**
5 HVB – Biochim	1,715,225	1,576,859	7.5	8.6
6 Post bank	1,627,668	1,207,926	7.1	6.6
7 RZB	1,608,451	1,406,701	7.1	7.7
8 Piraeus	1,073,834	303,094	4.7	1.6
9 SG Express	886,862	697,637	3.9	3.8
10 EIBank	611,325	362,103	2.7	2.0

Employees

As at 31 December 2006, the Bank had approximately 1,586 full-time employees (including subsidiaries 1,598). Of these 101 hold managerial positions (2005: 98).

The following table summarises the number of employees and personnel training expenses as of 31 December 2006, 2005 and 2004.

	As at 31 December		
	2006	2005	2004
Number of staff (unconsolidated)	1,586	1,252	968
New hires	491	416	332
Left	157	132	48
Personnel cost (BGN '000, non-consolidated)	23,213	17,660	11,400
Total training expense (BGN '000)	119	112	82

Employee Remuneration, Benefits and Bonuses

The increase in personnel costs is due to the expansion of the Bank and its branch and office network, and the associated increase in personnel, as well as increases in employee remuneration.

In addition to a base salary, employees are paid supplementary amounts according to various criteria, such as age and length of service. In order to correlate employee remuneration and performance the Bank has distributed productivity bonuses to its employees based on an evaluation of each employee's performance. In order to encourage active cross-selling of the Bank's products in 2006 the Bank enhanced its incentive programme. The new programme assigns a bonus for each product from a list of promoted products. The employees working in the customer service departments (front office, lending, salesperson) receive individual bonus based on the sales of each of the promoted products and the bonus for the respective product class. Furthermore, team bonuses are paid to the front office specialists in each office based on the sales of the office as a whole thereby encouraging the team spirit of the Bank's staff.

In compliance with applicable Bulgarian legislation, the Bank makes the statutorily required contributions to social, health and pension insurance. Payments to pension funds are made on a defined contribution basis and there are therefore no unfunded pension liabilities.

As far as the Bank is aware its employees are not unionised. The Bank has not experienced strikes or other industrial action on the part of its employees.

Training

There are no BNB requirements for the training or qualifications of staff, but the Bank organises training for its employees both internally and externally and in Bulgaria and abroad. Internal training is provided both by internal trainers, usually key professionals in the area of the activity, and by external trainers, including foreign consultancy firms.

Each of the Bank's front office employees is required to undergo a training programme of at least one month, followed by a performance evaluation prior to commencing work with the Bank's customers.

Insurance

The Bank maintains ongoing insurance policies in respect of its real estate, office fixtures and fittings, civil liability, information technology equipment, ATMs and cash and securities transported by specialised vehicles. Insurance premiums have risen over the last two years reflecting the increase in the value of the assets insured. In 2006, the Bank's insurance premiums amounted to BGN 685,000 (2005: BGN 391 thousand, 2004: BGN 334 thousand).

In common with banks generally in Bulgaria, FIBank does not have insurance for business interruption.

Ratings

As at the date of this Prospectus FIBank has been assigned ratings by Moody's and Fitch. Moody's has assigned FIBank a long-term bank deposits rating of Ba3 with positive outlook, and financial strength rating D-. Fitch has assigned FIBank a long-term issuer default rating of BB- with positive outlook; the short-term rating was set at B. Further information on the rating scales and methodologies of the two rating agencies is available at their Internet sites: http://www.fitchratings.com/ and http://www.moodys.com/

Recent Developments

In January 2007 FIBank launched its first structured deposit "Capital". The Bank guarantees the principal amount and a minimum rate of interest. The additional interest paid on that deposit depends on USD/EUR fixing, the LBMA gold fixing, or the Dow Jones Eurostoxx 50 stock index.

On 7 February 2007 First Investment Bank and LRP Landesbank Rheinland-Pfalz (LRP), Germany signed a EUR 20 million Credit Facility Agreement. The Facility Agreement is for general purpose financing and for a period of five years.

In February 2007 FIBank signed a co-operation agreement with InfoNotary EAD, a joint-stock company that issues various electronic signatures for individuals and corporate customers. Under the co-operation agreement FIBank will offer its customers the opportunity to receive electronic signatures on preferential terms and to use them to electronically sign various documents.

In view of the scheduled integration of Bulgaria in the Single Euro Payment Area (SEPA) FIBank has established a specialist Payment Systems and Financial Communication department within the IT division. The department will be responsible for the smooth implementation of new payment systems and interfaces in FIBank.

FIBank continues to expand its branch network. Since the beginning of 2007 the Bank has opened 5 new offices in Bulgaria and one new office in Vlöra, the largest Albanian port. Thus, through its branch network in Bulgaria and Albania and the sister bank UNIBanka in Macedonia, FIBank spans the full length of Pan-European Transport Corridor No.8. FIBank plans to open a couple more offices in Albania in 2007.

RISK MANAGEMENT, INTERNAL CONTROLS AND COMPLIANCE

Credit Risk Management

The Bank has adopted a set of written policies that spell out its risk management philosophy, policies and processes. The Bank strives to maintain a balanced loan portfolio, a balanced capital base, and reasonably low exposure to financial markets.

Credit Risk Management Principles

Risk taking is fundamental to banking activities and all employees are expected to be capable of assessing the risks related to their job role and responsibilities within the Bank. In making decisions the Bank always evaluates the benefits and the associated risks, and the risks that the Bank assumes conform to the best internal and international banking standards.

All employees are expected to understand, evaluate and document the risks inherent in each transaction and to balance them against the expected returns, the Bank's risk policies and the interests of the customers.

The Bank strictly adheres to the principles of double control on risk and the separation of duties. The risk management function within the Bank is organizationally and practically separated from business development and especially from risk-taking activities. The persons responsible for customer relations work separately from the risk management function.

Inasmuch as possible, the Bank physically separates (by providing separate offices located in different parts of the building) the persons responsible for undertaking business and customer relations from the persons responsible for approval of the Bank's risk assets and the overall risk portfolio.

A sensitive risk culture is developed through general application and general understanding. The Bank considers the risk management function to be an inherent part of the strategic and business planning process. The management of the risk exposures of the Bank is based on the principles of profitability, liquidity and security. The Bank maintains the amount and structure of its loan portfolio consistent with its credit policies and the amount and structure of its funding, which is a precondition for reasonable liquidity,and the timely servicing of liabilities at a reasonable cost and with minimal risk.

Credit Approval Procedures

The Bank's corporate, SME and micro-loan approval process is initiated by the client relationship manager responsible for that particular customer. Applications are required to be submitted in a prescribed form, showing details of the purpose of the loan, the proposed source of repayment and the proposed collateral and information about related parties. It must be accompanied by all corporate registration documents, financial statements for the previous three financial years, evidence of payment of all applicable taxes, certification that no winding-up is pending, details of all other financial obligations and a business and repayment plan. The application is then analysed in accordance with the Bank's credit methodology and processed in accordance with the approval process set out below.

Under Bulgarian regulatory laws any loan to a single customer (including aggregate exposure to related or connected parties) which exceeds 10% of the Bank's capital must be approved by the Managing Board of the Bank. In practice, the Bank requires that any loan exceeding BGN 500,000 (less than 0.3% of the Bank's equity capital as at the end of 2006) must be approved by the Managing Board.

The Bank's retail loan approval process is initiated by the retail credit officer in the relevant location. As with corporate loans, applications must be in a prescribed form and retail customers must provide evidence in respect of employment, salary details and documentary proof of identity.

Credit risk management at First Investment Bank is based on written policies and rules, as well as a system of clearly defined levels of competence and responsibility. The divisions involved in loan applications review are Corporate Banking, SME Lending, Microlending, Retail Banking, Risk Management, and branches of the Bank.

The following bodies operate in the bank and are responsible for its risk management:

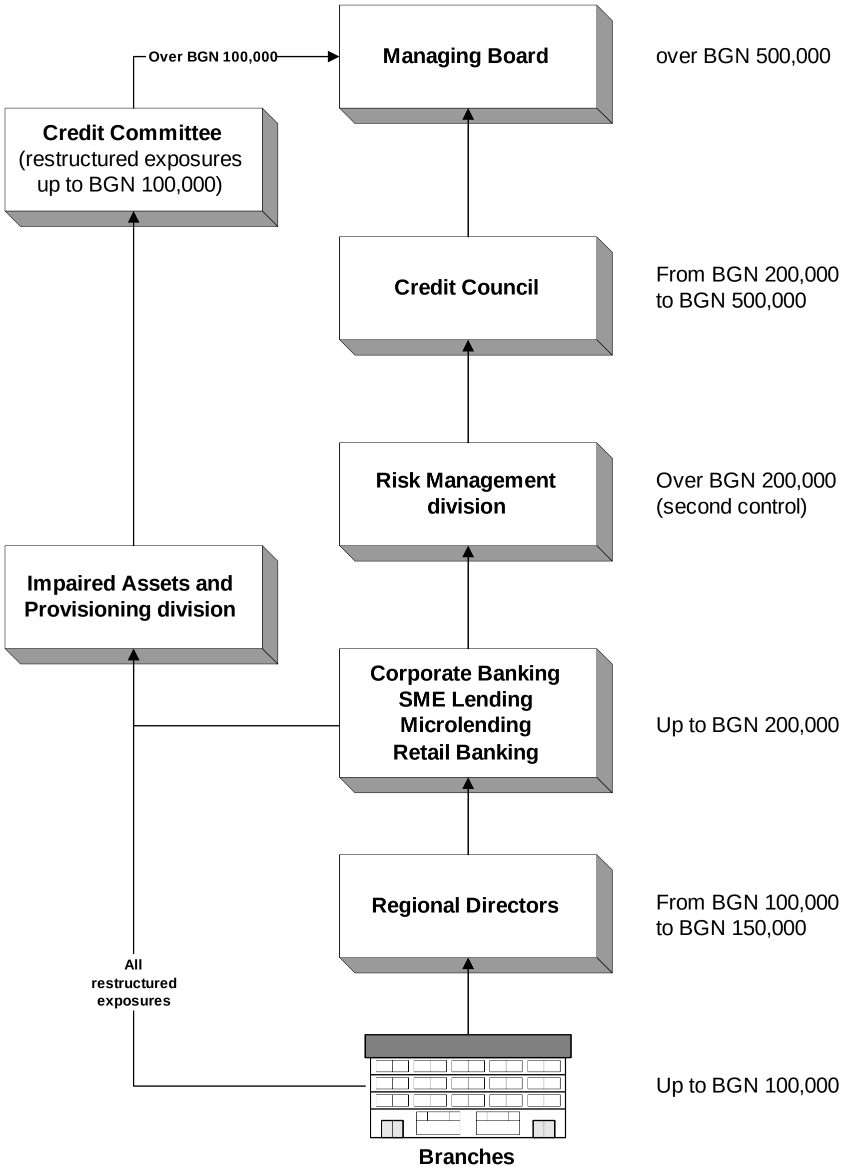
The Credit Council: This is responsible for evaluating corporate loan applications and deciding on corporate loan applications of between BGN 200,000 and BGN 500,000. For loans above this amount it makes recommendations to the Managing Board. The Credit Council consists of nine people (of which at least five should be present), a chairman and eight members, each selected by the Managing Board. Currently, the chairman is the executive director, responsible for risk management and other members include the head of the Legal division, together with head of the Corporate Banking division, the SME Lending Department and the Branch Network Department.

The Credit Committee: This assesses and monitors the Bank's impaired loans across its entire loan portfolio (retail and corporate). It receives certain recommendations from the Risk Management Department in respect of loans and makes recommendations thereon to the Managing Board. The Credit Committee has five members, each selected by the Managing Board. Currently the members are from the Legal Department, the Corporate Banking Department, the Risk Management Department, the Accounting and Finance Department, and the Impaired Assets and Provisioning Department.

The Asset and Liability Management Committee: This makes recommendations on liquidity management to the Managing Board and monitors the activities of the Liquidity Department within the policies set by the Managing Board. It currently comprises of three members of the Managing Board, the director of the Asset and Liability Management Department and the director of the Dealing Department.

The Risk Management Department: The specialised Risk Management Department performs the functions of identification of risk factors, assessment of risk exposures and continuous monitoring of the Bank's risk profile, especially with respect to credit and market risks. Thus the risk management function in the Bank adds value by balancing risks against return, providing insights into the risk-adjusted performance of the various business lines, promoting risk-awareness throughout the Bank, and smoothing income volatility. The department is also responsible for optimising capital efficiency through the implementation of new standards regarding capital adequacy, as well as in connection with the rating systems for risk assessment.

The approval process for both corporate and retail customers' loan applications is as follows:



The levels for authorisation of loan applications for both corporate and retail customers are approved by the Managing Board. The approval process for loan applications is as follows:

Applications not exceeding BGN 100,000: Individual applications not exceeding BGN 100,000 (including aggregate exposures to related or connected parties) are approved by the banking department (retail, corporate, SME) in the Head offices in accordance with standard specifications and criteria applicable across the portfolio. For credit cards without deposit the limit is BGN 50,000. For microlending under the microlending programme, the limit is BGN 50,000 and maximum customer exposure up to BGN 100,000. The same procedure applies to loans secured by mortgages under the residential mortgage programme for loans not exceeding BGN 200,000.

Applications not exceeding BGN 100,000: Branch directors, if duly authorised, are able to approve applications not exceeding BGN 100,000.

Application from BGN 100,000 to BGN 150,000: Regional directors together with the respective branch managers, can authorize exposures of between BGN 100,000 and BGN 150,000.

Applications not exceeding BGN 200,000: Applications(including aggregate exposures to related or connected parties)not exceeding BGN 200,000 are approved jointly by the Corporate Banking or SME division and an executive director.

Applications exceeding BGN 200,000 but not exceeding BGN 500,000: Applications (including aggregate exposure to related or connected parties) exceeding BGN 200,000 but not exceeding BGN 500,000 are approved by the Credit Council.

The role of the Risk Management Department is to control the quality of loan analysis and provide an independent evaluation of the risks involved.

Applications exceeding BGN 500,000: Applications (including aggregate exposures to related or connected parties) exceeding BGN 500,000 and all new products are approved by the Managing Board, after taking advice from the Credit Council.

The table below sets out the percent of loan amounts approved by each level of authorisation in the Bank.

	2006				
% of all approved loans	Branch	Head Office	Credit Council	Managing Board	Total
Retail	18.2	6.3	0.9	0.1	25.5
Micro	1.1	0.2	–	–	1.4
SME	3.4	2.4	2.6	1.4	9.9
Corporate	3.4	0.5	1.7	57.6	63.2
Total	**26.2**	**9.5**	**5.3**	**59.0**	**100.0**

Interbank Exposure Limits

The Risk management department is responsible for proposing to the Managing Board the limits to banks in Bulgaria and other emerging markets, based on the banks' ratings and their financial figures/ratios. Limits to banks from developed markets are based on the banks' ratings, their limits to the Bank and long-term relationship. Exposures are approved under the levels of authorisation.

The Credit Committee and Credit Council

Decisions at the Credit Committee and the Credit Council are taken on a unanimous basis. In the event that there is no unanimous decision at any level in the application approval process, the executive director responsible for corporate banking may request that the matter be reviewed at a superior level in the application approval process.

Credit risk assessment

Currently the Bank has internal models for the credit assessment of corporate, SME, micro and retail exposures. The models' assessments are based on quantitative and qualitative parameters. The weights for different parameters are set based on the historical experience of the Bank and local business specificities.

Concentration risk limits for individual customers

The Bank sets an internal limit of concentration of corporate loans to a single customer (including aggregate exposures to related or connected parties), which currently dictates that such a concentration should not exceed 25% of the Bank's capital. This is in accordance with the regulatory framework in Bulgaria. Both regulatory rules and the Bank's internal rules require that the Bank may only exceed a risk concentration limit of 15% of its capital with a unanimous decision of the Managing Board.

As at the end of 2006 the ten largest loan group exposures accounted for 26.4% (2005: 24.5%, 2004: 23.3%).

Credit Methodology

Risk Management at First Investment Bank is based on written policies and rules. The credit methodology in respect of the risk assessment of corporate loans is divided into two parts: credit analysis and credit rating. Credit analysis analyses principal factors in respect of a company/business, business history, administration and credit history, financial analysis, evaluation of the use of proceeds of the loans and any related project, the market and business climate of the relevant business (including any environmental issues that may be applicable), and an evaluation of the proposed collateral.

The Bank's Rating Models

<u>Assessment of the Credit Risk</u>

Each corporate customer is assigned a credit rating which is expressed on a ten-point scale and is determined across each of the principal factors and any other matters deemed to be relevant in individual cases.

The assessment of the credit risk is done automatically by a scoring model and is separately evaluated by a lending expert.

<u>Defining rating components.</u>

The key rating inputs that the Bank considers critical to understanding a corporation's financial strength and quantify its risk profile are: business and credit history, project implementation, markets and the business environment, and financial analysis. Categories for the rating components are determined by the multiple of the component weight and the component indicator.

Special attention is paid to financial analysis as the wide range of financial ratios plays the main role in estimating the credit rating of the customer.

The Bank applies a similar credit scoring system to evaluate the risk of SMEs and micro-borrowers. The system has been specially designed to the specifics of SMEs and micro businesses in Bulgaria, and besides statements submitted by clients, the system places an emphasis on reports resulting from on-site inspections. The Bank has a separate methodology for assessing the credit risk of all retail customers which is based on more than 30 items.

In 2007 the Bank will continue to improve its internal rating systems. In 2006 some of the qualitative and financial indicators were re-defined in order to unify the database for corporate and SME customers. The weights of the parameters were fine-tuned so as to improve the differentiation and accuracy of the rating categories.

In the context of Basel II, the Bank intends to further improve the quality of its internal credit models through building a more comprehensive loan database which will facilitate the statistical verification of the models' results and estimations of PD (probability of default), LGD (loss given default) and EAD (exposure at default). At the beginning of 2007 the rating model of the Bank was integrated into a new information system ("Sirius" module) that will collect the rating components and inputs into a centralised database allowing for the easier and more flexible testing of FIBank's rating models.

The adoption and implementation of the Foundation IRB Approach (the next stage in the implementation of BNB Ordinance No.8) require underlying historical data for a period of 5 years for internal estimation across all exposures. At present, the Bank does not calculate PD and LGD, because its internal rating systems were established in 2004. In the near future, however, having a larger internal database, the Bank expects to be able to produce statistically reliable estimates.

Assessment of Collateral Risk

The Bank's policy is to require and evaluate collateral for all lending activities. Collateral is a secondary source for paying off the Bank's receivables, which is why it is assessed separately.

FIBank generally accepts collateral in the form of cash deposits, guarantees by third party banks, letters of credit, mortgages, pledges of goods, pledges of securities, pledges of company assets, pledges of receivables, , promissory notes and guarantees from Bulgarian export agencies. The Bank always requires an appropriate independent evaluation of collateral. The weight of each proposed piece of collateral is assigned based on its liquidity and suitability for serving as security for the exposure.

The assessment of collateral risk is expressed in lower-case Latin letters on a ten-point scale. The final credit risk assessment is arrived at by combining both the credit rating scale and the collateral scale: e.g. '1c' means that creditworthiness risk is minimum and collateral risk is average.

The Bank accepts collateral according to the relevant legislation in the country. The Bank does not accept as collateral shares issued by the Bank or by entities that are economically related to the Bank. The Bank requires the pledged movables and the mortgaged properties to be insured in favour of the Bank. The Bank requires to have exclusive rights over the collateral or to be a privileged creditor. The collaterals are periodically revaluated, and regular on-site inspections are performed by the Bank's employees in order to check the collateral's repair and the conditions of storage. The periodicity of the valuation depends on the type of the collateral.

Ongoing Credit Monitoring

The ongoing monitoring of all approved loans is the primary responsibility of the Corporate, SME, Micro or Retail banking department, as appropriate. Branch credit officers are responsible for regularly monitoring the repayment of individual loans in order to identify any overdue payments and their causes.

Corporate and SME customers must provide financial statements and information on their overall borrowing position on a quarterly basis to the responsible credit officer. Corporate and SME loans are reviewed with reference to the most recent financial information and regular visits are made to each customer's premises. The credit officers also monitor business development, the relevant industry and the market sensitivity of each customer.

Loans are monitored on an ongoing basis and any signs of a material change in the financial or business standing of the borrower are reported to the authority level which has approved the exposure. Otherwise loans are reviewed on a quarterly basis for corporate customers and on an annual basis for SMEs, Micro and retail clients (or more frequently if there are signs of deterioration in the debtor's financial condition).

Branches review and manage their loan portfolios. The total loan portfolio of the Bank is reviewed, classified and provisioned at the end of every month. Selected items from the balance sheet and profit and loss account of the Bank are regularly prepared by the accounting and finance department for review by the Managing Board; and every month a management and risk report, containing all the relevant financial information, are produced for the Managing Board and the Supervisory Board.

The following table sets out the loan portfolio of the Bank by type of collateral. Traditionally more than half of the loan portfolio has been collateralised by mortgages. Favourable developments in the economy and enforcement of legal rights have encouraged banks to provide loans secured by market-oriented collaterals such as pledges on receivables(which secured 18.4% of the Bank's loan portfolio as at the end of 2006). Unsecured loans are only 0.4% of the loan portfolio.

Loan portfolio by collateral	As at 31st December					
	2006	%	2005	%	2004	%
Collateral	BGN 000/% total					
Mortgage	964, 955	55.0	752, 270	54.9	444, 758	44.1
Pledge on receivables	322, 465	18.4	120, 681	8.8	54, 302	5,4
Pledge on commercial enterprise	127, 113	7.2	105, 259	7.7	-	0,0
Securities	74, 726	4.3	64, 187	4.7	108, 663	10,8
Guarantee	61, 306	3.5	45, 837	3.3	61, 969	6.1
Pledge on goods	53, 379	3.0	48, 226	3.5	75, 946	7.5
Pledge on machines	39, 559	2.3	163, 417	11.9	213, 109	21.1
Money deposit	32, 564	.,9	20, 419	1.5	40, 350	4.0
Stake in capital	23, 425	1.3	22, 475	1.6	-	0.0
Gold	32	0.0	51	0.0	51	0.0
Other collateral	49, 038	2.8	24, 630	1.8	7, 550	0.7
Unsecured	6, 419	0.4	3, 438	0.3	1, 156	0.1
Loan portfolio (before allowances)	**1 754, 981**	**10.,0**	**1, 370, 890**	**100.0**	**1, 007, 854**	**100.0**

Loan Classification and Provisioning

The Bank assesses and classifies its risk exposures based on existing evidence of deterioration. In compliance with the requirements set forth in Ordinance No.9 of the Bulgarian National Bank, risk exposures are evaluated and classified according to credit risk level, the period of delay of amounts due, the assessment of the debtor's financial state and the main sources for repayment of the debtor's obligations.

Where the Bank has more than one exposure to persons or entities that are considered as presenting joint risk, these exposures are classified into the group of the person with the highest risk level.

The Bank makes specific and general allowances to cover impairment loss. Specific allowances are allocated against particular exposures. General allowances are calculated on a portfolio basis on groups of standard exposures. The Bank has adopted internal rules establishing the requirements, methods and procedures by which it measures impairment losses and the necessary provisions for the cover of such potential losses. The Bank has also established a specialised internal body (the Credit Committee) responsible for the monitoring, assessment, classification and provisioning of risk exposures.

The allocation of impairment allowances proceeds in two steps.First, the Bank checks if there is objective evidence of impairment of the risk exposure.Second, the amount of the impairment is estimated. If there is objective evidence of impairment, the Bank estimates the impairment allowances individually for each exposure. Such reviews are performed every month. If a review finds no objective evidence of impairment then the exposure is pooled with other standard exposures and the impairment allowances are calculated on a collective basis. When performing a collective assessment of impairment, the Bank groups assets (portfolios) by similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due according to the contractual terms.

Impairment loss on an exposure is calculated as the difference between the book value of the exposure as of the prior reporting period and its recoverable amount as of the reporting period. The recoverable amount is estimated by discounting the expected cash flows from the loan at the initial effective interest rate. The expected cash flows are estimated by reducing the contractually agreed cash flows by the loss risk percent depending on the classification group of the exposure (see supra). The impairment loss is estimated as the difference between the book value of the loan less the recoverable amount. Specific allowances to cover impairment loss are then calculated by reducing the impairment loss by the net realisable value of the highly liquid collateral.

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 general and specific allowances for impairment are then expensed through 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 or allowance is reversed through the income statement.

The exposures of the Bank are classified into four classification groups as required by Ordinance No.9 of the Bulgarian National Bank:

Provisioning groups (as per Ordinance No.9)	**Classification Criteria**	**Loss Risk Percent**
Standard exposures	1. Principal and interest are repaid in accordance with the contractual agreement terms, or payments on them have been past-due up to 30 days, provided the delay is justified or accidental; *and* 2. The debtor uses the loan for the purposes stipulated in the loan agreement; *and* 3. The bank has sufficient updated information on the debtor's financial state and on the sources for repayment of his liabilities, as well as other documents relating to his activity	up to 10%
Watch exposures	1. principal or interest payments have been overdue from 31 to 60 days; *or* 2. the debtor uses the loan for purposes other than those specified in the loan agreement.	at least 10%
Substandard exposures	1. principal or interest payments have been overdue from 61 to 90 days; *or* 2. the debtor's financial state has substantially deteriorated and may result in inability to repay his obligations.	at least 50%
Non-performing exposures	1. principal or interest arrears payments have been overdue over 90 days; *or* 2. the debtor suffers a permanent shortage of money; *or* 3. the debtor has been declared bankrupt or is in a liquidation procedure, and there is a risk of leaving creditors unsatisfied; *or* 4. the claim reported as a balance-sheet item is subject to court proceedings or the court has awarded it to the bank but it has not been collected; *or* 5. other conditions providing grounds to consider that the risk exposure is jeopardised by non-repayment.	100%

Pursuant to Ordinance No.9 of BNB, the reclassification of an exposure to a legal person into a lower risk group is allowed if the exposure meets the classification criteria of the lower risk group for a period of at least six months before the actual reclassification. This requirement does not apply to the reclassification of exposures to individuals.

Classification group	As at 31 December					
	2006		*2005*		2004	
	Amount	% total	Amount	% total	Amount	% total
			(BGN 000)			
Standard exposures	1,679,274	95.69	1,278,261	93.24	955,503	94.81
Watch exposures	22,083	1.26	66,742	4.87	28,828	2.86
Substandard exposures	20,679	1.18	3,306	0.24	1,143	0.11
Non-performing exposures	32,945	1.88	22,581	1.65	22,380	2.22
Loan portfolio (before allowances)	**1,754,981**	**100.00**	**1,370,890**	**100.00**	**1,007,854**	**100.00**

Arrears Procedures

Immediately that a customer fails to make a payment on its due date, the relevant credit officer contacts the customer. The failure to pay is reported to the relevant director of corporate or retail banking or, where the loan is made by a branch, the relevant branch director.

If a customer fails to pay a second consecutive payment when due, the relevant credit officer sends a written notice to the customer requiring the customer to pay all arrears forthwith and requesting the customer's attendance at the Bank, or the relevant branch, to discuss the reasons for the arrears. Such discussions may, after recommendations of the Credit Committee and the approval of the Managing Board, lead to the rescheduling of the loan. In circumstances where a rescheduling is not approved, a further written notice is sent to the customer requiring the customer to repay the full amount of principal and the accrued interest of the loan within seven days. If the customer does not comply with this notice, the Bank is required to apply debt recovery procedures prescribed by Bulgarian law.

The Impaired Assets and Provisioning Department, acting in concert with the Risk Management Department, performs ongoing control on impaired assets; monitors classified assets; manages problem loans; controls and co-operates with the lending divisions and FIBank's branches in the collection of non-performing loans; participates in the Credit Committee and evaluates the allocation of allowances. As at the end of 2006 about 80% of the written-off exposures had been recovered.

The Bank has written rules and procedures for the management of problem exposures. The rules define Management competence for problem credit exposure, process administration, indications of early warning,and procedures for collection and write-off.

As per the requirements of the Central Bank, an exposure is considered restructured where the original agreement terms are amended by the Bank to alleviate terms for the debtor due to deterioration of the debtor's financial state causing inability to repay the debt, and which concessions would not have been given by the Bank under other circumstances. An exposure is not restructured (although it is renegotiated) where it is not identified as deteriorated, it is fully secured and there are reasons to assume that the Bank will collect both the principal and the interest.

If the restructured exposure is less than BGN 100,000, a recommendation is given by the Bank's Credit Committee and is submitted to the competent level according to the levels of authorisation. If the exposure exceeds BGN 100,000, the Credit Committee prepares a motivated recommendation and submits it for decision to the Managing Board.

All the Bank's branches that have claims overdue over 30 days prepare written reports to the Impaired Assets and Provisioning Department every month, which also include information on the repair of the collateral and its value. If loans have been overdue for over 45 days for individual clients and over 90 days for corporate clients, the loans are brought to the department to check the state of the collateral.

Claims are written off and accounted for as off-balance sheet items by a decision of the Managing Board if they have been classified in the most adverse classification group for at least 1 year. When a claim has been written off the balance sheet, the allowances for impairment are released. Subsequent recovery of amounts from exposures accounted as off-balance is accounted for as revenue directly in the income statement. In 2006 the total amount of the allowances written off was BGN 0.42 million (2005: BGN 1.86 million, 2004: BGN 3.46 million).

The Bank cancels the collateral pledged to it (mortgages, pledges) upon the full repayment of the loan and within 14 days after the deposit of the cancellation request and payment of the due charges.

Debt Recovery Procedures

Prior to initiating foreclosure procedures and forcing the sale of immovable and moveable properties (not subject to a special pledge under the Law on Special Pledges), pursuant to the Credit Institutions Act 2007 (up to 1.1.2007 – the Banks Act 1997), Bulgarian banks are required to obtain a writ of execution from the court. This typically takes approximately two to three weeks. Following the issuance of the writ of execution from the court, foreclosure proceedings may commence. The foreclosure proceedings typically take between six months and two years to finalise.

To enforce security interests over moveable property subject to a special pledge pursuant to the Law on Special Pledges (with the exception of ships and aircraft), banks must have registered the security interest in the Central Registry of special pledges at the Ministry of Justice Assuming such proper registration, banks may commence foreclosure proceedings by filing a prescribed form with the Central Registry. After the expiry of 14 days, in the event that the relevant customer has still not repaid the debt, a bank may seize and sell the relevant moveable property, the subject of the registered security interest. Banks are entitled to sell movable property at their own discretion without the involvement of the court.

In addition to the above enforcement rights in respect of collateral a bank, as a creditor, is entitled under Bulgarian law, in cases of insolvency, to institute bankruptcy proceedings in respect of corporate customers.

Contingent Liabilities

The Bank's contingent liabilities consist mainly of guarantees and letters of credit issued by the Bank in connection with trade financing. All such exposures are subject to the credit risk procedures detailed in "Credit Risk Management" above.

The Bank issues guarantees and letters of credit to guarantee the performance of the Bank's clients to third parties. Most of these commitments are expected to expire without any payment from the Bank's account. Therefore most of these amounts are not future cash flows. The total value of such contingent exposures to customers amounted to BGN 786.6 million as at 31 December 2006 (2005: BGN 452.0 million; 2004: BGN 164.0 million). For details of the structure and maturity of contingent liabilities please refer to "*Operating and Financial Review and Results of Operations*".

Guarantees and letters of credit are also subject to strict credit assessment 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.

Contingent Liabilities by Type of Collateral *as at 31 December 2006*	**in BGN'000**	**% total**
Deposits	26,708	3.4%
Mortgage	379,304	48.2%
Pledge on securities	70,533	9.0%
Pledge on machines	120,634	15.3%
Pledge on goods in circulation	37,547	4.8%
Pledge on receivables	75,119	9.5%
Bank guaranty	1,800	0.2%
Other	74,953	9.5%
Total	**786,597**	**100.0%**

Liquidity risk

Liquidity risk arises in the general funding of the Bank's activities and in the management of positions. It includes both the risk of being unable to fund a liability 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.

The Bank's liquidity is managed by the Liquidity division and the Asset, Liability and Liquidity Management Council (ALCO). The Liquidity division is responsible for the operational liquidity management of the banks. It also advises the ALCO and the Managing Board on the interest rates on loans and deposits, the bank's funding position, and performs treasury-related analyses and operations. The ALCO makes recommendations on liquidity management to the Managing Board and oversees the activities of the Liquidity division within the policies set by the Managing Board.

The Bank controls liquidity risk by implementing policies, including those relating to holding sufficient amounts of cash matching the maturity and currency profile of assets and liabilities, by investing in a portfolio of low-risk assets that secure the repayment of current obligations, and its operations in the inter-bank market.

Liquidity Management

Funds are raised using a broad range of instruments including deposits, syndicated loans, Eurobonds and mortgage bonds. 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.

Repurchase agreements are a standard method for raising short-term liquidity. At the end of 2006 liabilities under repurchase agreements amounted to EUR 115.2 million (BGN 225.4 million).

In addition the Bank holds a portfolio of liquid assets as part of its liquidity risk management strategy. These include cash and balances with central banks, securities (if not pledged as collateral in repurchase agreements) and loans and advances to banks and other financial institutions (excluding claims arising under resale agreements). In cases of substantial liquidity imbalance the Bank might also resort to securitization of assets from its loan portfolio.

According to the Bank's policy on managing assets, liabilities and liquidity, in order to maintain appropriate liquidity, the Bank aims to maintain its securities portfolio within 15 to 25% of total assets. The policy envisages that investments available for sale should account for 70-75% of all securities, followed by investments held to maturity (15-20% of the securities portfolio) and assets held for trading (3-4%). Investments in equities are limited to 2% of the securities portfolio. Securities denominated in foreign currencies (other than Euro) are limited to 70% of the securities portfolio.

The Bank's policy also limits the share of Bulgarian government securities in its portfolio to 50%. The rating of the issuer of foreign government securities should be at least BBB/positive outlook.

The Bank may invest in debt securities issued by other banks. In these cases the rating of the issuer should be at least BBB/positive outlook and the share of these instruments is limited to 10% of the Bank's portfolio. The share of securities issued by banks with rating below A– is limited to 3%.

The Bank may also invest in structured products and derivative instruments. The Bank limits the amount of such investments to 30% of the portfolio, with the share of derivatives limited to 10% of the portfolio. At the end of 2006 investments in structured notes amounted to BGN 111.2 million (19.4% of the portfolio). When selecting structured products for its portfolio, the Bank prefers principle guaranteed issues. These guarantee the repayment of the principle in full at maturity but not at an earlier date.

The liquidity of the Bank is also supported by the Bank's policy of maintaining cash balances and deposits with banks at 9-10% of total assets. Temporary deviations from the target are permitted in view of the needs of the Bank, but the Bank's policy is not to allow it to drop below 7%. At the end of 2006 cash and balances with local and foreign banks accounted for 14.8% of total assets.

The liquidity ratio measured as liquid assets to total deposits was 65.6% at the end of 2006, compared to 76.0% at end- 2005 and 62.7% at end-2004. The loans-to-deposits ratio had declined to 105.8% from 116.4% at the end of 2005 and 118.6% at the end of 2004. This was due to the expansion of the Bank's deposit base and the restrictions on loan portfolios of Bulgarian banks imposed by the Central Bank.

When picking up assets for its trading and available for sale portfolios the Bank is guided primarily by the asset's liquidity and risk. In view of limiting the market risk associated with changes of the price of the assets, the Bank has limited the 95% 1-day Value-at-Risk (VaR) for these assets to 0.3% of its equity at the end of the preceding month.

The table below summarizes the main liquidity ratios as at 31 December 2006, 2005 and 2004.

	As at 31 December		
	2006	**2005**	**2004**
Liquid assets / Total assets	34.6	35.5	32.2
Liquid assets / Deposits from NFI	65.6	76.0	62.7
Loans to NFI / Deposits from NFI	105.8	116.4	118.6
Loans to NFI (after allowances) / Total assets	54.3	53.1	59.5
Loans to NFI (after allowances) / Equity	1015.3	1030.1	903.7

For more details on the assets and liabilities of the Bank grouped into relevant maturity brackets according to the remaining periods to repayment, see "*Selected Statistical Information –Maturity table*".

Interest Rate Risk

The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature or reprice at different times or in differing amounts. In the case of floating rate assets and liabilities the Bank is also exposed to basis risk, which is the difference in the repricing characteristics of the various floating rate indices, such as the Bulgarian Base Interest Rate, LIBOR and EURIBOR, although these indices tend to move in close correlation.

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 the fair value of its assets less the fair value of its liabilities. The impact is assessed by estimating the impact of a parallel shift of the spot rate curve ("standardised shock") on net interest income and economic value. These shocks are assumed to affect directly the interest received on assets and paid on liabilities and does not take into account changes in the market environment (e.g. affecting interest margins) or the counterpart's ability to honour their obligations (e.g. default rates).

Changes in market interest rates affect the economic value of the Bank by changing the present value of the future cash flows received on assets and paid on liabilities. In general, assets/liabilities with floating rates and fixed-rate assets/liabilities with short maturity (duration) are considered to be less responsive to interest changes than fixed-rate assets/liabilities with longer maturities. 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. The interest rate risk on the economic value of the Bank following a standardised shock of +100bp/–100bp as at 31 December 2006 was BGN +2.2/–2.2 million. Therefore an increase in market interest rates is estimated to increase the economic value of the Bank. This is due to the fact that 88.8% of loans to non-financial institutions were floating rate loans, while the bonds issued by the Bank were at a fixed coupon rate. Consequently, the fair value of the assets was less sensitive to changes in interest rates than liabilities. For the same reason a decline in interest rates was estimated to reduce the economic value of the Bank.

Changes in market interest rates also affect the Bank's profit by affecting the interest income received on its assets and interest expense paid on its liabilities. At the end of 2006 the interest rate risk on the Bank's net interest income one year forward following a standardised shock of +100bp/–100bp was BGN –0.2/+0.2 million. An increase of market interest rates by 100 basis points was therefore estimated to reduce net interest income by BGN 200 thousand. The reason was that an increase in interest rates was estimated to increase the interest paid on customer deposits immediately after the standardised shock, while the accrual of higher interest rates on assets commences after some lag.

The Liquidity Department and ALCO analyse the interest rate structure of the Bank's assets and liabilities for the purpose of adjusting the interest rates applied by the Bank or its assets/liabilities structure, if necessary. At the end of 2006 floating rate assets and assets with maturity up to 1 year accounted for 77.2% of total assets. Floating rate liabilities and liabilities with maturity up to 1 year formed 77.0% of all liabilities.

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

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

In order to control the interest risk of the securities portfolio, the Bank has limited the weighted average duration of the portfolio of investments available for sale to 4.5 years, for the portfolio of assets held to maturity up to 7 years and that of the trading portfolio to 10 years. Furthermore, the Bank has set a limit on the effect of a parallel shift of the yield curve by 100 basis points on the portfolio of assets carried at fair value, which should not exceed 5% of the Bank's equity at the end of the preceding month.

The interest rate risk of the loan portfolio is mitigated by the Bank's preference to extending floating-rate loans linked to Bulgaria's Base Interest Rate (BIR), EURIBOR or LIBOR. Therefore over the past couple of years the share of the floating-rate loans has increased to 88.8% (2005: 75.9%, 2004: 50.9%).

The standard terms for deposit products of the Bank are not linked to market interest rate indices like. However the terms and conditions of these deposits allow the Bank to change the interest rate applied to them at the discretion of the Managing Board. Hence the Bank regards these deposits as floating-rate liabilities.

Exchange Rate Risk

Exchange rate risk is the risk of loss due to adverse movements in currency exchange rates. The Bank has in place internal rules and limits for dealing with foreign currency which limit the size of the open positions and potential loss The director of the Dealing Department and the Back office supervise the compliance of the dealing operations in accordance with these rules. The Bank's dealing operations are overseen by Risk Management, the Liquidity Council and the Internal Control Department.

The Bank strives to maintain a broadly neutral foreign exchange open position on balance-sheet level. This extends to assets and liabilities in the main currencies of the Bank's balance sheet -- Bulgarian Leva, Euro and US Dollars. Since 1997 Bulgaria has operated a Currency Board arrangement where the Bulgarian Lev was fixed at par with the German Mark. After the introduction of the Euro the rate was fixed at €1=BGN1.95583. While this mitigates exchange rate risk between BGN and EUR, the Bank has maintained neutral positions separately in Leva and Euro. The table below summarises the currency structure of the Bank's assets, liabilities and equity:

in %	BGN	EUR	USD	Other
Assets	31.7%	58.9%	8.1%	1.3%
Liabilities and Shareholder Equity	32.5%	57.9%	8.3%	1.3%

The share of loans in Euro in the loan portfolio reached 59.4% at the end of 2006 compared to 52.1% and 45.5 at the end of 2005 and 2004 respectively. Loans in Bulgarian Leva were 38.6% (2005: 37.2%, 2004:37.8%).

At the end of 2006 the share of customer deposits in Bulgarian Leva in all deposits from non-financial institutions was 46.3% (2005: 43.2%, 2004: 44.3%). The share of deposits in Euro was 38.1% (2005: 28.8%, 2004: 31.5).

For further details of the currency structure of assets and liabilities as at the end of 2006, please refer to the "*Selected Statistical Information - Currency Structure of Assets and Liabilities* ".

Counterparty Risk

The risk that counterparties to the Bank might default on their obligations is monitored on an ongoing basis. The Bank has adopted limits to its exposures to banks registered in Bulgaria and branches of foreign banks registered in Bulgaria. The limits apply to unsecured exposures resulting from transactions on the forex and money markets, or confirmation of Letters of Credit, acceptances under bills of exchange and other credit facilities. The limits depend on the respective bank's liquidity, quality of assets, profitability and qualitative factors. The methodology for assigning these exposure limits is periodically reviewed by the Risk Management Department.

The Bank is also exposed to counterparty risk to foreign banks. When assessing such exposures the Bank takes into account the counterparty's credit rating as well as its liquidity, profitability and asset quality. All foreign counterparties should be rated at least upper-medium investment grade rating (at least A/stable or equivalent) by a recognised rating agency.

Trading Risks

The Bank maintains active trading positions in non-derivative financial instruments and in a limited number of derivatives, mainly short-term forward contracts**.** 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 the type of risk involved and on the basis of the categories of trading instruments held. Every dealer has certain trading limits and is obliged to put a stop-loss or take-profit orders.

Open positions in foreign exchange arise from trades in financial instruments (securities, derivatives), denominated in foreign currencies. This includes spot and forward transactions, futures, options, swaps as well as positions taken to hedge certain risks (interest rate risks, foreign exchange risk et al.). The open positions may be "short" or "long". The Bank has an open long position when the BGN equivalent of the assets denominated in foreign currency exceeds the BGN equivalent of its foreign currency liabilities. It has an open short position when the BGN equivalent of the foreign currency liabilities exceeds the BGN equivalent of the foreign currency assets. The total open position for the day equals the sum of all long or short positions, whichever is larger in absolute terms.

The Bank's policy is to limit its total open position to €15 million, of which €10 million is the limit for open positions in foreign exchange markets and €5 million is the limit for open positions in money and capital markets. Money and capital markets exposures to countries outside the EU, the USA and Japan should not exceed €1 million. Save for positions in Euro the largest open position for each foreign currency should not exceed 15% of the Bank's equity.

A stop loss order is placed on every open currency position so that the Bank's total loss on any open position in currency, money, and capital markets should not exceed €10 thousand or 0.5% of the nominal value of the traded instrument.

Dealers are entitled to effect transactions on behalf of the Bank. The back office registers the transactions, confirms the terms of the transaction to the Bank's counterparts, examines the confirmations received from counterparties, checks the receipts from the settlement of transactions and orders the payments due from the Bank upon settlement of transactions. The dealing division and the back office are independent from one another in terms of operations. At the end of every business day for the Bank, the back office matches its records against the dealers' tickets to verify the details of all transactions concluded during the day.

The chief dealer is responsible for monitoring the dealers' trading positions. At the end of the day, the back office informs the Risk Management Department of any breaches of limits or any accounting mismatches of positions. Every operation is confirmed by the back office and is accounted for by the Accounting Department. In case of large breaches or a large accumulated potential loss ALCO is gathered and the Executive Directors are immediately informed.

Strategic Risk and Reputational Risk

Strategic risk is the risk of choosing inappropriate a market strategy resulting in losses or missed opportunities. The future profits and the economic value of the Bank depend on the strategy chosen by the Bank's management team. While it is not possible to estimate this risk ex-ante, the Bank strives to manage it by continually monitoring the Bank's strategy implementation and results in order to react as early as possible if changes in the strategy are necessary. The accounting and finance division reports regularly the Bank's key figures and prepares detailed monthly Management reports that highlight the Bank's performance. All the directors regularly report to the Managing Board the results of their respective departments and the trends emerging in the marketplace.

Reputational risk refers to situations where customers or counterparts lose confidence in a bank as a result of information they have about that bank, whether true or not, and on the banking system as a whole. The Bank manages these reputational risks by providing a comprehensive and transparent information about its business activities . In order to provide reliable and timely information to the interested public, the Bank prepares financial statements in compliance with the International Accounting Standards since 1994. Audited interim financial statements are produced on a semi-annual basis. Furthermore, unaudited financial results are reported on the Bank's web site on a monthly basis.

Because the effect of strategic or reputational events cannot be reliably estimated, Basel II excludes capital charges for those types of risk in the calculation of the Bank's capital requirements.

Operational Risk

According to the *International Convergence of Capital Measurement and Capital Standards* (known as Basel II), operational risk is the risk of loss due to inadequate or failed internal processes, people or systems, or from external events. The events covered by the term 'operational risk' include: external frauds (e.g. thefts, forgeries, hacking); internal frauds (e.g. misappropriation of assets, thefts, misreporting), product and business practices (e.g. market manipulation); employment practices and work safety (e.g. losses due to endangering the health or safety of employees); damage to physical assets (e.g. due to disasters or terrorist attacks); execution, delivery and process management (e.g. errors in capturing data or accounting errors); business disruption and system failures (e.g. a failure of the Bank's information systems).

In order to mitigate risks stemming from various operational events, the Bank has adopted and enforces a set of written policies and guidelines to regulate the operations of the Bank's business and supporting units and to detail the provisions of the applicable Bulgarian and EC legislation. The Bank has a specialized unit (the Methodology Department) that is responsible for the preparation and maintenance of its internal rules and disseminates them in the Bank. These steps mitigate the operational risks facing the Bank by clearly setting out the duties of the units and the employees and verifying their performance against those rules. The employees know their responsibilities and have the qualifications necessary to carry out their duties.

Whenever possible and practicable, the Bank has insured against common operational risks, including the buildings owned by the Bank, vehicles and other assets, robbery, accidents, injuries et al.

The Bank considers the security of the information and the electronic systems within the Bank as issues of the utmost importance. In order to limit the risk to its IT infrastructure, the Bank has developed a disaster recovery plan and internal rules for the physical security of its data centres aimed at guaranteeing the security, integrity and access to the Bank information system. The physical protection of the Bank's information system aims at protection from any unauthorized access to the information system, at protection from damage and at providing possibilities for its recovery. The measures for preventive physical protection of information and the information system include regular archiving of information, limiting access to the premises of the Bank enforced by security staff; selecting premises that will allow the necessary level of physical protection; and back-up power supply.

The technical protection of the data centres covers the use of the protection mechanisms provided in the hardware, the operation systems, applications, the communication hardware and software, and the other components of the Bank's information system. In order to ensure technical protection of the information system against any unauthorized access. The Bank: assigns the rights of access to employees on an individual basis; uses access passwords as well as electronic signatures (for certain tasks). The Bank uses a private network to connect the separate data centres which is not connected to the internet or any other networks; and uses anti-virus programmes. The internet connectivity of all workstations that have access to the banking systems is disabled. The computers with internet access form a separate network from the internal networks in the Bank. The IT division must control the log-files for transactions carried out in view of identifying successful or unsuccessful attempts to access the Bank information system.

Administrative control covers the restrictions, operational rules, accountability and additional administrative control measures effective in the Bank and used to ensure an acceptable level of protection of the Bank's information system. The Bank's administrative control includes: appropriate training of all new employees; distribution of the responsibilities by requiring all Bank operations to be carried out by at least two people to eliminate the possibility for one person to effect an operation without affirmation or control by another; control of the inflows and outflows of information by limiting the right to install software, or to download or record information from/on devices such as diskettes, USB drives, CD's; and stringent procedures for the employment or dismissal of employees.

In order to allow quick recovery of its IT system after a disastrous event, the Bank has established a separate back-up data centre that is located in a separate building, miles away from the building of the main data centre. The back-up centre maintains an archive of the crucial Bank information systems and is able to replace the main data centre within a reasonable amount of time.

The legal risk facing the Bank is also taken very seriously. The legal representation of the Bank before customers, counterparts and official bodies is entrusted to its Legal Department. Beside presenting the Bank in litigious matters, the department prepares model contracts, terms and conditions, and other contracts entered into by the Bank. All contracts are examined and approved by the department before concluding the respective transaction.

Internal Controls

Internal control within the Bank is a continuous process that is conducted by the Managing Board and by the persons charged with such duties. Internal control aims at achieving the strategic and operational goals, the efficient management of the Bank's assets and liabilities, the adequate control of the risks facing the Bank, the reliability and integrity of the management and financial reporting, and the compliance of the operations of all persons and units within the Bank with the legislation and other regulations in effect in Bulgaria and the jurisdictions where the Bank is doing business, as well as with the internal rules, policies and procedures adopted by the Bank.

The Internal Control Department conducts regular and ad hoc reviews of the Bank's internal control and audit procedures and processes, including anti-money laundering procedures, and reports its findings to the Supervisory Board and the Managing Board. The department also assesses and controls the reporting and accountability systems within the Bank, compliance with all applicable legislation and internal regulations, the business processes, the outcomes and efficiency of operations, and the management of various risks. The department consists of 10 employees with suitable educational and vocational backgrounds.

The rights and duties of the Internal Control Department are regulated by Ordinance No.10 of the Bulgarian National Bank and internal rules adopted by the Bank. In conducting their duties the internal auditors have unlimited access to the premises and the assets of the Bank, the decisions of all managing bodies and persons, and the reports and the information systems of the Bank. The internal auditors are entitled to exact and collect information, reports and other documents necessary for the audit and to receive expert assistance if necessary.

Measures against Money Laundering

Under Bulgarian law, the Measures Against Money-Laundering Act and the Measures Against Financing Terrorism Act require banks to record and verify certain information in respect of customers and transactions entered into by them and by the relevant bank and to report suspicious transactions to the Financial Intelligence Agency which is an office of the Ministry of Finance. Ad hoc audits can be made of banks pursuant to this legislation and the Bank was audited in 1999, 2001 and 2004. All such audits found no suspicious circumstances.

The Bank has in place internal procedures that provide specific guidance to all employees regarding the implementation of know-your-customer procedures within the Bank and identification of suspicious transactions. All employees are expected to identify the customer before effecting any transaction upon his or her order. Customers submitting orders exceeding €15,339 (BGN 30,000) or in the case of cash transactions €5,113 (BGN 10,000) are required to declare the origin of the funds subject to the transaction. Any suspicious transactions are reported to the Bank's Anti-Money Laundering Committee prior to its execution. The Anti-Money Laundering Committee examines the transaction and, if appropriate, reports it to the Financial Intelligence Agency.

The Bank maintains a register of persons suspected by the Financial Intelligence Agency for money laundering, the financing of terrorism or breaking the law. The Bank's policy is not to open accounts for such persons and not to effect transactions upon order of such persons.

DIRECTORS AND SENIOR MANAGEMENT

The Bank has a two-tier Managing structure comprising a Supervisory Board and a Managing Board.

The Supervisory Board

The current composition of the Supervisory Board is as follows:

Name	Position	Date appointed to the Board	Date of expiry of current office
Mr Georgy Mutafchiev	Chairman	7 March 2000	7 March 2010
Mr Todor Breshkov	Member	19 August 2004	19 August 2009
Ms Radka Mineva	Member	7 March 2000	7 March 2010
Mr Nedelcho Nedelchev	Member	27 February 2007	27 February 2012
Mr Kaloyan Ninov	Member	27 February 2007	27 February 2012

In 2007 Mr David Cameron Mathew and Mr Stefan Pinter, members of the former Supervisory Board, resigned from the Supervisory Board in connection with the sale of the shareholdings of Growth Management Limited and Hillside Apex Fund Limited (see "*Major Shareholders and Sellingl Shareholder*"). Their resignations were subsequently accepted by the General Meeting of the Shareholders of the Bank held on 27 February 2007, which replaced them with Mr Nedelcho Nedelchev and Mr Kaloyan Ninov. With the appointment of the new members the Bank fulfilled one of the main requirements pertaining to public companies, namely that 1/3 of the members of the Supervisory Board should be independent according to the criteria set out in the Public Offering of Securities Act.

Each of the members of the Supervisory Board can be contacted through the Bank's principal place of business at Sofia 1797, 37 Dragan Tsankov Blvd.

The Managing Board

The current composition of the Managing Board is as follows:

Name	Position	Date appointed to Board	Date of expiry of current office
Mr Matthew Mateev	Chairman of the MB and Executive Director	4 March 1998	4 March 2008
Ms Maya Georgieva	Executive Director	4 March 1998	4 March 2008
Mr Jordan Skortchev	Executive Director	2 March 2001	2 March 2011
Mr Evgeni Lukanov	Executive Director	11 November 2003	11 November 2008
Ms Maya Oyfalosh	Director of Corporate Banking Division	2 November 2004	2 November 2010
Mr Radoslav Milenkov	Chief Financial Officer	15 December 2005	15 December 2010
Mr Ivan Ivanov	Regional Director for North-Eastern Bulgaria	11 July 2003	11 July 2008

Each of the members of the Managing Board can be contacted through the Bank's principal place of business at Sofia 1797, 37 Dragan Tsankov Boul.

The Supervisory Board Members

Georgy Mutafchiev − Chairman

Mr. Georgy Mutafchiev (age 49, Bulgarian) is the brother of Mr. Ivaylo Mutafchiev, a Major Shareholder and one of the founding shareholders. His professional experience started at the Ministry of Electronics. In 1991, he joined BNB as Foreign Currency Reserve Manager. In 1997, he was appointed as an Executive Director of FLAVIA joint-stock company. 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 DEA in Business Law and a PhD in Business Law. He also has an MBA in Business Administration from Schiller University, Paris.

Besides his position on the Supervisory Board, Mr. Mutafchiev is also a member of the managing boards of Flavia AD and Flavin AD.

Todor Breshkov − Member of the Supervisory Board

In 1999 Mr Todor Breshkov (age 31, Bulgarian) started work at FFBH in the ''Corporate Finance and Analyses'' department, since 2001 he has been the General Manager of FFBH.

Mr. Breshkov graduated with a degree in Business Administration from Sofia University ''St. Climent Ohridski'. Besides his position on the Supervisory Board and asGeneral Manager of First Financial Brokerage House OOD, Mr. Breshkov is also a Member of the Board of Directors of Bulgarian Stock Exchange – Sofia AD; Member of the Board of Directors of First Insurance Brokerage Company AD; and Member of the Board of Directors of Bulgarian Real Estate Fund REIT – a special purpose vehicle for investment in real estate.

Radka Mineva − Member of the Supervisory Board

Ms. Mineva (age 46, Bulgarian) is the wife of Mr Tzeko Minev, a Major Shareholder and one of the founding shareholders. Her professional experience started as a foreign trade expert. Later she worked for the RVM Trading Company. Ms Mineva has also worked for BNB as a capital markets dealer. Since 1999 she has been a Manager of the Balkan Holidays Company. She is a graduate of the University of National and World Economy in Sofia, Bulgaria with a degree in trade and tourism. She has specialisations at the Frankfurt Securities Exchange and the London Stock Exchange.

Apart from her position on the Supervisory Board, Ms. Mineva is also General Manager of Balkan Holidays Services OOD and General Manager and Shareholder of Balkan Holidays Partners OOD.

Nedelcho Nedelchev− Member of the Supervisory Board

Mr. Nedelcho Nedelchev (age 32, Bulgarian) was appointed member of the Supervisory Board in February 2007. His career started in Aval Brokerage House. From 1997 he worked as financial analyst in First Financial Brokerage House, and in 2001 became one of its managers and a partner. In 2003 he withdrew from FFBH to assume the duties of Deputy Minister of Transportation and Communications. In 2003-2005 he was Chairman of the Board of Directors and member of the Managing Board of the Bulgarian Telecommunication Company. Nedelcho Nedelchev was advisor to the Minister of State Administration from September 2005 till July 2006. Besides his position in the Bank, Nedelcho Nedelchev is a partner in private start-up projects in the energy, telecommunications and financial advisory sectors.

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

Kaloyan Ninov− Member of the Supervisory Board

Mr. Kaloyan Ninov (Age 37, Bulgarian) was appointed member of the Supervisory Board in February 2007. Mr. Ninov had previously worked as investment manager and member of the managing board in the National Privatisation Fund "Nadezhda" (Bulgaria). In 1993 he joined First Financial Brokerage House as securities broker and was subsequently promoted to head of the Securities Department and manager. Kaloyan has sat as 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 the Economy. From 2001 to 2003 he was member of the managing board of Bulgartabac Holding AD and Kintex EAD. From 2004 to 2006 he was manager of Balkan Holidays Services, and since 2004 chairman of the board of directors of FFBH Asset Management AD. Currently, Kaloyan Ninov is managing partner in Real Estate Management Ltd., the company managing the assets of Bulgarian Real Estate Fund SPV.

Managing Board Members

The curricula vitae of the members of the Managing Board are as follows:

Matthew Mateev − Chairman of the MB and Executive Director

Mr. Matthew Mateev (age 47, Bulgarian) joined the Bank in 1993. From 1995 to 1998 he was a director of the Lending Department. In 1998 he was appointed member of the Managing Board and executive director. In 2002 he was appointed deputy chief executive director, and since 2006 executive director and chairman of the Managing Board. Previously, Matthew worked as a credit officer in the Credit Department of the Bulgarian Foreign Trade Bank (now BULBANK). He holds a degree in accounting and financial control and a masters in International Economic Relations from the University for National and World Economy in Sofia, Bulgaria. He has also specialised in bank management at the Eastern Washington University, and has specialized with Marcom and Maxwell Stamp. In 2006, he was named ''Banker of the Year'' by the Bulgarian financial weekly "The Banker".

Besides his position in the Bank, Matthew is also a Member of the Managing Board of UNIBank, Skopje.

Maya Georgieva − Executive Director

Ms. Maya Georgieva (age 53, Bulgarian) 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 Mrs. Georgieva was deputy general director responsible for money markets in the Bank for Agricultural Credit. Previously she spent 19 years of her career at BNB and has considerable international experience. Her last appointment at BNB was as the ''Chief of the Balance of Payments Division''. She holds an MA in Macroeconomics from the Higher Institute of Economics (now the University of National and World Economy), 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".

Besides her position in the Bank, Ms. Georgieva is Chairperson of the Supervisory Board of CASYS International, Skopje, Chairperson of the Board of Directors of First Insurance Brokerage Company AD and Chairperson of the Board of Directors of Diners Club Bulgaria AD.

Jordan Skorchev − Executive Director

Mr. Jordan Skorchev (age 43, Bulgarian) joined the Bank in 1996 and has been Executive Director since 2000. Mr Scorchev's career started as an assistant manager in the Central and Latin America Department with the foreign trade organisation Intercommerce in Bulgaria. In 1990, he joined First Private Bank, Sofia as Head of the Treasury Division. He is a graduate of the University of National and World Economy, Bulgaria in International Economic Relations. He has specialised in banking in Luxembourg, swap deals at Euromoney, and futures and options at the Chicago Stock Exchange.

Besides his position in the Bank, Mr. Skorchev is also a member of the managing board of UNIBank, Skopje; a member of the board of directors of Bankservice AD; a member of the board of directors of First Insurance Brokerage House AD;a member of the supervisory board of CASYS AD, Macedonia; and a member of the board of directors of Diners Club Bulgaria AD.

Evgeni Lukanov − Executive Director

Mr. Evgeni Lukanov (age 34, Bulgarian) joined the Bank in 1998 as a Deputy Director, Director and General Manager of the Tirana Branch, Albania. From 2001 to 2003 he was Director of the Bank's Vitosha Branch (Sofia). From 2003 to 2007 he was Director of the Risk Management division, and since 2004 Executive Director and Member of the Managing Board. Previously, Mr Lukanov worked as a currency dealer in FFBH. He holds an MA in Economics from the University of National and World Economy, Bulgaria.

Mr. Lukanov is also a sole proprietor of "Imexa" ET.

Ms Maya Oyfalosh − Director of the Corporate Banking Department

Ms. Maya Oyfalosh (age 45, Bulgarian) joined the Bank in 1993 as a credit specialist. Later she was promoted to director of ''Analysis of Corporate Loans'' and elected as a member of the Credit Council of the Bank. Previously, Ms. Oyfalosh had worked as a director of a department at First West Finance House and as a credit specialist at First Private Bank. In 2004, Ms. Oyfalosh was appointed director of Corporate Banking and a member of the Managing Board.

Ms. Oyfalosh does not hold outside professional positions.

Radoslav Milenkov − Chief Financial Officer

Mr. Radoslav Milenkov (age 34, Bulgarian) has been the chief financial officer and member of the Managing Board since 2005. He joined the Bank as the head of the Internal Audit Department in 2003. Previously, Mr. Milenkov had worked as an external auditor in Deloitte&Touche. He holds an MA in Finance from the University of National and World Economy, Bulgaria.

Besides his position in the Bank, Mr. Milenkov is also member of the supervisory board of CASYS International, Skopje

Ivan Ivanov − Regional Director for North-Eastern Bulgaria

Mr. Ivan Ivanov (age 52, Bulgarian) has been a member of the Managing Board since 2003. From 2003 to 2004 he was director of the Branch Network, and since 2004 regional director for North-eastern Bulgaria. He joined the Bank in 1999 as a director of the Varna Branch. Previously, Ivan was director at First Private Bank. He holds a degree in economics and Masters in Construction Economics from the Higher Institute for National Economy (now the University of Economics), Varna.

Besides his position in the Bank, Mr. Ivanov is also sole proprietor of "ICON 54 Ivan Ivanov" ET, sole owner of "ICON-54" EOOD and Member of the Supervisory Board of "Vsestranna Kooperacia Shotlandski Bratia".

Meetings of the Supervisory Board

The articles of association of the Bank and the Commercial Act 1991 require that meetings of the Supervisory Board take place at least once every three months. The last meeting took place on 7 December 2006.

Meetings of the Managing Board

The articles of association of the Bank and the Commercial Act 1991 require that meetings of the Managing Board take place at least once every three months. In practice the Managing Board has meetings at least twice per week. The last meeting took place on 20 April 2007.

Corporate Governance

The Bank has adopted a corporate governance plan which is designed to meet the corporate governance principles of the Economic Cooperation and Development Organisation, as adopted by the Financial Supervision Commission and which is based on the Bulgarian Stock Exchange corporate governance code.

The aim of the Bank' s corporate governance plan will be to protect the rights of its shareholders and to ensure their equal treatment, including the rights of minority shareholders. In addition, the plan will be designed to ensure the recognition of the rights of others, for example employees, suppliers, clients, banks, creditors and government entities and to encourage cooperation between the Bank and any such interested parties. The Bank' s intention will be to make full and accurate disclosure of information about its corporate affairs in accordance with the Bulgarian Public Offer of Securities Act 1999 and related regulations.

Information about the plan, its application and the Bank' s compliance with the plan will be included in the Bank' s annual management report which is publicly released at the same time each year as the Bank' s annual report.

CAPITALISATION AND INDEBTEDNESS

The following information sets forth the unaudited capitalisation of the Bank as at 31 March 2007 as derived from the Bank's unaudited financial information. The following information should be read in conjunction with the Bank's audited financial information and the related notes thereto included elsewhere in this document.

	As at 31 March 2006
	(BGN 000)
Short-term indebtedness	2,511,386
Deposits from banks	3,672
Deposits from customers	1,553,420
Liabilities evidenced by paper	948,205
Other liabilities	6,089
Long-term indebtedness	366,135
Deposits from other customers	65,605
Liabilities evidenced by paper	153,083
Subordinated term debt	49,659
Perpetuate debt	96,271
Referred tax liability	1,234
Other liabilities	283
Shareholders' equity	178,428
Issued share capital	100,000
Statutory reserve	39,861
Revaluation reserve on available for sale investments	(521)
Retained earnings	39,083
Minority interests	5
Total capitalisation and indebtedness	3,055,949

Source: FIB

(1) FIBank's authorised, issued and fully paid up share capital at 31 March 2007 amounted to BGN 100 million, consisting of 10 million ordinary registered voting shares with a nominal value of BGN 10 each. FIBank has not issued any other class of shares.

(2) As at 31 March 2007, FIBank had contingent liabilities of BGN 899.6 million, consisting mainly of guarantees, letters of credit issued by FIBank in connection with trade financing activities and committed undrawn credit lines (see ''Operating and Financial Review and Results of Operation'').

(3) On 7 February 2007 FIBank and LRP Landesbank Rheinland-Pfalz (LRP), Germany signed a EUR 20 million Credit Facility Agreement. The Facility Agreement is for general purpose financing and for a period of five years.

(4) On 9 March 2007, the General Meeting of Shareholders voted a decision to increase the number of shares of the Bank from 10,000,000 to 100,000,000 via a stock split resulting in a nominal value per share of BGN 1.

The following information sets forth the unaudited indebtedness of the Bank as at 31 March 2007 as derived from the Bank's unaudited financial information.

	As at 31 March 2006
	(BGN 000)
Cash and balances with central banks (a)	573,887
Due from other banks and financial institutions (b)	12,306
Trading portfolio (c)	23,866
Investment securities-available-for-sale (d)	426,577
Liquidity (a+b+c+d)	1,036,636
Deposits from other customers	641,226
Financial assets held to maturity	9,511
Other assets	17,926
Short-term receivables	668,663
Balances with banks	3,672
Liabilities to other customers	1,553,420
Liabilities evidenced by paper	948,205
Other liabilities	6,089
Short-term liabilities	2,511,386
Net short-term liabilities (1)	806,087
Liabilities to other customers	65,605
Liabilities evidenced by paper	153,083
Subordinated term debt	49,659
Perpetual debt	96,271
Deferred tax liability	1,234
Other liabilities	283
Long-term liabilities	366,135
Net indebtedness (2)	1,172,222

Source: FIB

(1) Net short-term indebtedness is short-term indebtedness less short-term receivables less liquidity.

(2) Net indebtedness is net short-term indebtedness plus long-term indebtedness.

For information on the Bank's capital adequacy and its funding and associated risk management policies, see "*Operating and Financial Review and Results of Operations - Capital Resources*" and " *Risk Management and Internal Control”*.

SELECTED HISTORICAL FINANCIAL AND OPERATIONAL INFORMATION

The selected information set out below has been derived from and should be read in conjunction with the Bank's historical audited balance sheets, statements of income and cash flows and statement of shareholders' capital at and for the years ended 31 December 2004, 2005 and 2006 respectively, the notes to them, as well as the unaudited consolidated financial report of the Bank at 31 March 2007.

The Bank has prepared its audited accounts for the years ended 31 December 2004, 2005 and 2006 in accordance with International Accounting Standards and International Financial Reporting Standards (together, "IAS"), as well as statutory accounts in accordance with domestic regulations. Save as expressly stated herein, figures quoted in this Prospectus in relation to the Bank are given in accordance with IAS. The following information should be read in conjunction with "*Operating and Financial Review and Results of Operations*", the related historical financial information and the accompanying notes thereto included elsewhere in this document.

	As at 31 March		**As at 31 December**		
	2007	**2006**	**2006**	**2005**	**2004**
	(unaudited) (BGN 000)			*(audited) (BGN 000)*	
Income Statement Data /consolidated/					
Interest and similar income	56,916	44,357	194,442	160,265	106,169
Interest expense and similar charges	(29,431)	(25,533)	(109,140)	(94,782)	(46,428)
Net interest income	**27,485**	**18,824**	**85,302**	**65,483**	**59,741**
Fee and commission income	12,669	8,757	44,804	28,730	18,086
Fee and commission expense	(1,829)	(1,145)	(5,980)	(6,542)	(2,698)
Net fee and commission income	**10,840**	**7,612**	**38,824**	**22,188**	**15,388**
Net trading income	**2,419**	**1,101**	**8,066**	**13,419**	**7,080**
TOTAL INCOME FROM BANKING OPERATIONS	**40,744**	**27,537**	**132,192**	**101,090**	**82,209**
General administrative expenses	(21,766)	(17,830)	(82,720)	(63,849)	(53,145)
Impairment losses	(6,211)	(2,204)	(12,826)	(9,786)	(4,772)
Other expenses, net	(1,426)	(1,080)	(3,378)	(2,320)	(2,022)
PROFIT BEFORE TAX	**11,341**	**6,423**	**33,268**	**25,135**	**22,270**
Income tax expense	**(1,223)**	**(1,115)**	**(4,582)**	**(4,082)**	**(4,244)**
GROUP PROFIT AFTER TAX	**10,118**	**5,308**	**28,686**	**21,053**	**18,026**
Minority interests	5	29	131	83	-
NET PROFIT	**10,123**	**5,337**	**28,817**	**21,136**	**18,026**

	As at 31 March	As at 31 December		
	2007	2006	2005	2004
			(audited) *(BGN 000)*	
Balance Sheet Data /consolidated/				
ASSETS				
Cash and balances with Central Banks	573,887	708,038	534,847	344,488
Financial assets held for trading	23,866	13,239	7,151	187,902
Available for sale investments	426,577	508,006	432,337	226
Financial assets held to maturity	99,617	70,221	97,972	27,899
Loans and advances to banks and other financial institutions	12,306	42,032	39,393	61,524
Loans and advances to customers	1,816,194	1,709,773	1,338,091	983,823
Property and equipment	84,663	80,753	61,481	43,228
Intangible assets	913	840	589	615
Other assets	17,926	14,864	9,403	3,618
TOTAL ASSETS	**3,055,949**	**3,147,766**	**2,521,264**	**1,653,323**
LIABILITIES AND CAPITAL				
Due to banks and other financial institutions (1)	3,672	43,120	41,964	28,086
Due to other customers (1)	1,619,025	1,659,513	1,177,693	849,583
Liabilities evidenced by paper	1,101,288	1,123,218	1,045,002	630,610
Subordinated term debt	49,659	48,299	63,765	28,698
Perpetual debt	96,271	98,141	54,074	-
Deferred tax liability	1,234	1,169	1,520	1,119
Other liabilities	6,372	5,913	7,344	6,359
TOTAL LIABILITIES	**2,877,521**	**2,979,373**	**2,391,362**	**1,544,455**
Issued share capital	100,000	100,000	64,726	64,726
Share premium	-	-	1,304	1,304
Statutory reserve	39,861	39,861	22,709	15,449
Revaluation reserve on available for sale investments	(521)	(258)	(137)	-
Retained earnings	39,083	28,960	41,265	27,389
SHAREHOLDERS' EQUITY	**178,423**	**168,563**	**129,867**	**108,868**
Minority interests	5	(170)	35	-
TOTAL GROUP EQUITY	**178,428**	**168,393**	**129,902**	**108,868**
TOTAL LIABILITIES AND GROUP EQUITY	**3,055,949**	**3,147,766**	**2,521,264**	**1,653,323**
Contingent liabilities		786,597	452,028	164,042

(1) As at 31 March 2007 Liabilities due to banks and other financial institutions cover only liabilities to banks. Liabilities to other financial institutions are re-classified in "Liabilities due to other customers". As at 31 December 2006, 2005 and 2004 the amounts due to other financial institutions are respectively BGN 32.7million, BGN 36.5 million and 14.7 million.

	As at 31 March	As at 31 December		
	2007	2006	2005	2004
Key ratios /consolidated basis/				
Return on assets (%)(1)	1.37%	1.12%	1.03%	1.54%
Return on equity (%)(2)	23.66%	19.23%	17.63%	18.04%
Earnings per share (BGN)(3)	0.41	0.36	0.42	0.48
Cost/income ratio (%)(4)	53.42%	62.58%	63.16%	64.65%
Shareholders' equity/Total assets (%)(5)	5.84%	5.36%	5.15%	6.58%
Total capital ratio(6)	13.29%	15.81%	15.88%	14.04%
Tier 1 capital ratio(6)	7.40%	8.84%	8.69%	11.11%

(1) Return on average total assets is calculated by dividing net income for the period by the average of total assets by the end of every month of the relevant year. As of 31 March the profit is recalculated on annual basis (divided on 90 days and multiplied to 365 days).

(2) Return on average total equity is calculated by dividing net income for the period by the average of total shareholders' equity by the end of every month of the relevant year. As of 31 March the profit is recalculated on annual basis (divided on 90 days and multiplied to 365 days).

(3) Earnings per share is calculated by dividing profit attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the period. Ordinary shares outstanding amounted to 1,000,000 till 20 October 2006 when 1,000,000 new shares were issued at nominal and issue price of BGN 10, which has been taken into consideration when calculating the average number of ordinary shares outstanding for 2006. On 27 December 2006 the issued share capital was increased to BGN 100,000,000 via transformation of the reserve accounts into capital and the number of shares was raised to 10,000,000. Due to the fact that the additional 8,000,000 shares did not involve raising additional resources from the shareholders, when calculating the ratio's denominator, the latter has been adjusted to reflect this increase for all three periods – 2004, 2005 and 2006. On 9 March 2007 the General Meeting of Shareholders voted a decision to increase the number of shares from 10,000,000 to 100,000,000 via a stock split resulting in a nominal value per share of BGN 1. In view of the stock split, we have adjusted the denominator accordingly for all three periods. As of 31 March the profit is recalculated on annual basis (divided on 90 days and multiplied to 365 days).

(4) Cost/income ratio is calculated by dividing general administrative expenses for the period by total income from banking operations.

(5) Shareholder equity/Total assets is calculated by dividing shareholders equity at the end of the period by total assets at the end of the period.

(6) As per the requirements set out by the Basel Committee for Banking Supervision. The values as of 31 March 2007 are calculated in relation with the amended requirements of the BNB Ordinance No.8, in effect as of 1 January 2007, in relation with the Basel II.

OPERATING AND FINANCIAL REVIEW AND RESULTS OF OPERATIONS

The following is a discussion of the results of operations and financial condition of the Bank for the years ended 31 December 2004, 2005 and 2006. Prospective investors should read this discussion together with the whole of this document, including the section headed "Risk Factors"- page [ ], the Bank's historical financial statements and the related notes included elsewhere in this document and should not rely just on the key summarised information contained in this section. The Bank has prepared its audited accounts for the years ended 31 December 2004, 2005 and 2006 in accordance with International Accounting Standards and International Financial Reporting Standards (together, "IAS"), as well as statutory accounts in accordance with domestic regulations. Save as expressly stated herein, figures quoted in this Prospectus in relation to the Bank are given in accordance with IAS. The financial information in this section has been extracted without material adjustment from the Bank's historical financial statements for the years ended 31 December 2004, 2005 and 2006 and the related notes thereto included elsewhere in this document or from the Bank's accounting records that formed the underlying basis of the financial information in those financial statements.

This section contains forward looking statements. These statements are subject to risks, uncertainties and other factors that could cause the Bank's future results of operations or cash flows to differ materially from the results of operations or cash flows expressed or implied in such forward looking statements.

Overview

Initially specialized in the complex servicing of corporate clients, during the past years First Investment Bank has developed into a universal commercial bank, offering a wide range of products and services as well as fast, high quality customer service. The Bank has been particularly active in expanding its retail banking business with a focus not only on geographical expansion but also on entering new market niches and offering new, specialised products. As at the end of 2006, the Bank had had 103 branches and offices in Bulgaria and international branches in Cyprus and Albania.

The Bank is the fifth largest bank in Bulgaria measured by asset size and the sixth largest bank measured by deposit base, according to data published by BNB. Among Bulgarian banks the Bank ranks third in terms of corporate credits, fifth in mortgage loans and eighth in consumer loans. As at the end of 2006, loans to corporations and individuals represented 74.1% and 25.9%, respectively, of the Bank's total loans and advances to customers before allowances for impairment.

FIBank's major sources of funding are deposits from individuals and corporate customers and its liabilities evidenced by paper. As at 31.12.2006 deposits from customers accounted for 55.7% of the Bank's liabilities, while liabilities evidenced by paper accounted for 37.7% of total liabilities. For more information on the Bank's funding, see "*Selected Statistical Information – Sources of Funding by Category*".

At 31 December 2006, the Bank had a customer base of approximately 28 thousand corporate customers and 469 thousand retail customers, and employed 1,586 people (on a non-consolidated basis).

The Bank reports its results of operations in Bulgarian Leva.

Significant Factors Affecting the Results of Operations

The Effect of Growth Policy

Since its establishment FIBank has grown its business by offering premium quality products to its customers. In its early years FIBank specialised in servicing corporate customers. From 1997 the Bank started to gradually expand its services to individuals – initially by offering debit and credit cards, then by offering various deposit accounts, and since 2002 by expanding its retail lending portfolio. FIBank's growth policy has been underpinned by the structural reforms implemented after the currency and banking crises in 1996/1997 which resulted in robust economic growth and a decline in unemployment in recent years.

As at 31 December 2006 FIBank's total assets stood at BGN 3,148 million (2005: BGN 2,521 million, 2004: BGN 1,653 million), the loan portfolio amounted to BGN 1,755 million (2005: BGN 1,371 million, 2004: BGN 1,008 million), and customer deposits and current accounts reached BGN 1,660 million (2005: BGN 1,178 million, 2004: BGN 850 million).

The Effect of the Diversification of the Loan Book

From 2002 FIBank began to expand its retail loan book by granting individuals mortgage and consumer loans. As at 31 December 2006 retail loans accounted for 26% of FIBank's loan portfolio (2005: 21%, 2004: 17%, 2003: 10%). In 2004 FIBank established a specialized programme for SME lending, and as at the end of 2006 loans under that programme amounted to BGN 163 million − 9% of the loan portfolio (2005: BGN 95 million, 7%, 2004: BGN 40 million, 4%). In 2005 a specialized Microlending Department was also established. The loans granted under that programme stood at BGN 23 million as at the end of 2006 (2005: BGN 9 million).

Diversification of the loan portfolio contributes to the diversification of credit risk across sectors and types of customers. Due to the diversification of the loan portfolio loans up to BGN 100 thousand accounted for 27% of the total loan portfolio (2005: 23%, 2004: 20%), and loans between BGN 100 thousand and BGN 1 million accounted for 16% of all loans (2005: 14%, 2003: 14%). The number of loans up to BGN 100 thousand was 83 thousand, or 98% of all loans.

Loans exceeding 10% of FIBank's capital base amounted to 153.8% of capital base (2005: 153.44%, 2004: 223.01%).

The Effect of the Diversification of Funding Sources

In the past couple of years FIBank has diversified its funding sources by raising funds through syndicated loans and bond issues. Diversifying funding sources is intended to enhance the ability of the Bank to meet customer needs for long term financing while containing liquidity risk arising from maturity mismatch between assets and liabilities. As at 31 December 2006 liabilities under bonds and syndicated loans amounted to BGN 820 million, or 28% of all liabilities (2005: BGN 779 million, 33%, 2004: BGN 229 million, 15%).

Besides wholesale funding, FIBank has also strengthened its deposit base by offering a variety of deposit products tailored to meet various customer needs. Consequently the deposit base of the Bank has expanded to BGN 1,660 million (2005: BGN 1,178 million, 2004: BGN 850 million). FIBank's market share in terms of deposits from non-financial institutions has increased to 6.0% (2005: 5.8%, 2004: 5.1%) despite strong competition.

Infrastructure Expansion

In the past couple of years FIBank has embarked on a number of important projects aimed to enhance its ability to fulfil its mission. These projects included the expansion of the branch network, enlargement of the network of Automated Teller Machines (ATMs), implementing a new core banking system, a new card payments system, and other information systems.

At the end of 2006, the branch network of the Bank comprised 107 outlets − 103 branches and offices in 43 populated areas in Bulgaria, a branch and two offices in Albania (in Tirana and Durrës), and a branch in Cyprus (Nicosia). Compared to the end of 2004 the number of outlets has increased by 31 outlets in Bulgaria and 1 outlet abroad (in Tirana). Furthermore, in 2005 FIBank's head office moved to a new building.

Historically most transactions effected with bank cards comprised cash withdrawals at ATMs. Consequently in the past years FIBank has expanded its network of ATMs and as at 31 December 2006 the number of ATMs was 537 (2005: 447, 2004: 335, 2003: 147), placing the network as Bulgaria's second largest.

FIBank is in the process of the implementation of its chosen core banking system – i-Flex FlexCube, as well as FlexCube@, Workflow and Atlantis ERP. In December 2006 FIBank's new customer relationship management system (PeopleSoft CRM) was successfully put into operation. In early 2007 the new card information system should also be ready for operation.

As a result of FIBank's expansion the net book value of FIBank's property and equipment reached BGN 80.8 million at the end of 2006 (2005: BGN 61.5 million, 2004: BGN 43.2 million). Consequently in 2006 depreciation expenses amounted to BGN 9.1 million (2005: BGN 6.6 million, 2004: BGN 5.6 million).

Changes in Regulations

The results of the Bank in the past have also been affected by changes in the applicable regulations effective in Bulgaria. These changes were dictated by both the need to align Bulgarian banking regulations with those effective in the European Union, as well as with banking sector and economic developments in general. In 2005 the Bulgarian National Bank introduced a number of measures aimed at decelerating loan portfolio growth rates. This was achieved by changes in the criteria for loan classification, changes in the loan loss percentages, and the introduction of additional minimum required reserves dependent on the amount by which a bank's loan portfolio exceeds the targets set by BNB. In 2006 some of these changes were repealed. These changes affected the Bank constraining the allocation of its assets across asset classes and affecting the amount of impairment allowances.

Critical Accounting Policies

Unless otherwise stated this Prospectus is based on audited consolidated financial statements prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

The preparation of financial statements in conformity with IFRS requires the Bank to make certain accounting estimates. It also requires Management to exercise its judgement in the process of applying the Bank's accounting policies. 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.

Fair Value

The fair value of a financial asset is the transaction price that could have been achieved on the measurement date in an arm's length exchange between informed and willing parties motivated by normal business considerations. Fair value is based on quoted market prices, price quotes from brokers or dealers, or if there is no active market for the instrument on estimates based upon discounted cash flows or other valuation techniques.

Amortised Cost

The amortised cost of an asset or liability equals the amount that was initially recognized minus any principal repayments, plus or minus cumulative amortisation of any difference between that initial amount and the amount due at maturity, minus impairment or write-down. The difference between the initial amount and the amount due at maturity is amortised using the effective interest method. The effective interest rate method is a method of calculating a financial asset or financial liability and allocating the interest income or expense over the relevant period. The effective interest rate is the rate that exactly equates the initially recognized value of the assets/liability and the discounted future cash flows over the expected life of the financial asset/liability. When calculating the effective interest rate the Bank estimates future cash flows considering all contractual terms but not considering future credit losses.

Foreign Exchange Transactions

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

Foreign currency transactions are translated into the functional currency using the official 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.

Impairment Losses

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. Contractual cash flows and historical loss experience provide the basis for estimating expected cash flows. In determining whether impairment loss should be recognized in the income statement the Bank's Management makes judgements as to whether there is objective evidence that there has been an adverse change in the payment status of borrowers (in the case of loans) or issuers (securities).

Impairment of loans: If at the balance sheet date there is objective evidence that a loan has been impaired, its carrying amount is reduced through an impairment account in order to reduce the balance sheet value of the loan to its recoverable amount. The recoverable amount of loans is calculated as the present value of the expected future cash flows, discounted at the instrument's original effective interest rate. Impairment allowances include two components – specific allowances and general allowances. Specific allowances are taken against individual loans or advances that are identified as impaired. General allowances are allowances taken for all other loans that are not deemed impaired but which, on a portfolio (collective) basis, are believed to have some inherent loss which is probable and can be reasonably estimated. Details of calculation of impairment losses are provided under the section *"Risk Management"*

Financial Assets

A financial asset is any asset that is: (i) cash; (ii) a contractual right to receive cash or another financial asset from another enterprise; (iii) a contractual right to exchange financial instruments with another enterprise under conditions that are potentially favourable; (iv) an equity instrument of another enterprise. 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.

Financial assets at fair value through profit or loss have two sub-categories: financial assets held for trading, and those that FIBank has designated at fair value through profit or loss at inception. Financial assets held for trading are those that are acquired principally for the purpose of selling in the short-term. Derivative financial instruments are always deemed as held for trading unless they are designated as effective hedges. In the balance sheet financial assets at fair value through profit or loss are carried at their fair value. All related gains or losses are recognized in the income statement in the period in which they arise under the title Net Trading Income.

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. Loans and receivables are carried in the balance sheet at amortised cost using the effective interest method. Interest calculated using the effective interest method is recognised in the income statement. Loans are placed in non-accrual status, if the principal or interest on the loan has been past-due over 90 days.

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. The intent and ability of the Bank to hold these assets to maturity is established at initial recognition and again at each balance sheet date. If the Bank sells reclassifies, transfers or exercises a put option on more that an insignificant amount of its portfolio of held-to-maturity investments, the Bank may not classify any financial assets as held to maturity for a period of two financial years after the occurrence of this event. Held-to-maturity investments are carried in the balance sheet at amortised cost using the effective interest method. Interest calculated using the effective interest method is recognised in the income statement.

Available-for-sale investments are those intended to be held for an indefinite period of time, and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Available-for-sale investments are measured in the balance sheet at fair value. Gains or losses arising from changes in their fair value are recognised directly in equity (in Revaluation reserve on available fore sale investments). When the asset is derecognised or devaluated gains or losses previously recognised in equity are recognised in the income statement under the title Net Trading Income. 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

Borrowings

Borrowings are recognised initially at cost, equal to their issue proceeds 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 interest method.

Income recognition

Interest income and expense: 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: Fee and commission income arises on financial services provided by the Bank to its customers. Unless included in effective interest calculation, fee and commission income is recognised when the corresponding service is provided.

Net trading income: Net trading income includes gains and losses arising from disposals of and changes in the fair value of financial instruments held for trading, and any foreign exchange gains and losses on monetary assets and liabilities.

Further details of significant accounting policies are disclosed in Note 2 to the consolidated financial statements as at 31 December 2006.

Results of Operations for the Years Ended 31 December 2006, 2005 and 2004

The table below lays out the Bank's net income and its constituent parts for the years ended 31 December 2006, 2005 and 2004, as well as the percentage change within each line item.

	Year ended 31 December			Change	
	2006	**2005**	**2004**	**2006/2005**	**2005/2004**
		(audited) *(BGN 000)*		(%)	
Income Statement Data /consolidated/					
Interest and similar income	194,442	160,265	106,169	21.3	51.0
Interest expense and similar charges	(109,140)	(94,782)	(46,428)	15.1	104.1
Net interest income	**85,302**	**65,483**	**59,741**	**30.3**	**9.6**
Fee and commission income	44,804	28,730	18,086	55.9	58.9
Fee and commission expense	(5,980)	(6,542)	(2,698)	(8.6)	142.5
Net fee and commission income	**38,824**	**22,188**	**15,388**	**75.0**	**44.2**
Net trading income	**8,066**	**13,419**	**7,080**	**(39.9)**	**89.5**
TOTAL INCOME FROM BANKING OPERATIONS	**132,192**	**101,090**	**82,209**	**30.8**	**23.0**
General administrative expenses	(82,720)	(63,849)	(53,145)	29.6	20.1
Impairment losses	(12,826)	(9,786)	(4,772)	31.1	105.1
Other expenses, net	(3,378)	(2,320)	(2,022)	45.6	14.7
PROFIT BEFORE TAX	**33,268**	**25,135**	**22,270**	**32.4**	**12.9**
Income tax expense	**(4,582)**	**(4,082)**	**(4,244)**	**12.2**	**(3.8)**
GROUP PROFIT AFTER TAX	**28,686**	**21,053**	**18,026**	**36.3**	**16.8**
Minority interests	131	83	-	57.8	n/m
NET PROFIT	**28,817**	**21,136**	**18,026**	**36.3**	**17.3**

Source: FIB

	Year ended 31 December			Change	
	2006	**2005**	**2004**	**2006/2005**	**2005/2004**
		(audited) *(BGN 000)*		(%)	
Cash Flow Statement Data /consolidated/					
Net cash (used in) operating activities	40,835	(191,669)	(242,958)	(121.3)	(21.1)
Net cash (used in) investing activities	(890)	(94,879)	(46,567)	(99.1)	103.7
Net cash provided by financing activities	116,817	503,533	357,533	(76.8)	40.8
Net increase/(decrease) in cash and cash equivalents	**156,762**	**216,985**	**63,558**	(27.8)	241.4

Source: FIB

Net Interest Income

The net interest income of the Bank is formed by the volume of interest earning assets and the volume of interest bearing liabilities as well as the difference between the rates it earned on interest earning assets, on the one hand, and the rates it paid on interest bearing liabilities on the other. The interest earning assets of the Bank include loans and advances to banks and other financial institutions, loans to individuals and households, loans to corporate clients (including loans to SME's and microborrowers) and interest-earning debt instruments which the Bank holds. Interest bearing liabilities include deposits from banks and other financial institutions, customer deposits, liabilities evidenced by paper, subordinated term debt, perpetual debt and other contracts.

The table below lays out the main components of the Bank's net interest income for each of the years ended 31 December 2006, 2005 and 2004, as well as the percentage change within each line item.

	Year ended 31 December			Change	
	2006	**2005**	**2004**	**2006/2005**	**2005/2004**
		(audited) *(BGN 000)*		(%)	
Interest and similar income	**194,442**	**160,265**	**106,169**	**21.3**	**51.0**
Interest expense and similar charges	**(109,140)**	**(94,782)**	**(46,428)**	**15.1**	**104.1**
Net interest income	**85,302**	**65,483**	**59,741**	**30.3**	**9.6**

Source: FIB

Net interest income increased by 30.3% to BGN 85.3 million in the year ended 31 December 2006. Net interest income was BGN 65.5 million in the year ended 31 December 2005, an increase of 9.6% from BGN 59.7 million in the year ended 31 December 2004. The main factor behind the increase in net interest income was the development of the loan portfolio, which for 2006 caused interest income growth to exceed interest expense growth. Furthermore, the positive dynamics in net interest income came despite narrowing interest rate spreads brought about by increasing competition in the sector.

Interest Income

Interest income is the main source of revenue for the Bank. Interest income comprises interest from loans, as well as interest earned on inter-bank placements and debt instruments held by the Bank for its own account.

The table below lays out the basic components of the Bank's interest income for the years ended 31 December 2006, 2005 and 2004 as well as the percentage change within each line item.

	Year ended 31 December			Change	
	2006	**2005**	**2004**	**2006/2005**	**2005/2004**
		(audited) *(BGN 000)*		(%)	
Interest and similar income					
Interest and similar income arises from:					
- Loans and advances to banks and other financial institutions	4,535	5,193	5,434	(12.7)	(4.4)
- Loans to individuals and households	37,185	24,576	13,056	51.3	88.2
- Loans to corporate clients	114,810	111,762	82,646	2.7	35.2
- Loans to SME's	15,712	6,232	1,365	152.1	356.6
- Microlending	2,196	333	-	559.5	n/m
- Debt instruments	20,004	12,169	3,668	64.4	231.8
Total interest and similar income	**194,442**	**160,265**	**106,169**	**21.3**	**51.0**

Source: FIB

Interest income increased by 21.3% to BGN 194.4 million in the year ended 31 December 2006. Interest income was BGN 160.3 million in the year ended 31 December 2005, an increase of 51% from BGN 106.2 million in the year ended 31 December 2004. These increases were due predominantly to loan portfolio growth. Loans to individuals and loans to SME's held a growing share of the Bank's loan portfolio. However, loans to corporate clients remained the main source of interest income.

In the past couple of years the loan portfolio of the Bank has undergone a gradual transition towards an increasing share of loans to individuals, entrepreneuers, micro, small and medium enterprises. Consequently the rise in interest income from loans to individuals and SME's reflected the growth of the underlying loan portfolio although from a lower base. This diversification across industrial sectors and types of customers contributed to the reduction of the credit risk of the loan portfolio.

Historically the Bank's strategy has emphasized a differentiation based on the superior quality of the Bank's products which has mitigated the effect of stronger competition on interest income. In 2006 interest rates charged on loans were not significantly affected by the intensifying competition as evidenced by comparing the increase of interest income from loans (18.9% year-on-year) and the increase of the average carrying amount of loans (18.9%). In 2005 interest income from loans increased by 47.2% compared to a 54.9% increase in average loan balances.

Interest income from debt instruments increased by 64.4% to BGN 20million in the year ended 31 December 2006. This increase of interest income from debt instruments was due to the larger portfolio of investments available for sale and investments held to maturity which in 2006 increased on average by 83.5%. Interest income from debt instruments was BGN 12.2 million in the year ended 31 December 2005, an increase of 231.8% from BGN 3.7 million in the year ended 31 December 2004, due to the growth of the securities portfolio and the increased share of debt securities classified as held to maturity or available for sale.

Interest Expense

The Bank's interest expense comprises interest on funds deposited with the Bank as well as interest on liabilities evidenced by paper, subordinated term debt, perpetual debt and leasing and other contracts.

The table below lays out the basic components of the Bank's interest expense for the years ended 31 December 2006, 2005 and 2004, as well as the percentage change within each line item.

	Year ended 31 December			**Change**	
	2006	**2005**	**2004**	**2006/2005**	**2005/2004**
		(audited) *(BGN 000)*		(%)	
Interest expense and similar charges					
Interest expense and similar charges arise from:					
- Deposits from banks and other financial institutions	(1,690)	(1,090)	(799)	55.0	36.4
- Deposits from other customers	(31,953)	(25,575)	(17,957)	24.9	42.4
- Liabilities evidenced by paper	(57,695)	(57,552)	(24,149)	0.2	138.3
- Subordinated term debt	(7,213)	(7,211)	(3,454)	0.03	108.8
- Perpetual debt	(10,429)	(3,266)	-	219.3	n/m
- Leasing and other contracts	(160)	(88)	(69)	81.8	27.5
Total interest expense and similar charges	**(109,140)**	**(94,782)**	**(46,428)**	**15.1**	**104.1**

Source: FIB

Interest expense increased by 15.1% to BGN 109.1 million in the year ended 31 December 2006. Interest expense was BGN 94.8 million in the year ended 31 December 2005, an increase of 104.1% from BGN 46.4 million in the year ended 31 December 2004. The increase was attributable to the growth in the deposit base, as well as the wider usage of liabilities with contractual maturity from the international markets to finance the Bank's operations. Deposits from other customers and liabilities evidenced by paper were the items with the heaviest weight in the Bank's liabilities.

Interest Expense on Deposits from Banks and Other Financial Institutions

Interest expense on deposits from banks and other financial institutions increased by 55% to BGN 1.7 million in the year ended 31 December 2006. Interest expense on deposits from banks and other financial institutions was BGN 1.1 million in the year ended 31 December 2005, an increase of 36.4% from BGN 0.8 million in the year ended 31 December 2004. The increase was largely due to the increased average amount of such deposits over the year.

Interest Expense on Deposits from Other Customers

Interest expense on deposits from other customers increased by 24.9% to BGN 32 million in the year ended 31 December 2006. Interest expense on deposits from other customers was BGN 25.6 million in the year ended 31 December 2005, an increase of 42.4% from BGN 18 million in the year ended 31 December 2004.

Deposits from other customers include deposits of individuals and non-financial corporate customers. Customer deposits are the main funding source for the Bank accounting for 55.7% of its liabilities as at end 2006 (2005: 49.3%; 2004: 55%). As at 31 December 2006 deposits from individuals accounted for 61.1% of all customer deposits (2005: 62.1%; 2004: 56.9%). The Bank offers a range of deposit products aimed at meeting various customer needs in terms of tenure, liquidity, currency, and interest payment. Consequently in 2006 the increase in the average balance of customer deposits was 33.3%, outpacing the increase of interest expense on customer deposits at 24.9%. The decline in the effective interest rate paid on customer deposits in 2006 was in part due to a reduction in March 2005 of the interest rate applied to corporate current accounts. In 2005 the average balance on customer deposits and the interest expense these deposits increased at a similar pace , 39.4% and 42.4% respectively.

Interest Expense on Liabilities Evidenced by Paper

The table below lays out the principal components of the Bank's interest expense arising from liabilities evidenced by paper for the years ended 31 December 2006, 2005 and 2004, as well as the percentage change within each line item.

	Year ended 31 December			Change	
	2006	2005	2004	2006/2005	2005/2004
		(audited) *(BGN 000)*		(%)	
Interest expense and similar charges arising from Liabilities evidenced by paper:					
- Bonds and notes issued	(40,884)	(39,243)	(10,120)	4.2	287.8
- Acceptances under letter of credits	(43)	(9,325)	(10,448)	(99.5)	(10.7)
- Liabilities under repurchase agreements	(956)	(761)	(340)	25.6	123.8
- Syndicated loans	(11,266)	(5,246)	(1,489)	114.8	252.3
- Other term liabilities	(4,546)	(2,977)	(1,752)	52.7	69.9
Total interest and similar expense on Liabilities evidenced by paper	(57,695)	(57,552)	(24,149)	0.2	138.3

Interest expense on liabilities evidenced by paper increased by 0.2% to BGN 57.7 million in the year ended 31 December 2006. Interest expense on liabilities evidenced by paper was BGN 57.6 million in the year ended 31 December 2005, an increase of 138.3% from BGN 24.1 million in the year ended 31 December 2004. Interest paid on liabilities evidenced by paper comprised primarily the interest paid on borrowings (syndicated and bilateral loans, bonds and notes issued).As at 31 December 2004 the Bank's bond liabilities comprised two long-term bonds with a total value of BGN 91m (EUR 6 million and EUR

40 million), a USD 10 million bond with a end-year value of BGN 14.4 million and two mortgage bonds with a total value BGN 29.5 million. On 31 January 2005, the Bank, through its special purpose entity First Investment Finance B.V. (The Netherlands), issued a €200 million 3-year Eurobond. In 2006 the Bank repaid at maturity a €40m Eurobond. Consequently in 2006 interest expense on bonds and notes issued amounted to BGN 40.9 million (2005: BGN 32.9 million, 2004: BGN 10.1 million).

In November 2005 FIBank raised a EUR 125 million syndicated loan organised by Bayerische Landesbank. The loan was subsequently repaid in November 2006 and a new €185 million syndicated loan was received organised by Dresdner Bank with the involvement of 33 banks worldwide. As a result interest expense on syndicated loans increased to BGN 11.3 million (2005: BGN 5.2 million, 2004: BGN 1.5 million).

Interest Expense on Subordinated Term Debt and on Perpetual Debt

Interest expenses also include interest paid on subordinated debt eligible for inclusion in the capital base of the Bank. Similar to equity, these obligations are subordinated to all other liabilities. These obligations currently comprise subordinate term debt and perpetual subordinated bonds.

Interest expense on subordinated term debt increased by 0.03% to BGN 7.213 million in the year ended 31 December 2006. Interest expense on subordinated term debt was BGN 7.211 million in the year ended 31 December 2005, an increase of 108.8% from BGN 3.5 million in the year ended 31 December 2004. Interest expense on perpetual debt increased by 219.3% from BGN 3.3 million in the year ended 31 December 2005 to BGN 10.4 million in the year ended 31 December 2006.

In 2003 and 2004 the Bank entered into five separate subordinated Loan Agreements. During 2005 the Bank signed 5 new long-term subordinated debt agreements. During 2006 the Bank redeemed before maturity EUR 8 million subordinated term debt liabilities under two agreements. As at 31 December 2006 the Bank had eight separate subordinated Loan Agreements with five different lenders. The total amount of subordinated term debt liabilities thus reached BGN 48.3 million by 31 December 2006. Interest on all subordinated term debt is capitalized and is repaid at maturity.

In 2005 and 2006 the Bank issued two perpetual subordinated bond issues with a total face value of EUR 48 million that qualify for inclusion in upper tier II capital. Interest paid on subordinated term debt and perpetual debt in 2006 amounted to BGN 17.6 million (2005: BGN 10.5 million; 2004: BGN 3.5 million). No perpetual debt was issued in 2004.

Interest Expense on Leasing and Other Contracts

Interest expense on leases and other contracts amounted to BGN 160 thousand in 2006 and comprised mostly finance leases of motor vehicles.

The following table lays out the Bank's interest expense against the stand-alone interest expense (on an unconsolidated basis) for the years ended 31 December 2006, 2005 and 2004, as well as the percentage change within each line item.

	Year ended 31 December			**Change**	
	2006	**2005**	**2004**	**2006/2005**	**2005/2004**
		(audited) *(BGN 000)*		(%)	
Interest expense and similar charges					
Consolidated basis	(109,140)	(94,782)	(46,428)	15.1	104.1
Unconsolidated basis	(110,206)	(95,861)	(46,853)	15.0	104.6

Source: FIB

These differences arose from consolidating First Investment Finance B.V., which is 100% owned by the Bank. The reduction on consolidated basis came after elimination of interest on loans and deposits extended by First Investment Finance to the Bank less interest expense and less accumulated amortization of costs of issuance on bonds and loans received by First Investment Finance.

Net Fee and Commission Income

A set of factors affect the Bank's net fee and commission income. It is determined, on one hand, by the fees and commissions received on letters of credit and guarantees, payment transactions, customer accounts, the cards business and other services provided, and, on the other hand, by the fees and commissions paid on letters of credit and guarantees, correspondent accounts, the cards business and other services received.

The table below lays out the basic components of the Bank's net fee and commission income for each of the years ended 31 December 2006, 2005 and 2004, as well as the percentage change within each line item.

	Year ended 31 December			**Change**	
	2006	**2005**	**2004**	**2006/2005**	**2005/2004**
		(audited) *(BGN 000)*		(%)	
Fee and commission income	**44,804**	**28,730**	**18,086**	**55.9**	**58.9**
Fee and commission expense	**(5,980)**	**(6,542)**	**(2,698)**	**(8.6)**	**142.5**
Net fee and commission income	**38,824**	**22,188**	**15,388**	**75.0**	**44.2**

Source: FIB

Net fee and commission income increased by 75% to BGN 38.8 million in the year ended 31 December 2006. Net fee and commission income was BGN 22.2 million in the year ended 31 December 2005, an increase of 44.2% from BGN 15.4 million in the year ended 31 December 2004. Increases in net fee and commission income were caused by the growth in fee and commission income coupled with the reduction in fee and commission expense.

The growth of net fee and commission income was brought about by the Bank's strong position in the international trade financing markets, its good reputation among Bulgarian and foreign banks and corporate customers, and its leading position in the cards business in Bulgaria. These operations were among the major sources of non-interest income for the Bank and their share in the Bank’s income steadily increased over the three-year period.

Fee and Commission Income

Fee and commission income comprises revenues received on letters of credit and guarantees, payment transactions, customer accounts, the cards business and other services provided. The table below lays out the basic components of the Bank's fee and commission income for the years ended 31 December 2006, 2005 and 2004 as well as the percentage change within each line item.

	Year ended 31 December			**Change**	
	2006	**2005**	**2004**	**2006/2005**	**2005/2004**
		(audited) *(BGN 000)*		(%)	
Fee and commission income					
Letters of credit and guarantees	10,656	8,298	5,509	28.4	50.6
Payments transactions	6,076	4,336	3,968	40.1	9.3
Customer accounts	6,203	5,350	3,991	15.9	34.1
Cards business	11,215	7,093	3,471	58.1	104.4
Other	10,654	3,653	1,147	191.7	218.5
Total fee and commission income	**44,804**	**28,730**	**18,086**	**55.9**	**58.9**

Source: FIB

Fee and commission income increased by 55.9% to BGN 44.8 million in the year ended 31 December 2006. Fee and commission income was BGN 28.7 million in the year ended 31 December 2005, an increase of 58.9% from BGN 18.1 million in the year ended 31 December 2004.

Fee and commission income remained the second most important earnings source for the Bank. Fee and commission income grew due to the increased number of customers, the higher volume of local and international transfers, letters of credit and guarantees, and also as a result of the introduction of a number of new products and services together with the introduction of sales incentives for employees and the implementation of new distribution channels. Among the new product and services introduced were credit cards, special services for small and medium enterprises, and the expansion of remote information package services. The growth in fee and commission income was a reflection of the Bank's active policy for revenue restructuring in order to decrease the Bank's exposure to interest rate fluctuations.

The following table lays out the Bank's fee and commission income against the stand-alone fee and commission income (on an unconsolidated basis) for the years ended 31 December 2006, 2005 and 2004, as well as the percentage change within each line item.

	Year ended 31 December			Change	
	2006	**2005**	**2004**	**2006/2005**	**2005/2004**
		(audited) *(BGN 000)*		(%)	
Fee and commission income					
Consolidated basis	44,804	28,730	18,086	55.9	58.9
Unconsolidated basis	44,121	28,481	18,086	54.9	57.5

Source: FIB

The higher fee and commission income for the Group came as a result of consolidating the operating revenue of Diners Club Bulgaria AD, of which the Bank acquired 80% in May 2005.

Fee and Commission Expense

Fee and commission expense comprises payments made on letters of credit and guarantees, correspondent accounts, the cards business and other services received.

The table below lays out the basic components of the Bank's fee and commission expense for the years ended 31 December 2006, 2005 and 2004 as well as the percentage change within each line item.

	Year ended 31 December			Change	
	2006	**2005**	**2004**	**2006/2005**	**2005/2004**
		(audited) *(BGN 000)*		(%)	
Fee and commission expense					
Letters of credit and guarantees	(994)	(2,918)	(596)	(65.9)	389.6
Correspondent accounts	(879)	(676)	(571)	30.0	18.4
Cards business	(3,960)	(2,661)	(1,468)	48.8	81.3
Other	(147)	(287)	(63)	(48.8)	355.6
Total fee and commission expense	**(5,980)**	**(6,542)**	**(2,698)**	**(8.6)**	**142.5**

Source: FIB

Fee and commission expense decreased by 8.6% to BGN 6 million in the year ended 31 December 2006. Fee and commission expense was BGN 6.5 million in the year ended 31 December 2005, an increase of 142.5% from BGN 2.7 million in the year ended 31 December 2004. The increase of these expenses was commensurate with the growth of the Bank's business. The higher expenses on letters of credit and guarantees in 2005 were primarily due to the extension of the term of letters of credit.

Net Trading Income

The table below lays out the basic components of the Bank's net trading income for the years ended 31 December 2006, 2005 and 2004 as well as the percentage change within each line item.

	Year ended 31 December			Change	
	2006	2005	2004	2006/2005	2005/2004
		(audited) *(BGN 000)*		(%)	
Net trading income arises from:					
- Debt instruments and related derivatives	1,363	5,899	2,799	(76.9)	110.8
- Foreign exchange rate fluctuations	6,703	7,520	4,281	(10.9)	75.7
Net trading income	**8,066**	**13,419**	**7,080**	**(39.9)**	**89.5**

Source: FIB

Net trading income decreased by 39.9% to BGN 8.1 million in the year ended 31 December 2006. Net trading income was BGN 13.4 million in the year ended 31 December 2005, an increase of 89.5% from BGN 7.1 million in the year ended 31 December 2004.

Net trading income arising from debt instruments and related derivatives comprised gains from the Bank's trading portfolio as well as realised gains from available for sale investments. The higher gains in 2005 were in part due to realised gains upon the restructuring of the Bank's securities portfolio during that year. Net trading income arising from foreign exchange fluctuations comprised net gains from settlement of foreign currency transaction as well net gains from changes in the values of monetary assets and liabilities as at each balance sheet date due to changes in exchange rates.

The table below lays out the Bank's monetary assets and liabilities for the years ended 31 December 2006, 2005 and 2004 as well as the percentage change within each line item.

	Year ended 31 December			Change	
	2006	2005	2004	2006/2005	2005/2004
		(audited) *(BGN 000)*		(%)	
Monetary assets					
Euro	1,791,518	1,522,291	787,662	17.7	93.3
US dollar	307,381	411,061	460,299	(25.2)	(10.7)
Other	67,226	73,519	227,219	(8.6)	(67.6)
Gold	3,134	1,480	1,511	111.8	(2.1)
Monetary liabilities					
Euro	1,944,038	1,622,232	797,208	19.8	103.5
US Dollar	308,620	410,987	457,566	(24.9)	(10.2)
Other	67,308	73,758	227,210	(8.7)	(67.5)
Gold	-	-	-	n/m	n/m
Net position					
Euro	(152,520)	(99,941)	(9,546)	52.6	946.9
US dollar	(1,239)	74	2,733	(1774.3)	(97.3)
Other	(82)	(239)	9	(65.7)	(2755.6)
Gold	3,134	1,480	1,511	111.8	(2.1)

General Administrative Expenses

The table below lays out the main components of the Bank's general administrative expenses for the years ended 31 December 2006, 2005 and 2004 as well as the percentage change within each line item.

	Year ended 31 December			Change	
	2006	**2005**	**2004**	**2006/2005**	**2005/2004**
		(audited) *(BGN 000)*		(%)	
General administrative expenses comprise:					
Personnel cost	23,484	17,820	11,400	31.8	56.3
Depreciation and amortisation	9,118	6,579	5,600	38.6	17.5
Advertising	9,338	7,707	7,456	21.2	3.4
Building rent expense	8,637	5,240	4,344	64.8	20.6
Telecommunication, software and other computer maintenance	5,909	4,832	3,766	22.3	28.3
Unclaimable VAT	4,953	4,305	3,482	15.1	23.6
Administration, consultancy and other costs	21,281	17,366	17,097	22.5	1.6
General administrative expenses	**82,720**	**63,849**	**53,145**	**29.6**	**20.1**

Source: FIB

General administrative expenses increased by 29.6% to BGN 82.7 million in the year ended 31 December 2006. General administrative expenses were BGN 63.8 million in the year ended 31 December 2005, an increase of 20.1% from BGN 53.1 million in the year ended 31 December 2004.

The growth in administrative expenses was primarily due to the expansion of the Bank in terms of the branch network, personnel and administrative costs. From 31 December 2004 to 31 December 2006 general administrative expenses increased by a total of BGN 30 million, with personnel costs increasing by BGN 12 million. Personnel costs include salaries and social and health security contributions under the provisions of the local legislation. At 31 December 2006, the total number of employees was 1,598 (2005: 1,269, 2004: 968). Building rent expenses increased by BGN 4.3 million over the period due to the expansion of the branch network as most of the premises used by the Bank (including the head office) are rented. Administration, consultancy and other costs increased by BGN 4.2 million and depreciation and amortization by BGN 3.5 million.

The following table lays out the Bank's general administrative expenses against the stand-alone general administrative expenses (on an unconsolidated basis) for the years ended 31 December 2006, 2005 and 2004, as well as the percentage change within each line item.

	Year ended 31 December			Change	
	2006	**2005**	**2004**	**2006/2005**	**2005/2004**
		(audited) *(BGN 000)*		(%)	
General administrative expenses					
Consolidated basis	82,720	63,849	53,145	29.6	20.1
Unconsolidated basis	81,385	62,872	52,815	29.4	19.0

Source: FIB

Consolidated general administrative expenses included expenses from the Bank's subsidiaries over the period. For 2006 the subsidiaries which income statements had been consolidated were Diners Club Bulgaria AD (80% owned), First Investment Finance B.V. (100% owned) and First Insurance Brokerage Company (50% owned). For 2005: Diners Club Bulgaria AD (80% owned from June 2005), First Investment Finance B.V. (100% owned) and First Insurance Brokerage Company (50% owned). For 2004: First Investment Finance B.V. (100% owned) and First Insurance Brokerage Company (50% owned).

Net Impairment Losses

The table below lays out the main components of the Bank's net impairment losses for the years ended 31 December 2006, 2005 and 2004 as well as the percentage change within each line item.

	Year ended 31 December			Change	
	2006	**2005**	**2004**	**2006/2005**	**2005/2004**
		(audited) *(BGN 000)*		(%)	
Write-downs					
Loans and advances to customers	(30,485)	(17,845)	(19,054)	70.8	(6.3)
Reversal of write-downs					
Loans and advances to customers	17,659	8,059	14,282	119.1	(43.6)
Net impairment losses	**(12,826)**	**(9,786)**	**(4,772)**	**31.1**	**105.1**

Source: FIB

Net impairment losses increased by 31.1% to BGN 12.8 million in the year ended 31 December 2006. Net impairment losses were BGN 9.8 million in the year ended 31 December 2005, an increase of 105.1% from BGN 4.8 million in the year ended 31 December 2004.

Changes in allowances for impairment (i.e. in the specific impairment allowances according to BNB's ordinance No.9) since the latest balance sheet date are expensed through the income statement. These changes are reported under the title "Net Impairment Losses". Impairment losses include both allowances for the standard exposures, reflecting potential general risks of loss for exposures or group of exposures /portfolios/ (general allowances) and allowances made against particular exposures with indicators of impairment (specific allowances). In 2006 general allowances increased by BGN 7 million (2005/2004: BGN 2.3 million) and specific allowances by BGN 5.4 million (2005/2004: BGN 6.6 million). The increase in general allowances was due to the larger loan portfolio of the Bank. The increase in specific allowances was the result of the increased share of classified exposures. The structure of the loan portfolio across classification groups is affected by changes in the classification criteria imposed by BNB as well as changes in the quality of the underlying assets as measured by the ratio of classified loans to total loans (2006: 4.31%, 2005: 6.76%, 2004: 5.19%) and non-performing loans (90 days overdue) to total loans (2006: 1.88%, 2005: 1.65%, 2004: 2.22%), as well as by the share of exposures covered by liquid exposures. The amounts recovered from impaired exposures after the balance sheet date are recorded directly in the income statement. Details on the rules for the calculation of impairment allowances and some recent changes in the regulatory framework are provided in *"Risk Management, Internal Controls and Compliance − Credit Risk Management"*.

Other Expenses

Other expenses increased by 45.6% to BGN 3.4 million in the year ended 31 December 2006. Other expenses were BGN 2.3 million in the year ended 31 December 2005, an increase of 14.7% from BGN 2 million in the year ended 31 December 2004.

Other expenses comprise the expenses of the Bank that are not included in other positions netted against other income from non-banking operations. Banks in Bulgaria are required to make annual contributions to Bulgaria's Deposit Guaranty Fund. Annual contributions are calculated as 0.5% of the daily average of deposits from non-financial customers for the preceding year. In 2006 this expense amounted to BGN 4.7 million (2005: BGN 3.3 million, 2004: BGN 2.3 million).

Income Tax Expense

The table below lays out the basic components of the Bank's income tax expense for the years ended 31 December 2006, 2005 and 2004 as well as the percentage change within each line item.

	Year ended 31 December			Change	
	2006	**2005**	**2004**	**2006/2005**	**2005/2004**
		(audited) *(BGN 000)*		(%)	
Current taxes	(4,933)	(3,681)	(4,150)	34.0	(11.3)
Deferred taxes	351	(401)	(94)	(187.5)	326.6
Income tax expense	**(4,582)**	**(4,082)**	**(4,244)**	**12.2**	**(3.8)**

Source: FIB

Income tax expense increased by 12.2% to BGN 4.6 million in the year ended 31 December 2006. Income tax expense was BGN 4.1 million in the year ended 31 December 2005, decrease of 3.8% from BGN 4.2 million in the year ended 31 December 2004.

The primary factors affecting tax expense are pre-tax profit and the tax rate. In 2006 and 2005 the applicable tax rate for calculation of the due taxes under Bulgaria's Corporate Tax Act was 15% (2004: 19.5%). Cases where there is a difference between the carrying amount for financial accounting purposes and for statutory purposes give rise to different amounts of taxes for financial accounting purposes and the current tax expense. If tax expense calculated for financial accounting purposes exceeds the current tax expense, and it is probable that the difference will be reversed, a deferred tax liability is created. In the last three years deferred tax liabilities were attributable to property, equipment and intangibles and in 2006 the corresponding deferred tax liabilities amounted to BGN 1.3 million (2005: BGN 1.6 million, 2004: 1.3 million).

Net Profit

Net profit increased by 36.3% to BGN 28.8 million in the year ended 31 December 2006. Net profit was BGN 21.1 million in the year ended 31 December 2005, an increase of 17.3% from BGN 18 million in the year ended 31 December 2004.

Total income from banking operations rose from BGN 101.1 million in 2005 to BGN 132.2 million in 2006 (an annual increase of 30.8%).The annual increase in 2005 was 23% (2004: BGN 82.2 million), while general administrative expenses increased 20.1% and 29.6% over 2005 and 2006 respectively to stand at BGN 82.7 million at the end of 2006. As a consequence, the cost/income ratio fell in each of the three years and stood at 62.6%, 63.2% and 64.6% at 31 December, 2006, 2005 and 2004 respectively.

Net interest income continued to be the single most important source of income for the Bank, increasing over the period on the back of a growing loan portfolio. However, net fee and commission income, which is the second-in-line income contributor, featured higher growth rates over the period compared to net interest income, due to the Bank's strong position in the market for trade financing, its good reputation among local and foreign banks and corporate customers, and its leading position in the cards business in Bulgaria. As a result its share in the Bank's income has been growing steadily in the last three years, and was 29.4%, 21.9% and 18.7% for the years 2006, 2005 and 2004 respectively.

Analysis of Financial Condition at 31 December 2006, 2005 and 2004

Assets

The table below lays out the key asset categories of the Bank at 31 December 2006, 2005 and 2004.

	Year ended 31 December			Change	
	2006	2005	2004	2006/2005	2005/2004
		(audited) *(BGN 000)*		(%)	
ASSETS					
Cash and balances with Central Banks	708,038	534,847	344,488	32.4	55.3
Financial assets held for trading	13,239	7,151	187,902	85.1	(96.2)
Available for sale investments	508,006	432,337	226	17.5	191199.6
Financial assets held to maturity	70,221	97,972	27,899	(28.3)	251.2
Loans and advances to banks and other financial institutions	42,032	39,393	61,524	6.7	(36.0)
Loans and advances to customers	1,709,773	1,338,091	983,823	27.8	36.0
Property and equipment	80,753	61,481	43,228	31.3	42.2
Intangible assets	840	589	615	42.6	(4.2)
Other assets	14,864	9,403	3,618	58.1	159.9
TOTAL ASSETS	**3,147,766**	**2,521,264**	**1,653,323**	**24.8**	**52.5**

Source: FIB

The Bank had total assets of BGN 3,148 million at 31 December 2006, an increase of 24.8% from its total assets of BGN 2,521 million at 31 December 2005, and total assets increased by 52.5% from BGN 1,653 million as at 31 December 2004.

Cash and Balances with Central Banks

The table below lays out the Bank's cash and balances with central banks at 31 December 2006, 2005 and 2004.

	Year ended 31 December			Change	
	2006	2005	2004	2006/2005	2005/2004
		(audited) *(BGN 000)*		(%)	
Cash on hand					
- In Bulgarian Leva	61,550	49,062	30,982	25.5	58.4
- In foreign currencies	32,245	23,214	14,936	38.9	55.4
Gold	3,134	1,480	1,511	111.8	(2.1)
Balances with central banks	238,337	146,542	91,331	62.6	60.5
Current accounts and amounts with local banks	1,142	1,023	871	11.6	17.5
Current accounts and amounts with foreign banks	371,630	313,526	204,857	18.5	53.0
Total	**708,038**	**534,847**	**344,488**	**32.4**	**55.3**

Source: FIB

Cash and balances with central banks increased by 32.4% from BGN 535 million at 31 December 2005 to BGN 708 million at 31 December 2006 and by 55.3% from BGN 344 million at 31 December 2004 to BGN 535 million at 31 December 2005. Cash and balances with central banks include financial assets that the Bank maintains in order to service its customers (e.g. cash, payments in Bulgarian Leva and bullion gold), to meet certain regulatory requirements (e.g. to maintain minimum required reserves with BNB), or for liquidity purposes (e.g. deposits and nostro accounts with other banks).

Cash on hand increased by 29.8% in 2006 (2005: 57.4%). The increase reflects the higher business volumes and the expansion of FIBank's branch and ATM networks. Gold comprises the bullion and items from precious metals that FIBank holds in stock to meet customer demand.

At the end of 2006 balances with central banks amounted to BGN 238 million and comprised primarily the minimum required reserves that the Bank is obliged to maintain with BNB. The amount of the minimum required reserves is calculated as 8% of the deposit base as defined in Ordinance No.21 of BNB on the Minimum Required Reserves Maintained by Banks. As at 31 December 2006 the amount of minimum reserves held with BNB was BGN 236 million (2005: BGN 145 million, 2004: BGN 91 million). In 2005 BNB introduced additional minimum required reserves based on the excess of banks' loan portfolios over growth ceilings imposed by BNB. This requirement was repealed with effect from 2007. As at the end of 2006, 2005 and 2004 the Bank did not hold additional required reserves. Consequently the increased amount of minimum reserves maintained with BNB was due to the larger deposit base of the Bank.

Current accounts and amounts with local and foreign banks amounted to BGN 373 million as at the end of 2006 (2005: BGN 315 million, 2004: BGN 206 million). The amounts maintained with banks depend on the Bank's liquidity needs and actual and expected inflows and outflows of cash and therefore vary over time.

Financial Assets Held for Trading

The table below lays out the Bank's financial assets held for trading at 31 December 2006, 2005 and 2004.

	Year ended 31 December			**Change**	
	2006	**2005**	**2004**	**2006/2005**	**2005/2004**
		(audited) *(BGN 000)*		(%)	
Debt and other fixed income instruments					
Bonds and notes issued by:					
Bulgarian Government					
- denominated in Bulgarian Leva		2,917	38,407	(100.0)	(92.4)
- denominated in foreign currencies	1,245	1,118	13,276	11.4	(91.6)
Foreign governments	7,471	-	128,948	n/m	(100.0)
Other issuers	4,523	3,116	7,271	45.2	(57.1)
Total	**13,239**	**7,151**	**187,902**	**85.1**	**(96.2)**

Source: FIB

Financial assets held for trading increased by 85.1% to BGN 13.2 million at 31 December 2006. Financial assets held for trading were BGN 7.2 million in the year ended 31 December 2005, a decrease of 96.2% from BGN 187.9 million in the year ended 31 December 2004.Financial assets held for trading comprised assets held for profiting from short-term changes in their value. In line with the Bank's investment policy statement the Bank's participation in such operations is limited as reflected by the low share of these instruments in the Bank's securities portfolio. The Bank's policy is to maintain the portfolio of financial assets held for trading within 3% to 4% of the total securities portfolio.

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

Available for Sale Investments

The table below lays out the Bank's available for sale investments at 31 December 2006, 2005 and 2004.

	Year ended 31 December			Change	
	2006	2005	2004	2006/2005	2005/2004
		(audited) *(BGN 000)*		(%)	
Debt and other fixed income instruments					
Bonds and notes issued by:					
Bulgarian Government					
- denominated in Bulgarian Leva	83,958	72,459		15.9	n/m
- denominated in foreign currencies	7,651	9,104		(16.0)	n/m
Foreign governments					n/m
- short term	194,453	233,437		(16.7)	n/m
- long term	143,963	33,318		332.1	n/m
Foreign banks	66,950	72,841		(8.1)	n/m
Other issuers	11,031	11,178	226	(1.3)	4846.0
Total	**508,006**	**432,337**	**226**	**17.5**	**191,200**

Source: FIB

Available for sale investments increased by 17.5% to BGN 508 million in the year ended 31 December 2006. Available for sale investments were BGN 432.3 million in the year ended 31 December 2005, an increase of 1,913 times from BGN 0.2 million in the year ended 31 December 2004.

Available for sale investments comprised financial assets that were acquired with an objective other than short-term profit-making, but which the Bank does not intend or is unable to hold to maturity. The portfolio of available for sale investments grew substantially in 2005 on account of a decline in the trading portfolio as a result of the investment policy adopted by the Bank. The Bank's policy is to maintain 15% to 25% of its assets in the form of securities, of which 70-75% should be available-for-sale investments. As at the end of 2006 68.5% of the available-for-sale investments had a maturity of up to one year. The securities available for sale as at 31 December 2006 were issued by foreign investment-grade banks, the government of the Republic of Bulgaria and foreign governments (the EU, the USA and Australia), see *"Risk Management and Internal Control"* for further details on the policies and limits regarding the selection of assets for this portfolio.

The following table lays out the Bank's available-for-sale investments against the stand-alone available for sale investments (on an unconsolidated basis) at 31 December 2006, 2005 and 2004.

	Year ended 31 December			Change	
	2006	2005	2004	2006/2005	2005/2004
		(audited) *(BGN 000)*		(%)	
Available for sale investments					
Consolidated basis	508,006	432,337	226	17.5	191,200
Unconsolidated basis	516,321	436,630	2,414	18.3	17,987.4

Source: FIB

Available-for-sale investments before consolidation included the Bank's investments in its subsidiaries. As at the end of 2006 these subsidiaries were Diners Club Bulgaria AD (80% owned), First Investment Finance B.V. (100% owned) and First Investment Bank – Albania Sh.a. (99.9998% owned). As at the end of 2005: Diners Club Bulgaria AD (80% owned), First Investment Finance B.V. (100% owned) and First Insurance Brokerage Company (50% owned). As at the end of 2004: First Investment Finance B.V. (100% owned) and First Insurance Brokerage Company (50% owned).

Financial Assets Held to Maturity

The table below lays out the Bank's financial assets held to maturity at 31 December 2006, 2005 and 2004.

	Year ended 31 December			Change	
	2006	2005	2004	2006/2005	2005/2004
		(audited) *(BGN 000)*		(%)	
Securities held to maturity issued by:					
Bulgarian government	6,296	6,523	7,834	(3.5)	(16.7)
Foreign governments	17,816	52,838	15,698	(66.3)	236.6
Foreign banks	46,109	38,611	4,367	19.4	784.2
Total	**70,221**	**97,972**	**27,899**	**(28.3)**	**251.2**

Source: FIB

Financial assets held to maturity decreased by 28.3% to BGN 70.2 million in the year ended 31 December 2006. Financial assets held to maturity were BGN 98 million in the year ended 31 December 2005, an increase of 251.2% from BGN 27.9 million in the year ended 31 December 2004.Financial assets held to maturity comprised assets with defined maturity which the Bank intends and is able to hold to maturity. The Bank's policy is to maintain the portfolio of assets held to maturity within 15% to 20% of the total securities portfolio, see *"Risk Management and Internal Control"* for further details on the policies and limits regarding the selection of assets for this portfolio. *Loans and Advances to Banks and Other Financial Institutions*

The tables below lay out the Bank's loans and advances to banks and other financial institutions at 31 December 2006, 2005 and 2004.

Loans and advances to banks and other financial institutions increased by 6.7% to BGN 42 million in the year ended 31 December 2006. Loans and advances to banks and other financial institutions were BGN 39.4 million in the year ended 31 December 2005, a decrease of 36% from BGN 61.5 million in the year ended 31 December 2004.

(a) Analysis by Type

	Year ended 31 December			Change	
	2006	2005	2004	2006/2005	2005/2004
		(audited) *(BGN 000)*		(%)	
Placements with banks	18,007	35,955	24,668	(50)	46
Receivables under repurchase agreements	19,085	-	34,670	n/m	(100)
Other	4,940	3,438	2,186	44	57
Total	**42,032**	**39,393**	**61,524**	**6.7**	**(36.0)**

Source: FIB

(b) Geographical Analysis

	Year ended 31 December			Change	
	2006	2005	2004	2006/2005	2005/2004
		(audited) *(BGN 000)*		(%)	
Domestic banks and other financial institutions	30,204	8,059	42,889	275	(81)
Foreign banks and other financial institutions	11,828	31,334	18,635	(62)	68
Total	**42,032**	**39,393**	**61,524**	**6.7**	**(36.0)**

Source: FIB

The following table lays out the Bank's loans and advances to banks and other financial institutions against the stand-alone loans and advances to banks and other financial institutions (on an unconsolidated basis) as at 31 December 2006, 2005 and 2004.

	Year ended 31 December			Change	
	2006	2005	2004	2006/2005	2005/2004
		(audited) *(BGN 000)*		(%)	
Loans and advances to banks and other financial institutions					
Consolidated basis	42,032	39,393	61,524	6.7	(36.0)
Unconsolidated basis	40,469	37,816	59,626	7.0	(36.6)

Source: FIB

The increase after consolidation came with the inclusion of the cash at banks of First Investment Finance B.V. (100% owned), after elimination of the Bank's receivables from First Investment Finance B.V. (payables for the subsidiary).

Loans and Advances to Customers

The table below lays out the Bank's loans and advances to customers as at 31 December 2006, 2005 and 2004.

	Year ended 31 December			Change	
	2006	2005	2004	2006/2005	2005/2004
		(audited) *(BGN 000)*		(%)	
Retail customers					
- Consumer loans	219,139	144,868	103,209	51.3	40.4
- Mortgage loans	234,742	136,727	65,059	71.7	110.2
Small and medium enterprises	162,997	94,742	39,874	72.0	137.6
Microlending	23,461	9,383	-	150.0	n/m
Corporate customers					
- Public sector customers	21,362	22,108	19,230	(3.4)	15.0
- Private sector customers	1,093,280	963,062	780,482	13.5	23.4
Less allowance for impairment	(45,208)	(32,799)	(24,031)	37.8	36.5
Total Loans and Advances to Customers	**1,709,773**	**1,338,091**	**983,823**	**27.8**	**36.0**

Source: FIB

The following table provides a breakdown of the Bank's loans and advances to customers by type of currency as at 31 December 2006, 2005 and 2004.

	Year ended 31 December			Change	
	2006	**2005**	**2004**	**2006/2005**	**2005/2004**
		(audited) *(BGN 000)*		(%)	
Loans in BGN	678,067	510,568	381,069	32.8	34.0
Loans in USD	33,973	144,045	164,624	(76.4)	(12.5)
Loans in EUR	1,042,510	714,651	458,697	45.9	55.8
Loans in GBP	194	257	1,223	(24.5)	(79.0)
Other	238	1,369	2,240	(82.6)	(38.9)
Less allowance for impairment	(45,208)	(32,799)	(24,031)	37.8	36.5
Total Loans and Advances to Customers	**1,709,773**	**1,338,091**	**983,823**	**27.8**	**36.0**

Source: FIB

The table below sets out the maturity structure of the Bank's loans and advances to customers as at 31 December 2006, 2005 and 2004.

	Year ended 31 December			Change	
	2006	**2005**	**2004**	**2006/2005**	**2005/2004**
		(audited) *(BGN 000)*		(%)	
Up to 1 month	66,715	62,457	44,214	6.8	41.3
From 1 to 3 months	126,785	100,126	118,273	26.6	(15.3)
From 3 months to 1 year	405,482	320,874	296,720	26.4	8.1
Over 1 Year	1,110,791	854,634	524,616	30.0	62.9
Total Loans and advances to customers (after allowances)	**1,709,773**	**1,338,091**	**983,823**	**27.8**	**36.0**

Source: FIB

Loans and advances to customers increased by 27.8% to BGN 1,710 million in the year ended 31 December 2006. Loans and advances to customers were BGN 1,338 million in the year ended 31 December 2005, an increase of 36% from BGN 984 million in the year ended 31 December 2004.

The main growth engines behind the development of the loan portfolio over the three-year period ended 31 December 2006 were the economic boom, increased demand for corporate project financing and growth in disposable incomes. Loans and advances to customers reached 54.3% of the Bank's assets for 2006. The share of the loan portfolio in the Bank's assets was 53.1% at 31 December 2005 and 59.51% at 31 December 2004.

The overall corporate loan portfolio (including large corporate clients, SMEs and microlending) rose by 19.4% (BGN 212 million) in 2006 and by 29.7% in 2005 (BGN 250 million) amid strong competition in the business. The corporate loan portfolio constituted 74% of the total loan portfolio in 2006 before allowances for impairment. The figures for 2005 and 2004 were 79% and 83% respectively.

As at 31 December 2006, the loans granted to corporate customers (with a turnover exceeding BGN 5 million, fixed assets over BGN 1 million and with staff above 50) amounted to BGN 1,114.6 million, an increase of BGN 129.5 million, or approximately 13%, compared to 31 December 2005. The growth in these corporate loans during this period was facilitated by an increase in its total deposit base by 40.9% from 31st December 2005. In 2005 this loan portfolio increased by 23% year-on-year to reach BGN 985.2 million. Within this portfolio, private sector customers had by far the largest share: 98% on average over the three-year period.

The Bank has been developing specialized lending for small and medium-size business (SME) since April 2004. As at 31 December 2006 the SME portfolio amounted to BGN 163 million (2005: BGN 94.7 million; 2004: BGN 39.9 million) or 12.5% of the Bank's corporate portfolio (2005:8.7%, 2004:4.7%).

In the last two years, the Bank has launched a number of new loan products targeted primarily at small and medium sized businesses including the introduction of loans to micro companies. Micro-lending covers the financing of traders, manufacturers, farmers, freelancers, including emerging businesses and companies with limited market experience with demands for financing of up to BGN 50,000 and not exceeding aggregate exposures to the Bank of BGN 100,000. As at 31 December 2006 the portfolio amounted to BGN 23.5 million (2005: BGN 9.4 million) or 1.8% of the corporate portfolio (2005: 0.9%).

Loans to individuals (consumer and mortgage loans) rose by 61.2% (BGN 172 million) in 2006 and by 67.3% in 2005 (BGN 113 million) in 2005. Lending to individual customers grew as a result of the Bank's policy in the last few years to actively develop retail banking. This contributed to the diversification of the portfolio not only by type of customer but also by product type. In 2006 the retail loan portfolio reached 26% of the size of the total loan portfolio before allowances for impairment (2005: 21%, 2004: 17%). This change in the portfolio has contributed toward the improvement in the Bank's risk profile and to diversifying credit risk.

As at 31 December 2006, the Bank extended 4,979 mortgage loans (2005: 3,202; 2004: 1,709) amounting to BGN 234.7 million (2005: BGN 136.7 million; 2004:BGN 65.1 million). As at 31 December 2006 consumer loans, secured with a pledge upon receivables and/or promissory notes guaranteed by a third party, numbered 81,416 (including 24,825 overdrafts on debit cards and 24,536 limits on credit cards) and amounted to BGN 219.1 million (2005: BGN 144.9 million; 2004: BGN 103.2 million).

The share of Euro loans in the total portfolio of the Bank grew over the period to 59.4% for 2006 from 52.13% for 2005 and 45.51% for 2004, mostly at the expense of US Dollar loans. This trend reflected increased trade with European Union countries, growing share of Euro revenues of local companies and Bank's loan management policies aimed at lowering the risk of exchange rate fluctuations.

Over the three-year period the share of long-term loans (over 1 year) increased and accounted for 53%, 64% and 65% of the Bank's loan portfolio for 2004, 2005 and 2006 respectively.

Movement in Impairment Allowances

The table below lays out the Bank's movement in impairment allowances at 31 December 2006, 2005 and 2004.

Balance at 31 December 2003	**22,716**
Additional allowances	19,054
Amounts released	(14,282)
Write-offs	(3,457)
Balance at 31 December 2004	**24,031**
Additional allowances	17,845
Allowances acquired through business combination	846
Amounts released	(8,059)
Write-offs	(1,864)
Balance at 31 December 2005	**32,799**
Additional allowances	30,485
Amounts released	(17,659)
Write-offs	(417)
Balance at 31 December 2006	**45,208**

Source: FIB

Property and Equipment

The table below lays out the Bank's property and equipment at 31 December 2006, 2005 and 2004.

(audited) *(BGN 000)*	Land and Buildings	Fixtures and fittings	Motor Vehicles	Assets under Construction	Leasehold Improvements	Total
Net book value						
At 31 December 2006	6,230	29,022	2,648	25,555	17,298	80,753
At 31 December 2005	6,516	21,658	2,082	26,643	4,582	61,481
At 31 December 2004	6,800	19,574	1,817	10,371	4,666	43,228

Source: FIB

The Bank had property and equipment of BGN 80.8 million at 31 December 2006, an increase of 31.3% from BGN 61.5 million at 31 December 2005. The Bank's property and equipment increased 42.2% from BGN 43.2 million at 31 December 2004 to BGN 61.5 million at 31 December 2005.

In Bulgaria fixed assets of banks are statutorily limited to 100% of equity. Assets under construction comprise capitalized expenses on assets that are still under construction or development and do not generate economic benefit, as well as services related to their construction. When the construction process is complete, the asset is booked into the appropriate asset category and is amortised over its useful life. The increase of assets under construction in the past two years was primarily due to the expansion of the branch network, the construction of the Bank's head office and the new IT systems implemented in the Bank (new core banking system, ERP, card system, Reveleus, CRM). Leasehold improvements encompass the capitalised cost of reconstructions related to premises used by the Bank. In 2006 leasehold improvements increased by BGN 13 million with the completion of the construction of the Bank's new head office building accounting for most of the increase. Fixtures and fittings comprise various equipments used by the Bank, e.g. office furnishing, IT infrastructure, ATMs and other long-lived assets. Compared to the end of 2004 fixtures and fittings increased by BGN 9 million.

Intangible Assets

The table below lays out the Bank's intangible assets as at 31 December 2006, 2005 and 2004.

(audited) *(BGN 000)*	Software and licences	Goodwill	Total
Net book value			
At 31 December 2006	743	97	840
At 31 December 2005	492	97	589
At 31 December 2004	615	-	615

Source: FIB

The Bank had intangible assets of BGN 840,000 at 31 December 2006, an increase of 42.6% from BGN 589,000 at 31 December 2005. The Bank's intangible assets decreased 4.2% from BGN 615,000 at 31 December 2004 to BGN 589,000 at 31 December 2005. As at 31 December 2006 88.5% of the intangible assets are software and licences used by the Bank (2005: 83.5%, 2004: 100%).

Other Assets

The table below lays out the Bank's other assets as at 31 December 2006, 2005 and 2004.

	Year ended 31 December			Change	
	2006	2005	2004	2006/2005	2005/2004
		(audited) *(BGN 000)*		(%)	
Deferred expense	3,314	2,482	1,912	33.5	29.8
Other assets	11,550	6,921	1,706	66.9	305.7
Total	**14,864**	**9,403**	**3,618**	**58.1**	**159.9**

Source: FIB

Other assets increased by 58.1% to BGN 14.9 million in the year ended 31 December 2006. Other assets were BGN 9.4 million in the year ended 31 December 2005, an increase of 159.9% from BGN 3.6 million in the year ended 31 December 2004. Deferred expenses comprised expenses that have been paid before the corresponding economic benefit is fully received (e.g. prepaid insurance premium).

The following table lays out the Bank's other assets against the stand-alone other assets (on an unconsolidated basis) at 31 December 2006, 2005 and 2004.

	Year ended 31 December			Change	
	2006	2005	2004	2006/2005	2005/2004
		(audited) *(BGN 000)*		(%)	
Other assets					
Consolidated basis	14,864	9,403	3,618	58.1	159.9
Unconsolidated basis	15,937	9,406	5,154	69.4	82.5

Source: FIB

The reduction in other assets after consolidation for 2006 was a result of eliminating intra-group effects between the Bank and Diners Club Bulgaria AD (80% owned by the Bank).

Liabilities and Shareholders' Equity

The table below lays out the structure of the liabilities and shareholders' equity of the Bank as at 31 December 2006, 2005 and 2004.

	Year ended 31 December			Change	
	2006	2005	2004	2006/2005	2005/2004
		(audited) *(BGN 000)*		(%)	
LIABILITIES AND CAPITAL					
Deposits from banks and other financial institutions	43,120	41,964	28,086	2.8	49.4
Deposits from other customers	1,659,513	1,177,693	849,583	40.9	38.6
Liabilities evidenced by paper	1,123,218	1,045,002	630,610	7.5	65.7
Subordinated term debt	48,299	63,765	28,698	(24.3)	122.2
Perpetual debt	98,141	54,074	-	81.5	-
Deferred tax liability	1,169	1,520	1,119	(23.1)	35.8
Other liabilities	5,913	7,344	6,359	(19.5)	15.5
TOTAL LIABILITIES	**2,979,373**	**2,391,362**	**1,544,455**	**24.6**	**54.8**
Issued share capital	100,000	64,726	64,726	54.5	0.0
Share premium	-	1,304	1,304	-	0.0
Statutory reserve	39,861	22,709	15,449	75.5	47.0
Revaluation reserve on available for sale investments	(258)	(137)	-	88.3	
Retained earnings	28,960	41,265	27,389	(29.8)	50.7
SHAREHOLDERS' EQUITY	**168,563**	**129,867**	**108,868**	**29.8**	**19.3**
Minority interests	(170)	35	-	(585.7)	
TOTAL GROUP EQUITY	**168,393**	**129,902**	**108,868**	**29.6**	**19.3**
TOTAL LIABILITIES AND GROUP EQUITY	**3,147,766**	**2,521,264**	**1,653,323**	**24.8**	**52.5**
Contingent liabilities	786,597	452,028	164,042	74.0	175.6

Source: FIB

Liabilities

As of 31 December 2006, the Bank's liabilities totalled BGN 2,979 million, up by BGN 588 million, or 24.6% from BGN 2,391 million in 2005. The Bank's total liabilities at 31 December 2005 were 54.8% more than in 2004 when liabilities totalled BGN 1,544 million. Deposits from other customers (i.e. non-financial institutions) and labilities evidenced by paper are the items with the heaviest weight in the Bank's liabilities.

Deposits from other customers (individuals and corporate customers) are the most important funding source for the Bank Theyhave held the highest share of liabilities in each of the three years. In 2006 the weight of Deposits from other customers increased to 55.7% of total Bank's liabilities from 49.25% in 2005 and 55% in 2004. The slowdown in 2005 is due to the faster growth of the Bank's other financing instruments that year.

Deposits from banks and other financial institutions

The table below lays out the Bank's deposits from banks and other financial institutions as at 31 December 2006, 2005 and 2004.

	Year ended 31 December			Change	
	2006	**2005**	**2004**	**2006/2005**	**2005/2004**
		(audited) *(BGN 000)*		**(%)**	
Deposits from banks	10,437	5,473	13,427	90.7	(59.2)
Deposits from other financial institutions	32,683	36,491	14,659	(10.4)	148.9
Total deposits from banks and other financial institutions	**43,120**	**41,964**	**28,086**	**2.8**	**49.4**

Source: FIB

Deposits from banks and other financial institutions comprise current accounts and placements of banks and other financial institutions. Deposits from banks and other financial institutions increased in 2006 by 2.8% year on year to BGN43.1 million. In 2005 their increase was 49.4% year on year from BGN 28.1 million in 2004 to BGN 41.96 million in 2005.

These deposits are predominantly short-term. The share of deposits up to 1 month in the maturity structure of deposits from banks and other financial institutions was 68% in 2006, 83% in 2005 and 85% in 2004. For more details on the maturity structure of deposits from banks and other financial institutions see "*Selected Statistical Information -Sources of funding by maturity*".

The following table lays out the Bank's consolidated deposits from banks and other financial institutions against the stand-alone deposits from banks and other financial institutions (on an unconsolidated basis) as at 31 December 2006, 2005 and 2004.

	Year ended 31 December			Change	
	2006	**2005**	**2004**	**2006/2005**	**2005/2004**
		(audited) *(BGN 000)*		(%)	
Deposits from banks and other financial institutions					
Consolidated basis	43,120	41,964	28,086	2.8	49.4
Unconsolidated basis	836,089	794,116	229,514	5.3	246.0

Source: FIB

The above table illustrates the most significant effect of the consolidation of First Investment Finance by the Bank. The wholly-owned subsidiary is an issuer of the Bank's short- and long term bonds (except for mortgage bonds listed on the Bulgarian Stock Exchange) and recipient of the Bank's EUR 185 million syndicated loan. Hence this debt, which is reported in 'Liabilities Evidenced by Paper', in the consolidated statements of the Bank, in the unconsolidated reports, is classified as a deposit from First Investment Finance under the item "Deposits from Banks and Other Financial Institutions".

Deposits from other customers (non-financial institutions)

The table below lays out the Bank's deposits from other customers as at 31 December 2006, 2005 and 2004.

	Year ended 31 December			Change	
	2006	2005	2004	2006/2005	2005/2004
		(audited) *(BGN 000)*		(%)	
Deposits from individuals and households					
- payable on demand	347,496	269,191	190,264	29.1	41.5
- term deposits	666,225	461,811	293,208	44.3	57.5
Total deposits from individuals and households	**1,013,721**	**731,002**	**483,472**	**38.7**	**51.2**
Deposits from corporate customers					
- payable on demand	499,825	270,333	216,059	84.9	25.1
- term deposits	145,967	176,358	150,052	(17.2)	17.5
Total deposits from corporate customers	**645,792**	**446,691**	**366,111**	**44.6**	**22.0**
Total deposits from other customers	**1,659,513**	**1,177,693**	**849,583**	**40.9**	**38.6**

Source: FIB

Deposits from other customers increased by 40.9% (BGN 481.8 million) to reach BGN 1,659.5 million in 2006, reflecting the growth in the Bank's customer base and average balances on existing accounts. The increase in 2005 was 38.6%: from BGN 849.6 million in 2004 to BGN 1,177.7 million. Deposits from individuals and households had the highest share in deposits from other customers in each of the three years: 61% in 2006, 62% in 2005 and 57% in 2004.

Deposits in BGN had the largest share in deposits from other customers (46.3% in 2006, 43.2% in 2005 and 44.3% in 2004). Second-weighted were the Euro deposits, which share considerably increased during the past year: 38.1% in 2006, 28.8% in 2005 and 31.5% in 2004. The share of US Dollar-denominated deposits of other customers fluctuated throughout the period and considerably diminished during the past year: 13.2% in 2006, 24.7% in 2005 and 20.8% in 2004.

The following table shows the currency profile of the Bank'*s* deposits from other customers as at 31st December 2006, 2005 and 2004.

	Year ended 31 December					
	2006	2005	2004	2006	2005	2004
		(audited)			*(audited)*	
		(BGN 000)			*(%)*	
Bulgarian Levs	768,449	508,976	376,642	46.3	43.2	44.3
Euro	632,631	339,620	267,240	38.1	28.8	31.5
US dollars	218,549	290,968	176,343	13.2	24.7	20.8
Other foreign currencies	39,885	38,129	29,358	2.4	3.2	3.5
Total	**1,659,513**	**1,177,693**	**849,583**	**100.0**	**100.0**	**100.0**

Source: FIB

As at 31 December 2006 deposits from individual customers and households reached BGN 1,013.7 million, a growth of 38.7% (BGN 282.7 million) year-on-year. The year before that deposits from individuals increased 51.2% year-on-year to BGN 731 million. The fast increase in deposits was aided by the increased penetration of the Bank resulting from branch expansion, the diversity and flexibility of the deposit products offered and the high quality of customer service.

Term deposits predominated in the structure of individual customers' deposits. Their share in the total deposits of individuals increased gradually: 65.7% at end-2006, 63.2% in 2005 and 60.6% in 2004. In 2006 individual customers' term deposits increased 44.3% year on year to BGN 666 million. In 2005 they advanced 57.5% to BGN 461.8 from BGN 293 million in 2004. Still, retail saving preferences are predominantly short-term and in 2006 only 5.18% of individual deposits had a term longer than one year (2005: 4.91%, 2004: 4.02%). The total amount of individual customers' current accounts reached BGN 347.5 million at the end of 2006 (BGN 269 million at 31.12.2005 and BGN 190 million at 31 December 2004). Their increase was fuelled by the increasing number of debit and credit cards as well as by the value-added services offered by the Bank.

The deposits of individuals and households are predominantly in BGN (41% in each of the three years) and EUR (39.9% in 2006, 32.6% in 2005 and 30.4% in 2004). There are currently no legal restrictions on the holding of foreign currency in Bulgaria.

At 31 December 2006 the total of term deposits and current accounts of corporate customers stood at BGN 645.8 million, a growth of 44.6% (BGN 199 million) over the previous year. In 2005 corporate deposits were BGN 446.7 million, up 22% from the end of 2004 when they totalled BGN 366 million. Current accounts dominated the term structure of corporate deposits and their share in the total amount increased steadily up to 77.4% in 2006 from 60.5% in 2005 and 59% in 2004. Corporate current accounts increased by 25.1% to BGN 270.3 million at 31 December 2005 from BGN 216 million the previous year.. The 2006/2005 increase was much higher: up 84.9% to BGN 499.8 million, reflecting the growing trust of corporate customers in the Bank. Corporate term deposits amounted to BGN 146 million in 2006 (BGN 176.4 million in 2005 and BGN 150 million in 2004). Deposits in BGN have the highest share in corporate deposits – their weight in the currency structure increased by 7.6 percentage points year on year to reach 54% at 31 December 2006. The share of Euro deposits grew by 12.6 percentagepoints to 35.4% and the share of USD-denominated deposits decreased by 17.9 percentage points to 8.4%.

See "*Selected Statistical Information - Deposits from non-financial customers by maturity*" for details on the maturity of deposits from other customers.

<u>Liabilities evidenced by paper</u>

The table below lays out the Bank's liabilities evidenced by paper at 31 December 2006, 2005 and 2004.

	Year ended 31 December			Change	
	2006	**2005**	**2004**	**2006/2005**	**2005/2004**
		(audited) *(BGN 000)*		**(%)**	
Bonds and notes issued	457,330	534,517	134,948	(14.4)	296.1
Acceptances under letters of credit	1,634	8,919	307,437	(81.7)	(97.1)
Liabilities under repurchase agreements	225,366	207,377	47,445	8.7	337.1
Syndicated loans	362,758	244,225	93,990	48.5	159.8
Other term liabilities	76,130	49,964	46,790	52.4	6.8
Total liabilities, evidenced by paper	**1,123,218**	**1,045,002**	**630,610**	**7.5**	**65.7**

Source: FIB

The majority of these were liabilities under bonds, syndicated loans and other types of financing from international finance markets. 2005 saw the highest increase in liabilities evidenced by paper. They jumped by 65.7% (BGN 414 million) from 2004 to reach BGN 1,045 million. At 31 December 2006 liabilities evidenced by paper stood at BGN 1,123 million or BGN 78 million more than at the end of 2005.

The main factors behind the 2005 increase in liabilities evidenced by paper was the issue of EUR 200 million 3-year bonds by the Bank's special investment subsidiary First Investment Finance B.V. and the EUR 125 million syndicated loan organised by Bayerische Landesbank. Liabilities under repurchase agreements also increased significantly in 2005 – over 3 times to reach BGN 207.4 million. At the same time acceptances under letters of credit dropped to BGN 8.9 million from BGN 307.4 million a year earlier.

In 2006 the redemption of the EUR 40m Eurobond decreased the Bank's liabilities under bonds and notes issued by BGN 77 million. For the same period the syndicated loans increased by BGN 118.5 million when, in October 2006, the Bank received a EUR 185 million syndicated loan organised by Dresdner Bank and in November 2006 repaid the EUR 125 million syndicated facility. Liabilities under repurchase agreement increased by 8.7% to reach BGN 225 million as of 31 December 2006. Acceptances under letters of credit continued to decline in 2006 – by 81.7% to BGN 1.6 million.

Liabilities under repo agreements varied during the period depending on the Bank's liquidity needs and other specific goals and investment objectives. Acceptances under letters of credit comprise liabilities under letters of credit whereby the Bank is obliged to pay a certain amount at a stipulated future date. As at the end of 2006 these liabilities amounted to BGN 1.6 million.

Other term liabilities include primarily bilateral loans received from financial institutions. As of the end-2004 the Bank had 2 bilateral loans: an EUR 2 million facility, extended by Dresdner Bank AG for general short-term funding purposes and a USD 15 million loan from Wachovia Bank N.A. (New York), guaranteed by OPIC. In February 2006 Wachovia Bank N.A. granted to the Bank USD 10 million five-year SME facility, covered by OPIC. In May 2006 the Bank signed a EUR 10 million bilateral trade finance facility with Wachovia Bank for a period of two years.

The following table lays out the Bank's consolidated liabilities evidenced by paper against stand-alone liabilities evidenced by paper (on an unconsolidated basis) as at 31 December 2006, 2005 and 2004.

	Year ended 31 December			**Change**	
	2006	**2005**	**2004**	**2006/2005**	**2005/2004**
		(audited) *(BGN 000)*		(%)	
Liabilities evidenced by paper					
Consolidated basis	1,123,218	1,045,002	630,610	7.5	65.7
Unconsolidated basis	332,738	295,910	431,233	12.4	-31.4

Source: FIB

As discussed under the title *Deposits from banks and other financial institutions* above, the difference between consolidated and unconsolidated liabilities evidenced by paper originates from the consolidation of the Bank's special purpose vehicle First Investment Finance. In the group's statements, the bonds and syndicated loans, issued/received by First Investment Finance, are consolidated under *Liabilities evidenced by paper.* These funds placed as loans to the Bank appear as liability under *Due to banks and other financial institutions* in the Bank's separate financial statements.

The table below lays out the Bank's bonds and notes issued at 31 December 2006, 2005 and 2004.

	Year ended 31 December			Change	
	2006	**2005**	**2004**	**2006/2005**	**2005/2004**
		(audited) *(BGN 000)*		**(%)**	
Long term bonds payable					
EUR 6,000,000 8.5% due 2008	12,007	12,000	11,845		
EUR 40,000,000 8% due 2006	-	79,438	79,164		
USD 10,000,000 6.125% due 2005			14,378		
EUR 200,000,000 7.5% due 2008	415,651	413,429	-		
Total bonds payable	**427,658**	**504,867**	**105,387**	**(15.3)**	**379.1**
Mortgage bonds					
EUR 5,000,000 7% due 2008	9,832	9,830	9,799		
EUR 10,000,000 7% due 2009	19,840	19,820	19,762		
Total mortgage bonds	**29,672**	**29,650**	**29,561**	**0.1**	**0.3**
Total bonds and notes issued	**457,330**	**534,517**	**134,948**	**(14.4)**	**296.1**

Source: FIB

Long term bonds were payable to third parties in the years listed above. The long term bonds payable were issued by First Investment Finance B.V. of the Netherlands, guaranteed by the Bank and listed on the Luxembourg Stock Exchange. The mortgage bonds were listed on the Bulgarian Stock Exchange.

Subordinated term debt

Subordinated term debt comprises unsecured debt arrangements with maturity of at least 5 years where the claim on the Bank is subordinated to all unsubordinated liabilities, the debt is not callable and cannot be repaid before maturity without prior written consent by BNB, and interest paid on these contracts is due only at maturity. Subordinate term debt meeting the above requirements qualifies for inclusion in the Tier II capital base. In each of the last 5 years of the tenure of the debt the amount that is included in the Bank's capital base is reduced by 20% of the original debt.

The table below lays out the Bank's subordinated term debt as at 31 December 2004, 2005 and 2006.

Lender	Final maturity	Original amount	Amortized cost as at 31 December		
			2006	**2005**	**2004**
			(audited) *(BGN 000)*		
Growth Management Limited....................	8 years	5,867	-	7,833	6,953
Growth Management Limited....................	10 years	1,956	2,669	2,339	2,108
Growth Management Limited....................	10 years	5,867	7,605	6,758	6,002
Hillside Apex Fund Limited	8 years	9,779	-	12,869	11,423
Hillside Apex Fund Limited	9 years	1,956	2,783	2,481	2,212
Growth Management Limited....................	10 years	3,912	4,777	4,268	-
Hillside Apex Fund Limited	10 years	9,779	11,863	10,572	-
Global Emerging Markets Bond Fund Inc .	10 years	1,956	2,326	2,100	-
Standard Bank	10 years	9,779	11,631	10,387	-
Hypo-Alpe-Adria Bank..............................	10 years	3,912	4,645	4,158	-
Total subordinated term debt			**48,299**	**63,765**	**28,698**
Amount included in Tier II			**39,117**	**54,763**	**28,698**

All these subordinated Loan Agreements are governed by English Law and the funds raised outside the Republic of Bulgaria.

The total amount of subordinated term debt liabilities reached BGN 48.3 million by 31.12.2006. As at 31 December 2006 the Bank had eight separate subordinated Loan Agreements with five different lenders. These arrangements contributed BGN 39 million to the Bank's Tier II capital base, see "*Business Overview -External Investment in the Bank - Capital Instruments*" for details on history of subordinated facilities.

Perpetual debt

In 2005 the Bank issued its first hybrid instruments in the form of step-up perpetual subordinated bonds. Hybrid capital instruments are subordinated to all unsubordinated liabilities. They are not secured in any form, have no defined maturity, the instruments are not callable and cannot be repaid by the Bank without prior written consent by BNB, and the Bank may defer the payment of interest on these instruments in case of losses or insufficient profit.

The table below sets out the Bank's perpetual debt as at 31 December 2006 and 2005.

Instrument	**Original principal amount**	**Amortized cost as at 31st December**	
		2006	**2005**
		(audited)	
		(BGN 000)	
Step-up Perpetual Subordinated Bonds EUR 27 million..............	52,807	54,222	54,074
Step-up Perpetual Subordinated Bonds EUR 21 million..............	41,073	43,919	-
Total perpetual debt..		**98,141**	**54,074**
Amount included in Tier II		**93,880**	**52,807**

The proceeds from the two hybrid instruments have been included in the Tier II capital base after the corresponding permission from the Bulgarian National Bank, see also "*Business Overview -External Investment in the Bank - Capital Instruments*".

Other liabilities

The table below lays out the Bank's other liabilities as at 31 December 2006, 2005 and 2004.

	Year ended 31 December			**Change**	
	2006	**2005**	**2004**	**2006/2005**	**2005/2004**
		(audited) *(BGN 000)*		**(%)**	
Liabilities to personnel	918	635	379	44.6	67.5
Current tax liability	2,329	2,275	3,063	2.4	(25.7)
Other payables	2,666	4,434	2,917	(39.9)	52.0
Total other liabilities	**5,913**	**7,344**	**6,359**	**(19.5)**	**15.5**

Source: FIB

Other liabilities decreased by 19.5% to BGN 5.9 million in the year ended 31 December 2006. Other liabilities were BGN 7.3 million in the year ended 31 December 2005, an increase of 15.5% from BGN 6.4 million in the year ended 31 December 2004.

Capital Resources

Capital adequacy is a standard measure of the amount of capital that a bank should maintain commensurate with the risks assumed by it. The regulations apportion a risk weighting to different assets and the required capital base of the Bank is determined relative to the varying risk component. Off-balance sheet liabilities are weighted according to broad categories of notional risk, being assigned a risk weighting according to the amount of capital deemed to be necessary to support them.

First Investment Bank monitors the adequacy of its capital using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ("BIS rules / ratios"). However, it is the rules established by the Bulgarian regulator, BNB, which ultimately determine the statutory capital required to underpin the Bank's business. The BNB regulation which applies to banks licensed in Bulgaria, requires total capital ratio to be minimum 12% while the Basle Capital Accord requires a minimum of 8%. The Tier 1 capital ratio set by BNB is 6%, whilst the BIS requirement is 4%. Until 1 January 2007 the capital adequacy regulation effective in Bulgaria did not implement the recommendations of the Basel II capital accord. The new Ordinance in effect from 1 January 2007 transposes the provisions of Basel II as interpreted in the EU capital adequacy directives, subject to certain national discretions.

The Bank has complied with all BIS and BNB regulatory capital rules for all periods reported. According to the requirements of Ordinance No.8 of BNB on Capital Adequacy of Banks as at 31 December 2006 the Tier 1 capital ratio of the Bank was 6.89% and the total capital ratio was 13.05%, calculated on unconsolidated basis (2005: 7.17% and 13.96% 2004: 10.76% and 13.40%).

Calculated in accordance with the BIS rules, in the past couple of years the Bank`s capital adequacy has been between 14% and 16%. The expansion of lending operations has resulted in a growth of risk-weighted assets which exceeded the growth of retained earnings. In order to be able to keep its growth pace, the Bank sourced capital alternatives and diversified its capital base by including subordinated debt and perpetual debt. As with shareholders' equity, these sources are subordinated to the liabilities of the Bank. Under Basel II and Bulgarian regulations the amount of tier II capital cannot exceed the amount of tier I capital. Furthermore, subordinated term debt (lower tier II capital) is limited to 50% of tier I capital. Since 2005 the Bank has issued two perpetual bonds that meet the criteria of upper tier II. The advantage of perpetual bonds (upper tier II capital) over subordinated term debt (lower tier II capital) is that there is no specified maturity of the bonds.

The table below sets out the Bank's consolidated capital adequacy positions as at 31 December 2006, 2005 and 2004,calculated in accordance with the capital adequacy guidelines of the Bank for International Settlements.

	As at 31st December		
	2006	**2005**	**2004**
	BGN' 000		
TIER I CAPITAL			
Issued share capital	100,000	64,726	64,726
Share premium	-	1,304	1,304
Statutory reserve	39,861	22,709	15,449
Retained earnings	28,960	41,265	27,389
Minority interests	-170	31	–
Goodwill	97	97	–
Total Tier I Capital	168,554	129,938	108,868
TIER II CAPITAL			
Revaluation reserve on available fore sale investments	-258	-133	–
Perpetual debt	93,880	52,807	–
Subordinated term debt	39,116	54,763	28,698
Total Tier II Capital	132,738	107,437	28,698
Unconsolidated equity participations in banks or other financial institutions	–	–	–
Total BIS Capital Base	301,292	237,375	137,566
Risk Weighted Assets	1,905,826	1,494,727	979,651
Tier I capital adequacy	**8.84%**	8.69%	**11.11%**
Total Capital Ratio	**15.81%**	**15.88%**	**14.04%**

Source: FIB

The table below sets out the Bank's unconsolidated capital adequacy positions as at 31 December 2006, 2005 and 2004, as calculated in accordance with the capital adequacy guidelines of the Bank for International Settlements.

	As at 31st December		
	2006	**2005**	**2004**
		BGN' 000	
TIER I CAPITAL			
Issued share capital	100,000	64,726	64,726
Share premium	-	1,304	1,304
Statutory reserve	39,861	22,709	15,449
Retained earnings	28,738	41,122	27,271
Total Tier I Capital	168,599	129,861	108,750
TIER II CAPITAL			
Revaluation reserve on available fore sale investments	-258	-140	–
Perpetual debt	93,880	52,807	–
Subordinated term debt	39,116	54,763	28,698
Total Tier II Capital	132,738	107,430	28,698
Unconsolidated equity participations in banks or other financial institutions	8,314	4,355	2,250
Total BIS Capital Base	293,023	232,936	135,198
Risk Weighted Assets	1,906,159	1,493,561	980,741
Tier I capital adequacy	**8.84%**	**8.69%**	**11.09%**
Total Capital Ratio	**15.37%**	**15.60%**	**13.79%**

Source: FIB

The expansion of the Bank's capital base as a result of the current Initial Public Offering will be an important tool in the implementation of the Banks' organic growth strategy. The capitalisation will not only directly support the expansion of the Bank's operations, but also improve the general financing outlook of the Bank and reduce the cost of its wholesale funding, and hence will improve profitability values.

Commitments and contingent liabilities

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These commitments and contingent liabilities have off balance-sheet credit risk because only organization fees and accruals for probable losses are recognised in the balance sheet until the commitments are fulfilled or expire. Many of the contingent liabilities and commitments will expire without being advanced in whole or in part. Therefore the amounts do not represent expected future cash flows.

The table below lays out the Bank's off-balance sheet liabilities at 31 December 2006, 2005 and 2004.

	Year ended 31 December			Change	
	2006	2005	2004	2006/2005	2005/2004
		(audited) *(BGN 000)*		(%)	
Bank guarantees					
- in BGN	136,458	101,052	30,649	35.0	229.7
- in foreign currency	108,092	54,439	45,465	98.6	19.7
Total guarantees	**244,550**	**155,491**	**76,114**	**57.3**	**104.3**
Unused credit lines	211,228	140,474	35,349	50.4	297.4
Promissory notes	17,097	39,602	10,134	(56.8)	290.8
Letters of credit in foreign currency	313,722	116,461	42,445	169.4	174.4
Total other liabilities	**786,597**	**452,028**	**164,042**	**74.0**	**175.6**

Source: FIB

The increase in the amount of contingent liabilities over recent years was brought about by the Bank's strong position in the international trade financing markets and its good image among Bulgarian and foreign banks and corporate customers. These operations were among the major sources of non-interest income for the Bank.

At the end of 2005, First Investment Bank's contingent liabilities amounted to BGN 452 million, up by 175.6% (BGN 288 million) year on year. These included bank guarantees issued by the Bank (34.4%), followed by provided but unused credit lines (31.1%), letters of credit in foreign currency (25.8%), and promissory notes (8.8%).

In 2006 contingent liabilities increased by 74% (BGN 334.6 million) year-on-year to BGN 786.6 million. The contingent liabilities portfolio of the Bank at 31 December 2006 included letters of credit in foreign currency (39.9%), bank guarantees (31.1%), unused credit lines (26.9%) and promissory notes (2.2%).

The predominant share of the contingent liabilities of the Bank in 2006 were with maturity of up to one year - 64% (2005: 60%; 2004:69%). These off-balance sheet commitments have fixed limits and generally extend for a period of up to two years.

The table below sets out the maturity structure of the Bank's contingent liabilities as at 31 December 2006, 2005 and 2004.

	Year ended 31 December					
	2006	% total	2005	% total	2004	% total
			(audited) *(BGN'000) / (% of total)*			
Up to 1 month	103,282	13	111,079	25	53,355	33
From 1 to 3 months	174,615	22	48,227	11	16,849	10
From 3 months to 6 months	89,457	11	64,912	14	10,243	6
From 6 months to 12 months	137,249	17	46,941	10	32,144	20
Over 1 Year	281,994	36	180,869	40	51,451	31
Total contingent liabilities	**786,597**	**100**	**452,028**	**100**	**164,042**	**100**

Source: FIB

SELECTED STATISTICAL INFORMATION

Assets and Liabilities maturity table as at 31 December 2006

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

Assets and Liabilities maturity table as at 31 December 2005

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

Assets and Liabilities maturity table as at 31 December 2004

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	344,488	-	-	-	-	**344,488**
Financial assets held for trading	187,902	-	-	-	-	**187,902**
Investments	-	-	2,866	25,033	226	**28,125**
Loans and advances to banks and other financial institutions	43,994	2,980	14,359	-	191	**61,524**
Loans and advances to customers	44,214	118,273	296,720	524,616		**983,823**
Property and equipment	-	-	-	-	43,228	**43,228**
Intangible assets	-	-	-	-	615	**615**
Other assets	3,618					**3,618**
Total assets	**624,216**	**121,253**	**313,945**	**549,649**	**44,260**	**1,653,323**
Liabilities						
Due to banks and other financial institutions	23,752	1,159	1,203	1,972	-	**28,086**
Due to other customers	583,373	83,452	161,571	21,187	-	**849,583**
Liabilities evidenced by paper	69,502	37,134	356,104	167,870	-	**630,610**
Subordinated term debt	-	-	-	28,698	-	**28,698**
Deferred tax liability	-	-	-	-	1,119	**1,119**
Other liabilities	5,508	-	-	851	-	**6,359**
Total liabilities	**682,135**	**121,745**	**518,878**	**220,578**	**1,119**	**1,544,455**
Net liquidity gap	**(57,919)**	**(492)**	**(204,933)**	**329,071**	**43,141**	**108,868**

Assets and liabilities and related interest amounts and interest rates as at 31 December 2006, 2005 and 2004

	31 December 2006			31 December 2005			31 December 2004		
In thousands of BGN	**Total**	**Interest Income**	**Weighted average effective interest rate**	**Total**	**Interest Income**	**Weighted average effective interest rate**	**Total**	**Interest Income**	**Weighted average effective interest rate**
Assets									
Cash and balances with Central Banks	375,044	3,559	3.67%	315,879	3,617	2.34%	205,728	3,464	1.84%
Financial assets held for trading	8,627	458	3.66%	3,941	2,362	4.87%	182,476	3,198	2.87%
Available for sale investments	502,114	15,061	3.98%	428,986	6,018	3.47%			
Financial assts held to maturity	69,265	4,485	3.50%	96,338	3,789	3.69%	27,377	470	3.50%
Loans and advances to banks and other financial institutions	37,152	976	3.66%	35,989	1,576	3.35%	58,223	1,970	5.50%
Loans and advances to customers	1,678,388	169,903	11.13%	1,314,751	142,903	11.50%	905,850	97,067	12.30%
Non-interest earning assets	477,176			325,380			273,669		
Total assets	**3,147,766**	**194,442**		**2,521,264**	**160,265**		**1,653,323**	**106,169**	
Liabilities									
Due to banks and other financial institutions	41,410	-1,690	2.88%	40,860	-1,090	3.90%	27,621	-799	2.92%
Due to other customers	1,607,649	-31,953	2.39%	1,150,137	-25,575	2.56%	835,198	-17,957	2.87%
Liabilities evidenced by paper	1,095,682	-57,695	6.11%	1,019,003	-57,552	5.98%	574,049	-24,218	6.61%
Subordinated term debt	45,312	-7,213	13.30%	60,265	-7,211	13.85%	27,573	-3,454	14.91%
Perpetual debt	93,880	-10,429	12.56%	52,807	-3,266	13.01%			
Other		-160			-88				
Non-interest bearing liabilities	95,440			68,290			80,014		
Total liabilities	**2,979,373**	**-109,140**		**2,391,362**	**-94,782**		**1,544,455**	**-46,428**	

Currency structure of assets and liabilities as at the end of 2006

	Total	Currency			
		BGN	EUR	USD	Other
Assets					
Cash and amounts due from banks	471,973	64,653	342,839	28,100	36,381
Balances with BNB	236,065	60,040	176,025	0	0
Loans and advances to banks and other financial institutions	42,032	32,965	7,449	1,134	484
Financial assets held for trading	13,239	5,675	92	7,472	0
Available for sale investments	508,006	84,763	267,056	156,187	
Loans and advances to customers	1,709,773	655,303	1,023,903	30,140	426
Financial assets held to maturity	70,221		35,888	31,448	2,885
Fixed assets	81,593	79,209	21	76	2,287
Other assets	14,864	14,497	69	81	217
Total Assets	**3,147,766**	**997,105**	**1,853,342**	**254,638**	**42,681**
Liabilities					
Due to banks and other financial institutions	43,120	20,461	20,643	2,014	2
Due to other customers	1,659,513	768,449	632,630	218,549	39,885
Liabilities evidenced by paper	1,123,218	57,885	1,023,498	41,835	
Subordinated term debt	48,299		48,299		
Perpetual debt	98,141		98,141		
Deferred tax liability	1,169	1,169			
Other liabilities	5,913	5,158	661	66	28
Total liabilities	**2,979,373**	**853,122**	**1,823,872**	**262,464**	**39,915**
Net currency position	**168,393**	**143,983**	**29,470**	**(7,826)**	**2,766**

Currency structure of assets and liabilities as at the end of 2005

	Total	Currency			
		BGN	EUR	BGN	Other
Assets					
Cash and amounts due from banks	389,710	50,586	254,004	62,804	22,316
Balances with BNB	145,137	25,831	119,306		
Loans and advances to banks and other financial institutions	39,393	8,766	7,786	19,964	2,877
Financial assets held for trading	7,151	6,032	80	1,039	
Available for sale investments	432,337	73,328	261,355	97,654	
Loans and advances to customers	1,338,091	490,545	713,577	133,864	105
Financial assets held to maturity	97,972		36,718	58,119	3,135
Fixed assets	62,070	61,561		176	333
Other assets	9,403	7,924	769	519	191
Total Assets	**2,521,264**	**724,573**	**1,393,595**	**374,139**	**28,957**
Liabilities					
Due to banks and other financial institutions	41,964	26,176	11,248	4,144	396
Due to other customers	1,177,693	508,976	339,620	290,968	38,129
Liabilities evidenced by paper	1,045,002	13,069	1,001,250	30,683	
Subordinated term debt	63,765		63,765		
Perpetual debt	54,074		54,074		
Deferred tax liability	1,520	1,520			
Other liabilities	7,344	7,245	9	5	85
Total liabilities	**2,391,362**	**556,986**	**1,469,966**	**325,800**	**38,610**
Net currency position	**129,902**	**167,587**	**(76,371)**	**48,339**	**(9,653)**

Currency structure of assets and liabilities as at the end of 2004]

	Total	Currency			
		BGN	EUR	BGN	Other
Assets					
Cash and amounts due from banks	253,888	33,294	111,154	100,007	9,433
Balances with BNB	90,600	41,062	0	49,538	0
Loans and advances to banks and other financial institutions	61,524	6,378	33,860	20,702	584
Financial assets held for trading	187,902	40,469	131,838	13,240	2,355
Available for sale investments	226	224	2	0	0
Loans and advances to customers	983,823	367,170	451,605	161,667	3,381
Financial assets held to maturity	27,899	0	6,737	21,162	0
Fixed assets	43,843	43,160	0	683	
Other assets	3,618	3,294	105	169	50
Total Assets	**1,653,323**	**535,051**	**735,301**	**367,168**	**15,803**
Liabilities					
Due to banks and other financial institutions	28,086	6,432	15,643	5,880	131
Due to other customers	849,583	376,642	267,240	176,343	29,358
Liabilities evidenced by paper	630,610	17,598	394,250	218,762	0
Subordinated term debt	28,698		28,698	0	0
Deferred tax liability	1,119	1,119	0	0	0
Other liabilities	6,359	5,839	520	0	0
Total liabilities	1,544,455	407,630	706,351	400,985	29,489
Net currency position	**108,868**	**127,421**	**28,950**	**(33,817)**	**(13,686)**

Loan portfolio by country

	2006	2005	2004
Bulgaria	1,697,689	1,294,995	959,978
Albania	3,306	1,925	2,224
Cyprus	53,986	73,970	45,652
Loan portfolio (before allowances)	**1,754,981**	**1,370,890**	**1,007,854**

Maturity of Loans

	As at 31 December		
	2006	2005	2004
		in BGN'000	
Loans to private corporate clients			
On demand	55,133	45,343	27,299
up to 1 month	31,374	27,916	35,678
Between 1 and 3 months	44,742	41,345	42,662
Between 3 and 6 months	55,347	25,213	99,917
Between 6 and 12 months	117,690	85,724	113,892
Between 1 and 2 years	173,572	111,440	114,246
Between 2 and 5 years	504,172	562,723	295,073
Over 5 years	132,613	85,467	70,945
Total	**1,114,642**	**985,170**	**799,712**
SME			
On demand	212	295	0
up to 1 month	738	589	0
Between 1 and 3 months	3,417	2,221	637
Between 3 and 6 months	6,823	4,220	2,905
Between 6 and 12 months	19,732	12,661	9,815
Between 1 and 2 years	23,580	16,544	7,483
Between 2 and 5 years	61,476	38,759	14,057
Over 5 years	47,020	19,453	4,977
Total	**162,997**	**94,742**	**39,874**
Microlending			
On demand	29	1	0
up to 1 month	61	41	0
Between 1 and 3 months	404	36	0
Between 3 and 6 months	920	360	0
Between 6 and 12 months	3,389	1,047	0
Between 1 and 2 years	4,235	1,778	0
Between 2 and 5 years	9,353	4,160	0
Over 5 years	5,070	1,960	0
Total	**23,461**	**9,383**	**0**
Loans to individuals and households			
On demand	5,197	2,820	1,440
up to 1 month	1,868	470	152
Between 1 and 3 months	2,808	1,658	827
Between 3 and 6 months	5,829	3,912	2,127
Between 6 and 12 months	23,731	13,700	11,504
Between 1 and 2 years	36,389	24,140	13,504
Between 2 and 5 years	144,103	104,722	59,996
Over 5 years	233,956	130,173	78,718
Total	**453,881**	**281,595**	**168,268**
Loan Portfolio Before Allowances	**1,754,981**	**1,370,890**	**1,007,854**

Loan Portfolio by Loan Amount

	As at 31 December					
	2006		2005		2004	
Loan Amount in BGN	Number of loans	Amount in BGN'000	Number of loans	Amount in BGN'000	Number of loans	Amount in BGN'000
0 to 10,000	68,485	144,584	54,390	107,624	45,724	83,208
10,001 to 100,000	14,365	337,615	7,284	205,339	3,533	115,593
100,001 to 1,000,000	1,101	285,040	688	195,595	453	139,328
1,000,001 to 10,000,000	197	631,185	170	551,113	139	487,797
over 10,000,001	21	356,556	17	311,219	12	181,928
Total	**84,169**	**1,754,981**	**62,549**	**1,370,890**	**49,861**	**1,007,854**

Sources of Funding by Category (BGN 000)

	as at 31 December		
	2006	2005	2004
		(BGN '000)	
Due to banks and other financial institutions	**43,120**	**41,964**	**28,086**
Term deposits	29,866	34,828	22,924
Payable on demand	13,254	7,136	5,162
Due to other customers	**1,659,513**	**1,177,693**	**849,583**
Retail customers			
- payable on demand	347,496	269,191	190,264
- term deposits	666,225	461,811	293,208
Corporate customers			
- payable on demand	499,825	270,333	216,059
- term deposits	145,967	176,358	150,052
Liabilities evidenced by paper	**1,123,218**	**1,045,002**	**630,610**
Bonds and notes issued	457,330	534,517	134,948
Acceptances under letters of credit	1,634	8,919	307,437
Liabilities under repurchase agreements	225,366	207,377	47,445
Syndicated loans	362,758	244,225	93,990
Other term liabilities	76,130	49,964	46,790
Total Sources of Funding	**2,825,851**	**2,264,659**	**1,508,279**

Sources of Funding by Category (in %)

	as at 31 December		
	2006	**2005**	**2004**
	in %		
Due to banks and other financial institutions	**100**	**100**	**100**
Term deposits	69	83	82
Payable on demand	31	17	18
Due to other customers	**100**	**100**	**100**
Retail customers			
- payable on demand	21	23	22
- term deposits	40	39	35
Corporate customers			
- payable on demand	30	23	25
- term deposits	9	15	18
Liabilities evidenced by paper	**100**	**100**	**100**
Bonds and notes issued	41	51	21
Acceptances under letters of credit	0	1	49
Liabilities under repurchase agreements	20	20	8
Syndicated loans	32	23	15
Other term liabilities	7	5	7

Sources of funding by maturity

	As at 31 December 2006		
	Due to banks and other financial institutions	**Due to other customers**	**Liabilities evidenced by paper**
		(BGN '000)	
Up to 1 month	29,408	1,231,117	225,842
From 1 to 3 months	8,511	159,715	446
From 3 months to 1 year	3,803	214,200	364,086
Over 1 Year	1,398	54,481	532,844
Total	**43,120**	**1,659,513**	**1,123,218**

	As at 31 December 2005		
	Due to banks and other financial institutions	**Due to other customers**	**Liabilities evidenced by paper**
		(BGN '000)	
Up to 1 month	34,939	864,206	209,413
From 1 to 3 months	3,443	111,218	7,744
From 3 months to 1 year	1,093	163,739	327,000
Over 1 Year	2,489	38,530	500,845
Total	**41,964**	**1,177,693**	**1,045,002**

	As at 31 December 2004		
	Due to banks and other financial institutions	**Due to other customers**	**Liabilities evidenced by paper**
		(BGN '000)	
Up to 1 month	23,752	583,373	69,502
From 1 to 3 months	1,159	83,452	37,134
From 3 months to 1 year	1,203	161,571	356,104
Over 1 Year	1,972	21,187	167,870
Total	**28,086**	**849,583**	**630,610**

Deposits from other (non-financial) customers by maturity

	As at 31 December					
	2006	**%**	**2005**	**%**	**2004**	**%**
	in BGN'000 / %					
Demand/Current Accounts						
Deposits from individuals and households	347,496	21	269,191	23	190,264	22
Deposits from private companies	433,184	26	244,264	21	176,102	21
Deposits from state owned companies	50,028	3	23,225	2	35,701	4
Deposits from state budget	16,614	1	2,844	0	4,256	1
Total	**847,322**	**51**	**539,524**	**46**	**406,323**	**48**
Less than 1 month						
Deposits from individuals and households	291,636	18	203,684	17	132,023	16
Deposits from private companies	87,280	5	112,959	10	28,226	3
Deposits from state owned companies	4,879	0	8,040	1	16,801	2
Deposits from state budget	0	0	0	0	0	0
Total	**383,795**	**23**	**324,682**	**28**	**177,050**	**21**
Between 1 and 3 months						
Deposits from individuals and households	138,207	8	94,296	8	62,287	7
Deposits from private companies	21,403	1	10,063	1	18,795	2
Deposits from state-owned companies	105	0	6,859	1	2,371	0
Deposits from state budget	0	0	0	0	0	0
Total	**159,715**	**10**	**111,218**	**9**	**83,452**	**10**
Between 3 and 6 months						
Deposits from individuals and households	86,353	5	62,804	5	37,506	4
Deposits from private companies	18,970	1	17,738	2	15,213	2
Deposits from state-owned companies	2,026	0	8,811	1	59,736	7
Deposits from state budget	0	0	10	0	0	0
Total	**107,349**	**6**	**89,364**	**8**	**112,455**	**13**
Between 6 and 12 months						
Deposits from individuals and households	97,499	6	65,168	6	41,944	5
Deposits from private companies	9,029	1	1,189	0	1,271	0
Deposits from state owned companies	0	0	7,715	1	5,901	1
Deposits from state budget	323	0	302	0	0	0
Total	**106,851**	**6**	**74,375**	**6**	**49,116**	**6**
Between 1 and 2 years						
Deposits from individuals and households	28,979	2	20,646	2	10,076	1
Deposits from private companies	608	0	1,631	0	144	0
Deposits from state-owned companies	0	0	0	0	0	0
Deposits from state budget	507	0	0	0	0	0
Total	**30,094**	**2**	**22,277**	**2**	**10,220**	**1**

Between 2 and 3 years						
Deposits from individuals and households	23,552	1	15,212	1	9,372	1
Deposits from private companies	633	0	538	0	1,595	0
Deposits from state-owned companies	0	0	0	0	0	0
Deposits from state budget	203	0	503	0	0	0
Total	**24,388**	**1**	**16,253**	**1**	**10,967**	**1**
Deposits from individuals and households	1,013,721	61	731,002	62	483,472	57
Deposits from private companies	571,107	34	388,383	33	241,346	28
Deposits from state-owned companies	57,038	3	54,650	5	120,509	14
Deposits from state budget	17,647	1	3,659	0	4,256	1
Total deposits	**1,659,513**	**100**	**1,177,693**	**100**	**849,583**	**100**

Loans (in BGN '000) by type of interest rate(1)

	2006		**2005**		**2004**	
	Floating interest rate	**Fixed interest rate**	**Floating interest rate**	**Fixed interest rate**	**Floating interest rate**	**Fixed interest rate**
Up to 1 year.	160,422	5,404	56,483	31,369	48,535	16,632
Up to 5 years	631,106	60,278	598,622	136,123	297,549	253,362
Over 5	698,994	112,006	342,213	143,567	109,941	153,104

(1) Includes only receivables from regular principals and permitted overdrafts

Related parties transactions

As at the date of this Prospectus

Creditor/ Guarantor	**Borrower**	**Currency**	**Amount of the exposure /BGN 000/**	**Type of loan / contingent liability**	**Funded/guaranteed transaction**	**Interest rate %**
FIB	Flavin AD	EUR	3,550	Authorised overdraft	Working capital	8.177%
FIB	Flavin AD	BGN	100	Bank guarantee	Customs guarantee	
FIB	Flavin AD	BGN	20	Bank guarantee	Customs guarantee	
FIB	Universal Investment Bank-Skopje	EUR	312	Bank guarantee	Payment guarantee	
FIB	Universal Investment Bank-Skopje	EUR	196	Bank guarantee	Payment guarantee	
FIB	Universal Investment Bank-Skopje	EUR	489	Letter of credit	Stand-by letters of credit-Payment guarantee	
FIB	Persons, managing and controlling the issuer	EUR/ BGN	3,749	loans/overdrafts	Purchase of property and consumer loans	6.26%-12%

As at 31 December 2006

Creditor/ Guarantor	Borrower	**Currency**	**Amount of the exposure /BGN 000/**	**Type of loan / contingent liability**	**Funded/guaranteed transaction**	**Interest rate %**
FIB	Flavin AD	EUR	4,351	Authorised overdraft	Working capital	10.03%
FIB	Flavin AD	BGN	100	Bank guarantee	Customs guarantee	
FIB	Flavin AD	BGN	20	Bank guarantee	Customs guarantee	
FIB	Universal Investment Bank-Skopje	EUR	312	Bank guarantee	Payment guarantee	
FIB	Universal Investment Bank-Skopje	EUR	196	Bank guarantee	Payment guarantee	
FIB	Universal Investment Bank-Skopje	EUR	489	Letter of credit	Stand-by letters of credit-Payment guarantee	
FIB	Persons, managing and controlling the issuer	BGN/ EUR	1,876	loans/overdrafts	Purchase of property and consumer loans	6.17%-12%

As at 31 December 2005

Creditor/ Guarantor	Borrower	**Currency**	**Amount of the exposure /BGN 000/**	**Type of loan / contingent liability**	**Funded/guaranteed transaction**	**Interest rate %**
FIB	Flavin AD	EUR	3,660	Authorised overdraft	Working capital	8.84%
FIB	Flavin AD	BGN	20	Bank guarantee	Customs guarantee	-
FIB	Flavin AD	BGN	100	Bank guarantee	Customs guarantee	-
FIB	Flavin AD	BGN	2	Bank guarantee	Customs guarantee	-
FIB	Flavia AD	USD	8	Bank guarantee	Customs guarantee	-
FIB	Persons, managing and controlling the issuer	BGN/ EUR/ GBP	1,554	loans/overdrafts	Purchase of property and consumer loans	6%-12%

As at 31 December 2004

Creditor/ Guarantor	Borrower	**Currency**	**Amount of the exposure /BGN 000/**	**Type of loan / contingent liability**	**Funded/guaranteed transaction**	**Interest rate %**
FIB	Universal Investment Bank-Skopje	EUR	258	Inter-bank loan	Acquisition of claim	9%
FIB	Flavin AD	EUR	3,384	Authorised overdraft	Working capital	9%
FIB	Flavin AD	BGN	50	Bank guarantee	Customs guarantee	-
FIB	Universal Investment Bank-Skopje	BGN/ EUR/ GBP	819	loans/overdrafts	Purchase of property and consumer loans	6.89%-12%

MAJOR SHAREHOLDERS AND SELLING SHAREHOLDER

The following table sets out details, insofar as they are known to the Bank, of the interests in Shares held by persons who directly or indirectly hold three per cent or more of the Bank's issued share capital at the date of this document and as adjusted to reflect the sale of Existing Shares pursuant to the Offering.

	Before the Offering		**After the Offering**			
	Number of Shares	**% of issued share capital**	**Number of Shares (1)**	**% of issued share capital**	**Number of Shares(2)**	**% of issued share capital**
Mr. Ivailo Dimitrov Mutafchiev ..	31,830,000	31.83	31,830,000	28.94	31,830,000	28.94
Mr. Tzeko Todorov Minev	31,830,000	31.83	31,830,000	28.94	31,830,000	28.94
First Financial Brokerage House OOD …………………………..	13,890,000	13.89	8,890,000	8.08	7,390,000	6.72
Legnano Enterprise Limited Cyprus (3) …. ….	8,450,000	8.45	8,450,000	7.68	8,450,000	7.68
Domenico Ventures Limited, British Virgin Islands (4)	7,000,000	7.00	7,000,000	6.36	7,000,000	6.36
Rafaela Consultants Limited, British Virgin Islands (5)	7,000,000	7.00	7,000,000	6.36	7,000,000	6.36
Other shareholders	-	-	15,000,000	13.64	16,500,000	15.00
Total	100,000,000	100.00	110,000,000	100.00	110,000,000	100.00

Source: FIBank

(1) Assuming no Shares are acquired pursuant to the Over-allotment Arrangements.

(2) Assuming the maximum number of Shares are acquired pursuant to the Over-allotment Arrangements

(3) With seat and registered address Nikozia 1075, 12 Mihalakoupoulou, office 401.

(4) With seat and registered address Road Town, Trident Chambers, P.O. Box 146.

(5) With seat and registered address Road Town, Trident Chambers, P.O. Box 146.

Pursuant to the Credit Institutions Act 2006 shareholders with a 3% or more interest in a Bank's voting capital are subject to certain approval and reporting procedures, see "*Banking Supervision and Regulation - Acquisitions of Shares in Bulgarian Banks*".

Save as disclosed in the table above, the Bank is not aware of any person who is, or who will be, immediately following the Offering, holding directly or indirectly, 3% or more of the Bank's registered share capital.

None of the Bank's shareholders have different voting rights from any other holder of Shares in respect of any Shares held by them.

The Major Shareholders

Major Shareholders in the FIBank are its founders Mr. Tzeko Minev and Mr. Ivaylo Mutafchiev.

Mr. Tzeko Minev and Mr. Ivaylo Mutafchiev are well known businessmen in Bulgaria and the surrounding region. In addition to their shareholdings in FIBank, together they are the majority shareholders in CaSys, Macedonia (formerly National Card Payment Company Limited) and in

UNIBanka Skopje Limited (Macedonia). Furthermore, Messrs Minev and Mutafchiev have significant business interests across a broad section of industries, including (but not limited to), tourism and property.

The Selling Shareholder

Founded in March 1991, First Financial Brokerage House OOD was the first Bulgarian private brokerage institution licensed to deal in equities and foreign exchange, and was the first operator authorised to auction Bulgarian treasury bills. Currently, FFBH is one of the leading non-banking financial institutions in the Bulgarian capital market offering a diverse spectrum of investment banking services, spanning full brokerage services, IPOs and private placements, debt origination, corporate restructuring, private equity, asset management, research & analysis. FFBH is a shareholder in the Bulgarian Stock Exchange and the Central Depository. FFBH is a founding shareholder of the Bank and currently holds 13.89% of the total share capital. The Major Shareholders were also the founders of FFBH.

Exercise of control over the Bank

Mr Tzeko Minev and Mr Ivaylo Mutafchiev each hold a 31.83% stake in the issued share capital of the Bank. This shareholding gives the Major Shareholders, acting together, effective control of the Bank at a shareholders' meeting. The Bank is not aware of any shareholders agreement concluded between the Major Shareholders; however, up to now Mr. Tzeko Minev and Mr. Ivaylo Mutafchiev have voted on material issues at the shareholders meeting in the same way.

Any transaction between the Bank on one hand and a Major Shareholder, directly or indirectly through related parties, on the other hand, after the Bank becomes a public company under Bulgarian law (immediately following the registration of the New Shares at the Central Depository and preceding the listing of the Shares at the Bulgarian Stock Exchange) must be approved by the shareholders in general meeting if the value of the transaction is 2% or more of the Bank' s balance sheet assets and in certain other circumstances. Votes cast by the Major Shareholders (considered by the legislation as interested party) are void. If the value of the transaction is less than 2% of the Bank' s balance sheet assets, it can be approved by the Managing Board (in some cases, subject to ratification by the Supervisory Board). For more information, see "*Description of the Shares and Applicable Bulgarian Legislation — Major Transactions and Transactions with Interested Parties"; "General Information – Present and future transaction with "interested parties"*.

DESCRIPTION OF THE SHARES AND APPLICABLE BULGARIAN LEGISLATION

Introduction

The following is a description of the principal rights attaching to the Shares, certain material provisions of the Bank's articles of association, the Bulgarian Public Offering of Securities Act 1999 and the Commercial Act 1991 in effect at the date of this document.

The Public Offering of Securities Act 1999 requires the shares issued by a public company to be in registered and uncertificated form, the same should be the form of the shares issued by banks under the Credit Institutions act. Respectively the issue and transfer of the Shares takes effect on the registration of the issue or transfer, as the case may be, with the Central Depositary, which is the Bulgarian registrar of book-entry securities.

Pursuant to the articles of association of the Bank, the latter may issue only ordinary (non-preferred) shares. Therefore, each of the Shares ranks *pari passu* amongst themselves Each Share entitles its holder to one vote at a general meeting of shareholders, to dividends when declared and to participate in a liquidation of the Bank in proportion to its nominal value.

Objects

The general objects of the Bank as set out in its articles of association are to receive deposits or other repayable funds from the public and to grant credits and other financing on its own account and its own risk.

The Bank may accomplish the following activities:

(a) non-cash funds transfers and other forms of non-cash payments such as letters of credit or bills for collection;

(b) issuance and administration of means of payment such as electronic payment instruments, travellers' cheques;

(c) acceptance of valuables on deposit;

(d) depository and custodian activities;

(e) transfers of funds in cases other than those under item 1;

(f) finance leasing;

(g) guarantee transactions;

(h) trading for its own account or for customers' account with:

   a. money market instruments – cheques, promissory notes, deposit certificates, etc.;

   b. foreign currency and precious metals;

   c. financial futures, options, exchange and interest-rate instruments, and other derivative instruments;

(i) trading for its own account and for customers' account in transferable securities, underwriting issues in securities, and other services and activities under Article 54, paras. 2 and 3 of the Law on the Public Offering of Securities;

(j) financial brokerage;

(k) advice on portfolio investments;

(l) purchase of accounts receivable for the delivery of goods or services provided and assumption of the risk related to the collection of these claims (factoring);

(m) equity acquisition and managing;

(n) provision of bank safes;

(o) collection and distribution of information and references on customers' creditworthiness;

(p) other such activities as defined by Ordinance of the Bulgarian National Bank.

Share Capital

At the date of this document, the Bank's issued and outstanding share capital was BGN 100,000,000 comprising 100,000,000 Shares of BGN 1 nominal value each. All the issued and outstanding Shares are fully paid-up. After the successful completion of the Offering the Bank's issued and outstanding share capital is expected to be BGN 110,000,000 comprising 110,000,000 Shares of BGN 1 nominal value each.

The following table shows the issued and outstanding share capital of the Bank and the number of issued Shares at the dates indicated:

	Number of issued Shares	Paid-up share capital (BGN)
31 December 2004 (1)	1,000,000	10,000,000
31 December 2005 (1)	1,000,000	10,000,000
31 December 2006	10,000,000	100,000,000
31 March 2007 (2)	100,000,000	100,000,000

(1) The nominal value of each share is BGN 10.

(2) The amendments in the articles of association of the Bank, adopted on 9 March 2007 and approved by BNB, including the reduction of the nominal value per share from BGN 10 to BGN 1 and the respective tenfold increase of the number of Shares.

Issuance of Shares

The articles of association of a company may delegate authority to the Board of Directors or to the Managing Board under a two-tier management system to allot new shares for a period of not more than five years. The issued share capital of a Bulgarian public company may be increased by:

- the subscription of shares pursuant to a rights issue;
- the issue of shares on conversion of a convertible bond; or
- the payment of a dividend *in specie* in the form of new shares in the relevant company.

Any increase in the issued share capital of the Bank requires prior shareholder approval. To increase the Bank's share capital, the articles of association require a shareholder resolution to be passed by the holders of at least two-thirds of the shares present at the meeting. Under the Commercial Act the shareholders' general meeting may, by adopting a special clause in the company's articles of association, authorise the managing body of a company to increase the company's capital up to the amount provided for in such clause within 5 years as of its approval. Pursuant to the above provision of law the articles of association of the Bank authorises the Managing Board to adopt a decision for increase of the Bank's capital up to BGN 110,000,000 within a one-year period and such decision has been already adopted by the Board with reference to the issue of the new Shares, see *"General information – Capital increase and approval of this Prospectus"*.

Rights Issue

A public offering of shares pursuant to a rights issue requires the publication of a prospectus containing detailed information relating to both the company in question and the shares offered. The prospectus must be approved by the Financial Supervision Commission.

For more information, see "*Description of the Shares and Applicable Bulgarian Legislation—Pre-emption Rights*".

Issue of Convertible Bonds

The procedure for a rights issue also applies to an issue of convertible bonds by a public company.

A resolution of the shareholders in general meeting approving a new issue of convertible bonds is effective only upon the approval of the new issue of bonds by any holders of existing convertible bonds. The issue of convertible bonds may be adopted only by the general meeting of the Bank shareholders, in contrast to the issue of other bonds and debt securities. In view of the latter the Managing Board of the Bank has been authorised, with the approval of the Supervisory Board for a five-year term and pursuant to the amendment in the articles of association adopted by the Bank's shareholders on 9 March 2007, to adopt decisions for the issue of non-convertible into shares debt securities, including subordinated-term debt and debt-capital hybrid instruments up to BGN 1 billion after the approval of the Supervisory Board of the Bank.

Stock in Shares

The shareholders in general meeting have the authority to resolve to issue new shares by declaring a dividend *in specie* in the form of new shares within three months of the adoption by the shareholders in general meeting of the audited annual financial statements of the public company for the preceding financial year. The newly issued shares are distributed *pro rata* amongst the shareholders based on their existing shareholdings prior to the capital increase. Only persons who hold or have acquired issued shares at the date which is fourteen days after the shareholder resolution to increase the share capital, corresponding to the date for dividend right acquisition (the "ex-dividend date") have the right to be issued with new shares.

Registration of Increases in Share Capital

An increase in share capital effected by any of the above methods is effective at the date of the registration of the share capital increase at the Bulgarian Commercial Court. The new shares are issued at the date of the registration of the capital increase at the Central Depositary.

Pre-emption Rights

Each holder of Shares has pre-emptive rights to subscribe for any new shares issued by the Bank *pro rata* to its existing holding of Shares. Under Bulgarian law, pre-emption rights of shareholders in public companies may not be misapplied in any way.

Pre-emption rights on a rights issue accrue to those persons registered as shareholders at the Central Depositary on the ex-dividend date. However, the pre-emption rights may instead accrue to those persons registered as shareholders at the Central Depositary on the 7th day after the publication of the announcement the offering of new shares and rights related to them if the managing body so resolves. On the business day following the ex-dividend date (or the seventh day after the announcement, as appropriate) the Central Depositary opens rights accounts in the name of the relevant shareholders based on the register at the Central Depositary at such date.

The first date on which pre-emption rights may be exercised to subscribe for new shares or traded on the BSE is required to be specified in the announcement of the rights issue. The final date for the exercise of pre-emption rights must be between fourteen and thirty days from the date set for the first exercise of such rights. All rights not exercised within this time are offered to the public by means of an auction organised by the BSE five business days after the final date on which rights may be traded. This auction is open for a period of one day. Any right acquired pursuant to the auction must be exercised within ten business days of the auction.

Share Buy-backs

The Bank may buy back its shares subject to the approval of two thirds of the votes cast at a general meeting of shareholders and the prior written approval of BNB. The details of the redemption (including the maximum number of shares to be redeemed, the procedure for redemption and the timetable, which may be up to 18 months) and its purpose must be specified in the resolution. The shareholder resolution must be registered at the Bulgarian commercial court and published in the State Gazette.

BNB may refuse to approve a buy-back in any of the following circumstances:

- if the resolution of shareholders is illegal in any respect;
- if the buy-back would cause the liquidity of the Bank to deteriorate; or
- if the buy-back would result in a breach of BNB rules on large exposures, the prohibitions on granting credit to directors or employees, or any other legislative provisions in the Credit Institutions Act 2007 or in the issued ordinances upon its application.

BNB must complete its approval process within three months. If BNB refuses to approve the transaction, the buy-back is void.

A share buy-back may only take place if the Bank's net asset value after the buy-back would be equal to or higher than the total of the Bank's issued capital, its reserves and all other funds which the Bank is required to maintain pursuant to its Articles of Association.

As a public company, the Bank may reduce its share capital by purchasing and cancelling its own shares. A public company may only buy back more than 3% of its issued shares during any calendar year by way of tender offer. The aggregated nominal value of the shares repurchased may not exceed 10% of the Bank's issued share capital and the Bank will transfer any excess shares above the 10% limit within three years. If the Bank holds more than 10% of its issued share capital at the end of that three year period, it must cancel shares until repurchased shares in its capital decrease to 10% or less.

Reduction of Share Capital

The shareholders in general meeting may resolve to reduce the Bank's issued share capital. The Bank's articles of association require a resolution to be passed by a majority of two thirds of holders of all issued shares present at the meeting. Any reduction of share capital of the Bank’s shares requires the approval of BNB. The grounds on which BNB may refuse to approve a reduction in share capital are similar to the grounds for refusing buy-backs.

To reduce the Bank's share capital, a shareholder resolution must be published in the State Gazette, explaining that the Bank is obliged to repay or secure its obligations towards any creditor which objects to the reduction in writing within three months. The reduction of share capital is required to be registered at the Bulgarian Commercial Court after the end of this three-month period and is effective at the date of such registration. Payments to shareholders resulting from the reduction of share capital may be made only after this registration and the repayment or creation of security in favour of any objecting creditors.

The above provisions do not apply if the reduction of share capital is effected: in order to cover losses; by redemption of fully paid-up shares for no consideration; or against payment not exceeding the sum of earnings for the relevant year, accumulated retained earnings and excess of reserves over mandatory requirements less retained losses and instalments which the Bank is obliged to pay as reserves.

Transfer of Shares

Transfer of Shares is perfected as of its registration in the Central Depository. Any agreement for purchase or sale of shares, issued by a public company, may be concluded only on a regulated security market (i.e. on the BSE) or registered on a regulated security market (BSE) by an investment intermediary, licensed by the Financial Supervision Commission. Inheritance or endowment of shares is effectuated as of transaction' s registration in the Central Depository by an investment intermediary, acting as a registration agent. Shares may be pledged with filing of a non-possessory registered pledge with the Central Depository.

Major transactions and related party transactions

Under the Public Offering of Securities Act 1999, persons who manage or represent a public company may not, without the prior shareholder approval, enter into transactions as a result of which (1) the company acquires, transfers, receives or grants for use or creates a security interest over the company 's fixed assets, (2) the company incurs obligations to a person or a group of related persons or (3) receivables are due to the Bank from a person or a group of related persons, in each case, where the value exceeds:

- one-third of the lower of the value of the company 's assets in its last audited or its last prepared balance sheet (major transactions); or
- in the case of a transaction with an "interested party", 2% (0.2% if receivables are due to the company) of the lower of the value of the company 's assets in its last audited or its last prepared balance sheet;

For the purposes of the above, the following are considered to be "interested parties" (1) the members of the Managing Board and the members of the Supervisory Board of the company, (2) any procurator of the company and (3) any person who directly or indirectly is entitled to at least 25% of the votes at a general meeting of the company's shareholders or who otherwise controls the Bank, when such person or a group of persons related to such person:

- is a party or an intermediary to the transaction, or the transaction is carried out for its benefit; or
- directly or indirectly is entitled to at least 25% of the votes at a general meeting of shareholders of a person who is a party or an intermediary to the transaction, or the transaction is carried out for its benefit, or controls a legal entity, which is a party or an intermediary to the transaction, or to the transaction is carried out for its benefit; or
- is a member of the Managing or Supervisory Board, or a procurator of a legal person falling within the preceding paragraph.

In the case of a transaction to acquire or dispose of fixed assets, a majority of three quarters or more of the votes cast at the general meeting of shareholders is required and, in all other cases, a simple majority of the votes cast is required. Any interested parties-shareholders are not permitted to vote the decision for approval at the general meeting.

Transactions between a public company and interested parties which do not require prior shareholder approval are subject to prior approval by the company's Managing body, with any interested members of the managing body not permitted to vote.

In determining whether prior shareholder approval for transactions of considerable value or related party transactions is required, individual transactions of the public company with a person or related group of persons which individually are below the threshold for requiring shareholder approval are aggregated with other transactions with the same person or group of related persons in the previous three calendar years. Any transaction involving interested party may only be executed at market price.

Pursuant to the law a prior shareholder approval of the transactions specified above is not required:

- for transactions effected in the ordinary course of the public company's business, including agreements for bank credits and collateral unless an interested party is involved or otherwise participates in such agreements;
- for loans from a holding to the public company where the terms are no less favourable than those available in the domestic market;
- where there is a common enterprise agreement under the Public Offering of Securities Act 1999.

If a major transaction or a related party transaction requires prior shareholder approval, the managing body of a public company is required to provide a report to the general meeting on the expediency and the transaction contemplated.

Any transaction with an interested party or major transaction which is entered into in breach of the requirements of the Public Offering of Securities Act 1999 is void.

Meetings of shareholders

Convening a General Meeting of Shareholders

The Managing Board and the Supervisory Board of the Bank each have the power to convene a general meeting of shareholders. Shareholders holding at least 5% of the Shares also have the power to require convening of a general meeting.. In addition, shareholders holding at least 5% of the Shares for at least a three month period are entitled to add items to the agenda for the general meeting. In the event the Bank were to fail to call a general meeting on the request of the required number of shareholders, the regional court is empowered to require the Bank to do so.

An annual general meeting of shareholders is required to be held within six months of the end of the Bank's fiscal year. An extraordinary general meeting of shareholders may be convened at any time by giving the requisite notice to shareholders. This notice must contain the Bank's name and headquarters, the place, date and time of the meeting, the type of the meeting (i.e. annual or extraordinary), information of the formalities that must be complied with for participation at the meeting and for exercise of voting rights, an agenda and draft resolutions. The notice and other documents related to the agenda of the general meeting must be filed at the Financial Supervision Commission, BSE and the Central Depository no later than 45 days prior to the date of the general meeting. Any items added to the agenda at the request of a shareholder holding more than 5% of the shares must also be filed at the Financial Supervision Commission. The Financial Supervision Commission and BSE make the notice and the other documents related to the agenda available to the public, typically by publishing these documents on their respective websites. The notice must also be published in the State Gazette and in one central daily newspaper at least 30 days before the date of the general meeting and the other documents related to the agenda made available to shareholders at the Bank on the same day. General meetings are required to be held in Sofia, being the city in which the Bank's headquarters are located.

Each Share confers the right to cast one vote at a general meeting. Public companies are prohibited from issuing preference shares entitling their holders to more than one vote. The right to vote at a general meeting is conferred on those persons registered at the Central Depositary as shareholders 14 days prior to the date of the meeting (the "**Voting Record Date**"). A purchaser of shares registered at the Central Depositary after the Voting Record Date is not entitled to vote. The Central Depositary submits a list of the shareholders at the Voting Record Date to the Bank. The entry of the persons in this list is the only prerequisite to their participation in the general meeting of shareholders and to the exercise of the voting rights attaching to their shares. Persons entitled to vote may attend the meeting in person or through an authorised proxy who is granted a power of attorney. The power of attorney to the proxy must be explicit, certified by a notary public and comply with other legal requirements. No members of either the Supervisory Board or the Managing Board may act as a shareholder's proxy at the general meeting.. Provided they are not shareholders, members of the Managing Board and Supervisory Boards may attend and speak at a general meeting of shareholders but do not have voting rights.

Quorum

The Bank's articles of association provide that the shareholders in general meeting can pass resolutions if the holders of at least one half of the capital are represented at the meeting. In the event that a quorum is not present, the meeting is adjourned and a new meeting may be scheduled not earlier than 14 days from the date of the adjourned meeting. The re-convened meeting may pass resolutions irrespective of the number of shares represented at the meeting.

Majority

The Bank's articles of association provide that the following shareholder resolutions require the approval of two-thirds of the voting shares present at the meeting:

- any amendment to, or supplementing of, the articles of association;
- an increase or reduction in share capital;
- disposal of assets with a total value, during the current year, exceeding half of the value of the Bank`s assets according to the last audited annual accounting report;
- undertaking of liabilities or granting of security to one person or to related persons in amount during the current year exceeding half of the value of the Bank`s assets according to the last audited annual accounting report; and
- appointment and dismissal of members of the Supervisory Board.

The approval of three-quarters of the shares represented at a general meeting of shareholders is required for the approval of transactions for acquisition of and disposal with fixed assets of a value representing over 2% of the assets of the Bank. Also, the approval of three-quarters of the shares voted at a general meeting of shareholders is required to resolve to pay a dividend *in specie* in the form of new shares, for resolutions in relation to transformation or termination of the Bank and for resolution for transfer of the whole trade enterprise of the Bank .

All other shareholder resolutions may be passed by a simple majority of the shares voted at the general meeting.

Any amendment of or supplement to the Bank's articles of association, any appointment of a new member to the Managing Board, appointment of a procurator or appointment of an auditor, require the approval of BNB. The approval shall be considered granted if BNB has not objected within 10 days of the notification. Any new branch abroad, change in the name as indicated in the license, transformation, accomplishment of bank transactions not pointed out in the license, increase of capital with contributions in-kind, shares buy-back, reduction of capital and foundation or acquisition of control over a bank with headquarters abroad require the prior written approval of BNB. In addition, any transformation of the Bank requires the prior written approval of the Financial Supervision Commission. BNB and the Financial Supervision Commission each has the power to issue a "stop order" or a compulsory instruction or injunction to the Bank if any resolution of the shareholders in general meeting or resolution of the Managing Board or Supervisory Board is found to be illegal. BNB alone may issue such an order if a resolution would be detrimental to the interests of the Bank or its depositors, or would be detrimental to the stability of the payment system. The Financial Supervision Commission alone may make such an order if a resolution of the Managing Board or Supervisory Board would be detrimental to the interests of shareholders or other investors.

Amendments of and supplements to the articles of association and the winding-up of the Bank are only effective as of the approval of the BNB and registration of the resolution at the Bulgarian commercial court. Any increase or reduction of capital, transformation transactions, appointment or removal of a member of the Managing Board or the Supervisory Board and the appointment of a liquidator only take effect for third parties at the date of the registration of the relevant resolution at the Bulgarian Commercial Court and following the approval of BNB when required.

Dividends and Distributions

A resolution relating to the distribution of earnings in the form of dividends is subject to the approval of shareholders in general meeting following the approval of the audited annual financial statements for the relevant financial year. Distribution and payment of interim dividends is not permitted.

Dividends may only be paid if the Bank's total assets less long-term and current liabilities and less the proposed dividend is not less than the sum of the Bank's issued capital and reserves, each as set out in the Bank's audited annual financial statements. Payment of dividends may be made up to the sum of earnings for the relevant financial year, accumulated retained earnings and the excess of reserves over mandatory requirements less retained losses and instalments which the Bank is obliged to pay to reserves. A public company is obliged to commence payment of approved dividends to its shareholders within three months from the date of the general meeting of shareholders at which the resolution approving the annual financial statements and for distribution of the earnings in the form of a dividend is passed.

Each Share entitles its holder to a dividend based on the Share's nominal value. The right to receive a dividend is held by each person registered at the Central Depositary as a shareholder at the ex-dividend date. The Central Depositary submits a list of the shareholders at this date to the Bank. The entry of the persons in this list is the only prerequisite to payment of a dividend. Persons who are entitled to receive dividends but who fail to exercise their right within five years from the due date for payment forfeit their right to payment.

Liquidation

The Bank may be wound-up by:

- the approval with three-quarters majority from the holders of all issued shares present at a general meeting (subject to the approval of BNB);
- revocation of its banking licence by BNB, including where the Bank has been declared bankrupt; or
- a resolution of the court of a procedure initiated by the public prosecutor if (i) the objects of the Bank are illegal, (ii) the Bank's total assets less long-term and current liabilities are less than the issued capital for a period of one year during which no resolution for a reduction of the issued capital, transformation or winding-up is passed by the shareholders in general meeting, or (iii) the number of members of the Supervisory Board or the Managing Board falls below the minimum legal requirement for six consecutive months.

Following the winding-up of the Bank (other than in the case of bankruptcy proceedings) a liquidation procedure is followed. A liquidator is appointed and its remuneration is approved by the shareholders in general meeting (other than in the case of compulsory liquidation). A liquidator is obliged to give effect to the Bank's current transactions, to collect the receivables of the Bank, and to sell the Bank's assets and to satisfy the claims of creditors. A liquidator is obliged to invite creditors to claim against the Bank by an announcement in the State Gazette and by a notice sent to all known creditors. Distribution of the Bank's assets, if any, to its shareholders may be made only after six months from the date of this announcement and the satisfaction of all creditors' claims.

Each Share entitles its holder to participate in the liquidation *pro rata* to the Share's nominal value. This right arises only if, after the liquidation of the Bank and satisfaction of all other creditors' claims, assets are available for distribution to the shareholders. Bulgarian public companies are not permitted to issue preference shares entitling their holders to preferential rights on liquidation.

The Supervisory Board and the Managing Board

The articles of association of the Bank provide for a two-tier Managing system consisting of a Supervisory Board and a Managing Board. Members of the Supervisory Board may be either individuals or legal entities. Only individuals are able to serve on the Managing Board, not other legal entities.

The Supervisory Board

Bulgarian law and the Bank's articles of association provide that a Supervisory Board must consist of at least three and not more than seven persons. The Bank's articles of association provide for a Supervisory Board consisting of three to five persons. The members of the Supervisory Board may be appointed and dismissed by a resolution passed by a two-thirds vote of the shareholders in general meeting. The shareholders in general meeting set their remuneration and approve the financial guarantee which each member of the Supervisory Board must give as a security for his or her obligations. Under Bulgarian Public Offer of Securities Act 1999 at least one third of the members of the Supervisory Board of the Bank should be independent (i.e. they can not be: (i) employees of the Bank; (ii) shareholders that hold directly or indirectly through related parties at least 25% (twenty five percent) of the voting rights in the general meeting, or are parties related to the Bank; (iii) persons having a long-term commercial relationship with the Bank; (iv) members of managing or controlling body, procurators or employees of a commercial company or other legal entity falling under (ii) and (iii) above; (v) persons related to another member of one of the Boards of the Bank).

The main powers of the Supervisory Board are the appointment and dismissal of the members of the Managing Board, the approval of the resolutions of the Managing Board to delegate the power to represent the Bank to at least two of its members – executive directors and the on-going supervision of the activities of the Managing Board. The approval of the Supervisory Board is also required for resolutions of the Managing Board for:

- the adoption of programmes, budget, strategic operative plans, concerning the Bank's activities;
- opening and closing of branches and agencies of the Bank;
- the approval of the Bank's participation in other companies in the country or abroad;
- the approval of acquisitions or disposals with real estate or real rights on real estates;
- the determination of the structure and the offices in the Bank;
- the preparation of the annual statement of the Bank and its proposal to the General Meeting;
- the approval of closing or transfer of enterprises, material change in the Bank`s activities, material organizational changes, as well as long-term collaboration of a significant meaning for the Bank or termination of such a collaboration; and
- the issue of non-convertible debt securities pursuant to its authorisation provided for by the articles of association.

The Bank's articles of association require a quorum of at least half of all members of the Supervisory Board and provide for resolutions to be passed by one half of all the members unless the law require otherwise.

The Managing Board

Bulgarian law and the Bank's articles of association provide that the Managing Board should consist of at least three and not more than nine persons. Subject to the requirements for BNB consent, the members of the Managing Board may be appointed and dismissed by the Supervisory Board. The Supervisory Board has the power to approve the remuneration of members of the Managing Board.

The Bank's articles of association provide that a quorum of at least half of all Managing Board members is necessary for a valid meeting and for passing of resolutions. A 2/3 majority of the members of the

Board present at the meeting is sufficient for passing resolutions unless the law or the articles of association require otherwise. The Managing Board can, with the approval of the Supervisory Board, authorise at least two Executive Directors to represent the Bank and to take responsibility for its operative management. Board members may be re-elected without limitation and be dismissed at any time by the Supervisory Board. The Credit Institutions Act 2006 sets down the minimum requirements which must be met by any member of the Managing Board of a Bulgarian bank. These standards require a director to have a Master's level degree and to have sufficient educational qualifications and professional experience in banking activities, and if the person is to manage and represent the Bank to have worked for at least five years in an office with managing functions in a bank or in a comparable banking company or institution according to the criteria determined by BNB. In addition, ,(i) a director must not have been convicted of certain crimes; (ii) must not have been a member of the managing or supervisory body or unlimited liability partner in a company terminated by reason of bankruptcy if there were any unsatisfied creditors, notwithstanding if restored in rights ; (iii) must not have been a member of the managing or supervisory body of a Bank which was declared insolvent for the five year period before the date of the resolution for its declaration in bankruptcy; (iv) is not and has not been deprived from the right to occupy material responsible office; (v) a director must not have certain family relationships and must not be factually living together with other members of the the managing and supervisory board of the bank and the economical group of the Bank and (vi) shall not be non-restored in his rights insolvent. Compliance with these criteria must be certified by BNB. A person who is appointed as a director but who does not meet these minimum requirements must be removed by the organisation, otherwise the person will be removed by BNB.

Certain Disclosure Requirements under Bulgarian Law

Pursuant to the Public Offer of Securities Act 1999, each shareholder is required to inform the Bank, the Financial Supervision Commission and BSE in the event that his or her interest in the general meeting of the Bank reaches or falls below 5% or increases or decreases by 5% or a multiple of 5%. For these purposes an "interest" includes shares, convertible bonds, warrants and other securities with a right to purchase voting shares. The disclosure notice must be served within seven days from the date at which the interest is acquired or transferred. However, if the change of the interest is inside information, e.g. a change of control, it must be disclosed immediately, but not later than the next business day following the change. This information is disseminated to the public by means of the public register kept by the Financial Supervision Commission and a Stock Exchange bulletin. The notification to the Bank, the Financial Supervision Commission and the BSE must, if the interest is held by a legal entity rather than an individual, also disclose the persons who control it directly or indirectly and the manner in which they exercise control. Indirect holdings of interests by a certain person or entity ("**Owner of Voting Rights**") are also subject to disclosure if: (i) the interest is held by a spouse or minor of the Owner of Voting Rights, (ii) the interest is held or the voting rights upon which it may be exercised according to item iv-vi by the person upon whom the Owner of Voting Rights exercises control, (iii) the interest is held by other persons on their own behalf but for the account of the Owner of Voting Rights, (iv) the interest is held by another person with whom there is a voting agreement, (v) the interest is conceded by another person with whom the Owner of Voting Rights has concluded an agreement stipulating temporary transfer of the voting rights attached to the shares, (vi) the interest is pledged by the Owner of Voting Rights as collateral, in case the Owner of Voting Rights may control the voting rights and has explicitly declared his intention to exercise them, (vii) the interest is deposited with the Owner of Voting Rights by a transfer of voting rights, which the Owner of Voting Rights exercises on his own discretion, without any special instructions from the shareholder or (viii) conceded to the Owner of Voting Rights in his capacity of a proxy and the person may exercise the interest on his discretion, without special instructions from the shareholder.

The above disclosure requirements do not apply if interests are acquired by a broker-dealer for its own account or for a client's account in the course of a normal trading or investment activity and the votes attached to the acquired interests are not intended to be cast and they are disposed of on a regulated market within 14 days of their acquisition. Irrespective of the above thresholds, each manager and board member must disclose in the annual report of a Bulgarian public company information about the type and number of shares he or she owns in the company and the proportion these shares represent of the relevant class of shares, as well as ownership of any options for acquisition of securities issued by the Bank. The annual report is disseminated to the public through the public register kept by the Financial Supervision Commission and through the Stock Exchange bulletin.

The members of the managing and supervisory bodies of a public company are obliged to declare to the company, the Financial Supervision Commission and to BSE: (i) the legal entities in which they own, directly or indirectly, 25% or more of the voting rights or over which they exercise control; (ii) the legal entities in which they participate in the supervisory or management bodies or are appointed as procurators; and (iii) the present and future transactions in respect of which they believe that they could be qualified as "interested" parties. Failure to comply with the above requirements is an administrative offence under Bulgarian law.

THE REPUBLIC OF BULGARIA

The information contained in this section has been taken from documents and other publications released by, and presented on the authority of, various officials and other public and private sources, including participants in the capital markets and financial sector in Bulgaria. There is not necessarily any uniformity of views among such sources as to the information provided therein. Accordingly, the Bank only accepts responsibility for accurately reproducing such extracts as they appear in this section. It accepts no further or other responsibility in respect of such information.

Background

Bulgaria is a parliamentary republic located in the Balkans occupying an area of 110,994 square kilometres. Bulgaria has a population of approximately 7.7 million people. Approximately 85% of the population consists of ethnic Bulgarians, with 9% of the overall population being of Turkish origin. Approximately 86% of the population is Christian and the official language is Bulgarian, a Slavonic language written in the Cyrillic alphabet. Sofia, the country's largest city with a population of more than 1.5 million, is the capital of Bulgaria. Plovdiv, a city in south central Bulgaria with a population of approximately 400,000 people, and Varna, a port in the Black Sea with a population of approximately 350,000 people, are the two next largest cities. Bulgaria is divided into 28 regions for administrative purposes.

Political Overview

Following the Second World War, a communist pro-Soviet regime was established in Bulgaria. In November 1989, after the collapse of the communist system, Bulgaria became a parliamentary republic. From 1989 until 1997, despite changes introduced by conservative, centrist and left-wing governments, the Bulgarian Socialist Party (the former Communist Party) maintained a certain influence over political developments in the country. Following the severe banking and economic crisis of 1996 and 1997, the interim government (as provided by the Bulgarian constitution) of Stefan Sofiansky began a wide-ranging economic reform programme, which was continued by the government of the Union of Democratic Forces (the "UDF") — a broad anti-communist coalition, which won a majority of the seats in parliament in mid-1997. By the end of 1999, political support for the UDF had eroded, delaying the implementation of the necessary structural measures required for the reform of the Bulgarian economy.

In April 2001, the former king of Bulgaria, Simeon Saxe-Coburg-Gotha, formed the Simeon II National Movement (the "SNM") and won a majority of seats in the parliamentary elections in June 2001. The SNM formed a coalition government along with the Movement for Rights and Freedom (the "MRF"), a party that represents the interests of Bulgaria's Turkish minority. In November 2001, Georgi Parvanov, the candidate supported by the Coalition for Bulgaria (a coalition led by the Socialist party) was elected as president for a five-year term, defeating the country's former president, whose re-election was endorsed by the SNM and the UDF. In June 2005, the Coalition for Bulgaria coalition won 82 parliamentary seats out of a total of 240, with the SNM and the MFR winning 53 seats and 34 seats, respectively. As the Coalition for Bulgaria did not by itself gain control of a majority of votes, a wider coalition government was formed later in 2005 with the Coalition for Bulgaria joining forces with representatives of the SNM and the MRF, with Sergei Stanishev, the leader of the Bulgarian Socialist party, being elected as Prime Minister. Georgi Parvanov won a second five-year term in October 2006. The next presidential election is due in October 2010, while the next parliamentary election is due in June 2009.

The current government led by Sergei Stanishev has announced a comprehensive economic reform programme, the main objectives of which are further European integration, stimulation of economic growth and social responsibility.

The legislative system in Bulgaria follows the continental model. The Bulgarian constitution has supremacy over all other legislative acts. Bulgaria's Constitutional Court's main duty is to review the consistency of parliamentary legislation with the Bulgarian constitution. All international agreements ratified according to constitutional procedure and published in the State Gazette have binding force and have supremacy over national law. The recognition of foreign judgments by the courts depends upon both establishing reciprocity and the observance of the mandatory guidelines of the Civil Procedure Code.

Bulgaria was invited to join NATO at the NATO summit in Prague on 22 November 2002. On 18 March 2004 the Bulgarian Parliament ratified the North Atlantic Treaty and Bulgaria was officially recognised as a member of the alliance on 29 March 2004. In 2004, Bulgaria completed negotiations to join the EU. The accession treaty was signed in Luxembourg on 25 April 2005 and Bulgaria became a member of the EU on 1 January 2007. Despite Bulgaria's EU membership, the European Commission will continue to monitor Bulgaria's progress in reforming the judiciary and fighting corruption. Bulgarians face greater restrictions on working abroad than did the previous wave of EU entrants.

The Bulgarian Economy

Background

Before its transition to a market economy, Bulgaria had a centrally planned economy oriented towards the Council for Mutual Economic Assistance ("COMECON") countries. The collapse of COMECON in 1991 devastated the Bulgarian economy. In the early 1990s, the government embarked on an ambitious economic reform programme, whose progress was stalled by political instability and lack of decisiveness in economic policy. In the mid-1990s, the growing losses of Bulgarian corporations and banks, coinciding with increased domestic debt payments and Bulgaria's weak current account position, led to significant currency outflows resulting in a severe financial crisis in 1996. The value of banking sector deposits declined from $7.4 billion to less than $1.8 billion (at March 1997) and inflation peaked at a monthly rate of 242.35% in February 1997. The Bulgarian economy emerged from the crisis in 1997 following the provision of special facilities by the IMF.

The Currency Board Arrangement

As part of the IMF sponsored reforms, a Currency Board arrangement was established in July 1997 through the Bulgarian National Bank Act. The Lev was pegged to the Deutsche mark at the rate of DEM 1 = BGL 1,000. Following the introduction of the Euro and the redenomination of the Lev, the Lev was pegged to the Euro at an exchange rate of BGN 1.95583 to €1.00.

The Currency Board arrangement stipulates a strict set of policies and procedures to facilitate the stability of the exchange rate. The entire Lev monetary base is supported by equivalent foreign exchange reserves held by BNB. The latter is not permitted to finance public sector deficits unless increased levels of international reserves back an increase in the money supply. BNB is also not allowed to buy or conduct repurchase agreement operations on Bulgarian government bonds. The sole monetary policy instrument available to BNB is setting the mandatory reserve rate for commercial banks. Lending to the banking system by BNB is restricted to cases of a liquidity crisis and up to the amount of foreign reserves held in excess of the monetary base. These restrictions reduce BNB's ability to act as lender of last resort for the banking system.

The Lev is a fully convertible currency and is backed by the foreign exchange and gold reserves of BNB, which stood at €5.3 billion, €6.7 billion and €7.4 billion at 31 December 2003, 2004 and 2005, respectively, with the preliminary figure for end 2006 being €8.9 billion. Following the implementation of the Currency Board arrangement, the Lev has not been subject to any significant speculative pressures.

GDP

Following the financial crisis of 1996, GDP has grown steadily since 1998 mainly as a result of increased consumer demand, domestic and foreign direct investments and increased exports. GDP growth is expected to continue following the implementation of the government's economic reform programme.

	1998	1999	2000	2001	2002	2003	2004	2005	2006
Nominal GDP (BGN million)	22,421,142	23,790	26,753	29,709	32,402	34,628	38,823	42,797	49,091
Nominal GDP ($ billion)	12.7	12.9	12.6	13.6	15.6	19.9	24.1	26.4	31.5
Real GDP growth rate (%)	4.0	2.3	5.4	4.1	4.9	4.5	5.7	5.5	6.1
Nominal GDP per capita ($)	1,543	1,577	1,542	1,718	1,978	2,548	3,101	3,396	4,088

Source: National Statistical Institute

Bulgaria' s GDP is evenly balanced between the primary and industrial sector and the services sector, though there is an underlying growth trend in the weighting of the services sector. In 2006, services accounted for 48.8% of GDP, industry accounted for 25.6% and forestry and agriculture for 7%.

Inflation

Following the stabilisation of hyperinflation that emerged following the banking crisis in 1996 and 1997 and the implementation of the currency board arrangement, annual inflation has been relatively low and progressively declining. Annual (end of period) inflation for 2001, 2002 and 2003 was 4.8%, 3.8% and 5.6% respectively. Bulgaria ended 2004 with annual headline consumer price inflation of 4%. In 2005, inflation increased to 6.5% as a result of increasing fuel prices and rising food prices following severe flooding during the year.

Sharp increases in excise duties on alcohol and tobacco at the beginning of 2006 caused the prices of these goods to jump. An additional aggravating factor was the upward movement of world oil prices. As a result, year-on-year inflation in the first half of 2006 rose to 8.1%. Inflation gradually fell back in the second half of 2006, and end of period inflation for last year stood at 6.5%. Average inflation for 2006 was 7.3%.

Employment, Wages, and Pensions

The restructuring of state-owned enterprises and a significant downsizing of the public sector contributed to high unemployment rates immediately after the 1996-1997 crisis, with the creation of new jobs in the expanding private sector failing to counterbalance this influence. However, unemployment has decreased overall in line with the growth of the economy as a whole. Reaching 17.9% at the end of 2001, unemployment has fallen steadily, to reach 16.3% at the end of 2002, 13.5% at the end of 2003, 12.2% at the end of 2004, 10.7% at the end of 2005 and 9.1% at the end of 2006. This drop is due to increased demand for labour in the private sector and various labour market programmes of the government.

Since 2000 average wages have been rising steadily in terms of domestic currency (at about 3% per quarter), and also in US dollars (despite 2005 slight reversal of USD/BGN exchange rate dynamics). Average monthly wages in the country were $124 in 2002, grew to $158 in 2003, to $186 in 2004, $206 in 2005, and to $224 in 2006. Part of the increase in Dollar wages over the period is due to the falling US Dollar to Lev exchange rate. The US Dollar fell from BGN 2.18479 per $1 annual average for 2000 to BGN 1.55944 per $1 annual average for 2006.

The average monthly wage, as reported by the National Statistics Institute, is usually higher in the public sector than in the private sector. It is widely believed that the disclosed income figures underestimate the actual level of disposable income of Bulgarian nationals, as they do not take into account significant proceeds arising from the operation of the informal economy.

The pension system was reformed in January 2000 with the aim of stabilising the existing pay-as-you-go system, and a fully-capitalised mandatory supplementary pension insurance scheme managed by private insurance funds was introduced. Bulgaria has a three-pillar pension system comprised of the state insurance institute, the mandatory private pension funds, and voluntary private pension funds.

Balance of Payments, Foreign Trade and Foreign Direct Investments

The Bulgarian current account deficit hit a record €3.9bn or 16% of GDP in 2006. This is well above the previous year's deficit of EUR 2.4bn or 11.3% of GDP. Bulgaria's trade deficit also hit a record 21.8% of GDP versus 20.2% a year earlier, mainly due to the negative balance of trade in crude oil, oil derivatives and natural gas, which stands at €1.72bn. (7.1% of GDP) and which constitutes 32.6% of the overall trade deficit of the country. A positive sign in the current account data is that exports grew faster than imports. They rose 26.6% to €12bn on an annual basis in 2006, while imports increased 25% to €17.3bn. In addition, the country is attracting enough foreign direct investment (FDI) to cover the shortfall - €4bn for 2006, equivalent to 103.5% of the current account deficit.

The following table sets out selected items from the Bulgarian balance of payments accounts for the years indicated.

	2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**
	(€ million)						
Imports	6,533	7,493	7,941	9,094	10,938	13,809	17,268
Exports	5,253	5,714	6,063	6,668	7,985	9,466	11,983
Trade Balance	(1,280)	(1,778)	(1,878)	(2,426)	(2,954)	(4,343)	(5,285)
Current Account	(761)	(855)	(403)	(972)	(1,131)	(2,427)	(3,879)
Financial Account	899	755	1,843	2,325	2,911	2,728	4,977
Foreign Direct Investments	1,103	903	980	1,851	2,728	2,326	4,015
Overall Balance of Payments	188	425	717	630	1,400	569	1786

Source: Bulgarian National Bank

Consumer goods, raw materials, investment goods and mineral fuels and oils accounted for 14.9%, 36.7%, 26.2% and 21.6% respectively of total imports in 2006. Close to half of all imports for 2006 (46.8%) came from the EU-25 countries, compared to 49.6% for 2005. Rising energy prices continue to drive up the share of imports from Russia, which reached 17.2% of all imports for 2006, compared to 15.6% in 2005 and 12.6% in 2004.

Raw materials have the biggest share in Bulgaria's exports (45.6% of total exports in 2006), of which almost half (47.4%) are metals. Consumer goods make up 24.6% of all exports, the main items being clothing and footwear. Exports of mineral fuels, oils and electricity (mostly petroleum products) made up 12.9% of total exports in 2006. Bulgaria's main export market is the European Union (55%), with Italy, Germany and Greece as the top three partners, accounting for 28.5% of total exports in 2006. Ahead of the three European countries is Turkey, which was Bulgaria's leading export destination for 2006 with 11.4% of total exports.

Foreign direct investment is the main contributor to Bulgaria's positive financial account balance. FDI in Bulgaria totalled €13bn in the period 2000-2006, €4bn of which was invested in 2006. Equity capital attracted during the year accounted for 52% of the figure. Foreign investments in real estate amounted to €1.2bn in 2006. Investments in the processing industry totalled €777m, while the financial brokerage sector attracted €627m. Investments attracted from privatisation deals decreased to €212m. In terms of countries, the biggest investments in the period were made by the UK (€686m), followed by the Netherlands (€668m) and Austria (€448m).

Public Finance

In the past year public finance was characterized by stability and the persistence of major trends established in previous periods. Among these are: the increased actual quota of reallocation through the budget, sustained chronic budget surpluses, and the strengthened role of the state in the Bulgarian economy.

Since 2003 the government has pursued a steady policy of accumulating budget surpluses to curb the balance of trade deficit and the deficit in the current account of the balance of payments. Despite the long period of implementation, this policy has failed as yet to produce the desired results – deficits are on a steady upward trend and the economy bears an extra tax and social security burden which limits its export potential.

Fiscal surpluses are channelled to the fiscal reserve which at the end of November 2006 amounted to an unprecedented BGN 6.7 bn. In 2006, a positive change in fiscal policy was the lower corporate tax, down from 15 to 10 per cent, in effect from 1 January 2007.

Indebtedness

The increase in the gross external debt is directly related to the increased capital inflow in the country. Gross external debt at end November 2006 stood at €15,111 million (61% of GDP), which constitutes an increase of 23.9% compared to the end of 2005. The largest share in this increase belongs to credits extended to non-financial institutions and intra-company loans. At the same time, the external debt of the public sector continues to go down reaching 18.8% of GDP (24.1% for 2005).

NATO and European Union Accession

Bulgaria was invited to join NATO at the NATO summit in Prague on 22 November 2002. On 18 March 2004, the Bulgarian Parliament ratified the North Atlantic Treaty and Bulgaria was officially recognised as a full member of the alliance on 29 March 2004.

Bulgaria established diplomatic relations with the EU in 1988. In 1993, the European agreement on association was signed before entering into force in 1995. In December 1995, Bulgaria submitted its application for EU membership, and two years later preliminary negotiations were launched. The Commission presented its first regular report on Bulgaria's progress towards accession in November 1998. The second report, released in 1999, recommended that formal negotiations be opened.

Accession negotiations between Bulgaria and the EU started on 15 February 2000. Bulgaria concluded its accession talks on 15 June 2004, six months ahead of schedule. The technical closure of talks on the final two negotiating chapters had been completed on 14 June 2004. The country's aim has been to join the EU as a full member on 1 January 2007. Under its mid-2004 agreement with the EU, Bulgaria will receive €240 million on top of the previously announced funding of €4.4 billion from the EU's 2007-2009 budget.

In April 2005, the European Parliament gave its overwhelming support to Bulgaria's EU bid. On 25 April 2005, Bulgaria signed the country's EU Accession Treaty, which was ratified by parliament on 11 May. In October 2005, the Commission's monitoring report said that Bulgaria must serve six months of further probation and until April or May 2006 it must "take immediate and decisive corrective action" in the fields of judiciary reform and fighting high-level corruption.

In the next monitoring report, dated 16 May 2006, the Commission confirmed that Bulgaria had continuously been fulfilling the political criteria laid down in Copenhagen, and that the country was a functioning market economy. At the same time, on account of a total of six policy areas which continue to give rise to "serious concern," the Commission decided to review Bulgaria's reform progress in October 2006 and to decide based on that review whether the originally scheduled January 2007 accession date was still feasible. In its final monitoring report on 26 September 2006, the Commission gave the green light for Bulgarian accession in 2007, but insisted on further reforms. If the requirements are not met, the Commission can invoke safeguard measures, which could lead to the suspension of funds.

The final monitoring report by the Commission indicates tougher conditions on Bulgaria's entry in 2007. The country will be closely monitored on the remaining areas of concern. These include the justice system, the fight against corruption, police co-operation and the fight against organised crime, money-laundering, integrated administrative control system for agriculture (IACS), transmissible spongiform encephalopathies (TSE), and financial control.

If these requirements are not met, the Commission has the right to invoke safeguards. Under the Accession Treaty, there are three types of safeguard measures: economic, internal market and JHA safeguards, which can be invoked up to three years after accession. These could involve food export bans and cuts to EU funds, such as agricultural and structural funds, as foreseen in the report. In addition, there are transitional arrangements, such as the restriction of free movement of workers from new member states. Also the Commission can take remedial measures to ensure the functioning of EU policies. This concerns the areas of food and air safety, agricultural funds, the judiciary and the fight against corruption.

Although the discussed possibility of imposing safeguard measures in some of the above mentioned areas, they were not imposed and Bulgaria was granted full membership in EU as of January 1st 2007.

THE BULGARIAN BANKING SECTOR

Development of the Bulgarian Banking System

Bulgaria began its transition to a market economy with a Soviet-type, state monopolised banking system. BNB and its regional branches were under the direct control of the government. This centralised network had the dual responsibility of extending loans to enterprises in accordance with administrative planning and of holding and monitoring the accounts of the government. In addition to BNB's network of branches, the State Savings Bank held private deposits and the Foreign Trade Bank carried out foreign economic operations.

In 1989, the banking system was transformed. BNB's activities were restricted to those of a conventional central bank, and 59 small- and medium-sized commercial banks were created out of former branches of BNB. Following the collapse of trade within the Council for Mutual Economic Assistance bloc ("**COMECON**") and the initial shock of price liberalisation, many enterprises began to incur losses, and the volume of debt arrears to commercial banks increased. The problems in the banking sector were exacerbated by the fact that commercial banks inherited largely unserviceable loans from state owned companies, mainly denominated in foreign currencies, which became even more burdensome as a result of the rapid inflation experienced in the early 1990s.

The state of the banking sector continued to deteriorate and by December 1995, with the exception of the large state bank, Bulbank, the aggregate capital base of the banking sector had become negative. Over 70% of all commercial loans were classified as problematic and losses accumulated rapidly. Despite these trends, the extension of new credit which was not serviced continued. To overcome the escalating problems in the banking sector, the government and BNB undertook various steps to relieve banks from non-performing loans and low capitalisation. However, the banking sector failed to recover, and an unrealistic expectation arose that the state would continue to bail out troubled state-owned banks. The extension of bad credit, however, was not just limited to the state sector. While commercial banks were accustomed to supporting many loss-making, state-owned enterprises, half of all new credit was channelled to the private sector, which was concentrated in a very small number of large loans. These private sector borrowers proved no better at servicing their debt.

In the period from 1992 to 1997, the problems faced by banks included low capitalisation, bad debt, a shortage of qualified bank personnel, problems in the feasibility and credibility of policies and BNB's inability to enforce regulations.

The 1996 Banking Crisis

The problems in the banking sector culminated in massive withdrawals of deposits from banks in 1996, resulting in a number of bank mergers, closures and privatisations and the introduction of additional regulations to stabilise the remaining institutions. During the banking crisis in 1996 and 1997 approximately one-third of all Bulgarian banks were found to be insolvent by BNB and were subsequently closed.

The Bulgarian government also took measures to stabilise its currency by instituting the Currency Board arrangement. For more information, see "*The Republic of Bulgaria - The Bulgarian Economy - Currency Board Arrangement*".

As a result of the banking crisis, the overall size of the banking sector decreased significantly. Deposits decreased from the equivalent of $7.4 billion at the end of 1995 to $1.8 billion in March 1997.

Bank Consolidation Company

In 1997, the Bank Consolidation Company (the "**BCC**") was given a mandate to privatise the state-owned banks that emerged from the banking consolidation process. By May 2003, all six state-owned banks for which the BCC had been responsible had been sold and the banking system was almost completely privatised and state ownership in the banking sector as a share of bank assets had been reduced to below 3%. In October 2004, the Ministry of Finance, as BCC's controlling shareholder, resolved to dissolve BCC following the successful completion of the bank privatisation process.

The Current Market

Since the economic crisis of 1996 and 1997, significant progress has been made in strengthening the banking system through recapitalisation, the closure of weak and bankrupt banks and the implementation of enhanced banking supervision. Stricter standards in granting banking licences have been implemented. Shareholders with stakes of 10% or more in a bank are required to obtain permission from BNB, and shareholders with stakes over 3% are required to disclose the origin of the funds they have invested. New regulations have been developed to govern the closure of commercial banks. The procedure for closing banks has been simplified and the extent to which BNB is entitled by law to exercise discretionary functions has been clarified.

Since 1997, BNB has adopted new banking regulations imposing more stringent capital adequacy ratios on commercial banks, reflecting BNB's conservative policy. The capital adequacy ratios imposed by BNB are higher than those set by the international framework adopted by the Basel Committee on Banking Regulations and Supervisory Practice for capital measurement and capital standards of banking institutions (the "**Basel Accord**"). Banks, emerging cautiously from the financial crisis of 1996 and 1997, initially maintained excessively high capital adequacy levels with the average for all Bulgarian banks reporting to BNB being 41.31% in 1999. With the cautious restructuring of assets and gradual opening up to lending (initially to the corporate sector and subsequently to retail clients), capital adequacy fell substantially and stabilised at around 16% in 2004 and 2005, above the regulatory requirement of 12%.

	1999	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**
Capital adequacy ratio(1)	41.31%	35.64%	31.32%	25.22%	25.03%	16.08%	15.17%	14.50%

Source: BNB
(1) Branches of foreign banks have been excluded.

In 2003 and 2004 activity in the banking sector intensified due to growing domestic demand for loans on the one hand and the banks' rising profit targets on the other, boosting their propensity to risk. There has been a trend towards restructuring banking assets from low-yielding government bonds and deposits with foreign banks to loans. The growth in lending has been financed by growth in domestic deposits and by increased funding from outside Bulgaria.

In 2004 strong growth in domestic credit combined with Bulgaria's increasing current account deficit caused BNB and the Ministry of Finance to undertake several measures aimed at decreasing the free liquidity in the banking system. The Ministry of Finance withdrew deposits from the banking system and BNB imposed minimum reserve requirements on attracted funds with maturities of over two years, requiring initially a 4% minimum reserve, and then imposing an 8% minimum reserve. These measures proved largely ineffective, and in 2005 BNB introduced credit ceilings by imposing reserve requirements on banks whose loan growth exceeded approximately 23% per annum. However, non-bank lending institutions have continued to prosper as these fall outside the remit of BNB's restrictions.

Despite the growth rate of lending portfolios, overall the quality of assets has remained high. However, the growth in loan portfolios has reduced many banks' capital ratios and several banks have countered this by increasing their share capital.

The overall assets of the banking system were approximately BGN 24.9 billion at 31 December 2004, BGN 32.9 billion at 31 December 2005 and reached BGN 42.1 billion in 2006 (a growth of 28.4% year-on-year). The banking system's total equity continued to increase, and at the end of December 2006 it reached BGN 4.4 billion (a growth of 4.1%). The profit of the banking system, as at 31 December 2006 amounted to BGN 807.8 million. Compared to the same period last year it registered an increase of 38.2%.

	2004	**2005**	**2006**
Loans to non-financial institutions (BGN million)	13,810	18,379	22,772
Deposits from non-financial institutions (BGN million)	16,732	20,446	27,560
Loans to non-financial institutions (% of GDP)	36.3	43.8	48.1
Deposits from non-financial institutions (% of GDP)	44.0	48.7	58.2
Loans to non-financial institutions (% increase)	47.3	33.1	23.9
Deposits from non-financial institutions (% increase)	38.1	22.2	34.8

Source: BNB

2006 saw considerable changes in the bank regulatory framework. These changes were necessitated both by the need to harmonise Bulgarian bank regulations with those in the EU, and by the ongoing development of the Bulgarian bank sector and economy as a whole.

The Law on Consumer Loan came into effect in September 2006. The Law stipulates the right of individuals to receive exhaustive and comprehensible information with regards to consumer loan terms and conditions and repayment costs, including announcement of the annual percentage cost on the loan, calculated on the basis of a unified methodology.

In May 2006, Bulgarian banks and payment systems successfully switched to the use of the International Bank Account Number (IBAN). This was an important step in the direction of Bulgaria's inclusion in the Single European Payment Area (SEPA).

Credit risk management was improved with the amendment to Ordinance No. 22 on the Central Credit Register of Banks, which now stipulates that banks are required to file with the central credit register not only loans due to them but also those due to third parties and serviced through them.

During 2006, BNB began to gradually revoke the regulations limiting the increase in the banks' loan portfolios. In the second half of 2006 the progressive scale according to which banks maintained additional reserves with BNB when exceeding loan portfolio limits was dropped. According to the regulations, the application of credit portfolio limits will be discontinued.

Towards the end of 2006, Ordinance No. 9 on the Evaluation and Classification of Risk Exposures of Banks and the Allocation of Provisions to Cover Impairment Loss was amended. According to the changes, individuals will no longer be subject to differentiated rates for impairment, and the six-month term for re-classifying individuals' loans to a lower risk group in the event of resumption of loan performance is now cancelled. The two amendments restore Ordinance No. 9 to its 2005 version. Amendments to Ordinance No. 9 are in line with BNB's policy for the gradual lifting of administrative measures on credit growth.

The dynamic economic growth during 2006 and increased disposable incomes brought about higher demand for credit facilities which banks could not meet entirely due to effective measures aimed at limiting loan portfolio growth. This lead to additional incentives for the development of the leasing market in the country. At the end of September leasing companies' receivables stood at BGN 2,253 million.

As a member of the EU from 1 January 2007, Bulgaria adopted new laws concerning the banking sector. The new Law on Credit Institutions (replacing the Law on Banks) introduced to Bulgaria the principle of the single licence, according to which all banks that have acquired licences in a EU member state can freely open branches and do business in any other EU member state.

The new Law on Financial Provision Agreements introduces minimal requirement for a single regulatory framework within the EU area regarding the use of cash receivables or securities as provision.

The Law on Additional Supervision on Financial Conglomerates stipulates the standards for the supervision of conglomerates, including banks, investment intermediaries, insurance companies and electronic money companies.

With Bulgaria joining the EU, the deposit guaranty size was raised from BGN 25,000 to BGN 40,000.

BNB continued its intensive efforts towards implementing European banking standards. Ordinance No. 8 on the Capital Adequacy of Credit Institutions was passed, introducing the New Basel II Accord and EU directives on banks' capital adequacy. According to Ordinance No. 8 banks are obliged to allocate capital not only for the credit and market risk (as previously regulated) but also for the operational risk in their activity. Specific treatment of securitization schemes, collective investment schemes and credit derivatives is also envisaged. The new Ordinance No. 8 makes the capital adequacy of banks more transparent for market participants and bank service users.

According to the BNB register, there are currently 32 banks in Bulgaria, of which four are branches of foreign banks. Bulbank is a subsidiary of UniCredito Italiano and Biochim Bank is a subsidiary of Bank Austria, part of the HVB group, now part of the Unicredit Group. Expressbank is a subsidiary of Société Generale. United Bulgarian Bank is a subsidiary of the National Bank of Greece, DSK Bank is a subsidiary of OTP Group, and the Bulgarian Post Bank and DZI Bank are subsidiaries of the Eurobank banking group of Greece. ING Bank, Raiffeisenbank, Citibank, BNP Paribas, and other large internationally active banks are also present in the Bulgarian banking market. The entry of large international banks has changed the competitive environment and created challenges for the smaller domestic banks.

Small and Medium-sized Businesses

The availability of finance for small and medium-sized enterprises is important in promoting overall growth in the domestic economy.

Many prospective borrowers in Bulgaria, and particularly small and medium-sized businesses, do not meet the banking loan criteria of many banks. These criteria often include a minimum corporate age, financial indicators, independence, and equity capital financing. Small and medium-sized businesses employing up to 250 employees accounted for approximately 99.1% of non-financial businesses in Bulgaria in 2002 and accounted for 55.8% of employment, 52.3% of turnover and generated 34.2% of the value added in the non-financial sector *(Source: 2002-2003 Report on Small and Medium Enterprises of the Bulgarian SME Promotion Agency)*. Most small and medium-sized firms have a very short history, and only a few have substantial assets which could be used as collateral for bank loans. As a result small and medium-sized enterprises generally receive finance on poorer terms than larger, more established enterprises.

The state-owned Encouragement Bank was established in 1999. Its function is to provide loans to small and medium-sized businesses. The Encouragement Bank offers thirteen programmes for investment financing: Japanese business initiative; Agriculture Financing; Eurostandard; Public-private partnership;

High technologies; Export Financing; Long-Term Investment Financing; Investment Financing of small and medium-sized businesses; Health care; Financing under SAPARD; Improvement of the competitiveness of Bulgarian production; Northern business initiative; and Family business.

The Bulgarian National Bank

Bulgaria's monetary and exchange rate policies are shaped by the Currency Board arrangement established under the Bulgarian National Bank Act in July 1997. A major goal of BNB is to maintain the stability of the Lev. Under the Bulgarian National Bank Act, BNB is required to maintain full foreign exchange coverage for its monetary liabilities and to effectively manage its foreign exchange reserves. In order to continue to effectively implement the Currency Board arrangement, the government needs to continue to pursue non-inflationary policies.

In July 1997, the Lev's exchange rate was pegged to the Deutsche mark by law at a ratio of DEM 1 = BGL 1,000. Under the Bulgarian National Bank Act, since the introduction of the Euro in January 1999, the Lev has been fixed to the Euro according to the cross-rate at which the Deutsche mark was irrevocably fixed to the Euro (€1 = BGL 1,955.83). In July 1999, the Lev was redenominated at the equivalent of parity for the new Lev (BGL new or BGN 1 = BGL 1,000) with the Deutsche mark (DEM 1 = BGN 1 and €1 = BGN 1.95583). The BNB sells and buys Euro in Bulgaria without any limitations at the fixed exchange rate.

Monetary Policy

In 1997, when Bulgaria adopted the Currency Board arrangement, it limited BNB's discretionary functions. BNB may act as a lender of last resort only upon the emergence of a liquidity risk that may affect the stability of the banking system, and up to the amount of the excess of its foreign exchange reserves over its monetary liabilities. Such lending is restricted to commercial banks, and is permitted only if loans are fully backed up by prime rate highly liquid assets. At the date of this document, this option has never been used.

The Bulgarian National Bank Act permits BNB to set the minimum reserve requirements for commercial banks. Prior to 2004, BNB used its powers to reduce the minimum reserves required to be kept by banks with BNB. In July 2004, BNB increased minimum required levels for deposits with maturities of over two years from zero to 4% and in December 2004 it increased the minimum required levels from 4% to 8%. In 2005 additional restrictions were placed on banks experiencing rapid growth in their loan portfolios. During 2006, BNB began to gradually revoke the regulations limiting the increase of the banks' loan portfolios. In the second half of 2006 the progressive scale according to which banks maintained additional reserves with BNB when exceeding loan portfolio limits was dropped. According to the regulations, the application of credit portfolio limits will be discontinued. For more information, see "*Banking Supervision and Regulation - Minimum Reserves Requirements*".

Institutional Framework

The Bulgarian National Bank Act largely complies with the provisions of the EU Treaty and the Statute of the European System of Central Banks and the European Central Bank with respect to the institutional, personal and operational independence of BNB and the members of its managing board. Under the Bulgarian National Bank Act, BNB has a high degree of operational and financial independence. In performing its functions and responsibilities, BNB is independent of the government and other state bodies.

BNB has a managing board of seven members, including the governor and the deputy governors. The personal independence of the governor and the other members of the managing board is ensured by a six-year term of office. The terms of office of the managing board members expire in succession in accordance with a staggered board system. The governor and the deputy governors are elected by parliament while the other three members are appointed by the president. Members of the managing board may be dismissed prior to the end of their term only for failure to fulfil their functions or for serious violations of law.

The Bulgarian National Bank Act implements EU provisions by prohibiting government budget deficit financing through borrowing from BNB and by curtailing state institutions' privileged access to financial institutions. The Bulgarian National Bank Act also explicitly stipulates that BNB shall not extend loans in any form to the government or government institutions except against the purchase of special drawing rights from the IMF and under strict terms and conditions designed to avoid the creation of an inflationary environment. BNB on-lends to the government the funds it receives from the IMF.

BANKING SUPERVISION AND REGULATION

General

Following the 1996-1997 banking crisis, significant progress has been made in improving banking sector regulation and supervision as well as in enhancing the BNB's regulatory power. BNB is the Bulgarian central bank and is responsible for the licensing, the regulation and the on-going supervision of the banking sector. BNB was established pursuant to the first Bulgarian National Bank Act in 1879 and was originally charged with banking sector regulation and supervision but, especially after 1946, has participated in lending activities. In 1990, pursuant to the Bulgarian National Bank Act, it was transformed into a conventional central bank. Currently, BNB is regulated by the Bulgarian National Bank Act of 1997. The freedom of BNB to set monetary policy is restricted under the Currency Board system.

Bulgarian banks are subject to the supervision of BNB and, if they also act as investment intermediaries, of the Financial Supervision Commission. The following major Acts of Parliament, as amended, regulate the activities of Bulgarian banks:

- the Credit Institutions Act 2006 (in effect from 1st January 2007);
- the Bulgarian National Bank Act 1997
- the Banks Insolvency Act 2002;
- the Measures Against Money Laundering Act 1998;
- the Measures Against Financing of Terrorism Act 2003
- the Bank Deposits Guaranty Act 1998;
- the Mortgage-Backed Bonds Act 2000;
- the Public Offering of Securities Act 1999;
- the Currency Act 1999;
- the Financial Supervision Commission Act 2003;
- the Registered Pledges Act 1996;
- the Special Purpose Entities Act 2003;
- the Funds Transfers, Electronic Payment Instruments and Payment Systems Act 2005;
- the Commercial Act 1991;
- the Consumer Credit Act 2006;
- Financial Collateral Agreements Act 2006
- Additional Supervision on Financial Conglomerates Act 2006
- Measures against Market abuse with Financial Instruments Act 2006
- the regulations of the European Communities.

A comprehensive set of secondary legislation has been created by BNB and other authorities pursuant to powers delegated under the above acts, in particular under the Credit Institutions Act. The regulatory framework for Bulgarian banks centres on prudential regulation. The Bulgarian authorities have also closely followed relevant EU directives, before and after the Bulgaria's entry into the EU in 2007. Certain material provisions of the Bulgarian banking legislative and regulatory framework are summarised below.

Capital Adequacy

Bulgarian banking legislation is substantially harmonised with similar European Union legislation. The principal objectives of the banking laws and regulations in Bulgaria are the protection of depositors, the fulfilment of monetary policy objectives and the orderly distribution of credit.

Bulgarian capital adequacy requirements are regulated by BNB Ordinance No. 8 of 2006 on the capital adequacy of credit institutions. With effect from 1 January 2007, Ordinance No. 8 regulates capital requirements for credit, market and operational risk. Bulgarian banks calculate and report both primary and total capital ratios on a monthly basis.

Ordinance No.8 of BNB on Capital Adequacy of Credit Institutions implements the recommendations of Basel II as laid out in EU Directives 2006/48/EC and 2006/49/EC. The directive allows banks subject to approval by BNB to measure the risks on which they are exposed based on internal models, resulting in the more precise and risk-sensitive measurement of credit and market risks. The securitisation schemes, collective investment schemes and credit derivatives are introduced for the first time in measuring capital adequacy.

A bank's capital ratio is calculated by dividing the capital base by the risk weighted assets. The risk weighted assets and off-balance sheet items are determined in Ordinance No. 8 and have the same risk weights as in European Directives 2006/48/EC and 2006/49/EC and subject to certain national discretions.

Capital adequacy is measured according to the financial statements prepared in accordance with **IFRS**. From 1 January 2003, IAS (now IFRS) has been compulsory for all banks operating in Bulgaria, superseding Bulgarian Accounting Standards. Ordinance No. 8 of BNB requires that banks operating in Bulgaria maintain a minimum Tier 1 capital ratio of 6% and a minimum total capital ratio of 12%. Capital adequacy ratios must be maintained for each bank both on a stand-alone and on a consolidated basis. The total capital adequacy of the banking system was 14.50% at 31 December 2006, compared to 15.17 at 31 December 2005 and 16.08% at 31 December 2004.

Ordinance No. 8 requires the acceptance of the annual financial report by the general meeting of shareholders before including the retained earnings in Tier I capital. After the retained profits from previous years are included in Tier I capital, they can be used for dividends only with the approval of BNB.

Provisions for Impairment

Provisions against on and off-balance sheet risk exposures are regulated by BNB Ordinance No. 9 on the Evaluation and Classification of Risk Exposures of Banks and the Allocation of Provisions to Cover Impairment Loss (2002), as amended. The ordinance provides a four-level exposure classification system depending on the delinquency of obligation servicing as well as a range of qualitative criteria.

Ordinance No. 9 was amended with effect from 1 April 2004 to require that banks classify risk exposures on which there is a delay in payment of principal or interest of more than 90 days as non-performing and make a provision of 100% of the bank's exposure, after taking into account any highly liquid collateral. Previously, banks were required to classify loans on which there was a delay in payment of principal or interest of more than 120 days as a loss.

All banks are required to report on provisioning to BNB on a monthly basis. Consolidated reporting is required for bank groups.

At 31 December 2006, classified exposures stood at 4.08% of total loans and regular exposures represented 95.92% for the top ten Bulgarian banks by total assets according to figures published by BNB. Throughout the Bulgarian banking system, classified exposures stood at 4.22% according to figures published by BNB. Minimum provision levels are set for credit exposures depending on their classification. At 31 December 2006 provisions to total loans stood at 2.21% for the top ten Bulgarian banks as against provisions to total loans of 2.14% for the Bulgarian banking system in general.

Large Exposures and Risk Concentration Limits

Large exposures and risk concentration limits are regulated by the Credit Institutions Act and BNB Ordinance No. 7 of 2007. Exposure to a single entity or economically related entities exceeding 10 per cent. of a bank's or a bank group`s capital base is considered to be a "large exposure". The Credit Institutions Act and Ordinance No. 7 require that the total exposure of a bank to a single entity, or economically related entities, may not exceed 25% of such bank's or bank group`s capital base, and that the total of all large exposures of a bank or of a bank group does not exceed 800% of such bank's or bank group`s capital base. The Credit Institutions Act requires large exposures exceeding 10% of a bank`s capital base to be approved by a majority vote of its Managing Board and large exposures amounting to 15% or more of the bank's capital base to be approved by a unanimous vote of its Managing Board..

New large exposures must be reported to BNB within ten days of their authorisation, with a regular report on large exposures to be provided on a quarterly basis. Bank groups are required also to report on a consolidated basis.

Minimum Reserves Requirements

All Bulgarian banks must keep minimum reserves in accordance with Ordinance No. 21 of BNB. These reserves are held by BNB in accounts which bear zero interest. At present, each bank must keep minimum reserves of 8% of its "attracted funds". Generally speaking, a bank`s "attracted funds" include all of its funding sources and liabilities, such as deposits from customers, liabilities relating to bonds or other debt instruments and loan liabilities. "Attracted funds" do not include interbank funding, deposits with overseas branches, debt/equity hybrid investments or subordinated term debt.

BNB increased the minimum reserve requirement in order to reduce liquidity and slow credit growth in the Bulgarian economy. BNB has traditionally required banks to keep 8% of all attracted funds that mature within two years. Until July 2004, banks were not required to keep reserves in respect of attracted funds that mature in more than two years. In July 2004, BNB set a minimum reserve requirement of 4% of attracted funds maturing in more than two years, and in October 2004 BNB raised the requirement to its current level of 8%. From October 2004, banks have been required to keep minimum reserves of 8% of all attracted funds, regardless of maturity. In December 2004, BNB further provided that cash in vaults of ATMs would not count towards a bank`s minimum reserve requirement.

Currency Exposures

Until 1 July 2005 exposures to foreign exchange risk were regulated by BNB Ordinance No. 4 of 1998, which stipulated that an open exposure to a single currency should not exceed 15% of a bank's capital base, and its aggregate open foreign currency exposure should not exceed 30% of its capital base. Euro/Lev exposures were not regulated. Compliance was required on a daily basis, and reporting was monthly.

BNB Ordinance No. 4 of 1998 ceased to have effect on 1 July 2005 and foreign currency risk is now covered by Ordinance No. 8 of BNB on the capital adequacy of credit institutions. Ordinance No. 8 applies essentially the same exposure limits as Ordinance No. 4 but contains additional reporting and accounting requirements.

Liquidity

BNB Ordinance No. 11 of 2007 requires that banks maintain sufficient liquidity to be able to meet any obligations arising in the normal course of business and in crisis circumstances. Banks are required to report to BNB on their compliance with the liquidity regulations on a monthly basis. The ordinance does not envisage a specific liquidity level but BNB may impose such requirements on a case-by-case basis if liquidity of a credit institution is deemed inappropriate. In general, major Bulgarian banks have maintained sufficient liquidity to support their operations as well as the growth in the lending portfolios.

Legal Procedures Available to Banks

Bulgarian banks enjoy access to a centralised credit register, organised by BNB under BNB Ordinance No. 22 of 1998, as amended. Amendments from 2007 require banks to report loan portfolios of their subsidiary financial institutions.

Bulgarian banks are entitled to begin enforcement proceedings against clients in default through writs of execution issued on the basis of excerpts from the bank's accounting ledgers, thereby avoiding lengthy proceedings in pursuit of a court judgment. However, the persons against whom enforcement takes place may, if they are in possession of persuasive evidence that they are not indebted, require a standard court hearing and the pronouncement of a judgment before enforcement proceedings can recommence.

Investment in Foreign Entities

Bulgarian banks can establish branches or a bank with a headquarters outside Bulgaria, and to acquire control over such a bank, subject to prior written approval of BNB, and subject to the legislation in the country where it wishes to do so. Since January 2007 a bank licensed in Bulgaria may carry out activities on the territory of another EU member state country through a branch or subsidiary if its operations are covered by its banking licence and after receiving written consent from BNB.

On the basis of mutual recognition, a bank licensed in an EU member state country may carry out banking activities on the territory of the Republic of Bulgaria through a branch or subsidiary if these activities are covered by its licence and after the competent home authorities notify BNB.

The activities of offshore establishments of a Bulgarian bank are subject to consolidated reporting to BNB with those of the bank itself.

Equity Participation by Banks

A Bulgarian bank cannot acquire directly or indirectly any share holding in a company which is not a bank, an investment intermediary or an insurer, when the amount of the holding exceeds 10 per cent. of the bank's capital base. The total amount of the bank`s share holdings in companies which are not banks, investment intermediaries or insurers, may not exceed 50 per cent of its capital base, and together with its investment in real estate and other long term material assets – its capital base.

Competition Commission

Subject to EU regulations, new and significant holdings (concentrations) must be reported to the Commission for Protection of the Competition (the "**CPC**"), according to the Law for Protection of Competition. The CPC may block proposed mergers or acquisitions on competition grounds.

Loans extended to Directors and Other Related Parties

A Bulgarian bank requires the unanimous consent of its board of directors or managing boards, in the case of a bank with a two-tier management system, to grant loans (i) to a director or senior manager and their close relatives, if such loans in aggregate exceed the director`s or manager`s annual remuneration, or (ii) to 10% shareholders and to other related parties if those loans are in aggregate above 1% of the bank`s share capital or are more than BGN 300 000. Any such loans may only be granted on an arm's length basis.

Acquisitions of Shares in Bulgarian Banks

Under Bulgarian law each physical person or legal entity, and persons related to the, cannot, without the prior written permission of BNB, acquire, directly or indirectly, shares in a bank licensed in Bulgaria, if as a result of the acquisition their participation shall become qualified or if such participation shall reach or shall exceed the thresholds of 20, 33, 50, 66, 75 or 100 per cent of the voting shares. Such permission is required also in cases when the bank shall become a subsidiary. In the event that such approval is not obtained in advance and the shares are acquired on a regulated securities market, to the extent that the purchaser's interest exceeds this threshold, the voting rights attaching to the excess shares are suspended pending obtaining BNB's approval. BNB is required to give its approval within three months of receipt of the request and may refuse to give consent where (1) it believes that there may be money-laundering, (2) the identity of the persons controlling directly or indirectly the proposed acquirer, their financial state and the character of their business activities are not disclosed, (3) the proposed acquirer or the persons controlling directly or indirectly the proposed acquirer have not confirmed their financial stability and reliability to the satisfaction of BNB, (4) the submitted information about the transactions, through which the shareholding participation in the bank of the proposed acquirer will be acquired or through which is settled direct or indirect control upon the proposed acquirer, raises uncertainty to be ostensible. If such approval is not applied for in one month following the acquisition of that participation on the regulated securities market or the BNB refuses to approve the acquisition of the shares, the BNB may order the person to divest any shares acquired within 30 days. However, if the shares participation is acquired in an off-market transaction without prior permission of BNB, that acquisition of shares is null and void.

If any person acquires 3% or more of the voting shares in a bank licensed in Bulgaria, the Central Depository must the BNB of that person's name and registered business address within seven days of the acquirer's entry into the shareholder register. If no notification is made or if the information is insufficient, BNB may order the person to divest any shares acquired within 30 days.

Internal Organisation Requirements of Banks

Credit institutions are obliged to maintain internal audit, compliance and risk management systems and procedures, to submit periodic reports and statements to BNB and to provide BNB with such further information as it may require, and (in connection with certain operations or activities) to make notifications to, or to request the prior approval (as the case may be) of BNB, in each case in accordance with the applicable laws of the Republic of Bulgaria and the relevant acts, regulations and circulars of BNB (each as in force from time to time).

Supervisory Measures Available to BNB

Banks are subject to an ongoing supervision by BNB on the basis of the reports that they are required to provide on a daily, weekly and monthly basis. In addition, BNB has the power to conduct on-site inspections on a periodic and *ad hoc* basis. BNB has the power to conduct audits and inspect the books and records of credit institutions. In case of breach of rules and regulations, BNB is empowered to require the relevant credit institution to take appropriate measures to remedy the breach, to issue stop orders, to require dismissal of a director and to require the bank to change its interest rates or alter aspects of its operations. BNB may also impose fines, require a bank to increase its capital, forbid the payment of dividends, and call general meetings of shareholders in certain circumstances.

Banks licensed in EU member state countries which operate on the territory of the Republic of Bulgaria through a branch should be supervised by the competent authority of the home member state country, and also by BNB which may at any time carry out on-site inspections.

Special supervision in case of insolvency and receivership are in compliance with the EC Directive 2001/24/EC. BNB is the only one competent authority to impose reorganization measures against a bank licensed in Bulgaria, including against its branches on the territory of another EU member state. BNB may also take the reorganization measures against a foreign bank licensed in another EU country and a foreign bank licensed in a third country outside the European area. In both cases BNB should notify the competent authorities in these countries.

Consolidated Supervision

Bulgarian banking prudential regulations impose supervision standards for both a licensed bank separately and for the banking groups of which it forms a part. For the purpose of these regulations, a bank group exists when the parent enterprise is a bank and it has as subsidiaries other credit institutions and/or financial institutions.

Effective from 1st January 2007 the Supplementary Supervision on Financial Conglomerates Act transposed the EU requirements for the supervision of financial conglomerates (Directive 2002/87/EC). The supplementary supervision should be submitted only at a financial conglomerates level and includes the main financial regulations – capital adequacy, intra-group transactions, risk concentration, and internal audit.

Bank Deposit Guaranty Fund

The Deposit Guaranty Fund ("**DGF**") is a legal entity established on 5 July 1999 pursuant to the Bank Deposit Guaranty Act 1998 which covers deposits up to a certain specified amount in the event of a bank bankruptcy. The DGF determines and collects annual and initial premiums from banks. The entry premium is equal to 1% of the registered capital of a bank, but not less than BGN 100,000, while the annual premium is fixed at 0.5% of the previous year's daily average deposit balance (excluding those deposits which are not guaranteed by the DGF). The annual premiums of banks in 2005 amounted to BGN 63 million. The DGF guarantees full repayment in Leva of funds deposited with a bank in the currency of the deposit up to BGN 40,000 (or its equivalent) per depositor with the exception of certain types of depositors whose deposits are not guaranteed. Participation in the DGF is mandatory.

BULGARIAN SECURITIES MARKET INFORMATION

Capital Markets

The Bulgarian Stock Exchange

In accordance with the Public Offering of Securities Act all trading of public securities is conducted on the Bulgarian Stock Exchange, which is currently the only regulated stock market in Bulgaria. At the end of 2006 the market capitalisation of the companies traded on the BSE reached 32.9% of Bulgarian GDP[1].

The Bulgarian Stock Exchange was created following the merger of the largest stock exchanges in Bulgaria and was licensed in October 1997. The Bulgarian government controls 44% of the Bulgarian Stock Exchange's capital whilst at least two thirds of its remaining shareholders are required under Bulgarian law to be financial institutions. Ownership of 20,000 shares in the Bulgarian Stock Exchange gives a shareholder the right to membership of the exchange.

Equity securities can be traded either on the Official Market or the Unofficial Market of the Bulgarian Stock Exchange. In general terms, the Official Market is aimed at large public companies with high market capitalisation and high volume of trade in their shares, whilst the Unofficial Market targets smaller, less well established companies. However, many Bulgarian blue chip companies have chosen to list on the Unofficial Market where the regulations are easier. The Exchange also organises a "primary market" for IPO's and a "privatisation market" for the sell-off of residual state-owned shares.

Despite strong growth in capitalisation and liquidity during the last 2 years, the Bulgarian Stock Exchange is still considerably smaller and less liquid than other European stock exchanges. Efforts have been made to provide the Bulgarian Stock Exchange with transparency, equal treatment of all parties, market price information, remote trading, a T+2 settlement period and information disclosure and dissemination requirements.

In addition to domestic equity securities, a variety of financial instruments can be traded on the Bulgarian Stock Exchange, including corporate, government, municipal and mortgage-backed bonds and foreign securities through the trading of Bulgarian depositary receipts. In addition, "compensatory instruments", a type of security issued by various public bodies to persons who did not receive restitution of nationalised assets after 1990, have been listed on the Bulgarian Stock Exchange since 2002.

Significant interest has been demonstrated lately by a number of foreign stock exchanges in the acquisition of the government-owned stake in the Bulgarian Stock Exchange or simply in establishing partnerships with the Bulgarian bourse. Several of them, including the Nordic operator OMX, Deutsche Boerse, Borsa Italiana, Warsaw Stock Exchange, Athens Stock Exchange and Vienna Stock Exchange, have officially announced to be potential bidders if the government decides to open a privatisation procedure for the state stake. In the same time, the Bulgarian Stock Exchange already has co-operation agreements with the Vienna, Athens, Istanbul, Skopje, Bucharest and Zagreb stock exchanges. The Bulgarian Stock Exchange also frequently participates in specialised events, organised by the Federation of Euro-Asian Stock Exchanges and the Federation of European Stock Exchanges.

At 31 December 2006, the market capitalisation of the companies traded on the Bulgarian Stock Exchange was BGN 5,643 million on the Official Market and BGN 9,672 million on the Unofficial Market. At 31 March 2007, the market capitalisation of the companies traded on the Bulgarian Stock Exchange was BGN 4,520 million on the Official Market and BGN 13,718 million on the Unofficial Market. The total stock exchange turnover for the year ended 31 December 2006 was BGN 3,384 million and the total turnover for the period since the beginning of 2007 until 31 March 2007 was BGN 1,353 million.

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[1] Based on the updated official 2006 GDP forecast of the Ministry of Finance

At 31 March 2007, 355 companies of equity securities were registered for trading on the Bulgarian Stock Exchange, of which 16 companies were registered for trading on the Official Market and 339 on the Unofficial Market.

The table below sets out the turnover and capitalisation of equities on the Bulgarian Stock Exchange for the years 2000 to 2006.

	2000	2001	2002	2003	2004	2005	2006
Official Market Equities							
Turnover (BGN millions)...............	8.6	4.4	14.4	60.9	476.0	370.2	843,5
Market capitalisation (BGN millions)	283.5	195.0	252.9	986.7	1,374.9	2,148.3	5,642.5
Unofficial Market Equities							
Turnover (BGN millions)...............	23.6	37.8	69.6	120.0	184.8	929.6	1,449.9
Market capitalisation (BGN millions)	1,003.0	909.0	1,122.3	1,742.0	2,658.3	6,285.7	9,671.5

Source: Bulgarian Stock Exchange

The Development of Bulgarian Capital Markets

In the last decade, most of the efforts in the Bulgarian capital markets field have been concentrated on the stabilisation of the legal framework, the trading infrastructure and the institutions involved.

In 1995, more than 20 stock exchanges were operating in Bulgaria. However, these stock exchanges were unregulated and lacked effective supervision over insider trading. In July 1995, Parliament adopted the Securities, Stock Exchanges and Investment Companies Act, and in 1996 the government appointed members to Bulgaria's Securities and Stock Exchange Commission.

The development of the Bulgarian capital markets in the period from 1996 to 1999 demonstrated the need for more extensive regulation. In December 1999, the Bulgarian parliament adopted the Public Offering of Securities Act, which came into effect in February 2000. The Public Offering of Securities Act was aimed at providing protection to investors, developing a stable, transparent and efficient capital market and ensuring equal access and treatment for all participants. After the adoption of the Public Offering of Securities Act, the Securities and Stock Exchange was renamed the National Securities Commission. Further developments to improve securities regulation, notably corporate governance provisions, shareholders' approval of significant transactions, directors' duties and continuing disclosure obligations for public companies were introduced in June 2002.

During the last few years in the EU accession process both the Bulgarian parliament and the Bulgarian securities regulator accomplished much work in order to harmonise Bulgarian capital market legislation with the EU directives on market abuse, prospectuses, transparent reporting obligations, investment services, UCITS and other relevant capital markets directives. The amendments of the Public Offering of Securities Act in May 2005 constituted a further step in that direction.

At the end of 2002, the Financial Supervision Commission was created, taking over the regulatory functions of the National Securities Commission, the Insurance Supervision Agency and the Social Insurance Supervision Agency. The legislation to introduce this change entered into force on 1 March

2003 and the members of the Financial Supervision Commission were nominated by the Bulgarian parliament shortly thereafter.

The Financial Supervision Commission is an independent state bod, whose seven members are elected by the Bulgarian parliament for the term of six years. The Financial Supervision Commission's members are the chairman, three deputies in charge of the three areas which the Financial Supervision Commission supervises (namely, capital markets, insurance markets and social insurance activities) and three other members.

The Financial Supervision Commission regulates public offerings of, and trading in, securities and the conduct of the securities markets, investment intermediaries, the Central Depositary and investment companies. Under the Public Offer of Securities Act the Financial Supervision Commission must approve any public offering of securities. Following the approval of the Financial Supervision Commission, the board of the Bulgarian Stock Exchange approves applications for listing of equity securities.

The Financial Supervision Commission exercises control over listed companies, issues and withdraws licences, gives confirmations and approvals, carries out inspections of the operation of banks in connection with their activities as investment intermediaries and depositaries and exchanges information with the BNB, other state institutions and bodies, and non-governmental organisations related to the securities market.

Prior to 1 March 2003, the National Securities Commission was a member of the International Organisation of the Securities and Stock Exchange Commissions. This membership passed to the Financial Supervision Commission on 1 March 2003.

The Official Market and Unofficial Market

General

Securities may be traded on the Bulgarian Stock Exchange either on the Official Market or on the Unofficial Market, but not on both markets simultaneously. Securities may not be listed for trading on the Unofficial Market if (1) an application has been made to list those securities on the Official Market, (2) such an application has been rejected or (3) the securities were previously listed on the Official Market and the Official Market listing is no longer effective. Since 1 December 2006, the Unofficial Market of Equities of BSE-Sofia was split into A and B segments. An issue of shares is transferred for trading from the Official Market of Equities or from the Unofficial Market of Equities Segment A to the Unofficial Market of Equities Segment B if certain minimum liquidity criteria are not met.

Under the Public Offering of Securities Act, all securities publicly offered and traded on the Bulgarian Stock Exchange must be in dematerialised form, registered at the Central Depositary and freely transferable. In addition, the Bulgarian Stock Exchange rules provide that securities must not be subject to any pledge or restraint and must not be blocked at the Central Depositary, the relevant company of the securities must not be in a bankruptcy, administration or liquidation procedure or in the process of transformation and the relevant company must comply with the requirements of the Public Offering of Securities Act in all other respects.

Eligibility

The Rules of the Bulgarian Stock Exchange provide eligibility criteria depending on whether admission is sought for the securities to be admitted to Segment A or Segment B of the Official Market.

Segment A of the Official Market

To be eligible for admission to Segment A of the Official Market, the equity securities in question must have been:

- traded for at least one year on Segment B or for at least two years on the Unofficial Market; and

- the market capitalisation of the issue of the equity securities in question must be at least BGN 40 million, the relevant company must have been in business for at least five years and must have registered profits in at least 3 of the last 5 years, there must be at least 1,000 shareholders for shares in the issue and there must be at least a 25% free-float; and
- the average monthly value traded in this issue for the last 6 (six) months should exceed BGN 200,000, the average monthly volume traded for the last 6 (six) months should be above 20,000 shares and the average monthly number of trades for the same period should be at least 200;

Segment B of the Official Market

To be eligible for admission to Segment B of the Official Market, the equity securities in question must have been traded for at least one year on the Unofficial Market and have a market capitalisation of at least BGN 20 million.

In addition, the company of the equity securities in question must have been in business for at least five years and must have registered profits in at least 2 of the last 5 years, there must be at least 500 shareholders for shares in the issue and there must be at least a 10% free-float.

Also, the average monthly value traded in this issue for the last 6 (six) months should exceed BGN 100,000, the average monthly volume traded for the last 6 (six) months should be above 10,000 shares and the average monthly number of trades for the same period should be at least 100.

The Unofficial Market

No further eligibility criteria need be met for listing on the Unofficial Market.

In particular, there are no eligibility requirements for listing on the Unofficial Market relating to the minimum market capitalisation of the issue, the minimum length of time the issuer has been in business, the minimum number of shareholders for the securities or the minimum free float.

Trading

The Bulgarian Stock Exchange is an electronic exchange and trades can be effected through its automated trading system either on the Bulgarian Stock Exchange trading floor or on a remote basis. The trading system is order-driven and is underpinned by a modified version of the NASDAQ based Russian Trading System (known as the RTS). Buy and sell orders are entered into the trading system during each trading session and are automatically matched. Client orders have priority over brokers' own accounts and all trades are subject to a minimum quotation of BGN 0.001. Orders outside these constraints are possible but require a special procedure and are valid only for the day they are made.

Securities on the Official Market are permitted a range of +/-15% in relation to their open price in any trading session, whilst those on the Unofficial Market are permitted a +/-30% range. The closing price of a security represents the volume weighted average price of all trades executed in the security during the trading session.

Types of orders permitted include market orders, which are buy and sell orders for a certain volume of securities at the best current available price, and limit orders, which are an order to buy or sell a predetermined amount of shares at a specified price. Limit orders are subdivided into "good until cancelled", "single execution" (day order) and "immediate" (fill or kill) categories.

Trading on the BSE adheres to "price and time priority". Market orders are executed before limit orders, as they are matched immediately upon entering the trading system, thus observing the "price priority" rule.

Transactions in shares and depositary receipts representing shares incur a transaction charge of 0.1% (VAT included) of the total value of the transaction to be paid to the Bulgarian Stock Exchange by both counterparties to the transaction.

The COBOS System

The Bulgarian Stock Exchange owns the intellectual property rights to its own internet-based application for secure and authorised real-time access to the trading systems of the Unofficial Market, known as the Client Order-Book Online System (or "**COBOS**"). Orders are submitted to the trading system through COBOS and are identical to all other orders. Use of COBOS is restricted to investment intermediaries, their clients and the administrators of COBOS.

Disclosure

The Public Offering of Securities Act provides that listed companies are required to disclose price-sensitive information by the end of the business day following the day the event occurs or the company becomes aware of it. This information must be disclosed simultaneously to the Financial Supervision Commission and the Bulgarian Stock Exchange and may be not be publicly announced by any other means prior to such publication in the Stock Exchange bulletin.

Public companies are required to file their annual and quarterly reports (which set out their annual and quarterly financial statements) with the Financial Supervision Commission and the Bulgarian Stock Exchange. The annual report is also required to contain details of and changes in a company's auditors for the preceding three years, risk factors relevant to the company or its industry sector, an overview of the company's investments and business, an analysis of the most significant trends in production, sales and inventory, a discussion of the company's prospects for the current financial year, information about members of the managing and supervisory boards, senior management and employees upon whose work the company is dependent, any major shareholders and any related party transactions.

In addition, a public company is obliged to publish a notice in at least one Bulgarian national daily newspaper stating that its annual report has been filed and is available.

Settlement

Transactions executed on the Bulgarian Stock Exchange are considered finalised after the securities have been transferred and payment received. This is certified by a registration document issued by the Central Depositary.

Transactions are settled on a gross basis. Since June 2003, the settlement cycle has operated on a T+2 basis when the Real-Time Interbank Gross Settlement System (known as "**RINGS**") was introduced. RINGS is a computerised book-entry system that operates on a "delivery versus payment" basis, which means that the transfer of securities occurs simultaneously upon payment.

The Bulgarian Stock Exchange maintains a fund in order to secure payments relating to trades made on the Bulgarian Stock Exchange. This is funded by the constituent members of the Bulgarian Stock Exchange. Each member of the Bulgarian Stock Exchange is required to make an initial payment of BGN 200 (EUR 102) and monthly payments of 0.1% of the average value of the transactions executed by such member during the previous calendar month. When the value of the fund reaches 1% of the aggregate value of all the trades executed on the Bulgarian Stock Exchange in the previous year, no further instalments are required to be made until the next calendar year.

Indices

The first official index for the Bulgarian Stock Exchange was SOFIX. SOFIX was established on 20 October 2000 with an initial index value of 100..Its daily value is calculated as its base value multiplied by the ratio of the sum of the corrected by the divisor, the weight factor and by the free-float of each company market capitalisations of all issues in the index portfolio as of the current moment, towards the sum of the corrected by the weight factor and the free-float market capitalisations as of the base moment. The market capitalisation of a company for the purpose of calculating the index is the product of the number of shares in issue and the volume weighted average price per share at the end of the trading session, but the market capitalisation of no company in the index portfolio can exceed 15% of the total SOFIX capitalisation.

The SOFIX index only includes the most liquid companies on the Bulgarian Stock Exchange markets. To be included in the index, a company must meet certain eligibility requirements, , (i) its shares must have been traded on the regulated markets for at least three months, (ii) the market capitalisation of each issue must be at least BGN 50 million, (iii) the relevant company must have at least 500 shareholders, (iv) there must be at least 10% free float, (v) the value traded in each issue during the last 12 months should exceed BGN 5 million and (vi) the number of trades in each issue during the last 12 months should exceed 1,000 transactions.. The number of the companies within the SOFIX portfolio could vary from 5 to 50.

In 2006 SOFIX advanced strongly by approximately 48%, from 825.53 on the last trading day of 2005 to 1,224.12 on 22 December 2006.

On 1 February 2005 a second Bulgarian Stock Exchange index, BG40, was launched. It was also established with an initial index value of 100. The index comprises the shares of the forty companies traded most frequently during the previous six months. Unlike SOFIX, BG40 is price-weighted. During the last year BG40 increased 50% from 133.42 in end-Dec 2005 to 199.88 on the last trading day of 2006.

Currency Legislation in Bulgaria

The 1999 Bulgarian Currency Act (last amended in July 2006) sets out the legal regime for transactions and payments between local and foreign entities, cross border transfers and payments and the import and export of Bulgarian Leva and foreign currency. The discussion below sets out those aspects of the legal regime relevant to foreign nationals who invest in the Shares.

Resident and foreign individuals are allowed to import and export unlimited amounts of domestic currency, foreign currency, and bearer payment instruments subject to observance of the provisions of the Currency Act Imports or exports of cash by Bulgarian citizens or foreign nationals in amounts in excess of BGN 5,000 or its equivalent in a foreign currency are required to be declared to customs authorities. In addition, persons exporting cash in amounts above BGN 25,000 or its equivalent in a foreign currency are required to declare the source of the cash and present a certificate issued by the Bulgarian tax office confirming that the person has no overdue tax liabilities. Such declaration is not required to be made by foreign nationals who are exporting cash in an amount not exceeding the amount of cash previously imported and declared to customs authorities on entry into Bulgaria.

A foreign national or entity transferring income (made up of capital gains and dividends) in excess of BGN 25,000 or the equivalent resulting from an investment in Bulgaria (including investments in shares and other securities and derivatives over securities issued by Bulgarian companies) or from the sale of such an investment is required to present documents evidencing the investment, its sale and all the payment of all due taxes thereon to the Bank effecting the transfer.

TAXATION

General information

The general information set out in this section regarding some taxes payable in the Republic of Bulgaria, applies to the holders of Shares including residents and non-residents of Bulgaria for tax purposes.

Residents are either legal entities and non-personified companies registered in Bulgaria or individuals whose permanent residence is Bulgaria or who reside in Bulgaria for more than 183 days in each 365-day period. A resident is also a person whose centre of life interests (which is determined by the family, the property, the place of activities or the place of management of the property) is placed in Bulgaria, as well as a perso, who is sent abroad by the Bulgarian State, its bodies and/or organizations, from Bulgarian enterprises, and the members of his/her families. Together they are referred to as "**Bulgarian Holders**".

Non-residents are persons, who do not comply with the above definition. Together they are referred to as "**Non-Bulgarian Holders**".

The following is intended only as a general guide and is not intended to be, nor should it be considered to be, legal or tax advice to any particular holder of Shares. Accordingly, it is recommended that potential investors consult their own tax advisers as to the overall tax consequences, including, the consequences under Bulgarian law and the treatment by Bulgarian authorities, of the acquisition, ownership and disposal of the Shares in their individual circumstances.

The information set out below, complies with the legislation in force at the date of issuance of this Prospectus and the Bank shall not carry out any liability about following amendments in the legislation and the normative order of the taxation of incomes from Shares.

Dividends

Under current Bulgarian law, payments of dividends by the Bank to Bulgarian Holders (except for Bulgarian commercial companies and sole merchants) and to Non-Bulgarian Holders are subject to a 7% withholding tax. Payments of dividends to Bulgarian commercial companies and sole merchants are subject to taxation pursuant to the provisions of the Corporate Income Taxation Act 2006.

Payments of dividends by the Bank to a Non-Bulgarian Holder are not subject to withholding tax if the Non-Bulgarian Holder is:

- a resident for tax purposes in a member state of the European Union according to the legislation of this member state and is not a resident of a state outside the European Union pursuant to an income tax convention between the member state and a third state;
- subject to corporate income tax according to the legislation of said member state; and
- owns, including via a place of business in Bulgaria or in another member state of the European Union, at least 15 % of the issued Shares of the Bank for a period of at least two year.

Payments of dividends by the Bank to a place of business in a member state of the European Union under the following conditions:

- the place of business is subject to corporate income tax according to the legislation of said member state;
- the place of business is established by a Bulgarian or other European Union member state commercial company or organization subject to corporate income tax; and
- the commercial company or organization above owns, including via its place of business, at least 15 % of the issued Shares of the Bank for a period of at least two year.

If the two years of holding the major block of Shares have not expired as of the date of the resolution for dividend distribution the withholding tax may not be levied if a guarantee in favor of Bulgarian tax authorities is provided amounting to the withholding tax. Such guarantee is released after expiration of the two years term and if all conditions above are met.

Apart from the above exemption for owners of major blocks of Shares, a Non-Bulgarian Holder may be eligible for an exemption, refund or credit of all or part of the Bulgarian withholding tax should an income tax convention be in place between Bulgaria and his country of residence.

If the total amount of the dividends and any other income paid by the Bank to a Non-Bulgarian Holder of Shares exceeds BGN 50,000 in any year, the Non-Bulgarian Holder of Shares is only able to benefit from a reduced withholding tax rate according to an income tax convention if he is able to prove to the Bulgarian income tax authorities that:

- he is a resident of a country with which Bulgaria has entered into a relevant income tax convention (by submission of a certificate issued by the tax authorities of such country or otherwise in accordance with the common practice of the respective foreign tax administration);
- he is the beneficial owner of the dividends attaching to the Shares (by submission of an affidavit);
- he does not own a business and is not based in Bulgaria and the earnings from the dividends are not therefore related to an economic activity in Bulgaria (by submission of an affidavit); and
- he has complied with any applicable provisions of the relevant tax convention (by submission of official documents or other written evidence).

Additional documentation certifying the type, amount and grounds for the receipt of the dividends are also required to be presented to the Bulgarian tax authorities, e.g. a copy of the decision of the Bank's general meeting of shareholders approving the distribution of dividends and a copy of the share certificate. A relief claim form accompanied by the required documentation must be filed with the Bulgarian tax authorities for each Non-Bulgarian Holder immediately following the passing of the resolution approving the distribution of dividends by the Bank' s general meeting of shareholders. If the Bulgarian income tax authorities refuse to grant relief or delay doing so, the Bank is obliged to apply the full 7% withholding tax on the payment of dividends. The holder of a Share whose application for withholding tax relief is refused may appeal the decision.

However, if the total amount of the dividends and any other income paid by the Bank does not exceed BGN 50,000 in any year, the Non-Bulgarian Holder is not obliged to file a relief claim form with the Bulgarian income tax authorities. He is required only to submit to the Bank the above documents certifying the grounds for application of the tax convention.

There is no taxation on stock dividends, i.e. the distribution of the Company's profits in the form of additional newly issued shares.

Capital Gains

There is no capital gains tax on sales of Shares on the Bulgarian Stock Exchange or in relation to a tender offer under the Public Offer of Securities Act. This tax exemption does not apply to gains arising from sales of Shares in transactions which are executed "off-market". Capital gains realised by non-Bulgarian Holders of Shares from "off-market" transactions in Bulgaria are subject to similar Bulgarian tax rules as apply to dividends, except for the amount of the withholding tax. Unless an income tax convention is applicable, a 10% withholding tax is applicable. Capital gains realised by Bulgarian Holders of Shares from "off-market" transactions are subject to taxation pursuant to the general rules of the Corporate Income Taxation Act 2006 and the Taxation of the Individuals' Income Act 2006.

Transfer Taxes

There is no Bulgarian stamp duty or other similar tax payable upon a transfer of Shares.

SUBSCRIPTION AND SALE

Placing Arrangements

Under the terms and subject to the conditions to be contained in the Placement Agreement, the Bank will agree to issue 10,000,000 New Shares and the Selling Shareholder will agree to sell up to 5,000,000 Existing Shares (and, at the discretion of the Lead Manager, up to a further 1,500,000 Over-allotted Shares subject to the Over-allotment Arrangements) at the Offer Price. The Lead Manager will agree to use its respective best endeavors to procure acquirers at the Offer Price for the number of Shares coordinated with the Bank after pricing (such number not to exceed 15,000,000 Shares) and, at its discretion, up to a further 1,500,000 Shares pursuant to the Over-allotment Arrangements.

Pursuant to the Placement Agreements First Financial Brokerage House OOD will act both as a Lead Manager and a Selling Shareholder.

Allocations of Shares under the Offering will be determined at the discretion of the Lead Manager (following consultation with the Bank).

Placement Agreement

The Bank and the Lead Manager have agreed that the Placement Agreement will contain, amongst others, the following further provisions:

1. The Bank will agree to pay to the Lead Manager a commission of 2.0% of the Offer Price multiplied by the total number of New Shares for which the Lead Managers procure subscribers. In addition, the Bank has agreed to pay to the Lead Manager, at its sole discretion, an additional discretionary commission of up to 1% of the Offer Price multiplied by the total number of New Shares for which the Lead Managers procure subscribers.
2. The Bank's obligations, together with those of the other parties to the Placement Agreement, will be subject to certain conditions which are typical for an agreement of this nature. These conditions include, amongst others, the accuracy of the representations and warranties under the Placement Agreement and the applications for Admission having been approved on or prior to the Payment Date. The Lead Manager will be able to terminate the Placement Agreement in certain circumstances that are typical for an agreement of this nature. These circumstances will include the occurrence of certain material changes in the condition (financial or otherwise), business prospects, business affairs or earnings of the Group and certain changes in financial, political or economic conditions (as more fully set out in the Placement Agreement). If any of the above mentioned conditions are not satisfied (or waived, where capable of being waived), or the Placement Agreement is terminated prior to the Allocation Date, then the Offering will lapse.
3. The Bank will agree to pay or cause to be paid (together with any related value added tax) certain costs, charges, fees and expenses of, or in connection with, or incidental to, amongst others, the Offering, Admission or the other arrangements contemplated by the Placement Agreement.
4. The Bank will give customary representations, warranties, undertakings and indemnities to the Lead Manager, including in relation to the business, the accounting records and the legal compliance of the Bank, in relation to the Shares and in relation to the contents of this document.
5. If the Bank or the Lead Manager terminate the Placement Agreement prior to the Allocation Date or if for any other reason the Offering does not proceed, Admission will not take place and any monies received in respect of the Offering will be returned to applicants.

6. If at the Allocation Date any of the 10,000,000 New Shares is not allotted (subscribed), the Offering shall be terminated or delayed. New Shares less than the number announced shall not be allocated and only new Shares may be allotted in the Offering.

Lock-up Arrangements

The Bank and the Existing Shareholders will enter into certain lock-up arrangements in the Placement Agreement.

The Existing Shareholders will agree that, except for any Shares sold as part of the Offering (including any Shares sold under the Over-allotment Arrangements), they will not, for a period of 180 days after the Allocation Date of this document, without the prior written consent of the Lead Manager, 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.

The Bank will agree to similar lock-up arrangements in the Placement Agreement for a period of 360 days after the Allocation Date, with the exception that the Bank will also agree not to allot, issue or contract to issue Shares or other securities, specified in item (A) above.

Terms of Placing Buy Orders for the Offer Shares

The Offering shall take place in the Republic of Bulgaria. Addressees of the Offering may be offered to any persons, both Bulgarian and non-Bulgarian persons, except for in cases whereas such an offering shall constitute a breach of the applicable legislation, as well as U.S. persons, to the extent admissible under Regulation S. Non-resident foreign investors that intend to acquire Offer Shares should acquaint themselves with the relevant laws of their jurisdictions.

General Information

Buy orders for the Offer Shares, including subscription orders for the New Shares ("**Buy Orders**"), will be received by the Lead Manager in the period from 7 May until 18 May 2007. Investors may place Buy Orders, in person or through a proxy, directly with the Lead Manager or via investment intermediaries, including in selected offices of the Bank (set out in an announcement of the Offering, which shall be released in the State Gazette and the daily newspaper Dnevnik (or in another central daily newspaper) at least 7 days before the start of the book-building period and the acceptance of Buy Orders (the **"Announcement for the Offering"**). The placing and execution of such Buy Orders will be effected pursuant to the terms of the agreement of the prospective investor concluded with the Lead Manager or the other investment intermediary.

The following types of Buy Orders may be placed: (i) Orders specifying the highest price the investor shall pay for the Offer Shares ("**Limited Order**"); and (ii) market Buy Orders specifying the total amount to be invested in the Offer Shares at a price determined by the Lead Manager ("**Market Order**").

The placement of a Buy Order shall be considered a confirmation that the investor:

- has read the Prospectus and accepts the terms of the Offering;
- consents to being awarded a lower number of the Offer Shares than the number specified in a limited Buy Order placed, or not to being awarded any Offer Shares, pursuant to the terms and conditions set forth in this document;
- consents to being awarded such proportion of New Shares to Existing Shares within the total

number of Offer Shares allotted as determined discretionally by the Lead Manager; and

- undertakes to pay an amount equal to the number of the allocated Offer Shares multiplied by the Offer Price, as well as any fees and commissions related to the Offering, in compliance with the instructions of the Lead Manager, and
- agrees that if by the Payment Deadline Date, inclusive, the payable sum for the allocated Offer Shares is not received by the Escrow Agent, the Offer Shares shall not be acquired by the investor and the latter shall not be entitled to lay any claims regarding the acquisition against the Lead Manager and the Bank.

The investor shall not be entitled to withdraw an Offer placed, though the investor may renounce the requested Shares under the terms and conditions of the Public Offering of Securities Act.

Necessary Data and Documents for Order Placement

Share Buy Orders (filled in and signed by the investor) may be placed both via the Bank or other licensed investment intermediary, which shall deliver them to the Lead Manager within the terms referred to in this Prospectus.

Contents of the Orders

The orders shall have at least the following contents: (a) the three names, Personal Identity Number, seat and address of the investor and its representative, company name, BULSTAT identification code, headquarters and address of the investors' and their representatives,and if the investor is a foreign person or entity – relevant identity data, including personal/insurance number for natural persons and registration or other relevant number for legal entities; (b) issuer (First Investment Bank AD) and ISIN code of the Shares; (c) for a Limited Order – the proposed price per Share, the number of Shares and the total amount of the Order; for a Market Order – the total amount of the Order; (d) date, hour and place of the Order placement; (e) signature of the person placing the Order or of its legal representative or attorney.

The Lead Manager is entitled to prepare and request the completion of particular Order forms with the above contents.

Documents Enclosed

To the Order shall be enclosed at least the documents specified bellow, in compliance with the instructions of the Lead Manager and of the investment intermediaries via which the Orders shall be placed.

- for Bulgarian legal entities – a copy of the company Certificate for Good Standing and copies of the BULSTAT documents, certified by the legal representative;
- for foreign legal entities – a copy of the registry act (or other similar identifying document, proving the existence/establishment of the entity) on the relevant foreign language, indicating the full name of the legal entity, the issue date and the address of the legal entity; the names of the persons, authorized to represent it, as well as a translation of the document in Bulgarian or in English, enclosed thereto.
- for Bulgarian natural persons – a copy of their identity document, certified by them;
- for foreign natural persons – a copy of the pages of their passport, containing information about the full name, the passport number, date of issue /if included in the passport/; date of expiry / if included in the passport /; nationality; address / if included in the passport /; and a copy of the passport pages with other information set out and the person's photo, as well as a translation of these documents in Bulgarian or in English;
- investor's bank account, to which the amounts paid shall be returned in event the Offering is terminated.

The Order may be placed through a representative, which shall prove its identity with an identity document, if being a natural person, or with a company Certificate for Good Standing, act of registration or other such document (depending if the legal entity is Bulgarian or foreign), and present a special power of attorney as well as the above described identifying documents for the investor-assignor.

The Order may be also placed via licensed investment intermediary, which client the investor wishing to acquire the Offer Shares is. In this event the investment intermediary delivers to the Lead Manager the Order, signed by the client or, respectively, by the client's representative, and the documents to be attached described above and/or a duly certified aggregated order in a form prior approved by the Lead Manager and in compliance with the Lead Manager's instructions. In the above cases a power of attorney authorizing the investment intermediary of the client is not necessary to be presented to the Lead Manager.

The Lead Manager and the investment intermediaries, through which the Orders are placed, may, in compliance with their applicable legislation, general conditions and practice, refuse to accept an Order if they are not satisfied with the type, form, validity or other circumstances concerning the documents presented to them. The Lead Manager and the investment intermediaries shall be entitled, in certain conditions, to accept an Order without the required number of documents, being attached to it, in case the missing documents provide information already obtained from a different source and the actuality of the information thus obtained is undoubted.

Book-building and Allocation

Determination and Publication of the Offer Price The Offer Price will be determined by the Lead Manager, with the agreement of the Bank and the Selling Shareholder, following a "book-building" process carried out by the Lead Manager. During the "book-building" process, the Lead Manager will collect from potential investors Buy Orders as described above, see "*Placing Buy Orders*".

In determining the Offer Price, the Lead Manager will have regard to various factors including the level and nature of demand for the Shares, the market prices of securities of companies engaged in activities similar to those engaged in by the Bank, prevailing market conditions and the intention to secure the desired level of over-subscription and achieving an orderly after-market in the Shares.

The Bank will issue up to 10,000,000 New Shares and the Selling Shareholder will sell up to 5,000,000 Existing Shares in the Offering (assuming that no Shares are sold pursuant to the Over-Allotment Arrangements). A further 1,500,000 Shares may be allocated in the Offering pursuant to the Over-allotment Agreements, comprising a part of the Placement Agreement. In case additional shares are allocated, their allotment shall take place at the Allocation Date together with the other Offer Shares. Accordingly, the total number of Shares that may be allocated in the Offering is 16,500,000. The actual number of Offer Shares to be allocated the Selling Shareholder in the Offering will be dependent on the Offer Price and the factors described in the preceding paragraph and will be determined at the Allocation Date. The Offer Price and number of Offer Shares to be subscribed and sold in the Offering are expected to be announced and published, including via electronic media as specified below, on 19 May 2007. This information will be available at the following places from the date of announcement of such information:

- during usual business hours at the registered office of the Bank in Sofia, Bulgaria, 37 Dragan Tsankov Blvd, and on the Bank's website, which is www.fibank.bg;
- during usual business hours at the office of First Financial Brokerage House OOD in Sofia, Bulgaria, 2 Enos Street, Trading and Sales Department, Tel +359 2 810 64 00; and
- on the website of the BSE, which is www.bse-sofia.bg.

Allocations of the Offer Shares

On the basis of the Buy Orders received and the recommendations of, and in consultation with, FIBank, with consideration of the factors for determining the Offer Price (see "*Determination and Publication of the Offer Price and Number of Shares in the Offering*"), the Lead Manager will prepare an allotment list containing the names of the investors, respectively the names of the investment intermediaries through which the Orders are placed, and the number of Offer Shares allotted to each of them. However, such number of these Offer Shares will be determined discretionally, and will not be higher than the number set forth in the respective Limit Order or, respectively, the number which result from dividing the amount of the investment specified in such Market Order with the Offer Price. Investors that specify in a Limit Order a price lower than the Offer Price will not be entitled to purchase any Offer Shares. No fractional interest in Shares will be allocated to investors.

The Lead Manager reserves the right to allot a lower number of Offer Shares than those indicated in the investor' Buy Order, or not to allot any Offer Shares at all, without stating a reason.

The Lead Manager will adhere to allocating successful applicants within the total number of Offer Shares allotted to them *pro rata* with 2/3 New Shares and 1/3 Existing Shares, but there is no guarantee that such guidance will be followed strictly.

In ranking the Orders placed and the number of Shares to be allocated to the Orders, the Lead Manager and the Bank will have unlimited right of discretion and shall not be obliged in any case to state any particular reason and/or grounds for their actions and decisions.

The Lead Manager will notify the investors included in the allotment list by sending notices, as agreed with the respective investor or, as the case may be, with the investment intermediary acting for that investor. The notices will be sent to the addresses disclosed in the Buy Order, as well as to other known to the Lead Manager addresses of the investors that will be allocated shares, latest by the end of the first business day following the deadline for submitting "Buy Orders". Notices may also be received by investors at the places, indicated above, where they have submitted the "Buy Orders". Detailed results of the Book-building will not be disclosed to the public. The allotment list shall not be disclosed to the public or announces otherwise.

Payment for the Offer Shares

Pursuant to the requirements of the Measures against Money Laundering Act the Lead Manager, as well as banks and the other financial institutions, receiving and realising payment transfers shall or in certain circumstances are entitled to identify the investors and collect, record or disclose to the relevant state authorities information concerning the transfers made and the monies' origin in compliance with the requirements of law and their internal applicable rules.

If the Buy Order is made through an investment intermediary, the transfer of the funds may be also carried out by the relevant investment intermediary at the expense of the client-investor.

Means of Payment

Payment of the Offer Shares shall be made via a bank transfer or in cash according to the agreement between the investor and the Lead Manager or the other respective intermediary through which the Order is placed. The payment document shall contain details at least about the name of the investor, respectively of the investment intermediary acting on the account of the investor, about the total number of the allotted Shares to be paid, as well as other data pursuant to the instructions of the Lead Manager, which shall be announced in the Lead Manager's webpage, disclosed on page ii of this Prospectus.

Terms of Payment. Joint Escrow Accounts.

The deadline for receiving payments from successful applicants for the allotted Shares at the escrow account, opened by the Escrow Agent for this purpose ("**Joint Escrow Account"**), will be the end of the third business day in Bulgaria following the day of the Offer Price announcement on the BSE ("**Payment**

Deadline Day”). Payment shall be considered completed at crediting the relevant sum with the Escrow Account. The number of the Escrow Account will be published in the Offer Announcement and may be received any time after the Announcement from the Lead Manager.

The Payment Deadline Day is expected to occur on or around 28 May 2007. Should there be no payment or partial payment received at the Joint Escrow Account until the end of the Payment Deadline Day, such successful Buy Orders may be carried out in part, within the partial payment received, or rejected, if no payment has been made or upon the Lead Manager’s discretion to reject a partially paid successful order.

Capital Account and Escrow Account of FFBH

After the Payment Deadline Day the Escrow Agent will (a) debit the Joint Escrow Account by crediting the special capital account at the name of the Bank with the monies received for the allotted New Shares and (b) shall debit the Joint Escrow Account by crediting an escrow account at the name of the Selling Shareholder **(“Escrow Aaccount of FFBH”**) with the monies received for the allotted Existing Shares.

Pursuant to the law the monies credited to the capital account will be blocked and will not be used by the Bank before the capital increase court registration and if for any reason the Offering is unsuccessful will be returned to the investors under the terms and conditions specified bellow.

Pursuant to the Escrow Accounts Agreement which shall be concluded by the Allocation Date, the monies credited to the Escrow Account of FFBH shall be blocked and shall not be used by the Paying Agent before carrying out the settlement in Central Depository of the stock exchange transactions for transfer of the Existing Shares allotted and paid. In compliance with the Escrow Accounts Agreement and the instructions of the Selling Shareholder, based on a document duly issued by the BSE and/or the Central Depository, certifying the performance of the above stock-exchange transactions the Escrow Agent will transfer the monies from the Escrow Account of FFBH to the special DvP settlement accounts of the investment intermediaries, through which Buy Orders have been placed and/or the relevant bank-grantor, for the sole purpose of carrying out the settlement of the above stock exchange transactions with the Existing Shares and the Over-allotted Shares (“**Existing/Over-allotted Shares**”) by means of “delivery versus payment” (DvP) as required by the BSE Rules of Procedure and the Central Depository Rules.

In compliance with the legislation and regulations in force the Existing/Over-allotted Shares will be blocked in the Central Depository at the day of crediting the Escrow Account of FFBH with the monies for payment of the Existing/Over-allotted Shares and the Selling Shareholder shall not be allowed to dispose them without the consent of the Paying Agent for purpose other than the settlement of the Existing/Over-allotted Shares. In event of cancellation or delay of the Offering (see bellow *“Cancellation and Delay of the Offering”*), the Existing/Over-allotted Shares will be unblocked by the Central Depository.

If for any reason the increase of the capital of FIBank is not registered at the commercial register, payments for all Offer Shares will be reimbursed to the bank accounts set out for this purpose in the orders placed without interest and the Existing/Over-allotted Shares will be unblocked.

After the capital increase of the Bank is registered at the commercial register the monies in the capital account of the Bank will be released and become available to FIBank. Trading of the New Shares on the stock exchange will start simultaneously with trading of the Existing/Over-allotted Shares and namely as of the first trading date, designated by the BSE, which is expected to be on or around 22 June 2007. At the date the transfer of the Existing/Over-allotted Shares to the BSE is executed, which shall be made with Escrow Agent’s Agreement on the first trading date, the Existing/Over-allotted Shares will be unblocked for the Share purchase transactions’ settlement which will be executed in compliance with the BSE Rules of Procedure and Central Depository Rules.

Delivery of the Offer Shares and Admission

Immediately following the capital increase registration with the commercial register and in compliance with the procedures set in law the Bank will file an application form both with the Central Depository for registration of the New Shares at the investors' accounts and with the Financial Supervision Commission for registration of the Bank and the Shares into the public companies registry, kept by the Commission; immediately following the final registration the Bank and/or the Lead Manager will file with BSE an application for listing the Shares and will propose the Offer Price to be quoted as a opening price for the trading. Trading may commence on the date, designated by the BSE Board of Directors. It is expected that the investors' personal accounts with the Central Depository will be credited with the New Shares on or around 30 May 2007.

Immediately following the New Shares' registration, the Central Depository will issue the investors depository receipts for the New Shares acquired by them. Receipts will be received by the investors or by their representatives, authorized with an explicit notary certified power of attorney, without term limits at the address of the Lead Manager.

For the purpose of being sold at the BSE, the New Shares will be transferred after Admission for Trading from the investors' personal accounts to their client accounts opened with an investment intermediary (including Global Custodians), a member of the Central Depository.

The Admission decision is expected to take place on or around 12 June 2007 and the Existing Shares, allotted in the Offering, will be transferred on the BSE on or around 21 June 2007. Trading with the Shares, including any Offer Shares, is expected to commence on the Bulgarian Stock Exchange at 9.30 a.m. (Eastern European time) on or around 21 June 2007. The earliest date for settlement of purchases of the Existing Shares in the Offering will be on or around 26 June 2007, see also "*Settlement and Delivery - Initial Settlement of the Shares under the Offering*". These dates and times may be changed. Announcement and publication of confirmation of these dates, or of the change of the dates, will be made without delay in the same way as for the Offer Price, see "*Determination and Publication of the Offer Price and Number of Shares in the Offering"*.

Publication of the results of the Offering

In 7 days after the Allocation Date the bank shall notify the FSC and the BSE about the results of the Offering, including *inter alia* the total number of Offer Shares subscribed and purchased. Such information shall be published in the central daily newspapers "Dnevnik" and "Pari" and also in the webpages of the Bank and the Lead Manager.

The FSC and the BSE shall be notified and publications will be made without delay, in the manner described above, about the entry of the capital increase in the commercial register, the opening of the accounts for the New Shares at the Central Depository and for the Admission.

Cancellation and delay of the Offering

The Bank reserves the right, after consulting with the Lead Manager, to cancel or delay the Offering under the terms set bellow and without stating a reason therefore. The Managing Board of the Bank shall take a decision for cancellation or delay of the Offering and the Bank is required to notify the FSC, BSE, the Paying Agent and the investors for this without delay and in no case later than the end of the next business day after making such decision, making respective publications in the manner described above in "*Publication of the results of the Offering*".

Offering will be cancelled if any of the 10,000,000 New Shares are not subscribed (allotted) and paid. The Bank will disclose this circumstance in the public announcement of the results of the Offering, mentioned above (see *"Publication of the results of the Offering"*). The Offering will be also cancelled in the case the entry of the New Shares and the capital increase at the commercial register is rejected. In addition, not later than by the Allocation Date inclusive and upon occurrence of certain unfavourable circumstances, including of *force majoire* nature, the Offering may be terminated or delayed up to the end of 2007.

The Escrow Agent shall transfer back without delay under the terms of the Escrow Accounts Agreement and in no case later than 5 days after the Managing Board's decision for the Offering cancellation or delay, the monies paid, if any, for all the Offer Shares and without interest accrued, to the bank accounts, set out for this purpose in the orders placed. The Existing/Over-allotted Shares will be unblocked by the Central Depository (as far as any blocking has been made).

Over-allotment and Stabilisation

In connection with the Offering, the Stabilising Manager, may, to the extent permitted by applicable law, at its discretion effect transactions with a view to supporting the market price of the Shares at a level other than that which might otherwise prevail in the open market. The Stabilising Manager may do this by buying Shares below the Offer Price or selling Shares above the Offer Price. The Stabilising Manager may only sell Shares in stabilisation transactions which it acquired in earlier stabilisation transactions. In no event will measures be taken to stabilise the market price of the Shares by buying Shares above the Offer Price or selling Shares below the Offer Price. The Stabilising Manager is not required to enter into any stabilisation transactions. Shares subject to stabilising transactions, if any, may not exceed the number of the over-allotted Shares. Such stabilising measures, if commenced, may be discontinued at any time and may only be undertaken during the 30 day period from the first day of trading of the Shares on Bulgarian Stock Exchange.

The Stabilising Manager is required to notify in advance the FSC and BSE about the first and the last date of the 30-day stabilising period. Within seven days of the end of the stabilisation period, the Stabilising Manager is required to submit a report to the FSC and the BSE which states:

- whether or not stabilisation was undertaken;
- for the stabilisation period (a) the date on which stabilisation started, (b) the date on which stabilisation last occurred and (c) the price range within which stabilisation was carried out; and
- the total number of Shares which were traded in stabilisation transactions on each day on which stabilisation transactions took place during the stabilisation period.

The Stabilising Manager is required to must also submit a report to the BSE after each period of five business days during the stabilisation period which sets out the number of Shares which were traded in stabilisation transactions during that five day period and the prices at which those Shares were traded.

Save as specified above, the Stabilising Manager does not intend to disclose the extent of any over-allotments and/or stabilisation transactions under the Offering.

In connection with the Offering, FFBH, as a Stabilising Manager, has agreed with the Bank on the form of the Placement Agreement under which the Stabilising Manager may, acting on its own account, sell up to 1,500,000 Over-allotment Shares, owned by itself, at the Offer Price for the purpose to cover over-allotments, if any, in connection with the Offering and/or to generate proceeds for funding stabilisation transactions.

Any Over-allotment Shares allocated to investors as part of the Offering will be allocated at the same time as the other Offer Shares. Any Over-allotment Shares made available pursuant to the Over-allotment Arrangements will rank *pari passu* with the Shares.

Selling Restrictions in Certain Jurisdictions

The distribution of this document and the offer of Shares in certain jurisdictions may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any restrictions, including those set out in the paragraphs that follow. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

General

No action has been or will be taken in any jurisdiction, other than Bulgaria, which would permit a public offering of the Shares, or possession or distribution of this document or any other offering material, in any country or jurisdiction where action for that purpose is required. Accordingly, the Shares may not be offered or sold, directly or indirectly, and neither this document nor any other offering material or advertisement in connection with the Shares may not be offered or sold, directly or indirectly, and neither this document nor any other offering material or advertisement in connection with the Shares may be distributed or published in or from any country or jurisdiction except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction.

Persons into whose possession this document comes should inform themselves about and observe any restrictions on the distribution of this document and the offer of Shares, including those in paragraphs above. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. This document does not constitute an offer to subscribe for or buy any of the Shares offered hereby to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation in such jurisdiction.

Bulgaria

No Shares may be offered to the public in Bulgaria and no Shares may be traded in Bulgaria by persons in Bulgaria within the meaning of the Bulgarian Public Offering of Securities Act 1999 prior to the approval of a prospectus in relation to the offer of those Shares by the Bulgarian Financial Supervision Commission. After such approval, Shares may only be traded through the BSE in Bulgaria. "Traded" is defined in the Public Offering of Securities Act 1999 to mean, in relation to the Shares: (i) any public offering of Shares which have already been issued (referred to as a "secondary public offering"); (ii) the execution of a transaction resulting from a secondary public offering of Shares; (iii) any offers for and/or execution of sales and purchases of Shares which have already been issued where the offerer and/or a party to the transaction is a legal entity or a sole trader; or (iv) any public offer for the acquisition of Shares for consideration or a public invitation for offers to provide consideration in exchange for the transfer of Shares, except in the case of a tender offer pursuant to the Public Offering of Securities Act 1999. The Lead Manager has represented and agreed that it has not offered, and it will not offer, the Shares publicly in Bulgaria and it has not engaged, and it will not engage, in trading of the Shares with persons in Bulgaria otherwise than in full compliance with the provisions of the Bulgarian Public Offering of Securities Act 1999 and all other applicable Bulgarian laws.

European Economic Area

Each of the Managers has represented and agreed that, in relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each a "**Relevant Member State**"), an offer to the public of any Shares which are the subject of the Offering contemplated by this document may not be made to the public in that Relevant Member State except that an offer of Shares may be made to the public in that Relevant Member State at any time under the following exemptions under the Prospectus Directive, if they are implemented in that Relevant Member State:

- to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose main corporate purpose is to invest in securities;
- to any legal entity which has two or more of (i) an average of at least 250 employees during the last financial year; (ii) a total balance sheet of more than € 43,000,000 and (iii) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;
- to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the Lead Manager for any such offer; or
- in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of the Shares shall result in a requirement for the publication by the Bank or any Manager of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of any Shares to the public" in relation to any Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any Shares to be offered so as to enable an investor to decide to purchase any Shares, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

The United States

The Shares have not been and will not be registered under the US Securities Act or with any securities regulatory authority of any state or other jurisdiction in the United States and may not be offered or sold within the United States except in transactions exempt from, or not subject to, the registration requirements of the US Securities Act. The Shares are being offered and sold outside of the United States in reliance on Regulation S. In addition, until 40 days after the commencement of this offering, an offer or sale of Shares within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the US Securities Act.

SETTLEMENT AND DELIVERY

Clearance and Settlement Procedures for the Offering

It is expected that after the entry of the capital increase and the New Shares into the Commercial Register, the investors' accounts at the Central Depository will be credited with the New Shares allotted and paid on or around 30 May 2007.

All initial transfers of Existing/Over-allotted Shares from the Selling Shareholder to the successful investors will be effected through the BSE and settled through the Central Depository as described below in "*Initial Settlement of the Existing/Over-allotted Shares under the Offering*". It is expected that the investors' accounts will be credited with the Existing/Over-allotted Shares bought on or around 26 June 2007. The Offer Price at which the transactions with the allotted Offer Shares will be concluded on the BSE will be quoted in Leva by the BSE.

All subsequent trading of Shares (including the Existing/Over-allotted and New Shares) will take place in accordance with the rules and operating procedures of the BSE and the Central Depository as described below in the section headed "*Secondary Trading of the Shares*."

Initial Settlement of the Existing/Over-allotted Shares under the Offering

A prospective investor (an "**Applicant**") who is allocated Existing/Over-allotted Shares by the Lead Manager as part of the Offering must submit an application in the required form to the Lead Manager - First Financial Brokerage House OOD nominating thereto whether the Shares allotted to this Applicant are to be registered upon settlement (i) to the Applicant' s Central Depository account; or (ii) to the Central Depository account of a global or local custodian chosen by the Applicant ("**Custodian**"), who will hold those Shares for the benefit of that Applicant. If the Applicant nominates a Custodian, it must instruct that Custodian to perform all steps necessary for settlement of the Shares allotted on behalf of the Applicant in accordance with the rules and operating procedures of that Global Custodian, the Lead Manager and the Central Depository.

First Financial Brokerage House OOD will lodge with the Central Depository a list of all successful Applicants, their respective allocations of Shares, and details of the nominated by them investment intermediary and/or Custodian (if any) to the account of which the Shares are to be registered on or around 21 June 2007 and also on that date will supply each investment intermediary and/or Custodian with the necessary details. The BSE will process the initial sales of the Existing Shares from the Selling Shareholder to the Applicants at the Offer Price. This is expected to occur on or around 21 June 2007. Such investors' accounts will be credited with the shares on or around 26 June 2007. The Lead Manager will not charge successful Applicants with any brokerage commission.

Settlement of the Existing/Over-allotted Shares will be made on a delivery versus payment basis, and the Existing Shares will be transferred to the Central Depository accounts of the relevant Applicants and Custodians on a T + 2 basis.

No assurance can be made that the Existing/Over-allotted Shares will be delivered in accordance with these procedures. An Applicant must ensure and clarify in advance that both it and any Custodian it nominates will comply with these procedures and all relevant instructions of the Lead Manager and their agents.

Secondary Trading of the Shares

Sale and Settlement

Subject to certain legislative exemptions, upon Admission, any trading in the Shares must be concluded on the BSE and settled through the Central Depository. Share prices are quoted in Bulgarian Leva, and settlement takes place on a T+2 basis.

If the seller and purchaser are clients of one and the same Custodian, the transaction may be concluded and settled through the common Custodian.

Investment Intermediaries

Except in the case of a trade through a common Global Custodian outlined above, investors may only engage in secondary trading of securities listed on the BSE through a licensed investment intermediary. The role of the intermediary is to receive a buy or sell order from the investor, execute it on the BSE (if possible), register the transaction with the Central Depository and carry out settlement. A transfer of securities resulting from a donation or inheritance is registered with the BSE and settled through the Central Depository with the assistance of an investment intermediary acting as a registration agent. Investment intermediaries are required to provide their clients with information about the types of orders that may be placed on the BSE, the details of any active orders or executed transactions made on behalf of that client, and the expenses, fees and commissions payable to that intermediary, to the BSE or to the Central Depository (if applicable).

All transactions in respect of the shares of a public company, registered in Bulgaria, are subject to the detailed provisions of the Public Offer of Securities Act 1999 and the regulations to that Act, the BSE Rules, and the Rules and Regulations of the Central Depository.

The Clearing System

The Central Depository was established as a special joint-stock company in August 1997 under specific provisions of the Bulgarian securities legislation. BNB and the Bulgarian Ministry of Finance own an aggregate of 41.9% of the share capital of the Central Depository. The remaining percentage of the Central Depository's share capital is spread between the major Bulgarian commercial banks and those investment intermediaries that play an active role in the conduct of the BSE. The operations of the Central Depository are supervised and regulated by the Financial Supervision Commission, BNB and the Bulgarian Ministry of Finance. Settlement of securities through the Central Depository can only be effected through a member of the Central Depository. Only investment intermediaries, financial institutions and certain other market participants may become members of the Central Depository.

Payment of Dividends

When the Central Depository receives cash to be distributed as a dividend in relation to a security, the Central Depository will credit the cash accounts of the members who act for the persons registered in the Central Depository's book-entry records as the shareholders of that security at the relevant date. These members are usually investment intermediaries, who upon receipt distribute the dividend amounts to the relevant shareholders in accordance with their shareholdings. The Central Depository will distribute dividends only in accordance with its rules and procedures and any applicable legislation or regulations.

GENERAL INFORMATION

1. **The Bank**

1.1 The foundation meeting of the Bank's shareholders was held on 8 June 1993. After being granted a banking licence by BNB, the Bank was registered with the Sofia City Court pursuant to court resolution dated 8 October 1993 under court file No. 18045/1993, batch No. 11941, volume 163, page 106 as a joint stock company under the Commercial Act 1991. The Bank is entered in the BULSTAT unified register under code 831094393. The Bank is registered as an issuer of publicly traded bonds with the Bulgarian Financial Supervision Commission's Public Companies and other Securities Issuers register under batch No. 05-1085 and with the investment intermediaries register, kept by the Financial Supervision Commission, under batch No 03-0079.. The Bank is duly incorporated and validly existing under the laws of Bulgaria. The existence of the Bank is not limited by term.

1.2 The Bank will become a public company upon the capital increase registration at the commercial register. Within 7 days after the court registration the Bank is required to submit documents for its entry in the register under Art. 30, Para 1, Item 3 of the Financial Supervision Commission Act.

1.3 The registere, head office and principal place of business in Bulgaria of the Bank is at 37 Dragan Tsankov Blvd, 1797 Sofia, Bulgaria, phone number: +(3592) 817 1100, fax number: +(3592) 970 9597, email: fib@fibank.bg, and web page: www.fibank.bg). The contents of the Bank's web site do not form part of this document.

1.4 The principal legislation under which the Bank operates is the Credit Institutions Act 2006, the Public Offer of Securities Act 1999 and the Commercial Act 1991. Subjects of importance concerning the Bank's shares public offering are regulated in the following acts: Ordinance No 2/17.09.2003 on the prospectuses in the case of public offering of securities and on the disclosure of information by the public companies and other issuers of securities; Corporate Income Tax Act; Natural Persons Income Tax Act; the provisions of Chapter 11, Section I of the POSA and the Ordinance for revealing of share participation in public and investment company, regulating disclosure of major participation in the Bank. The arrangements concerning the transactions with the Bank's own shares are stipulated under Art. 111, Para 2 and 5 of the Public Offering of Securities Act and the Commercial Act. Obligatory tender offerings are provided for in Art 149, Art. 150-157a of the POSA, in the Ordinance for the requirements to the contents of the rationale of the price of the stocks of public company, including to the application of valuation methods in the cases of transformation, contract for joint enterprise and tender offering, as well as in the Ordinance № 13/22.12.2003 for tender offering for buying and exchange of shares. The terms and procedure of the Bank's delisting from the Public Companies and other Securities Issuers register under Art. 30, Para 1, Item 3 of the FSC Act are provided for in Art. 119 of the POSA and in the Ordinance No 22 on establishing terms and procedure for recording and delisting of public companies, other issuers of securities and issues of securities in the register of the Financial Supervision Commission.

2. **Principal establishments**

2.1 The material properties owned by the Bank are as follows:

Address	**Description**		**Area** (m²)
10, Stephan Karadja Str., Sofia	third floor, comprising of 11 separate premises, fourth floor, comprising of 11 separate premises and fifth floor, comprising of 12 separate premises in an administrative building		1061 sq.m.
47, Bratia Miladinovi Str., Varna	ground floor and first floors, underground floor and undivided interest in the underlying plot of land of an administrative building		418 sq.m.
126, Osmi Primorski Polk Str., Varna	Office premises		100 sq.m.
104, Tsar Simeon Veliki Blvd., Stara Zagora	Office premises		1034 sq.m.
58, Alexandrovska Str., Burgas	Office premises		1330.83 sq.m.
Pamporovo Resort, Smolian region	Office premises		66,25 sq.m.

2.2 No material encumbrances over these properties have been granted to third parties.

3. **Share capital**

3.1 The Bank's share capital pursuant to its articles of association is as follows:

Number	**Class**	**Amount (BGN)**	**Nominal Value**
100,000,000	Ordinary	100,000,000	BGN 1 each

On incorporation, the Bank's registered share capital was BGL 200,000,000 divided into 5,000 registered materialised voting shares with a nominal value of BGL 1,000 each and 195,000 bearer non-voting preferred shares with a nominal value of BGL 1,000 each.

Since 13 April 1995, there have been the following changes in the Bank's registered and issued share capital:

3.1.1 On 13 April 1995 156,250 registered voting shares and 143,750 bearer preferred non-voting shares of BGL 1,000 each were issued and 120,000 bearer shares were transformed into registered voting shares ; on 18 July 1995 30,000 registered voting shares and 270,000 bearer preferred non-voting shares of BGL 1,000 each were issued and 88,750 bearer shares were transformed into registered voting shares; on 17 April 1996 20,000 registered voting shares and 20,000 bearer preferred non-voting shares of BGL 10,000 each were issued; on 6 December 1996 40,000 registered voting shares and 60,000 bearer preferred non-voting shares of BGL 10,000 each were issued and 10,000 bearer shares were transformed into registered voting shares; on 26 June 1997 140,000 registered voting shares and 140,000 bearer preferred non-voting shares of BGL 10,000 each were issued; on 4 March 1998 500,000 registered voting shares of BGL 10,000 each were issued and all shares become registered voting shares; on 20 October 2006 1,000,000 registered voting shares of BGN 10 each were issued and all shares were transformed into book-entry shares; on 27 December 2006 8,000,000 registered voting shares of BGN 10 each were issued.

3.2 Save as disclosed in paragraph 3.2 above:

3.2.1 Since 20 April 2004, there has been no issue of the Bank's share capital for cash or other consideration;

3.2.2 Since 20 April 2004, the Bank has not granted any commissions, discounts or brokerages as other special terms in connection with the subscription and payment of any of the Bank's share capital; and

3.2.3 None of the Bank's share capital is under option or is agreed conditionally or unconditionally to be put under option.

3.3 The Shares of FIB are ordinary ones and the articles of association of the Bank do not empower the latter to issue privileged shares. Save as provided for in this document, the shares rights are not limited to a considerable extent by the rights, granted by other securities, issued by the Bank, see “Business Overview-Funding Sources-Funding by institutional investors - Sindicated loans and bonds”. The Bank does not plan any issue of instruments or entering into any agreements, limiting the shares rights.

3.4 The Shares are in dematerialized form and are capable of being held in uncertificated form.

4. Capital Increase and Approval of the Prospectus

The issue of this document was approved by the Managing Board of the Bank pursuant to resolutions adopted on 20 april 2007. All consents, approvals, authorisations or other orders required under the articles of association of the Bank and the prevailing laws of Bulgaria have been given or obtained for the offer subscription and sale of the Shares.

On 9 March 2007 the Bank’s General Meeting revoked the pre-emptive right of the Existing Shareholders to acquire New Shares and entitled the Managing Board to increase the Bank’s capital via issue and public offering of 10,000,000 New Shared to unlimited number of persons and under the conditions set by the Managing Board.

In pursuance of the above Shareholders’ decision on 13 March 2007 the Managing Board took a decision to increase the Bank’s capital via the issue of 10,000,000 New Shares, subject of the Offering under this Prospectus and under the conditions set by the latter.

5. Litigation

The Bank is not and has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Bank is aware) during the 12 months preceding the date of this document which may have, or have had, a significant effect on the financial position or profitability of the Bank.

6. Members of the Supervisory Board and Managing Board and Senior Managing

6.1 *Interests in share capital*

At the date of this document neither of the Bank’s directors nor any member of its personnel possesses any Shares. Certain of the Bank’s Directors, as well as other employees plan to acquire Offer Shares in the Offering or thereafter. In addition, the Directors may decide at some point in the future to adopt a share option or share purchase program to incentivize the bank’s Directors, senior management and other employees.

6.2 Some members of the Supervisory Board, Managing Board or senior managers may have interest in the share capital of the Bank following the Offering.

6.3 Save as set out above there are no existing or proposed service agreements between any Member of the Supervisory Board, Managing Board or senior manager and the Bank or its subsidiaries providing for benefits upon termination of employment.

6.4 ***Other directorships***

In addition to their directorships of the Bank, the Members of the Supervisory Board, Managing Board hold or have held the following directorships, and are or were members of the following partnerships, within the past five years.

Director's Name	**Current directorships/partnerships**	**Previous directorships/partnerships**
Georgi Dimitrov Mutafchiev	Executive Director of Flavia AD and Flavian AD	
Radka Vesselinova Mineva	General Manager of Balkan Holidays Services OOD and General Manager and Shareholder of Balkan Holidays Partners OOD	
Todor Luydmilov Breshkov	General Manager of First Financial Brokerage House OOD; Member of the Board of Directors of Bulgarian Stock Exchange – Sofia AD; Member of the Board of Directors of First Insurance Brokerage Company AD; Member of the Board of Directors Bulgarian Real Estate Fund	Partner in FFBH Asset Management AD, partner in Real Estates Management OOD
Nedelcho Vassilev Nedelchev	Manager of Project Synergy OOD; Executive Director of Expat Capital AD; Executive Director of Bulgarian Alternative Energy Company AD	Manager and partner of First Financial Brokerage House OOD; Chairman of the Board of Directors and member of the Managing Board of Bulgarian Telecommunication Company
Kaloyan Yonchev Ninov	Managing partner in Real Estate Management OOD (REM OOD)..; Board Member of FFBH Asset Management AD	member of the Managing Board of the National Privatisation Fund "Nadezhda" (Bulgaria); manager of First Financial Brokerage House; member of the managing board and President of the Bulgarian Association of Licenced Investment Intermediaries; member of the managing board of Bulgartabac Holding AD and Kintex EAD; manager of Balkan Holidays Services; chairman of the Board of Directors of FFBH Asset Management AD
Matthew Alexandrov Mateev	Member of the Managing Board of UNIBank, Skopje	

Director's Name	Current directorships/partnerships	Previous directorships/partnerships
Maya Lubenova Georgieva	Chairperson of the Supervisory Board of CASYS International, Skopje, Chairperson of the Board of Directors of First Insurance Brokerage Company AD and Chairperson of the Board of Directors of Diners Club Bulgaria AD.	
Jordan Velichkov Skorchev	Member of the Managing Board of UNIBank, Skopje; Member of the Board of Directors of Bankservice AD; Member of the Board of Directors of First Insurance Brokerage House AD; Member of the Supervisory Board of CASYS AD, Macedonia. , Member of the Board of Directors of Diners Club Bulgaria AD	
Evgeni Krastev Lukanov	Imexa ET Sole Proprietor	Savim OOD, Avea OOD
Ivan Stefanov Ivanov	Sole Proprietor of Ikon 54 Ivan Ivanov ET and a sole owner of Ikon-54 EOOD, Member of the Supervisory Board of Vsestranna kooperacia Shotlandski bratia	
Maya Ivanova Oyfalosh		
Radoslav Todorov Milenkov	Member of the Supervisory Board of CASYS International, Skopje	

6.5 ***Convictions, directorships of bankrupt companies, official public sanction***

Within the period of five years preceding the date of this document none of the Members of the Supervisory Board or Managing Board or senior managers:

6.5.1 has had any convictions in relation to fraudulent offences;

6.5.2 has been a director of any company at the time of any bankruptcy, receivership or liquidation of such company; or

6.5.3 has received any official public incrimination and/or sanction by any statutory or regulatory authorities (including designated professional bodies) or has been disqualified by a court from acting as a director of a company or from acting in the Managing or conduct of the affairs of a company.

6.6 ***Conflicts of interest***

None of the Members of the Supervisory Board or Managing Board or senior managers has any present or potential conflicts of interests between their duties to the Bank and their private interests or other duties.

6.7 ***Compensation***

In the financial year ended 31 December 2006 the aggregate total remuneration paid to each of the Members of the Supervisory Board and Managing Board, according to their management agreements was BGN 2078793..

7. **Subsidiaries**

The Bank has the following subsidiaries:

7.1 First Investment Finance B.V. wholly owned subsidiary of FIB (SPV), incorporated on 16 April 2003 under the laws of Netherlands, having its seat and registered address at Rokin 55, 1012 KK, Amsterdam, Netherlands. Paid-up Capital of EUR 18,000, divided into 180 registered voting shares with nominal value EUR 100 each and authorised capital (for the issue of which a relevant decision has been taken in compliance with the Dutch legislation) of EUR 90,000 divided into 900 registered voting shares with a nominal value of EUR 100 each;

7.2 80 % of the capital of Diners Club Bulgaria AD, a joint stock company organised and existing under the laws of Bulgaria, having its seat and registered address in Sofia, 37 Dragan Tsankov Blvd. The capital of the company according to the Certificate of Good Standing issued by Sofia City Court on 29 January 2007 is BGN 2,745,000 divided into 2,745,000 registered voting shares with nominal value BGN 1 each. With a Decision of the Sofia City of 5 February 2007 the capital of Diners Club Bulgaria AD has been increased from BGN 2,745 to BGN 3,645 through the issue of 900,000 new registered voting shares with nominal and issue value of BGN 1 each. In compliance with Art. 195 of the Commercial Act the capital increase has been made under condition – purchase of the total number of capital increase shares by the following shareholders: First Investment Bank AD and Diners Club Adriatic, Zagreb. All the newly issued shares have been fully paid and allocated between the above shareholders as follows – 720,000 shares allotted to First Investment Bank AD and 180,000 shares allotted to Diners Club Adriatic, Zagreb.

7.3 99,9998% of the capital of First Investment Bank – Albania Sh.a., Albania, a joint stock company organised and existing under the laws of Albania, having its seat and registered address in Albania, Tirana, 64 Zogu I Blvd. The capital of the bank is ALL 1,000,000,000 (equal to BGN 15,775,010 as per the exchange rate at 31 December 2006) divided into 1,000,000 registered voting shares with nominal value ALL 1,000 each. There are another two shareholders holding 0,0001 per cent of the capital of the bank each.

8. **Significant change**

8.1 Save as disclosed in this document, there has been no significant change in the financial or trading position and prospects of the Bank, since 31 December 2006, the end of the last financial year.

9. **Material contracts**

9.1 No contracts (not being contracts entered into in the ordinary course of business of FIB and its subsidiaries) have been entered into by the Bank and its subsidiaries within the two years immediately preceding the date of this document and are, or may be, material or have been entered into at any time by the Bank and contain provisions under which the Bank and its subsidiaries have an obligation or entitlement which is, or may be, material to the Bank at the date of this document.

10. **Auditors**

10.1 The Bank's auditors, KPMG Bulgaria OOD, certified public accountants, registered address 1 Cherni Vruh Blv, Sofia 1421, Bulgaria, registered at the Sofia City Court under company file number 25553/1992, have audited the financial statements of the Bank for the three years ended 31 December 2006, 31 December 2005 and 31 December 2004.

11. **Present and future transactions with "interested persons"**

11.1 Save as set out in this document, including the agreement entered into between the Bank and the card payment operator CaSys, Macedonia, controlled by the Principal Shareholders (see "*Business Overview-Operations-Retail banking-Debit and Credit Cards*") there are no present or future transactions in which the Members of the Supervisory Board, the Managing Board or the Principal Shareholders of the Bank may qualify as "interested persons".

12. **Unusual or Material Transactions with Related Persons**

The Bank and its subsidiaries enter into transactions with related parties in the normal course of business. These transactions are carried out at market rates and include loans and deposits. There are no proposals for transactions of significant importance or with unusual conditions and type to be concluded between the Bank or its subsidiaries and any parties related to them.

13. **Selling Shareholder**

The following table sets out details relating to the Selling Shareholder.]

Name	Business Address	Number of Shares that may be sold pursuant to the Offering(1)
First Financial Brokerage House OOD	2 Enos Street, 1408 Sofia	6,500,000

(1) Assuming the maximum number of Shares are sold pursuant to the Over-allotment Arrangements.

14. **General**

14.1 None of the Shares has been sold or is available in whole or in part to the public in Bulgaria before the Offering and Admission of the Shares for trading on the Unofficial Market and to trading on the Bulgarian Stock Exchange. The Shares have been accepted for clearance through the Central Depository. The ISIN is BG1100106050.

14.2 The Lead Manager will not underwrite the Offering, it has undertaken the obligation to make its best efforts for placement of the Offer Shares.

14.3 The Bank will publish notices for a general meeting of shareholders in the Bulgarian central daily newspaper "Pari".

14.4 The total prognosticated and expected costs, charges and expenses payable by the Bank in connection with the Offering are estimated to be BGN 280,000 (exclusive of VAT) including any road-show expenses, consultants' remuneration, expenses for printing of this prospectus, fees paid to the state authorities and other institutions and expenses for publishing.

14.5 The Bank is not aware of any person who intends to purchase more than five per cent. of the Shares in the Offering. The Bank is not aware of any intentions of the Existing Shareholders to acquire Shares in the Offering or immediately after it, save as the possibility FFBH to conclude stabilisation transactions, acting as Stabilising Manager.

14.6 No tranche of the Shares which are the subject of the Offering has been reserved for purchases by employees of the Bank or any other class of investors, whether or not related to the Bank.

14.7 No expenses or taxes will be paid by or on the account of the investors, subscribing and purchasing shares in the Offering, except for customary banking charges for money transfers, contracted fees and the commissions to be paid by the investors pursuant to the agreements with investment intermediaries they have entered into, including the customary BSE fees for the existing Shares transfer, as well as the relevant foreign exchange fees which an investor shall due if wishing to make payment in foreign currency, and could be obliged to pay the applicable foreign exchange charges.

14.8 The information about the Lead Manager's remuneration and its dependence on the public offering success has been disclosed in "Sale of Shares-Sale of shares in the global offering-Placement agreements". Remuneration of the rest consultants of the Bank in connection with the Offering will not depend on its success. Save as set out in this Prospectus, the Lead Manager and the legal advisor of the Offering do not own any shares of the Bank and its subsidiaries and do not have any direct or indirect economical interests related to the Bank.

14.9 Investors may receive any information from the licensed investment intermediaries concerning the prices and amount of the Bank Shares transactions on the stock exchange, the prices and amount of Shares' demand and offering, as well as any other investment information. Such information may be also obtained from the BSE bulletin in the web page of the BSE: www.bse-sofia.bg, from the financial press and such other sources.

15. **Documents incorporated by reference**

15.1 Incorporated by reference to this Prospectus are the following documents filed at the Bulgarian Financial Supervision Commission, which could be accessed at the addresses of the Bank and the Lead Manager and via the FSC's public register as well:

15.1.1 the Bank's audited consolidated financial statements and the auditor's report for the year ended 31 December 2004;

15.1.2 the Bank's audited non-consolidated financial statements and the auditor's reports for each of the three years ended 31 December 2004, 2005 and 2006;

15.1.3 the management reports of the Bank for each of the three years ended 31 December 2004, 2005 and 2006;

15.1.4 the declarations pursuant to article 81, para. 5 of the Public Offering of Securities Act 1999 regarding the information in this Prospectus given by the members of the Management Board fo the Bank, persons, responsible for preparation of the financial statements of the Bank and the auditor of the Bank.

16. **Documents for inspection**

16.1 Copies of the following documents will be available for inspection during normal business hours on any weekday (Saturday, Sunday and public holidays excepted) at the offices of the Bank at 37 Dragan Tsankov Blvd, Sofia, Bulgaria from the date of publication of this document for either a period of 14 days or until Admission, whichever is the longer period:

16.1.1 the articles of association of the Bank;

16.1.2 the audited financial statements and the auditor's reports of the Bank for each of the three years ended 31 December 2004, 2005 and 2006;

16.1.3 the unaudited financial statements of the Bank for the three months end 31 March 2007;

16.1.4 this document and the documents incorporated by reference as per item 15 above.

DEFINITIONS

The following definitions apply throughout this document unless the context requires otherwise.

"Admission"	admission of the Shares to the Unofficial Market of the BSE
"Allocation Date"	The date on which the Lead Manager after consulting with the Bank will allocate the Offer Shares to the successful investors, who have placed Orders within the "book-building" period.
"Allocation of Shares"	Allocation of the Offer Shares for subscribing and purchase, made on the base of the Orders in the Offering, nominated by the Lead Manager, at the end of the "book-building" period.
"Bank"	First Investment Bank AD
"Basel Accord"	the international framework for capital adequacy (capital standards) of banking institutions adopted by the Basel Committee on Banking Regulations and Supervisory Practices
"Basel II"	see "*New Basel Accord*"
"BIS"	Bank for International Settlements, Basel
"BNB"	the Bulgarian National Bank
"BSE" or "Bulgarian Stock Exchange", or The Bourse	Bulgarian Stock Exchange-Sofia AD
"Capital Increase"	The increase of FIBank's capital via a public offer for subscription of 10,000,000 New Shares, voted by the Managing Board on 13 March 2007, according to an authorisation from the Shareholders' meeting held on 9 March 2007.
"Central Depository"	The Central Depository AD, Sofia, keeps the Bulgarian national book-entry securities registry and provides, besides the rest, clearance and settlement services for book-entry transactions.
"Debt-capital Hybrid Instrument"	Pursuant to the BNB's Ordinance No. 8 is a component of the additional capital reserves, corresponding to the following requirements (i) the amounts rendered are fully paid; (ii) payment is not limited by terms; (iii) payment is not secured by the bank; (iv) in case of liquidation of the bank the payment shall become admissible only after prior satisfaction of the other creditors; (v) receivables on the principal shall become executable after BNB's prior written permission; (vi) the bank has reached an agreement to retain earnings in the event no profit is generated or in case the profit is insufficient.

“Directors”	The members of the Managing and the Supervisory Board of the Bank
“Escrow Agent”	Citibank N.A.- Sofia Brunch
“Escrow Accounts Agreement”	The agreement for payment of the allotted Offer Shares between (a) the Bank, (b) FFBH as the Lead Manager and Selling Shareholder, and (c) the Escrow Agent, which shall be concluded by 18 May 2007.
"Existing Shareholders"	Mr. Ivailo Mutafchiev, Mr. Tzeko Minev and First Financial brokerage House OOD and the rest Bank Shareholders upon the date of the issue of this document. See “*Major Shareholders and Selling Shareholder*”
"Existing Shares"	Up to 5,000,000 existing Shares to be offered for sale by the Selling Shareholder pursuant to the Offering .
“Existing/Over-allotted Shares”	The Existing Shares and the Over-allotted Shares totally amounting up to 6,500,000 Shares
"EU"	the European Union
“FIBank” or **“FIB”**	First Investment Bank
“FFBH”	First Financial brokerage House OOD
"Financial Supervision Commission" or **“FSC”**	the Financial Supervision Commission in Bulgaria
"GDP"	gross domestic product
"IAS"	International Accounting Standards
"IAS 39"	IAS 39 "Financial instruments: Recognition and measurement"
"IFRS"	International Financial Reporting Standards
"IMF"	the International Monetary Fund
"Lead Manager"	First Financial Brokerage House OOD
Lock-up arrangements	Provisions in the Placement Agreement for limitation of the issue, sale and other disposals with the Shares by both the Bank and the Existing Shareholders for a certain period of time after the Offering.
“Major Shareholders”	The Shareholders-founders of the Bank - Mr. Tzeko Minev and Mr. Ivaylo Mutafchiev.
"New Basel Accord" or “Basel II”	the new international framework for capital adequacy (capital standards) of banking institutions adopted by the Basel Committee on Banking Supervision with the document *International Convergence of Capital Measurement and Capital Standards: a Revised Framework.*

"Offering"	The Offering is a public offer in Bulgaria of up to 16,500,000 Shares and will consist of a) 10,000,000 new shares offered for subscription in the process of the Bank's Capital Increase (**"New Shares"**), b)up to 5,000,000 existing shares ("**Existing Shares**"), and c) up to a further 1,500,000 Shares pursuant to the Over-allotment Arrangements (the "**Over-allotment Shares**" and together with the New Shares and the Existing Shares, the **"Offer Shares"**). The Shares are being offered outside the United States to selected investors in accordance with Regulation S.
"Offer Price"	the price per Share at which Shares allocated and subscribed/sold under the Offering, determined at the Allotment Date (after the expiry of the term for accepting of investors' orders and on the base of book-building)
"Offer Shares"	The New Shares of the Capital Increase and the Existing/Over-alloted Shares
"Over-allotment"	Allocation and sale of additional shares (Over-allotted Shares) in the Offering pursuant to the Over-allotment Agreements, executed on the Allotment Date.
"Over-allotment Arrangements"	Provisions in the Placement Agreement under which the Stabilising Manager shall be entitled, acting for its own benefit, to sell further 1,500,000 additional Shares, owned by the Selling Shareholder at the Offer Price to cover over-allotments and/or fund stabilisation transactions.
"Payment Deadline Date"	The latest date at which payments for the Offer Shares allotted may be received with the Escrow Agent
"Placement Agreement"	Agreement for the placement of the Offer Shares between (a) the Bank, (b) FFBH as the Lead Manager Selling Shareholder and Stabilising Manager and (b) the other Existing Shareholders, which shall be concluded on or about 18 May 2007.
"Selling Shareholder"	First Financial Brokerage House OOD
"Shares"	The Bank Shares issued and registered in the Central Depository at the date of the issue of this Prospectus (ordinary shares of BGN 1 nominal value each), as well as the New Shares issued upon the planned Bank's Capital Increase
"Shareholders Equity (Capital Base)"	Pursuant to the BNB's Ordinance No 8, is the total amount of the primary capital and the additional capital reserves, not exceeding the amount of the primary capital.
"Stabilising Manager"	First Financial Brokerage House OOD

In this Prospectus, words denoting any gender include all genders (unless the context otherwise requires).

INDEX TO FINANCIAL STATEMENTS

FIRST INVESTMENT BANK AD

CONSOLIDATED FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2006

WITH INDEPENDENT AUDITOR'S REPORT THEREON

Consolidated income statement for the year ended 31 December 2006

In thousands of BGN

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

The income statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 41.

Специализирано одиторско предприятие София Рег. №045 "КПМГ - България" ООД

Margarita Goleva
Registered auditor

Krassimir Hadjidinev

Registered auditor

Partner

KPMG Bulgaria OOD

0202 Маргарита Голева Регистриран одитор

Consolidated balance sheet as at 31 December 2006

In thousands of BGN

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

The balance sheet is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 41.

Krassimir Hadjidinev
Registered auditor
Partner
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 2006

In thousands of BGN

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

The cash flow statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 41.

Margarita Goleva
Registered auditor

Krassimir Hadjidinev

Registered auditor

Partner

KPMG Bulgaria OOD

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

In thousands of BGN

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

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 41.

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

Matthew Mateev
Chairman of the Managing Board, Executive Director

Jordan Skorchev
Executive Director

Maya Georgieva
Executive Director

Radoslav Milenkov
Chief Financial Officer

Krassimir Hadjidinev
Registered auditor
Partner
KPMG Bulgaria OOD

София
Рег. №045
"КПМГ - България" ООД

Margarita Goleva
Registered auditor

0202 Маргарита Голева
Регистриран одитор

1. Basis of preparation

(a) Statute

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

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

(b) Statement of compliance

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

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

(c) Basis of preparation

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

The Bank has made certain reclassifications to the financial statements as of 31 December 2005 in order to provide more clear and precise comparison figures.

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

2. Significant accounting policies

(a) Income recognition

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

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

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

2. Significant accounting policies, continued

(b) Basis of consolidation of subsidiaries

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

(c) Foreign currency transactions

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

(iii) Foreign operations

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

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.

(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.

2. **Significant accounting policies, continued**

(d) Financial assets, continued

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

(vii) Fair value measurement principles

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

(viii) Disclosure of fair value

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

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

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

(e) Cash and cash equivalents

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

(f) Investments

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

(g) Securities borrowing and lending business and repurchase transactions

(i) Securities borrowing and lending

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

2. **Significant accounting policies, continued**

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

(ii) Repurchase agreements

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

The difference between the sale and repurchase considerations is recognised on an accrual basis over the period of the transaction and is included in interest.

(h) Borrowings

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

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

(i) Offsetting

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

(j) Impairment

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

(i) Loans and advances

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

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

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

2. Significant accounting policies, continued

(j) Impairment, continued

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

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

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

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

(k) Property, plant and equipment

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

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

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

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

(l) Intangible assets

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

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

Assets	**%**
Licences	15 - 20
Computer software	20

(m) Provisions

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

2. Significant accounting policies, continued

(n) Acceptances

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

(o) Taxation

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

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

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

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

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

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

(i) Impairment losses on loans and advances

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

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

2. Significant accounting policies, continued

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

(ii) Income taxes

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

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

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

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

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

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

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

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

3. Segment Reporting

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

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

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

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

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

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

4. Risk management disclosures

A. Trading activities

The Bank maintains active trading positions in a limited number of derivatives, mainly short-term forward contracts and non-derivative financial instruments. Most of the Bank's trading activities are customer driven. In anticipation of customer demand, the Bank carries an inventory of money market instruments and maintains access to market liquidity by trading with other market makers. These activities constitute the proprietary trading business and enable the Bank to provide customers with money market products at competitive prices. As trading strategies depend on both market-making and proprietary positions, given the relationships between instruments and markets, those are managed in concert to maximise net trading income.

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

(i) Credit risk

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

(ii) Market risk

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

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

The Value at Risk is calculated and monitored on a daily basis as part of the Bank's ongoing risk management. The following table summarises the range of VaR for all marked-to-market positions that was experienced during 2006:

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

4. Risk management disclosures, continued

B. Non-trading activities

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

(i) Liquidity risk

Liquidity risk arises in the general funding of the Bank's activities and in the management of positions. It includes both the risk of being unable to fund assets at appropriate maturity and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame to meet the liability obligations.

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

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

Risk management disclosures, continued

B. Non-trading activities, continued

(i) Liquidity risk, continued

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

Maturity table as at 31 December 2006

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

4. **Risk management disclosures, continued**

B. **Non-trading activities, continued**

(i) ***Liquidity risk, continued***

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

Maturity table as at 31 December 2005

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

(ii) ***Market risk***

Interest rate risk

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

4. **Risk management disclosures, continued**

B. **Non-trading activities, continued**

(ii) Market risk, continued

Interest rate risk, continued

In order to quantify the interest rate risk of its non-trading activities, the Bank measures the impact of a change in the market rates both on net interest income and on the Bank's economic value. The interest rate risk on the economic value of the Bank following a standardised shock of +100bp/-100bp as at 31 December 2006 is BGN +2.2/-2.2 Mio. The interest rate risk on the Bank's net interest income one year forward following a standardised shock of +100bp/-100bp as at 31 December 2006 is BGN –0.2/+0.2 Mio.

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

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

4. **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 2005 and the periods in which financial liabilities and assets reprice.

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

4. **Risk management disclosures, continued**

B. **Non-trading activities, continued**

(ii) Market risk, continued

Currency risk

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

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

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

In thousands of BGN	**2006**	**2005**
Monetary assets		
Euro	1,791,518	1,522,291
US dollar	307,381	411,061
Other	67,226	73,519
Gold	3,134	1,480
Monetary liabilities		
Euro	1,944,038	1,622,232
US dollar	308,620	410,987
Other	67,308	73,758
Gold	-	-
Net position		
Euro	(152,520)	(99,941)
US dollar	(1,239)	74
Other	(82)	(239)
Gold	3,134	1,480

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

4. Risk management disclosures, continued

B. Non-trading activities, continued

(iii) Credit risk

The Bank is subject to credit risk through its lending activities and in cases where it acts as an intermediary on behalf of customers or other third parties or issues guarantees. In this respect, the credit risk for the Bank stems from the possibility that different counterparties might default on their contractual obligations. The management of the credit risk exposures to borrowers is conducted through regular analysis of the borrowers' credit worthiness and the assignment of a rating grade. Exposure to credit risk is also managed in part by obtaining collateral and guarantees.

The Bank's primary exposure to credit risk arises through its loans and advances. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the balance sheet. In addition, the Bank is exposed to off-balance sheet credit risk through commitments to extend credit and guarantees issued (See Note 29).

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

The major concentrations of credit risk arise by location and type of customer in relation to the Bank's investments, loans and advances, commitments to extend credit and guarantees issued.

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

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

The Bank has extended loans to enterprises involved in different types of activities but within the same economic sector - industry. As such the exposures share a similar industry risk. There are three such groups of enterprises at 31 December 2006 with total exposures amounting to BGN 11,102 thousand (2005: BGN 53,540 thousand) - ferrous metals, BGN 25,705 thousand (2005: BGN 15,974 thousand) - cable and electrics and BGN 69,938 thousand (2005: BGN 55,822 thousand) - power engineering.

4. Risk management disclosures, continued

B. Non-trading activities, continued

(iii) Credit risk, continued

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

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

The amounts reflected in the tables represent the maximum accounting loss that would be recognised at the balance sheet date if counterparts failed completely to perform as contracted and any collateral or security proved to be of no value. The amounts, therefore, greatly exceed expected losses, which are included in the allowance for impairment.

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

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

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

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

4. Risk management disclosures, continued

C. Capital adequacy

(i) Regulations

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

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

(ii) BIS Eligible capital

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

(iii) BIS Risk-Weighted Assets (RWAs)

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

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

4. Risk management disclosures, continued

C. Capital adequacy, continued

Capital adequacy level was as follows:

In thousands of BGN	**Balance sheet/notional amount**		**Risk Weight amount**	
	2006	**2005**	**2006**	**2005**
BALANCE SHEET ASSETS				
Cash and balances with Central Banks	708,038	534,847	74,759	63,430
Financial assets held for trading	13,239	7,151	4,523	3,117
Available for sale investments	508,006	432,337	14,361	15,438
Financial assets held to maturity	70,221	97,972	9,222	7,722
Loans and advances to banks and other financial institutions	42,032	39,393	4,589	7,884
Loans and advances to customers	1,709,773	1,338,091	1,507,485	1,191,251
Property and equipment	80,753	61,481	80,753	61,481
Intangible assets	840	589	743	491
Other assets	14,864	9,403	14,864	9,403
TOTAL ASSETS	**3,147,766**	**2,521,264**	**1,711,299**	**1,360,217**
Off balance sheet positions				
Credit related commitments	786,597	452,028	188,575	129,961
Forward based derivative instruments	52,745	142,341	818	1,284
Unassigned market risk components	-	-	5,134	3,265
TOTAL	**839,342**	**594,369**	**194,527**	**134,510**
TOTAL RISK WEIGHTED ASSETS			**1,905,826**	**1,494,727**
		CAPITAL		**BIS%**
BIS CAPITAL RATIOS	**2006**	**2005**	**2006**	**2005**
Tier 1 Capital	**168,554**	**129,938**	**8.84%**	**8.69%**
BIS Capital base	**301,292**	**237,375**	**15.81%**	**15.88%**

5. Net interest income

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

6. Net fee and commission income

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

7. Net trading income

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

8. General administrative expenses

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

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

9. Impairment losses

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

10. Income tax expense

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

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

In thousands of BGN	2006	2005
Accounting profit before taxation	**33,268**	**25,135**
Corporate tax at applicable tax rate (15% for 2006 and 15% for 2005)	4,990	3,770
Effect of tax rates of foreign subsidiaries and branches	198	223
Tax effect of permanent tax differences	(255)	(312)
Tax effect of reversals of temporary differences	156	401
Tax effect of reduction of applicable tax rate (10% for 2007)	(507)	-
Income tax expense	**4,582**	**4,082**
Effective tax rate	13.77%	16.24%

11. Cash and balances with Central Banks

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

12. Financial assets held for trading

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

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

13. Available for sale investments

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

14. Financial assets held to maturity

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

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

15. Loans and advances to banks and other financial institutions

(a) Analysis by type

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

(b) Geographical analysis

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

16. Loans and advances to customers

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

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

(a) Movement in impairment allowances

In thousands of BGN

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

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

17. Property and equipment

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

18. Intangible assets

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

19. Deferred Taxation

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

Deferred income tax balances are attributable to the following items:

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

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

20. Other assets

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

21. Due to banks and other financial institutions

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

22. Due to other customers

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

23. Liabilities evidenced by paper

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

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

Bonds and notes issued comprise of the following:

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

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

24. Subordinated term debt

As at 31 December 2006 the Bank has entered into eight separate subordinated Loan Agreements with five different lenders. All these subordinated Loan Agreements are governed by English Law and the funds raised outside the Republic of Bulgaria.

Subordinated liabilities can be analysed as follows:

In thousands of BGN

Lender	**Principal amount**	**Final maturity**	**Amortised cost as at 31 December 2006**
Growth Management Limited	1,956	10 years	2,669
Growth Management Limited	5,867	10 years	7,605
Hillside Apex Fund Limited	1,956	9 years	2,783
Growth Management Limited	3,912	10 years	4,777
Hillside Apex Fund Limited	9,779	10 years	11,863
Global Emerging Markets Bond Fund Inc.	1,956	10 years	2,326
Standard Bank	9,779	10 years	11,631
Hypo-Alpe-Adria Bank	3,912	10 years	4,645
	39,117		**48,299**

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

25. Perpetual debt

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

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

26. Other liabilities

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

27. Repurchase and resale agreements

The Bank raises funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate. Repurchase agreements are commonly used as a tool for short-term financing of interest-bearing assets, depending on the prevailing interest rates. At 31 December 2006 assets sold under repurchase agreements were as follows:

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

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

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

The Bank also purchases financial instrument under agreements to resell them at future dates (“reverse repurchase agreements“). The seller commits to repurchase the same or similar instruments at an agreed future date. Reverse repurchases are entered into as a facility to provide funds of customers. At 31 December 2006 assests purcased subject to agreements to resell them are as follows:

In thousands of BGN

	Fair value of securities held as collateral	**Carrying amount of corresponding receivables**
Albanian government securities	300	300
Bulgarian government securities	18,765	18,785
	19,065	**19,085**

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

28. Capital and reserves

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

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

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

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

(b) Shareholders

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

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

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

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

The Investment Adviser to Growth is, and has been since Growth’s launch in May 1998, GML International Limited, London (“GML”), a privately-owned investment banking firm authorised and regulated by the UK Financial Services Authority. GML was incorporated in 1983, and provides

28. Capital and reserves, continued

(b) Shareholders, continued

a broad range of investment banking services focused primarily on Central and Eastern Europe, Central Asia, Turkey, Africa and the Middle East. From its headquarters in London, GML maintains Representative Offices in Almaty, Genoa, Istanbul, Kyiv and Moscow.

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

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

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

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

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

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

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

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

(c) Statutory reserve

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

29. Commitments and contingent liabilities

(a) Memorandum items

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

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

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

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

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

30. Cash and cash equivalents

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

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

31. Average balances

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

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

32. Related party transactions

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

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

Type of related party	**Directors**		**Enterprises under common control**	
In thousands of BGN	**2006**	**2005**	**2006**	**2005**
1.2				
1.3 Loans:				
Loans outstanding at beginning of the year	1,554	819	3,660	3,642
Loans issued during the year	322	735	691	18
Loans outstanding at end of the year	1,876	1,554	4,351	3,660
Deposits received:				
Deposits at beginning of the year	273	206	1,975	9,292
Deposits received during the year	274	67	850	(7,317)
Deposits at end of the year	547	273	2,825	1,975
Deposits placed				
Deposits at beginning of the year	-	-	7,823	6,063
Deposits placed during the year	-	-	-	1,760
Deposits at end of the year	-	-	7,823	7,823
Off-balance sheet commitments issued by the Bank				
At beginning of the year	-	-	130	50
Granted	-	-	987	80
At the end of the year	-	-	1,117	130

32. Related party transactions, continued

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

33. Subsidiary undertakings

(a) First Investment Finance B.V.

In April 2003 the Bank has created a special purpose entity, incorporated in the Netherlands, First Investment Finance B.V. The purpose for creating the entity is to accomplish a narrow and well-defined objective of issuing bonds, listed on the Luxemburg Stock Exchange and guaranteed by the Bank. The entity's issued and paid up share capital is EUR 18 thousand and is 100 % owned by the Bank. Consequently the Bank consolidates its investment in this company.

(b) First Insurance Brokerage Company AD

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

(c) Diners Club Bulgaria AD

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

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

In April 2006 the Bank acquired 99.9998% of the capital of First Investment Bank – Albania Sh.a. upon its incorporation. The authorized share capital of the entity is ALL 1 billion, of which EUR 2,050 thousand (approximately ALL 250 million) have been already paid-in. The shareholders of First Investment Bank – Albania Sh.a. are expected to pay the remainder of the share capital up to ALL 1 billion until the end of July 2007, which is a precondition for issuance of a permanent banking licence by the Bank of Albania.

34. Post balance sheet events

(a) Change of the shareholders' shareholding

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

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

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

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

34. Post balance sheet events, continued

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

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

Report of the Independent Auditor

To the Shareholders of First Investment Bank AD

Sofia, 2 February 2007

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of First Investment Bank AD ("the Bank"), which comprise the consolidated balance sheet as at 3 December 2006, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of First Investment Bank AD as at 3 December 2006, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Krassimir Hadjidinev

Registered auditor

Authorised represents

KPMG Bulgaria

37 Fridtjof Nansen Str.

1142 Sofia

Bulgaria

Margarita Goleva
Registered auditor

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FIRST INVESTMENT BANK AD

CONSOLIDATED FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2005

WITH INDEPENDENT AUDITOR'S REPORT THEREON

Consolidated income statement for the year ended 31 December 2005

In thousands of BGN

	Note	2005	2004
Interest and similar income		160,265	106,169
Interest expense and similar charges		(94,782)	(46,428)
Net interest income	4	**65,483**	**59,741**
Fee and commission income		28,730	18,086
Fee and commission expense		(6,542)	(2,698)
Net fee and commission income	5	**22,188**	**15,388**
Net trading income	6	**13,419**	**7,080**
TOTAL INCOME FROM BANKING OPERATIONS		**101,090**	**82,209**
General administrative expenses	7	(63,849)	(53,145)
Impairment losses	8	(9,786)	(4,772)
Other expenses, net		(2,320)	(2,022)
PROFIT BEFORE TAX		**25,135**	**22,270**
Income tax expense	9	**(4,082)**	**(4,244)**
GROUP PROFIT AFTER TAX		**21,053**	**18,026**
Minority interests		83	-
NET PROFIT		**21,136**	**18,026**

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 39.

Consolidated balance sheet as at 31 December 2005

In thousands of BGN

	Note	2005	2004
ASSETS			
Cash and balances with Central Banks	10	534,847	344,488
Financial assets held for trading	11	7,151	187,902
Available for sale investments	12	432,337	226
Financial assets held to maturity	13	97,972	27,899
Loans and advances to banks and other financial institutions	14	39,393	61,524
Loans and advances to customers	15	1,338,091	983,823
Property and equipment	16	61,481	43,228
Intangible assets	17	589	615
Other assets	19	9,403	3,618
TOTAL ASSETS		**2,521,264**	**1,653,323**
LIABILITIES AND CAPITAL			
Due to banks and other financial institutions	20	41,964	28,086
Due to other customers	21	1,177,693	849,583
Liabilities evidenced by paper	22	1,045,002	630,610
Subordinated term debt	23	63,765	28,698
Perpetual debt	24	54,074	-
Deferred tax liability	18	1,520	1,119
Other liabilities	25	7,344	6,359
TOTAL LIABILITIES		**2,391,362**	**1,544,455**
Issued share capital	27	64,726	64,726
Share premium	27	1,304	1,304
Statutory reserve	27	22,709	15,449
Revaluation reserve on available for sale investments	27	(137)	-
Retained earnings	27	41,265	27,389
SHAREHOLDERS' EQUITY		**129,867**	**108,868**
Minority interests	27	35	-
TOTAL GROUP EQUITY		**129,902**	**108,868**
TOTAL LIABILITIES AND GROUP EQUITY		**2,521,264**	**1,653,323**
Contingent liabilities	28	452,028	164,042

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 39.

Consolidated statement of cash flows for the year ended 31 December 2005

In thousands of BGN

	2005	2004
Net cash flow from operating activities		
Net profit	21,136	18,026
Adjustments for non-cash items		
Impairment losses	9,786	4,772
Depreciation and amortization	6,579	5,600
Change in deferred tax liability	401	94
Net change in revaluation reserve on available for sale investments	(137)	-
Net change in minority interests	35	-
	37,800	**28,492**
Change in operating assets		
(Increase)/decrease in financial instruments held for trading	180,751	(126,822)
(Increase) in available for sale investments	(432,111)	(75)
(Increase)/decrease in loans and advances to banks	48,757	(2,089)
(Increase) in loans to customers	(364,054)	(393,738)
(Increase) in other assets	(5,785)	(820)
	(572,442)	**(523,544)**
Change in operating liabilities		
Increase/(decrease) in deposits from banks	13,878	(8,363)
Increase in amounts owed to other depositors	328,110	256,563
Net increase in other liabilities	5,904	3,894
	347,892	**252,094**
NET CASH FLOW FROM OPERATING ACTIVITIES	**(186,750)**	**(242,958)**
Cash flow from investing activities		
Purchase of tangible fixed assets	(24,549)	(18,396)
Purchase of intangible fixed assets	(257)	(272)
Acquisition of investments	(70,073)	(27,899)
NET CASH FLOW FROM INVESTING ACTIVITIES	**(94,879)**	**(46,567)**
Financing activities		
Increase in borrowings	503,533	357,533
NET CASH FLOW FROM FINANCING ACTIVITIES	**503,533**	**357,533**
Tax paid	(4,919)	(4,353)
Donations paid	-	(97)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**216,985**	**63,558**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	**357,064**	**293,506**
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD (See Note 29)	**574,049**	**357,064**

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 39.

Consolidated statement of shareholders' equity for the year ended 31 December 2005

In thousands of BGN

	Note	Share capital	Share premium	Retained earnings	Revaluation reserve on available for sale investments	Statutory reserve	Minority interests	Total
Balance as at 01 January 2004	27	**64,726**	**1,304**	**13,167**	-	**11,742**	**-**	**90,939**
Transfer to statutory reserves	-	-	-	(3,707)	-	3,707	-	-
Donations made in accordance with the local legislation	-	-	-	(97)	-	-	-	(97)
Net profit for the year ended 31 December 2004	-	-	-	18,026	-	-	-	18,026
Balance as at 31 December 2004	27	**64,726**	**1,304**	**27,389**	-	**15,449**	**-**	**108,868**
Transfer to statutory reserves	-	-	-	(7,260)	-	7,260	-	-
Minority interest upon business combination	-	-	-	-	-	-	115	115
Revaluation reserve on available for sale investments	-	-	-	-	(137)	-	3	(134)
Net profit for the year ended 31 December 2005	-	-	-	21,136	-	-	(83)	21,053
Balance as at 31 December 2005	27	**64,726**	**1,304**	**41,265**	**(137)**	**22,709**	**35**	**129,902**

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 39.

The financial statements have been approved by the Managing Board on 27 February 2006 and signed on its behalf by:

Jonathan Harfield
Chief Executive Director

Evgeni Lukanov
Executive Director

Radoslav Milenkov
Chief Financial Officer

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 10 Stefan Karadja Str.

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

(b) Statement of compliance

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and interpretations issued by the Standing Interpretations Committee of the IASB.

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

(c) Basis of preparation

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

The 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.

Such hyperinflationary adjustments have been made using the index of consumer goods calculated and published by the Institute of Bulgarian National Statistics (the Index).

In 1998 inflation slowed down and the economy ceased to be hyperinflationary. As a result, the Bank has treated the amounts expressed in the measuring unit current at the end of 1997 as a basis for the carrying amounts in its 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.

2. Significant accounting policies, continued

(a) Income recognition, continued

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

(b) Basis of consolidation of subsidiaries

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

(c) Foreign currency transactions

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

(iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

- all resulting exchange differences are recognised as a separate component of equity.

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.

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.

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.

2. Significant accounting policies, continued

(d) Financial assets, continued

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

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 three months or less when purchased.

(f) Investments

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

(g) Securities borrowing and lending business and repurchase transactions

(i) Securities borrowing and lending

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

(ii) Repurchase agreements

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

The difference between the sale and repurchase considerations is recognised on an accrual basis over the period of the transaction and is included in interest.

2. Significant accounting policies, continued

(h) Borrowings

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

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

(i) Offsetting

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

(j) Impairment

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

(i) Loans and advances and held-to-maturity loans

The recoverable amount of originated loans and advances and purchased loans that are classified as held-to-maturity, 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

2. Significant accounting policies, continued

(j) Impairment, continued

previously recognised in equity, the increase in fair value of the asset recognised in equity is reversed to the extent the asset is impaired. Any additional impairment loss is recognised in the income statement.

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

(k) Property, plant and equipment

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

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

Assets	%
▪ Buildings	3 – 4
▪ Equipment	15 - 20
▪ Fixtures and fittings	15 - 20
▪ Vehicles	15 - 20

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

(l) Intangible assets

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

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

Assets	%
Licences	15 - 20
Computer software	20

(m) Provisions

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

(n) Acceptances

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

2. Significant accounting policies, continued

(n) Acceptances, continued

following the reimbursement from the customers. Acceptances are accounted for as liabilities evidenced by paper.

(o) Taxation

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

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

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

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

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

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

(i) Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment on a monthly basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(ii) Income taxes

The Bank is subject to income taxes in numerous jurisdictions. Significant estimates are required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Bank recognises liabilities for anticipated tax audit issues

2. Significant accounting policies, continued

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

(ii) Income taxes, continued

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.

3. Segment Reporting

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

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

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

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

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

In thousands of BGN	**Bulgarian operations**		**Foreign operations**		Total	
	2005	**2004**	**2005**	**2004**	**2005**	**2004**
Interest and similar Income	152,740	97,244	7,525	8,925	160,265	106,169
Interest expense and similar charges	(93,930)	(45,679)	(852)	(749)	(94,782)	(46,428)
Net interest income	**58,810**	**51,565**	**6,673**	**8,176**	**65,483**	**59,741**
Fee and commission income	28,249	17,455	481	631	28,730	18,086
Fee and commission expense	(6,520)	(2,676)	(22)	(22)	(6,542)	(2,698)
Net fee and commission Income	**21,729**	**14,779**	**459**	**609**	**22,188**	**15,388**
Net trading income	**13,259**	**7,067**	**160**	**13**	**13,419**	**7,080**
General administrative Expenses	(61,603)	(51,047)	(2,246)	(2,098)	(63,849)	(53,145)
	2005	**2004**	**2005**	**2004**	**2005**	**2004**
Segment Assets	**2,435,589**	**1,594,243**	**85,675**	**59,080**	**2,521,264**	**1,653,323**
Segment Liabilities	**2,318,613**	**1,515,765**	**72,749**	**28,690**	**2,391,362**	**1,544,455**

4. Net interest income

In thousands of BGN	**2005**	**2004**
Interest and similar income		
Interest and similar income arises from:		
- Loans and advances to banks and other financial institutions	5,193	5,434
- Loans to individuals and households	24,576	13,056
- Loans to corporate clients	111,762	82,646
- Loans to SME	6,232	1,365
- Microlending	333	-
- Debt instruments	12,169	3,668
	160,265	**106,169**
Interest expense and similar charges		
Interest expense and similar charges arise from:		
- Deposits from banks and other financial institutions	(1,090)	(799)
- Deposits from other customers	(25,575)	(17,957)
- Liabilities evidenced by paper	(57,640)	(24,218)
- Subordinated term debt	(7,211)	(3,454)
- Perpetual debt	(3,266)	-
	(94,782)	**(46,428)**
Net interest income	**65,483**	**59,741**

5. Net fee and commission income

In thousands of BGN	**2005**	**2004**
Fee and commission income		
Letters of credit and guarantees	8,298	5,509
Payments transactions	4,336	3,968
Customer accounts	5,350	3,991
Cards business	7,093	3,471
Other	3,653	1,147
	28,730	**18,086**
Fee and commission expense		
Letters of credit and guarantees	(2, 918)	(596)
Correspondent accounts	(676)	(571)
Cards business	(2,661)	(1,468)
Other	(287)	(63)
	(6,542)	**(2,698)**
Net fee and commission income	**22,188**	**15,388**

6. Net trading income

In thousands of BGN	**2005**	**2004**
Net trading income arises from:		
- Debt instruments and related derivatives	5,899	2,799
- Foreign exchange rate fluctuations	7,520	4,281
Net trading income	**13,419**	**7,080**

7. General administrative expenses

In thousands of BGN	**2005**	**2004**
General and administrative expenses comprise:		
- Personnel cost	17,820	11,400
- Depreciation and amortisation	6,579	5,600
- Administration, marketing and other costs	39,450	36,145
General administrative expenses	**63,849**	**53,145**

Personnel costs include salaries, social and health security contributions under the provisions of the local legislation. At 31 December 2005, the total number of employees is 1,269 (2004: 968). Training costs for the year ended 31 December 2005 amount to BGN 112 thousand (2004: BGN 82 thousand).

8. Impairment losses

In thousands of BGN	**2005**	**2004**
Write-downs		
Loans and advances to customers	(17,845)	(19,054)
Reversal of write-downs		
Loans and advances to customers	8,059	14,282
Net impairment losses	**(9,786)**	**(4,772)**

9. Income tax expense

In thousands of BGN	**2005**	**2004**
Current taxes	(3,681)	(4,150)
Deferred taxes (See Note 18)	(401)	(94)
Income tax expense	**(4,082)**	**(4,244)**

10. Cash and balances with Central Banks

In thousands of BGN	**2005**	**2004**
Cash on hand		
- In Bulgarian Leva	49,062	30,982
- In foreign currencies	24,694	16,447
Balances with Central Banks	146,542	91,331
Current accounts and amounts with local banks	1,023	871
Current accounts and amounts with foreign banks	313,526	204,857
	534,847	**344,488**

11. Financial assets held for trading

In thousands of BGN	**2005**	**2004**
Debt and other fixed income instruments		
Bonds and notes issued by:		
Bulgarian Government		
- denominated in Bulgarian Leva	2,917	38,407
- denominated in foreign currencies	1,118	13,276
Foreign governments	-	128,948
Other issuers	3,116	7,271
	7,151	**187,902**

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

2. Available for sale investments

In thousands of BGN	**2005**	**2004**
Debt and other fixed income instruments		
Bonds and notes issued by:		
Bulgarian Government		
- denominated in Bulgarian Leva	72,459	-
- denominated in foreign currencies	9,104	-
Foreign governments		
- short term	233,437	-
- long term	33,318	-
Foreign banks	72,841	-
Other issuers	11,178	226
	432,337	**226**

13. 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	**2005**	**2004**
Securities held to maturity issued by:		
Bulgarian government	6,523	7,834
Foreign governments	52,838	15,698
Foreign banks	38,611	4,367
	97,972	**27,899**

14. Loans and advances to banks and other financial institutions

(a) Analysis by type

In thousands of BGN	**2005**	**2004**
Placements with banks	35,955	24,668
Receivables under repurchase agreements	-	34,670
Other	3,438	2,186
Total	**39,393**	**61,524**

(b) Geographical analysis

In thousands of BGN	**2005**	**2004**
Domestic banks and other financial institutions	8,059	42,889
Foreign banks	31,334	18,635
Total	**39,393**	**61,524**

15. Loans and advances to customers

In thousands of BGN	**2005**	**2004**
Retail customers		
- Consumer loans	144,868	103,209
- Mortgage loans	136,727	65,059
Small and medium enterprises	94,742	39,874
Microlending	9,383	-
Corporate customers		
- Public sector customers	22,108	19,230
- Private sector customers	963,062	780,482
Less allowance for impairment	(32,799)	(24,031)
	1,338,091	**983,823**

Specific allowances for impairment in the amount of BGN 24,043 thousand (2004: BGN 17,485 thousand) have been made in respect of loans with total gross carrying value of BGN 92,629 thousand (2004: 52,351 thousand). General allowances for portfolios of similar loans amount to BGN 8,756 thousand (2004:BGN 6,546 thousand).

In 2005 the Bank started to operate the new specific "Microlending" business line and therefore no comparatives have been provided.

Movement in impairment allowances

	In thousands of BGN
Balance at 01 January 2005	**24,031**
Additional allowances	17,845
Allowances acquired through business combination	846
Amounts released	(8,059)
Write-offs	(1,864)
Balance at 31 December 2005	**32,799**

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

16. 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 2005	9,055	37,482	3,259	10,371	6,542	66,709
Additions	-	263	32	24,678	-	24,973
Disposals	-	(516)	(151)	-	-	(667)
Transfers	-	6,756	862	(8,406)	672	(116)
At 31 December 2005	9,055	43,985	4,002	26,643	7,214	90,899
Depreciation						
At 1 January 2005	2,255	17,908	1,442	-	1,876	23,481
Depreciation acquired through business combination	-	191	3	-	-	194
Charge for the year	284	4,630	626	-	756	6,296
On disposals	-	(402)	(151)	-	-	(553)
At 31 December 2005	2,539	22,327	1,920	-	2,632	29,418
Net book value						
At 31 December 2005	**6,516**	**21,658**	**2,082**	**26,643**	**4,582**	**61,481**
At 1 January 2005	**6,800**	**19,574**	**1,817**	**10,371**	**4,666**	**43,228**

17. Intangible assets

In thousands of BGN	Software and licences	Goodwill	Total
Cost			
At 1 January 2005	1,870	-	1,870
Additions	73	97	170
Disposals	(11)	-	(11)
Transfers	116	-	116
At 31 December 2005	2,048	97	2,145
Depreciation			
At 1 January 2005	1,255	-	1,255
Depreciation acquired through business combination	29	-	29
Charge for the year	283	-	283
On disposals	(11)	-	(11)
At 31 December 2005	1,556	-	1,556
Net book value			
At 31 December 2005	**492**	**97**	**589**
At 1 January 2005	**615**	**-**	**615**

18. Deferred Taxation

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

Deferred income tax balances are attributable to the following items:

In thousands of BGN	Assets		Liabilities		Net	
	2005	**2004**	**2005**	**2004**	**2005**	**2004**
Loans and advances to customers	-	(56)	-	-	-	(56)
Property, equipment and intangibles	-	-	1,631	1,253	1,631	1,253
Other items	(111)	(78)	-	-	(111)	(78)
Net tax (assets)/liabilities	**(111)**	**(134)**	**1,631**	**1,253**	**1,520**	**1,119**

Movements in temporary differences during the year are recognised in income statement.

19. Other assets

In thousands of BGN	**2005**	**2004**
Deferred expense	2,482	1,912
Other assets	6,921	1,706
	9,403	**3,618**

20. Due to banks and other financial institutions

In thousands of BGN	**2005**	**2004**
Term deposits	34,828	22,924
Payable on demand	7,136	5,162
	41,964	**28,086**

21. Due to other customers

In thousands of BGN	**2005**	**2004**
Retail customers		
- payable on demand	269,191	190,264
- term deposits	461,811	293,208
Corporate customers		
- payable on demand	270,333	216,059
- term deposits	176,358	150,052
Total	**1,177,693**	**849,583**

22. Liabilities evidenced by paper

In thousands of BGN	**2005**	**2004**
Bonds and notes issued	534,517	134,948
Acceptances under letters of credit	8,919	307,437
Liabilities under repurchase agreements (see Note 26)	207,377	47,445
Syndicated loans	244,225	93,990
Other term liabilities	49,964	46,790
	1,045,002	**630,610**

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	**2005**	**2004**
Long term bonds payable		
EUR 6,000,000 8.5% due 2008	12,000	11,845
EUR 40,000,000 8% due 2006	79,438	79,164
USD 10,000,000 6.125% due 2005	-	14,378
EUR 200,000,000 7.5% due 2008	413,429	-
Total bonds payable	**504,867**	**105,387**
Mortgage bonds		
EUR 5,000,000 7% due 2008	9,830	9,799
EUR 10,000,000 7% due 2009	19,820	19,762
Total mortgage bonds	**29,650**	**29,561**
Total bonds and notes issued	**534,517**	**134,948**

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

23. Subordinated term debt

As at 31 December 2005 the Bank has entered into ten separate subordinated Loan Agreements with five different lenders. All these subordinated Loan Agreements are governed by English Law and the funds raised outside the Republic of Bulgaria.

Subordinated liabilities can be analysed as follows:

In thousands of BGN

Lender	Principle amount	Final maturity	Amortised cost as at 31 December 2005
Growth Management Limited	5,867	8 years	7,833
Growth Management Limited	1,956	10 years	2,339
Growth Management Limited	5,867	10 years	6,758
Hillside Apex Fund Limited	9,779	8 years	12,869
Hillside Apex Fund Limited	1,956	9 years	2,481
Growth Management Limited	3,912	10 years	4,268
Hillside Apex Fund Limited	9,779	10 years	10,572
Global Emerging Markets Bond Fund Inc.	1,956	10 years	2,100
Standard Bank	9,779	10 years	10,387
Hypo-Alpe-Adria Bank	3,912	10 years	4,158
			63,765

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

24. Perpetual debt.

In thousands of BGN

	Principle amount	Amortised cost as at 31 December 2005
Step-up Guaranteed Perpetual Subordinated Bonds	52,807	54,074

The issue of the EUR 27,000,000 Step-Up Subordinated Bonds by First Investment Finance B.V., a limited liability company registered under the laws of the Netherlands and 100% owned by First Investment Bank AD was fully guaranteed by the Bank. The terms and conditions of the Subordinated Bonds fully comply with capital adequacy Regulation 8 issued by BNB. The Bulgarian National Bank issued Permission for the inclusion of the proceeds from the hybrid instrument in the supplementary capital reserves on 10 September 2005.

25. Other liabilities

In thousands of BGN	2005	2004
Liabilities to personnel	635	379
Current tax liability	2,275	3,063
Other payables	4,434	2,917
	7,344	**6,359**

26. Repurchase and resale agreements

The Bank raises funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate. Repurchase agreements are commonly used as a tool for short-term financing of interest-bearing assets, depending on the prevailing interest rates. At 31 December 2005 assets sold under repurchase agreements were as follows:

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

At 31 December 2004 assets sold under repurchase agreements were as follows:

In thousands of BGN	Fair value of underlying assets	Carrying amount of corresponding liabilities
Bulgarian government securities	10,923	11,254
Other government securities	36,284	36,191
	47,207	**47,445**

27. Capital and reserves

Number and face value of registered shares as at 31 December 2005

At 31 December 2005 the authorised share capital comprised of 1,000,000 ordinary shares of BGN 10 par value each. All the shares have been fully paid-up. The paid in share capital in the Balance sheet has been restated in terms of the measuring unit current as at 31 December 1997 (See Note 1(c)).

27. Capital and reserves, continued

(a) Shareholders

The table below shows those shareholders holding shares as at 31 December 2005 together with the number and percentage of total issued shares

	Number of shares	%
Mr T. Minev (Founding Shareholder)	318,300	31.83
Mr I. Mutafchiev (Founding Shareholder)	318,300	31.83
FFBH	138,900	13.89
Hillside Apex Fund Limited	100,000	10.00
Growth Management Limited	100,000	10.00
Legnano Enterprises, Cyprus	24,500	2.45
Total	**1,000,000**	**100.00**

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

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

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

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

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

The Manager of the Thames River Global Funds Limited and its subsidiaries is Thames River Capital Holdings Limited. Thames River Capital Holdings Limited has appointed Thames River Capital LLP as investment adviser to the Thames River Global Funds Limited and its subsidiaries. Thames River Capital LLP is authorised and regulated by the Financial Services Authority in the United Kingdom. Thames River Capital LLP had approximately US$7.2 billion of assets under management as at 30 November 2005.

27. Capital and reserves, continued

(b) Shareholders, continued

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

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

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

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

(c) Statutory reserve

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

28. 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	**2005**	**2004**
Bank guarantees		
- in BGN	101,052	30,649
- in foreign currency	54,439	45,465
Total guarantees	**155,491**	**76,114**
Unused credit lines	140,474	35,349
Promissory notes	39,602	10,134
Letters of credit in foreign currency	116,461	42,445
	452,028	**164,042**

28. Commitments and contingent liabilities, continued

(a) Memorandum items, continued

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

At 31 December 2005 the extent of collateral held for guarantees and letters of credit is 100 percent.

29. 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	**2005**	**2004**
Cash and balances with Central Banks	534,847	344,488
Loans and advances to banks and other financial institutions with original maturity less than 90 days	39,202	12,576
	574,049	**357,064**

30. 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	**2005**	**2004**
FINANCIAL ASSETS		
Cash and balances with Central Banks	321,711	221,792
Financial assets held for trading	151,163	108,442
Available for sale investments	204,632	189
Financial assets held to maturity	100,788	13,028
Loans and advances to banks and other financial institutions	56,648	78,555
Loans and advances to customers	1,218,335	786,480
FINANCIAL LIABILITIES		
Due to banks and other financial institutions	43,591	32,854
Due to other customers	977,700	701,569
Liabilities evidenced by paper	888,979	385,415
Subordinated term debt	55,295	23,163
Perpetual debt	22,062	-

31. Risk management disclosures

A. Trading activities

The Bank maintains active trading positions in a limited number of derivatives, mainly short-term forward contracts and non-derivative financial instruments. Most of the Bank's trading activities are customer driven. In anticipation of customer demand, the Bank carries an inventory of money market instruments and maintains access to market liquidity by trading with other market makers. These activities constitute the proprietary trading business and enable the Bank to provide customers with money market products at competitive prices. As trading strategies depend on both market-making and proprietary positions, given the relationships between instruments and markets, those are managed in concert to maximise net trading income.

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

(i) Credit risk

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

(ii) Market risk

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

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

31. 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 marked-to-market positions that was experienced during the first half of 2005:

in thousands of BGN	**31 December 2005**	**2005 average**	**2005 low**	**2005 high**	**31 December 2004**
VaR	356	251	86	467	92

B. Non-trading activities

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

(i) Liquidity risk

Liquidity risk arises in the general funding of the Bank's activities and in the management of positions. It includes both the risk of being unable to fund assets at appropriate maturity and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame to meet the liability obligations.

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

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

31. Risk management disclosures, continued

B. Non-trading activities, continued

(i) Liquidity risk, continued

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

Maturity table as at 31 December 2005

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

31. **Risk management disclosures, continued**

B. **Non-trading activities, continued**

(i) ***Liquidity risk, continued***

As at 31 December 2005 the thirty largest non-financial depositors represent 17.30% of total deposits from other customers (2004 24.11 %).

Maturity table as at 31 December 2004

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	344,488	-	-	-	-	**344,488**
Financial assets held for trading	187,902	-	-	-	-	**187,902**
Available for sale investments	-	-	-	-	226	**226**
Financial assets held to maturity	-	-	2,866	25,033	-	**27,899**
Loans and advances to banks and other financial institutions	43,994	2,980	14,359	-	191	**61,524**
Loans and advances to customers	44,214	118,273	296,720	524,616	-	**983,823**
Property and equipment	-	-	-	-	43,228	**43,228**
Intangible assets	-	-	-	-	615	**615**
Other assets	3,618	-	-	-	-	**3,618**
Total assets	**624,216**	**121,253**	**313,945**	**549,649**	**44,260**	**1,653,323**
Liabilities						
Due to banks and other financial institutions	23,752	1,159	1,203	1,972	-	**28,086**
Due to other customers	583,373	83,452	161,571	21,187	-	**849,583**
Liabilities evidenced by paper	69,502	37,134	356,104	167,870	-	**630,610**
Subordinated term debt	-	-	-	28,698	-	**28,698**
Deferred tax liability	-	-	-	-	1,119	**1,119**
Other liabilities	5,508	-	-	851	-	**6,359**
Total liabilities	**682,135**	**121,745**	**518,878**	**220,578**	**1,119**	**1,544,455**
Net liquidity gap	**(57,919)**	**(492)**	**(204,933)**	**329,071**	**43,141**	**108,868**

(ii) ***Market risk***

Interest rate risk

The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature or reprice at different times or in differing amounts. In the case of floating rate assets and liabilities the Bank is also exposed to basis risk, which is the difference in repricing characteristics of the various floating rate indices, such as the Bulgarian Basic Interest Rate, the LIBOR and EURIBOR, although these indices tend to move in high

31. Risk management disclosures, continued

B. Non-trading activities, continued

(ii) Market risk, continued

Interest rate risk, continued

correlation. In addition, the actual effect will depend on a number of other factors, including the extent to which repayments are made earlier or later than the contracted dates and variations in interest rate sensitivity within repricing periods and among currencies.

In order to quantify the interest rate risk of its non-trading activities, the Bank measures the impact of a change in the market rates both on net interest income and on the Bank's economic value. The interest rate risk on the economic value of the Bank following a standardised shock of +100bp/-100bp as at 31.12.2005 is BGN +10.5/-10.5 Mio. The interest rate risk on the Bank's net interest income one year forward following a standardised shock of +100bp/-100bp as at 31.12.2005 is BGN -0.9/+0.9 Mio.

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

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

31. 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 2004 and the periods in which financial liabilities and assets reprice.

In thousands of BGN	Total	Weighted average effective interest rate	Floating rate Instruments	Fixed rate instruments: Less than 1 month	Between 1 month and 3 months	Between 3 months and 1 year	More than 1 year
Assets							
Cash and balances with Central Banks	205,728	1.84%	81,837	123,891	-	-	-
Financial assets held for trading	182,476	2.87%	18,360	78,052	48,654	2,778	34,632
Financial assets held to maturity	27,377	3.50%	4,307	-	-	2,863	20,207
Loans and advances to banks and other financial institutions	58,223	5.50%	137	58,086	-	-	-
Loans and advances to cunstomers	905,850	12.30%	460,636	33,687	23,897	92,417	295,213
Non-interest earning assets	273,669	-	-	-	-	-	-
Total assets	**1,653,323**		**565,277**	**293,716**	**72,551**	**98,058**	**350,052**
Liabilities							
Due to banks and other financial institutions	27,621	2.92%	12,816	13,111	1,462	232	-
Due to other customers	835,198	2.87%	726,947	32,575	4,017	70,731	928
Liabilities evidenced by paper	574,049	6.61%	144,200	52,458	32,880	217,797	126,714
Subordinated term debt	27,573	14.91%	-	-	-	-	27,573
Non-interest bearing liabilities	80,014	-	-	-	-	-	-
Total liabilities	**1,544,455**	**-**	**883,963**	**98,144**	**38,359**	**288,760**	**155,215**

31. Risk management disclosures, continued

B. Non-trading activities, continued

(ii) Market risk, continued

Currency risk

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

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

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

In thousands of BGN	**2005**	**2004**
Monetary assets		
Euro	1,522,291	787,662
US dollar	411,061	460,299
Other	73,519	227,219
Monetary liabilities		
Euro	1,622,232	797,208
US dollar	410,987	457,566
Other	73,758	227,210
Net position		
Euro	(99,941)	(9,546)
US dollar	74	2,733
Other	(239)	9

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.

31. Risk management disclosures, continued

B. Non-trading activities, continued

(iii) Credit risk

The Bank is subject to credit risk through its lending activities and in cases where it acts as an intermediary on behalf of customers or other third parties or issues guarantees. In this respect, the credit risk for the Bank stems from the possibility that different counterparties might default on their contractual obligations. The management of the credit risk exposures to borrowers is conducted through regular analysis of the borrowers' credit worthiness and the assignment of a rating grade. Exposure to credit risk is also managed in part by obtaining collateral and guarantees.

The Bank's primary exposure to credit risk arises through its loans and advances. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the balance sheet. In addition, the Bank is exposed to off-balance sheet credit risk through commitments to extend credit and guarantees issued (See Note 28).

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

The major concentrations of credit risk arise by location and type of customer in relation to the Bank's investments, loans and advances, commitments to extend credit and guarantees issued.

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

In thousands of BGN	**2005**	**2004**
Trade	250,266	269,995
Industry	381,447	264,659
Services	107,984	42,366
Finance	6,804	18,151
Transport, logistics	87,493	64,677
Communications	863	38
Construction	59,849	20,585
Agriculture	39,690	26,227
Tourist services	145,017	114,618
Private individuals	281,595	168,268
Other	9,882	18,270
Less allowance of impairment	(32,799)	(24,031)
	1,338,091	**983,823**

The Bank has extended loans, confirmed letters of credit and granted guarantees to 9 individual clients or groups (2004: 15) 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 364,233 thousand which represents 153.44% of the Bank's capital base (2004: BGN 306,781 thousand which represented 223.01% of capital base) of which BGN 257,506 thousand (2004: BGN 230,524 thousand) represent loans and BGN 106,727 thousand (2004: BGN 76,257 thousand) represent guarantees, letters of credit and other commitments. Exposures secured by cash and highly liquid assets for which there

31. Risk management disclosures, continued

B. Non-trading activities, continued

(iii) Credit risk, continued

is ascertainable market value have been excluded from the calculation of the large exposures.

The Bank has extended loans to enterprises involved in different types of activities but within the same industry. As such the exposures share a similar industry risk. There are three such groups of enterprises at 31 December 2005 with total exposures amounting to BGN 53,540 thousand (2004: BGN 22,364 thousand) (ferrous metals), BGN 15,974 thousand (2004: BGN 18,866 thousand) (cable and electrics) and BGN 55,822 thousand (2004: BGN 9,945 thousand) (power engineering) respectively.

The loans extended by the overseas branches amount to BGN 75,895 thousand (2004: BGN 47,876 thousand) (gross carrying amount before any allowances) from which BGN 73,970 thousand (2004: BGN 45,652 thousand) is in Cyprus and BGN 1,925 thousand (2004:BGN 2,224 thousand) in Albania.

The amounts reflected in the tables represent the maximum accounting loss that would be recognised at the balance sheet date if counterparts failed completely to perform as contracted and any collateral or security proved to be of no value. The amounts, therefore, greatly exceed expected losses, which are included in the allowance for impairment.

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

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

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

In thousands of BGN	**2005**	**2004**
Secured by mortgages	744,233	437,119
Cash collateral	20,419	40,350
Other collateral	573,439	505,210
Unsecured	-	1,144
Total	**1,338,091**	**983,823**

31. Risk management disclosures, continued

C. Capital adequacy

(i) Regulations

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

While the Bank monitors and reports its capital ratios under BIS rules, it is the rules established by the Bulgarian regulator, the Bulgarian National Bank (BNB), which ultimately determine the statutory capital required to underpin its business. The Bank has complied with all BIS and BNB regulatory capital rules for all periods reported.

(ii) BIS Eligible capital

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

(iii) BIS Risk-Weighted Assets (RWAs)

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

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

31. Risk management disclosures, continued

C. Capital adequacy, continued

Capital adequacy level was as follows:

In thousands of BGN	Balance amount	sheet/notiona	Risk Weight amount	
	2005	**2004**	**2005**	**2004**
BALANCE SHEET ASSETS				
Cash and balances with Central Banks	534,847	344,488	63,430	41,870
Financial assets held for trading	7,151	187,902	3,117	2,176
Available for sale investments	432,337	226	15,438	226
Financial assets held to maturity	97,972	27,899	7,722	-
Loans and advances to banks and other financial institutions	39,393	61,524	7,884	5,127
Loans and advances to customers	1,338,091	983,823	1,191,251	858,031
Property and equipment	61,481	43,228	61,481	43,228
Intangible assets	589	615	491	615
Other assets	9,403	3,618	9,403	3,618
TOTAL ASSETS	**2,521,264**	**1,653,323**	**1,360,217**	**954,891**
Off balance sheet positions				
Credit related commitments	452,028	164,042	129,961	22,463
Forward based derivative instruments	142,341	98,576	1,284	-
Unassigned market risk components	-	-	3,265	2,297
TOTAL	**594,369**	**262,618**	**134,510**	**24,760**
TOTAL RISK WEIGHTED ASSETS			**1,494,727**	**979,651**

	CAPITAL		BIS%	
BIS CAPITAL RATIOS	**2005**	**2004**	**2005**	**2004**
Tier 1 Capital	**129,938**	**108,868**	**8.69%**	**11.11%**
Tier 1 + Tier 2 Capital	**237,375**	**137,566**	**15.88%**	**14.04%**

32. Related party transactions

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

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

Type of related party	**Directors**		**Enterprises under common control**	
In thousands of BGN	**2005**	**2004**	**2005**	**2004**
Loans:				
Loans outstanding at beginning of the year	819	333	3,642	3,584
Loans issued during the year	735	486	18	58
Loans outstanding at end of the year	1,554	819	3,660	3,642
Deposits received:				
Deposits at beginning of the year	206	273	9,292	561
Deposits received during the year	67	(67)	(7,317)	8,731
Deposits at end of the year	273	206	1,975	9,292
Deposits placed				
Deposits at beginning of the year	-	-	6,063	-
Deposits placed during the year	-	-	1,760	6,063
Deposits at end of the year	-	-	7,823	6,063
Guarantees issued by the Bank				
At beginning of the year	-	-	50	93
Granted	-	-	80	(43)
At the end of the year	-	-	130	50

33. Subsidiary undertakings

(a) First Investment Finance B.V.

In April 2003 the Bank has created a special purpose entity, incorporated in the Netherlands, First Investment Finance B.V. The purpose for creating the entity is to accomplish a narrow and well-defined objective of issuing bonds, listed on the Luxemburg Stock Exchange and guaranteed by the Bank. The entity's registered share capital is EUR 18 thousand and is 100 % owned by the Bank. Consequently the Bank consolidates its investment in this company.

(b) First Insurance Brokerage Company AD

In September 2003 the Bank acquired 50% of the issued share capital of First Insurance Brokerage Company AD upon its incorporation. Total share capital of the company is BGN 100 thousand. The Bank considers this undertaking to be a controlling interest as the management of the Bank also manages this company and consequently consolidates its investment in this company.

(c) Diners Club Bulgaria AD

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

34. Post balance sheet events

The General Meeting of the shareholders held on 26 January 2006 adopted a resolution for a capital increase with BGN 10,000 thousand. The shareholders are invited to subscribe shares from the capital increase pro rata to their existing shareholding within two months after the date of the publication of the invitation in the State Gazette. After the completion of the capital increase, the registered capital of First Investment Bank AD shall amount to BGN 20,000 thousand.

KPMG

REPORT

OF THE INDEPENDENT AUDITOR

TO THE SHAREHOLDERS OF FIRST INVESTMENT BANK AD

Sofia, 27 February 2006

We have audited the accompanying consolidated balance sheet of First Investment Bank AD („the Bank“) as of 31 December 2005 and the related consolidated statements of income, changes in equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the directors. 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 plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Bank as of 31 December 2005, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG Bulgaria OOD

KPMG Bulgaria OOD

37, Fridtjof Nansen Str.

Sofia

Bulgaria

Consolidated balance sheet as at 31 March 2007

In thousands of BGN

	31 March 2007
ASSETS	
Cash and balances with Central Banks	573,887
Financial assets held for trading	23,866
Available for sale investments	426,577
Financial assets held to maturity	99,617
Loans and advances to banks and other financial institutions	12,306
Loans and advances to customers	1,816,194
Property and equipment	84,663
Intangible assets	913
Other assets	17,926
TOTAL ASSETS	**3,055,949**
LIABILITIES AND CAPITAL	
Due to banks	3,672
Due to other customers	1,619,025
Liabilities evidenced by paper	1,101,288
Subordinated term debt	49,659
Perpetual debt	96,271
Deferred tax liability	1,234
Other liabilities	6,372
TOTAL LIABILITIES	**2,877,521**
Issued share capital	100,000
Statutory reserve	39,861
Revaluation reserve on available for sale investments	(521)
Retained earnings	39,083
SHAREHOLDERS' EQUITY	***178,423***
Minority interests	5
TOTAL GROUP EQUITY	**178,428**
TOTAL LIABILITIES AND GROUP EQUITY	**3,055,949**

Matthew Mateev
Chairman of the Managing Board,
Executive Director

Evgeni Lukanov
Executive Director

Consolidated income statement for the three months ended 31 March 2007

In thousands of BGN

	Three months ended 31 March 2007
Interest and similar income	56,916
Interest expense and similar charges	(29,431)
Net interest income	**27,485**
Fee and commission income	12,669
Fee and commission expense	(1,829)
Net fee and commission income	**10,840**
Net trading income	**2,419**
TOTAL INCOME FROM BANKING OPERATIONS	**40,744**
General administrative expenses	(21,766)
Impairment losses	(6,211)
Other expenses, net	(1,426)
PROFIT BEFORE TAX	**11,341**
Income tax expense	**(1,223)**
GROUP PROFIT AFTER TAX	**10,118**
Minority interests	5
NET PROFIT	**10,123**

Matthew Mateev
Chairman of the Managing Board,
Executive Director

Evgeni Lukanov
Executive Director

Consolidated statement of cash flows for the three months ended 31 March 2007

In thousands of BGN

	Three months ended 31 March 2007
Net cash flow from operating activities	
Net profit	10,123
Adjustment for non-cash items	
Impairment losses	6,211
Depreciation and amortization	2,662
Income tax expense	1,223
	20,219
Change in operating assets	
(Increase) in financial instruments held for trading	(10,627)
Decrease in available for sale investments	81,166
Decrease in loans and advances to banks	15,175
(Increase) in loans to customers	(112,632)
(Increase) in other assets	(3,067)
	(29,985)
Change in operating liabilities	
(Decrease) in deposits from banks and other financial institutions	(6,764)
(Decrease) in amounts owed to other depositors	(73,172)
Net increase in other liabilities	342
	(79,594)
Income tax paid	(1,041)
NET CASH FLOW FROM OPERATING ACTIVITIES	**(90,401)**
Cash flow from investing activities	
(Purchase) of tangible fixed assets	(6,514)
(Purchase) of intangible fixed assets	(131)
(Acquisition) of investments	(29,396)
NET CASH FLOW FROM INVESTING ACTIVITIES	**(36,041)**
Financing activities	
Increase of shareholders' equity of not fully owned subsidiaries	180
(Decrease) in borrowings	(22,440)
NET CASH FLOW FROM FINANCING ACTIVITIES	**(22,260)**
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	**(148,702)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	**730,811**
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	**582,109**

Matthew Mateev
Chairman of the Managing Board,
Executive Director

Evgeni Lukanov
Executive Director

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