FIRST INVESTMENT BANK AD

CONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2008
WITH INDEPENDENT AUDITOR'S REPORT THEREON

KPMG

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

Sofia, 3 April 2009

Report on the consolidated financial statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

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

Krassimir Hadjidinev
Registered auditor
Authorised representative

Margarita Goleva
Registered auditor

0202 Маргарита Голева
Регистриран одитор

KPMG Bulgaria OOD
37 Fridtjof Nansen Str.
1142 Sofia
Bulgaria

FIRST INVESTMENT BANK AD

Consolidated income statement for the year ended 31 December 2008

In thousands of BGN

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

The income statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 47.

Krassimir Hadjidinev
Registered auditor
Authorised representative
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Margarita Goleva
Registered auditor

0202 Маргарита Голева
Регистриран одитор

FIRST INVESTMENT BANK AD

Consolidated balance sheet as at 31 December 2008

In thousands of BGN

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

The balance sheet is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 47.

Krassimir Hadjidinev
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Authorised representative
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Регистриран одитор

FIRST INVESTMENT BANK AD

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

In thousands of BGN

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

The cash flow statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 47.

Krassimir Hadjidinev
Registered auditor
Authorised representative
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Margarita Goleva
Registered auditor

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FIRST INVESTMENT BANK AD

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

In thousands of BGN

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

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 47.

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

Matthew Mateev
Chairman of the Managing Board,
Executive Director

Evgeni Lukanov
Executive Director

Radoslav Milenkov
Chief Financial Officer

Маргарита Голева
0202
Регистриран одитор

Специализирано одиторско предприятие
София
Рег. №045
"КПМГ - България" ООД

Krassimir Hadjidinev
Registered auditor
Authorised representative
KPMG Bulgaria OOD

Margarita Goleva
Registered auditor

Notes to the financial statements

1. Basis of preparation

(a) Statute

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

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

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

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

The Group has foreign operatios in Cyprus and Albania.

(b) Statement of compliance

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

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

(c) Basis of preparation

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

The Group has made certain reclassifications to the financial statements as of 31 December 2007 in order to provide more clear and precise comparison figures.

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

2. Significant accounting policies

(a) Income recognition

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

2. Significant accounting policies, continued

(a) Income recognition, continued

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

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

(b) Basis of consolidation of subsidiaries

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

(c) Foreign currency transactions

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

(iii) Foreign operations

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

2. Significant accounting policies, continued

(d) Financial assets

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

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

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

(ii) Loans and receivables

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

(iii) Held-to-maturity

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

(iv) Available-for-sale

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

(v) Recognition

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

(vi) Measurement

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

2. Significant accounting policies, continued

(d) Financial assets, continued

(vi) Measurement, continued

is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity should be recognised in profit or loss.

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

(vii) Fair value measurement

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

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

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

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

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

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

2. Significant accounting policies, continued

(d) Financial assets, continued

(vii) Fair value measurement, continued

in thousands of BGN	Observable market prices in active markets	Valuation techniques - using market data	Total
31 December 2008			
Financial assets held for trading	9,681	-	9,681
Available for sale investments	229,845	54,740	284,585
Total	**239,526**	**54,740**	**294,266**
31 December 2007			
Financial assets held for trading	13,529	-	13,529
Available for sale investments	288,730	84,396	373,126
Total	**302,259**	**84,396**	**386,655**

(e) Cash and cash equivalents

Cash and cash equivalents comprise cash balances on hand, cash deposited with central banks and short-term highly liquid investments with maturity of three months or less.

(f) Investments

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

(g) Securities borrowing and lending business and repurchase transactions

(i) Securities borrowing and lending

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

(ii) Repurchase agreements

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

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

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

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

(i) Offsetting

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

(j) Impairment

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

(i) Loans and advances

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

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

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

2. Significant accounting policies, continued

(j) Impairment, continued

(ii) Available for sale financial assets

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

When an asset remeasured to fair value directly through equity is impaired, and the decline in the fair value of the asset was previously recognised directly in equity, the write down is transferred to the income statement and recognised as part of the impairment loss even though the financial asset has not been derecognised.

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

(k) Property, plant and equipment

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

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

Assets	**%**
▪ Buildings	3 - 4
▪ Equipment	10 - 33
▪ Fixtures and fittings	10 - 20
▪ Vehicles	10 - 20
▪ Leasehold improvements	10 - 67

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

(l) Intangible assets

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

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

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

(m) Provisions

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

2. Significant accounting policies, continued

(n) Acceptances

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

(o) Taxation

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

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

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

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

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

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

(i) Impairment losses on loans and advances

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

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

2. Significant accounting policies, continued

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

(ii) Income taxes

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

(q) Earnings per share

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

(r) New standards and interpretations not yet effective

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

- Amendment to IFRS 2 *Share-based Payment – vesting and termination conditions* (effective 1 January 2009). The amendments to the Standard clarify the definition of vesting conditions and introduce the concept of non-vesting conditions. Non-vesting conditions are to be reflected in grant-date fair value and failure to meet non-vesting conditions will generally result in treatment as a cancellation. The amendments to IFRS 2 will be effective for financial statements for 2009 and will be adopted retrospectively. Management considers that the amendments to the Standard will not have any impact on the Group as the Group does not have any share-based compensation plans.

- IFRS 8 *Operating Segments* (effective 1 January 2009). The Standard introduces the “management approach” to segment reporting and requires segment disclosure based on the components of the entity that management monitors in making decisions about operating matters. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the Group’s Chief Operating Decision Maker in deciding how to allocate resources and in assessing performance. The Standard will have no effect on the profit or loss or equity and the management expects the new Standard not to alter significantly the presentation and disclosure of its operating segments in the financial statements.

- Revised IAS 1 *Presentation of Financial Statements* (effective from 1 January 2009). The revised Standard requires information in financial statements to be aggregated on the basis of shared characteristics and introduces a statement of comprehensive income.

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

  The Group is currently evaluating whether to present a single statement of comprehensive income, or two separate statements.

2. Significant accounting policies, continued

(r) New standards and interpretations not yet effective, continued

- Revised IAS 23 *Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become mandatory for the Group's 2009 financial statements and will constitute a change in accounting policy for the Group. In accordance with the transitional provisions the Group will apply the revised IAS 23 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date.

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

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

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

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

3. Risk management disclosures

A. Trading activities

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

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

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

(i) Credit risk

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

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

(ii) Market risk

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

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

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

3. Risk management disclosures, continued

A. Trading activities, continued

(ii) Market risk, continued

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

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

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

B. Non-trading activities

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

(i) Liquidity risk

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

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

3. **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 Group into relevant maturity groupings based on the remaining periods to repayment.

Maturity table as at 31 December 2008

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

3. **Risk management disclosures, continued**

B. **Non-trading activities, continued**

(i) Liquidity risk, continued

Maturity table as at 31 December 2007

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

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

3. Risk management disclosures, continued

B. Non-trading activities, continued

(i) Liquidity risk, continued

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

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

(ii) Market risk

Interest rate risk

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

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

3. Risk management disclosures, continued

***B.* Non-trading activities, continued**

(ii) Market risk, continued

Interest rate risk, continued

The following table indicates the effective interest rates at 31 December 2008 and the periods in which financial liabilities and assets reprice.

In thousands of BGN				Fixed rate instruments			
	Total	**Weighted average effective interest rate**	**Floating rate instruments**	**Less than 1 month**	**Between 1 month and 3 months**	**Between 3 months and 1 year**	**More than 1 year**
Assets							
Cash and balances with central banks	155,873	1.99%	47,625	108,248	-	-	-
Financial assets held for trading	5,476	4.31%	-	-	-	-	5,476
Available for sale investments	284,585	3.08%	45,797	58,599	78,053	58,288	43,848
Financial assets held to maturity	62,394	3.37%	18,197	8,858	10,644	2,800	21,895
Loans and advances to banks and financial institutions	6,231	2.84%	1,674	4,557		-	-
Loans and advances to customers	2,932,968	10.89%	2,503,319	21,745	11,540	161,697	234,667
Non-interest earning assets	823,224	-	-	-	-	-	-
Total assets	**4,270,751**		**2,616,612**	**202,007**	**100,237**	**222,785**	**305,886**
Liabilities							
Due to credit institutions	53,034	4.68%	1,379	51,655	-	-	-
Due to other customers	2,844,371	5.32%	1,905,735	82,127	154,150	215,716	486,643
Liabilities evidenced by paper	832,619	7.05%	439,142	60,594	62,929	264,060	5,894
Subordinated term debt	53,852	13.10%	-	-	-	-	53,852
Perpetual debt	98,658	12.51%	-	-	-	-	98,658
Non-interest bearing liabilities	19,483	-	-	-	-	-	-
Total liabilities	**3,902,017**		**2,346,256**	**194,376**	**217,079**	**479,776**	**645,047**

Notes to the financial statements

3. Risk management disclosures, continued

B. Non-trading activities, continued

(ii) Market risk, continued

Interest rate risk, continued

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

Notes to the financial statements

3. Risk management disclosures, continued

B. Non-trading activities, continued

(ii) Market risk, continued

Currency risk

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

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

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

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

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

3. Risk management disclosures, continued

B. Non-trading activities, continued

(iii) Credit risk

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

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

31 December 2008 *In thousands of BGN*

Class of exposure	**Gross amount of loans and advances to customers**	**Carrying amount of loans and advances to customers**
Collectively impaired		
Standard	2,911,251	2,907,981
Individually impaired		
Watch	27,620	26,379
Substandard	19,062	12,114
Nonperforming	79,800	23,510
Total	**3,037,733**	**2,969,984**

31 December 2007 *In thousands of BGN*

Class of exposure	**Gross amount of loans and advances to customers**	**Carrying amount of loans and advances to customers**
Collectively impaired		
Standard	2,776,759	2,753,629
Individually impaired		
Watch	15,363	14,528
Substandard	7,602	6,368
Nonperforming	48,708	3,598
Total	**2,848,432**	**2,778,123**

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

3. Risk management disclosures, continued

B. Non-trading activities, continued

(iii) Credit risk, continued

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

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

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

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

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

The Group has extended loans and issued contingent liabilities to 16 individual clients or groups (2007: 15) with each individual exposure exceeding 10% of the capital base of the Group and based on the book value of the corresponding credit facility. The total amount of these exposures is BGN 1,109,642 thousand which represents 245.86% of the Group's capital base (2007: BGN 872,776 thousand which represented 215.71%of capital base) of which BGN 938,241 thousand (2007: BGN 632,521 thousand) represent loans and BGN 171,401 thousand (2007: BGN 240,255 thousand) represent guarantees, letters of credit and other commitments. Exposures secured by cash have been excluded from the calculation of the large exposures.

3. **Risk management disclosures, continued**

B. **Non-trading activities, continued**

(iii) Credit risk, continued

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

The amounts reflected in the tables represent the maximum accounting loss that would be recognised at the balance sheet date if counterparts failed completely to perform as contracted and any collateral or security proved to be of no value. The amounts, therefore, greatly exceed expected losses, which are included in the allowance for impairment.

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

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

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

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

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

3. Risk management disclosures, continued

C. Capital adequacy

The Group's lead regulator, the Bulgarian National Bank (BNB) sets and monitors capital requirements both on consolidated and stand-alone basis. Individual banking operations are directly supervised by their local regulators. BNB issued Ordinance 8 on Capital Adequacy of Credit Institutions effective from 1 January 2007 that is the Bulgarian supervisory implementation of the International Convergence of Capital Measurement and Capital Standards (Revised Framework), known as Basel II and complies with EU Directives 2006/48/EC and 2006/49/EC. In implementing current capital requirements the Group is required to maintain a minimum prescribed ratio of 12% of total capital to total risk-weighted assets. Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

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

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

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

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

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

The Group has complied with all capital requirements.

3. Risk management disclosures, continued

C. Capital adequacy, continued

Capital adequacy level was as follows:

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

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

4. Segment Reporting

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

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

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

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

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

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

4. Segment Reporting, continued

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

In thousands of BGN

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

5. Financial assets and liabilities

Accounting classification and fair values

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

In thousands of BGN

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

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

5. Financial assets and liabilities, continued

Accounting classification and fair values, continued

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

In thousands of BGN

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

6. Net interest income

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

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

7. Net fee and commission income

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

8. Net trading income

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

9. Other operating expneses

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

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

10. General administrative expenses

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

Personnel costs include salaries, social and health security contributions under the provisions of the local legislation. At 31 December 2008 the total number of employees of the Group is 2,689 (2007: 2,289).

11. Impairment losses

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

12. Income tax expense

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

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

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

13. Earnings per share

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

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

14. Cash and balances with central banks

In thousands of BGN	**2008**	**2007**
Cash on hand		
- In Bulgarian leva	47,340	89,814
- In foreign currencies	116,157	38,007
Gold bullion	7,848	4,761
Balances with central banks	432,349	414,068
Current accounts and amounts with local banks	30,118	67
Current accounts and amounts with foreign banks	118,052	64,545
Total	**751,864**	**611,262**

15. Financial assets held for trading

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

16. Available for sale investments

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

17. Financial assets held to maturity

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

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

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

18. Loans and advances to banks and financial institutions

(a) Analysis by type

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

(b) Geographical analysis

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

19. Loans and advances to customers

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

(a) Movement in impairment allowances

In thousands of BGN

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

20. Property and equipment

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

21. Intangible assets

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

Notes to the financial statements

22. Deferred Taxation

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

Deferred income tax balances are attributable to the following items:

In thousands of BGN	Assets		Liabilities		Net	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**
Property, equipment and intangibles	-	-	1,969	1,549	1,969	1,549
Other items	(261)	(181)	21	49	(240)	(132)
Net tax (assets)/liabilities	**(261)**	**(181)**	**1,990**	**1,598**	**1,729**	**1,417**

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

23. Other assets

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

24. Due to credit institutions

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

25. Due to other customers

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

26. Liabilities evidenced by paper

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

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

Bonds and notes issued comprise the following:

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

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

27. Subordinated term debt

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

Subordinated liabilities can be analysed as follows:

In thousands of BGN

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

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

28. Perpetual debt

In thousands of BGN	Principal amount	Amortised cost as at 31 December 2008
Step-up Guaranteed Perpetual Subordinated Bonds EUR 27 mio	52,807	54,545
Step-up Guaranteed Perpetual Subordinated Bonds EUR 21 mio	41,073	44,113
Total	**93,880**	**98,658**

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

29. Other liabilities

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

30. Capital and reserves

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

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

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

(b) Shareholders

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

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

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

30. Capital and reserves, continued

(b) Shareholders, continued

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

(c) Statutory reserve

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

31. Commitments and contingent liabilities

(a) Memorandum items

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

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

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

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

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

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

32. Cash and cash equivalents

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

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

33. Average balances

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

In thousands of BGN	**2008**	**2007**
FINANCIAL ASSETS		
Cash and balances with central banks	652,617	523,059
Financial assets held for trading	12,147	14,758
Available for sale investments	264,506	339,188
Financial assets held to maturity	75,719	101,753
Loans and advances to banks and financial institutions	30,140	38,479
Loans and advances to customers	2,866,998	2,298,340
FINANCIAL LIABILITIES		
Due to credit institutions	12,357	7,006
Due to other customers	2,531,518	1,929,610
Liabilities evidenced by paper	1,013,065	1,082,630
Subordinated term debt	52,368	51,131
Perpetual debt	97,949	97,702

34. Related party transactions

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

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

Type of related party	**Parties that control or manage the Bank**		**Enterprises under common control**	
In thousands of BGN	**2008**	**2007**	**2008**	**2007**
Loans:				
Loans outstanding at beginning of the year	2,474	1,876	8,110	4,351
Loans issued during the year	(19)	598	3,618	3,759
Loans outstanding at end of the year	2,455	2,474	11,728	8,110
Deposits received:				
Deposits at beginning of the year	1,062	547	3,449	2,825
Deposits received during the perid	5,357	515	641	624
Deposits at end of the year	6,419	1,062	4,090	3,449
Deposits placed				
Deposits at beginning of the year	-	-	11,735	7,823
Deposits placed during the year	-	-	-	3,912
Deposits at end of the year	-	-	11,735	11,735
Off-balance sheet commitments issued by the Group				
At beginning of the year	387	-	2,108	1,117
Granted	1,088	387	(6)	991
At the end of the year	1,475	387	2,102	2,108

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

35. Subsidiary undertakings

(a) First Investment Finance B.V.

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

(b) Diners Club Bulgaria AD

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

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

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

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

The Bank consolidates its investment in this company.

36. Post balance sheet events

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

37. Applicable standards

IFRS 1	First-time Adoption of International Financial Reporting Standards
IFRS 2	Share-based Payment

IFRS 3	Business Combinations
IFRS 4	Insurance Contracts
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations
IFRS 6	Exploration for and Evaluation of Mineral Resources
IFRS 7	Financial Instruments: Disclosures
IAS 1	Presentation of Financial Statements
IAS 2	Inventories
IAS 7	Cash Flow Statements

37. Applicable standards, continued

IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10	Events after the Balance Sheet Date
IAS 11	Construction Contracts
IAS 12	Income Taxes
IAS 14	Segment Reporting
IAS 16	Property, Plant and Equipment
IAS 17	Leases
IAS 18	Revenue
IAS 19	Employee Benefits
IAS 20	Accounting for Government Grants and Disclosure of Government Assistance
IAS 21	The Effects of Changes in Foreign Exchange Rates
IAS 23	Borrowing Costs
IAS 24	Related Party Disclosures
IAS 26	Accounting and Reporting by Retirement Benefit Plans
IAS 27	Consolidated and Separate Financial Statements
IAS 28	Investments in Associates
IAS 29	Financial Reporting in Hyperinflationary Economies
IAS 31	Interests in Joint Ventures
IAS 32	Financial Instruments: Presentation
IAS 33	Earnings per Share
IAS 34	Interim Financial Reporting
IAS 36	Impairment of Assets
IAS 37	Provisions, Contingent Liabilities and Contingent Assets
IAS 38	Intangible Assets
IAS 39	Financial Instruments: Recognition and Measurement
IAS 40	Investment Property
IAS 41	Agriculture
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities
IFRIC 2	Members' Shares in Co-operative Entities and Similar Instruments
IFRIC 4	Determining whether an Arrangement contains a Lease
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation
IFRIC 6	Liabilities arising from Participating in a Specific market- Waste Electrical and Electronic Equipment
IFRIC 7	Applying the Restatement approach under IAS 29
IFRIC 8	Scope of IFRS 2
IFRIC 9	Reassessment of Embedded Derivatives
IFRIC 10	Interim Financial Reporting and Impairment
IFRIC 11	Group and Treasury Share Transactions
SIC–7	Introduction of the Euro
SIC–10	Government Assistance – No Specific Relation to Operating Activities
SIC–12	Consolidation – Special Purpose Entities
SIC–13	Jointly Controlled Entities – Non-Monetary Contributions by Ventures
SIC–15	Operating Leases — Incentives
SIC–21	Income Taxes – Recovery of Revalued Non-Depreciable Assets
SIC–25	Income Taxes – Changes in the Tax Currently effective version of an Entity or its Shareholders
SIC–27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease
SIC–29	Disclosure – Service Concession Arrangements
SIC–31	Revenue – Barter Transactions Involving Advertising Services
SIC–32	Intangible Assets – Web Site Costs