EUROBANK EFG BULGARIA
FINANCIAL STATEMENTS
31 DECEMBER 2007

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Eurobank EFG Bulgaria AD

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from 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 the auditor's 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, the auditor considers 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 policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

This version of our report/the accompanying documents is a translation from the original, which was prepared in Bulgarian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation

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

Opinion

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

Report on Other Legal and Regulatory Requirements

Management is also responsible for preparing the Annual Report in accordance with the Accounting Act.

We are required by the Accounting Act to express an opinion whether the Annual Report is consistent with the annual financial statements of the Bank.

In our opinion, the Annual Report set out on pages 1 to 7 is consistent with the accompanying financial statements of the Bank as of 31 December 2007.

София
Рег. №085

Rossitsa Boteva	Jean – Pierre Vigroux
Certified Auditor	PricewaterhouseCoopers Audit OOD

March 31, 2008
Sofia, Bulgaria

Outline of Directors' Report

The management present the annual Directors' report as of 31 December 2007.

BUSINESS DESCRIPTION

On 01 November, 2007 the legal merger of Postbank and DZI bank was finalized and became effective. DZI Bank ceased to exist, Postbank became its universal successor and continued to exist under the name Eurobank EFG Bulgaria AD.

Eurobank EFG Bulgaria AD (the Bank) provides retail, corporate banking and investment banking services in Bulgaria. Its Head Office is located in Sofia. The address of its registered office is as follows: 14, Tsar Osvoboditel Blvd, 1048 Sofia, Bulgaria.

BUSINESS OVERVIEW

Development and results from the business activity

Eurobank EFG Bulgaria is a leading universal bank in Bulgaria, part of EFG Group – a strong international financial group. The Bank provides a broad range of banking services to local and international customers through its nationwide branch network and customer service desks within post offices throughout the country.

The year 2007 was very strong for Eurobank EFG Bulgaria. In all lines of business Eurobank EFG Bulgaria outperformed the market and gained market share. The Bank continued to offer qualitative and competitive deposit and loan products and services which were well accepted from the customers. The good image and the availability of the offices all over the country allowed the Bank to attract new customers and to gain the confidence of the existing clients. The Bank continued to meet the challenges related to the increased competition in the bank sector and financial culture of the clients.
The total assets of Eurobank EFG Bulgaria at 31 December 2007 have reached BGN 4,416 million and the net loans and advances to customers grew by 35% to reach BGN 2,749 million. During 2007 Postbank has offered quality products and services with competitive pricing which were well received by the customers.
Bank's sound image and nationwide coverage enabled it to build up customer loyalty and attract new depositors. In 2007 the deposits reached BGN 3,335 million.

Operating income increased in line with the increase of the business. For the financial year 2007, the operating income reached BGN 254 million. Continuing investment in branch expansion and renovation pushed operating expenses to BGN 150 million, nevertheless slower than the growth of the operating income. All this resulted in a substantial increase in net profit . As at 31 December 2007 the net profit is BGN 77 million.

Important events that have occurred during the financial year

The most important event occurred during 2007 is the successful merger of DZI Bank into Postbank.At the end of 2006 Eurobank EFG Holding (Luxembourg) S.A., a company belonging to the Group of EFG Eurobank Ergasias S.A. acquired 91.20% of DZI Bank's shares. Following this acquisition, Eurobank EFG Group, which was already exercising full control over Bulgarian Post Bank AD, acquired also control over DZI Bank AD. On 12 March 2007 in pursuance of Eurobank EFG Group's goal for achievement of internal optimization of its subsidiaries, both banks started a procedure for their transformation by way of merger of DZI Bank into Postbank. On 1 November 2007 the legal merger of Postbank and DZI bank was finalized and became effective . DZI Bank ceased to exist, Postbank became its universal successor and continued to exist under the name Eurobank EFG Bulgaria AD.

During 2007 the Bank extended its network locations throughout the country to 272. The number of employees as at 31 December 2007 was 2,649 .

Eurobank EFG Bulgaria continued its active partnership with other EFG Group subsidiaries in Bulgaria. In January 2007 EFG Factors S.A.'s trade office in Bulgaria was officially registered as a branch. The new branch offers to its clients a full range of factoring services and the company expands its activities in Bulgaria by combining forces in the trade financing area together with Eurobank EFG Bulgaria. In November 2007 EFG Securities Bulgaria" SA received a full licence for investment intermediary by the Financial Supervision Commission. The issued licence allows the establishment of an entity that is to be an assignee of Eurobank EFG Bulgaria in its function of an investment intermediary. The entity is to offer a full range of investment products and services for companies, institutional investors and individuals in the following two basic directions: investment banking and brokerage services.

In 2007 the bank has included the offering of repo agreements which represent short term funding against securing of shares which are being traded at the Bulgarian Stock Exchange. For the realization of the repo agreements, the Bank has accepted the shares as security of the financing, and the client receives the resources against a determined interest percentage. The bank has offered repo agreements for both private persons and corporate bodies.

During 2007 Eurobank EFG Bulgaria was awarded with a lot of prizes: for the financial risk hedging instruments, which were successfully launched by the Bank in 2006, with the "Bank of the Year" prize at the annual Pari Daily banking awards, with the Bank of the Year Award at the Annual Real Estate Awards and etc.

SHARE CAPITAL STRUCTURE

On 01 November, 2007 Sofia City Court issued Court Ruling № 61 under the company file of Postbank regarding the merger of DZI Bank into Postbank, the changes in the composition of the Board of Directors and the change of the business name into Eurobank EFG Bulgaria AD. The merger was thereby finalized and became effective.

For merger relate purposes (namely due to the conversion rate of the shares) the capital of the remaining bank (Postbank) has increased from BGN 207,716,400 to BGN 246,177,887 through the issue of 38,461,487 new ordinary, voting, registered, non-physical shares of a par value of BGN 1 (one) each, which shall be submitted to the shareholders of DZI Bank AD. As at 31 December, 2007 the total authorized number of ordinary shares of EFG Eurobank, Bulgaria was 246,177,887 with a par value of BGN 1 per share.

As at 31 December 2007 the capital of Eurobank EFG, Bulgaria becomes BGN 246,177,887. As at 31 December 2007 EFG Eurobank Ergasias owns directly 63.56% of Eurobank EFG, Bulgaria, another 20.53% through its 100% subsidiary CEH Balkan Holdings Limited and 15.61% through its subsidiary Eurobank Holding (Luxemburg) S.A.Bulgarian Posts EAD holds 0.30 % of the total number of shares of the Bank.

BOARD OF DIRECTORS

As at 31 December 2007 the Board of Directors consists of the following members: Theodore Karakassis, Antonios Hassiotis, Asen Yagodin, Petia Dimitrova, Evangelos Kavvalos, Andreas Chasapis, Christos Komiopoulos, Haralambos Kyrkos, Georgios Katsaros and Piergiorgio Pradelli.

From 01 January 2008 Mr. Haralambos Kyrkos has been resigned as a member of the Board of Directors.

1. The total annual remuneration of the members of the Board

In 2007 the members of the Board of Directors didn't receive remunerations from the Bank in their capacity of Board of directors members.

2. Shares and bonds of the company that are acquired, owned and transferred by the members of the Board during the year

No member of the Board of Directors has owned or transferred shares or bonds of the Bank.

3. The Board member's rights to acquire shares and bonds of the company

No member of the Board of Directors holds special rights of acquisition of shares or bonds of the Bank.

No member of the Board of Directors holds special rights of acquisition of shares or bonds of the Bank.

4. The Board member's ownership in other commercial enterprises, as:

4.1 Partners with unlimited liability

- **Theodore Karakassis**

EFG Property Services Ltd., Serbia – Member of the Board

- **Haralambos Kyrkos**

EFG Property Services Ltd., Serbia – Chairman of the Board (resigned 1/1/2008)

4.2. Partners/shareholders holding more than 25 per cent of the capital of another company

- **Antonios Hassiotis**

Investments AMK EOOD – sole owner

- **Asen Yagodin**

Daik Imoti EOOD, Bulgaria– sole owner

4.3. Participants in the management of other companies or cooperatives as procurators, managers or boards members

- **Theodore Karakassis**

EFG Leasing EAD, Bulgaria – Chairman of the Board

EFG Property Services Sofia AD, Bulgaria – Member of the Board

Bancpost S.A., Romania – Member of the Board

EFG Eurobank Leasing S.A., Romania – Member of the Board

EFG Eurobank Property Sevices S.A., Romania – Member of the Board

Euroline Retail Services S.A., Romania – Member of the Board

Eurobank Property Services S.A., Greece – Member of the Board

EFG Factors S.A., Greece – Member of the Board

Polbank EFG , Poland – Member of the Supervisory Board

EFG Retail Services a.d. Beograd, Serbia – Member of the Board

EFG Property Services d.o.o. Beograd, Serbia – Member of the Board

EFG Leasing a.d. Beograd, Serbia - Chairman of the Board

- **Antonios Hassiotis**

EFG Leasing EAD, Bulgaria – Member of the Board

American Chamber of Commerce in Bulgaria – Vice President of the Board

Bulgarian Business Leaders Forum – Member of the Board

Hellenic Business Council in Bulgaria – Deputy Chairman of the Board

- **Asen Yagodin**

EFG Securities Bulgaria EAD - Member of the Board

Bulgarian Banks Association – Member of the MB

- **Petia Dimitrova**

EFG Property Services Sofia AD, Bulgaria – Member of the Board

Bulgarian Retails Services AD – Chairman of the BD and Executive Director

EFG Business Services Bulgaria EAD – Excutive Director and Member of the Board

- **Piergiorgio Pradelli**

EFG Private Bank (Luxembrourg) S.A. - Member of the Board

Bancpost S.A. - Member of the Board

Eurobank EFG Stedionica a.d. Beograd - Member of the Board

EFG Internet Services S.A. - Member of the Board

Tekfenbank A.S. - Member of the Board

OJSC " Universal Bank" - Supervisory Board Member

EFG Eurobank Ergasias SA - General Manager – General Division International Activities

- **Georgios Katsaros**

EFG Telesis Finance – Member of the board

SIDMA – Member of the board

- **Haralambos Kyrkos**

EFG Eurobank Ergasias S.A., Greece - Member of the Board (resigned 25/10/2007)

EFG Eurobank Ergasias Leasing S.A., Greece - Member of the Board (resigned 25/10/2007)

Eurobank Properties REIC - Chairman of the Board (resigned 1/1/2008)

Be-Business Exchanges S.A. Greece - Chairman of the Board (resigned 25/10/2007)

Eurobank Property Services S.A Greece - Chairman of the Board (resigned 1/1/2008)

Financial Planning Services S.A. Greece - Member of the Board (resigned 4/12/2007)

Bancpost S.A., Romania - Member of the Board (resigned 25/10/2007)

EFG Eurobank Property Services S.A. Romania - Chairman of the Board (resigned 1/1/2008)

EFG Property Services d.o.o. Beograd., Serbia - Chairman of the Board (resigned 1/1/2008)

EFG Property Services Sofia AD, Bulgaria - Chairman of the Board (resigned 1/1/2008)

EFG Property Services Polska Sp.z.o.o., Poland - Chairman of the Board (resigned 1/1/2008)

- **Christos Komiopoulos**

EFG Leasing AD BELGRADE – Member of the Board

EFG Insurance Services SA - Member of the Board

YIOULA SA- Member of the Board

- **Andreas Chasapis**

EFG Leasing SA - Member of the Board

EFG Factors - Member of the Board

- **Evangelos Kavvalos**

Open24 Eurobank Ergasias SA - Vice President

EFG Leasing SA - Member of the Board

BE-Business Exchanges SA - Member of the Board

EFG Factors - Member of the Board

EFG Insurance Services SA - Member of the Board

Polbank Dystrybucja Sp.Zo. - Member of Supervisory Council

Tekfenbank - Member of the Board

Eurobank EFG stedionica a.d. Beograd – Member of the Board

EFG Eurobank Ergasias SA – General Manager

5. The Contracts under Article 240b of the Commerce Act, entered into in 2007

The Bank has not entered into contracts in the sense of Article 240b, paragraph 1 of the Commerce Act during 2007.

Group structure

Bulgarian Post Bank does not have any subsidiaries as at 31 December 2007 and therefore no consolidated financial statements are prepared at this entity level.

Financial instruments and financial risks

By their nature the Bank's activities are principally related to the use of financial instruments including derivatives. The Bank accepts deposits from customers, at both fixed and floating rates, and for various periods and seeks to earn above average interest margins by investing these funds in high quality assets. The Bank seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due.

The Bank also seeks to raise its interest margins by obtaining above average margins, net of provisions, through lending to commercial and retail borrowers within a range of credit standing. Such exposures include both on-balance sheet loans and advances and off-balance sheet guarantees and other commitments such as letters of credit.

The Bank also trades in financial instruments where it takes positions in traded and over the counter instruments including derivatives, to take advantage of short-term market movements in the equity and bond markets and in currency and interest rates. The management places trading limits on the level of exposure that can be taken in relation to overnight and intra-day market positions as well as limits in longer durations.

The most important types of risk are credit risk, liquidity risk, market risk and other operational risk. Market risk includes currency risk, interest rate and other price risk.

The credit risk is the risk that a counterparty will be unable to pay amounts in full when due.

Credit exposures arise principally in loans and advances, debt securities and other bills. There is also credit risk in off-balance sheet financial arrangements such as loan commitments. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and the geographical and industry segments. Such risks are monitored regularly.

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices.

The factors that generate market risk are the interest rate risk, foreign exchange risk and the equity price risk.

The interest rate risk is the risk of potential loss from adverse changes in interest rates. These include repricing risk, yield curve risk, basis risk, spread risk, volatility risk.

The foreign exchange risk is the risk of potential loss from adverse changes in foreign currency exchange rates, against the base currency. It includes outright risk, volatility risk and conversion risk.

The equity price risk is the risk of potential loss from adverse changes in equity prices. It includes outright risk, volatility risk and other risks, spread risk, dividend risk.

OBJECTIVES FOR 2008

The Bank's strategic priorities for 2008 are to:

- establish the bank's position as a major player on the Bulgarian financial market
- expand and diversify existing and establish new revenue generators
- expand customer access to the bank's products and services
- enhance sales while ensuring measurable superior service quality

In 2008 Eurobank EFG Bulgaria will continue to offer more and wider spectrum of financial products, corresponding to the needs of the clients. Simultaneously the aim of the Bank is to find a balance between the regulatory restrictions and the increasing searching of the bank services. The strategy of the bank to develop a wide range of bank services, the effective management of the operating expenses, the reasonable management of the risks and the strong capitalization, will allow the continuing growth of the assets and the gain of the Bank.

Eurobank EFG Bulgaria will develop a segmental approach related to its clients and products. The Bank will increase and improve the distribution through the increase of the network of real estate agencies, financial consultants and insurance brokers. Following its priorities Eurobank EFG Bulgaria will continue to increase its POS network all over the country and credit cards services.

MANAGEMENT RESPONSIBILITIES

The Directors are required by Bulgarian law to prepare financial statements each financial year that give a true and fair view of the financial position of the company/the group as at the year end and its financial results. The management has prepared the enclosed financial statements in accordance with IFRS.

The Directors confirm that suitable accounting policies have been used.

The Directors also confirm that applicable legislation applicable for banks in Bulgaria have been followed and that the financial statements have been prepared on a going concern basis.

The Directors are responsible for keeping proper accounting records, for safeguarding the assets and for taking reasonable steps for the prevention and detection of potential fraud and other irregularities.

Anthony C. Hassiotis
Chief Executive Officer and
Member of the Board of Directors

Petia Dimitrova
Executive Director,
Member of the Board of Directors and
Chief Financial Officer

31 March 2008

(All amounts are shown in BGN thousands unless otherwise stated)

Income statement

	Notes	Year ended 31 December	
		2007	2006
Interest income and similar income	1	324,294	174,143
Interest expense and similar charges	1	(124,559)	(57,442)
Net interest income		**199,735**	**116,701**
Fee and commission income	2	46,909	28,549
Fee and commission expense	2	(17,211)	(14,697)
Net fee and commission income		**29,698**	**13,852**
Dividend income		207	125
Net trading income	3	11,081	3,989
Gains less losses from trading securities	10	(1,089)	1,583
Gains less losses from investment securities	12	11,358	2,890
Other operating income		2,956	491
Other operating expenses	4	(149,721)	(74,757)
Deposit Insurance Fund expense		(12,714)	(4,271)
Impairment charge for credit losses	6	(7,652)	(16,457)
Profit before income tax		**83,859**	**44,146**
Income tax expense	7	(6,629)	(5,450)
Profit for the year		**77,230**	**38,696**

Anthony C. Hassiotis
Chief Executive Officer and
Member of the Board of Directors

Petia Dimitrova
Executive Director,
Member of the Board of Directors and
Chief Financial Officer

Initialed for identification purposes in reference to the audit report

София
Рег. №085

Rositza Boteva
Registered Auditor
31 March 2008

(All amounts are shown in BGN thousands unless otherwise stated)

Balance sheet

	Notes	As at 31 December	
		2007	**2006 combined**
Assets			
Cash and balances with the Central Bank	8	510,256	322,247
Loans and advances to banks	9	626,705	919,621
Trading assets	10	53,975	227,859
Loans and advances to customers	11	2,748,553	2,033,201
Investment securities, available-for-sale	12	353,735	252,903
Derivative financial instruments	17	6,561	1,741
Other assets	13	13,269	12,564
Investment property	14	876	876
Property and equipment	15	101,840	84,219
Total assets		**4,415,770**	**3,855,231**
Liabilities			
Deposits from banks	16	314,079	153,090
Derivative financial instruments	17	1,451	1,817
Due to customers	18	3,335,028	3,139,814
Debt issued and other borrowed funds	19	250,642	145,064
Current income tax liabilities		155	4,299
Deferred income tax liabilities	20	3,937	2,046
Retirement Benefit Obligations	23	2,226	250
Provisions for other liabilities and charges	21	5,385	471
Other liabilities	22	61,357	33,642
Total liabilities		**3,974,260**	**3,480,493**
Shareholders' equity			
Share capital	24	246,178	246,178
Other reserves		195,332	128,560
Total shareholders' equity		**441,510**	**374,738**
Total shareholders' equity and liabilities		**4,415,770**	**3,855,231**

Anthony C. Hassiotis
Chief Executive Officer and
Member of the Board of Directors

Petia Dimitrova
Executive Director,
Member of the Board of Directors and
Chief Financial Officer

Initialed for identification purposes in reference to the audit report

София
Рег. №085

Rositza Boteva
Registered Auditor
31 March 2008

(All amounts are shown in BGN thousands unless otherwise stated)

Statement of changes in shareholders' equity

	Share capital	Property and equipment revaluation reserve	Available-for-sale investments revaluation reserve	Retained earnings and other reserves	Total
Balance at 1 January 2006	**109,925**	**6,135**	**2,501**	**66,643**	**185,204**
Available-for-sale investments - net fair value gains, net of tax	-	-	1,585	-	1,585
Transfer to net profit or loss arising on investment securities available for sale, net of tax	-	-	(3,306)	-	(3,306)
Net profit	-	-	-	38,696	38,696
Deferred tax on property revaluation		98	-	-	98
Transfer of depreciation on revalued property	-	(5)	-	5	-
Total recognized income in 2006		**93**	**(1,721)**	**38,701**	**37,073**
Share issue of Bulgarian Post Bank	97,791	-	-	-	97,791
Equity of DZI Bank AD	50,000	134	11,230	(6,694)	54,670
Special Reserve, arising on merger	(11,538)	-	-	11,538	-
Balance at 31 December 2006/ 1 January 2007 combined	**246,178**	**6,362**	**12,010**	**110,188**	**374,738**
Available-for-sale investments - net fair value gains, net of tax	-	-	1,137	-	1,137
Transfer to net profit or loss arising on investment securities available for sale	-	-	(11,581)	-	(11,581)
Net profit	-	-	-	77,230	77,230
Deferred tax on property revaluation	-	(14)	-	-	(14)
Total recognized income in 2007	**-**	**(14)**	**(10,444)**	**77,230**	**66,772**
Balance at 31 December 2007	**246,178**	**6,348**	**1,566**	**187,418**	**441,510**

Anthony C. Hassiotis
Chief Executive Officer and
Member of the Board of Directors

Petia Dimitrova
Executive Director,
Member of the Board of Directors and
Chief Financial Officer

Initialed for identification purposes in reference to the audit report

Rositza Boteva
Registered Auditor
31 March 2008

София
Рег. №035

(All amounts are shown in BGN thousands unless otherwise stated)

Cash flow statement

	Year ended 31 December	
	2007	2006 combined
Cash used in operating activities		
Interest received	313,389	222,587
Interest paid	(102,154)	(71,066)
Dividends received	207	198
Fees and commission received	54,745	50,633
Fees and commission paid	(17,211)	(17,599)
Amounts paid to and on behalf of employees	(51,885)	(41,025)
Net trading and other income received	3,052	20,704
Other expenses paid	(63,216)	(65,648)
Tax paid	(4,504)	(1,773)
Cash from operating activities before changes in operating assets and liabilities	**132,423**	**97,011**
Changes in operating assets and liabilities		
Net (increase) in reserve with the Central Bank	(22,363)	(194,163)
Net (increase) / decrease in trading securities	172,478	(76,395)
Net decrease in loans and advances to banks	2,252	3,629
Net increase in loans and advances to customers	(710,789)	(455,774)
Net (increase)/decrease in other assets	(705)	2,521
Net (increase)/decrease in derivatives	(5,186)	139
Net increase in due to other banks	157,803	(42,508)
Net increase in amounts due to customers	191,564	1,309,079
Net increase in other liabilities	16,448	(20,626)
Net cash used in/(from) operating activities	**(66,075)**	**622,913**
Cash used in investing activities		
Purchase of property and equipment (Note 15)	(35,009)	(32,374)
Purchase of investment securities	(151,165)	(182,607)
Proceeds on disposal of property and equipment	159	94
Proceeds on disposal of investment securities	71,632	120,683
Net cash used in investing activities	**(114,383)**	**(94,204)**

(All amounts are shown in BGN thousands unless otherwise stated)

Cash flow statement (continued)

	Year ended 31 December	
	2007	**2006 combined**
Cash flows (used in) from financing activities		
Proceeds from issued debt securities	40,000	33,750
Repayments from issued debt securities	-	(19,869)
Long-term financing received	4,503	(231,361)
Increase in long term debt	58,675	413
Shares issued	-	97,791
Net cash from financing activities	**103,178**	**(119,276)**
Effect of exchange rate changes on cash and cash equivalents	316	354
Net change in cash and cash equivalents	**(76,964)**	**409,787**
Cash and cash equivalents at beginning of year	1,010,435	600,648
Cash and cash equivalents at end of year (Note 25)	**933,471**	**1,010,435**

Anthony C. Hassiotis
Chief Executive Officer and
Member of the Board of Directors

Petia Dimitrova
Executive Director ,
Member of the Board of Directors and
Chief Financial Officer

Initialed for identification purposes in reference to the audit report

София
Рег. №035

Rositza Boteva
Registered Auditor
31 March 2008

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements

General information

Eurobank EFG Bulgaria AD (the 'Bank') is established from the merger of Bulgarian Post Bank AD and DZI Bank AD. The merger was officially approved on 1 November 2007.

At the end of 2006 Eurobank EFG Holding (Luxembourg) S.A., a company belonging to the Group of EFG Eurobank Ergasias S.A. acquired 91.20% of DZI Bank's shares. Following this acquisition, Eurobank EFG Group, which was already exercising full control over Bulgarian Post Bank AD, acquired also control over DZI Bank AD. As DZI Bank has been acquired on 14 December 2006, the management of Eurobank EFG Bulgaria AD decided to present the following comparative information in the 2007 financial statements of the Bank: income statement for 2006 to be the income statement of Bulgarian Post Bank AD, while in the balance sheet for 2006 of the Bank to be the combined figures of Bulgarian Post Bank AD and DZI Bank AD.

On 12 March 2007 in pursuance of Eurobank EFG Group's goal for achievement of internal optimization of its subsidiaries, both banks started a procedure under Art. 262 of the Commerce Act for their transformation by way of merger of DZI Bank into Postbank. On 1 November 2007 as a result of the merger, DZI Bank was terminated without liquidation and Postbank became its universal successor. The merger procedure was run under the requirements of the Bulgarian legislation, following the herein below specified basic steps:

1. On 18 April 2007 DZI Bank was delisted from Bulgarian Stock Exchange.

2. On 16 May 2007 the Board of Directors of Postbank and the Management Board and Supervisory Board of DZI Bank approved:

-Joint report regarding motivated justification of the reasons, form and procedure for the transformation through merger of DZI bank into Postbank;

-Draft Transformation Agreement, which defines March 30th 2007 as the accounting merger date;

-Net assets values of the banks;

-Exchange ratio for the exchange of the shares of the shareholders of DZI Bank;

-Convocation of General Meetings of both banks to resolve on the merger;

3. On 17 May 2007 - the Transformation Agreement was signed.

4. On 13 June 2007 Ernst & Young Audit OOD issued Examination Report on the Transformation Agreement and the compliance with the legal requirements for execution of the merger and the merger related capital increase of Postbank.

5. On 17 July 2007 and 19 July 2007 the General Meetings of both banks approved:

-The merger of DZI Bank into Postbank under the terms and conditions of the Transformation Agreement signed by and between both banks;

-The Joint report regarding motivated justification of the reasons, form and procedure for the transformation through merger of DZI Bank into Postbank;

-The Examination Report on the Transformation Agreement and the compliance with the legal requirements for execution of the merger and the merger related capital increase of Postbank;

-The net assets values of the banks and the Exchange ratio for the exchange of the shares of the shareholders of DZI Bank;

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

General information (continued)

-The merger related capital increase of the acquiring Bank (Postbank), so that to ensure that after the merger all shareholders of DZI Bank have in Postbank participation equal in value to the one they had in DZI Bank;

-The capital increase of Postbank;

-The post merger composition of the Board of Directors of Postbank;

-The Statute of Postbank amended in relation to the merger;

-The change of the business name of the acquiring bank (Postbank) to Eurobank EFG Bulgaria A.D.

5. On 31 October 2007 Bulgarian National Bank issued Order № RD 22-2320/31.10.2007 and Order № RD22-2321/31.10.2007; therewith the merger and the change of the name of the acquiring bank (Postbank) were permitted.

6. On 01 November, 2007 Sofia City Court issued Court Ruling № 61 under the company file of Postbank regarding the merger of DZI Bank into Postbank, the changes in the composition of the Board of Directors and the change of the business name into Eurobank EFG Bulgaria AD. The merger was thereby finalized and became effective. DZI Bank ceased to exist, Postbank became its universal successor and continued to exist under the name Eurobank EFG Bulgaria AD.

Eurobank EFG Bulgaria AD (the Bank) provides retail, corporate banking and investment banking services in Bulgaria. Its Head Office is located in Sofia and it has 272 network locations (2006: 148) and 2,048 customer service desks in post offices throughout the country (2006: 2,048). The address of its registered office is as follows: 14, Tsar Osvoboditel Blvd, 1048 Sofia, Bulgaria. The Bank employs 2,649 people (2006: 1,586).

Accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below.

A. Basis of presentation

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and International Financial Reporting Standards issued by the IASB and in particular with those IFRS standards and IFRIC interpretations issued and effective or issued and early adopted as at the time of preparing these statements.

(a) Amended and new standards and interpretations effective 1 January 2007

The application of the amended and new standards and interpretations listed below did not result in substantial changes to the Bank's accounting policies:

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

A. **Basis of presentation (continued)**

- IFRS 7, Financial Instruments: Disclosures;
- IAS 1, Amendment - Capital Disclosures;
- IFRS 4, Revised Guidance on Implementing IFRS 4, Insurance Contracts;
- IFRIC 8, Scope of IFRS 2;
- IFRIC 9, Reassessment of Embedded Derivatives;
- IFRIC 10, Interim Financial Reporting and Impairment.

(b) Standards and Interpretations issued but not yet effective

The following standards and interpretations that were issued but not yet effective for accounting periods beginning on 1 January 2007 have not been early adopted:

- IAS 1, Presentation of Financial Statements (effective 1 January 2009);
- IAS 23, Borrowing costs (effective 1 January 2009);
- IFRS 8, Operating Segments (effective 1 January 2009);
- IFRIC 11, IFRS 2 Group and Treasury Shares Transactions (effective for annual periods beginning on or after 1 March 2007);
- IFRIC 13, Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008);
- IFRIC 14, IAS 19 -The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective 1 January 2008).

The application of the above mentioned standards and interpretations is not expected to have a material impact on the Bank's financial statements in the period of the initial application. IAS 1 affects the presentation of owner changes in equity and of comprehensive income. It does not change the recognition, measurement or disclosure of specific transactions and other events required by other IFRSs.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and building, investment property, available-for-sale investment securities, financial assets and financial liabilities held at fair value through profit or loss, and all derivative contracts.

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

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

B. Merger

a) Presentation of the Merger

As disclosed in Note 1, Postbank and DZI Bank were merged as at 01 November 2007..The merger was accounted under the pooling-of-interests method. The Bank considers the date when both entities came under common control to be 31 December 2006. Thus, the comparative income statement for 2006 is the income statement of Bulgarian Post Bank AD, while in the comparative balance sheet for 2006 of the Bank would represent combined figures of Bulgarian Post Bank AD and DZI Bank AD. Under the pooling-of-interests method the carrying amount of assets and liabilities recognized in the balance sheet of each combining entity are carried forward to the balance sheet of the combined entity. No other assets or liabilities are recognized as a result of the combination and thus the excess of the purchase price over the book value of the net assets acquired (the purchase premium) is not recognized. The exchange ratio for the exchange of the shares of the DZI Bank AD shareholders was 1 share of DZI Bank AD for 0.76923 shares from the capital increase of Bulgarian Post Bank AD. The difference of BGN 11,538 thousands, between the nominal value of the new shares issued by the merged entity of BGN 38,461 thousands (38,461,487 ordinary, voting, registered, non-physical shares of a par value of BGN 1 (one) each) and the nominal value of DZI Bank's shares received in exchange BGN 50,000 thousands (50,000,000 ordinary, voting shares of a par value of BGN 1 (one) each), is presented as a movement in other reserves as a special reserve of differences arising on merger in Statement of changes in shareholders' equity. Before April 2007 all shares of DZI bank were listed on the Bulgarian Stock Exchange. Information on number shares that were issued in the merger process is disclosed in the Note 24.

b) Results of the operations of the previously separate banks for the period before the Merger

Details of the results of operations of the previously separate banks for the period before the merger that are included in the current combined net income are presented in the following table:

	For the period 01.01.2007 – 31.10.2007			
	Postbank	**DZI Bank**	**Inter-company balances**	**Combined**
Interest income and similar income	220,027	50,867	(13,213)	257,681
Interest expense and similar charges	(73,191)	(27,948)	13,213	(87,926)
Net interest income	**146,836**	**22,919**	**-**	**169,755**
Fee and commission income	28,812	12,860	-	41,672
Fee and commission expense	(11,151)	(1,953)	-	(13,104)
Net fee and commission income	**17,661**	**10,907**	**-**	**28,568**
Dividend income	37	170	-	207
Net trading income	7,040	376	-	7,416
Gains less losses from trading securities	663	(281)	-	382
Gains less losses from investment securities	1,347	12,209	-	13,556
Other operating income	56	(16)	-	40
Operating income	**173,640**	**46,284**	**-**	**219,924**
Other operating expenses	(89,549)	(31,230)	-	(120,779)
Deposit Insurance Fund expense	(7,057)	(3,538)	-	(10,595)
Impairment charge for credit losses	(11,896)	412	-	(11, 484)
Profit before income tax	**65,138**	**11,928**	**-**	**77,066**
Income tax expense	(6,738)	168	-	(6,570)
Profit for the year	**58,400**	**12,096**		**70,496**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

B. Merger (continued)

Details of the financial positions of the previously separate banks as at the end of the last period before the merger are presented in the following table:

Balance sheet as at 31 October 2007

	Postbank	DZI Bank	Inter-company balances	Combined
Assets				
Cash and balances with the Central Bank	363,494	156,083	-	519,577
Loans and advances to banks	543,189	457,848	(450,327)	550,710
Trading assets	82,470	-	-	82,470
Loans and advances to customers	2,222,146	398,374	-	2,620,520
Investment securities, available-for-sale	312,003	5,762	-	317,765
Derivative financial instruments	4,938	-	-	4,938
Investments in subsidiaries		-	-	
Other assets	19,300	20,610	-	39,910
Investment property		876	-	876
Property and equipment	70,526	19,997	-	90,523
Total assets	**3,618,066**	**1,059,550**	**(450,327)**	**4,227,289**
Liabilities				
Deposits from banks	722,526	2,814	(450,327)	275,013
Derivative financial instruments	5,829	1	-	5,830
Due to customers	2,239,370	953,670	-	3,193,040
Debt issued and other borrowed funds	212,435	37,287	-	249,722
Current income tax liabilities	2,683	-	-	2,683
Deferred income tax liabilities	2,848	-	-	2,848
Retirement Benefit Obligations	1,857	369		2,226
Other liabilities	50,491	11,469	-	61,960
Total liabilities	**3,238,039**	**1,005,610**	**(450,327)**	**3,793,322**
Shareholders' equity				
Share capital	207,716	50,000	-	257,716
Other reserves	172,311	3,940	-	176,251
Total shareholders' equity	**380,027**	**53,940**	**-**	**433,967**
Total shareholders' equity and liabilities	**3,618,066**	**1,059,550**	**(450,327)**	**4,227,289**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

B. Merger (continued)

c) Changes in equity before the Merger
Changes in equity of the Postbank and DZI Bank in the period before the merger are presented in the following table:

	Postbank	DZI Bank	Total Equity Combined
Balance at 1 January 2007	**320,068**	**50,000**	**370,068**
Changes in fair value of available for sale securities	1,559	(8,156)	(6,597)
Current period result	58,400	12,096	70,496
Balance at 31 October 2007	**380,027**	**53,940**	**433,967**

d) Results of the operations and financial position of the previously separate banks for the year ended 2006
Income statement and Balance sheet of Postbank and DZI Bank for the year ended 2006 are presented in the tables below:

Income Statement as at 31 December 2006

	Postbank	DZI Bank	Inter-company balances	Combined
Interest income and similar income	169,069	66,289	(18)	235,340
Interest expense and similar charges	(52,368)	(29,142)	18	(81,492)
Net interest income	**116,701**	**37,147**	-	**153,848**
Fee and commission income	28,549	16,478	-	45,027
Fee and commission expense	(14,697)	(3,579)	-	(18,276)
Net fee and commission income	**13,852**	**12,899**	-	**26,751**
Dividend income	125	73	-	198
Net trading income	3,989	1,744	-	5,733
Gains less losses from trading securities	1,583	(2,857)	-	(1,274)
Gains less losses from investment securities	2,890	(1,157)	-	1,733
Other operating income	491	(3,791)	-	(3,300)
Operating income	**139,631**	**44,058**	-	**183,689**
Other operating expenses	(74,556)	(37,806)	-	(112,362)
Deposit Insurance Fund expense	(4,271)	(3,828)	-	(8,099)
Impairment charge for credit losses	(16,658)	(19,582)	-	(36,240)
Profit before income tax	**44,146**	**(17,158)**	-	**26,988**
Income tax expense	(5,450)	-	-	(5,450)
Profit for the year	**38,696**	**(17,158)**	-	**21,538**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

B. Merger (continued)

d) Results of the operations of the previously separate banks for the year ended 2006 (continued)

Balance sheet as at 31 December 2006

	Postbank	DZI bank	Inter-company balances	Combined
Assets				
Cash and balances with the Central Bank	211,938	110,309	-	322,247
Loans and advances to banks	716,218	255,709	(52,306)	919,621
Trading assets	121,877	105,982	-	227,859
Loans and advances to customers	1,586,610	446,591	-	2,033,201
Investment securities, available-for-sale	162,428	90,475	-	252,903
Derivative financial instruments	1,741	-	-	1,741
Other assets	6,634	5,930	-	12,564
Investment property		876	-	876
Property and equipment	69,632	14,587	-	84,219
Total assets	**2,877,078**	**1,030,459**	**(52,306)**	**3,855,231**
Liabilities				
Deposits from banks	202,587	2,809	(52,306)	153,090
Derivative financial instruments	1,817	-	-	1,817
Due to customers	2,214,151	925,663	-	3,139,814
Debt issued and other borrowed funds	108,227	36,837	-	145,064
Current income tax liabilities	4,299	-	-	4,299
Deferred income tax liabilities	2,046	-	-	2,046
Retirement Benefit Obligations	-	250	-	250
Other liabilities	23,883	10,230	-	34,113
Total liabilities	**2,557,010**	**975,789**	**(52,306)**	**3,480,493**
Shareholders' equity				
Share capital	207,716	38,462	-	246,178
Other reserves	112,352	16,208	-	128,560
Total shareholders' equity	**320,068**	**54,670**	**-**	**374,738**
Total shareholders' equity and liabilities	**2,877,078**	**1,030,459**	**(52,306)**	**3,855,231**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

C. Foreign currencies transactions

Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Bank operates ('the functional currency'). The financial statements are presented in the national currency of Bulgaria, the Leva (BGN), which is the Company's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the Central Bank's exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement. Such balances are translated at the Central bank's year-end exchange rates.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount are recognised in equity.

At 31 December 2007, monetary assets and liabilities are translated at the reference Central Bank exchange rate – BGN 1 for EUR 0.5113 (2006: BGN 1 for EUR 0.5113) and BGN 1 for USD 0.75119 (2006: BGN 1 for USD 0. 67337).

D. Interest income and expense

Interest income and expense are recognized in the income statement for all interest bearing instruments on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period using effective interest rate. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount. When appropriate the Bank uses a shorter amortisation period. This is the period to the next repricing date when the market rates are changed before the expected maturity of the instrument. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument, but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest income includes coupons earned on fixed income investment and trading securities.
When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognized based on the interest rate that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

E. Fees and commissions income and expense

Fees and commissions, except for those, which form part of the effective interest rate of the instrument, are generally recognized on an accrual basis when the service has been provided.

Loan commitment fees that are likely to be drawn down are deferred and recognized as an adjustment to the effective interest rate on loans. Credit card fees are recognised in commission income.

F. Financial assets

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

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

This category includes financial assets held for trading.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading.

Financial assets held for trading are initially recognized at fair value plus transaction costs and subsequently re-measured at fair value based on current bid prices at the reporting date. All related realized and unrealized gains and losses are included in net trading income in the period in which they arise. Interest earned whilst holding financial assets held for trading is reported as interest income.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the entity intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss; (b) those that the entity upon initial recognition designates as available for sale; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

F. Financial assets (continued)

(c) Held-to-maturity

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

Held-to-maturity investments are carried at amortised cost using the effective interest method, less any provision for impairment. Interest earned whilst holding investment securities is reported as interest income. The Bank assesses its intention and ability to hold its held-to-maturity investments to maturity not only when those financial assets are initially recognized, but also at each subsequent balance sheet date. As at 31 December 2007 the Bank has not recognised held to maturity investments.

(d) 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.

Available-for-sale investments are initially recognized at fair value plus transaction costs and are subsequently re-measured at fair value based on current bid prices or amounts derived from cash flow models. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognized directly in equity. When an available-for-sale financial asset is derecognized or impaired, the cumulative gain or loss previously recognized in equity is recognized in profit or loss. Interest calculated using the effective interest method is recognized in the income statement. Dividends on available-for-sale equity instruments are recognized in the income statement when the Bank's right to receive payment is established.

Purchases and sales of financial assets at fair value through profit or loss, held to maturity and available for sale are recognized at settlement date – which is the date the Bank actually trades the relevant assets.

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

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expires.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

G. Sale and repurchase agreements

Securities sold subject to repurchase agreement ('repos') are retained in the financial statements as trading securities and are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in amounts due to other banks, or deposits due to customers, as appropriate.

Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective interest method.

Securities lent to counterparties are also retained in the financial statements. Securities borrowed are not recognized in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income. The obligation to return them is recorded at fair value as a trading liability.

H. Derivative financial instruments and hedge accounting

Derivatives are financial instruments :

(a) whose value is changed in response to the change in specified interest rate, financial instrument price, foreign exchange rate , index of prices and rates, credit rates or credit index or other variable;

(b) that requires no initial net investment or an initial net investment is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors;

(c) that is settled at a future date.

Derivative financial instruments including currency swaps, interest rate swaps, currency forwards, options and futures are initially recognized in the balance sheet at cost (including transaction costs) and subsequently are re-measured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models and pricing models as appropriate. The positive fair value of the derivatives is carried as asset and the negative fair value is carried as liability. The changes in the fair value of derivatives are included in the income statement.

The Bank has not entered into transactions where the fair value was different from the transaction price. The best evidence of fair value at initial recognition is the transaction price (i.e., the fair value of the consideration given or received), unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

Fair value hedge:

Hedge accounting is used for derivatives designated as hedges of the fair value of recognized assets (fair value hedges) provided certain criteria are met.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

H. Derivative financial instruments and hedge accounting (continued)

The Bank documents, at the inception of the transaction, the relationship between hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking various hedge transactions. The Bank also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. Effective changes in fair value of interest rate swaps and related hedged items are reflected in 'net trading income'. Interest expense and interest income from hedging derivatives and hedged assets are recognised within 'interest income' and 'interest expense' in the income statement.. Any ineffectiveness is recorded in 'net trading income'.

If hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity. The adjustment to the carrying amount of a hedged equity security remains in retained earnings until the disposal of the equity security.

I. Impairment of financial assets

(a) Assets carried at amortized cost

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of assets is impaired includes observable data about the following loss events:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (for example, equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral and
- Downgrading below investment grade level.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

I. Impairment of financial assets (continued)

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Bank and historical loss experience for assets with credit risk characteristics similar to those in the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Bank and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement in impairment charge for credit losses.

The loan loss identification period is between three and twelve months.

(b) Assets classified as available for sale

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the financial asset below its cost is considered in determining whether the assets are impaired.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

I. Impairment of financial assets (continued)

(b) Assets classified as available for sale (continued)

If any such evidence exists for available for-sale-financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments, classified as available-for-sale, are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the income statement.

(c) Renegotiated loans
Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years, the asset is considered to be past due and disclosed only if there is non-compliance with the renegotiated conditions

J. Property and equipment

The Bank recognizes the cost of an item of property, plant and equipment as an asset if it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The cost of the property, plant and equipment comprises purchase price, including import duties and non-refundable purchase taxes and any cost directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The cost is the cash price equivalent at the recognition date. The fair value of land and buildings is determined from market-based evidence by appraisal that is undertaken by professionally qualified valuers.

After initial recognition the bank measures the land and building at fair value.The last revaluation of land and buildings has been performed by a qualified independent valuer at the end of 2003. The main valuation methods used to determine the fair value were:
-market prices analogs (where assets are compared to those similar of nature offered on the market)
-present value of future income for rent generating assets (DCF)
-method of reduced cost (taking into account the price that the asset would cost at present if acquired or built and reduced on the basis of economic and physical depreciation factors).

The accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset. The fair value of plant and equipment is their market value determined by appraisal. The Bank recognizes the increase as a result of revaluation of property, plant and equipment in equity as revaluation surplus. The Bank recognizes the increase as a result of revaluation of property, plant and equipment in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit or loss. The Bank recognizes the decrease as a result of revaluation of property, plant and equipment in profit or loss. The Bank recognizes the decrease directly in equity to the extent of revaluation surplus previously accrued in respect of that asset. The fair value of Bank's land and buildings does not differ from their carrying amount, because there were no significant changes in the prices of land and buildings, in the areas where the property is situated, during the period from the last revaluation till 31 December 2007.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

J. Property and equipment (continued)

The Bank includes the subsequent costs in the asset's carrying amount or recognizes as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs, maintenance and renewals are charged to the income statement during the financial period in which they are incurred.
The carrying amount of an item of property and equipment is derecognized:
(a) on disposal
(b) when no future economic benefits are expected from its use or disposal.

The gain or loss from the derecognition of an item of property, plant and equipment is included in profit or loss when the item is derecognized. The Bank does not classify the gains as revenue. The gain or loss from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds and the carrying amount of the asset.Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

- Buildings	- 25 years
- Leasehold improvements	- the life of the lease, or useful life if shorter
- Computer hardware and software	- 4-10 years
- Other furniture and equipment	- 4-20 years
- Motor vehicles	- 5 years.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

K. Intangible assets

Costs that are directly associated with identifiable non-monetary asset without physical substance controlled by the Bank and which will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Expenditure which enhances or extends the performance of intangible assets beyond their original specifications is recognized as a capital improvement and added to the original costs of the asset.

Costs associated with maintaining intangible assets are recognized as an expense as incurred.

Intangible assets are amortized using the straight-line method over their useful lives.
Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An intangible asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

L. Borrowings, including debt securities in issue

Borrowings are recognized initially at fair value, 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 interest method.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

M. Investment property

Investment property is defined as property (land or a building – or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for: (a) use in the production of supply of goods or services or for administrative purposes; or (b) sale in the ordinary course of business.
Investment property is held for long-term rental yields and is not occupied by the bank. Investment property is carried at fair value, representing open market value determined annually by external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the bank uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Changes in fair values are recorded in the income statement as part of other income.
The last revaluation of investment property has been performed by a qualified independent valuer at the end of 2006. In 2007 EFG Properties Bulgaria has made an assessment of the investment property. Based on the assessment the fair value of Bank's investment properties does not differ from their carrying amount, because there were no significant changes in the prices of investment properties in the areas where they are situated.

N. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days to maturity from the date of acquisition including: cash and non-restricted balances with central banks, amounts due from other banks and short-term government securities. Investments are treated or qualify as cash equivalents only when they have a short maturity of 90 days or less from the date of acquisition.

O. Operating leases

Payments made under operating leases are charged against income in equal instalments over the period of the lease.

P. Current tax and deferred income tax

Taxation has been provided for in the financial statements in accordance with Bulgarian legislation currently in force. The charge for taxation in the income statement for the year comprises current tax and changes in deferred tax. Current tax is calculated on the basis of the taxable profit for the year, using the tax rates enacted at the balance sheet date. Income tax payable on profits, based on the applicable tax law is recognized as an expense in the period in which profits arise. Taxes other than on income are recorded within operating expenses.
Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. The principal temporary differences arise from depreciation of property, plant and equipment, revaluation reserve of financial instruments, provisions for court cases, the difference on balance sheet provision expenses according to the local and IFRS requirements and provisions for untaken annual leaves.
Deferred tax assets are recognized where it is probable that future taxable profit will be available against which the temporary differences can be utilized.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

Q. Employee benefits

(a) Social, pension and health funds

The Bank is obliged by the current Bulgarian legislation to make fixed contribution on behalf of the employees to a social fund operated by the Government. All those payments/liabilities are recognized as an expense in the period to which those relate.

(b) Pension obligations

In accordance with article 222, Para. 3 of the Bulgarian Labour Code, in the event of termination of a labour contract after the employee has reached the lawfully required retirement age, regardless of the reason for the termination, the employee is entitled to compensation as follows: 2 gross monthly salaries in all cases and 6 gross monthly salaries if the employee has been engaged with the Bank for at least 10 years.

At the end of every reporting period the Bank estimates and recognizes the provision for its pension obligations. In calculating the provision the Bank estimates the present value of its future pension obligations considering future salary increases and the probability of the employees retiring while employed in the Bank.

R. Provisions

Provisions for restructuring costs and legal claims are recognised when: the bank has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination of rent and other contracts, consultancy and audit fees, employees' payments. Provisions are not recognised for future operating losses.
Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.
Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

S. Dividends

Dividends are recognised as a liability when authorized by the General Assembly of the Shareholders. Subsequently they are deducted from equity when distributed.
Dividends will not be declared according to the long-term strategy of the Bank.

T. Offsetting

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

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

U. Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the bank's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the income statement the fee income earned on a straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of Management.

Any increase in the liability relating to guarantees is taken to the income statement under other operating expenses.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

V. Comparatives

The Bank has reclassified certain of the 2006 comparative figures in the income statement due to:

a) Expenses for loans granting and insurance, previously reported under "Fee and commission expense", are reclassified in "Interest income".

b) Interest income and expense from derivative deals previously netted off in line "Interest income" is presented separately in lines "Interest income" and "Interest expense".

c) Interest income and expense from hedged instruments previously netted off in line "Interest income" is presented separately in lines "Interest income" and "Interest expense".

d) Expenses for customers' transactions through Bisera, Borika, Swift are reclassified from "Operating expenses" to "Fee and commission expense".

e) Provision expenses related to court cases previously reported under "Impairment charge for credit losses", are reclassified in "Other operating expenses"

The reclassifications were as follows:

	31 Dec 2006 (previously reported)	**Reclassifications**					**31 Dec 2006 (reclassified)**
		a)	**b)**	**c)**	**d)**	**e)**	
Interest income	170,726	(1,657)	5,031	43	-	-	174,143
Interest expense	(52,368)	-	(5,031)	(43)	-	-	(57,442)
Commission expense	(14,894)	1,657	-	-	(1,460)	-	(14,697)
Other operating expenses	(76,016)			-	1,460	(201)	(74,757)
Impairment charge for credit losses	(16,658)	-	-	-	-	201	(16,457)
Total		-	-	-	-	-	-

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

V. Comparatives (continued)

The Bank has reclassified certain of the 2006 comparative figures in the Balance sheet due to:

a) Recivables under repurchase agreement from DZI bank' report for 2006 are included in "Loans and advances to banks"

b) Unamortized part of Credit cards' joining fees are reclassified from Other liabilities to "Loans and advances to customers"

c) Assets for resale, previously reported in "Property and equipment" are reclassified to "Other assets"

d) Retirement Benefit Obligations previously reported in DZI bank in "Other liabilities" are reclassified in line "Retirement Benefit Obligations"

e) Interest receivables and payables related to derivative financial instruments are reclassified from "Other assets" and "Deposits from banks" to Derivative financial instruments

f) Provisions for other liabilities and charges, previously reported in "Other liabilities" are presented on a separate line "Provision for other liabilities and charges"

g) Inter-company balances between Postbank and DZI bank are eliminated

The reclassifications were as follows:

	31 Dec 2006 (previously reported)	a)	b)	c)	d)	e)	f)	g)	31 Dec 2006 (reclass.)
Loans and advances to banks	968,400	3,527	-	-	-	-	-	(52,306)	919,621
Loans and advances to customers	2,034,086	-	(885)	-	-	-	-	-	2,033,201
Recivables under repurchase agreement	3,527	(3,527)	-	-	-	-	-	-	0
Derivative financial instruments	1,623	-	-	-	-	118	-	-	1,741
Other assets	12,291	-	-	391		(118)	-	-	12,564
Property and equipment	84,610	-	-	(391)	-	-	-	-	84,219
Deposits from banks	206,352	-	-	-	-	(956)	-	(52,306)	153,090
Derivative financial instruments	861	-	-	-	-	956	-	-	1,817
Retirement Benefit Obligations	-	-	-	-	250	-	-	-	250
Provisions for other liabilities and charges							471		
Other liabilities	35,248	-	(885)	-	(250)	-	(471)	-	33,642

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

W. Financial risk management

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance.

The Bank's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Risk management policy of the Bank is formulated by the Risk Committee and the Risk Manager. The practice of the Parent Company, as well as international best practice is followed through well-defined internal processes and functions, as well as independent reviews.

The risk management policy reflects the Bank's objectives. It is therefore not intended that large risk positions are maintained solely to increase short-term profitability. The objective is to achieve a leading position on the Bulgarian market and to provide customers and counterparties of the Bank with a first class service, and in the same time to increase the profit for the shareholders, through minimizing undertaken risks and effectively controlling the Bank's expansion.

The adequacy of internal control systems is evaluated by Internal Audit functions, and by the External Auditors. Risk functions are managed by the Bank's Risk Management Division. The Bank's aim is to ensure independence and compliance through different levels of audit by its Internal Auditors, the EFG Group's Internal Auditors, the EFG Group's and the Bank's External Auditors and by regulatory authorities both in Bulgaria, Greece and Switzerland.

The four general areas of risk monitoring by the Bank are credit risk, market risk, operational risk and liquidity risk. The activity of Risk Division and all risk related policies and procedures are in the process of full alignment with EFG Group risk guidelines and are controlled and guided by the Risk Unit of the Parent-company. The Risk Manager of the Bank, heading Risk Division has a direct reporting line to the Risk Executive of the Parent company and a dotted reporting line to the CEO of the Bank.

The Board of Directors of the Bank has delegated to the Risk Committee the role of approving all strategic risk management decisions. The Risk Committee is in charge of monitoring the quantitative and qualitative aspects of all credit, market, liquidity and operational risks. In addition, internal audit is responsible for the independent review of risk management and the control environment.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

1.Credit risk

The Bank takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss for the Bank by failing to discharge an obligation. Credit risk is the most important risk for the Bank's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities and other bills into the Bank's asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments.

To address credit risk the Bank has established a complex organization structure allocating responsibilities for sales, administration, approval and control of credit activities to various specialist divisions and committees. Credit operations are governed by a comprehensive set of policies and procedures to ensure that all aspects of credit risk are adequately covered.

1.1 Credit risk measurement

(a) Loans and advances

In measuring credit risk of loan and advances to customers and to banks at a counterparty level, the Bank reflects three components:

(a) the 'probability of default' by the client or counterparty on its contractual obligations;
(b) current exposures to the counterparty and its likely future development, from which the Bank derives the 'exposure at default' and
(c) the likely recovery ratio on the defaulted obligations (the 'loss given default').

The Bank manages the credit risk of loans and advances to customers and to banks through a comprehensive set of policies and procedures to ensure that all aspects of credit risk are adequately covered.

Different departments of Risk division are responsible for:

- submitting the credit risk opinions on corporate and small business loans proposals as per the Credit Approval Authorities of the Bank
- the assessment of the financial, market and business risk, the structure of the deals, as well as any risk related with inadequate deals' structuring.

Financial risk is assessed following a detailed analysis of the financial statements of the borrower / guarantor(s) on the basis of a system of creditworthiness factors.

Market risk is assessed based on the economic characteristics / prospects of the relevant market and the competitive position of the proposed borrower.

Business risk is based on an analysis of the business environment and its uncertainties.
Based on the assessment of the adequacy of the offered collateral coverage on the proposed credit deals, Risk division provides an opinion on the credit proposals of the business units to the credit decision-making bodies of the Bank - Credit Sub-Council, Credit Council and / or the Risk Committee for their final decision.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

1.1 Credit risk measurement (continued)

(a) Loans and advances (continued)

The Bank uses a credit rating system according to which wholesale borrowers are assigned to a risk category: satisfactory credit performance, potentially problematic entities, watch listed and loss making cases that are fully provided for. The criteria used to assess the credit rate include:

- Financial data for the client, the sector and the market;
- Information on the client's management;
- The clients past credit history either with the Bank or with other banks;
- Existence of detrimental information;
- Type and size of collateral offered;
- History of changes in ownership and
- History of changes in assets.

The Bank assesses the credit quality of the wholesale loans on a case-by-case basis using standard grading system and based on a profound analysis of a set of qualitative and quantitative factors.
The wholesale loans are rated in 11 categories. The bank groups the wholesale loans categorized from 1 to 6 category in the grade satisfactory risk and these categorized with 7 category in the grade watch list. The Bank presents the wholesale loans in the category from 8 to 11 as individually impaired loans.

Qualitative factors are those that deal with the borrower's management, industry, operating conditions, the market sector in which the borrower operates, securities, loan servicing etc. Quantitative factors are those that refer to a set of ratios (main ratios: profitability, leverage, liquidity) emerging from the borrower's financial statements (balance sheet, income statement, notes to the financial statements etc.)

The classification of retail clients is based on the full delinquency analysis by groups. The grouping is based on the common characteristics of the respective products, the similar risks they bear and the type of collateral that secures them. In case that a borrower is client to more than one of the above mentioned groups, the classification of each single retail loan of one and the same retail client should be done independently from the other loans of the same customer.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

1.1 Credit risk measurement (continued)

(a) Loans and advances (continued)

The Credit Council reviews watch listed and non-performing loans on a quarterly basis.

Consumer lending is centrally approved and provided through the Bank's branches, and external cooperation. A Credit scoring system is used to centrally assess applications for consumer lending products. A different scorecard is used for each of these products. Scorecards are developed by specialist companies. Policies and procedures are described in detail in the Consumer Lending Policy Manual.

Mortgage lending, is centrally approved, and based on criteria such as the value of the collateral, the financial standing of the applicant and the existence of detrimental information on the applicant. Collateral is appraised by EFG Properties - Bulgaria and checked against values assessed by tax authorities.

Small Business lending is centrally approved based on clear collateral guidelines and taking into consideration the borrower's annual income. Depending on the size of the proposed Limits, the quality of the collateral and the relevant experience of a branch, small amounts may also be locally approved.

Personal and Housing Loans to staff require approval from the Human Resources Division. Consumer Lending Products to staff require approval from the Consumer Lending Business Unit. Special staff rates apply to these loans according to the Human Resources policies.

(b) Debt securities

For debt securities, external rating such as Standard & Poor's, Moody's and Fitch rating are used by the Bank for managing of the credit risk exposures. The investments in those securities are viewed as a way to gain a better credit quality mapping and maintain a readily available source to meet the funding requirement at the same time.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

1.2 Risk limit control and mitigation policies

The Bank manages, limits and controls concentrations of credit risk wherever they are identified in particular, to individual counterparties and groups, and to industries.

The Bank has established a set of credit approval levels with relevant approval bodies in order to manage the credit risk. Depending on the amount of facility requested credits are submitted for approval to the appropriate approval level. The Bank assesses the financial, market and business risk, as well as the adequate structuring of the deals. The credit risk is measured following a detailed analysis of the financial statements of the borrower / guarantor on the basis of a system of creditworthiness factors.

The credit reviews for local banks are prepared by Correspondent Banking Section of the Bank and sent to Credit risk of the Parent company who submits a proposal to Group Credit Committee for final approval. Based on Bank's Treasury request for foreign bank limits the Manager Credit risk of Parent company prepares proposal to Group Credit Committee for final approval. Formal report for the finally approved limits decisions of Group Credit Committee is distributed by Parent company's Risk Management to Bank's Risk and Treasury Divisions. The limits are by country, by group and by specific product types and duration.

Dealers are not authorised to conduct any type of business with counterparties in respect of whom no limit has been established. If a limit is required for a particular counterparty, then an approval process should be followed for the limit to be approved and set up.

The limits of the individual banks are determined by the country limit for the country concerned. The banks are to be considered as a group per country and the limit allocated within the country limit. The aggregate of limits may exceed the country limit, but the utilisation of the aggregate limit may not exceed the country limit.

Country exposure is measured using the counterparty's physical location and not the physical location of the legal entity to which the counterparty belongs. The term of transaction with any bank cannot be greater than the term limit imposed for the country concerned.

The Bank has established a set of credit Approval Levels with relevant Credit Approval Bodies in order to manage the wholesale banking risks. Depending on the amount of facility requested credits are submitted for approval to the appropriate Approval Level.

The Bank sets credit limits for each customer. Credit limits automatically expire after 12 months. Temporary increases of up to a certain level of the current lending limit may be approved by the Bank's respective approval levels. Loans are reviewed on an annual basis. Renewals and amendments to existing credit limits must be submitted to the appropriate Approval Level for approval.

The exposure to anyone borrower is restricted by limits covering on- or off- balance sheet. Off-balance sheet facilities to customers include foreign exchange transactions, letters of credit, letters of guarantee, reverse repos and other financial instruments. The credit equivalent amounts for off-balance sheet facilities are determined in accordance with Bulgarian National Bank, EFG Group and Market Risk Unit guidelines. Overall customer exposure arising from all transactions and facilities is aggregated for monitoring utilization of the credit facility limit.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

1.2 Risk limit control and mitigation policies (continued)

All proposals that approve total exposure towards a company or a group of companies above 10% of the Bank's own capital (art.44 of Law of Credit Institutions) or in case of an exposure towards related parties to the bank (art 45 of Law of Credit Institutions) have to be presented for unanimous decision of the respective approval level of the Bank.

Decisions of the committees (Credit Sub-Council, Credit Council, and Risk Committee) should be unanimous. If the member disagrees, then the proposal should be forwarded to the next Approval Level with written justification by the Chairman of the relevant Committee for the positive vote together with the written quotation of the minority's opinion.
The corporate credit proposal amount above which exposures should be submitted to the Risk Committee for approval is defined in the credit approval authorities' documents. As a matter of principle the Bank avoids an undue concentration of risk in any particular asset category, customer grouping, industry, sector or country. The Risk Committee and the Board of Directors review sector concentration levels on a quarterly basis.

Some other specific control and mitigation measures are outlined below

(a) Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Charges over business assets such as premises, inventory and accounts receivable;
- Charges over financial instruments such as debt securities and equities and
- Issued guarantees.

Longer-term finance and lending to corporate entities are generally secured. In order to minimize the credit loss the Bank will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

(b) Derivatives

The Bank maintains strict control limits on net open derivative positions (i.e. the difference between purchase and sale contracts), by both amount and term. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Bank (i.e., assets where their fair value is positive), which in relation to derivatives is only a small fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments.

Settlement risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

1.2 Risk limit control and mitigation policies (continued)

(c) Credit related commitments

Guarantees and standby letters of credit, which represent irrevocable assurance that the Bank will make the payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralized with cash deposits or other collateral pledged to the Bank, and accordingly the Bank normally assumes minimal risk.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of the loan. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

1.3. Maximum exposure to credit risk before collateral held or other credit enhancements

The table below represents a worse case scenario of credit risk exposure to the Bank as at 31 December 2007, without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out below are based on net carrying amounts as reported in the balance sheet.
As shown below, 89% of the total maximum exposure is derived from loans and advances to banks and customers (2006: 86%); 10% represents investments in debt securities (2006: 13%)

Maximum exposure

	2007	2006
Credit risk exposures relating to on-balance sheet assets are as follows:		
Loans and advances to banks	626,705	919,621
Loans and advances to customers:	2,748,553	2,033,201
Mortgages	332,804	388,555
Consumer lending (including credit cards)	405,792	387,377
Small Business lending	509,747	281,021
Corporate lending	1,500,210	976,248
Trading assets - debt securities	53,950	222,894
Derivative financial instruments	6,561	1,741
Investment securities- debt securities	334,506	229,991
Other assets	13,019	12,173
Credit risk exposures relating to off-balance sheet items are as follows:		
Financial guarantees	168,441	143,507
Letters of credit	17,052	24,328
Loan commitments and other credit related liabilities	677,321	434,038
At 31 December	**4,646,108**	**4,021,494**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

1.4 Loans and advances

Loans and advances are summarized as follows:

Balance at 31 December 2007	Loans and advances to customers
Neither past due nor impaired	2,535,396
Past due but not impaired	162,834
Impaired	106,205
Gross	**2,804,435**
Less: allowance for impairment	(55,882)
Net	**2,748,553**

Balance at 31 December 2006	Loans and advances to customers
Neither past due nor impaired	1,866,602
Past due but not impaired	135,384
Impaired	95,232
Gross	**2,097,218**
Less: allowance for impairment	(64,017)
Net	**2,033,201**

The total impairment provision for loans and advances is BGN 55,882 thousands (2006: BGN 64,017 thousands) of which BGN 17,809 thousands represents the individually impaired loans and the remaining amount of BGN 38,073 thousands represents the portfolio provision. Further information of the impairment allowance for loans and advances to banks and to customers is provided in Note 11.

During the year ended 31 December 2007, the Bank's total loans and advances increased by 23.6% as a result of the expansion of the lending business. In order to minimize the potential increase of credit risk exposure, the Bank has focused more on the business with large corporate enterprises with good credit rating or retail customers providing sufficient collateral.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

1.4. Loans and advances (continued)

(a) Loans and advances neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired at 31 December 2007 can be assessed by reference to the internal standard grading system (see 1.1. a). The following information is based on that system:

Balance at 31 December 2007	**Loans and advances to customers**
Satisfactory risk	2,535,396

Balance at 31 December 2006	**Loans and advances to customers**
Satisfactory risk	1,866,602

(b) Loans past due but not impaired

31 December 2007	**Consumer lending**	**Mortgages**	**Small Business Lending**	**Corporate Lending**	**Total**
Past due up to 29 days	37,628	32,558	41,527	18,722	130,435
Past due 30 - 89 days	13,759	7,908	6,396	2,396	30,459
Past due 90 – Less than 1 year	-	1,789	-	151	1,940
Total	51,387	42,255	47,923	21,269	162,834
Fair value of collateral	-	69,844	27,130	2,080	99,054

31 December 2006	**Consumer lending**	**Mortgages**	**Small Business Lending**	**Corporate Lending**	**Total**
Past due up to 29 days	34,075	19,583	6,548	45,736	105,942
Past due 30 - 89 days	10,065	2,492	1,591	8,614	22,762
Past due 90 – Less than 1 year	-	394	259	6,027	6,680
Total	44,140	22,469	8,398	60,377	135,384
Fair value of collateral	650	36,430	4,626	53,777	95,483

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

1.4. Loans and advances (continued)

(c) Loans and advances individually impaired

For individually assessed accounts, loans are treated as impaired as soon as there is objective evidence that an impairment loss has been incurred. The criteria used by the Bank to determine that there is objective evidence of impairment include:

- known cash flow difficulties experienced by the borrower
- overdue contractual payments of either principal or interest
- breach of loan covenants or conditions;
- the probability that the borrower will enter bankruptcy or other financial reorganisation; and
- a downgrading in credit rating by an external credit rating agency

Further information on impaired loans is provided below in "Impairment assessment".

The criteria used by the Bank to determine that there is objective evidence of impairment are provided in point 1.1 . Certain wholesale loans for which the exposure is fully collateralized and /or the counterparty is of high credit quality are not considered impaired for a period of up to 1 year.

31 December 2007	Corporate Lending	Total
Individually impaired loans	73,505	73,505
Fair value of collateral	8,973	8,973

31 December 2006	Small Business Lending	Corporate Lending	Total
Individually impaired loans	2,387	64,681	67,068
Fair value of collateral	199	282	481

(d) Impaired Loans and advances collectively assessed

For collectively assessed accounts, loans are treated as impaired based on historical loss data for groups of loans with similar characteristics. The criteria used by the Bank to determine that there is objective evidence of impairment are provided in point 1.1.

Not all loans collectively assessed for impairment are considered impaired. Based on past experience, consumer and small business loans less than 90 days past due - for mortgage loans 180 days past due - are not considered impaired, unless specific information indicates to the contrary. Consumer and small business loans over 90 days past due and mortgage loans over 180 days past due are considered as impaired loans collectively assessed.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

1.4. Loans and advances (continued)

31 December 2007	**Consumer lending**	**Mortgages**	**Small Business Lending**	**Total**
Collectively assessed for impairment	18,325	5,026	9,348	32,699
Fair value of collateral	6,744	6,504	3,168	16,416

31 December 2006	**Consumer lending**	**Mortgages**	**Total**
Collectively assessed for impairment	22,671	5,492	28,163
Fair value of collateral	4,129	4,416	8,545

The disclosed fair value of collateral is determined by local certified valuers and represents value realizable by the legal owners of the assets. The impairment provisions reflect the probability that management will not be able to enforce its rights and repossess collateral on defaulted loans. Despite difficulties in enforcing repossession of collateral, the Bank's management will vigorously pursue the outstanding debts with all possible means at their disposal

Wholesale borrowers are rated on a case-by-case basis following the Internal Credit Rating System. The credit rating is based on a profound analysis of qualitative and quantitative factors. Qualitative factors are those that deal with the borrower's management, industry, operating conditions, the market sector in which the borrower operates, securities, loan servicing etc. Quantitative factors are those that refer to a set of ratios (main ratios: profitability, leverage, liquidity) emerging from the borrower's financial statements (balance sheet, income statement, notes to the financial statements etc.)

The classification of retail clients is based on the full delinquency analysis by groups. The grouping is based on the common characteristics of the respective products, the similar risks they bear and the type of collateral that secures them. In 2007 the provisioning policy was updated and Retail approach was applied for SBB portfolio.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

1. 4. Loans and advances (continued)

(e)Loans and advances renegotiated
Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset from to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of the management, indicate that payment will most likely continue. These policies are kept under continuous review. Renegotiated loans that would otherwise be past due or impaired totaled BGN 13,793 thousands as at 31 December 2007 (2006: BGN 543 thousands).

	2007	2006
Loans and advances to customers :		
– Mortgages	-	33
– Corporate lending	13,793	510
Total	**13,793**	**543**

1.5. Debt securities

The table below presents an analysis of debt securities by rating agency designation , based on the credit assessments of nominated External Credit Assessment Institutions. In the table below is shown Standard and Poor's ratings or their equivalent:

31 December 2007

Rating	Trading securities	Investment securities	Total
AAA	-	-	-
AA- to AA+	-	-	-
A- to A+	402	-	402
Lower than A-	53,548	273,729	327,277
Unrated	-	60,777	60,777
Total	**53,950**	**334,506**	**388,456**

31 December 2006

Rating	Trading securities	Investment securities	Total
AAA	-	20,222	20,222
AA- to AA+	-	4,757	4,757
A- to A+	206,329	154,986	361,315
Lower than A-	11,527	16,099	27,626
Unrated	5,038	33,927	38,965
Total	**222,894**	**229,991**	**452,885**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

1.5. Debt securities (continued)

The unrated debt securities represents bonds of local companies. The investments in those securities are viewed as a way to gain a better credit quality mapping based on the internal rating system and maintain a readily available source to meet the funding requirement at the same time.

1.6. Repossessed collateral

Repossessed properties are sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness. Repossessed property is classified in the balance sheet within other assets.

The balances of the repossessed collaterals as at year-end are as follows:

Nature of assets	2007	2006
Commercial property	366	406
Equipment	285	308
Residential property	65	10
Land	48	48
Total:	**764**	**772**

1.7 Concentration of risks of financial assets with credit risk exposure

(a) Geographical sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by geographical region as of 31 December 2007. For this table, the Bank has allocated exposures to regions based on the country of domicile of its counterparties.

	Bulgaria	Europe	Canada and US	Other countries	Total
Loans and advances to banks	19,119	607,190	15	381	626,705
Loans and advances to customers:					
- Mortgages	331,840	964	-	-	332,804
-Consumer lending incl. credit cards	405,606	65	-	121	405,792
-Small business lending	509,747		-	-	509,747
-Corporate lending	1,500,038	172	-	-	1,500,210
Trading assets – debt securities and shares	52,090	1,885	-	-	53,975
Derivative financial instruments	6,561	-	-	-	6,561
Investment securities – debt securities and shares	321,594	27,227	-	4,914	353,735
Other assets	626,241	-	-	-	626,241
31 December 2007	**3,772,836**	**637,503**	15	**5,416**	**4,415,770**
31 December 2006	**3,657,834**	**197,397**	-	-	**3,855,231**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

1.7 Concentration of risks of financial assets with credit risk exposure (continued)

(b) Industry sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by the industry sectors of our counterparties.

	Commerce and services	Private individuals	Manufacturing	Construction	Public sector	Financial institutions	Other	Total
Loans and advances to banks	-	-	-	-	-	626,705	-	626,705
Loans and advances to customers:								
- Mortgages	-	332,804	-	-	-	-	-	332,804
-Consumer lending incl. credit cards	-	405,792	-	-	-	-	-	405,792
-Small business lending	260,636	-	76,016	50,228	-	-	122,867	509,747
-Corporate lending	629,035	-	264,797	191,437	-	38	414,903	1,500,210
Trading assets -debt securities	-	-	-	-	53,547	-	403	53,950
Investment securities-debt securities	5,792	-	20,366	-	260,312	38,946	9,090	334,506
31 December 2007	**895,463**	**738,596**	**361,179**	**241,665**	**313,859**	**665,689**	**547,263**	**3,763,714**
31 December 2006	**666,778**	**760,414**	**308,704**	**106,264**	**347,895**	**946,210**	**271,183**	**3,407,448**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

1.8. Loans and advances to banks

The table below presents an analysis of loans and advances to banks by rating agency designation at 31 December 2007, based on the credit assessments of nominated External Credit Assessment Institutions. In the table below is shown Standard and Poor's ratings or their equivalent:

31 December 2007

Rating	Loans and advances to banks
AAA	-
AA- to AA+	-
A- to A+	619,243
Lower than A-	-
Unrated	7,462
Total	**626,705**

31 December 2006

Rating	Loans and advances to banks
AAA	-
AA- to AA+	-
A- to A+	845,526
Lower than A-	-
Unrated	74,095
Total	**919,621**

The unrated loans and advances to banks are internally rated based on a profound analysis of qualitative and quantitative factors.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

2. Market risk

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices.

The factors that generate market risk are the interest rate risk, foreign exchange risk and the equity price risk.

The interest rate risk is the risk of potential loss from adverse changes in interest rates. These include repricing risk, yield curve risk, basis risk, spread risk, volatility risk.

The foreign exchange risk is the risk of potential loss from adverse changes in foreign currency exchange rates, against the base currency. It includes outright risk, volatility risk and conversion risk.

The equity price risk is the risk of potential loss from adverse changes in equity prices. It includes outright risk, volatility risk, spread risk, dividend risk and other risks.

The Bank's Market Risk Policy is maintained by Risk Division and approved by the Board of Directors of the Bank. The Market Risk policy is reviewed at least annually and submits changes to the Board. The Market Risk Policy applies to the control of market risk arising on all Bank's assets, liabilities and off-balance sheet positions; it therefore covers Treasury and non-Treasury activities that are subject to market risk. The Market Risk Policy is in compliance with the Parent company Risk Guidelines, which pertain to market risk.

The objectives of market risk control and supervision are to:

- Protect the bank against unforeseen market losses;
- Contribute to more stable and predictable earnings and
- Develop transparent, objective and consistent market risk information as the basis for sound decision making.

Market risk threshold is the size of the potential unexpected loss that the Bank is willing to absorb because of adverse changes in market variables. The market risk threshold must not exceed the Bank's ability to absorb those losses, with a certain degree of confidence. The ability to absorb losses arising from the market risks depends on:

- The Bank's total capital and reserves and
- Potential losses arising from other, non-market risks.

The Bank's market risk threshold is determined by the Risk Committee. It is expressed both in terms of quantity (limits) and quality (characteristics). The Bank uses a system of limits introduced by Parent company which monitors the Bank's aggregate exposure to market risks.

The Bank's market risk threshold is also expressed through characteristics such as different types of allowed markets, products, countries, counterparties and currencies.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

2.1 Market risk measurement techniques

The Bank has to include all positions that are exposed to market risk in the measurement system. The risk factors that generate market risk and have to be included in the market risk measurement system consist of, but are not limited to:

- Foreign Exchange rates
- Interest Rates and
- Equity prices

Currently market risk measurement is done using notional exposure data and notional level limits.

Upon senior management decision, in the future the Bank may introduce value – at- risk analysis (the maximum amount that the portfolio is expected to lose over a specified period with a given probability) in order to quantify the expected maximum loss that can affect the Income statement.

Upon introduction of VAR the following have to be carried out:

1. Document the assumptions and methodologies used for market risk measurement and periodically assess and check their validity and accuracy;
2. Measure the Income statement impact of breakdown of one or more of the underlying assumptions (that is a "stress test").

2.2 Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Management sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily. The table below summarizes the Bank's exposure to foreign currency exchange rate risk at 31 December 2007. Included in the table are the Bank's financial instruments at carrying amounts, categorized by currency.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

2.2 Foreign exchange risk (continued)

Concentrations of currency risk – on- and off-balance sheet financial instruments

At 31 December 2007	**BGN**	**USD**	**EUR**	**Other**	**Non monetary items**	**Total**
Assets						
Cash and balances with BNB	352,009	7,302	146,835	4,110	-	**510,256**
Due from other banks	22,846	251,532	341,607	10,720	-	**626,705**
Trading assets	35,882	11,409	6,684	-	-	**53,975**
Loans and advances to customers	1,234,427	35,947	1,457,476	20,703	-	**2,748,553**
Derivative financial instruments	1,858	-	4,703	-	-	**6,561**
Investment securities						
- available-for-sale	32,331	48,008	273,396	-	-	**353,735**
Other assets	10,472	1,227	1,479	91	-	**13,269**
Investment property	-	-	-	-	876	**876**
Property and equipment	-	-	-	-	101,840	**101,840**
Total assets	**1,689,825**	**355,425**	**2,232,180**	**35,624**	**102,716**	**4,415,770**
Liabilities						
Deposits from banks	170,314	418	140,991	2,356	-	**314,079**
Derivative financial instruments	1,130	-	321	-	-	**1,451**
Due to customers	1,691,655	353,575	1,274,900	14,898	-	**3,335,028**
Debt issued and other borrowed funds	172,912	-	77,730	-	-	**250,642**
Current income tax liabilities	-	-	-	-	155	**155**
Deferred income tax liabilities	-	-	-	-	3,937	**3,937**
Retirement Benefit Obligations		-	-	-	2,226	**2,226**
Provisions for other liabilities and charges	5,385	-	-	-	-	**5,385**
Other liabilities	24,394	3,555	26,287	7,121	-	**61,357**
Total liabilities	**2,065,790**	**357,548**	**1,520,229**	**24,375**	**6,318**	**3,974,260**
Net on-balance sheet position	**(375,965)**	**(2,123)**	**711,951**	**11,249**	**96,398**	**441,510**
Off-balance sheet net notional position	**129,742**	**1,010**	**(143,579)**	**12,987**	**-**	**160**
Credit commitments	**473,659**	**22,294**	**366,861**	**-**	**-**	**862,814**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

2.2 Foreign exchange risk (continued)

At 31 December 2006

Total financial assets	1,557,084	202,437	1,775,809	235,291	84,610	**3,855,231**
Total financial liabilities	1,486,150	313,275	1,437,862	236,861	6,345	**3,480,493**
Net on balance sheet financial position	70,934	(110,838)	337,947	(1,570)	78,265	**374,738**
Credit commitments	352,467	26,036	199,043	-	-	**577,546**

2.3 Sensitivity of assets and liabilities

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Management reviews the level of mismatch of interest rate and the necessary repricing that may be undertaken on a monthly basis.

The Bank is exposed to the fluctuations of the different types of market risk. The sensitivity analysis below illustrates the potential impact on the income statement and equity for "reasonable possible shifts". In the table below, the Bank is presenting reasonable possible shifts, chosen based on the market and economic environments that have been observed during the reporting period.

		2007	
	Total Sensitivity	**Sensitivity of income statement**	**Sensitivity of equity**
Interest Rate			
+200 bps parallel shift	2,745	5,042	(2,297)
-200 bps parallel shift	(2,745)	(5,042)	2,297
Equities / Equity Indices / Mutual Funds			
-25% decrease on prices	(4,013)	(4)	(4,009)
+25% decrease on prices	4,013	4	4,009
Foreign exchange			
+25% depreciation of functional ccy (BGN) over foreign ccys	99,466	99,466	-
-25% depreciation of foreign ccys vs functional ccy (BGN)	(79,572)	(79,572)	-

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

2.3 Sensitivity of assets and liabilities (continued)

		2006	
	Total Sensitivity	**Sensitivity of income statement**	**Sensitivity of equity**
Interest Rate			
+200 bps parallel shift	(7,034)	(2,384)	(4,650)
-200 bps parallel shift	7,034	2,384	(4,650)
Equities / Equity Indices / Mutual Funds			
-25% decrease on prices			
+-25% decrease on prices	(2,092)	(1,241)	(851)
	2,092	1,241	851
Foreign exchange			
+25% depreciation of functional ccy (BGN) over foreign ccys	13,160	13,160	-
-25% depreciation of foreign ccys vs functional ccy (BGN)	(10,528)	(10,528)	

For the estimation of the Interest Rate Sensitivity, the Bank's assets and liabilities were distributed into time bands based on their maturity and repricing characteristics. Further breakdown was done into trading and AFS instruments and duration based calculations were used to estimate the impact through fair value movements of a parallel interest rate shift on the Bank's income statement and equity. For Equity Sensitivity, the calculations are based on the full revaluation of the positions. For Foreign Exchange Sensitivity, the calculations are based on the open foreign currency positions of the Bank.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

2.3 Sensitivity of assets and liabilities (continued)

The table below summarises the Bank's exposure to interest rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

As at 31 December 2007	Up to 1 month	1-3 months	3-12 months	1–5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and balances with the Central Bank	510,256	-	-	-	-	-	510,256
Loans and advances to banks	626,705	-	-	-	-	-	626,705
Trading assets	3,080	402	5,208	9,907	35,353	25	53,975
Loans and advances to customers	2,666,621	10,121	71,652	159	-	-	2,748,553
Investment securities, available-for-sale	10,657	34,367	43,865	42,907	202,710	19,229	353,735
Derivative financial instruments	-	-	-	-	-	6,561	6,561
Other assets	-	-	-	-	-	115,985	115,985
Total assets	**3,817,319**	**44,890**	**120,725**	**52,973**	**238,063**	**141,800**	**4,415,770**
Liabilities							
Deposits from banks	299,063	15,016	-	-	-	-	314,079
Derivative financial instruments	-	-	-	-	-	1,451	1,451
Due to customers	2,016,623	509,526	766,999	41,880	-	-	3,335,028
Debt issued and other borrowed funds	47,829	100,569	30,485	34,073	37,686	-	250,642
Other liabilities	-	-	-	-	-	73,060	73,060
Total liabilities	**2,363,515**	**625,111**	**797,484**	**75,953**	**37,686-**	**74,511**	**3,974,260**
Interest sensitivity gap	**1,453,804**	**(580,221)**	**(676,759)**	**(22,980)**	**200,377**	**67,289**	**441,510**
As at 31 December 2006							
Total assets	2,767,726	61,135	333,437	248,361	342,192	102,380	3,855,231
Total liabilities	2,497,419	300,498	452,764	163,640	36,837	29,335	3,480,493
Interest sensitivity gap	270,307	(239,363)	(119,327)	84,721	305,355	73,045	374,738

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

2.4 Fair values of financial assets and liabilities

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation and is best evidenced by a quoted market price. The estimated fair values of financial instruments have been determined by the Bank using available market information, where it exists, and appropriate valuation methodologies.

The following table summarizes the carrying amounts and fair values of financial assets and liabilities of the Bank. Market prices are used to estimate fair values of assets and liabilities.

	Carrying value		Fair value	
	2007	2006	2007	2006
Financial assets				
Loans and advances to banks	626,705	919,621	626,705	919,621
Loans and advances to customers, including:				
-Mortgage customers	332,804	388,555	332,924	388,555
-Consumer customers, including credit cards	405,792	387,374	400,192	387,374
-SBB	509,747	281,021	510,180	281,021
-Corporate clients	1,500,210	976,251	1,427,879	976,251
Total loans and advances to customers	**2,748,553**	**2,033,201**	**2,671,175**	**2,033,201**
Financial liabilities				
Deposits from banks	314,079	153,090	314,079	153,090
Due to customers , including:				
– Retail customers	2,407,359	2,249,547	2,407,359	2,249,547
– Large corporate customers	810,314	708,842	810,314	708,842
– SMEs	117,355	181,425	117,355	181,425
Total due to customers	**3,335,028**	**3,139,814**	**3,335,028**	**3,139,814**
Debt issued and Other borrowed funds	250,642	145,064	250,874	143,727

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

2.4 Fair values of financial assets and liabilities (continued)

Off Balance Sheet Items	Notional amount 2007	Notional amount 2006	Fair value 2007	Fair value 2006
Guarantees & LCs				
- Corporate lending	166,456	138,483	1,630	679
- Small business lending	19,037	5,024	318	54
Undrawn loan commitments				
- Corporate lending	311,012	98,041	-	-
- Small business and retail lending	366,309	335,997	-	-

a) Due from other banks

Due from other banks includes repurchase agreements, inter-bank placements and items in the course of collection. The funds are short term and the fair value approximates their carrying amount.

b) *Loans and advances to customers*

Loans and advances are carried at amortized cost and are net of provisions for impairment. The fair value of floating rate loans and advances approximates their carrying amount. The fair value of fixed rate loans is estimated based on market interest rates as at the end of the year.

d) *Deposits and borrowings*

The fair value of borrowings is estimated based on the interest rates as at the end of the year. Borrowed funds carry predominantly floating rates and due to the interest rate repricing carrying value is not materially different from their fair value.

e) Debt securities in issue and long term debts

The fair value of mortgage and corporate bonds issued by the Bank and the long term debts is estimated based on the interest rates as at the end of the year.

The Bank has the contractual right to change interest rates on all loans and deposits contracts after a certain period from the origination date of the contract. For these financial instruments, the Bank considered the date, when it is entitle to change interest rates, as a contractual repricing date.

f) Guarantees and Letters of credits

The Bank does not expect payments to be made regarding the guarantees and letters of credits . The undrawn loan commitments relate to the floating rate loans and therefore their fair value is nil.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

3. Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to replay depositors and fulfil commitments to lend.

3.1. Liquidity risk management process

The Bank designates appropriate liquidity policies which have to ensure that:

- Sufficient liquid assets are maintained to meet liabilities as they arise;
- A prudent proportion of medium term assets are funded by medium term liabilities and
- The liquidity position is monitored closely on a daily basis and continuously throughout the dealing operations.

The Board of Directors of the Bank assigns the Assets and Liabilities Committee as the primary responsible body to advise the Board for the strategy for the liquidity management.

Assets and Liabilities Committee manages:

- The Bank's assets and liabilities to ensure regular and timely meeting of current and future obligations.
- The Bank's cash inflows and outflows /liquidity sources and uses/ and the ratios between assets and liabilities.
- The target liquidity ratios set by Parent company and
- The liquidity ratios recommended by the Regulator

The operational management of the Bank's Assets and Liabilities and the execution of Assets and Liabilities Committee decisions regarding Liquidity is assigned to the Head of Treasury.

3.2 Funding approach

Sources of liquidity are regularly reviewed by Assets and Liabilities Committee to maintain a wide diversification by currency, geography, provider, product and term.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

3.3 Non-derivative cash flows

The table below presents the cash flows payable by the Bank under non-derivative financial liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows calculated on spot rates.

As at 31 December 2007	**Gross nominal outflow**	**Less than 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**More than 5 years**
Non-derivative liabilities						
Due to other banks	312,448	294,890	17,558	-	-	-
Due to customers	3,367,895	2,019,489	514,181	787,538	46,687	-
Debt issued and other borrowed funds	299,860	-	-	62,753	181,911	55,196
Other liabilities	72,227	-	-	-	-	72,227
Total liabilities (contractual maturity dates)	**4,052,430**	**2,314,379**	**531,739**	**850,291**	**228,598**	**127,423**

As at 31 December 2006	**Gross nominal outflow**	**Less than 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**More than 5 years**
Non-derivative liabilities						
Due to other banks	153,630	132,164	5,522	13,707	2,237	-
Due to customers	3,164,668	1,854,095	315,876	794,370	200,327	-
Debt issued and other borrowed funds	159,275	-	-	2,818	115,961	40,496
Other liabilities	40,708	-	-	-	-	40,708
Total liabilities (contractual maturity dates)	**3,518,281**	**1,986,259**	**321,398**	**810,895**	**318,525**	**81,204**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

3.3 Non-derivative cash flows (continued)

The table below analyses assets and liabilities of the Bank by maturity based on the remaining period at balance sheet date to the contractual maturity date.

31 December 2007	Up to 1 month	1-3 months	3-12 months	Over 1 year	Total
Assets					
Cash and BNB balances	510,256	-	-	-	510,256
Due from other banks	626,705	-	-	-	626,705
Trading securities	3,105	-	4,321	46,549	53,975
Derivatives	6,561	-	-	-	6,561
Loans to customers	129,025	172,354	737,206	1,709,968	2,748,553
Investment securities available-for-sale	-	-	22,907	330,828	353,735
Investment property	-	-	-	876	876
Other assets	-	-	-	115,109	115,109
Total assets	**1,275,652**	**172,354**	**764,434**	**2,203,330**	**4,415,770**
Liabilities					
Due to other banks	299,063	15,016	-	-	314,079
Derivatives	1,451	-	-	-	1,451
Due to customers	1,888,568	503,375	803,173	139,912	3,335,028
Debt issued and other borrowed funds	-	-	60,771	189,871	250,642
Deferred tax liability	-	-	-	3,937	3,937
Provisions for other liabilities and charges	-	-	5,385	-	5,385
Retirement Benefit Obligations	-	-	2,226	-	2,226
Other liabilities	-	155	-	61,357	61,512
Total liabilities	**2,189,082**	**518,546**	**871,555**	**395,077**	**3,974,260**
Net liquidity gap	**(913,430)**	**(346,192)**	**(107,121)**	**1,808,253**	**441,510**
Cumulative maturity gap	**(913,430)**	**(1,259,622)**	**(1,366,743)**	**441,510**	
Off-balance sheet net notional position	**(206,206)**	**234,148**	**(27,782)**	**-**	**160**
31 December 2006					
Total assets	1,305,683	86,347	657,183	1,806,018	3,855,231
Total liabilities	1,996,626	318,847	796,438	368,582	3,480,493
Net liquidity gap	(690,943)	(232,500)	(139,255)	1,437,436	374,738
Cumulative maturity gap	(690,943)	(923,443)	(1,062,698)	374,738	

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

3.4 Derivative cash flows

(a) Derivatives settled on a net basis

The table below analyses the Bank's derivative financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Up to 1 month	1 -3 months	3 -12 months	1-5 years	Over 5 years	Total
At 31 December 2007						
Derivatives held for trading:						
– Interest rate derivatives	62	77	1,055	1,820	150	3,164
Total	**62**	**77**	**1,055**	**1,820**	**150**	**3,164**
At 31 December 2006						
Derivatives held for trading:						
– Interest rate derivatives	156	4	90	674	3,046	3,970
Total	**156**	**4**	**90**	**674**	**3,046**	**3,970**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

3. Liquidity risk (continued)

3.4 Derivative cash flows (continued)

(b) Derivatives settled on a gross basis

The table below analyses the Bank's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Up to 1 month	1 -3 months	3 -12 months	1-5 years	Over 5 years	Total
At 31 December 2007						
Derivatives held for trading:						
– Foreign exchange derivatives:						
– Outflow	(859,187)	(4,797)	(169,499)	-	-	(1,033,483)
– Inflow	860,825	4,799	169,612	-	-	1,035,236
– Interest rate derivatives:						
– Outflow	(10,466)	(937)	(57,558)	(142,209)	-	(211,170)
– Inflow	11,008	603	54,307	132,563	-	198,481
Derivatives held for hedging:						
– Interest rate derivatives:						
– Outflow	(6,167)	-	(1,928)	(41,733)	(15,061)	(64,889)
– Inflow	1,940	247	8,416	41,511	10,061	62,175
Total outflow	**(875,820)**	**(5,734)**	**(228,985)**	**(183,942)**	**(15,061)**	**(1,309,542)**
Total inflow	**873,773**	**5,649**	**232,335**	**174,074**	**10,061**	**1,295,892**
At 31 December 2006						
Derivatives held for trading:						
– Foreign exchange derivatives:						
– Outflow	(375,241)	(3,911)	(202,928)	(50,000)	-	(632,080)
– Inflow	375,612	3,912	203,212	50,000	-	632,736
– Interest rate derivatives:						
– Outflow	(492)	-	(1,649)	(57,276)	-	(59,417)
– Inflow	424	-	1,414	54,241	-	56,079
Derivatives held for hedging:						
– Interest rate derivatives:						
– Outflow	(1,081)	-	-	(17,627)	(8,777)	(27,485)
– Inflow	932	-	3,317	18,811	5,916	28,976
Total outflow	**(376,814)**	**(3,911)**	**(204,577)**	**(124,903)**	**(8,777)**	**(718,982)**
Total inflow	**376,968**	**3,912**	**207,943**	**123,052**	**5,916**	**717,791**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

3. Liquidity risk (continued)

3.5 Off-balance sheet items

a) *Loan commitments*

The dates of the contractual amounts of the Bank's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities, are summarised in the table below:

(b) *Financial guarantees and other financial facilities.*

Financial guarantees are included below, based on the earliest contractual maturity date.

(c) *Operating lease commitments*

Where the Bank is the lessee, the future minimum lease payments under non-cancelable operating leases are summarized in the table below.

(d) *Capital commitments*

Capital commitments for the acquisition of buildings and equipment are summarized in the table below.

At 31 December 2007	**No later than 1 year**	**1-5 years**	**Over 5 years**	**Total**
Guarantees:				
- guarantees and standby letters of credit	105,287	23,175	57,031	185,493
- other guarantees	-	-	-	-
Commitments:				
- Undrawn loan commitments	456,536	128,250	92,535	677,321
- Documentary credits	-	-	-	-
- Capital expenditure	-	11,261	-	11,261
Operating lease commitments	8,979	-	-	8,979

At 31 December 2006	**No later than 1 year**	**1-5 years**	**Over 5 years**	**Total**
Guarantees:				
- guarantees and standby letters of credit	110,786	24,951	7,770	143,507
- other guarantees	-	-	-	-
Commitments:				
- Undrawn loan commitments	292,663	92,014	49,361	434,038
- Documentary credits	-	-	-	-
- Capital expenditure	3,153	-	-	3,153
Operating lease commitments	2,615	207	53	2,875

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

4.Capital management

The Bank's Management objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheets, are:

- to comply with the capital requirements set by the regulators of the banking markets where the Bank operates;
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee and the European Community Directives, as implemented by the Bulgarian National Bank (Authority), for supervisory purposes. The required information is filed with the Authority on a quarterly basis.

The Authority requires each bank or banking group to: (a) hold the minimum level of the regulatory capital of BGN 10 000 thousand and (b) maintain a ratio of total regulatory capital to the risk-weighted asset of 12%.

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

- Tier-one capital which comprise the following elements:

1. Registered and paid-in capital, excluding the preference shares
2. "Reserve" fund
3. Other reserves for general purposes formed out of the profit after paying the profit tax due
4. Retained earnings from previous years.

The Bank includes in the capital the retained profit under item 4 after the annual financial report has been adopted by the general shareholders meeting, the dividends have been paid and the other deductions have been made.

Once included as part of tire-one capital, retained earnings from previous years can be used for dividends only after approval by BNB.

The amount of the tier-one capital is reduced by:

1. losses for the current and previous years
2. the book value of the credit institution's own shares
3. the amount of intangible assets
4. unrealised loss from financial instruments held for sale

- Tier-two capital which comprise the following elements:

1. Revaluation reserves for the real estate, occupied by the credit institution
2. The amounts attracted by the credit institution in long term debt and other financial instruments, including permanent cumulative preferential shares, provided that these instruments meet the following specific requirements:

a) the amounts on them are fully paid

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

4.Capital management (continued)

b) their repayment is not limited by a term

c) their repayment is not guaranteed in any form by the credit institution

d) in case of liquidation or insolvency of the credit institution, the repayment of these funds is admissible after all other creditors' claims have been satisfied

e) claims on these instruments as regards the principal may not be collectable without the permission of the BNB in writing

f) the terms under which the credit institution has attracted these funds entitle the credit institution to defer repayment of interest income on them in case the credit institution has

not generated profit or the profit is insufficient

3. the amounts attracted by as a long term debt as well as term cumulative privileged shares and long term debt, provided that debt meets the following specific requirements:

a) the amounts on the instruments are fully repaid

b) their repayment is not guaranteed in any form by the credit institution

c) their original term to maturity is at least 5 years

d) the instruments may not be repaid ahead of term without the permission of BNB in writing

e) the contract may not provide for a possibility for the collection of the debt in advance

f) in case of liquidation of the credit institution, the repayment of the debt is admissible after all other creditors' claims have been satisfied.

During the last 5 years to maturity, the amount of the instruments under item 3 is included in the tier-two capital reduced by 20 percent for each year. After the instruments had matured, they are entirely excluded from own funds (capital base) calculation.

The Bank can not include in their own funds:

1. Reserves from cash flow hedges of positions previously measured at amortised cost and cash flow hedges related to forecasted transactions

2. Gains or loss on liabilities valued at fair value due to changes in the credit institution's credit quality rating

3. Unrealised gain from investment property and from financial instruments available for sale

Tier-two capital can not exceed 50% of tier-one capital.

The own funds shall be reduced by:

1. The book value of investments in shares or in other form of participating interests amounting to more than 10 per cent of the paid-in capital of a credit institution or other financial institution under the Law on Credit Institutions, as well as the investments in long term debt and in long term debt in such institutions, in which the credit institution holds more than 10 per cent of the paid-in capital for each individual case where they are not consolidated in its balance sheet

2. The net book value of investments in shares or in other form of participating interests in the Capital in long term debt in another credit institution or other financial institutions under the Law on Credit Institutions, where their total amount exceeds 10 per cent of the credit institution's own funds prior to the reductions under this item.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

4.Capital management (continued)

3.The net book value of the investments in shares or another form of direct or indirect participation of insurance undertakings, reinsurance undertakings and insurance holding companies, when they present 20 or more than 20 per cent of the registered and paid-in capital.
4.The book value of investments in shares or in other form of participating interests, which represent 10 or more than 10 percent of the paid-in capital of a unconsolidated undertakings other than those under item 1.

The amounts under items 1 to 4 should be reduced at a 50% ratio from tier-one capital and 50% from tier-two capital and where the respective reduction exceeds tier-two capital then that excess should be reduced from tier-one capital. The risk-weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The table below summarizes the composition of regulatory capital and the ratios of the Bank for the years ended 31 December. During those two years, the Bank complied with all of the externally imposed capital requirements to which they are subject.

	2007	2006
Tier 1 capital		
Share capital	246,178	246,178
General bank Reserves	-	-
Statutory Reserves	106,334	79,687
Retained Earnings (loss)	-	-
Audited current loss	-	-
Revaluation reserve - available for sale investments	(322)	(614)
Less:		
Intangible assets	13,316	12,483
50% of the paid-in capital of a unconsolidated undertakings	125	-
Total qualifying Tier 1 capital	**338,749**	**312,768**
Tier 2 capital		
Long term debt	94,675	36,000
Revaluation reserve of property owned by the Bank	1,918	1,918
Less:		
50% of the paid-in capital of a unconsolidated undertakings	125	-
Total qualifying Tier 2 capital	**96,468**	**37,918**
Risk-weighted assets		
On-balance sheet	3,058,735	2,471,071
Off-balance sheet	306,177	209,198
Total risk-weighted assets	**3,364,912**	**2,680,269**
Basel ratio	**12.93%**	**13.08%**

The increase in the regulatory capital is mainly due to the merger between Postbank and DZI Bank. The increase of the risk-weighted assets reflects the expansion of the business and the merger between Postbank and DZI Bank.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

X. Critical accounting estimates and judgments in applying accounting policy

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.

Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment on a monthly basis. The impairment review is in compliance with the approved management policy for assessment of risk exposures. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Impairment of available-for-sale equity investments

The Bank determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Bank evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

Had all the declines in fair value below cost been considered significant or prolonged, the bank would suffer an additional BGN 906 thousand loss in its 2007 financial statements, being the transfer of the total fair value reserve to the income statement.

Fair value of derivatives

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data. Therefore areas such as credit risk volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

Application of the effective interest rate method

The application of the effective interest rate method for loan related fees requires the use of estimates about the expected life and other patterns and characteristics of the loan portfolio. In building up these estimates the bank utilizes the experience of other entities in EFG Eurobank Ergasias Group and Bulgarian market conditions. The bank has applied effective interest method regarding the loans related fees prospectively, because it can not provide evidence of circumstances that existed on the dates as at which the transactions occurred in order to determine the cumulative effect on the comparative information.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

X. Critical accounting estimates and judgments in applying accounting policy (continued)

Sensitivity analysis of assets and liabilities

For the estimation of the Interest Rate Sensitivity, the Bank's assets and liabilities were distributed into time bands based on their maturity and repricing characteristics. Further breakdown was done into trading and AFS instruments and duration based calculations were used to estimate the impact through fair value movements of a parallel interest rate shift on the Bank's income statement and equity. For Equity Sensitivity, the calculations are based on the full revaluation of the positions. For Foreign Exchange Sensitivity, the calculations are based on the open foreign currency positions of the Bank.

Fair value of land and buildings

The Bank determines the fair value of land and building from market-based evidence by appraisal that is undertaken by professionally qualified valuers. The last revaluation of land and buildings has been performed by a qualified independent valuer at the end of 2003. As the fair value of Bank's land and buildings does not differ from their carrying amount, because there were no significant changes in the prices of land and buildings, in the areas where the property is situated, the bank will follow its accounting policy to revalue the land and building every five years.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

1 Net interest income	2007	2006
Interest income		
Loans and advances to customers	257,378	146,422
Due from other banks	23,972	14,197
Derivative instruments	16,378	5,747
Investment securities	11,377	2,420
Trading securities	8,213	5,185
Hedging instruments	6,976	172
	324,294	**174,143**

Interest income accrued on impaired financial assets is BGN 22,756 thousands (2006: 13,516).

Interest expense		
Deposits from customers	75,835	42,176
Deposits from Banks and other financial institutions	18,413	3,674
Derivative instruments	13,514	5,031
Debt securities issued	6,164	3,814
Hedged items	7,384	43
Long term debt	2,499	-
Other borrowed funds	745	2,704
Other	5	-
	124,559	**57,442**

2 Net fee and commission income	2007	2006
Fees and commission income		
Transfers	14,071	8,909
Cash operations	10,142	4,569
Credit cards fees and commissions	9,419	9,164
Account maintenance	6,381	2,579
Receipts from sales of services	1,959	848
Off-balance commitments and letters of guarantee	1,368	424
Commission securities	1,323	418
Investment banking	616	207
Operations with derivatives	588	741
Other fees	1,042	690
	46,909	**28,549**
Fee and commission expense		
Services from BRS	7,901	8,675
Transactions processing Bisera, Borika, SWIFT	3,927	2,020
Expenses for Post offices	2,210	2,406
Cash transactions an correspondent accounts	901	491
Visa cards, cheques and other	663	460
Securities	551	178
Operations related to derivatives	256	135
Bonds issued	114	81
Others	688	251
	17,211	**14,697**

Post Offices' commissions represent amounts paid to Bulgarian Posts for services performed on behalf of and at the expense of the Bank for the Bank's network of service desks throughout the country.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

3	**Net trading income**	**2007**	**2006**
	Foreign exchange:		
	Translation gains less losses of trading assets	(316)	458
	Transaction gains less losses	7,169	3,158
	Net results from derivative instruments	4,228	373
		11,081	**3,989**

4	**Other operating expenses**	**2007**	**2006**
	Staff costs (Note 5)	59,675	29,781
	Operating lease rentals	19,235	10,492
	Depreciation (Note 15)	16,403	10,595
	Advertising and marketing	11,741	7,388
	Communication	8,347	3,185
	Restructuring costs	8,019	-
	External services	6,300	2,886
	Security	4,729	2,494
	Software costs	4,512	1,796
	Repairs and maintenance	4,205	1,954
	Materials and utilities	3,823	2,013
	Travel and accommodation	770	519
	Levies and taxes	693	589
	Insurance	363	193
	Other operating costs	906	872
		149,721	**74,757**

5	**Staff costs**	**2007**	**2006**
	Wages and salaries	46,939	23,990
	Pension expenses	6,642	2,538
	Social security costs	3,102	1,635
	Other	2,992	1,618
		59,675	**29,781**

The Bank estimated that the pension obligation provision as at year end is BGN 2,226 (2006: BGN 250).

6	**Provision (expense) write back for loans and advances to customers**	**2007**	**2006**
	Loans and advances to customers (Note 11)	(7,709)	(15,928)
	Credit commitments	57	(529)
		(7,652)	**(16,457)**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

7 Income tax expense

	2007	2006
Current tax	4,839	6,957
Deferred tax (Note 20)	1,790	(1,507)
	6,629	**5,450**

Tax is payable at an actual rate of 10% (2006: 15%) on adjusted profits under Bulgarian tax law.

The tax on the operating profit differs from the theoretical amount that would arise using the basic tax rate as follows:

	2007	2006
Profit before tax	**83,859**	**44,146**
Tax calculated at a tax rate of 10% (2006: 15%)	8,386	6,622
Effect of change in tax rate	-	(1,091)
Tax effect of expenses not deductible for tax purposes	(1,757)	(81)
Prior year tax expense		-
Income tax expense	**6,629**	**5,450**

Additional information about deferred tax is presented in Note 20.

The tax authorities may at any time inspect the books and records within 5 years subsequent to the reported tax year, and may impose additional taxes and penalties. The Bank's management is not aware of any circumstances which may give rise to a potential material liability in this respect. The last full-scope tax audit of the Bank has been carried out in February 2005, covering the period from 1 January 2000 to 31 December 2002. The tax authorities imposed tax liabilities for the amount of BGN 701,083 and interest amount of BGN 389,626.

8 Cash and balances with the Central Bank

	2007	2006
Cash in hand	126,952	98,654
Balances with Central bank other than mandatory reserve	177,596	(30,917)
Included in cash and cash equivalents (Note 25)	**304,548**	**67,737**
Mandatory reserve with Central Bank	205,708	254,510
	510,256	**322,247**

The Bank's balance with the Central Bank is allowed to decrease to 50% from the mandatory reserve calculated per Central Bank's regulations. The Bank is obliged 4th day of every month have accumulated a balance with the Central Bank that equals or exceeds the mandatory reserve.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

9 Loans and advances to banks	2007	2006
Deposits in other banks up to 90 days from the date of acquisition	625,815	904,044
Repurchase agreements up to 90 days from the date of acquisition	-	15,713
Less impairment provision	(374)	(374)
Included in cash and cash equivalents (Note 25)	**625,441**	**919,383**
Interest receivable	1,264	238
	626,705	**919,621**

Approximately 95% (2006: 59%) of the amounts due from other banks represent funds placed in banks domiciled in OECD countries, with the remainder held with banks in Bulgaria.

The total gross amount of individually impaired loans and advances to banks as at 31 December 2007 was BGN 374 thousand (2006: BGN 374 thousand). No collateral is held by the Bank and a full impairment provision has been provided against the gross amount.

10 Trading securities	2007	2006
Government bonds as follows:		
Bulgarian government bonds	52,064	197,460
Ukrainian government bonds	-	3,524
Turkish government bonds	-	8,003
Romanian government bonds	1,483	8,869
Bonds issued by banks	-	5,038
Bonds issued by companies	403	-
Shares	25	4,965
	53,975	**227,859**
Equity securities:		
- Listed	25	4,965
- Unlisted	-	-
Bonds:		
- Listed	403	12,385
- Unlisted	53,547	210,509

Included in the amount of the bonds is accrued interest in the amount of BGN 1,302 thousand (2006: BGN 2,708 thousand).

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

10 Trading securities (continued)

Gains less losses from trading securities	**2007**	**2006**
Equity securities	2,715	2,287
Debt securities	(3,804)	(704)
	(1,089)	**(1,583)**

11 Loans and advances to customers

	2007	**2006**
Retail customers:		
Consumer lending (including credit cards)	425,428	415,786
Small Business Lending	516,183	285,778
Mortgages	334,283	389,873
Corporate Lending	1,528,541	1,005,782
Gross loans and advances	**2,804,435**	**2,097,218**
Less allowance for impairment losses on loans and advances	(55,882)	(64,017)
	2,748,553	2,033,201

Reconciliation of allowance account for losses on loans and advances by class is as follows:

	Retail customers			**Wholesale**	
	Consumer lending	**Mortgages**	**Small Business Lending**	**Corporate Lending**	**Total**
Balance at 1 January 2006	15,286	1,426	3,592	17,406	**37,710**
Charge for the year	13,738	4,087	4,728	12,792	**35,345**
Amounts written off	(612)	(4,195)	(3,563)	(668)	**(9,038)**
At 1 January 2007	**28,412**	**1,318**	**4,757**	**29,530**	**64,017**
Charge for the year	7,068	161	1,679	(1,199)	**7,709**
Amounts written off	(15,844)	-	-	-	**(15,844)**
At 31 December 2007	**19,636**	**1,479**	**6,436**	**28,331**	**55,882**

	2007	**2006**
The ten largest loans and advances to customers	295,799	234,692
Percentage of gross loans	10.55%	11.19%

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

11 Loans and advances to customers (continued)

Included in the amount of loans and advances to customers is accrued interest of BGN 10,602 thousand (2006: BGN 8,157 thousand). Loans and advances to customers include loans pledged for issued mortgage bonds amounting to BGN 31,565 thousand (2006: 34,791 thousand).

Eurobank EFG Bulgaria has transferred loans to the companies that are part of the EFG Group amounting BGN 1,489,633 thousand as at 31 December 2007 (2006 : BGN 609,285 thousand)

12 Investment securities

Investment securities available-for-sale	**2007**	**2006**
Bulgarian government bonds	228,170	125,570
Bonds issued by banks	8,593	42,275
Corporate bonds issued by companies	65,601	45,399
Foreign government bonds	25,033	4,469
Other	7,109	12,278
Shares	17,850	5,589
Participations	1,379	17,323
	353,735	**252,903**

Equity securities		
Listed	16,191	5,018
Unlisted	3,038	17,894
Debt securities		
Listed	14,591	65,527
Unlisted	319,915	164,464
	353,735	**252,903**

Included in the amount of the investment securities is accrued interest in the amount of BGN 13,254 thousand (2006: BGN 6,023 thousand).

Movement in available for sale securities is reconciled as follows:

Book value as at 31 December 2005	163,499
Additions	182,607
Disposals	(120,683)
Accrued interest	4,210
Amortization of discounts or premium	9,550
Net fair value gains	13,720
Book value as at 31 December 2006	**252,903**
Additions	151,165
Disposals	(71,632)
Accrued interest	7,231
Amortization of discounts or premium	12,931
Net fair value gains	1,137
Book value as at 31 December 2007	**353,735**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

12 Investment securities (continued)

Gains less losses from investment securities

	2007	2006
Transfer the revaluation reserve from equity to profit	11,581	3,889
Gains less losses recognized on sale of AFS securities directly through income statement	(223)	(999)
	11,358	**2,890**

13 Other assets

	2007	2006
Amounts in transit	5,581	4,645
Other debtors	3,121	3,097
Deferred expenses	2,652	2,733
Assets for resale	764	772
Materials	284	385
Prepayments	729	1,175
Other assets	1,570	952
Less provision against other assets	(1,432)	(1,195)
	13,269	**12,564**

14 Investment property

Investment property is held for long-term rental yields and is not occupied by the bank. Investment property is carried at fair value, representing open market value determined by external valuers. The fair value of the investment properties is based on market prices, adjusted, for any difference in the nature, location or condition of the specific asset.

The investment property was acquired as part of the merger between Bulgarian Post Bank AD and DZI Bank AD.
Investment properties are revalued as of December 2006. The valuation is performed by independent valuer. Current market prices were used.. In 2007 EFG Properties Bulgaria has made an assessment of the investment property. Based on the assessment the fair value of Bank's investment properties does not differ from their carrying amount, because there were no significant changes in the market prices of these properties in 2007.The Bank has not recognized the amounts in income statement as at 31 December 2007.

Changes in fair values are recorded in the income statement as part of other income. In comparative information we include the movement of investment property as was in DZI Bank AD.

Investment property	**2007**	**2006**
Beginning of the year	876	1,386
Net gains or losses from fair value adjustments	-	(510)
End of the Year	**876**	**876**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

15 Property and equipment

	Property	Equipment and other fixed assets	Total
At 1 January 2006			
Gross amount	34,386	67,839	102,225
Accumulated depreciation	(2,941)	(25,963)	(28,904)
Net book amount	**31,445**	**41,876**	**73,321**
Year ended 31 December 2006			
Opening net book amount	31,445	41,876	73,321
Additions	12,179	20,195	32,374
Disposals	(6,856)	(3,173)	(10,029)
Depreciation charge	(1,391)	(10,056)	(11,447)
Closing net book amount	**35,377**	**48,842**	**84,219**
At 31 December 2006			
Gross amount	39,594	82,477	122,071
Accumulated depreciation	(4,217)	(33,635)	(37,852)
Net book amount	**35,377**	**48,842**	**84,219**
Year ended 31 December 2007			
Opening net book amount	35,377	48,842	84,219
Additions	13,064	21,945	35,009
Disposals	(907)	(78)	(985)
Depreciation charge (Note 4)	(3,352)	(13,051)	(16,403)
Closing net book amount	**44,182**	**57,658**	**101,840**
At 31 December 2007			
Gross amount	51,093	102,115	153,208
Accumulated depreciation	(6,911)	(44,457)	(51,368)
Net book amount	**44,182**	**57,658**	**101,840**

If property was stated on the historical cost basis, the amounts would be as follows:

	2007	2006
Cost	50,740	39,293
Accumulated depreciation	(7,766)	(5,092)
Net book amount	**42,974**	**34,201**

Property and equipment were revalued for the first time in 2003 by an independent valuer. The valuation was done using the current market prices. Revaluation reserve, net of deferred income taxes is included in the "Property and equipment revaluation reserve" in the Bank's equity in the Statement

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

16 Deposits from banks

	2007	2006
Items in course of collection	27,567	23,980
Deposits from other banks	159,945	73,585
Repurchase agreements	126,567	55,525
	314,079	153,090

Included within due to other banks is related accrued interest payable of BGN 588 thousand (2006: BGN 334 thousand).

17 Derivative financial instruments

The Bank utilizes currency forwards, currency swaps, interest rate swaps, cross currency interest rate swaps and interest rate futures, which are negotiated between the Bank and counterparties for both hedging and non-hedging purposes.

Currency forwards represent commitments to purchase foreign and domestic currency, including undelivered spot transactions.

Currency swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or a combination of currencies or interest rates (i.e., cross-currency interest rate swaps). The Bank's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfil their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities.

Interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of interest rates. No exchange of principal takes place; therefore the credit risk is negligible.

Interest rate futures are contractual obligations to receive or pay a net amount based on changes in interest rates. The credit risk is negligible, as futures contracts are collateralised by cash or marketable securities, and changes in the futures' contact value are settled daily with the exchange. Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.

The notional amounts of certain types of financial instrument provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which, instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The fair values of derivative instruments held are set out below.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

17 Derivative financial instruments and hedging activities (continued)

	Contract / notional amount	Assets	Liabilities
Year ended 31 December 2007			
Derivatives held for trading	**1,744,305**	**4,774**	**1,451**
Foreign exchange derivatives	**1,051,769**	**3,951**	**1,451**
OTC currency forwards	376,712	-	54
OTC currency swaps	657,813	2,875	321
OTC currency options bought and sold	17,244	1,076	1,076
Total OTC currency derivatives	**1,051,769**	**3,951**	**1,451**
Interest rate derivatives	**692,536**	**823**	-
OTC interest rate swaps	285,076	752	-
OTC cross-currency interest rate swaps	395,914	-	-
Total OTC interest rate derivatives	**680,990**	**752**	-
Interest rate futures	**11,546**	**71**	-
Derivatives held for hedging	**189,785**	**1,787**	-
OTC interest rate swaps	189,785	1,787	-
Total recognised derivative assets / liabilities	**1,934,090**	**6,561**	**1,451**
Year ended 31 December 2006			
Derivatives held for trading	**783,151**	**1,132**	**1817**
Foreign exchange derivatives	**583,011**	**792**	**228**
OTC currency forwards	185,947	275	-
OTC currency swaps	397,064	517	228
Total OTC currency derivatives	**583,011**	**792**	**228**
Interest rate derivatives	**200,140**	**340**	**1,589**
OTC interest rate swaps	126,256	-	1,589
OTC cross-currency interest rate swaps	50,000	-	-
Total OTC interest rate derivatives	**176,256**	-	**1,589**
Interest rate futures	23,884	340	-
Derivatives held for hedging	**58,675**	**609**	-
OTC interest rate swaps	58,675	609	-
Total recognised derivative assets / liabilities	**841,826**	**1,741**	**1,817**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

17 Derivative financial instruments and hedging activities (continued)

The Bank hedges part of its existing interest rate risk resulting from any potential decrease in the fair value of fixed rate assets denominated in foreign currencies using interest rate swaps. The net fair value of these swaps at 31 December 2007 was BGN 1,787 (2006: 609).
The gains on the hedging instruments were BGN 1,178 (2006: 609). The losses on the hedged item attributable to the hedged risk were BGN 1,178 (2006: 609). In 2007, there is no ineffectiveness recognised in income statements that arises from fair value hedges (2006: nil)

18 Due to customers

	2007	2006
Large corporate customers:	810,314	708,842
SMEs	117,355	181,425
Total due to corporate customers	**927,669**	**890,267**
Retail customers:	2,407,359	2,249,547
Total due to customers	**3,335,028**	**3,139,814**

Included within due to customers is related accrued interest payable of BGN 22,010 thousand (2006: BGN 18,361 thousand).

19 Debt issued and Other borrowed funds

	2007	2006
Debt securities in issue	135,226	95,426
Subordinated debt	86,442	25,672
Debt equity (hybrid) financial instruments	11,431	11,165
Long term debt from EBRD	17,543	12 801
Total debt issued and Other borrowed funds	**250,642**	**145,064**

a) Debt securities in issue

In July 2005 corporate bonds of the nominal amount of BGN 30 million were issued. The corporate bonds carry floating coupon rate calculated based on 3 month SOFIBOR plus 1.2%. The outstanding balance as at 31 December 2007 is BGN 30,287 thousand (2006: BGN 30,410 thousands).

In November 2005 there was a new mortgage bonds issuance of the nominal amount BGN 30 million. The new mortgage bonds carry fixed coupon rate of 3.770%. The outstanding balance as at 31 December 2007 is BGN 30,485 thousand (2006: BGN 30,805 thousands)

In July 2006 corporate bonds of the nominal amount of BGN 33.75 million were issued. The new corporate bonds carry a fixed coupon rate of 4.55%. The outstanding balance as at 31 December 2007 is BGN 34,072 thousand (2006: BGN 34,211 thousands)

In April 2007 corporate bonds of the nominal amount of BGN 40 million were issued.

The new corporate bonds carry floating coupon rate calculated based on 3 month SOFIBOR plus 0.8%. The outstanding balance as at 31 December 2007 is BGN 40,382 thousand

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

19 Debt issued and Other borrowed funds (continued)

b) Subordinated debt and Debt equity (hybrid) financial instruments

In March 2005, DZI Bank signed a long term agrremens with three Bulgarian legal entites for the total amount of BGN 36 000 thousands.

In November 2006, all rights and obligations /including the receivables/, held by the three Bulgarian legal entities under the agreements, have been transferred to Eurobank EFG Holding /Luxembourg/ S.A., whereas all contractual provisions remain unchanged. The long term debt has a ten years maturity and fixed interest rates 6,5% for the subordinated debt and 7% for debt-equity (hybrid) instruments.

In June 2007, Eurobank EFG Bulgaria signed a long term agreement with EFG Eurobank .Ergasias The agreement is for BGN 58 674 thousands at floating rate of 3 months Euribor plus 0.5%

The long term debts qualified as tier II capital for the Bank.

c) Loans received from The European Bank for Reconstruction and Development

In March 2004, Eurobank EFG Bulgaria and the European Bank for Reconstruction and Development executed a Loan Agreement whereby the Bank can borrow up to EUR 5 million in two equal tranches of EUR 2.5 million each, for the purpose of granting for improving rational energy utilization in Republic of Bulgaria.In December 2006, the amount of the loan was increased with EUR 15 million As at 31 December 2007 the total liability amounted to BGN 11,899 thousands.

In June 2005, Eurobank EFG Bulgaria and the European Bank for Reconstruction and Development executed a Loan Agreement whereby the Bank can borrow up to EUR 5 million for the purpose of granting funds to individual household in the Republic of Bulgaria in respect of residential energy efficiency and small renewable energy investments. As at 31 December 2007 the total liability amounted to BGN 5,644 thousands.

According to the loan agreements with European Bank for Reconstruction and Development, the Bank is required to comply with certain financial and non-financial covenants. In case of breach of these covenants the Bank is obliged to inform European Bank for Reconstruction and Development immediately. In case of breach of any covenant, European Bank for Reconstruction and Development has the right to require payment of the whole amount of the borrowing or of any portion of the principle and accrued interest.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

19 Debt issued and other borrowed funds (continued)

The following tables analyses the debt issued and other borrowed funds by contractual maturity and also into fixed and floating rate

	31 December 2007			
	Within 1 year	**1-5 years**	**Over 5 years**	**Total**
Mortgage Bonds				
Fixed rate	-	30,302	-	**30,302**
Accrued interest	183	-	-	**183**
Corporate Bonds				
Fixed rate	-	33,684	-	**33,684**
Accrued interest	388	-	-	**388**
Floating rate	-	69,863	-	**69,863**
Accrued interest	806	-	-	**806**
Subordinated debt				
Floating rate	-	-	58,675	**58,675**
Accrued interest	-	-	1,512	**1,512**
Fixed rate	-	-	25,000	**25,000**
Accrued interest	-	-	1,255	**1,255**
Debt equity (hybrid) financial instruments				
Fixed rate	-	-	11,000	**11,000**
Accrued interest	-	-	431	**431**
EBRD Credit lines				
Floating rate	17,521	-	-	**17,521**
Accrued interest	22	-	-	**22**
Total Debt issued and other borrowed funds	**18,920**	**133,849**	**97,873**	**250,642**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

19 Debt issued and other borrowed funds (continued)

	31 December 2006			
	Within 1 year	**1-5 years**	**Over 5 years**	**Total**
Mortgage Bonds				
Fixed rate	-	30,622	-	**30,622**
Accrued interest	183	-	-	**183**
Corporate Bonds				
Fixed rate	-	33,681	-	**33,681**
Accrued interest	530	-	-	**530**
Floating rate	-	29,939	-	**29,939**
Accrued interest	471	-	-	**471**
Subordinated debt				
Fixed rate	-	-	25,000	**25,000**
Accrued interest	-	-	672	**672**
Debt equity (hybrid) financial instruments				
Fixed rate	-	-	11,000	**11,000**
Accrued interest	-	-	165	**165**
EBRD Credit lines				
Floating rate	12,551	-	-	**12,551**
Accrued interest	250	-	-	**250**
Total	**13,985**	**94,242**	**36,837**	**145,064**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

20 Deferred income taxes

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 10%, which is the tax rate effective from 1 January 2007 (2006: 15%). The movement on the deferred income tax account is as follows:

	2007	2006
Deferred tax liability at beginning of year	2,046	4,007
Income statement charge (Note 7)	1,790	(1,507)
Credit to revaluation reserves in equity	101	(454)
Deferred tax liability at end of year	**3,937**	**2,046**

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

	2007	2006
Deferred income tax liabilities		
Accelerated tax depreciation	1,698	964
Property revaluation	208	195
Available-for-sale revaluation	174	86
Difference between statutory loan loss provisions and IFRS provisions	3,571	917
	5,651	**2,162**
Deferred income tax assets		
Unused holidays	110	69
Provision for court claims	83	47
Provision for retirement obligations	223	-
Restructuring provisions	510	-
Other Temporary Differences	788	-
	1,714	**116**

The deferred tax credit / (charge) in the income statement comprises the following temporary differences:

	2007	2006
Difference between statutory loan loss provisions and IFRS provisions	2,654	(1,449)
Depreciation	734	(63)
Unused holidays	(41)	12
Provision for court claims and off balances	(36)	(7)
Provision for retirement obligations	(223)	-
Restructuring provisions	(510)	-
Other Temporary Differences	(788)	-
Net deferred tax credit / (charge)	**1,790**	**(1,507)**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

21 Provisions for other liabilities and charges

(a) Legal proceedings

The Bank is subject to a number of legal proceedings arising in the normal course of business. The timing of the expected cash outflow of the court cases provided for could not be reliably estimated. Based on management's estimation it is expected that in two years time the outflow may be realised.

The table below represents the movement in provisions for legal claims:

Legal provisions	**2007**
Opening balance at 1st of January	471
Charged to the income statement	37
Used during year	(226)
Closing balance	**282**

(b)Provisions for restructuring
In pursuance of EFG Group's goal for achievements of internal optimization of its subsidiaries, Postbank and DZI bank started procedure for transformation by way of merger of DZI bank into Postbank. Based on restructuring plan, developed and announced by the management, it was decided provisions for restructuring to be set up. The provisions were booked in accordance with the requirements of IAS 37 "Provisions, Contingent liabilities and Contingent assets" and reflect the best estimate of the management for the expenditures needed to be settled.

The table below represents the movement in restructuring provisions:

Restructuring provisions	**2007**
Opening balance at 1st of January	-
Charged to the income statement	8,019
Used during year	(2,916)
Closing balance	**5,103**

Provisions used during the year	**2007**
Audit and consultancy expenses	1,585
Staff related expenses	521
Other expenses	810
Total	**2,916**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

Assets pledged

Mandatory reserve deposits are held with the Central Bank in accordance with statutory requirements.

	Asset		Related liability	
	2007	**2006**	**2007**	**2006**
Mandatory reserves with BNB	411,417	257,392	3,428,471	3,217,390
Trading and Investment Securities	222,672	161,079	180,569	135,478
Loans to customers (Note 11)	31,565	34,791	30,484	30,805
	665,654	**453,262**	**3,639,524**	**3,383,673**

The total financial assets that have been pledged as collateral for liabilities (including amounts reflected above) at 31 December 2007 was 665,654 thousands (2006: 453,262 thousands). These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities, as well as requirements determined by exchanges where the Bank acts as an intermediary.

The Bank has entered into reverse repurchase agreements with financial institutions and other clients for the total amount of BGN 62 852 thousands (2006: BGN15,775 thousands). The Bank has accepted bonds and shares at fair value 135,774 thousands (2006: 15,719) as collateral, which it is permitted to sell or repledge. The collaterals accepted have not been repleged or lent to third parties.

22 **Other liabilities**	**2007**	**2006**
Other creditors	35,614	18,482
Accrued expenses	22,362	10,076
Deferred income	1,430	2,593
Unused pay leave accrual	820	1,106
Off balance sheet items provisions	472	529
Withholding tax obligations	41	264
Other	618	592
	61,357	**33,642**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

23 Retirement benefits obligations

	2007	2006
Liability for staff retirement indemnity obligations at 1 January	250	-
Cost for the year (see below)	1,976	250
Liability for staff retirement indemnity obligations at 31 December	**2,226**	**250**

Expenses recognised in profit or loss		
Current service cost	1,976	250
Total included in staff costs	**1,976**	**250**

Actuarial assumptions	**2007**	**2006**
Discount rate	5.00%	-
Future salary increase	5.50%	-
Inflation rate	3.00%	-

24 Share capital

On 01 November, 2007 the legal merger of Postbank and DZI bank was finalized and became effective. DZI Bank ceased to exist, Postbank became its universal successor. The legal name of the merged Bank became Eurobank EFG Bulgaria.

For merger relate purposes (namely due to the conversion rate of the shares) the capital of the remaining bank (Postbank) has increased from BGN 207,716,400 to BGN 246,177,887 through the issue of 38,461,487 new ordinary, voting, registered, non-physical shares of a par value of BGN 1 (one) each, which shall be submitted to the shareholders of DZI Bank AD. As at 31 December, 2007 the total authorized number of ordinary shares of EFG Eurobank, Bulgaria was 246,177,887 with a par value of BGN 1 per share.

25 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances with less than 90 days maturity from the date of acquisition:

	2007	**2006**
Cash in hand (Note 8)	126,952	98,654
Balances with Central bank (Note 8)	177,596	(30,917)
Loans and advances to banks (Note 9)	625,441	919,383
Trading securities up to 90 days	3,482	23,315
	933,471	**1,010,435**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

26 Related party transactions

Eurobank EFG Bulgaria is subsidiary of EFG Eurobank Ergasias listed in the Athens Stock Exchange. EFG Eurobank Ergasias is a member of the EFG Group, the ultimate parent company of which is EFG Bank European Financial Group, a bank incorporated in Switzerland, which owns 41% of the ordinary shares. The remaining 59% of the shares are widely held.

All the voting rights in EFG Bank European Financial Group are held by the Latsis family, the ultimate controlling party of the Group.

As at 31 December 2007 EFG Eurobank Ergasias owns directly 63.56% of Eurobank EFG, Bulgaria, another 20.53% through its 100% subsidiary CEH Balkan Holdings Limited and 15.61% through its subsidiary Eurobank Holding (Luxemburg) S.A.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions. The volumes of related-party transactions, outstanding balances at the year end, and relating expense and income for the year are as follows:

	31 December 2007		31 December 2006	
	EFG Group	Key management personel	EFG Group	Key management personel
Loans and advances to banks	606,026	-	677,137	-
Loans and advances to customers	-	298	-	360
Derivative financial instruments assets	1,212	-	1,267	-
Derivatives held for hedging assets	1,787	-	-	-
Due to other banks	112,031	-	1,906	
Due to customers	35,321	2	660,439	132
Derivative financial instruments liabilities	2,682	-	670	-
Net interest income/(expense)	7,631	10	(8,784)	7
Net banking fee and commission income/(expense)	(6,181)	-	(8,230)	-
Net trading income	401			
Other operating income/(expenses)	(308)	-	(118)	-
Salaries and other short-term benefits		2,190		1,405
Letters of quarantee issued	448	-	0	-
Letters of quarantee received	1,499	-	3,394	-

No provisions have been recognised in respect of loans given to related parties (2006:nil).

27 Events after the balance sheet date

There are no significant post balance sheet events with effect on the financial statements as at 31 December 2007.