

**BULGARIAN-AMERICAN CREDIT BANK AD**

CONCOLIDATED FINANCIAL STATEMENTS PREPARED  
IN ACCORDANCE WITH  
INTERNATIONAL FINANCIAL REPORTING STANDARDS  
31 DECEMBER 2006

TOGETHER WITH REPORT OF THE AUDITORS



## INDEPENDENT AUDITOR'S REPORT

**To the Shareholders of  
Bulgarian American Credit Bank AD**

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of Bulgarian American Credit Bank AD (“the Bank”), which comprise the consolidated balance sheet as of December 31, 2006, and the consolidated income statement, statement of changes of equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

#### *Management's responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the International Financial Reporting Standards, as adopted by the European Union (EU). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, 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 ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparations and fair presentation of the consolidated 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 policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Bank as of December 31, 2006, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the EU.

*Deloitte Audit*

Deloitte Audit OOD



*С. Пенева*

Sylvia Peneva

Managing Director

Registered Certified Public Accountant

February 26, 2007

Sofia

BULGARIAN-AMERICAN CREDIT BANK AD  
CONSOLIDATED STATEMENT OF INCOME  
YEAR ENDED 31 DECEMBER 2006

All amounts are in thousands of EUR unless otherwise stated

	<u>Notes</u>	<u>2006</u>	<u>2005</u>
Interest income		31,874	25,383
Interest expense		(7,495)	(6,912)
<b>Net interest income</b>	4	<b>24,379</b>	<b>18,471</b>
Fees and commission income, net	5	1,830	2,345
Gains/(losses) from securities		161	38
Gains/(losses) from foreign currency dealings		264	230
Gains/(losses) from foreign currency revaluation		(280)	525
Other operating income		584	41
<b>Operating income</b>		<b>26,938</b>	<b>21,650</b>
Operating expenses	6	(5,259)	(4,828)
Provisions for impairment	7	(2,152)	(3,098)
<b>Income before taxation</b>		<b>19,527</b>	<b>13,724</b>
Income taxes	8	(2,072)	(1,383)
<b>Net income</b>		<b>17,455</b>	<b>12,341</b>
<b>Earnings per share (in EUR)</b>			
<i>Basic</i>	9	<b>1.38</b>	<b>0.98</b>
<i>Diluted</i>	9	<b>1.38</b>	<b>0.98</b>

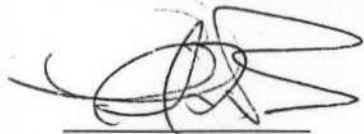
The accompanying notes to the financial statements should be read in conjunction with these financial statements.

BULGARIAN-AMERICAN CREDIT BANK AD  
CONSOLIDATED BALANCE SHEET  
AT 31 DECEMBER 2006

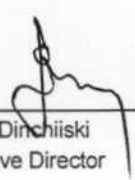
All amounts are in thousands of EUR unless otherwise stated

	<u>Notes</u>	<u>2006</u>	<u>2005</u>
<b>Assets</b>			
Cash and balances with the Central Bank	10	17,490	7,481
Due from other banks	11	26,305	32,283
Loans and advances to customers	12	193,263	146,697
Trading portfolio	13	1,948	323
Investment securities – available-for-sale	14	5,661	5,013
Other assets	15	1,363	805
Goodwill	28	80	-
Property, plant and equipment	16	2,410	2,301
<b>Total Assets</b>		<b><u>248,520</u></b>	<b><u>194,903</u></b>
<b>Liabilities and Shareholders' Equity</b>			
<b>Liabilities</b>			
Deposits from banks	17	15,342	9,975
Deposits from customers	18	54,098	33,786
Other liabilities	19	2,869	1,952
Other borrowed funds	20	31,804	55,258
Debt securities outstanding	21	87,293	54,152
<b>Total Liabilities</b>		<b><u>191,406</u></b>	<b><u>155,123</u></b>
<b>Shareholders' Equity</b>			
Share capital	22	6,455	6,455
Share premium		435	435
Retained earnings		50,280	32,825
Revaluation reserve		(56)	65
<b>Total Shareholders' Equity</b>		<b><u>57,114</u></b>	<b><u>39,780</u></b>
<b>Total Liabilities and Shareholders' Equity</b>		<b><u>248,520</u></b>	<b><u>194,903</u></b>

These financial statements have been prepared by the Management Board and approved by the Supervisory Board on 26 February 2007.



Frank L. Bauer  
Executive Director



Stoyan Dirchiiski  
Executive Director

BULGARIAN-AMERICAN CREDIT BANK AD  
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY  
YEAR ENDED 31 DECEMBER 2006

All amounts are in thousands of EUR unless otherwise stated

	<u>Share capital</u>	<u>Share premium</u>	<u>Retained earnings</u>	<u>Revaluation reserve</u>	<u>Total</u>
<b>31 December 2004</b>	<b>6,432</b>	<b>359</b>	<b>20,484</b>	<b>157</b>	<b>27,432</b>
New share issue	23	76	-	-	99
Revaluation of securities, net of taxes	-	-	-	(92)	(92)
Net income	-	-	12,341	-	12,341
<b>31 December 2005</b>	<b>6,455</b>	<b>435</b>	<b>32,825</b>	<b>65</b>	<b>39,780</b>
Revaluation of securities, net of taxes	-	-	-	(121)	(121)
Net income	-	-	17,455	-	17,455
<b>31 December 2006</b>	<b>6,455</b>	<b>435</b>	<b>50,280</b>	<b>(56)</b>	<b>57,114</b>

The accompanying notes to the financial statements should be read in conjunction with these financial statements.

BULGARIAN-AMERICAN CREDIT BANK AD  
CONSOLIDATED STATEMENT OF CASH FLOWS  
YEAR ENDED 31 DECEMBER 2006

All amounts are in thousands of EUR unless otherwise stated

	<u>Notes</u>	<u>2006</u>	<u>2005</u>
<b>Cash flows from operating activities:</b>			
<b>Net income</b>		<b>17,455</b>	<b>12,341</b>
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>			
Increase in provision for impairment	7	2,152	3,098
Deferred tax income	8	(7)	(73)
Depreciation and amortization	6, 16	339	387
<b>Changes in operating assets and operating liabilities</b>			
(Increase) / decrease in statutory minimum required reserve		(8,414)	519
Investments in loans and advances to customers	12	(49,659)	(34,155)
Increase in trading portfolio	13	(1,625)	(323)
Increase in other assets	15	(554)	(360)
Increase in other liabilities	19	947	532
<b>Net cash (used in) operating activities</b>		<b><u>(39,366)</u></b>	<b><u>(18,034)</u></b>
<b>Cash flows from investing activities:</b>			
Purchase of securities	14	(1,013)	(1,672)
Proceeds from sale and redemption of securities	14	59	2,711
Investment in subsidiaries, net of cash acquired		(48)	-
Purchases of property, plant and equipment	16	(448)	(286)
Proceeds from sale of property, plant and equipment	16	-	7
<b>Net cash (used in)/ provided by investing activities</b>		<b><u>(1,450)</u></b>	<b><u>760</u></b>
<b>Cash flows from financing activities:</b>			
Increase in deposits from banks and customers, net	17, 18	27,822	16,940
Proceeds from other borrowed funds	20	29,540	10,606
Repayments of other borrowed funds	20	(53,024)	(16,432)
Proceeds from debt securities outstanding	21	38,884	19,887
Repayments of debt securities outstanding	21	(5,744)	(6,043)
Issue of ordinary shares		-	99
<b>Net cash provided by financing activities</b>		<b><u>37,478</u></b>	<b><u>25,057</u></b>
Net effect of exchange rate changes on cash and cash equivalents		(1,045)	2,127
<b>Net (decrease) / increase in cash and cash equivalents</b>		<b><u>(4,383)</u></b>	<b><u>9,910</u></b>
<b>Cash and cash equivalents at the beginning of the year</b>	10, 11	<b><u>33,408</u></b>	<b><u>23,498</u></b>
<b>Cash and cash equivalents at the end of the year</b>	10, 11	<b><u>29,025</u></b>	<b><u>33,408</u></b>
<b>Supplemental cash flow information:</b>			
Income tax paid		<u>1,854</u>	<u>1,461</u>
Interest paid		<u>7,257</u>	<u>7,319</u>

The accompanying notes to the financial statements should be read in conjunction with these financial statements.

All amounts are in thousands of EUR unless otherwise stated

## **1 Organization and Operations**

The consolidated group of the Bulgarian-American Credit Bank (the "Group") consists of Bulgarian-American Credit Bank ("BACB" or the "Bank") and its fully owned subsidiary company Kapital Direct (Note 28) – a non banking financial institution, acquired in 2006. The Bank generates the main part of the Group's income and represents substantially all of the assets and liabilities of the Group.

The Bulgarian-American Credit Bank ("BACB" or the "Bank") was registered as a Bulgarian joint stock company under the requirements of the Bulgarian Commercial Act on 3 December 1996. The main shareholder of the BACB is the Bulgarian-American Enterprise Fund (BAEF), which held 62.9% and 99.08% of the share capital at 31 December 2006 and 2005, respectively. In April 2006, BACB expanded its shareholders base in an IPO listing on the Bulgarian Stock Exchange (BSE), upon BAEF selling 30% of its shares to local and international investors. Initially, BACB was established as a limited-purpose bank whose operations were an extension of the activities of BAEF, namely, lending to small and medium size enterprises in Bulgaria. The Bank commenced banking operations in May 1997 under a limited banking license granted by the Bulgarian National Bank (BNB).

Gradually, the Bank expanded its range of banking operations and on 30 December 1998, BACB received substantially full banking license from the BNB. Pursuant to Ordinance No 100-000476, dated 30 December 1998, and supplemented by Ordinance No.RD22-1202/ 29.11.2002 and pursuant to articles 11 and 15 of the Banking Act, BNB licensed BACB to operate both locally and abroad in local and foreign currency.

BACB operates primarily as a business bank in the areas of small and medium size enterprises (SME) lending, construction lending and mortgage lending. BACB began attracting deposits in 2000 mainly from banks and other institutional investors. In 2002 the Bank expanded its operations and began to offer other banking services.

The activities of BACB are conducted through its headquarters in Sofia and representative offices in the cities of Bourgas, Plovdiv, Varna and Stara Zagora. The representative offices offer the full range of services provided by BACB.

At 31 December 2006 and 2005, the Bank had 137 and 139 employees, respectively. The Bank's registered office is located at 16 Krakra St., Sofia, Bulgaria.

At the Shareholder's meeting held on 16 January 2006, the shareholders took a decision to change the single tier management system to a two tier management system, consisting of Management Board and Supervisory Board.

## **2 Regulatory Environment**

The Bank's activities and operations are governed by the Banking Act and all regulations issued by the BNB. The BNB is responsible for supervising the Bank's compliance with the banking laws and regulations. Following the Bank's listing on the BSE, the Bank's activity as a public listed entity is also subject to supervision by the Financial Security Commission (FSC).

Pursuant to the Banking Act and Regulation No. 8 on the Capital Adequacy of Banks, the paid-in capital of a bank should be at least BGN 10 million (EUR equivalent 5.1 million). Additionally, all banks shall have at their disposal, at all times, a capital base of at least the minimum required paid-in capital. Furthermore, the total capital adequacy ratio, calculated as a percentage ratio of a bank's capital base to the bank's total risk component, shall not be lower than 12% and the primary capital adequacy ratio,

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calculated as a percentage ratio of a bank's primary capital to the bank's total risk component, shall not be lower than 6%. At 31 December 2006 and 2005, respectively, BACB was in compliance with the ratios' requirements.

### **3 Summary of Significant Accounting Policies**

#### **Basis of preparation**

The consolidated financial statements comprise the accounts of the Bank and its subsidiary and are prepared in accordance with the standards and interpretations approved by the International Accounting Standards Board (IASB) and adopted by the European Union, which are referred to as International Financial Reporting Standards (IFRS). These standards and interpretations were previously called International Accounting Standards (IAS). The Group uses the historical cost convention as modified by the remeasurement to fair value of available-for-sale securities, financial assets and financial liabilities held at fair value through profit or loss and all financial derivatives to fair value.

The accounting policies have been consistently applied by the entities in the Group.

All amendments to published standards and interpretations effective 1 January 2006 and applicable to the Bank's operations, did not result in substantial changes to the Bank's accounting policy. The Group has chosen not to early adopt the IFRS 7, "Financial instruments: Disclosures", and Amendment to the IAS 1 – Capital disclosure, that were issued but effective for accounting periods beginning on 1 January 2007. Management believes that the application of these standards will not have material impact on the Group's financial statements in the period of initial application.

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from those estimates.

#### **Principles of Consolidation**

Subsidiaries are entities over which the Bank has the power to govern the financial and operating policies generally accompanying a shareholding of more than 50% of the voting rights, or otherwise has power to exercise control over the operations.

Subsidiaries are fully consolidated from the date on which effective control is transferred to the Bank and are no longer consolidated from the date on which control ceases.

At acquisition the subsidiaries are accounted for by applying the purchase method. The cost of an acquisition is measured as the fair value at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued, plus any costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the Bank's share in the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
YEAR ENDED 31 DECEMBER 2006

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Goodwill acquired in a business combination is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired.

All inter-company transactions, balances and unrealized gains on inter-company transactions are eliminated.

#### **Functional and reporting currency**

The functional currency of the Bank and its subsidiary is the national currency of Bulgaria, the Lev (BGN). The consolidated financial statements are presented in Euro (EUR).

Following the requirements of IAS 21 all assets and liabilities for all balance sheets presented (i.e. including comparatives) have been translated at the closing rate at the date of each balance sheet presented. In addition, income and expense items for all periods presented have been translated at the exchange rates existing at the dates of the transactions. Equity items other than the net profit for the period that is included in the balance of retained earnings have been translated at the closing rate existing at the date of each balance sheet presented.

#### **Foreign currency**

Foreign currency transactions, i.e. transactions denominated in currencies other than BGN are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

At 31 December 2006, monetary assets and liabilities denominated in foreign currency are translated into Bulgarian Leva at the BNB's official exchange rate—BGN 1.95583 for EUR 1 (fixed under a Currency Board Arrangement) and BGN 1.48506 for USD 1 and BGN 1.6579 for USD 1 as of 31 December 2006 and 2005, respectively.

#### **Cash and cash equivalents**

For the purposes of the cash flow statement, cash consists of cash and amounts maintained with the BNB excluding the minimum required reserve (MRR).

The Group considers as cash equivalents accounts with correspondent banks and placements with banks with original maturity up to three months, which are included in "Due from other banks" in the balance sheet.

#### **Financial assets**

The Group classifies its financial assets in accordance with IAS 39 "Financial instruments: Recognition and measurement" (IAS 39) in four categories: financial assets through profit and loss, held-to-maturity investments, loans and receivables, and available-for-sale financial assets. Management determines the classification of investments at initial recognition.

All amounts are in thousands of EUR unless otherwise stated

***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. Trading debt and equity securities are defined as securities held by the Bank with the intention of reselling them, thereby generating profits on price fluctuation in short term. Derivatives are also categorized as held for trading unless they are designated as hedging instruments. Financial assets at fair value through profit or loss are initially recorded at cost and subsequently re-measured to fair value based on quoted bid prices. If there is no an active market for a financial asset the fair value is based on valuation techniques such as discounted cash flow analysis, pricing models and other as appropriate. Changes in the fair value of such assets are recognized in the income statement as "Gains / (losses) from securities". Interest earned on securities is reported as interest income. Dividend income earned on equity securities is included in "Gains/(losses) from securities" section of the income statement.

***Loans and advances to customers***

Loans and advances to customers are carried at amortized cost, reflecting provisions for impairment. Loans and advances to customers are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. All loans and advances are recorded on the balance sheet when cash is disbursed to borrowers. The Group records the unutilized loan commitments on the off-balance sheet.

*Impairment of loans and advances to customers*

IAS 39 requires impairment provisions to be measured based on an assessment of the recoverable amount of individually significant assets or portfolios of assets with similar risks, determined as the expected future cash flows from the instrument, including the fair value of collateral if foreclosure is probable, discounted to the balance sheet date using the instrument's effective interest rate.

A credit risk provision for loan impairment is established if there is objective evidence that the Group will not be able to collect all amounts due. The amount of provision is the difference between the carrying amount and the recoverable amount, being the present value of the expected cash flows, including amounts recoverable from guarantees and collateral, discounted based on the rate implicit in the loan. The carrying amount of the loan is reduced using an allowance account and the loss is recognised in the income statement. If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of provision is credited to the provision for impairment.

The amount of potential losses not specifically identified but which experience indicates are present in the portfolio of loans and advances is also recognized as an expense and deducted from the total carrying amount of loans and advances as a provision for impairment on loans and advances. The potential losses are estimated based upon historical patterns of losses, the credit rating allocated to the borrowers and the economic climate in which the borrowers operate.

When loans and advances cannot be recovered, they are written off and charged against the provision for impairment. Loans and advances are not written off until all necessary legal procedures have been completed or the amount of the loss has been determined. Recoveries from loans previously written off are recognized as "Other operating income" in the income statement.

BULGARIAN-AMERICAN CREDIT BANK AD  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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***Investment securities available-for-sale***

Investment securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in market conditions, are classified as available-for-sale. The Bank determines the appropriate classification of its investments at the time of the purchase.

Investment securities available for sale are initially recognized at cost (including transaction costs) and are subsequently re-measured at fair value based on quoted bid prices or valuation techniques if appropriate. Unrealized gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognized in equity, net of tax effect. When the securities are disposed of or impaired, the related accumulated fair value adjustments are included in the income statement as gains and losses from securities.

**Sale and repurchase agreements**

Securities sold under sale and repurchase agreements (repo transactions) in the normal course of banking business, are recorded as assets in the balance sheet lines "Trading portfolio", or "Investment securities" and the counterparty liabilities are included in "Deposits from banks" or "Deposits from customers" as appropriate. Securities purchased under agreements to purchase and resell (reverse repos) are recorded as assets in the balance sheet line "Due from other banks" or "Loans and advances to customers" as appropriate. The difference between the sale and repurchase price is treated as interest and accrued over the life of the repo agreement using the effective interest rate.

**Property, plant and equipment**

Property, plant and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditures directly attributable to the acquisition. Subsequent costs are included in the assets carrying amount or are recognized as separate asset, as appropriate, only when the cost of the item can be measured reliably and it is probable that future economic benefits associated with the item will flow to the bank. All other repairs and maintenance are charged to the income statement when the expenditure is incurred.

Land is not depreciated. Depreciation of other assets is based on the straight-line method over the estimated useful life of the asset. Annual rates of depreciation used in the accompanying financial statements are as follows:

	<u>2006</u>	<u>2005</u>
Building	4%	4%
Computers and software	25%	25%
Office equipment	20%	20%
Vehicles	20%	20%
Office furniture	15%	15%
Intangibles	15%	15%

Property, plant and equipment are periodically reviewed for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposal of property and equipment are determined by reference to their

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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carrying amounts and are taken into account in determining the income for the relevant period. These are included in "Other operating income".

**Assets held for resale**

Real estate and other tangible fixed assets acquired from realization of collateral or exclusively with a view to subsequent disposal in the near future are stated at the lower of their carrying amount and fair value less cost to sell. No depreciation is accrued on such assets. They are included in "Other assets" in the balance sheet.

**Operating leases**

Rentals of property and buildings under operating lease are charged as an expense over the lease term.

**Finance leases**

Assets sold under finance leases are recognized as receivables at their present value and included in "Loans and advances to customers" in the balance sheet. Lease income is recognized over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

**Financial guarantee contracts**

The IASB has amended IAS 39 to require certain financial guarantee contracts to be accounted for in accordance with that Standard. Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of the debt instrument.

Financial guarantee contracts are initially recognised at their fair value, which is likely to be the premium received at inception. Subsequently, the Bank's liabilities under such contracts are measured at the higher of the amount initially recognised less amortisation calculated to recognise in the income statement the fee income earned on a straight-line basis over the life of the guarantee, and the best estimate of the expenditure required to settle any obligation arising at the balance sheet date. These estimates are based on experience of similar transactions and history of past losses, supplemented by the judgment of management.

**Taxation**

Income tax expense is based on taxable profit for the year and includes deferred taxation. Taxes other than on income are recorded as operating expenses. Deferred taxes are calculated using the balance sheet liability method and reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are recognized regardless of when the temporary difference is likely to reverse.

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Deferred tax assets are recognized when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilized. At each balance sheet date, the Bank assesses unrecognized deferred tax assets and the carrying amount of deferred tax assets. The Bank recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. The Bank conversely reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or the entire deferred tax asset to be utilized. A deferred tax liability is recognized for all taxable temporary differences (Note 8).

Deferred tax related to fair value remeasurement of available-for-sale investments, which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognized in the income statement together with the deferred gain or loss when securities are sold.

#### **Offsetting financial assets and liabilities**

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

#### **Derivative financial instruments and hedge accounting**

In the normal course of business, the Bank enters into contracts for financial instruments which represent financial instruments that require a very low or zero initial investment relative to the nominal value of the contract. The derivative financial instruments are classified as held for trading or for hedging and include interest rate and currency forwards and swaps. These financial instruments are used by the Bank mainly to hedge interest rate risk and currency exposures associated with its transactions in the financial markets.

Derivative financial instruments are initially recognised in the balance sheet at cost (including transaction costs) and subsequently are remeasured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models and pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

On the date a derivative contract is entered into, the Bank always designates derivatives as either trading or hedging. Changes in the fair value of derivatives held for trading are directly included in the income statement. Hedge accounting is used for derivatives designated in this way provided certain criteria are met. The Bank documents, at the inception of the transaction, the relationship between hedging instruments and hedge items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Bank also documents its assessments, both at inception and on ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedge items.

Hedging derivatives are accounted for according to the type of a hedging relationship which can be either (i) a hedge of the fair value of a recognised asset or liability (fair value hedge), or (ii) a hedge of a future cash flow attributable to a recognised asset or liability, a forecasted transaction or a firm commitment (cash flow hedge).

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that prove to be highly effective in relation to the hedged risk, are recorded in the profit and loss statement along with the corresponding change in fair value of the hedged asset or liability that is attributable to the

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specific hedged risk. The ineffective element of the hedge is charged directly to the profit and loss statement.

If the hedge no longer meets the criteria for hedge accounting, an adjustment to the carrying value of a hedged interest-bearing financial instrument is amortised to net profit and loss over the period to maturity.

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges and that prove to be highly effective in relation to hedged risk are recognised in the "*Hedging reserve*" in shareholders' equity. Amounts deferred in equity are transferred to the income statement and classified as revenue or expense in the periods during which the hedged assets and liabilities affect the income statement. The ineffective element of the hedge is charged directly to the profit and loss.

Certain derivative transactions, while providing economic hedges under the Bank's risk management positions, do not qualify for hedge accounting under the specific rules of IAS 39 and are therefore treated as derivatives held for trading with fair value gains and losses reported in the income statement.

#### **Interest income and expense**

Interest income and expense are recognized in the income statement for all interest bearing instruments on an accrual basis using the effective interest method. Interest income includes coupons earned on investment securities and accrued discount on other discounted instruments. When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognized based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

#### **Fee and commission income**

Fees and commissions are generally recognized on an accrual basis. Loan management fees are deferred and recognized as an adjustment to the effective interest rate on the loan.

#### **Borrowings**

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

#### **Share capital**

Incremental external costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any related income taxes. Dividends on ordinary shares are recognized in equity in the period in which they are approved by the shareholders. Dividends for the year declared after the balance sheet date are dealt with in the subsequent events note.

#### **Provisions**

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

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**Comparatives**

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

**4 Interest Income, Net**

	<u>2006</u>	<u>2005</u>
Interest income		
Loans	30,474	24,627
Deposits	1,076	446
Trading securities	21	3
Investment securities	<u>303</u>	<u>307</u>
Total interest income	<u>31,874</u>	<u>25,383</u>
Interest expense		
Deposits	(1,386)	(751)
Other borrowed funds	(2,294)	(3,845)
Debt securities issued	<u>(3,815)</u>	<u>(2,316)</u>
Total interest expense	<u>(7,495)</u>	<u>(6,912)</u>
Interest income, net	<u><u>24,379</u></u>	<u><u>18,471</u></u>

**5 Fees and Commissions Income, Net**

	<u>2006</u>	<u>2005</u>
Fees and commissions income	2,022	2,621
Fees and commissions expense	<u>(192)</u>	<u>(276)</u>
Fees and commissions income, net	<u>1,830</u>	<u>2,345</u>

**6 Operating Expenses**

	<u>2006</u>	<u>2005</u>
Personnel	2,884	2,550
Rent	60	65
Utilities and telecommunications	246	255
Professional services	525	527
Depreciation and amortization (Note 16)	339	387
Other expenses	<u>1,205</u>	<u>1,044</u>
Operating expenses	<u><u>5,259</u></u>	<u><u>4,828</u></u>

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As a part of management's strategy to promote a performance-driven culture within the Bank, the management adopted a Long Term Employee Incentive Plan (the "Plan") effective 1 January 2002. It provided for the distribution to eligible employees of up to 5 per cent of the profit of the Bank should the profit exceed a certain level as defined in the Plan. The bonus is accounted for in the Bank's financial statements as personnel expense for the respective year. The distribution is pro-rated based on an employee's monthly gross salary. In 2006 the BACB's Management board approved changes to the plan to reflect the Bank's position as a listed company. The amount to be distributed to eligible employees is calculated according to a formula which takes into account both the return on average assets and assets growth for the relevant year.

## **7 Provisions for Impairment**

	<u>Provisions for loans</u>
Balance at 31 December 2004	8,309
Increase in Provisions in 2005	3,098
Reductions for loans written-off	<u>(500)</u>
Balance at 31 December 2005	10,907
Increase in Provisions in 2006	2,152
Reductions for loans written-off	<u>(140)</u>
Balance at 31 December 2006	<u><u>12,919</u></u>

## **8 Income Taxes**

	<u>2006</u>	<u>2005</u>
Current tax expense	2,079	1,456
Deferred tax (income)	<u>(7)</u>	<u>(73)</u>
Income taxes	<u><u>2,072</u></u>	<u><u>1,383</u></u>

### **Corporate tax**

As the Bank and its subsidiary are registered in Bulgaria as joint stock companies, they are subject to Bulgarian income and other corporate taxes. Tax rates applicable to the Group are summarized in the following table:

Tax period	<u>Corporate Income Tax Rates</u>		
	<u>1 January 2005 – 31 December 2005</u>	<u>1 January 2006 – 31 December 2006</u>	<u>1 January 2007 – onwards</u>
Corporate income tax	15.0%	15.0%	10.0%

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Generally, tax returns remain open and subject to inspection for five-year period. If a tax review does not occur within the five years the tax declaration is closed and is not subject to audit. If a tax declaration is reviewed, then that tax declaration is subject to further review within 5 years after the closing date of the review. In 2006 BACB passed a tax audit covering the financial years 2002, 2003 and 2004. There were no material tax claims to the Bank.

Starting in 2002 BACB elected to claim tax relief on 30% of the corporate income tax for 5 years based on Articles 18-20 of the Foreign Investment Act (repealed).

**Effective tax rates**

A reconciliation of income tax expense for the years ended 31 December 2006 and 2005 is as follows:

	<u>2006</u>	<u>2005</u>
Income before taxation	19,527	13,724
Statutory income tax rate applicable	<u>15.0%</u>	<u>15.0%</u>
Tax at the statutory tax rate	<u>2,929</u>	<u>2,059</u>
Non-deductible expenditures	11	9
Effect of tax relief	(871)	(624)
Other temporary differences	21	(61)
Income not subject to tax	(6)	-
Utilization of previous year tax loss	<u>(12)</u>	<u>-</u>
Income taxes	<u>2,072</u>	<u>1,383</u>
Effective tax rate	<u><u>10.6%</u></u>	<u><u>10.1%</u></u>

**Deferred taxation**

Deferred taxes are calculated on all temporary differences under the liability method using the effective tax rate of 10% (2005: 15%).

The movement on the deferred tax account is as follows:

	<u>2006</u>	<u>2005</u>
Deferred tax liability at beginning of year	(21)	(110)
Income statement income	7	73
Available-for-sale securities revaluation	<u>18</u>	<u>16</u>
Deferred tax asset / (liability) at end of year	<u><u>4</u></u>	<u><u>(21)</u></u>

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Deferred tax assets and liabilities are attributable to the following items:

	<u>2006</u>	<u>2005</u>
Deferred tax assets		
Temporary differences	17	20
Available-for-sale securities revaluation	<u>6</u>	<u>-</u>
Total deferred tax assets	23	20
Deferred tax liabilities		
Accelerated tax depreciation	(19)	(29)
Available-for-sale securities revaluation	<u>-</u>	<u>(12)</u>
Total deferred tax liabilities	<u>(19)</u>	<u>(41)</u>
Total deferred tax asset / (liability), net	<u><u>4</u></u>	<u><u>(21)</u></u>

The deferred tax income in the income statement comprises the following temporary differences:

	<u>2006</u>	<u>2005</u>
Tax relief	-	75
Accelerated tax depreciation	10	5
Other temporary differences	<u>(3)</u>	<u>(7)</u>
Deferred tax income	<u><u>7</u></u>	<u><u>73</u></u>

### **Withholding tax**

Rules and regulations associated with withholding amounts related to payments abroad or to foreign individuals or entities require withholding tax to be remitted to the Republic of Bulgaria. Under a bilateral agreement between the Government of the United States of America and the Government of Bulgaria, BAEF is exempt from taxation on income received in connection with implementation of the United States assistance program. BAEF received a letter from the Bulgarian Ministry of Economy, covering the fiscal years 2006 and 2005, verifying BAEF's eligibility for protection under the agreement. As a result, in 2006 and 2005, the Bank did not withhold tax on interest paid to BAEF.

## **9 Earnings per Share**

### ***Basic / Diluted***

Basic earnings per share are calculated by dividing the net profit attributable to the Bank's shareholders by the weighted average number of ordinary shares in issue during the year. The Bank does not have any dilutive potential ordinary shares thus basic and diluted earnings per share are equal.

	<u>2006</u>	<u>2005</u>
Profit attributable to the bank's shareholders	17,455	12,341
Weighted average number of ordinary shares in issue	<u>12,625</u>	<u>12,587</u>
Basic / Diluted earnings per share (in EUR)	<u><u>1.38</u></u>	<u><u>0.98</u></u>

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**10 Cash and Balances with the Central Bank**

	<u>2006</u>	<u>2005</u>
Cash on hand	1,416	1,125
Balances with the Central Bank	<u>16,074</u>	<u>6,356</u>
Cash and balances with the Central Bank	<u><u>17,490</u></u>	<u><u>7,481</u></u>

The balances with the Central Bank include the minimum required reserve (MRR), amounting to EUR 14,770 and EUR 6,356 as of 31 December 2006 and 2005, respectively. The minimum required reserve is based on a percentage of non-bank deposits and bears no interest. The MRR is measured on a monthly basis and daily fluctuations are allowed. In 2005, BNB set loan portfolio growth limits applicable from the second quarter of the year. Additional minimum reserves were required if a bank exceeded these limits. At 31 December 2005 BACB did not maintain additional reserve, but its loan portfolio growth exceeded the minimum threshold for the nine-month period by 0.82%, and the Bank was required to maintain an additional reserve in the amount of EUR 1,966 for the period starting 04 February 2006. At 31 December 2006 BACB maintains EUR 5,115 additional reserves related to its portfolio growth. BNB suspended the portfolio growth restrictions effectively May 2007.

**11 Due From Other Banks**

Due from other banks represents current accounts and short-term deposits with local banks and foreign correspondent banks.

	<u>2006</u>	<u>2005</u>
Current accounts with other banks	603	607
Deposits with other banks	<u>25,702</u>	<u>31,676</u>
Due from other banks	<u><u>26,305</u></u>	<u><u>32,283</u></u>

**12 Loans and Advances to Customers**

	<u>2006</u>	<u>2005</u>
Loans and advances to customers	206,182	157,604
Less: Provisions for impairment (Note 7)	<u>(12,919)</u>	<u>(10,907)</u>
Loans and advances to customers, net	<u><u>193,263</u></u>	<u><u>146,697</u></u>

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**Segmentation of loans and advances to customers**

<u>Type of Customer</u>	<u>2006</u>	<u>2005</u>
Private citizens	20,420	20,388
Private enterprises	<u>185,762</u>	<u>137,216</u>
Loans and advances to customers	<u>206,182</u>	<u>157,604</u>

<u>Industry Sector</u>	<u>2006</u>	<u>2005</u>
Hotels	35,865	26,862
Real estate construction	32,462	26,856
Small business commercial property loans	24,060	17,794
Residential loans - individuals	14,730	17,473
Retail trade	14,139	11,076
Small business residential property loans	10,308	10,530
Wholesale distribution	9,389	4,676
Other light industry	8,934	6,936
Entertainment and Recreation	7,298	6,075
Property and management services	6,081	5,006
Garments and textiles	4,921	5,162
Primary agriculture and farming	3,983	3,405
Professional and other services	3,263	3,561
Restaurants	3,184	3,574
Commercial property loans - individuals	3,169	2,915
Heavy manufacturing	1,704	1,120
Bread baking and confections	1,699	1,287
Transportation	1,687	869
Furniture and wood products	1,583	417
Other	<u>2,375</u>	<u>2,010</u>
Total ( only for the Bank )	<u>190,834</u>	<u>157,604</u>
Loans of subsidiary	<u>15,348</u>	<u>-</u>
Loans and advances to customers	<u>206,182</u>	<u>157,604</u>

Loans and advances to customers include finance lease receivables in the total amount of 2,838 and 2,508 as of 31 December 2006 and 2005 respectively.

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The investment in finance leases as of 31 December 2006 is presented in the table below:

	Up to 1 year	1 to 5 years	Over 5 years	Total
Gross investment in finance leases	551	1,871	6,019	8,441
Unearned future income on finance leases	<u>(230)</u>	<u>(1,257)</u>	<u>(4,116)</u>	<u>(5,603)</u>
Net minimum lease payments	<u>321</u>	<u>614</u>	<u>1,903</u>	<u>2,838</u>
Provisions for impairment	-	-	-	-
Net investment in finance leases	<u>321</u>	<u>614</u>	<u>1,903</u>	<u>2,838</u>

### **13 Trading portfolio**

As of 31 December 2006 and 2005, respectively BACB has a trading portfolio consisting of bonds issued by private companies and shares in special purpose entities, which are related to the Bank. All securities are listed and at the balance sheet date are measured at fair value based on their market price.

	<u>2006</u>	<u>2005</u>
Debt securities	745	234
Equity securities	<u>1,203</u>	<u>89</u>
Trading portfolio	<u>1,948</u>	<u>323</u>

### **14 Investment Securities Available-for-Sale**

As of 31 December 2006 BACB has a portfolio of debt securities consisting mainly of Bulgarian Government Bonds, classified as available for sale.

The fair values of investment securities classified as available-for-sale at 31 December 2006 and 2005 are as follows:

	<u>2006</u>	<u>2005</u>
BG EUR Eurobonds (1)	3,197	3,326
BG ZUNK FRN (2)	963	1,148
BGN EIB Bonds (3)	522	539
BG USD Eurobonds (4)	464	-
RZB Bonds (5)	<u>515</u>	<u>-</u>
Investment Securities Available-for-Sale	<u>5,661</u>	<u>5,013</u>

(1) Bulgarian Government Bonds denominated in EUR. Fixed rate, final maturity March 2007

(2) Bulgarian Government Bonds issued in exchange for the non-performing foreign currency debts of state owned enterprises. Denominated in USD. Floating rate, amortizing, final maturity January 2019

(3) EUR Medium Term Note denominated in BGN, issued by the European Investment Bank. Fixed rate, final maturity November 2009

(4) Bulgarian Government Bonds denominated in USD. Fixed rate, bullet, final maturity January 2015

(5) Unsecured Corporate Bonds denominated in BGN. Floating rate, bullet, final maturity October 2009

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**15 Other Assets**

	<u>2006</u>	<u>2005</u>
Assets held for resale	467	237
Prepayments and other receivables	892	568
Deferred tax asset (Note 8)	4	-
Other assets	<u>1,363</u>	<u>805</u>

**16 Property, plant and equipment**

	<u>Land and buildings</u>	<u>Other Tangibles</u>	<u>Intangibles</u>	<u>Total</u>
<i>Cost</i>				
31 December 2005	2,051	1,968	298	4,317
Additions	305	99	44	448
Disposals	-	(4)	-	(4)
31 December 2006	<u>2,356</u>	<u>2,063</u>	<u>342</u>	<u>4,761</u>
<i>Accumulated Depreciation and Amortization</i>				
31 December 2005	394	1,433	189	2,016
Charge for 2006	82	217	40	339
Disposals	-	(4)	-	(4)
31 December 2006	<u>476</u>	<u>1,646</u>	<u>229</u>	<u>2,351</u>
<i>Net book value</i>				
31 December 2006	<u>1,880</u>	<u>417</u>	<u>113</u>	<u>2,410</u>
31 December 2005	<u>1,657</u>	<u>535</u>	<u>109</u>	<u>2,301</u>

**17 Deposits from Banks**

All deposits from banks at 31 December 2006 and 2005 are term deposits received from Bulgarian banks.

	<u>2006</u>	<u>2005</u>
Term deposits from banks		
in EUR	9,904	5,512
in USD	4,148	1,356
in BGN	1,290	3,107
	<u>15,342</u>	<u>9,975</u>

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**18 Deposits from Customers**

The table below represents deposits from customers as of 31 December 2006 and 2005 by type of currency:

	<u>2006</u>	<u>2005</u>
Demand deposits from customers		
in EUR	9,959	6,752
in USD	1,016	1,218
in BGN	4,772	4,212
In GBP	35	29
	<u>15,782</u>	<u>12,211</u>
Term deposits		
in EUR	23,151	13,353
in USD	13,245	7,062
in BGN	1,920	1,160
	<u>38,316</u>	<u>21,575</u>
Deposits from customers	<u><u>54,098</u></u>	<u><u>33,786</u></u>

**19 Other Liabilities**

As of 31 December 2006 and 2005, other liabilities consist of the following:

	<u>2006</u>	<u>2005</u>
Income tax payable	546	322
Deferred tax liability (Note 8)	-	21
Hedging derivative (Note 32)	417	55
Other liabilities	1,906	1,554
Other liabilities	<u>2,869</u>	<u>1,952</u>

**20 Other Borrowed Funds**

As of 31 December 2006 and 2005, other borrowed funds consist of the following:

	<u>2006</u>	<u>2005</u>
BAEF	14,260	15,343
EBRD	4,287	4,978
FMO	-	9,578
Raiffeisen Bank Austria	5,006	3,001
DEG	8,251	10,359
Syndicated loan	-	11,999
Other borrowed funds	<u>31,804</u>	<u>55,258</u>

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As of 31 December 2006 other borrowed funds are repayable according to remaining maturity as follows:

	<u>BAEF</u>	<u>EBRD</u>	<u>DEG</u>	<u>Raiffeisen Bank Austria</u>	<u>Total</u>
2007	14,260	1,465	2,906	5,006	23,637
2008	-	1,409	2,731	-	4,140
2009	-	1,413	1,990	-	3,403
2010	-	-	624	-	624
Thereafter	-	-	-	-	-
Total	<u>14,260</u>	<u>4,287</u>	<u>8,251</u>	<u>5,006</u>	<u>31,804</u>

***Loans from BAEF***

In May 2006 the Bank fully repaid the USD 15 million loan provided by the BAEF, after receiving the necessary permission from BNB, as USD 10 million of the loan as a debt-hybrid instrument were included in Tier II capital of the Bank. The Bank's obligations to repay the loan to the BAEF were subordinated to the most of its international lenders. BACB repaid the loan after reaching an agreement with these lenders to release the subordination.

At the same time BACB issued a EUR 12 million, seven-year, unsecured, unsubordinated corporate bond, purchased by the BAEF on an arm's length basis and at market rate.

In the first quarter of 2006 BACB repaid all amounts due to BAEF under a second revolving credit line.

In May 2006 BAEF provided to Kapital Direct, a non-banking financial institution fully consolidated by the bank, a short-term revolving line of credit in the amount of EUR 6 million, increased in November by additional EUR 10 million. The credit line is used to finance the lending activity of the entity.

As of 31 December 2006 and 2005 the outstanding balances payable to BAEF under the loan agreements are EUR 14.3 million and USD 18.1 million (EUR equivalent 15.3 million), respectively.

***Loan from International Finance Corporation (IFC)***

On 13 July 2002, BACB and IFC executed a Loan Agreement for revolving line of credit with final maturity April 2008, whereby BACB can borrow up to USD 5 million for the purpose of financing its mortgage lending program. During 2006 and 2005 no amounts were received under this agreement. In March 2006 BACB agreed with IFC to terminate the credit line.

***Loan from European Bank for Reconstruction and Development (EBRD)***

In 2004 BACB and the EBRD executed a Loan Agreement under which BACB can borrow up to EUR 10 million for the purpose of on-lending the funds to small and micro size enterprises.

As of 31 December 2006 and 2005 the outstanding balance is EUR 4.3 million and EUR 4.9 million, respectively.

***Loans from Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO)***

In 2001 FMO provided to BACB a credit facility up to EUR 4.5 million, increased later to EUR 6 million, for the purpose of onlending the funds to small and medium size enterprises engaged in tourism and other sectors in Bulgaria. A second Loan Agreement between BACB and FMO was signed in 2004 whereby

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BACB could borrow up to EUR 7.0 million for the purpose of on-lending to small and medium size enterprises. The loan's final maturity was in March 2010.

In June 2006 BACB decided to prepay all amounts due under the two loan agreements and used the option to terminate the contracts.

As of 31 December 2005 the outstanding balance under the two agreements was EUR 9.6 million.

***Loans from Deutsche Investitions-und Entwicklungsgesellschaft mbH (DEG)***

On 1 April 2003, BACB and DEG executed a long-term Loan Agreement whereby BACB could borrow up to EUR 6.0 million for financing projects of small and medium size enterprises in Bulgaria. In 2004 DEG provided to the Bank additional EUR 5.0 million under a second Loan agreement for further financing its growing lending activity. The two loan agreements contain various financial covenants and other restrictions that are typical for this type of facility. As of 31 December 2006 and 2005 the outstanding balance payable to DEG is EUR 8.3 million and EUR 10.3 million, respectively.

***Loan from Raiffeisen Zentralbank Oesterreich AG (Raiffeisen)***

In 2004, BACB and Raiffeisen executed a Revolving Credit Facility Agreement under which BACB could borrow up to EUR 3 million for general financing purposes. The term of the loan was one year with two 12 month extension options. The maturity was 19 March 2005. According to the Amendment Agreement signed on 11 February 2005, the facility was extended for 12 months, maturing on 20 March 2006. As of 31 December 2005 the outstanding balance was EUR 3 million.

According to the Amendment Agreement signed on 23 February 2006, the facility was extended for 12 months and the amount was increased to EUR 5 million. As of 31 December 2006 the outstanding balance is EUR 5 million.

***Syndicated Term Loan Facility Agreement***

In 2004 BACB agreed a Syndicated Term Loan of EUR 12.0 million with several European banks. The term of the loan facility was two years with an extension option for one year period. At maturity - 26 September 2006 BACB fully repaid the loan and did not use the extension option.

***Credit Line from Anglo Irish Bank***

In December 2006 BACB agreed a Credit Line of EUR 2.5 million with Anglo Irish Bank. The final maturity is October 2008. As of 31 December 2006 no amounts under this agreement are utilized.

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## **21 Debt Securities Outstanding**

As of 31 December 2006 and 2005 the debt securities issued by BACB are as follows:

<u>ISIN Code</u>	<u>Debt securities in issue</u>	<u>Due</u>	<u>2006</u>	<u>2005</u>
BG2100009039	USD fixed rate unsecured bonds	2006	-	5,209
BG2100027049	EURO floating rate unsecured bonds	2007	7,999	7,982
BG2100001036	EURO fixed rate mortgage bonds	2008	10,270	10,249
BG2100039051	EUR fixed rate unsecured bonds	2008	19,608	19,944
BG2100004048	EURO fixed rate mortgage bonds	2009	10,121	10,111
BG2100010060	EURO floating rate mortgage bonds	2011	25,214	-
BG2100016067	EURO floating rate unsecured bonds	2013	12,062	-
N/A	EURO fixed rate promissory notes	2006	-	657
N/A	EURO fixed rate promissory notes	2007	2,019	-
	Total		<u>87,293</u>	<u>54,152</u>

The mortgage bonds were issued under the Mortgage Bonds Act and are collateralized by a lien on the receivables of a predetermined pool of loans, secured by mortgages. In March 2006 BACB issued its fifth mortgage bond in the amount of EUR 25 million. The outstanding amount of loans pledged is EUR 53,996 and EUR 23,133 at 31 December 2006 and 2005, respectively. The mortgage bond issues are listed on the Bulgarian Stock Exchange for secondary trading.

In August 2006 the USD fixed rate unsecured bond was fully repaid at maturity.

The EUR 20 million unsecured corporate bond with final maturity in December 2008, is hedged against interest rate risk through interest rate swap linked to a market floating rate. In accordance with applicable accounting policies, this bond is remeasured at fair value.

## **22 Share Capital**

The registered capital of BACB at 31 December 2006 and 2005 is BGN 12.625 million comprising in 12.625 million shares with a face value of BGN 1 each with equal voting rights.

<u>Shareholder</u>	<u>Shares held</u> <u>31 December</u> <u>2006</u>	<u>%</u>	<u>Shares held</u> <u>31 December</u> <u>2005</u>	<u>%</u>
Bulgarian-American Enterprise Fund(BAEF)	7,941,503	62.9%	12,508,097	99.08%
Other shareholders	4,683,222	37.1%	116,628	0.92%
Total	<u>12,624,725</u>	<u>100.00%</u>	<u>12,624,725</u>	<u>100.00%</u>

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BAEF is a not-for-profit U.S. corporation established pursuant to the Support for East European Democracy Act of 1989 (the "SEED Act") for the primary purpose of promoting the development of the Bulgarian private sector and policies and practices conducive to such development. It is engaged in a broad private investment program in Bulgaria, which, through equity investments, loans, grants, technical assistance and other measures, emphasizes a commitment to small-to-medium sized businesses.

In 2006 the Bank became a public company and its shares are listed on the Bulgarian Stock Exchange – Sofia. After a successful IPO in April 2006 the ownership structure of the Bank was diversified amongst international and local investors. At 31 December 2006 BAEF remains the majority shareholder with approximately 63% of the shares.

### **23 Reserves**

Under the provisions of the Banking Law, banks are required to set aside at least one-fifth of their after-tax income into a Reserve Fund. The minimum amount of the Reserve Fund is to equal 1.25 percent of the total balance sheet assets plus any off-balance sheet commitments. In the event the amount of the Reserve Fund falls below the minimum amount, the bank is required to replenish the amounts in the Reserve Fund so that the minimum level is restored within two years. Under the provisions of the Banking Law, banks may not pay dividends before making contributions to the Reserve Fund. By virtue of a decision of the General Meeting of the Shareholders of BACB held on 7 March 2006, undistributed profit for 2005 was allocated to the Reserve Fund and is included in retained earnings in the accompanying financial statements. At 31 December 2006, the Reserve Fund amounted to EUR 32,825, which substantially exceeded the regulatory required reserve.

As of the date of this report no dividends were declared for 2006. The Supervisory Board of the Bank intends to suggest to the General Meeting of the Shareholders that part of the 2006 profit is distributed as dividends. No dividends were declared for 2005.

### **24 Off-Balance Sheet Liabilities**

The Bank is counterparty to financial instruments with off-balance sheet risk in the normal course of business to meet the financial needs of its customers. Those instruments involve, to various degrees, elements of credit and interest-rate risk.

At 31 December 2006 and 2005 the off-balance sheet liabilities consisted of:

	<u>2006</u>	<u>2005</u>
Bank guarantees	4,006	969
Letters of credit	210	365
Unutilized commitments on loans	<u>46,645</u>	<u>28,428</u>
Total	<u>50,861</u>	<u>29,762</u>

### **25 Litigation**

As of 31 December 2006 and 2005 there were no material claims against BACB or its subsidiary.

In March 2005 a litigation proceeding against BACB was commenced for a claim concerning the assignment by BACB of its rights as a secured creditor over the shares of a company, pledged as collateral in favor of BACB. At 31 December 2006 the proceeding is still outstanding. No provision has been made as legal advice indicates it is unlikely that any significant loss will arise.

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## **26 Fair Value Information**

International Accounting Standard 32 “Financial Instruments: Disclosure and Presentation” (IAS 32), provides for the disclosure in the notes to the financial statements of information about the fair value of the financial assets and liabilities. Fair value for this purpose is defined as the amount for which an asset can be exchanged, or a liability settled, between knowledgeable, willing parties in an arms length transaction. Sufficient market experience, stability and liquidity do not currently exist for certain purchases and sales of loans and other financial assets or liabilities for which published market information is not readily available. Accordingly, their fair values cannot be readily determined. In the opinion of the management, their reported carrying amounts are the most valid and useful reporting value in the circumstances.

The following table summarizes information about the carrying and fair value of financial assets and liabilities.

	<u>Carrying Value</u>		<u>Fair Value</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Due from other banks	26,305	32,283	26,305	32,283
Loans and advances to customers	193,263	146,697	193,437	146,813
Deposits from banks	15,342	9,975	15,342	9,975
Deposits from customers	54,098	33,786	54,098	33,786
Other borrowed funds	31,804	55,258	31,804	55,258
Debt securities outstanding	87,293	54,152	88,008	54,571

Management has estimated that the fair value of certain balance sheet instruments is not materially different from their recorded values. The fair value of floating rate loans and advances to customers approximate their carrying amount. The expected cash flows on fixed rate loans are discounted at current rates to determine fair value. The fair value of debt securities issued, which are traded on the secondary market, is calculated based on quoted market prices. The funds borrowed from different international financial institutions are at floating rates and the fair values approximate their carrying amount.

## **27 Related Party Transactions**

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The Group enters into transactions with related parties in the normal course of business. These transactions are carried out at market rates and include loans and deposits.

BACB considers as related parties the companies in which BAEF contains substantial participation, such as: BAPM, Kapital Direct -1 ADSIP, ERG Capital-1 ADSIP, ERG Capital-2 ADSIP, ERG Capital-3 ADSIP, Preslav Enterprise EOOD, Lozenetz Development Co., Sredetz Enterprise EOOD, Ameta Holding AD.

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In the beginning of 2006 BAEF sold its shares in Sanita trading AD and Sanita Franchising AD. In September 2006 BAEF sold its shares in BM Leasing AD. At 31 December 2006 these companies are not considered related to the Bank.

**Due to related companies**

The balances due to related companies and the related expense as of 31 December 2006 and 2005 were as follows:

<u>Related company</u>	<u>2006</u>	<u>2005</u>
Loans and other debt due to BAEF	26,322	15,343
Deposits payable to BAEF	12,590	4,531
Deposits payable to other related companies	12,815	903
Deposits payable to key management personnel	170	81
Total due to related companies	<u>51,897</u>	<u>20,858</u>
Interest expense	<u>1,840</u>	<u>1,702</u>

**Loans to related companies**

As of 31 December 2006 and 2005, the Bank had extended loans to enterprises in which BAEF has a major equity ownership. These loans were as follows:

<u>Related company</u>	<u>2006</u>	<u>2005</u>
Loans to related companies	-	683
Loans to key management personnel	33	71
Total loans to related companies	<u>33</u>	<u>754</u>
Interest income earned	<u>10</u>	<u>230</u>

As of 31 December 2006 and 2005, respectively no provisions are recognized in respect to loans to related parties. In 2006 a recovery from a related party in the amount of EUR 500 is recognized in "Other income". The recovery is on a problem loan written-off in 2005 against provisions for impairment.

**Trading portfolio**

As of 31 December 2006 and 2005 BACB holds in its trading portfolio shares from related companies as follows:

<u>Related company</u>	<u>% of Shares held</u>		<u>Fair Value</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
ERG Capital-1 ADSIP	9.99%	2.01%	575	89
ERG Capital-2 ADSIP	9.90%	-	628	-
Total			<u>1,203</u>	<u>89</u>
Gains/(losses) from securities			<u>155</u>	<u>7</u>

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**Off-balance Sheet liabilities**

As of 31 December 2006 and 2005 BACB has issued letters of guarantee to related companies in the amount of EUR 173 and EUR 77 respectively.

**Key management personnel remuneration for 2006**

In the financial year ended 31 December 2006 the aggregate total amount of remuneration accrued to key management personnel amounts to EUR 238.

In the financial year ended 31 December 2005 the aggregate total amount of remuneration accrued to key management personnel amounts to EUR 246.

There are no existing or proposed agreements between any member of the Supervisory Board, Management Board or senior manager and the Bank providing for benefits upon termination of employment.

**28 Acquisitions**

On 13 April 2006 BACB purchased from BAEF all of the shares in Kapital Direct EAD at nominal value for EUR 51. Following the acquisition the Bank increased the total capitalization of the company to EUR 1,534 by issuing additional 2.9 million new shares. Kapital Direct is a non-bank financial institution used by the Bank as a vehicle for generating loans and increased interest income, expected to result in better utilization of Bank's capital. The contribution of the company to the Group's after tax income is EUR 342 for the period from 13 April 2006 to 31 December 2006. The details of the fair value of the assets and liabilities acquired and goodwill arising are as follows:

	<u>2006</u>
Cash and cash equivalents	3
Borrowed funds	(30)
Other liabilities	(2)
Goodwill	80
Total purchase consideration paid	<u>51</u>
Cost of acquisition	51
Less: Cash and cash equivalents acquired	(3)
Cash outflow on acquisition	<u>48</u>

There were no acquisitions in 2005.

**29 Credit Risk**

The Bank is exposed to credit risk in its investment activities. Credit risk is the risk that a counterparty will be unable to pay amounts in full when due.

The credit risk can be divided into the following groups:

**By country**

BACB does not have investments outside Bulgaria, except for money market placements and nostro account balances with high grade investment banks. The securities portfolio of BACB consists of Bulgarian Government debt mainly. The loan portfolio consists of loans to companies operating in Bulgaria and individuals residing in Bulgaria.

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#### **By economic sectors**

The loan portfolio of BACB is spread across various economic sectors. The decision to increase the weight in a particular sector depends on the Bank's assessment of the growth potential of this sector. Proper diversification of the portfolio (as a whole and within each sector) is one of the main goals of the credit risk management of the bank.

#### **By Customers**

The lending programs of BACB are oriented toward different types of customers. The Mortgage Lending Program targets individuals. The SME, Hotel and Construction Lending Programs target small and medium size businesses. The Hotel and Construction Lending Programs are specialized in lending to hotel operators and construction companies respectively, leveraging the Bank's experience in the two sectors.

The Mortgage Lending Program offers standardized products. The approval procedure is relatively straightforward. The two main considerations are the Loan-to-Value ratio and the Income-to-Debt Service ratio.

The loans extended under the other three lending programs are analyzed extensively and structured on a case-by-case basis. The approval procedure is more comprehensive than of the one applied by the Mortgage Lending Program. The analysis is aimed at evaluating the credit risk of the borrower and includes review of the legal status of the borrower, background / reference checks, related parties checks, company analysis (i.e. products, markets, suppliers, management, finances etc), collateral analysis (i.e. clean title, market value etc.). All loans in amount exceeding EUR 5,000,000 are approved by the Management Board and additionally confirmed by the Supervisory Board. The large exposures are monitored in compliance with BNB Regulation No 7 and are reported to the BNB on a regular basis. Exposure to credit risk is minimized by obtaining collateral and corporate and personal guarantees for each loan.

#### **By treasury counterparties**

As part of its treasury operations BACB has interbank lines with around one-third of the banks operating in Bulgaria and with its main Euro and USD correspondent banks. The treasury counterparty limits are approved by the Asset and Liability Management Committee of BACB (ALCO), following a proposal by the Treasury department. The exposures are monitored on a daily basis by the Treasury department and reviewed at each ALCO meeting.

Exposure limits for the bank's interbank lines are approved based on a review of the capital strength, liquidity position and shareholding structure of the counterparty bank. The list of the approved counterparties is reviewed and updated at least once a year.

#### **Credit related commitments**

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees, which represent irrevocable commitment that the Bank will make the payment in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans and guarantees. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total commitments since commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because long-term commitments generally have a greater degree of credit risk than short-term commitments.

#### **Geographical concentrations of assets, liabilities and off-balance sheet items**

The Group's operations are concentrated primarily in Bulgaria. There are no exposures to other countries which in total exceed 10% of the bank's total assets as of 31 December 2006 and 2005.

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### **30 Market Risk**

The Bank is exposed to market risks. The market risks are associated with the risk of adverse effects of the changes in the prevailing market conditions on the financial position of the Bank. The Bank has established management policies and procedures to identify, monitor and manage the levels of risk to which it is exposed. The policies and procedures are approved by the Management Board and subsequently approved by the Supervisory Board. The main objective of the risk policy is to impose clearly defined parameters on the Bank's operations to limit the exposure to different risks.

The Bank estimates the market risk by type of instruments held and the maximum losses expected based upon a number of assumptions for various changes in market conditions.

The internal risk management systems of BACB evolve with the growth of the Bank to ensure that the Bank is always within the limits set internally for each risk category.

### **31 Currency Risk**

The Bank is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Management sets limits on the level of exposure by currency which is monitored daily. The information about the Bank's exposure in the different currencies at 31 December, 2006 and 2005 is presented in the tables below.

#### **31 December 2006**

	<u>USD</u>	<u>EUR</u>	<u>BGN</u>	<u>Other</u>	<u>Total</u>
Cash and balances with the Central Bank	290	13,192	3,981	27	17,490
Due from other banks	11,876	14,349	31	49	26,305
Loans and advances to customers	6,757	186,418	88	-	193,263
Trading portfolio	-	745	1,203	-	1,948
Investment securities-available-for-sale	1,427	3,197	1,037	-	5,661
Other assets	1	595	767	-	1,363
Goodwill	-	-	80	-	80
Property, plant and equipment	-	-	2,410	-	2,410
<b>Total assets</b>	<u>20,351</u>	<u>218,496</u>	<u>9,597</u>	<u>76</u>	<u>248,520</u>
Deposits from banks	4,148	9,904	1,290	-	15,342
Deposits from customers	14,261	33,110	6,692	35	54,098
Other liabilities	96	959	1,814	-	2,869
Other borrowed funds	-	31,804	-	-	31,804
Debt securities outstanding	-	87,293	-	-	87,293
<b>Total liabilities</b>	<u>18,505</u>	<u>163,070</u>	<u>9,796</u>	<u>35</u>	<u>191,406</u>
<b>Foreign currency gap</b>	<u>1,846</u>	<u>55,426</u>	<u>(199)</u>	<u>41</u>	<u>57,114</u>

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**31 December 2005**

	<u>USD</u>	<u>EUR</u>	<u>BGN</u>	<u>Other</u>	<u>Total</u>
Cash and balances with the Central Bank	293	2,417	4,746	25	7,481
Due from other banks	17,775	12,390	2,053	65	32,283
Loans and advances to customers	11,446	134,996	255	-	146,697
Trading portfolio	-	234	89	-	323
Investment securities-available-for-sale	1,148	3,326	539	-	5,013
Other assets	14	17	774	-	805
Property, plant and equipment	-	-	2,301	-	2,301
<b>Total assets</b>	<u>30,676</u>	<u>153,380</u>	<u>10,757</u>	<u>90</u>	<u>194,903</u>
Deposits from banks	1,357	5,511	3,107	-	9,975
Deposits from customers	8,280	20,105	5,372	29	33,786
Other liabilities	146	419	1,381	6	1,952
Other borrowed funds	15,342	39,916	-	-	55,258
Debt securities outstanding	5,209	48,943	-	-	54,152
<b>Total liabilities</b>	<u>30,334</u>	<u>114,894</u>	<u>9,860</u>	<u>35</u>	<u>155,123</u>
<b>Foreign currency gap</b>	<u>342</u>	<u>38,486</u>	<u>897</u>	<u>55</u>	<u>39,780</u>

**32 Interest Rate Risk**

The interest rate risk relates to the potentially adverse impact of interest rate fluctuations on BACB's net income and equity value. It is BACB's policy to reduce the interest rate risk by extending floating rate loans against floating rate funding and matching the corresponding repricing periods as closely as possible. Additionally, BACB charges pre-payment penalties as a percentage of the principal balance outstanding. This reduces significantly the loan portfolio pre-payment risk and the overall interest rate risk.

The Bank hedges part of its existing interest rate risk resulting from any potential decrease in the fair value of fixed rate debt securities outstanding, using an interest rate swap. The fair value of the swap at 31 December 2006 and 2005 is EUR 417 and EUR 55, respectively.

The interest rate sensitivity of assets and liabilities based on contractual repricing or maturity dates, whichever is earlier, is summarized as follows

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	On demand/ up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Non- interest bearing	Total
Cash and balances with the Central Bank	-	-	-	-	-	17,490	17,490
Due from other banks	26,152	-	-	-	-	153	26,305
Loans and advances to customers	74,204	65,824	20,776	27,625	4,834	-	193,263
Trading portfolio	-	240	-	505	-	1,203	1,948
Investment securities available-for-sale	4,675	-	-	522	464	-	5,661
Other assets	-	-	-	524	-	839	1,363
Goodwill	-	-	-	-	-	80	80
Property, plant and equipment	-	-	-	-	-	2,410	2,410
<b>Total assets</b>	<b>105,031</b>	<b>66,064</b>	<b>20,776</b>	<b>29,176</b>	<b>5,298</b>	<b>22,175</b>	<b>248,520</b>
Deposits from banks	14,052	-	1,290	-	-	-	15,342
Deposits from customers	46,707	2,505	1,796	1,632	20	1,438	54,098
Other liabilities	-	-	57	-	-	2,812	2,869
Other borrowed funds	13,257	4,287	14,260	-	-	-	31,804
Debt securities outstanding	25,214	22,080	-	39,999	-	-	87,293
<b>Total liabilities</b>	<b>99,230</b>	<b>28,872</b>	<b>17,403</b>	<b>41,631</b>	<b>20</b>	<b>4,250</b>	<b>191,406</b>
<b>Interest Sensitivity Gap</b>	<b>5,801</b>	<b>37,192</b>	<b>3,373</b>	<b>(12,455)</b>	<b>5,278</b>	<b>17,925</b>	<b>57,114</b>
<b>Interest rate derivatives net position</b>	<b>-</b>	<b>(20,000)</b>	<b>-</b>	<b>20,000</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Interest Sensitivity gap</b>	<b>5,801</b>	<b>17,192</b>	<b>3,373</b>	<b>7,545</b>	<b>5,278</b>	<b>17,925</b>	<b>57,114</b>

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	On demand/ up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Non- interest bearing	Total
Cash and balances with the Central Bank	-	-	-	-	-	7,481	7,481
Due from other banks	31,145	-	-	-	-	1,138	32,283
Loans and advances to customers	42,674	46,242	19,214	30,886	7,681	-	146,697
Trading portfolio	-	234	-	-	-	89	323
Investment securities available-for-sale	1,148	-	-	3,865	-	-	5,013
Other assets	-	-	-	-	-	805	805
Property, plant and equipment	-	-	-	-	-	2,301	2,301
<b>Total assets</b>	<b>74,967</b>	<b>46,476</b>	<b>19,214</b>	<b>34,751</b>	<b>7,681</b>	<b>11,814</b>	<b>194,903</b>
Deposits from banks	9,975	-	-	-	-	-	9,975
Deposits from customers	25,883	3,304	2,298	1,008	-	1,293	33,786
Other liabilities	-	-	95	-	-	1,857	1,952
Other borrowed funds	25,566	16,977	12,715	-	-	-	55,258
Debt securities outstanding	656	7,982	5,209	40,305	-	-	54,152
<b>Total liabilities</b>	<b>62,080</b>	<b>28,263</b>	<b>20,317</b>	<b>41,313</b>	<b>-</b>	<b>3,150</b>	<b>155,123</b>
<b>Interest Sensitivity Gap</b>	<b>12,887</b>	<b>18,213</b>	<b>(1,103)</b>	<b>(6,562)</b>	<b>7,681</b>	<b>8,664</b>	<b>39,780</b>
<b>Interest rate derivatives net position</b>	<b>-</b>	<b>(20,000)</b>	<b>-</b>	<b>20,000</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Interest Sensitivity gap</b>	<b>12,887</b>	<b>(1,787)</b>	<b>(1,103)</b>	<b>13,438</b>	<b>7,681</b>	<b>8,664</b>	<b>39,780</b>

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The following table summarizes the effective interest rates for monetary financial instruments for the period ended 31 December 2006 and 2005, respectively:

	2006	2005
	_____	_____
<b>Assets</b>		
Due from banks	3.33%	2.43%
Trading portfolio	7.36%	3.06%
Investment securities	6.06%	5.32%
Loans and advances to customers	17.13%	17.89%
<b>Liabilities</b>		
Deposits from banks	3.27%	2.88%
Deposits from customers	2.53%	2.20%
Other borrowed funds	6.16%	6.45%
Debt securities	4.81%	6.49%

### **33 Liquidity Risk**

The liquidity risk refers to the risk that a bank might not have sufficient cash to meet deposit withdrawals or other obligations and arises from mismatches in cash flows. BACB follows a conservative liquidity management policy. At any point of time, the Bank maintains liquid assets (short-term placements with banks and actively traded securities) exceeding the attracted deposits maturing within one month to meet possible deposit withdrawals. BACB keeps a positive 12-month maturity gap, i.e. the portion of the short-term deposits used to fund loans are used to fund only loan receivables up to one year. Wholesale deposits are used only to cover temporary gaps.

The tables below allocate assets and liabilities at 31 December 2006 and 2005 based on the time remaining from the balance sheet date to contractual maturity dates:

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**31 December 2006**

	On demand/ up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Total
Cash and balances with the Central Bank	17,490	-	-	-	-	17,490
Due from other banks	26,305	-	-	-	-	26,305
Loans and advances to customers	20,279	15,982	35,588	86,588	34,826	193,263
Trading portfolio	1,203	-	-	745	-	1,948
Investment securities available-for-sale	3,240	-	3	1,030	1,388	5,661
Other assets	236	73	584	466	4	1,363
Goodwill	-	-	-	-	80	80
Property, plant and equipment	-	-	-	-	2,410	2,410
<b>Total assets</b>	<b>68,753</b>	<b>16,055</b>	<b>36,175</b>	<b>88,829</b>	<b>38,708</b>	<b>248,520</b>
Deposits from banks	14,052	-	1,290	-	-	15,342
Deposits from customers	46,344	2,570	2,345	2,381	458	54,098
Other liabilities	1,399	742	164	564	-	2,869
Other borrowed funds	6,645	744	16,248	8,167	-	31,804
Debt securities outstanding	560	2,276	7,985	64,472	12,000	87,293
<b>Total liabilities</b>	<b>69,000</b>	<b>6,332</b>	<b>28,032</b>	<b>75,584</b>	<b>12,458</b>	<b>191,406</b>
<b>Maturity gap</b>	<b>(247)</b>	<b>9,723</b>	<b>8,143</b>	<b>13,245</b>	<b>26,250</b>	<b>57,114</b>
<b>Cumulative maturity gap</b>	<b>(247)</b>	<b>9,476</b>	<b>17,619</b>	<b>30,864</b>	<b>57,114</b>	

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**31 December 2005**

	On demand/ up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Total
Cash and balances with the Central Bank	7,481	-	-	-	-	7,481
Due from other banks	32,283	-	-	-	-	32,283
Loans and advances to customers	7,285	11,855	29,663	73,270	24,624	146,697
Trading portfolio	-	-	-	234	89	323
Investment securities available-for-sale	-	-	-	3,865	1,148	5,013
Other assets	558	233	3	9	2	805
Property, plant and equipment	-	-	-	-	2,301	2,301
<b>Total assets</b>	<b>47,607</b>	<b>12,088</b>	<b>29,666</b>	<b>77,378</b>	<b>28,164</b>	<b>194,903</b>
Deposits from banks	9,975	-	-	-	-	9,975
Deposits from customers	25,399	3,652	2,421	1,740	574	33,786
Other liabilities	1,050	655	57	190	-	1,952
Other borrowed funds	1,566	3,812	15,418	21,747	12,715	55,258
Debt securities outstanding	949	191	5,209	47,803	-	54,152
<b>Total liabilities</b>	<b>38,939</b>	<b>8,310</b>	<b>23,105</b>	<b>71,480</b>	<b>13,289</b>	<b>155,123</b>
<b>Maturity gap</b>	<b>8,668</b>	<b>3,778</b>	<b>6,561</b>	<b>5,898</b>	<b>14,875</b>	<b>39,780</b>
<b>Cumulative maturity gap</b>	<b>8,668</b>	<b>12,446</b>	<b>19,007</b>	<b>24,905</b>	<b>39,780</b>	