

FIRST INVESTMENT BANK AD
CONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2007
WITH INDEPENDENT AUDITOR'S REPORT THEREON



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

Sofia, 28 February 2008

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 2007, 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 2007, 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.



Krasimir Madjidiev
Registered auditor
Authorized representative

KPMG Bulgaria OOD
37 Fridtjof Nansen Str.
1142 Sofia
Bulgaria

Margarita Goleva
Registered auditor



FIRST INVESTMENT BANK AD

Consolidated income statement for the year ended 31 December 2007

		<i>In thousands of BGN</i>	
	Note	2007	2006
Interest income		270,045	194,442
Interest expense		(137,436)	(109,140)
Net interest income	6	132,609	85,302
Fee and commission income		60,799	44,804
Fee and commission expense		(9,837)	(5,980)
Net fee and commission income	7	50,962	38,824
Net trading income	8	11,827	8,139
Other operating expenses	9	(201)	(73)
TOTAL INCOME FROM BANKING OPERATIONS		195,197	132,192
General administrative expenses	10	(107,325)	(82,720)
Impairment losses	11	(26,958)	(12,826)
Other expenses, net		(4,261)	(3,378)
PROFIT BEFORE TAX		56,653	33,268
Income tax expense	12	(5,640)	(4,582)
GROUP PROFIT AFTER TAX		51,013	28,686
Minority interests		100	131
NET PROFIT		51,113	28,817
Basic and diluted earnings per share (in BGN)	13	0.48	0.29

The income statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 45.

Krassimir Hadzhimirov
Registered auditor
Authorised representative
KPMG Bulgaria OOD



Marganita Goleva
Registered auditor



FIRST INVESTMENT BANK AD

Consolidated balance sheet as at 31 December 2007 and 31 December 2006

In thousands of BGN

	Note	2007	2006
ASSETS			
Cash and balances with Central Banks	14	611,262	708,038
Financial assets held for trading	15	13,529	13,239
Available for sale investments	16	374,203	508,006
Financial assets held to maturity	17	106,084	70,221
Loans and advances to banks and financial institutions	18	189,575	42,032
Loans and advances to customers	19	2,778,123	1,709,773
Property and equipment	20	115,010	80,753
Intangible assets	21	848	840
Other assets	23	12,743	14,864
TOTAL ASSETS		4,201,377	3,147,766
LIABILITIES AND CAPITAL			
Due to credit institutions	24	3,195	10,436
Due to other customers	25	2,475,139	1,692,197
Liabilities evidenced by paper	26	1,238,113	1,123,218
Subordinated term debt	27	51,005	48,299
Perpetual debt	28	98,386	98,141
Deferred tax liability	22	1,417	1,169
Other liabilities	29	8,143	5,913
TOTAL LIABILITIES		3,875,398	2,979,373
Issued share capital	30	110,000	100,000
Share premium	30	97,000	-
Statutory reserve	30	39,861	39,861
Revaluation reserve on available for sale investments	30	(350)	(258)
Reserve from translation of foreign operations	30	(515)	-
Retained earnings	30	79,858	28,960
SHAREHOLDERS' EQUITY		325,854	168,563
Minority interests	30	125	(170)
TOTAL GROUP EQUITY		325,979	168,393
TOTAL LIABILITIES AND GROUP EQUITY		4,201,377	3,147,766

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 45.

Krassimir Hadjimenov
Registered auditor
Authorised representative
KPMG Bulgaria OOD
София
Рег. №045
"КПМГ - България" ООД

Margarita Goleva
Registered auditor
0202
Регистриран одитор

FIRST INVESTMENT BANK AD

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

In thousands of BGN

	2007	2006
Net cash flow from operating activities		
Net profit	51,113	28,817
Adjustment for non-cash items		
Impairment losses	26,958	12,826
Depreciation and amortisation	11,668	9,118
Income tax expense	5,640	4,582
	95,379	55,343
Change in operating assets		
(Increase) in financial instruments held for trading	(290)	(6,088)
(Increase)/decrease in available for sale investments	133,711	(75,787)
(Increase)/decrease in loans and advances to banks	19,087	(19,068)
(Increase) in loans to customers	(1,095,308)	(384,508)
(Increase)/decrease in other assets	2,121	(5,669)
	(940,679)	(491,120)
Change in operating liabilities		
Increase/(decrease) in deposits from banks	(7,241)	4,963
Increase in amounts owed to other depositors	782,942	478,013
Net increase/(decrease) in other liabilities	1,455	(1,872)
	777,156	481,104
Income tax paid	(5,232)	(4,492)
NET CASH FLOW FROM OPERATING ACTIVITIES	(73,376)	40,835
Cash flow from investing activities		
(Purchase) of tangible and intangible fixed assets	(45,933)	(28,641)
(Acquisition)/decrease of investments	(35,863)	27,751
NET CASH FLOW FROM INVESTING ACTIVITIES	(81,796)	(890)
Financing activities		
Increase of shareholders's equity, fully paid-up	10,000	10,000
Increase of share premium	97,000	-
Capital increase of subsidiary	180	-
Increase in borrowings	117,846	106,817
NET CASH FLOW FROM FINANCING ACTIVITIES	225,026	116,817
NET INCREASE IN CASH AND CASH EQUIVALENTS	69,854	156,762
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	730,811	574,049
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD(see note 32)	800,665	730,811

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 45

Krassimir Madjidov
Registered auditor
Authorised representative
KPMG Bulgaria OOD



Margarita Goleva
Registered auditor
Регистриран одитор

FIRST INVESTMENT BANK AD

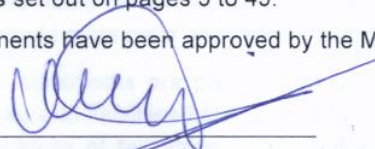
Consolidated statement of shareholders' equity for the year ended 31 December 2007

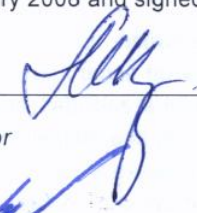
In thousands of BGN


	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 2006	64,726	1,304	41,265	(137)	-	22,709	35	129,902
Transfer to statutory reserves	-	-	(17,152)	-	-	17,152	-	-
Revaluation reserve on available for sale investments, net	-	-	-	(118)	-	-	-	(118)
Increase of shareholders' equity, fully paid-up	10,000	-	-	-	-	-	-	10,000
Increase of shareholders' equity, transfer of retained earnings	25,274	(1,304)	(23,970)	-	-	-	-	-
Disposal of subsidiary investment	-	-	-	(3)	-	-	(74)	(77)
Net profit for the year ended 31 December 2006	-	-	28,817	-	-	-	(131)	28,686
Balance as at 31 December 2006	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, net	-	-	-	(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


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 45.


The financial statements have been approved by the Managing Board on 28 February 2008 and signed on its behalf by:


 Matthew Mateev
 Chairman of the Managing Board,
 Executive Director

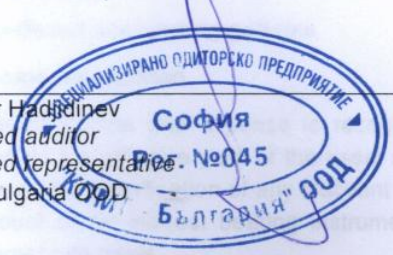

 Maya Georgieva
 Executive Director


 Jordan Skortchev
 Executive Director


 Radoslav Milenkov
 Chief Financial Officer


 Krassimir Hadjidinev
 Registered auditor
 Authorised representative
 KPMG Bulgaria OOD


 Margarita Goleva
 Registered auditor



FIRST INVESTMENT BANK AD

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.

The Bank has foreign operations in Cyprus and Albania.

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 2007 comprise the Bank and its subsidiaries (see note 35), together referred to as the "Group".

(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).

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

(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 2006 in order to provide more clear and precise comparison figures.

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

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

FIRST INVESTMENT BANK AD

Notes to the financial statements

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.

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Notes to the financial statements

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 transaction costs for all financial assets. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or when the 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

FIRST INVESTMENT BANK AD

Notes to the financial statements

2. Significant accounting policies, continued

(d) Financial assets, continued

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

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

(vii) *Fair value measurement principles*

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

(e) Cash and cash equivalents

Cash and cash equivalents comprise cash balances on hand, cash deposited with 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).

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Notes to the financial statements

2. Significant accounting policies, continued

(h) Borrowings

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

If the 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 recoverable amount of loans and advances and purchased loans is calculated as the present value of the expected future cash flows, discounted at the instrument's original effective interest rate. 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.

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

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

FIRST INVESTMENT BANK AD

Notes to the financial statements

2. Significant accounting policies, continued

(j) Impairment, continued

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

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

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

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

(k) Property, plant and equipment

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

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

Assets	%
▪ Buildings	3 - 4
▪ Equipment	10 - 20
▪ Fixtures and fittings	10 - 20
▪ Vehicles	10 - 20
▪ Leasehold improvements	2 - 33

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

(l) Intangible assets

Intangible assets, 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 - 20

(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.

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Notes to the financial statements

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.

FIRST INVESTMENT BANK AD

Notes to the financial statements

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 worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The 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 adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2007, and have not been applied in preparing these consolidated financial statements:

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

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Notes to the financial statements

2. Significant accounting policies, continued

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

- IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provides guidance on the impact of minimum funding requirements (MFR) on such assets. It also addresses when a MFR might give rise to a liability. IFRIC 14 will become mandatory for the Group's 2008 financial statements and is not expected to have any impact on the financial statements.

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.

(i) Credit risk

Default risk is the risk that counterparties 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 counterparty 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 counterparty 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.

FIRST INVESTMENT BANK AD

Notes to the financial statements

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 per cent confidence level, meaning that there is 1% probability that a portfolio will incur a loss in one day greater than its VaR. Parameters of the VaR model are estimated on the basis of exponentially weighted historical price changes of risk factors.

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 VaR for all positions carried at fair value that was experienced in 2007:

	31 December	Twelve months ended 31 Dec 2007			31 December
<i>in thousands of BGN</i>	2007	average	low	high	2006
VaR	796	468	251	916	363

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.

FIRST INVESTMENT BANK AD

Notes to the financial statements

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 2007

<i>In thousands of BGN</i>	Up to 1 Month	From 1 to 3 Months	From 3 months to 1 year	Over 1 year not defined	Maturity	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

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Notes to the financial statements

3. Risk management disclosures, continued

B. Non-trading activities, continued

(i) Liquidity risk, continued

Maturity table as at 31 December 2006

<i>In thousands of BGN</i>	Up to 1 Month	From 1 to 3 Months	From 3 months to 1 year	Over 1 year	Maturity not defined	Total
Assets						
Cash and balances with Central Banks	708,038	-	-	-	-	708,038
Financial assets held for trading	13,239	-	-	-	-	13,239
Available for sale investments	78,994	130,014	138,868	159,159	971	508,006
Financial assets held to maturity	-	15,681	8,430	46,110	-	70,221
Loans and advances to banks and financial institutions	37,916	3,942	-	-	174	42,032
Loans and advances to customers	66,715	126,785	405,482	1,110,791	-	1,709,773
Property and equipment	-	-	-	-	80,753	80,753
Intangible assets	-	-	-	-	840	840
Other assets	14,864	-	-	-	-	14,864
Total assets	919,766	276,422	552,780	1,316,060	82,738	3,147,766
Liabilities						
Due to credit institutions	10,436	-	-	-	-	10,436
Due to other customers	1,250,089	168,226	218,003	55,879	-	1,692,197
Liabilities evidenced by paper	225,842	446	364,086	532,844	-	1,123,218
Subordinated term debt	-	-	-	48,299	-	48,299
Perpetual debt	-	-	-	-	98,141	98,141
Deferred tax liability	-	-	-	-	1,169	1,169
Other liabilities	5,606	-	6	301	-	5,913
Total liabilities	1,491,973	168,672	582,095	637,323	99,310	2,979,373
Net liquidity gap	(572,207)	107,750	(29,315)	678,737	(16,572)	168,393

As at 31 December 2007 the thirty largest non-bank depositors represent 16.61% of total deposits from other customers (2006: 16.94%).

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

<i>In thousands of BGN</i>	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	3,199	-	-	-	-	3,199
Due to other customers	1,613,945	432,462	340,596	107,938	-	2,494,941
Liabilities evidenced by paper	420,503	41	740,907	90,053	-	1,251,504
Subordinated term debt	-	-	-	99,116	-	99,116
Perpetual debt	-	4,775	6,601	102,380	93,880	207,636
Total financial liabilities	2,037,647	437,278	1,088,104	399,487	93,880	4,056,396

FIRST INVESTMENT BANK AD

Notes to the financial statements

(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 Basic Interest Rate, the LIBOR and EURIBOR, although these indices tend to move in high correlation. In addition, the actual effect will depend on a number of other factors, including the extent to which repayments are made earlier or later than the contracted dates and variations in interest rate sensitivity within repricing periods and among currencies.

In order to quantify the interest rate risk of its non-trading activities, the 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 2007 is BGN -3.5/+3.5 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 2007 is BGN -2.3/+2.3 Mio.

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

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

FIRST INVESTMENT BANK AD

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.

<i>In thousands of BGN</i>	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%	34,391	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	734,090	-	-	-	-	-	-
Total assets	4,201,377		2,670,716	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

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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 2006 and the periods in which financial liabilities and assets reprise.

<i>In thousands of BGN</i>	Total	Weighted average effective interest rate	Floating rate instruments	Fixed rate instruments			
				Less than 1 month	Between 1 month and 3 months	Between 3 months and 1 year	More than 1 year
Assets							
Cash and balances with Central Banks	375,044	3.67%	22,416	352,628	-	-	-
Financial assets held for trading	8,627	3.66%	73	-	7,417	-	1,137
Available for sale investments	502,114	3.98%	72,096	78,545	126,808	137,911	86,754
Financial assets held to maturity	69,265	3.50%	36,763	-	21,458	2,134	8,910
Loans and advances to banks and financial institutions	37,152	3.66%	258	32,982	3,912	-	-
Loans and advances to customers	1,678,388	11.13%	1,490,522	10,922	13,812	18,023	145,109
Non-interest earning assets	477,176	-	-	-	-	-	-
Total assets	3,147,766		1,622,128	475,077	173,407	158,068	241,910
Liabilities							
Due to credit institutions	10,175	4.66%	2,978	7,197	-	-	-
Due to other customers	1,638,884	2.39%	1,581,020	27,557	7,311	22,574	422
Liabilities evidenced by paper	1,095,682	6.11%	419,286	225,188	443	1,023	449,742
Subordinated term debt	45,312	13.30%	-	-	-	-	45,312
Perpetual debt	93,880	12.56%	-	-	-	-	93,880
Non-interest bearing liabilities	95,440	-	-	-	-	-	-
Total liabilities	2,979,373		2,003,284	259,942	7,754	23,597	589,356

FIRST INVESTMENT BANK AD

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 its financial statements is the Bulgarian lev, the Group's financial statements are affected 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:

<i>In thousands of BGN</i>	2007	2006
Monetary assets		
Euro	2,567,522	1,791,518
US dollar	345,274	307,381
Other	60,394	67,226
Gold	4,761	3,134
Monetary liabilities		
Euro	2,624,214	1,944,038
US dollar	345,841	308,620
Other	60,236	67,308
Gold	-	-
Net position		
Euro	(56,692)	(152,520)
US dollar	(567)	(1,239)
Other	158	(82)
Gold	4,761	3,134

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.

FIRST INVESTMENT BANK AD

Notes to the financial statements

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 2007	<i>In thousands of BGN</i>		
Class of exposure	Gross amount of loans and advances to customers	Allowance for impairment	Carrying amount of loans and advances to customers
Collectively impaired			
Standard	2,776,759	(23,130)	2,753,629
Individually impaired			
Watch	15,363	(835)	14,528
Substandard	7,602	(1,234)	6,368
Nonperforming	48,708	(45,110)	3,598
Total	2,848,432	(70,309)	2,778,123

31 December 2006	<i>In thousands of BGN</i>		
Class of exposure	Gross amount of loans and advances to customers	Allowance for impairment	Carrying amount of loans and advances to customers
Collectively impaired			
Standard	1,679,274	(15,750)	1,663,524
Individually impaired			
Watch	22,083	(1,661)	20,422
Substandard	20,679	(2,691)	17,988
Nonperforming	32,945	(25,106)	7,839
Total	1,754,981	(45,208)	1,709,773

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

FIRST INVESTMENT BANK AD

Notes to the financial statements

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

<i>In thousands of BGN</i>	2007	2006
Trade	532,339	298,586
Industry	709,289	460,032
Services	224,226	128,129
Finance	2,030	1,620
Transport, logistics	154,311	47,870
Communications	45,445	5,646
Construction	181,769	160,910
Agriculture	89,340	62,760
Tourist services	115,713	119,488
Private individuals	756,767	453,881
Other	37,203	16,059
Less allowance for impairment	<u>(70,309)</u>	<u>(45,208)</u>
	<u>2,778,123</u>	<u>1,709,773</u>

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 2007 with total exposures amounting to BGN 14,628 thousand (2006: BGN 11,102 thousand) - ferrous metals, BGN 22,400 thousand (2006: BGN 25,705 thousand) - cable and electrics and BGN 118,539 thousand (2006: BGN 69,938 thousand) - power engineering.

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Notes to the financial statements

3. Risk management disclosures, continued

B. Non-trading activities, continued

(iii) Credit risk, continued

The Group has extended loans, confirmed letters of credit and granted guarantees to 15 individual clients or groups (2006: 10) 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 872,776 thousand which represents 215.71% of the Group's capital base (2006: BGN 463,399 thousand which represented 153.80% of capital base) of which BGN 632,521 thousand (2006: BGN 298,812 thousand) represent loans and BGN 240,255 thousand (2006: BGN 164,587 thousand) represent guarantees, letters of credit and other commitments. Exposures secured by cash have been excluded from the calculation of the large exposures.

The loans extended in Cyprus amount to BGN 140,128 thousand (2006: BGN 53,986 thousand) (gross carrying amount before any allowances) and in Albania - BGN 8,545 thousand (2006: BGN 3,306 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 certain customers prior to the disbursement of approved loans. Guarantees and letters of credit are also subject to strict credit assessments before being provided. The agreements specify monetary limits to the 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 credit extended to customers, other than financial institutions, by the Group by type of collateral:

In thousands of BGN

	2007	2006
Mortgage	1,532,707	964,955
Pledge of receivables	267,251	322,465
Pledge of commercial enterprise	296,050	127,113
Securities	144,558	74,726
Guarantee	19,006	61,306
Pledge of goods	93,672	53,379
Pledge of machines	150,918	39,559
Money deposit	115,390	32,564
Stake in capital	41,661	23,425
Gold	32	32
Other collateral	180,764	49,038
Unsecured	6,423	6,419
Less allowances for impairment	(70,309)	(45,208)
Total	2,778,123	1,709,773

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Notes to the financial statements

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 new Ordinance 8 on Capital Adequacy of Credit Institutions effective from 01 January 2007 that is the Bulgarian supervisory implementation of the International Convergence of Capital Measurement and Capital Standards (Revised Framework), known as Basel II and complies with EU Directives 2006/48/EC and 2006/49/EC. In implementing current capital requirements the 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, 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.

The Group has complied with all capital requirements.

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Notes to the financial statements

3. Risk management disclosures, continued

C. Capital adequacy, continued

Capital adequacy level was as follows:

<i>In thousands of BGN</i>	Balance sheet/notional amount		Risk weight amount	
	2007	2006	2007	2006
Risk weighted assets for credit risk				
<i>Balance sheet assets</i>				
Cash and balances with Central Banks	611,262	708,038	16,407	74,759
Financial assets held for trading	13,529	13,239	11,413	4,523
Available for sale investments	374,203	508,006	34,318	14,361
Financial assets held to maturity	106,084	70,221	15,221	9,222
Loans and advances to banks and financial institutions	189,575	42,032	37,926	4,589
Loans and advances to customers	2,778,123	1,709,773	2,460,403	1,507,485
Property and equipment	115,010	80,753	115,010	80,753
Intangible assets	848	840	-	743
Other assets	12,743	14,864	11,920	14,864
TOTAL ASSETS	4,201,377	3,147,766	2,702,618	1,711,299
<i>Off-balance sheet positions</i>				
Credit related commitments	1,115,077	786,597	219,651	188,575
Forward and option derivative instruments	124,969	52,745	707	818
Total risk-weighted assets for credit risk			2,922,976	1,900,692
Risk-weighted assets for market risk			3,341	5,134
Risk-weighted assets for operational risk			190,651	-
Total risk-weighted assets			3,116,968	1,905,826
Capital adequacy ratios	Capital		Capital ratios %	
	2007	2006	2007	2006
Tier 1 Capital	273,573	168,554	8.78%	8.84%
Total capital base	404,614	301,292	12.98%	15.81%

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Notes to the financial statements

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

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

The 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 branch that generates them. Segment assets and liabilities are allocated based on their geographical location.

<i>In thousands of BGN</i>	Bulgarian operations		Foreign operations		Total	
	2007	2006	2007	2006	2007	2006
Interest income	260,660	187,528	9,385	6,914	270,045	194,442
Interest expense	(136,331)	(108,126)	(1,105)	(1,014)	(137,436)	(109,140)
Net interest income	124,329	79,402	8,280	5,900	132,609	85,302
Fee and commission income	59,855	44,192	944	612	60,799	44,804
Fee and commission expense	(9,797)	(5,950)	(40)	(30)	(9,837)	(5,980)
Net fee and commission income	50,058	38,242	904	582	50,962	38,824
Net trading income	10,187	8,037	1,640	29	11,827	8,066
General administrative expenses	(102,449)	(79,549)	(4,876)	(3,171)	(107,325)	(82,720)
Segment assets	4,030,952	3,074,555	170,425	73,211	4,201,377	3,147,766
Segment liabilities	3,835,372	2,850,566	40,026	128,807	3,875,398	2,979,373

FIRST INVESTMENT BANK AD

Notes to the financial statements

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 2007.

In thousands of BGN

	Trading	Held-to-maturity	Loans and available for sale receivables	Available for sale	Other amortised cost	Other	Carrying amount	Fair value
ASSETS								
Cash and balances with Central Banks	-	-	611,262	-	-	-	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	3,578,960	374,203	-	823	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
	1,924	-	-	-	3,865,838	-	3,867,762	3,842,088

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.

FIRST INVESTMENT BANK AD

Notes to the financial statements

5. Financial assets and liabilities

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 2006.

In thousands of BGN

	Trading	Held-to-maturity	Loans and receivables	Available for sale	Other amortised cost	Carrying amount	Fair value
ASSETS							
Cash and balances with Central Banks	-	-	708,038	-	-	708,038	708,038
Financial assets held for trading	13,239	-	-	-	-	13,239	13,239
Available for sale investments	-	-	-	508,006	-	508,006	508,006
Financial assets held to maturity	-	70,221	-	-	-	70,221	70,194
Loans and advances to banks and financial institutions	-	-	42,032	-	-	42,032	42,032
Loans and advances to customers	-	-	1,709,773	-	-	1,709,773	1,709,773
Other trading assets	111	-	-	-	-	111	111
	13,350	70,221	2,459,843	508,006	-	3,051,420	3,051,393
LIABILITIES							
Due to credit institutions	-	-	-	-	10,436	10,436	10,436
Due to other customers	-	-	-	-	1,692,197	1,692,197	1,692,197
Liabilities evidenced by paper	-	-	-	-	1,123,218	1,123,218	1,124,603
Subordinated term debt	-	-	-	-	48,299	48,299	48,299
Perpetual debt	-	-	-	-	98,141	98,141	105,423
	-	-	-	-	2,972,291	2,972,291	2,980,958

FIRST INVESTMENT BANK AD

Notes to the financial statements

6. Net interest income

<i>In thousands of BGN</i>	2007	2006
Interest income		
Interest income arises from:		
- Accounts with and placements to banks and financial institutions	6,251	4,535
- Loans to individuals and households	61,508	37,185
- Loans to corporate clients	153,974	114,810
- Loans to SME	26,227	15,712
- Microlending	4,554	2,196
- Debt instruments	17,531	20,004
	270,045	194,442
Interest expense		
Interest expense arise from:		
- Deposits from banks	(297)	(497)
- Deposits from other customers	(51,173)	(33,146)
- Liabilities evidenced by paper	(68,073)	(57,695)
- Subordinated term debt	(6,212)	(7,213)
- Perpetual debt	(11,616)	(10,429)
- Lease agreement and other	(65)	(160)
	(137,436)	(109,140)
Net interest income	132,609	85,302

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

7. Net fee and commission income

<i>In thousands of BGN</i>	2007	2006
Fee and commission income		
Letters of credit and guarantees	12,091	10,656
Payments transactions	8,419	6,076
Customer accounts	8,371	6,203
Cards business	14,558	11,215
Other	17,360	10,654
	60,799	44,804
Fee and commission expense		
Letters of credit and guarantees	(627)	(994)
Correspondent accounts	(953)	(879)
Cards business	(5,767)	(3,960)
Other	(2,490)	(147)
	(9,837)	(5,980)
Net fee and commission income	50,962	38,824

FIRST INVESTMENT BANK AD

Notes to the financial statements

8. Net trading income

<i>In thousands of BGN</i>	2007	2006
Net trading income arises from:		
- Debt instruments	517	38
- Equities	2,245	1,398
- Foreign exchange	9,065	6,703
Net trading income	11,827	8,139

9. Other operating expenses

Other operating expenses represent losses from disposal of available for sale investments.

<i>In thousands of BGN</i>	2007	2006
Other operating income arises from:		
- Debt instruments	(201)	(73)
Other operating income	(201)	(73)

10. General administrative expenses

<i>In thousands of BGN</i>	2007	2006
General and administrative expenses comprise:		
- Personnel cost	31,993	23,484
- Depreciation and amortisation	11,668	9,118
- Advertising	11,046	9,338
- Building rent expense	11,291	8,637
- Telecommunication, software and other computer maintenance	8,909	5,909
- Unclaimable VAT	6,607	4,953
- Administration, consultancy and other costs	25,811	21,281
General administrative expenses	107,325	82,720

Personnel costs include salaries, social and health security contributions under the provisions of the local legislation. At 31 December 2007 the total number of employees is 2,289 (2006: 1,598).

11. Impairment losses

<i>In thousands of BGN</i>	2007	2006
Write-downs		
Loans and advances to customers	(42,995)	(30,485)
Reversal of write-downs		
Loans and advances to customers	16,037	17,659
Net impairment losses	(26,958)	(12,826)

FIRST INVESTMENT BANK AD

Notes to the financial statements

12. Income tax expense

<i>In thousands of BGN</i>	2007	2006
Current taxes	(5,392)	(4,933)
Deferred taxes (see note 22)	(248)	351
Income tax expense	(5,640)	(4,582)

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

<i>In thousands of BGN</i>	2007	2006
Accounting profit before taxation	56,653	33,268
Corporate tax at applicable tax rate (10% for 2007 and 15% for 2006)	5,665	4,990
Effect of tax rates of foreign subsidiaries and branches	131	198
Tax effect of permanent tax differences	(404)	(255)
Tax effect of reversals of temporary differences	248	156
Tax effect of tax rate decrease	-	(507)
Income tax expense	5,640	4,582
Effective tax rate	9.96%	13.77%

13. Earnings per share

	2007	2006
Net profit attributable to shareholders (<i>in thousands of BGN</i>)	51,113	28,817
Weighted average number of ordinary shares (<i>in thousands</i>)	106,137	99,183
Earnings per share (<i>in BGN</i>)	0.48	0.29

The basic earnings per share, calculated in accordance with IAS 33, are based on the profit attributable to ordinary equity holders of the Bank. In 2007 as in the previous year, no conversion or option rights were outstanding. The diluted earnings per share, therefore, correspond to the basic earnings per share.

14. Cash and balances with Central Banks

<i>In thousands of BGN</i>	2007	2006
Cash on hand		
- In Bulgarian Leva	89,814	61,550
- In foreign currencies	38,007	32,245
Gold bullion	4,761	3,134
Balances with Central Banks	414,068	238,337
Current accounts and amounts with local banks	67	1,142
Current accounts and amounts with foreign banks	64,545	371,630
	611,262	708,038

FIRST INVESTMENT BANK AD

Notes to the financial statements

15. Financial assets held for trading

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

16. Available for sale investments

<i>In thousands of BGN</i>	2007	2006
Bonds, notes and other instruments issued by:		
Bulgarian Government		
- denominated in Bulgarian Leva	29,765	83,958
- denominated in foreign currencies	6,323	7,651
Foreign governments		
- short term	229,860	194,453
- long term	20,019	143,963
Foreign banks	87,159	66,950
Other issuers	1,077	11,031
	374,203	508,006

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Notes to the financial statements

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.

<i>In thousands of BGN</i>	2007	2006
Securities held to maturity issued by:		
Bulgarian government	60,492	6,296
Foreign governments	1,378	17,816
Foreign banks	44,214	46,109
	106,084	70,221

18. Loans and advances to banks and financial institutions

(a) Analysis by type

<i>In thousands of BGN</i>	2007	2006
Placements with banks	165,954	18,007
Receivables under repurchase agreements	-	19,085
Other	23,621	4,940
Total	189,575	42,032

(b) Geographical analysis

<i>In thousands of BGN</i>	2007	2006
Domestic banks and financial institutions	24,902	30,204
Foreign banks and financial institutions	164,673	11,828
Total	189,575	42,032

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Notes to the financial statements

19. Loans and advances to customers

<i>In thousands of BGN</i>	2007	2006
Retail customers		
- Consumer loans	366,511	219,139
- Mortgage loans	390,256	234,742
Small and medium enterprises	270,565	162,997
Microlending	43,476	23,461
Corporate customers		
- Public sector customers	33,972	21,362
- Private sector customers	1,743,652	1,093,280
Less allowance for impairment	(70,309)	(45,208)
	<u>2,778,123</u>	<u>1,709,773</u>

(a) Movement in impairment allowances

In thousands of BGN

Balance at 1 January 2007	<u>45,208</u>
Additional allowances	42,995
Amounts released	(16,037)
Write - offs	(1,857)
Balance at 31 December 2007	<u>70,309</u>

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

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Notes to the financial statements

20. Property and equipment

<i>In thousands of BGN</i>	Land and buildings	Fixtures and fittings	Motor vehicles	Assets under construction	Leasehold improvements	Total
Cost						
At 1 January 2007	9,055	56,098	5,139	25,555	21,832	117,679
Additions	361	1,451	299	46,409	1,274	49,794
Disposals	-	(2,435)	(924)	(902)	(1,365)	(5,626)
Transfers	2,951	12,572	1,312	(21,948)	4,882	(231)
At 31 December 2007	12,367	67,686	5,826	49,114	26,623	161,616
Depreciation						
At 1 January 2007	2,825	27,076	2,491	-	4,534	36,926
Charge for the period	361	7,698	983	-	2,399	11,441
On disposals	-	(897)	(595)	-	(269)	(1,761)
At 31 December 2007	3,186	33,877	2,879	-	6,664	46,606
Net book value						
At 31 December 2007	9,181	33,809	2,947	49,114	19,959	115,010
At 1 January 2007	6,230	29,022	2,648	25,555	17,298	80,753

21. Intangible assets

<i>In thousands of BGN</i>	Software and licences	Goodwill	Total
Cost			
At 1 January 2007	2,496	97	2,593
Additions	423	10	433
Disposals	(543)	-	(543)
Transfers	231	-	231
At 31 December 2007	2,607	107	2,714
Amortisation			
At 1 January 2007	1,753	-	1,753
Charge for the year	227	-	227
On disposals	(114)	-	(114)
At 31 December 2007	1,866	-	1,866
Net book value			
At 31 December 2007	741	107	848
At 1 January 2007	743	97	840

FIRST INVESTMENT BANK AD

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:

<i>In thousands of BGN</i>	Assets		Liabilities		Net	
	2007	2006	2007	2006	2007	2006
Property, equipment and intangibles	-	-	1,549	1,279	1,549	1,279
Other items	(181)	(110)	49	-	(132)	(110)
Net tax (assets)/liabilities	(181)	(110)	1,598	1,279	1,417	1,169

Movements in temporary differences during the year at the amount of BGN 248 thousand are recognised in the income statement.

23. Other assets

<i>In thousands of BGN</i>	2007	2006
Deferred expense	3,858	3,314
Other assets	8,885	11,550
	12,743	14,864

24. Due to credit institutions

<i>In thousands of BGN</i>	2007	2006
Term deposits	1,567	9,247
Payable on demand	1,628	1,189
	3,195	10,436

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Notes to the financial statements

25. Due to other customers

<i>In thousands of BGN</i>	2007	2006
Retail customers		
- payable on demand	465,621	347,496
- term deposits	989,124	666,225
Corporate customers		
- payable on demand	625,022	512,195
- term deposits	395,372	166,281
Total	2,475,139	1,692,197

26. Liabilities evidenced by paper

<i>In thousands of BGN</i>	2007	2006
Bonds and notes issued	459,884	457,330
Acceptances under letters of credit	311,491	1,634
Liabilities under repurchase agreements	-	225,366
Syndicated loan	363,464	362,758
Other term liabilities	103,274	76,130
Total	1,238,113	1,123,218

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

Bonds and notes issued comprise of the following:

<i>In thousands of BGN</i>	2007	2006
Long term bonds payable		
EUR 6,000,000, 8.5%, due 2008	12,256	12,007
EUR 200,000,000, 7.5%, due 2008	417,885	415,651
Total bonds payable	430,141	427,658
Mortgage bonds		
EUR 5,000,000, 7%, due 2008	9,855	9,832
EUR 10,000,000, 7%, due 2009	19,888	19,840
Total mortgage bonds	29,743	29,672
Total bonds and notes issued	459,884	457,330

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

FIRST INVESTMENT BANK AD

Notes to the financial statements

27. Subordinated term debt

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

Subordinated liabilities can be analysed as follows:

In thousands of BGN

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

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

28. Perpetual debt

In thousands of BGN

	Principal amount	Amortised cost as at 31 December 2007
Step-up Guaranteed Perpetual Subordinated Bonds EUR 27 mio	52,807	54,368
Step-up Guaranteed Perpetual Subordinated Bonds EUR 21 mio	41,073	44,018
Total	93,880	98,386

The issue of the Step-Up Subordinated Bonds by First Investment Finance B.V., a limited liability company registered under the laws of the Netherlands and 100% owned by 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

FIRST INVESTMENT BANK AD

Notes to the financial statements

<i>In thousands of BGN</i>	2007	2006
Liabilities to personnel	1,564	918
Current tax liability	2,484	2,329
Other payables	4,095	2,666
	<hr/>	<hr/>
	8,143	5,913

30. Capital and reserves

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

As at 31 December 2007 the registered share capital of the Bank is BGN 110,000,000 divided into 110,000,000 ordinary dematerialized shares with voting rights of BGN 1 par value each. All the shares have been fully paid-up.

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

(b) Shareholders

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

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

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Notes to the financial statements

30. Capital and reserves, continued

(b) Shareholders, continued

The table below shows those shareholders of the Bank holding shares as at 31 December 2007 together with the number and percentage of total issued shares.

	<u>Number of Shares</u>	<u>% of issued share capital</u>
Mr. Ivailo Dimitrov Mutafchiev	31,830,000	28.94
Mr. Tzeko Todorov Minev	31,830,000	28.94
Balkan Holidays Limited, UK	7,390,000	6.72
Legnano Enterprise Limited Cyprus	8,450,000	7.68
Domenico Ventures Limited, British Virgin Islands	7,000,000	6.36
Rafaela Consultants Limited, British Virgin Islands	7,000,000	6.36
Other shareholders (shareholders holding shares subject to free trade on the Bulgarian Stock Exchange – Sofia)	16,500,000	15.00
Total	<u>110,000,000</u>	<u>100.00</u>

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

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

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

FIRST INVESTMENT BANK AD

Notes to the financial statements

(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.

(d) Share price

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

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.

<i>In thousands of BGN</i>	2007	2006
Bank guarantees		
- in BGN	186,268	136,458
- in foreign currency	181,544	108,092
Total guarantees	367,812	244,550
Unused credit lines	457,669	211,228
Promissory notes	21,034	17,097
Letters of credit in foreign currency	268,562	313,722
	1,115,077	786,597

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

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

At 31 December 2007 the extent of collateral held for guarantees and letters of credit is 100 percent.

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Notes to the financial statements

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:

<i>In thousands of BGN</i>	2007	2006
Cash and balances with Central Banks	611,262	708,038
Loans and advances to banks with maturity less than 90 days	189,403	22,773
	800,665	730,811

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.

<i>In thousands of BGN</i>	2007	2006
FINANCIAL ASSETS		
Cash and balances with Central Banks	523,059	400,142
Financial assets held for trading	14,758	18,459
Available for sale investments	339,188	480,218
Financial assets held to maturity	101,753	80,333
Loans and advances to banks and financial institutions	38,479	26,691
Loans and advances to customers	2,298,340	1,459,229
FINANCIAL LIABILITIES		
Due to credit institutions	7,006	12,459
Due to other customers	1,929,610	1,337,938
Liabilities evidenced by paper	1,082,630	911,499
Subordinated term debt	51,131	55,170
Perpetual debt	97,702	90,065

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Notes to the financial statements

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	
	2007	2006	2007	2006
<i>In thousands of BGN</i>				
Loans:				
Loans outstanding at beginning of the year	1,876	1,554	4,351	3,660
Loans issued during the year	598	322	3,759	691
Loans outstanding at end of the year	2,474	1,876	8,110	4,351
Deposits received:				
Deposits at beginning of the year	547	273	2,825	1,975
Deposits received during the year	515	274	624	850
Deposits at end of the period	1,062	547	3,449	2,825
Deposits placed				
Deposits at beginning of the year	-	-	7,823	7,823
Deposits placed during the year	-	-	3,912	-
Deposits at end of the period	-	-	11,735	7,823
Off-balance sheet commitments issued by the Group				
At beginning of the year	-	-	1,117	130
Granted	387	-	991	987
At the end of the year	387	-	2,108	1,117

The key management personnel of the Bank received remuneration of BGN 1,966 thousand for 2007 (2006: BGN 2,079 thousand).

35. Subsidiary undertakings

FIRST INVESTMENT BANK AD

Notes to the financial statements

(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 2007 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. The authorised share capital of the new entity is ALL 1,000,000 thousand, which is fully paid-up. On 27 June 2007 First Investment Bank – Albania was granted a full banking licence by the Bank of Albania, and on 1 September 2007 effectively took over the activities of the former FIB-Tirana Branch by assuming all its rights and obligations, assets and liabilities. The Bank consolidates its investment in this company.

36. Post balance sheet events

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

37. Applicable standards

IFRS 1 First-time Adoption of International Financial Reporting Standards
IFRS 2 Share-based Payment
IFRS 3 Business Combinations
IFRS 4 Insurance Contracts
IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
IFRS 6 Exploration for and Evaluation of Mineral Resources
IFRS 7 Financial Instruments: Disclosures
IAS 1 Presentation of Financial Statements
IAS 2 Inventories
IAS 7 Cash Flow Statements
IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10 Events after the Balance Sheet Date
IAS 11 Construction Contracts
IAS 12 Income Taxes
IAS 14 Segment Reporting

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Notes to the financial statements

37. Applicable standards, continued

- 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
- 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