2006 ANNUAL REPORT

Postbank

A Member of Eurobank EFG Group

CONTENTS

THE YEAR IN REVIEW

Dear Shareholders,

The year 2006 was another successful year for Postbank and its affiliates. It was a year of dynamic growth and lots of challenges. The robust growth, along with its product diversity and service quality was once more evidenced by the financial results, which exceeded set targets.

In 2006 EFG Group, which Postbank is a member of, reaffirmed its interest in the region by acquiring DZI Bank, one of the well known brands on the Bulgarian financial market. The merger of DZI Bank and Postbank, planned for the third quarter of 2007, will not only create one of the leading banks in Bulgaria in terms of assets and loans but will also form the core of a strong financial group. Since the beginning of 2007, Postbank and DZI Bank have begun working on the merger process. Joint expert teams were created and a detailed plan was drafted with the help of a respected international consulting company. In the first few months of 2007, efforts were focused on aligning structure, processes and procedures to those of Postbank and the mother company. A symbolic milestone was reached in March 2007 when the first common product was launched and Postbank and DZI Bank were presented to the public as members of the Eurobank EFG Group. The operational merger, which should be substantially completed by the end of June 2007, will be the cornerstone of the process that will allow both institutions to work as one sharing a common IT platform, products and procedures.

The year 2006 was very positive for the Bulgarian economy, which grew by more than 6% for a third consecutive year. Bulgaria is one of the fastest developing economies in the European Union. The Government was following a cautious fiscal policy achieving a budget surplus of over 3% of GDP, aimed at preserving macroeconomic stability and reigning in the current account deficit.

The current account deficit increased to 15.8% of GDP in 2006 and remains a cause of concern for the macroeconomic stability. Yet, it also reflects the openness of the Bulgarian economy and the investments made by the private sector. Bulgaria becomes an increasingly attractive place for investments – attracting more than 4 billion euro of FDIs in 2006, a record in Bulgaria's recent history. Still, the Bulgarian Government is making continued efforts to address this issue by creating a favorable business environment that encourages investments and fosters competition.

Without a doubt, the most important success of the country was the long awaited EU membership. On January 1, 2007, Bulgaria joined the European Union that was indicative of the positive economic, social and political changes that have taken place in the country during the last years. The next challenge for the country is to become a member of the Eurozone but first it must put inflation under control while price convergence is taking place. Nevertheless, the Bulgarian government is optimistic that this last hurdle will be overcome and Bulgaria will adopt the euro by 2012.

In 2006, the banking market continued its upward trend with rising volumes and increasing profitability. Already strong, competition became fiercer to the benefit of the clients as they were in the focus of banks' attention. In view of the forthcoming EU membership, Bulgarian banking system invested heavily in IT infrastructure, branch network and new personnel, preparing itself to face the challenges of the single market. In view of the Basel II reporting requirements as of the beginning of 2007, the Banks have started preparation in 2006 and placed significant amount of investment in IT systems, processes and human capital.

Postbank and the other members of the EFG Group in Bulgaria were well placed to capitalize from the fast developing banking industry and showed their ability to perform in a highly competitive environment. We have outperformed our competitors in all lines of business, winning market share and gaining a competitive edge in the industry.

The outstanding growth is reflected in 2006 financial results for Postbank and its affiliates. Total assets have increased by 93% to BGN 3.57 bn. The growth was driven by customers' deposits that have grown by 125% year-on-year. Loans increased by an impressive 77%, outperforming the market average by more than three times. Postbank was able to gain market share in all target segments reaching 7.3% in consumer loans, 13.4% in mortgage loans and 7.5% in corporate lending. In line with the rapid credit expansion, Postbank was following a prudent credit policy preserving the good quality of the credit portfolio. A new, more sophisticated retail scoring system was implemented which contributed to the better evaluation of credit risk related to customers.

Net interest income rose by 45% for Postbank and its affiliates and total operational income by 40%. Despite the dynamic growth and the substantial investments in business infrastructure, costs were kept under control leading to improvement in the efficiency ratio reaching 55% cost to income. All our efforts in pursuing our long-term perspective and vision along with laying the foundation of sound corporate governance structure materialized in a substantial year-on-year net profit growth of 72%.

In 2006, we further enhanced our national coverage bringing the total network to 146 points-of-sale and five corporate business centers, the latter expected to increase up to 11 until the end of 2007. Additionally, through DZI Bank acquisition there will be more than 280 points-of-sale operating countrywide. Throughout the year, we continued our efforts aimed at giving more operational independence to the branches, centralizing the back office activities in the Head Office. The efficient and adaptable IT platform was an important prerequisite for our success helping accelerate new product implementation and allowing flexible monitoring of results through the sophisticated MIS system.

The year 2006 was very successful for the Retail Business. The retail portfolio of EFG Group in Bulgaria grew by close to 100% year-on-year. Despite the fierce competition and the regulative restrictions (the New Consumer Loan Act resulting in reduction of overdue Interest Rates and prepayment fees), the year 2006 was successful for Consumer Lending Business as well. As a result of hard work, innovative products and dedicated employees Consumer loans portfolio rose significantly, by 77%. In achieving its business goals, Postbank's Consumer Lending Division was supported by BRS, our sister company, which provided valuable expertise, including sales & back office services. Postbank reaffirmed its leading positions (achieving 33% market share) in credit cards business after it had acquired in 2005 BRS' credit cards portfolio. In 2006, the bank launched Visa credit cards and finished the year with a total portfolio of 305 000 credit cards. Small Business Banking continued to pursue its main goals to gradually become a market leader in an expanding segment environment, while retaining the quality of credit portfolio in accordance with the overall Bank's policy. This was proven by substantial year-on-year growth in volumes by 161%.

As far as Mortgage Lending Business is concerned, 2006 was once more a year of dynamic growth and market share expansion. Despite the strong competition, Mortgage Lending Business held its leading positions on the market by acquiring further market share and maintaining top-three position. It increased its balance sheet portfolio by over 150% exceeding the market growth almost twice.

In the same time, EFG Property Services, the Group company offering real estate services, was well positioned to support Postbank's expansion and take part in this fast developing market.

The year 2006 was also a very successful one for the Corporate Banking Business. Through its dedicated and pro-active approach, Corporate Lending Division accomplished the Bank's targets by increasing lending volume of Postbank and its affiliates by close to 60% and reaching targeted market share. Corporate Banking business strengthened its leading positions by providing integrated solutions to corporate customers through innovative and tailor-made banking products and services, among which trade finance, leasing, factoring, hedging products, etc. Providing service to corporate customers through the five dedicated business centers contributed to the establishment of new business relationship with corporate customers.

Despite the strong competition and new serious players that entered the market in 2006, EFG Leasing managed to increase its portfolio substantially (by 109%) and maintain its top-three position on the Bulgarian Leasing market. This remarkable result is attributable both to the strong cooperation and support from Postbank and EFG Eurobank Ergasias Leasing as well as the personnel efficiency and competency.

The representative office of EFG Factors was one of the first companies on the Bulgarian market to offer specialized factoring services. The company established a solid presence on the market that encouraged the mother company to transform the representative office into a branch, suggesting the big potential of this segment.

Our corporate customers were also offered a set of services specially developed by Postbank's Capital Markets Division, aimed at hedging their interest and currency risks. Capital Markets Division supported Postbank's growth by actively participating on the debt and money markets thus maintaining its leading position in the local financial markets, 13% share in bond trading and 8% in money market. Brokerage department holds number one position in banking sector in terms of number of deals and during 2006 has increased the number of its active clients by 20%. Postbank Treasury department is proud to be the first derivative provider on the market and a market leader in derivative products.

A precious recognition of the accomplishments of Postbank's team was the "Clients Prize" award in the annual "Bank of the year" competition by Pari Daily. The award is bestowed as a result of voting by customers via internet for the bank of their first choice and is also indicative for the high level of customers' satisfaction from Postbank's services on the financial market. As a result of continued efforts for service excellence in 2006, Postbank was awarded Financial Product of the Year 2007 in the Combined Financial Products category for its Package of solutions for financial risk hedging. Additionally, EFG Factors S.A. was given the award for its debut on the Bulgarian financial market in "Credit products and Financing" category. In 2006, Postbank continued its involvement and initiatives in the social processes placing major efforts in the educational sphere. It is worth noting that in 2006 for a second consecutive year the High Start with Postbank program was carried out. Investing efforts and means in this traditional value for the Bulgarian society and along with the other cultural activities, we have managed to become a symbol for the successful partnership between the financial sector and the social sphere.

Confident in our strategy and people, in 2007 we will continue to sustain our growth and deal successfully with the challenges to come – the forthcoming merger, change of the image, completing the country structure we want to build. Overall, we are looking forward to realizing our stated goal that of creating a first class bank in Bulgaria, for our customers, employees, shareholders and community, as a whole.

Anthony C. Hassiotis

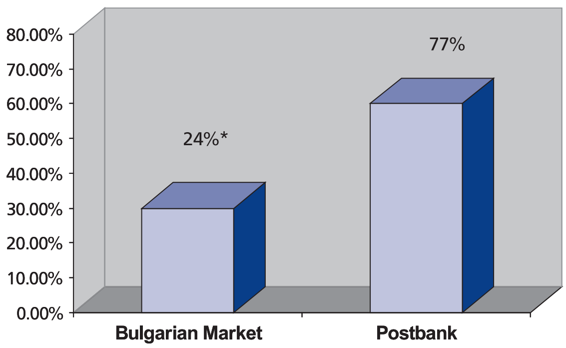
Chief Executive Officer and
Member of the Board of Directors

FINANCIAL HIGHLIGHTS POSTBANK & ITS AFFILIATES

BGN`000	As at 31 December 2006
Balance Sheet	
Loans and Advances to Customers	2,245,461
Deposits	3,120,984
Shareholders' Equity	324,205
Total Assets	**3,576,326**
Profit and Loss Statement	
Net Interest Income	132,287
Net Fee and Commission Income	27,062
Net Trading Gains	7,810
Other Operating Income	1,042
Total Operating Income	**168,201**
Total Operating Expenses	**91,698**
Deposit Insurance Fund expense	-4,271
Provisions for Impairment	-22,565
Profit Before Tax	**49,667**
Income Tax	5,422
Profit After Tax	**44,245**
2006 Key Financial Ratios	
ROA (after tax)	1.63%
ROE (after tax)	17.42%
Cost/Income Ratio	54.52%
Earnings per Share	1.1
Total Capital Adequacy Ratio	13.18%

2006 Ratings	Long-Term	Outlook	Sort-Term
FITCH	A-	Stable	F2

Loan Growth in 2006

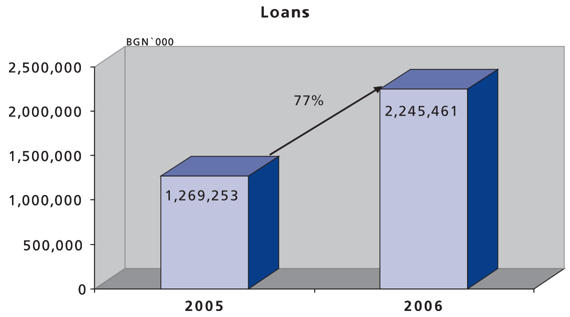


* Market growth based on publicly available sources.

FINANCIAL REVIEW

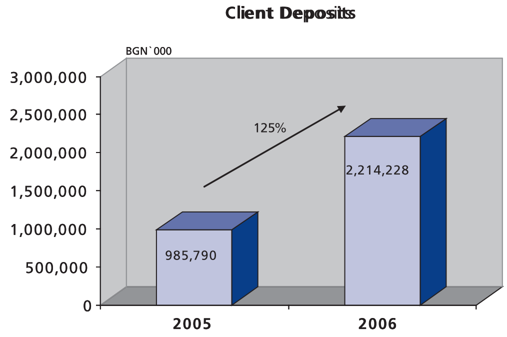
Postbank is a leading universal bank in Bulgaria with more than 15 years of experience. It is part of a strong international financial group – EFG Group. The Bank and its affiliates provide a broad range of banking services to Bulgarian and international customers through their vast domestic branch network and customer service desks. Postbank's strategy for the coming years is to strengthen its position as one of the most important players in the Bulgarian banking sector.

Total assets of Postbank and its affiliates grew by 93% year-on-year. Loans increased by 77% while deposits grew by 100%.

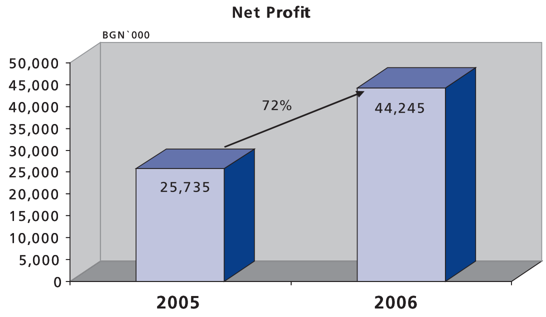


A well-defined mix of new products, competitive pricing, and service quality helped Postbank's loans grow more than three times higher than the market's average.

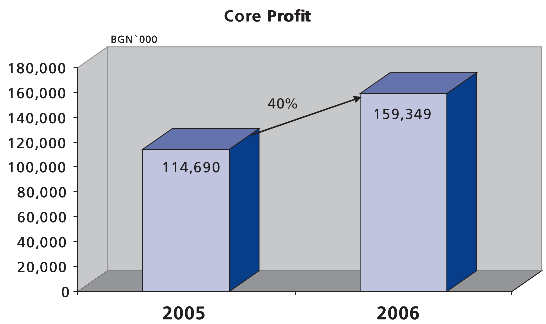
Postbank's strong brand name and sound image continued to attract depositors. Client deposits net growth exceeded more than four times market growth.



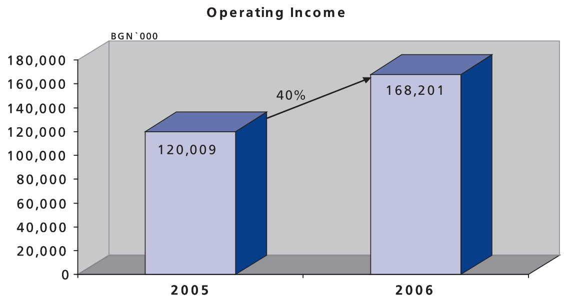
Net profit in 2006 reached BGN 44,245 thousand registering an increase of 72%.



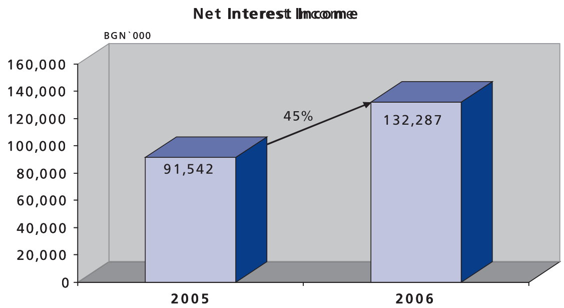
Core profit (Net Interest Income plus Net F&C Income) climbed by 40% to BGN 159,349 thousand in 2006.



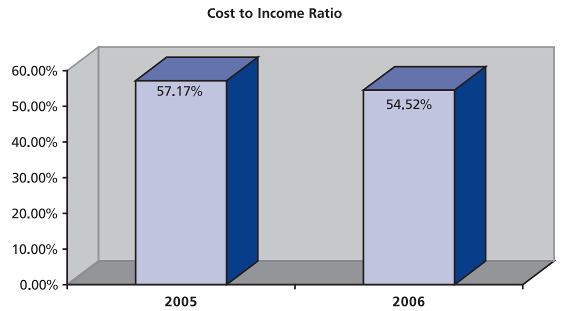
The factors that contributed to that significant net profit increase were the stable rise of Net Interest Income and Net Fee and Commission Income.



Net Interest Income grew by 45% reaching BGN 132,287 mainly due to the substantial growth of the loan portfolio, which increased by 77%, exceeding the emerging market growth rate of 24%.



Total Operating Income increased by 40%, while Cost to Income Ratio decreased to 54.52%. Main



contributors to operating expenses growth in 2006 were the higher staff costs, depreciation charges (reflecting the investments made in the branch network) and advertising and marketing costs.

Due to increasing cost efficiency and the 72% increase in net profits, (ROA) reached 1.63 in 2006. Similarly, after tax Return on Equity (ROE) climbed to 17.42% in 2006.

In 2006 Bulgarian Postbank and its affiliates continued to expand progressively, bringing the total network to 146 points-of-sale and 5 corporate business centers. Additionally, through DZI Bank acquisition there will be more than 280 points-of-sale operating countrywide.

BPB remained a leading credit card issuer in the country continuing successfully to sell Euroline, AMEX and VISA cards. In 2006 the bank achieved 33% market sh are and finished the year with a total portfolio of 305 000 credit cards.

Despite the fierce competition and the regulative restrictions, the year 2006 was successful for Consumer Lending Business as well. Consumer loans continued to grow at high rates both in number and volumes (by 77% year-on-year).

With respect to mortgage loans, Postbank ranked top-three position on the market with a market share of 13.4% (9.5% as at the end of 2005). The outstanding mortgage portfolio increased by more than 150%, exceeding the market growth almost twice.

In 2006, a new philosophy of small business customer service was established focusing on the approach to potential customers, the understanding of their needs and the offer of reasonable solutions and competitive products. This was proved by substantial year-on-year growth in volumes by 161%.

Postbank maintained its leading position in the local financial markets (8% share in the money market and 13% in bond trading). Brokerage department holds number one position in banking sector in terms of number of deals. Additionally, in 2006 it increased the number of its active clients by 20%.

The Bank's corporate business continued to grow establishing cross-selling opportunities through new hybrid and innovative products. Through its dedicated and pro-active approach, Corporate Lending Division accomplished the Bank's targets by increasing lending volume of Postbank and its subsidiaries by close to 60% and reaching targeted market share.

Despite the strong competition and new serious players that entered the market in 2006, EFG Leasing managed to increase its portfolio substantially (by 109%) and maintain its top-three position on the Bulgarian Leasing market.

The representative office of EFG Factors was one of the first companies on the Bulgarian market to offer specialized factoring services. The company established a solid presence on the market which encouraged the mother company to transform the representative office into a branch, suggesting the big potential of this segment.

EFG Property Services, the Group company offering real estate services, was well positioned to support Postbank's expansion and take part in this fast developing market.

MEMBERS OF THE BOARD OF DIRECTORS AS OF 31 DECEMBER, 2006:

Anthony Hassiotis	Chief executive officer
Asen Yagodin	Executive director
Theodore Karakassis	Executive director
Haralambos Kyrkos	Member of BD
Georgios Katsaros	Member of BD
Piergiorgio Pradelli	Member of BD
Evangelos Kavvalos	Member of BD
Andreas Chasapis	Member of BD
Christos Komiopoulos	Member of BD

SHAREHOLDER'S STRUCTURE AS OF MAY 15TH 2007:

EFG Eurobank Ergasias S.A.	75,327%
CEH Balkan Holdings Limited	24,328%
Bulgarian Posts Plc.	0,345%

BUSINESS REVIEW

RETAIL BANKING

The performance of Retail Banking during 2006 was impressive and retail loans increased by 103%. Consumer, Mortgage and Small Business Banking loans outperformed market and increased market shares.

The effort to attract and manage retail customers' funds was also effective. In 2006 retail deposits rose by 59%, reflecting a significant increase in market shares.

Branch network

During 2006 Postbank significantly expanded its presence in Bulgaria. Another 21 new branches were opened, 10 were upgraded and 24 were renovated. All of them featuring a modern open space layout, redesigned to align with the new corporate identity.

By the end of the year Postbank reached presence of 149 points-of-sale. The Network's dynamic expansion is planned to continue in 2007. In parallel, Branch Network significantly increased the number of specialized officers, both in Household and Small Business Banking.

As a result of a continuous investment in training, the overall productivity was increased and is going to extend even more within next year. Special focus in training is a continuous process and will be further developed in 2007.

Consumer lending and cards business

All major banks in Bulgaria placed a significant emphasis on consumer lending trying to gain market share and increase their clientele base. This resulted in strong competition and market growth in spite of the new regulations of the Bulgarian National Bank aimed at restricting and controlling credit growth.

It has been a successful year for the Consumer Lending Division: the Bank was steadily growing and maintaining market share. Postbank reaffirmed its positions in retail banking by offering new competitive products on the market. The bank launched Visa credit cards and finished 2006 with a total portfolio of 305 000 cards, achieving 33% market share.

In 2006 the strong competition in consumer loans urged the bank to address consumers with competitive price offers staying within the market frames. The new Consumer loan Act of October 2006 resulted in reduction of overdue Interest Rates and prepayment fee.

Though the above the business has a

77% YoY increase of outstanding loan balances.

Car business has a significant role to play in this huge success.

The exclusive partnership of Postbank with American Express in Bulgaria continued in 2006 as well, covering more than 6000 POS terminals in partner merchant locations in the country.

AmEx brand won “Superbrands” reward for 2006 among other 50 brands on the Bulgarian market.

Last year the bank conducted an agreement with American Express for the conversion of EuroLine portfolio into EuroLine American Express, thus updating the product with international usage and all benefits of the prestigious brand. The project will be finalized early summer of 2007.

By accepting two exclusive brands - American Express and Euroline, together with Visa and Borica payment systems, Postbank has become one of the strongest acquirers in the market.

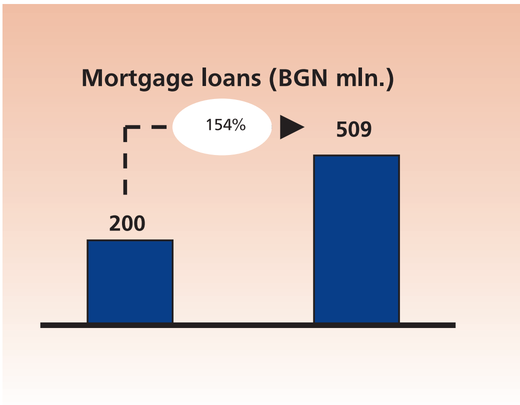
In autumn of 2006 EFG Eurobank Greece has acquired DZI Bank so the total network of the new bank to be created on the Bulgarian market will be operating with more than 280 points-of-sale. This merge resulted in bigger customer base, higher coverage throughout the country and a total market share significantly exceeding 10%

Monitoring and improvement of the quality of the consumer lending portfolio are the Bank’s main priorities in sustaining a profitable growth. Following the standards and know-how of the Group in risk management and credit assessment, along with the implementation of new collection system software, the Bank managed to improve its consumer-lending portfolio and credit performance indicators.

The good performance in consumer lending, the extensive range of card and loan products, together with a strong marketing support and know how, have established a major foothold for long-term profitability offering an excellent opportunity for the Bank to become the leader on the consumer lending market in Bulgaria.

Mortgage Lending

In a very dynamic and competitive environment focusing on interest rates in 2006 Postbank was the fastest growing bank in housing lending gaining 3.9% market share. The market share reached 13.4% as at the year end. The bank posted 154% growth outperforming the market which grew by 83%. The outstanding balance of the total mortgage portfolio increased



by BGN 309 million reaching BGN 509 million. Postbank took over the 3rd place in the mortgage market.

In 2006 Postbank continued to launch new innovative products designed to meet at highest extent the customers' needs. In the second quarter of the year the bank launched product with low fixed rate for the first year of the loan. The product was advertised intensively and brought 30% increase in the new originations. In September another innovative product – the loan with interest only payment for an introductory period of 1 year was successfully launched and contributed for the record production in the last quarter.

The main part of the distribution was coming from the branch network with increasing contribution of the network of external third parties like real estate brokers, developers and financial consultants.

Small Business Banking

During the year Postbank's Small Business Banking (SBB) continues to pursue its main goals to gradually become a market leader in an expanding segment environment, retaining the quality of credit portfolio in accordance with the overall Bank's policy.

Our business strategy based on expedient personnel profile, successful product differentiation and automation of business processes facilitates our efforts not only to achieve a competitive positioning but to expand into a new customer segment.

Our service quality and continuous internal training gave help not only to establish a solid base of more than 6 000 customers but also to attract new companies and to build strong relationships with them. As a result, our business expanded more than 160% annual net growth of the loan portfolio.

Responding to the market needs our product development launched some new, more flexible products as Business Overdraft and Business Premises Revolving line. We believe that the market expectations have been timely captured and focused in a right direction.

The year was fruitful for new partnerships. The Bank gradually evolved its relationships with National Handcraft Association, Dentists Professional Society as well as with many NGO and sector-type entities.

The priorities of the Small Business Banking Division for 2007 will be to keep focus on product development and differentiation, cross selling activities and overall improvement of efficiency and organizational structure both at Head Office and at the branches.

CORPORATE BANKING

2006 was a very successful year for Corporate Banking Division of Postbank. Thanks to its dedicated and pro-active approach, CBD accomplished Budget targets increasing the lending volume and reaching targeted market share. We gained the trust and established new business relationship with large number of corporate customers. Postbank became "The Bank of Choice" and was always recognized as a reliable partner to corporates in Bulgaria.

In 2006 CBD strengthened its leading positions by providing integrated solutions to corporate customers through innovative and tailor-made banking products and services. The product portfolio was enhanced with full range of trade finance, leasing, factoring and hedging products. Special attention was paid to the investment needs of our clients. The bank helped its corporate customers to manage their assets, liabilities and financial risk in the most efficient manner, to raise their capital through modern methods and to realize their strategic vision.

These results were achieved via several channels of distribution – Large Corporate Department; unique Business Centers Network; Trade Finance Department and specialized Greek Desk. All units had strong support from the Corporate Loan Administration. Through this structure we have ensured access of every corporate customer to the decision-making bodies of the bank, which led to significant growth of our volumes and income.

The priorities of CBD for 2007 will be to further increase the client base and volumes through unique banking services combined with effective cross-selling activities. New Business Centers shall be established in order to enhance the relations with SME clients. We are looking forward to improve efficiency of our structure through intensive training. The upcoming merge with DZI Bank shall bring to CBD new challenges as well as new opportunities.

Leasing services/EFG Leasing

After the successful start in 2005, in 2006 EFG Leasing/EFG Auto Leasing continued to build-up on their stable market presence and progressive development. Both companies provide the full range of leasing products for passenger and commercial vehicles, equipment and real estate to retail and corporate clients. Commercial and passenger vehicles have the largest share in the lease portfolio with 45%, followed by real estate with 27% and industrial equipment – 21%.
Despite the strong competition and

new serious players that entered the market in 2006, EFG Leasing managed to maintain its top-three position. This remarkable result was attributable both to the strong cooperation and support from Postbank and EFG Eurobank Ergasias Leasing and the top level efficiency and competency of the personnel.

In the end of 2006 the outstanding balances amounted to BGN 205 mln reaching an increase of 109% compared to 2005. The total number of clients with active contracts increased more than 4 times to 1739.

Three new branches of EFG Auto Leasing outside the capital were established in Q4. The first one that became operational in October 2006 contributed for 25% increase of the incoming vehicle leasing applications for the last quarter and quickly added valuable new vendors to the list of the cooperating partners. Following these results three new branches are planned to start in the second half of 2007 increasing the total number of branches to 6 and providing coverage in the main business areas in the country.

Following the market developments and the rapid growth of the real estate market in 2007 EFG Leasing will emphasize on promoting such leasing solutions. Other initiatives planed for development and launching are leasing of boats and stock financing.

Factoring services/EFG Factors

In 2006 EFG Factors, through its representative office in Sofia, strengthened its position in the market of factoring services in Bulgaria. Taking advantage of being the first mover in the country, EFG Factors managed to achieve high turnover growth in international factoring, both export and import. The company provides factoring services in close collaboration with the Corporate Banking Department of Postbank and other subsidiaries of EFG Group in the country, in order to offer high quality services to the Group's clientele. In 2006 EFG Factors remained the only Factor Chain International and International Forfeiting Association member covering Bulgaria. EFG Factors continued its initiatives in promoting a clear and positive picture of the factoring service in the country. In November 2006, EFG Factors upgraded its representation office to a full-service Branch. The Branch processes a highly trained and motivated workforce utilizing the sophisticated factoring software for electronic management of receivables.

The goals of the EFG Factors Branch Bulgaria for 2007 are to increase its presence on the market by not only leveraging its advantages in international factoring, but also launching new factoring services to meet the growing demand on the domestic market.

EFG Property Services Sofia

For its first full year of operation, EFG Property Services Sofia managed to continue its successful activities, providing real estate appraisal and agency services. The company established own appraisers' network including more than 35 partners throughout the country offering reliable and on-time services not only for the needs of Bulgarian Post Bank but also to third parties customers.

Regarding the real estate agency services the company is focused mainly on corporate clients trying to meet their needs not only offering brokerage but also wider consultancy support related to the selection, acquisition and further management of a real estate. The scope of these efforts is to create one-stop shop for real estate services.

Despite the extreme competition in the field of real estate services, the company improved its market position.

The company is optimizing constantly its internal structure in order to meet the increasing volumes of work. In 2007, its ability to provide complex solutions will be improved by the real estate consultancy division as well as project management specialists.

In 2006 the Capital Markets Division sustained its leading role on the domestic financial markets through its active presence in the fields of foreign exchange, bond trading and asset/ liability management.

The Treasury Sales Department was established to respond to the increasing financial needs of the institutional, corporate and high-net-worth clients of the bank. The Department deals primarily with derivative products, aiming at stripping client business out of currency and interest rate risks. TS activities are also directed to the new market requirements for more sophisticated /exotic or synthetic/ derivative instruments. Apart from hedging instruments, tailor-made solutions were introduced to a big number of institutional clients with specific investment needs.

New marketing strategy was launched, including strong media presence, organizing events, seminars with the top clients of TS Postbank and creating of new brochure with the most popular and attractive FX/IR hedging products. The brochure was awarded a first prize during the yearly international financial exhibition “Banks investment and money”.

The Trading Department was actively involved in new markets and products aimed at dispersing risk and improving the return to risk ratio. The Fixed Income Desk maintained its presence on the primary market and increased its share on the secondary market of sovereign and corporate debt. With the logistic help of Eurobank – Athens, our mother company, we started to offer our clients a wide range of bond markets, including bonds from EEA member countries, European corporate and banking bonds and bonds from emerging Balkan markets.

The Brokerage Department provides institutional, corporate and private clients with investment and brokerage services linked to the Stock exchange. The brokers introduced the remote Internet-based “COBOS” system for the clients of the bank who now have closer access to the trading floor. The Brokerage department also offers short-term financing to the clients through repo deals.

Capital markets Achievements:

- Sustained Leading Positions:
  - 8% in Money Market
  - 13% in Bond Trading
- Adopting IR Derivatives for Trading and Investment Needs
- Self-funding of Bond portfolio
- Active Management of the IR Gap of the Bank

Treasury Sales Achievements:

- Calls & Visits – 66% increase
- Successful Accomplishment of Joint Treasury & Corporate Seminar for Derivative Products – 60 big corporate clients presented
- First time sale of Structure Products and FX Options
- Introduction of Flexible Deposit Schemes
- Issued Treasury Sales Brochure with 12 products for IR and FX Hedge

- 95 Derivatives & 3 Structured products Sold

Type	#	Volume
FX Forwards /incl. Flex. Frwds/	27 deals	EUR 248 M
FX & IR Swaps	60 deals	EUR 30 M
FX Plain Vanilla Options	4 deals	USD 6 M
Structured Product	3 deals	EUR 1 M

Calls & Visits	2005	2006
Corporate & Retail Clients	95	160
Institutional Clients	9	45
Total	114	205
Success Ratio	25%	22%

Equity Trading & Brokerage Achievements:

- Proprietary Portfolio Reached BGN 5 867 490 /BGN 1 955 830 in 2005/
- Trading Gains reached BGN 1 955 830 /vs. BGN 78 233 in 2005/
- Yield of 40% for 11 months
- Brokerage Market share 2005 2006
- Among Banks only 4% 7.8%
- Among All Competitors 3% 4%
- 1st Place among Banks in terms of number of deals
- 5th Place among Banks in terms of turnover
- 20% increase of Active clients due to COBOS launch

TECHNOLOGY & SERVICES

Information technologies

In 2006 the Postbank Information Technologies completed a number of projects in order to improve the business process automation and provide modern services with better quality to the bank customers.
The new implementations and enhancements were focused on different areas to meet the increased business requirements as well as Bulgarian National Bank initiatives connected with international standards implementation and Basel II.
The major projects that contributed to the bank development were:

Implementation of new **International Bank Account Numbers (IBAN)** according to the requirements of Bulgarian National Bank for money transfers, electronic payment tools and national payment systems. Part of the project was the modification of Bulgarian National Institutions (BISERA, BORICA, SEBRA, RINGS and etc.) interfaces including creation of new payment transactions and new payment forms as well as internal interfaces (between Postbank applications) and customer oriented interfaces.

In order to meet the Eurobank EFG provisioning polices the new **Provisioning system** was implemented. The developed functionality provides an automatic provisioning on a deal-by-deal level according to predefined criteria.

A new treasury system for the Front Office of the bank - **Kondor+** was implemented. The interface between Kondor+ and the current treasury system was developed in house. The interface ensures automatic transfer of the treasury deals booked in Kondor+ to the treasury middleware DB.

Postbank **Project Management Methodology** for Information System implementation was developed and implemented.

The Standardized Approach of **BASEL II Standard** and BNB **Regulation No 8** requirements about the capital adequacy are specified. The necessary development will be done according to the Business and Group requirements.

Flexi Loan represents a group of new functionalities in the Postbank core banking system. The system allows the customers to increase and decrease the installments and a possibility not to collect one loan installment per calendar year. In this way by offering the choice of flexibility in installment payments, the bank meets customers' needs more effectively and creates a significant source of revenue.

The core banking system enhancement with **Customer limits functionality** provides credit exposure control, its flow and approval steps. It provides tools for monitoring the client's overall exposure, evaluation of the risk, better service of the corporate clients and allows offering new facilities to Bank customers.

The **Group Sales module** provides new functionality for servicing of companies and their employees, monitoring and reporting of Group Sales activities.

In Postbank Brokerage system **improvement of the Interface to the web based application** of Bulgarian Stock Exchange was implemented. The automation procedure for matching between the Stock Exchange Deals and Client Orders was expanded.

An **extension of the existing Collection system for Credit cards** is implemented. Qualco Breakthrough Collection system is enhanced to organize, assign and control the overdue consumer loans.

The **Management Information System** (MIS) was extended with new Group and Branch Network Reports. The special package of reports for Consumer and Mortgage Lending was successfully implemented.

The Web based **I-Apply** application for external agencies was developed and implemented. The application provides ability to process consumer loans from third parties which gives the opportunity to expand the Bank distribution network.

The **Technical Infrastructure activities** were focused on different areas to meet the branch network growth (21 new openings and 24 renovations), systems expansion / upgrades and network optimizations, implementation of high level security and the best practices technologies, as well to provide reliable and effective infrastructure for the business services.

The Second Independent Vendor firewall enabled the Bank's Security team to have double checking inbound/outbound communication through the Internet for potential malicious code, configuration weaknesses or firewall vendors' programmatic bugs.

Successful **implementation of the PKI project** will establish the internal infrastructure for management of digital certificates. They will be used for different application like: signed / encrypted electronic messages, encryption of security sensitive documents / files, secure remote access for Bank's management teams.

The implemented **Intrusion Detection / Intrusion Prevention system** improves the ability and speeds up the process of detecting abnormal activities in the Bank's network. This results in more efficient detection of unauthorized network devices, viruses and harmful code as well as enables the team to isolate the affected subnet.

Design and deployment of IP Telephony in BRS/Consumer Lending division. The successful replacement of the existed proprietary telephony systems and migration to integrated IP Telephony system provided high quality telephony services at lower costs. It also enabled the BRS employees to benefit from additional features like common telephony directory, direct internal communication with Bank and subsidiaries employees and others.

RISK MANAGEMENT

Risk Division

During 2006 risk Division successfully continued performing its day-to-day activities and took part in several major Projects. Additionally new procedures were introduced to the division, leading to a more efficient management of the risk in the multiple activities of the Bank.

Credit Risk Area

- The Credit Risk Department continued to participate in the direct approval and the delivery of comprehensive credit risk opinions on deals from Corporate Banking, Small Business banking and Mortgage Lending Divisions in addition with the deals from EFG Leasing EAD and EFG Auto Leasing EOOD. For 2006 the unit handled 1, 968 applications exceeding the amount of 1 billion and 401 million EUR. The average negative opinion rate for 2006 was bellow 1.78%.
- 2006 was a very successful year for the Credit Control Department. Along with performing its regular reviews and reporting on the Bank's credit portfolio to the local management and to EFG Group, analyzing portfolios' volumes, quality, classification and provisions, the unit successfully participated and facilitated the overall Bank's processes for new credit policies' and procedures' launching and amendments, as well as the new products' activity expansion.
- During 2006 Recoveries Department continued to improve its activities. For the past year the Department collected more than 3.7 million EUR.

Market Risk Area

For the previous year Market Risk Department continued improving its regular reporting to the local management and to EFG Group. Major steps were made for improving the controlling function, mainly focusing on reporting of exceeded limits and of Treasury's profitability. The unit started to perform hedge effectiveness assessments as per the Hedging policy of the Bank, and at the same time continued preparing opinions on bond deals' and new products' proposals.

Operational Risk Area

Since the beginning of 2006 Operational Risk activity run new higher level of its performance, as an enhanced version of the Operational Risk Events/Losses report on a monthly basis was introduced. Along with reviewing and assessing from operational risk point of view multiple new and existing banking procedures, Operational Risk Section prepared successfully a mandate and terms of reference in compliance with EFG Group guidelines and requirements, and was also assigned the role of Bank's fraud prevention coordinator.

Basel II Project Area

During 2006, Basel II project on complying standardized approach was initiated, as the High-Level GAP analysis coordinated by Risk was finalized successfully and within very short terms. At the end of 2006, the Bank started producing the first reports meeting the Group's Basel II requirements.

Compliance

In 2006 Compliance Department continued to provide support and assistance to the Bank's management in the process of corporate governance with the purpose to appropriately manage the compliance risk and to protect the interests of shareholders, customers, business partners and employees.

Anti-Money Laundering

The main purpose of Compliance Department continued to be the protection and prevention of using Postbank for money laundering or terrorism financing. The usage of implemented software helped a lot in order suspicious transactions to be identified and to defend the bank from performing payments to or from embargo countries or institutions.

Code of Conduct and Professional Ethics

Staff compliance with the requirements of the Code of conduct and professional ethics was monitored and controlled. Higher standards of behavior were established and the principles of honesty, loyalty and conscientiousness became the guiding ideas and main basis of work.

Customer Complaints

The centralized customer complaints' management increased substantially the gathered statistical information. Based on it much better analyses were prepared with many quality improvement suggestions and initiations of development of new procedures and rules. The feedback, provided by customer complaints, helped the Bank in detection of customers' needs and their satisfaction.

Internal controls and Audit

Effective internal and external audit and control functions are considered crucial to the long-term soundness of the Bank. The importance of audit and internal control processes is recognized and communicated by the Management throughout the Bank. In 2006 the Bank enhanced its internal control systems in all areas of activity through the development of new policies and procedures strongly focused on internal controls. Through independent appraisals of internal control systems in key areas of activity, the Internal Audit function continued to contribute to establishing a robust system of internal controls that will ensure meeting the Bank's strategic objectives.

CORPORATE SOCIAL REPOSNSIBILITY AND SUSTAINABILITY

CORPORATE SOCIAL RESPONSIBILITY AND SUSTAINABILITY

Mission

Our mission is to meet the constantly evolving expectations of our customers, to create value for them and our shareholders, and to promote an internal operating environment where individual skills are stimulated, knowledge is efficiently applied and the development of our personnel is systematically encouraged. Through this effort we strive to be the frontrunners in providing the most innovative and best quality products and services.

Vision

Post Bank is a well established, dynamically growing, customer driven universal bank, which belongs to a strong International Financial Group, and aims to achieve a leading position within the Bulgarian market.

Our Core Values

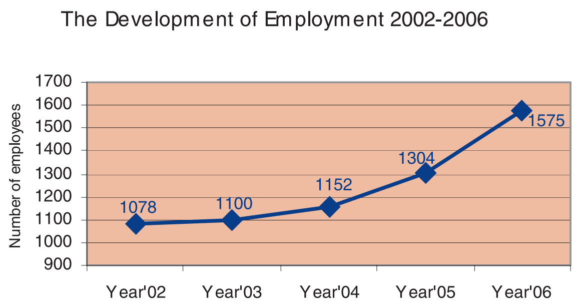
Trust
We believe in the mutual confidence among our shareholders, employees and customers.
People-centrism
Human being is the core of our corporate philosophy – our customers, employees and partners
Innovation
We offer flexible solutions, products and know-how based on the best European standards.
Quality
In order to satisfy the high expectations of the customers, we recognize the human resources as the most important asset and invest in our personnel, offering the necessary motivation and adding value to our servicing.
Flexibility
We offer competitive products and services as we are fully aware of the constantly growing needs at the market.

Human resources

In order to meet the constantly evolving expectations of its customers and create value for them and its shareholders, Postbank strives to sustain a culture of innovation and excellence by investing in its most important asset – its people. Postbank is committed to create a learning environment fostering human capital development, encouraging initiative and change, rewarding performance and caring about people.

New hires

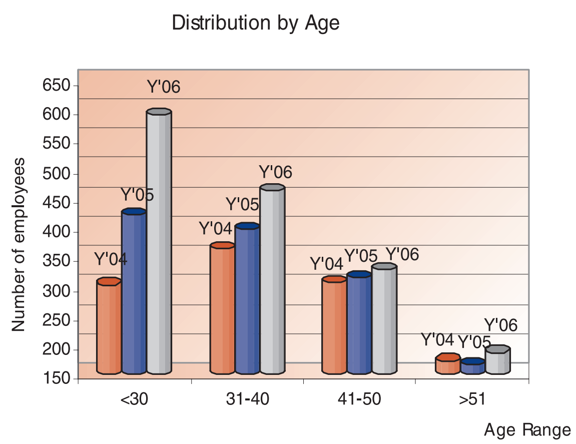
At the end of 2006, the total number of Bank employees amounted to 1575 people (average age - 36 years). The recruitment process is based on the principle of impartial and objective selection. In line with the vast growth and expansion of the Bank's branch network and activities, 473 employees were recruited in 2006. The Human Resources Division also supported the restructuring process within the Bank's Head Office and Branch Network.



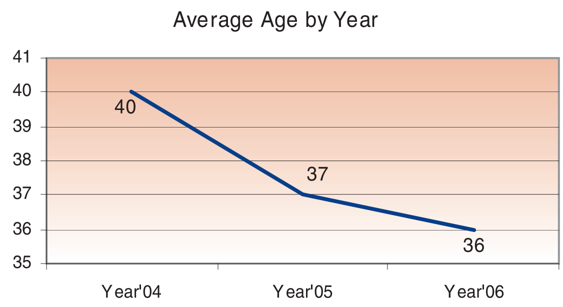
Total number of employees in 2006:

- Head Office: 519
- Branch Network: 1052

Following the trend in the previous two years, the Bank continued to recruit young people, employed mainly at sales positions, opened during the branch network development process, for which the strong proactive and



sales-oriented approach is a must. In this regard, Postbank continued its successful tradition of organizing internship programmes by conducting five more programs in 2006 with 80 participating students throughout the country. Postbank hired 50% of all trainees, both in the Head Office and Branch network



Training

Because of the dynamic expansion in 2006, we focused our efforts on an Induction Program, tailored especially for each position in the branch network, as well as on selling skills trainings, aimed at developing active sales techniques for the various retail products of the Bank's portfolio.

In 2006, special attention was paid to key employees' development and promotion. In a sequence of management skills trainings, our branch and area managers improved their business planning and coaching skills in accordance with the changing environment in terms of business and people management.

In addition, the number of participants in qualification programmes such as

ACCA, CFA, CIA and University Master Programs is growing.

We aspire to offer constant training to our employees in order to ensure that customers are provided with the highest quality service and adequate information about available products. In 2006, the Bank conducted a total of 113 649 training hours, covering 3952 participants.

In 2006, we continued the application of the performance appraisal system common to the entire Group. The feedback provided by this system, we employ in guiding the employees' performance according to their training and career development needs by promoting an internal organizational climate where the appropriate learning opportunities are created, individual skills are stimulated and knowledge is efficiently applied.

Allowances and Incentives Policy
In 2006 Postbank kept a policy for additional allowances, an additional voluntary life insurance scheme, a voluntary Medical Services Plan and voluntary pension insurance. All Postbank employees benefit from the preferential conditions and facilitated procedures for the Bank's products.

	Participants	Employees	Total Training Hours	Total Training Hours per Employee
2006	3952	1575	113 649	77,8
2005	3810	1304	70 490	58,4
2004	3184	1152	67 107	58,3
2003	1653	1064	50 141	47,1
2002	1433	1124	46 486	41,4
2001	819	1160	15 860	13,7

Our contribution to society

As one of the leading banks on the Bulgarian financial market Postbank has always invested major recourses in the social sphere of the community it operates within. One of our major goals is to be able to give back as much as we can to the society. This socially engaged position has been supported by various programs and activities implemented in areas such as education, culture and sports.
In 2006 Postbank continued placing major efforts in the educational sphere. Investing efforts and means in this traditional value for the Bulgarian society and along with the other cultural activities we have managed to become a symbol for the successful partnership between the financial sector and the social sphere.

Education

High Start with Postbank 2006
In 2006 the High Start with Postbank program was carried out for the second year in succession. Throughout the years the program aims to give financial support to excellent students at Bulgarian secondary schools by granting one-time scholarships and at the same time make a long-term investment in building an image of Postbank as a leader in the banking sector that invests in the future of the country and its citizens.

In a short time, Postbank's initiative has turned into a synonym of private sector's efforts to support and invest in the future of the Bulgarian society for a number of reasons. The main reason for the campaign's success was the involvement of Bulgarian state institutions as partners – Ministry of Education and Science and Regional Inspectorates for Education. Thus High Start with Postbank received authority as it was perceived as one of the few serious attempts to support a very important field for the country – education. Another significant factor for the campaign's success was the key timing of the program. Over the last years education has been undergoing serious financial and moral crisis and due to the problem's complexity it has been an avoided theme of social campaigns organized by the private sector. The opportunity this topic gave us for carrying out a socially engaged PR campaign brought about excellent results and strengthened Postbank's image as a good corporate citizen. High Start with Postbank was orientated to the more isolated locations from a marketing point of view that opened a new opportunity before Postbank's social engagement.

Due to the annual implementation of the program Postbank strengthened its image as a serious institution showing long-term interest in Bulgaria and investing in the future of its consumers by helping Bulgaria to cope with one of the most serious issues – financial crisis in education.

In 2006 Postbank granted 161 one-time scholarships at the amount of BGN 450 each. The scholarships were handed at special ceremonies in different cities in the country in the presence of representatives of the Ministry of Education and Science, Mayors, Municipal representatives, Media, and other distinguished guests.

During the years, the “High Start with Postbank” program confirmed itself as symbol of the successful partnership between the state institutions and the banking sector. With the investment of sizable resources for encouraging the success of the talented schoolchildren, Postbank managed to show that the united endeavors of the business and the state render impressive results. The major purpose of the program is to show that the hard work and the excellent achievements are being highly appreciated and rewarded.

Support of young talents

In 2006 for the fifth time in a row, Postbank has been part of the initiative of Junior Achievement Bulgaria foundation – Manager For A Day. The program gives young talents an opportunity to implement their academic knowledge in the practical area. This year we gave two young people the chance to “sneak in” the everyday work of the bank and become part of our team for one whole day.

Along with that in 2006 Postbank was the sponsor of the Children mathematics team in Sofia that represented the country at the International Mathematics Contest in Indonesia. The pupils returned with one gold, two silver and one bronze medals.

Culture

Uriah Heep and Nazareth Concert in Stara Zagora

In 2006 Postbank was the official sponsor of the free concert of the rock legends Uriah Heep and Nazareth in Stara Zagora. The rock bands delivered live on stage a unique show that was visited by guests from all over the country.

That 50's show

As a traditional sponsor of the Club for Latin American and Ballroom Dances “Dressed In Tails and Patent Leather Shoes” in 2006 Postbank sponsored the world premier of the dance performance “That 50s show”. The show united dance elements as salsa, swing, cabaret and jazz. Especially for the performance 7 of the top world dance couples arrived in Bulgaria. Among the performers were Andrei Skuftz and Katerina Venturini, four time world champions.

Sports

Club for Latin American and Ballroom Dances “Dressed In Tails and Patent Leather Shoes”

For more than 4 years now Postbank has been the official sponsor of one of the most prestigious clubs for Latin American and Ballroom Dancing – the “Dressed In Tails and Patent Leather Shoes” Club. The sponsorship has proved to be an efficient channel for the popularisation and the establishment of the bank as a major supporter of the young and talented people in Bulgaria.

Donations and partnerships

Postbank's efforts in the social sphere continued in 2006 by supporting various regions and fields in need of financial assistance. The well established tradition of donating technical equipment to schools was continued. In Stara Zagora the financial institution donated computer systems to one school, the local police department and to other regional state institutions.

FINANCIAL STATEMENTS 2006

BULGARIAN POST BANK AD
FINANCIAL STATEMENTS
31 DECEMBER 2006

CONTENTS

Income statement

All amounts are shown in BGN thousands unless otherwise stated

	Notes	Year ended 31 December 2006	2005
Interest income and similar income	1	170,726	112,956
Interest expense and similar charges	1	(52,368)	(26,191)
Net interest income		**118,358**	**86,765**
Fee and commission income	2	28,549	24,867
Fee and commission expense	2	(14,894)	(13,689)
Net fee and commission income		**13,655**	**11,178**
Dividend income		125	87
Net trading income	3	3,989	2,140
Gains less losses from trading securities		1,583	1,408
Gains less losses from investment securities	12	2,890	1,131
Other operating income		491	463
Operating income		**141,091**	**103,172**
Other operating expenses	4	(76,016)	(56,276)
Deposit Insurance Fund expense		(4,271)	(3,481)
Impairment charge for credit losses	6	(16,658)	(10,081)
Profit before income tax		**44,146**	**33,334**
Income tax expense	7	(5,450)	(5,697)
Profit for the year		**38,696**	**27,637**

Anthony C. Hassiotis
Chief Executive Officer and
Member of the Board of Directors
30 March 2007

Petia Dimitrova
Procurator and
Chief Financial Officer

Initialed for identification purposes in reference to the audit report

Rositza Boteva
Registered Auditor
30 March 2007

Balance sheet

All amounts are shown in BGN thousands unless otherwise stated

	Notes	As at 31 December	
		2006	**2005**
Assets			
Cash and balances with the Central Bank	8	211,938	171,619
Loans and advances to banks	9	716,218	203,016
Trading assets	10	121,877	53,209
Loans and advances to customers	11	1,587,495	1,173,284
Investment securities, available-for-sale	12	162,428	49,721
Derivative financial instruments	16	1,623	917
Overpaid tax		-	885
Other assets	13	8,277	8,040
Property and equipment	14	70,023	52,149
Total assets		**2,879,879**	**1,712,840**
Liabilities			
Deposits from banks	15	205,220	193,706
Derivative financial instruments	16	861	16
Due to customers	17	2,214,228	985,790
Debt securities in issue	18	95,426	80,933
Other borrowed funds	19	12,801	246,001
Current income tax liabilities		4,299	-
Deferred income tax liabilities	21	2,046	4,007
Other liabilities	20	24,930	17,183
Total liabilities		2,559,811	1,527,636
Shareholders' equity			
Share capital	23	207,716	109,925
Other reserves		112,352	75,279
Total shareholders' equity		**320,068**	**185,204**
Total shareholders' equity and liabilities		**2,879,879**	**1,712,840**

Anthony C. Hassiotis
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30 March 2007

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30 March 2007

Statement of changes in shareholders' equity

All amounts are shown in BGN thousands unless otherwise stated

	Share capital	Property and equipment revaluation reserve	Available-for-sale investments revaluation reserve	Retained earnings and other reserves	Total
Balance at 1 January 2005	**51,250**	**6,164**	**3,956**	**38,972**	**100,342**
Available-for-sale investments					
- net fair value gains, net of tax	-	-	(585)	-	(585)
Transfer to net profit or loss arising on investment securities available for sale, net of tax	-	-	(870)	-	(870)
Net profit	-	-	-	27,637	27,637
Deferred tax on property revaluation	-	5	-	-	5
Transfer of depreciation on revalued property		(34)	-	34	-
Total recognized income in 2005	**-**	**(29)**	**(1,455)**	**27,671**	**26,187**
Share issue	58,675	-	-	-	58,675
Balance at 31 December 2005/ 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	**-**	**94**	**(1,721)**	**38,701**	**37,073**
Share issue	97,791	-	-	-	97,791
Balance at 31 December 2006	**207,716**	**6,228**	**780**	**105,344**	**320,068**

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Cash flow statement

All amounts are shown in BGN thousands unless otherwise stated

	Year ended 31 December	
	2006	**2005**
Cash used in operating activities		
Interest received	162,010	112,527
Interest paid	(41,924)	(22,524)
Dividends received	125	87
Fees and commission received	28,959	24,867
Fees and commission paid	(14,894)	(13,689)
Amounts paid to and on behalf of employees	(27,841)	(19,959)
Net trading and other income received	10,621	1,938
Other expenses paid	(37,665)	(28,312)
Tax paid	(1,773)	(5,164)
Cash from operating activities before changes in operating assets and liabilities	**77,618**	**49,771**
Changes in operating assets and liabilities		
Net (increase) in reserve with the Central Bank	(87,152)	(24,034)
Net (increase) / decrease in trading securities	(60,504)	22,546
Net decrease in loans and advances to banks	3,907	9,473
Net increase in loans and advances to customers	(428,427)	(452,239)
Net decrease in other assets	2,517	357
Net decrease / (increase) in derivatives	139	(2,463)
Net increase in due to other banks	8,708	48,655
Net increase in amounts due to customers	1,219,573	267,902
Net increase in other liabilities	205	5,511
Net cash used in operating activities	**736,584**	**(74,521)**
Cash used in investing activities		
Purchase of property and equipment (Note 14)	(28,563)	(31,003)
Purchase of investment securities	(182,607)	(41,588)
Proceeds on disposal of property and equipment	94	419
Proceeds on disposal of investment securities	72,035	72,697
Net cash used in investing activities	**(139,041)**	**525**

Cash flow statement (continued)

All amounts are shown in BGN thousands unless otherwise stated

	Year ended 31 December	
	2006	2005
Cash flows (used in) from financing activities		
Proceeds from issued debt securities	33,750	60,000
Repayments from issued debt securities (Note 18)	(19,869)	(12,000)
Long-term financing received (Note 19)	(231,361)	95,868
Shares issued	97,791	58,675
Net cash from financing activities	**(119,689)**	**202,543**
Effect of exchange rate changes on cash and cash equivalents	(43)	477
Net change in cash and cash equivalents	**477,811**	**129,024**
Cash and cash equivalents at beginning of year	274,398	145,374
Cash and cash equivalents at end of year (Note 24)	**752,209**	**274,398**

Anthony C. Hassiotis
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30 March 2007

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Registered Auditor
30 March 2007

NOTES TO THE FINANCIAL STATEMENTS

General information

Bulgarian Post Bank AD (the Bank) provides retail, corporate banking and investment banking services in Bulgaria. Its Head Office is located in Sofia and it has 148 network locations (2005: 143) and 2,048 customer service desks in post offices throughout the country (2005: 2,576). The Bank is a joint stock company and was incorporated on 2 April 1991 and domiciled in Bulgaria. The address of its registered office is as follows: 14, Tsar Osvoboditel Blvd, 1048 Sofia, Bulgaria. The Bank employs 1, 586 people (2005: 1,310).

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. The financial statements are presented in the national currency of Bulgaria, the Leva (BGN). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of 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 certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note V.

1) Amendments to published standards and interpretations effective 1 January 2006

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

IAS 19 Amendment – Actuarial Gains and Losses, Group Plans and Disclosures;

IAS 21 Amendment - Net Investment in a Foreign Operation;

IAS 39 Amendment – Cash Flow Hedge Accounting of Forecast Intragroup Transactions;

IAS 39 Amendment – The Fair Value Option;

IAS 39 and IFRS 4 Amendment – Financial Guarantee Contracts;

IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards, and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources;

IFRS 6 – Exploration for and Evaluation of Mineral Resources;

IFRIC 4 – Determining whether an Arrangement contains a Lease;

IFRIC 5 – Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and

IFRIC 6 – Liabilities arising from Participating in a Specific Market – Waste electrical and Electronic Equipment.

IAS 19 Amendment introduces the option of an alternative recognition approach for actuarial gains and losses. It also adds new disclosure requirements. As the Bank does not intend to change the accounting policy adopted for recognition of actuarial gains and losses and does not participate in any multi-employer plans, adoption of this amendment only impacts the format and extent of disclosures presented in the accounts.

IAS 21 Amendment, IAS 39 Amendment – Cash flow hedge accounting of forecasted intragroup transactions, IFRS 1, IFRS 6, IFRIC 4 and IFRIC 5 are not relevant to the Bank's operating activities and therefore have no material effect on the Bank's policies.

IAS 39 Amendment – The Fair Value Option. Prior to the amendment, the Bank did not use the fair value option in IAS 39.

IAS 39 and IFRS 4 Amendment – Financial Guarantee Contracts. These types of contract are now accounted for under IAS 39 and no longer accounted for under IFRS 4, as previously required under IFRS. The measurement and disclosure requirements under IAS 39 have not resulted in a material change to the Bank policies.

2) Standards issued but not yet effective

IFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to IAS 1, Presentation of Financial Statements - Capital Disclosures (effective from 1 January 2007). IFRS 7 supersedes IAS 30 and the disclosure requirements of IAS 32. The Bank will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning 1 January 2007;

IFRS 8, Operating Segments (effective 1 January 2009).

3) Interpretations issued but not yet effective

The Bank has chosen not to early adopt the following standard and interpretations that were issued but not yet effective for accounting periods beginning on 1 January 2006:

IFRIC 7, Applying the Restatement Approach under IAS 29 (effective 1 March 2006)

IFRIC 8, Scope of IFRS 2 (effective 1 May 2006);

IFRIC 9, Reassessment of embedded derivative (effective 1 June 2006);

IFRIC 10, Interim Financial Reporting and Impairment (effective 1 November 2006);

IFRIC 11, IFRS 2 – Group Treasury Share Transactions (effective 1 March 2007);

and IFRIC 12, Service Concession Arrangements (effective 1 January 2009).

The application of these new interpretations will not have a material impact on the entity's financial statements in the period of initial application.

B. 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 2006, monetary assets and liabilities are translated at the reference Central Bank exchange rate – BGN 1 for EUR 0.5113 (2005: BGN 1 for EUR 0.5113) and BGN 1 for USD 0.67337 (2005: BGN 1 for USD 0.60317).

C. 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.

D. 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.

E. 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.

(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.

(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 assets 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 security 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.

F. 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.

G. 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 (ie, 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 (ie, 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.

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 interest income – net gains/losses on hedging instruments'.

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.

H. 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;
- 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.

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 (ie, 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.

(b) Financial assets carried at fair value

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.

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.

I. 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.

The last revaluation of land and buildings has been performed by a qualified independent valuer at the end of 2003. 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 2006.

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
- Equipment and motor vehicles - 4-20 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..

J. 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 developing or 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.

K. 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.

L. 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.

M. OPERATING LEASES

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

N. 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.

O. 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 Labor Code, in the event of termination of a labor 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 the probability of the employees retiring while employed in the Bank.

P. PROVISIONS

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

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.

Q. 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 distributed according to the long-term strategy of the Bank.

R. 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.

S. 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.

T. COMPARATIVES

The Bank has reclassified certain of the 2005 comparative figures in the income statement due to:

a) Transfers of credit card related fees from interest income to fee and commission income, based on the group accounting policy for presentation of credit card related fees;
b) Transfer of loan related fees paid and received in relation to valuation of collaterals from commission income and expense to interest income;
c) Transfers of interest expense charged on the nominal value of derivative instruments to interest income;
d) Transfers of commission paid on bank activities from operating expenses to fee and commission expenses.

The reclassifications were as following:

	31 Dec 2005 (previously reported)	**Reclassifications**				**31 Dec 2005 (reclassified)**
		a)	**b)**	**c)**	**d)**	
Interest income	123,104	(9,117)	(329)	(702)		112,956
Interest expense	(26,893)	-	-	702		(26,191)
Commission income	16,719	9,117	(969)		-	24,867
Commission expense	(1,507)	-	1,298	-	(13,480)	(13,689)
Other operating expense	(69,756)	-	-		13,480	(56,276)
Total		-	-	-	-	

U. 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.

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.

The Management places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions.

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.

Credit risk

The Bank assumes exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. Impairment provisions are provided for losses that have been incurred at the balance sheet date. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Bank's portfolio, could result in losses that are different from those provided for at the balance sheet date. Management therefore carefully manages its exposure to credit risk. 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. Limits on the level of credit risk by product, industry sector and by country are approved by the Management.

The exposure to any one borrower including banks is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits in relation to trading items. Actual exposures against limits are monitored on a monthly basis. The credit risk is reduced by obtaining bank guarantees from related parties as security to loans extended by the Bank (Note 25).

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and reviewing these lending limits where appropriate. Exposure to credit risk is managed in part by obtaining collateral.

a) Loans and advances

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 exposure to anyone borrower is restricted by limits covering on- and off-balance sheet exposures, and risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

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;
- Issued guarantees.

(b) Derivatives

he 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.

(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

The Bank's operations are concentrated primarily in Bulgaria. There are no exposures to other countries, which in total exceed 23% (2005: 11%) of the Bank's total assets, liabilities or off-balance sheet commitments as of 31 December 2006.

The loan customers of the Bank are mainly from Bulgaria. The Bank is exposed to many sectors of the Bulgarian economy (Note 11). However,

Geographical concentration of assets, liabilities and off balance sheet items

	Total assets	Total liabilities	Credit Commitments
At 31 December 2006			
Bulgaria	2,860,128	1,888,566	482,634
Western European countries	18,658	12,985	-
Southeastern European countries	600	646,912	-
Other European countries	493	9,820	-
Canada and USA	-	703	-
Other countries	-	825	-
Total	**2,879,879**	**2,559,811**	**482,634**
As at 31 December 2005			
Bulgaria	1,530,448	1,392,571	277,986
Southeastern European countries	158,184	121,344	-
Western European countries	24,193	13,649	-
Canada and USA	15	72	-
Total	**1,712,840**	**1,527,636**	**277,986**

credit risk is well spread over a diversity of individual and commercial customers.

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 and other risks, spread risk, dividend risk.

The Management of the Bank estimates the market risk of positions held and the maximum losses expected, based upon a number of assumptions, and reviews various market risks on a monthly basis.

Currency risk

The Bank is exposed to the effect of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Management sets limits, which are monitored regularly, on the level of exposure by currency.

As at 31 December 2006 and 31 December 2005, the Bank has the exposures disclosed in the table below. Included in the table are the Bank's assets and liabilities at carrying amounts, categorized by currency. The off-balance sheet gap represents the difference between the notional amounts of foreign currency derivative financial instruments, which are principally used to reduce the Bank's exposure to currency movements, and their fair values.

At 31 December 2006	BGN	USD	EUR	Other	Non monetary items	Total
Assets						
Cash and balances with BNB	75,896	5,426	127,930	2,686	-	**211,938**
Due from other banks	21,266	20,966	507,671	166,315	-	**716,218**
Trading securities	51,512	31,215	39,150	-	-	**121,877**
Derivative financial instruments	1,224	-	399	-	-	**1,623**
Loans to customers	810,920	27,962	748,613	-	-	**1,587,495**
Investment securities						
- available-for-sale	18,384	5,453	138,591	-	-	**162,428**
Other assets	2,729	1,280	4,268	-	-	**8,277**
Property and equipment	-	-	-	-	70,023	**70,023**
Total assets	**981,931**	**92,302**	**1,566,622**	**169,001**	**70,023**	**2,879,879**
Liabilities						
Due to other banks	160,921	25,690	15,976	2,633	-	**205,220**
Derivative financial instruments	633	-	228	-	-	**861**
Due to customers	742,616	175,628	1,128,076	167,908	-	**2,214,228**
Other borrowed funds	-	-	12,801	-	-	**12,801**
Debt securities in issue	95,426	-	-	-	-	**95,426**
Current taxes	-	-	-	-	4,299	**4,299**
Deferred tax liability	-	-	-	-	2,046	**2,046**
Other liabilities	15,857	1,565	7,415	93	-	**24,930**
Total liabilities	**1,015,453**	**202,883**	**1,164,496**	**170,634**	**6,345**	**2,559,811**
Net on-balance sheet position	**(33,522)**	**(110,581)**	**402,126**	**(1,633)**	**63,678**	**320,068**
Off-balance sheet net notional position	**198,508**	**110,582**	**(307,397)**	**(1,039)**	**-**	**654**
Credit commitments	**295,415**	**11,651**	**175,568**	**-**	**-**	**482,634**

At 31 December 2005	BGN	USD	EUR	Other	Non monetary items	Total
Assets						
Cash and balances with BNB	105,736	4,264	59,549	2,070	-	171,619
Due from other banks	32,761	8,151	149,782	12,322	-	203,016
Trading securities	9,696	16,398	27,115	-	-	53,209
Derivative financial instruments	-	-	917	-	-	917
Loans to customers	585,266	30,485	557,533	-	-	1,173,284
Investment securities						
- available-for-sale	9,900	-	39,821	-	-	49,721
Other assets	5,185	959	1,888	8	885	8,925
Property and equipment	-	-	-	-	52,149	52,149
Total assets	**748,544**	**60,257**	**836,605**	**14,400**	**53,034**	**1,712,840**
Liabilities						
Due to other banks	50,043	3,865	139,797	1	-	193,706
Derivative financial instruments	-	-	16	-	-	16
Due to customers	488,643	151,740	331,412	13,995	-	985,790
Other borrowed funds	-	-	246,001	-	-	246,001
Debt securities in issue	61,390	-	19,543	-	-	80,933
Current taxes	-	-	-	-	-	-
Deferred tax liability	-	-	-	-	4,007	4,007
Other liabilities	12,840	1,690	2,479	174	-	17,183
Total liabilities	**612,916**	**157,295**	**739,248**	**14,170**	**4,007**	**1,527,636**
Net on-balance sheet position	**135,628**	**(97,038)**	**97,357**	**230**	**49,027**	**185,204**
Off-balance sheet net notional position	**(21,928)**	**96,178**	**(73,050)**	**(171)**	**-**	**1,029**
Credit commitments	**218,924**	**6,243**	**52,819**	**-**	**-**	**277,986**

Interest rate risk

Interest 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 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.

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 reprising date.

As at 31 December 2006	Up to 1 month	1-3 months	3-12 months	1–5 years	Over 5 years	Non- interest bearing	Total
Assets							
Cash and BNB	211,938	-	-	-	-		211,938
Due from banks	714,750	1,468	-	-	-	-	716,218
Trading securities	5,038	2,574	3,660	32,288	73,352	4,965	121,877
Derivatives						1,623	1,623
Loans to customers	1,451,047	14,326	122,122	-	-	-	1,587,495
Investment securities - available for sale	10,075	8,561	31,126	7,971	99,865	4,830	162,428
Other assets						78,300	78,300
Total assets	**2,392,848**	**26,929**	**156,908**	**40,259**	**173,217**	**89,718**	**2,879,879**
Liabilities							
Due to other banks	189,041	5,033	11,146	-	-	-	205,220
Derivatives	-	-	-	-	-	861	861
Due to customers	1,921,092	155,518	137,618	-	-	-	2,214,228
Issued debt securities	-	-	31,541	63,885	-	-	95,426
Other borrowed funds	12,801	-	-	-	-	-	12,801
Other liabilities	-	-	-	-	-	31,275	31,275
Total liabilities	**2,122,934**	**160,551**	**180,305**	**63,885**	**-**	**32,136**	**2,559,811**
Interest sensitivity gap	**269,914**	**(133,622)**	**(23,397)**	**(23,626)**	**173,217**	**57,582**	**320,068**

As at 31 December 2005	Up to 1 month	1-3 months	3-12 months	1–5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and BNB	171,619	-	-	-	-		171,619
Due from banks	198,700	4,316	-	-	-	-	203,016
Trading securities	-	2,818	12,975	11,806	25,610	-	53,209
Derivatives	-	-	-	-	-	917	917
Loans to customers	1,017,919	12,295	143,070	-	-	-	1,173,284
Investment securities - available-for-sale	4,637	-	261	19,585	23,057	2,181	49,721
Other assets						61,074	61,074
Total assets	**1,392,875**	**19,429**	**156,306**	**31,391**	**48,667**	**64,172**	**1,712,840**
Liabilities							
Due to other banks	193,706	-	-	-	-	-	193,706
Derivatives	-	-	-	-	-	16	16
Due to customers	818,135	36,558	131,097	-	-	-	985,790
Issued debt securities	-	30,466	50,467	-	-	-	80,933
Other borrowed funds	36,178	-	209,823	-	-	-	246,001
Other liabilities	-	-	-	-	-	21,190	21,190
Total liabilities	**1,048,019**	**67,024**	**391,387**	**-**	**-**	**21,206**	**1,527,636**
Interest sensitivity gap	**344,856**	**(47,595)**	**(235,081)**	**31,391**	**48,667**	**42,966**	**185,204**

The Bank is exposed to the effect of fluctuations in the prevailing levels of market interest rates on its financial positions 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 tables below summaries the effective interest rate by major currencies for monetary financial instruments.

%	BGN	USD	EUR
Assets			
Cash and balances with Central Bank	-	-	-
Due from other banks	3.99	5.15	1.61
Trading securities	3.63	8.24	6.22
Loans and advances to customers	11.30	8.53	7.43
Investment securities	5.25	8.25	6.72
Liabilities			
Debt securities in issue	4.52	-	-
Due to other banks	3.51	5.16	2.69
Due to customers	2.45	1.93	1.82
Other borrowed funds	-	-	4.89

%	BGN	USD	EUR
Assets			
Cash and balances with Central Bank	-	-	-
Due from other banks	3.09	4.33	2.53
Trading securities	4.73	6.95	5.55
Loans and advances to customers	11.94	8.20	6.93
Investment securities	8.11	5.87	7.82
Liabilities			
Debt securities in issue	4.28	-	5.63
Due to other banks	2.60	3.03	2.57
Due to customers	2.27	1.42	1.56
Other borrowed funds	-	-	3.13

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 repay depositors and fulfill commitments to lend.

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.

The management of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank and is reviewed regularly.

The maturities of assets and liabilities and the ability to replace at an acceptable cost, interest bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates.

31 December 2006	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Assets						
Cash and BNB balances	211,938	-	-	-	-	**211,938**
Due from other banks	714,750	1,468	-	-	-	**716,218**
Trading securities	4,965	2,575	-	37,325	77,012	**121,877**
Derivatives	1,623	-	-	-	-	**1,623**
Loans to customers	37,872	42,039	480,654	431,217	595,713	**1,587,495**
Investment securities - available-for-sale	-	6,059	-	36,003	120,366	**162,428**
- held-to-maturity	-	-	-	-	-	**-**
Other assets	-	-	-	-	78,300	**78,300**
Total assets	**971,148**	**52,141**	**480,654**	**504,545**	**871,391**	**2,879,879**
Liabilities						
Due to other banks	184,481	5,466	13,247	2,026	-	**205,220**
Derivatives	861	-	-	-	-	**861**
Due to customers	1,439,600	173,434	508,017	93,177	-	**2,214,228**
Other borrowed funds	-	-	2,715	10,086	-	**12,801**
Debt securities in issue	-	-	-	95,426	-	**95,426**
Deferred tax liability	-	-	-	2,046	-	**2,046**
Other liabilities	-	-	-	-	29,229	**29,229**
Total liabilities	**1,624,942**	**178,900**	**523,979**	**202,761**	**29,229**	**2,559,811**
Net liquidity gap	**(653,794)**	**(126,759)**	**(43,325)**	**301,784**	**842,162**	**320,068**
Cumulative maturity gap	**(653,794)**	**(780,553)**	**(823,878)**	**(522,094)**	**320,068**	

31 December 2005	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Assets						
Cash balances	171,619	-	-	-	-	**171,619**
Due from other banks	198,700	4,316				**203,016**
Trading securities	-	-	3,334	14,625	35,250	**53,209**
Derivative financial instruments	-	917	-	-	-	**917**
Loans to customers	12,833	90,626	245,935	442,541	381,349	**1,173,284**
Investment securities - available-for-sale	5,771	-	261	20,632	23,057	**49,721**
- held-to-maturity	-	-	-	-	-	**-**
Other assets	-	-	-	-	61,074	**61,074**
Total assets	**388,923**	**95,859**	**249,530**	**477,798**	**500,730**	**1,712,840**
Liabilities						
Due to other banks	189,886	1,807	2,013	-	-	**193,706**
Derivative financial instruments	-	16	-	-	-	**16**
Due to customers	568,504	90,613	228,833	97,840	-	**985,790**
Other borrowed funds	29,830	-	13,193	202,978		**246,001**
Debt securities in issue	-	-	19,543	61,390	-	**80,933**
Deferred tax liability	-	-	-	4,007	-	**4,007**
Other liabilities	-	-	-	-	17,183	**17,183**
Total liabilities	**788,220**	**92,436**	**263,582**	**366,215**	**17,183**	**1,527,636**
Net liquidity gap	**(399,297)**	**3,423**	**(14,052)**	**111,583**	**483,547**	**185,204**
Cumulative maturity gap	**(399,297)**	**(395,874)**	**(409,926)**	**(298,343)**	**185,204**	

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 Postbank . Market prices are used to estimate fair values of assets and liabilities.

	Carrying value		Fair value	
	2006	**2005**	**2006**	**2005**
Financial assets				
Loans and advances to banks	716,218	203,016	716,218	203,016
Loans and advances to customers, including:				
– Retail customers (individual)	646,537	512,583	646,537	512,583
– Large corporate customers	689,092	556,176	689,092	556,176
– SMEs	251,866	104,525	251,866	104,525
Total loans and advances to customers	**1,587,495**	**1,173,284**	**1,587,495**	**1,173,284**
Financial liabilities				
Deposits from banks	205,220	193,706	205,220	193,706
Due to customers , including:				
– Retail customers	1,092,261	679,323	1,092,261	679,323
– Large corporate customers	951,161	190,209	951,161	190,209
– SMEs	170,806	116,258	170,806	116,258
Total due to customers	**2,214,228**	**985,790**	**2,214,228**	**985,790**
Debt securities in issue	95,426	80,933	94,926	80,641
Other borrowed funds	12,801	246,001	12,801	246,001

a) Due from other banks

Due from other banks includes inter-bank placements and items in the course of collection. The fair value of floating rate placements and overnight deposits is 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. Management estimates that the fair value of fixed rate loans and advances is not materially different from their carrying amount, as the Bank can change the interest rates at its discretion after a certain period (up to one year). Fair value incorporates expected future losses, while amortized cost and related impairment include only incurred losses at the balance sheet date

d) Deposits and borrowings

The fair value of deposits and other borrowings approximates their carrying amount. A very substantial part of these funds is short term. 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

The fair value of mortgage and corporate bonds issued by the Bank is based on quoted market prices.

V. 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 a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

Fair value of derivatives

The fair value 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 credit card receivables requires the use of estimates about the expected life and other patterns and characteristics of the portfolio. In building up these estimates the Company utilizes the experience of other entities in EFG Eurobank Ergassias Group and makes adjustments, as appropriate, to reflect Bulgarian market conditions.

1	Net interest income	2006	2005
	Interest income		
	Loans and advances to customers	148,079	101,130
	Due from other banks	14,197	3,688
	Trading securities	5,185	3,188
	Investment securities	2,420	4,177
	Net income from derivative instruments	716	773
	Net gains on hedge instruments	129	-
		170,726	**112,956**
	Interest expense		
	Customers	42,176	13,186
	Banks and other financial institutions	3,674	3,453
	Debt securities	3,814	2,365
	Other borrowed funds	2,704	6,909
	Subordinated debt	-	265
	Others	-	13
		52,368	**26,191**

2	Net fee and commission income	2006	2005
	Fees and commission income		
	Credit cards fees and commissions	9,164	9,117
	Fund transfers	6,709	6,279
	Cash operations	4,569	3,510
	Money transfers	2,574	2,331
	Account maintenance	2,579	1,947
	Fees and commissions income from operations with derivatives	741	-
	Receipts from sales of services	474	639
	Fee income on off-balance commitments and letter of guarantees	424	265
	Commission securities	418	357
	Investment banking	207	388
	Other fees	690	34
		28,549	**24,867**

Fee and commission expense		
Services from BRS	8,675	8,130
Expenses for Post offices	2,406	2,336
Loans granting	1,088	984
Loans insurance	569	718
Cash transactions an correspondent accounts fees	491	317
Visa cards, cheques and other fees	460	565
Commissions securities	178	125
Fees and commissions expense from operations with derivatives	135	-
Commissions on issued bonds	81	54
Others	811	460
	14,894	**13,689**

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.

3	Net trading income	2006	2005
	Foreign exchange translation gains less losses	3,158	1,983
	Foreign exchange transaction gains less losses	458	157
	Net results from derivative instruments	373	-
		3,989	2,140

4	Other operating expenses	2006	2005
	Staff costs (Note 5)	29,781	22,572
	Operating lease rentals	10,492	7,308
	Depreciation (Note 14)	10,595	7,431
	Advertising and marketing	7,388	4,813
	External services	2,886	1,191
	Software costs	3,256	2,820
	Communication	3,185	2,509
	Security	2,494	2,135
	Materials and utilities	2,013	1,354
	Repairs and maintenance	1,954	1,349
	Insurance	193	250

	Levies and taxes	589	1,074
	Travel and accommodation	519	495
	Other operating costs	671	975
		76,016	**56,276**

5	**Staff costs**	**2006**	**2005**
	Wages and salaries	23,990	17,405
	Pension expenses	2,538	2,521
	Social security costs	1,635	1,648
	Other	1,618	998
		29,781	**22,572**

The Bank estimated that the pension obligation provision as at year end is BGN 216 (2005: BGN 103).

6	**Provision (expense) write back for loans and advances to customers**	**2006**	**2005**
	Loans and advances to customers (Note 11)	(15,928)	(10,124)
	Credit commitments (Note 20)	(529)	-
	Provisions for court litigation (Notes 20)	(201)	40
	Other assets (Note 13)	-	3
		(16,658)	**(10,081)**

7	**Income tax expense**	**2006**	**2005**
	Current tax	6,957	2,204
	Deferred tax (Note 21)	(1,507)	2,817
	Prior year tax expense	-	676
		5,450	**5,697**

Tax is payable at an effective rate of 15% (2005: 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:

	2006	2005
Profit before tax	**44,146**	**33,334**
Tax calculated at a tax rate of 15% (2005: 15%)	6,622	5,000
Effect of change in tax rate	(1,091)	-
Tax effect of expenses not deductible for tax purposes	(81)	21
Prior year tax expense	-	676
Income tax expense	**5,450**	**5,697**

Additional information about deferred tax is presented in Note 21.

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	2006	2005
	Cash in hand	62,283	38,643
	Balances with Central bank other than mandatory reserve	(33,691)	36,782
	Included in cash and cash equivalents (Note 24)	**28,592**	**75,425**
	Mandatory reserve with Central Bank (Note 22)	**183,346**	**96,194**
		211,938	**171,619**

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.

9	Loans and advances to banks	2006	2005
	Deposits in other banks up to 90 days from the date of acquisition	700,738	183,899
	Repurchase agreements up to 90 days from the date of acquisition	15,713	15,448
	Less impairment provision	(374)	(374)
	Included in cash and cash equivalents (Note 24)	**716,077**	**198,973**
	Loans and advances to other financial institutions	43	125
	Repurchase agreements more than 90 days from date of acquisition	-	3,826
	Interest receivable	98	92
		716,218	**203,016**

Approximately 77% (2005: 90%) of the amounts due from other banks represent funds placed in banks domiciled in OECD countries, with the remainder held with banks in Bulgaria.

10	Trading securities	2006	2005
	Government bonds as follows:		
	Bulgarian government bonds	98,826	49,503
	Ukrainian government bonds	1,898	1,954
	Turkish government bonds	2,281	1,237
	Romanian government bonds	8,869	515
	Bonds issued by banks	5,038	-
	Shares	4,965	
		121,877	53,209
	Equity securities:		
	- Listed	4,965	-
	- Unlisted	-	-
	Bonds:		
	- Listed	5,037	
	- Unlisted	111,875	53,209

Included in the amount of the bonds is accrued interest in the amount of BGN 2,708 thousand (2005: BGN 1,292 thousand). Government bonds include securities pledged for state funds deposited in the Bank (Note 22) of BGN 2,014 thousand (2005: BGN 3,129 thousand pledged for state funds).

11	Loans and advances to customers	2006	2005
	Retail customers:		
	- Consumer	194,971	201,480
	- Credit cards	173,109	123,837
	- Small Business Banking	255,839	106,572
	- Mortgages	302,629	200,065
		926,548	**631,954**
	Corporate customers:		
	- Large corporate customers	488,830	449,630
	- SMEs	212,289	117,935
		701,119	**567,565**
	Gross loans and advances	**1,627,667**	**1,199,519**
	Less allowance for impairment losses on loans and advances	(40,172)	(26,335)
		1,587,495	**1,173,284**

Movement in allowance for losses on loans and advances as follows:

	Retail customers				
	Consumer	Credit cards	SBB	Mortgages	Total
Balance at 1 January 2006	10,041	2,439	3,247	421	16,148
Provision for loan impairment	5,887	5,771	2,278	159	14,095
Loans written off during the year as uncollectible	(12)	(523)	(1,556)	-	(2,091)
At 31 December 2006	**15,916**	**7,687**	**3,969**	**580**	**28,152**

	Corporate customers		
	Large corporate customers	SMEs	Total
Balance at 1 January 2006	5,463	4,724	10,187
Provision for loan impairment	376	1,457	1,833
Loans written off during the year as uncollectible	-	-	-
At 31 December 2006	**5,839**	**6,181**	**12,020**

Industry segmentation of loan portfolio was as follows:

	2006	%	2005	%
Commerce and services	544,755	34	412,654	34
Private individuals	637,181	39	486,550	41
Manufacturing	215,366	13	186,237	15
Construction	86,888	5	8,002	1
Other	143,477	9	106,076	9
	1,627,667	**100**	**1,199,519**	**100**

The analysis of the ten largest loans and advances to customers compared to the gross loan portfolio is as follows:

	2006	2005
The ten largest loans and advances to customers	122,448	94,458
Percentage of gross loans	7.5%	7.9%

Included in the amount of loans and advances to customers is accrued interest of BGN 6,609 (2005: 4,368. Loans and advances to customers include loans pledged for issued mortgage bonds (Note 22) amounting to BGN 34,791 (2005: 56,838). Postbank has referred loans to the companies that are part of the EFG Group amounting BGN 609,285 as at 31 December 2006.

12	Investment securities		
	Investment securities available-for-sale	**2006**	**2005**
	Bulgarian government bonds	123,742	23,587
	Bonds issued by banks	10,076	8,836
	Corporate bonds issued by companies	19,311	2,596
	Romanian government bonds	4,469	12,520
	Shares	3,975	1,712
	Participation in Global Bulgarian and Romanian Growth Fund	855	470
		162,428	**49,721**
	Equity securities		
	Listed	3,404	1,141
	Unlisted	1,426	1,041
	Debt securities		
	Listed	5,242	12,556
	Unlisted	152,356	34,983
		162,428	**49,721**

Included in the amount of the investment securities is accrued interest in the amount of BGN 6,023 thousand (2005: BGN 1,813 thousand).
Movement in available for sale securities is reconciled as follows:

Book value as at 31 December 2005	**49,721**
Additions	182,607
Disposals	(71,723)
Net fair value gains	1,823
Book value as at 31 December 2006	**162,428**

Gains less losses from investment securities	**2006**	**2005**
Transfer the revaluation reserve from equity to profit	3,889	870
Gains less losses from trading	(999)	261
	2,890	**1,131**

13	Other assets	2006	2005
	Other debtors	2,368	3,670
	Amounts in transit	2,196	2,596
	Deferred expenses	968	720
	Assets for resale	381	802
	Materials	116	96
	Prepayments	52	84
	Other assets	2,986	862
	Less provision against other assets (Note 6)	(790)	(790)
		8,277	**8,040**

14	Property and equipment	Property	Equipment and other fixed assets	Total
	At 1 January 2005			
	Gross amount	10,241	39,787	50,028
	Accumulated depreciation	(2,058)	(19,282)	(21,340)
	Net book amount	**8,183**	**20,505**	**28,688**
	Year ended 31 December 2005			
	Opening net book amount	8,183	20,505	28,688
	Additions	11,495	19,508	31,003
	Disposals	(50)	(59)	(109)
	Depreciation charge (Note 4)	(736)	(6,695)	(7,431)
	Devaluation	-	(2)	(2)
	Closing net book amount	**18,892**	**33,257**	**52,149**

At 31 December 2005			
Gross amount	20,567	50,054	70,621
Accumulated depreciation	(1,675)	(16,797)	(18,472)
Net book amount	**18,892**	**33,257**	**52,149**
Year ended 31 December 2006			
Opening net book amount	18,892	33,257	52,149
Additions	9,982	18,581	28,563
Disposals	(41)	(53)	(94)
Depreciation charge (Note 4)	(1,387)	(9,208)	(10,595)
Closing net book amount	**27,446**	**42,577**	**70,023**
At 31 December 2006			
Gross amount	30,401	67,894	98,295
Accumulated depreciation	(2,955)	(25,317)	(28,272)
Net book amount	**27,446**	**42,577**	**70,023**

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

	2006	**2005**
Cost	29,850	19,978
Accumulated depreciation	(3,830)	(2,512)
Net book amount	**26,020**	**17,466**

15	Due to other banks	2006	2005
	Items in course of collection	23,804	32,201
	Deposits from other banks	122,363	161,505
	Repurchase agreements	59,053	-
		205,220	**193,706**

Included within due to other banks is related accrued interest payable of BGN 3,417 thousand (2005: BGN 361 thousand).

16. 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 (ie, 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 favorable (assets) or unfavorable (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 favorable or unfavorable, 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.

16	Derivative financial instruments and hedging activities (continued)			
		Contract / notional amount	**Assets**	**Liabilities**
	Year ended 31 December 2006			
	Derivatives held for trading			
	Foreign exchange derivatives			
	OTC currency forwards	185,947	275	-
	OTC currency swaps	397,064	399	228
	Total OTC currency derivatives	**583,011**	**674**	**228**
	Interest rate derivatives			
	OTC interest rate swaps	126,256	-	633
	OTC cross-currency interest rate swaps	50,000	-	-
	Interest rate futures	23,884	340	
	Total OTC interest rate derivatives	**200,140**	**340**	**633**
	Derivatives held for hedging			
	OTC interest rate swaps	58,675	609	-
	Total recognised derivative assets / liabilities	**841,826**	**1,623**	**861**
	Year ended 31 December 2005			
	Derivatives held for trading			
	Foreign exchange derivatives			
	OTC currency forwards	1,564	1	-
	OTC currency swaps	117,889	916	-
	Total OTC currency derivatives	**119,453**	**917**	**-**
	Interest rate derivatives			
	OTC interest rate swaps	53,840	-	16
	Total recognized derivative assets / liabilities	**173,293**	**917**	**16**

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 2006 was BGN 609 (2005: nil). The gains on the hedging instruments were BGN 609 (2005: nil). The losses on the hedged item attributable to the hedged risk were BGN 480 (2005: nil).

17	Due to customers	2006	2005
	Large corporate customers:		
	– Current/settlement accounts	218,120	135,886
	– Term deposits	733,040	54,309
	SMEs		
	– Current/settlement accounts	155,048	105,674
	– Term deposits	15,758	8,569
	Total due to corporate customers	**1,121,966**	**304,438**
	Retail customers:		
	– Current/demand accounts	378,054	299,084
	– Term deposits	714,208	382,268
	Total due to retail customers	**1,092,262**	**681,352**
	Total due to customers	**2,214,228**	**985,790**

Deposits from clients include BGN 14,176 thousand (2005: BGN 5,196 thousand) held as collateral for irrevocable commitments under letters of credit and guarantee arrangements. Included within due to customers is related accrued interest payable of BGN 11,273 thousand (2005: BGN 2,408 thousand).

18. Debt securities in issue

In July 2005 corporate bonds of the nominal amount of BGN 30 million were issued. The new corporate bonds carry floating coupon rate calculated based on 3 month SOFIBOR plus 1.2%. The proceeds, net of issue costs were BGN 29,939 thousand. The accrued interest as at 31 December 2006 is BGN 471 thousand. The corporate bonds expiry date is July 2008.

In November 2005 there was a new mortgage bonds issuance. The nominal amount is BGN 30 million and the premium is BGN 996 thousand. The new mortgage bonds carry fixed coupon rate of 3.770%. The proceeds, net of issue costs were BGN 29,952 thousand. The accrued interest as at 31 December 2006 is BGN 183 thousand. The premium as at 31 December 2006 is BGN 670 thousand. The mortgage bonds expiry date is November 2008.

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 proceeds, net of issue costs were BGN 33,681 thousand. The accrued interest as at 31 December 2006 is BGN 530 thousand. The corporate bonds expiry date is July 2008.

Loans and advances to customers of BGN 34,791 (2005: BGN 56,838) were pledged for issued mortgage bonds (Note 22).

19	**Other borrowed funds**		
	As of 31 December 2005 other borrowed funds consisted of the following:	**2006**	**2005**
	European Bank for Reconstruction and Development -Loan 2	10,086	29,830
	European Bank for Reconstruction and Development –Loan 1	2,715	6,349
	EFG PRIVATE BANK –Luxembourg S.A	-	157,606
	EFG PRIVATE BANK –Luxembourg S.A	-	39,238
	First International Merchant Bank, Malta (FIMB)	-	12,978
		12,801	**246,001**

Included in other borrowed funds is accrued interest of BGN 250 thousand (2005 : BGN 2,089 thousand). Other borrowed funds are reduced by the unamortized amount of fees and commissions paid to the lender of BGN 467 thousand (2005: BGN 463 thousand).

Maturity	EBRD Loan 2	EBRD Loan 3
2007	2,267	776
2008	2,267	776
2009	2,267	776
2010	2,523	387
2011	254	-
2012	254	-
2013	254	-
Total	**10,086**	**2,715**

Loan from European Bank for Reconstruction and Development (EBRD) – Loan 2

On 16th March 2004, Bulgarian Post Bank and the EBRD 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 funds to enterprises, firms, businesses, sole proprietors or other private legal entities for improving rational energy utilization in Republic of Bulgaria. The loan shall be repaid in 9 equal semi-annual instalments on 19 January and 19 July each year, commencing on 19 July 2006. The loan was fully utilized as at 31 August 2006.

On 6th December 2006, the Bulgarian Post Bank and the EBRD agreed, subject to the terms and conditions of the Original Loan Agreement dated 16th March 2004 to increase the loan by amount of EUR 15 million (through the extension of three tranche loans in amounts of EUR 5 million each). The purpose of the new amended and restated loan agreement is to promote eligible projects for the restructuring, upgrading and modernization of demand side industrial assets and small renewable energy investments in the private sector in the Republic of Bulgaria. The loan should be repaid in 8 equal semi-annual installments on 19 January and 19 July each year, commencing on 19 January 2010. The Bank utilized EUR 1 million of the loan as at 31 December 2006.

Loan from European Bank for Reconstruction and Development (EBRD) – Loan 1

On 30 June 2005, Bulgarian Post Bank and the EBRD executed a Loan Agreement whereby the Bank can borrow up to EUR 5 million in two tranches of EUR 2.5 million each 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 which reduce energy consumption. The loan should be repaid in 7 equal semi-annual installments on 19 January and 19 July each year, commencing on 31 March 2007. The Bank utilized EUR 2 million of the loan as at 31 December 2006.

According to the loan agreements with EBRD, 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 EBRD immediately. In case of breach of any covenant, EBRD has the right to require payment of the whole amount of the borrowing or of any portion of the principle and accrued interest.

20	Other liabilities	2006	2005
	Due to customers	8,850	4,583
	Accrued expenses	9,623	6,056
	Creditors	1,689	1,299
	Credit cards deferred commissions	3,118	4,309
	Provision for court claims (Notes 6 and 22)	306	105
	Off balance sheet items provisions	529	-
	Unused pay leave accrual	551	470
	Withholding tax obligations	264	361
		24,930	**17,183**

The total amount of the provision for court claims paid in 2006 was BGN 322 thousand. 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.

21. 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:

	2006	2005
Deferred tax liability at beginning of year	4,007	1,453
Income statement charge (Note 7)	(1,507)	2,817
Credit to revaluation reserves in equity	(454)	(263)
Deferred tax liability at end of year	**2,046**	**4,007**

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

	2006	2005
Deferred income tax liabilities		
Accelerated tax depreciation	964	1,028
Property revaluation	195	293
Available-for-sale revaluation	86	439
Difference between statutory loan loss provisions and IFRS provisions	917	2,366
	2,162	**4,126**
Deferred income tax assets		
Unused holidays	69	81
Provision for court claims and off balances	47	38
	116	**119**
Net deferred tax liability	**2,046**	**4,007**

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

	2006	2005
Difference between statutory loan loss provisions and IFRS provisions	1,449	(2,366)
Depreciation	63	(545)
Unused holidays	(12)	56
Provision for court claims and off balances	7	38
Net deferred tax credit / (charge)	**1,507**	**(2,817)**

22. Contingent liabilities and commitments

(a) Legal proceedings

The Bank is subject to a number of legal proceedings arising in the normal course of business. The provision for probable losses booked in relation to these legal cases is BGN 306 thousand (2005: BGN 105 thousand).

b) Capital commitments

At 31 December 2006, the Bank has capital commitments of BGN 3,153 thousand in respect of buildings and equipment purchases. The Group's management is confident that future net revenues and funding will be sufficient to cover this commitment.

(c) Loan commitment, guarantee and other financial facilities

Guarantees issued by the Bank carry the same credit risk as loans.

Loan commitments represent unused portions of approved loans, guarantees or letters of credit. The increase in 2006 of undrawn loan commitments is BGN 158,365 thousand. The increase is due to the increase in large corporate loans, credit cards and small business lending. The Bank has exposure to credit risk, however the likely amount of loss although not easy to quantify, is considerably less than the total unused commitments since these are contingent upon continued customer compliance with specific loan agreements. While there is some credit risk associated with the remainder of commitments, the risk is smaller than on balance sheet credit exposures.

	2006	**2005**
Undrawn loan commitments	414,717	256,352
Guarantees	43,589	18,326
Letters of credit	24,328	3,308
	482,634	**277,986**

(d) Compliance with covenants

The Bank is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Bank including growth in the cost of borrowings. The Bank's Management believes that the Bank is in compliance with covenants.

(d) Operating lease commitments

	2006	2005
Less than 1 year	1,337	3,052
Over 1 year and less than 5 years	106	603
Over 5 years	27	-
	1,470	**3,655**

Assets pledged

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

	Asset		Related liability	
	2006	**2005**	**2006**	**2005**
Mandatory reserves with BNB (Note 8)	183,346	96,194	2,291,820	1,202,427
Due to customers (Note 17)	14,176	5,196	32,798	5,228
Trading securities (Note 10)	2,014	3,129	1,606	640
Loans to customers (Note 11)	34,791	56,838	30,805	50,725
	234,327	**161,357**	**2,357,029**	**1,259,020**

23. Share capital

The total authorised number of ordinary shares at year-end was 41,543,280 shares (2005: 21,984,980 shares) with a par value of BGN 5 per share (2005: BGN 5 per share). All shares rank equally and carry one vote.

24. 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:

	2006	2005
Cash in hand (Note 8)	62,283	38,643
Balances with Central bank (Note 8)	(33,691)	36,782
Due from other banks (Note 9)	716,077	198,973
Trading securities up to 90 days	7,540	-
	752,209	**274,398**

25. Related party transactions

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

On 27 February 2006 the Bank issued 19,558,300 shares amounted to BGN 97,791,500 (EUR 50,000,000), which were acquired by EFG Eurobank Ergasias. Thus as at 31 December 2006 the capital of Postbank becomes BGN 207,716, 400 (2005: BGN 109, 924,900). As at 31 December 2006 EFG Eurobank Ergasias owns directly 75.33% of Postbank. EFG Eurobank Ergasias owns another 24.33% through its 100% subsidiary CEH Balkan Holdings Limited .

Bulgarian Post Bank AD is part of the EFG Eurobank Ergasias.

The ultimate parent is EFG Bank European Financial Group.

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:

Transactions and balances with EFG Eurobank Ergasias	2006	2005
(a) Loans and advances to banks		
At beginning of year	129,894	331
Net change during the year	547,243	129,563
As at end of year	**677,137**	**129,894**
Interest income earned	9,087	525
Fees and commissions income	436	-
No provisions have been recognized in respect of loans and placements made to related parties.		
(b)Deposits and borrowings		
At beginning of year	121,454	69,131
Received during the year	-	52,323
Repaid during the year	(119,548)	-
As at end of year	**1,906**	**121,454**
Interest expense incurred	1,097	2,547
Fees and commissions expense	47	-

Off-balance sheet commitments	2006	2005
Guarantees issued by the Bank	-	-
Guarantees received by the Bank	3,394	3,663

(c) Other transactions

At 31 December 2006	Contract/ notional amount	Fair values	
		Assets	Liabilities
Derivatives held for trading			
Foreign exchange derivatives			
OTC currency forwards	91,197	658	-
OTC currency swaps	124,453	-	116
Total OTC currency derivatives	**215,650**	**658**	**116**
Interest rate derivatives			
OTC interest rate swaps	89,061	-	554
OTC cross-currency interest rate swaps	108,675	609	-
Total OTC interest rate derivatives	**197,736**	**609**	**910**
Total recognised derivative assets/(liabilities)	**413,386**	**1,267**	**1,026**

At 31 December 2005	Contract/ notional amount	Assets	Liabilities
Derivatives held for trading			
Foreign exchange derivatives			
OTC currency forwards	992	837	-
OTC currency swaps	70,410	26	-
Total OTC currency derivatives	**71,402**	**863**	**-**
Interest rate derivatives			
OTC interest rate swaps	21,053	-	82
Total OTC interest rate derivatives	**21,053**	**-**	**82**
Total derivative held for trading	**92,455**	**863**	**82**

Transactions and balances with other related parties, part of EFG Bank European Financial Group

(a) Loans and advances to customers	2006	2005
At beginning of year	-	85,618
Net change during the year	-	(85,618)
As at end of year	**-**	**-**
Interest income earned	-	3,384
Fees and commissions earned	-	118

No provisions have been recognized in respect of loans and placements made to related parties.

(b)Deposits and borrowings	2006	2005
At beginning of year	212,332	54,172
Received during the year	506,782	255,952
Repaid during the year	(58,675)	(97,792)
As at end of year	**660,439**	**212,332**
Interest expense incurred	16,756	2,893
(c) Other transactions	**2006**	**2005**
Mediation services & transaction processing contract fees	8,386	8,129
Audit expenses	118	290
Fees and commissions expense	233	37

At 31 December 2006	Contract/ notional amount	Assets	Liabilities
Derivatives held for trading			
Foreign exchange derivatives			
OTC currency swaps	256,214	57	-

Directors and other key management personnel

(a) Loans and advances	2006	2005
At beginning of year	247	187
Loans issued during the year	218	136
Loan repayments during the year	(105)	(76)
As at end of year	**360**	**247**
Interest income earned	7	6

The loans issued to directors and other key management personnel during the year of BGN 218 (2005: BGN 136) are repayable monthly and have interest rates of 5.25% (2005: 5.25%). The loans advanced to the directors during the year are collateralised by residential real estate.

(b) Deposits	2006	2005
Due to customers		
At beginning of year	14	8
Deposits received during the year	118	20
Deposits repaid during the year	-	(14)
As at end of year	**132**	**14**

The above deposits carry variable interest rates and are repayable on demand.

(c) Key management compensation	2006	2005
Salaries and other short-term benefits	1,405	1,288

notes