Bulbank
UniCredit Group

Annual Report 2006

Contents

Financial Highlights
(Consolidated)

(Thousands of BGN, unless otherwise stated)

	Normalised*			Accounting		
	2006	2005	Growth	2006	2005	Growth
Key figures						
Net profit	120,654	96,116	25.5%	80,170	96,116	−16.6%
Shareholders' equity (eop)	630,781	609,609	3.5%	630,781	609,609	3.5%
Total assets (eop)	4,346,594	3,474,829	25.1%	4,346,594	3,474,829	25.1%
Bank customer deposits (eop)	3,336,875	2,618,771	27.4%	3,336,875	2,618,771	27.4%
Bank customer deposits (av.)	2,812,890	2,469,957	13.9%	2,812,890	2,469,957	13.9%
Bank customer loans (eop)	2,131,577	1,706,858	24.9%	2,131,577	1,706,858	24.9%
Bank customer loans (av.)	1,956,971	1,595,642	22.6%	1,956,971	1,595,642	22.6%
Leasing Portfolio (eop)	171,473	80,729	112.4%	171,473	80,729	112.4%
Earnings per share (in BGN)	0.73	0.58	25.5%	0.48	0.58	−16.6%
Income						
Net interest income	177,569	162,850	9.0%	177,569	162,850	9.0%
Net fee and commission income	53,252	44,657	19.2%	53,252	44,657	19.2%
Net trading income	13,221	11,615	13.8%	13,221	11,615	13.8%
Gains less losses from investment securities	3,881	3,090	25.6%	3,881	3,090	25.6%
Gross operating income	254,836	228,589	11.5%	254,836	228,589	11.5%
Net operating Income	156,635	138,808	12.8%	157,709	138,808	13.6%
Expenses						
Operating expenses	98,201	89,781	9.4%	97,127	89,781	8.2%
Staff costs	36,738	33,266	10.4%	37,704	33,266	13.3%
Non-staff costs	44,023	39,742	10.8%	44,517	39,742	12.0%
Depreciation	17,439	16,773	4.0%	14,906	16,773	−11.1%
Impairment losses and provisions	13,136	25,443	−48.4%	13,136	25,443	−48.4%
Income tax expense	22,845	17,249	32.4%	15,701	17,249	−9.0%
Ratios (%)						
Return on average assets (ROA)	3.2	2.9	0.3pp	2.1	2.9	−0.8pp
Return on average equity (ROE)	19.8	16.3	3.5pp	13.2	16.3	−3.1pp
Capital/Asset ratio (eop)	14.5	17.5	−3.0pp	14.5	17.5	−3.0pp
Total capital ratio (eop)	18.1	21.6	−3.5pp	18.1	21.6	−3.5pp
Tier 1 capital ratio (eop)	15.9	18.8	−2.9pp	15.9	18.8	−2.9pp
Risk weighted assets/Total assets ratio (eop)	63.5	61.5	2.0pp	63.5	61.5	2.0pp
Non-performing loans/Gross loans	1.4	1.5	0.0pp	1.4	1.5	0.0pp
Loan/Deposit ratio	63.9	65.2	−1.3pp	63.9	65.2	−1.3pp
Cost/Income ratio	38.5	39.3	−0.7pp	38.1	39.3	−1.2pp
Resources (number) – (eop)						
Bank Operating outlets	107	105	2	107	105	2
Leasing Outlets	5	4	1	5	4	1
Employees	1,899	1,897	2	1,899	1,897	2
Sales-force	488	462	26	488	462	26
Foreign exchange rate at period-end (BGN/USD)	1.4851	1.6579	−10.4%	1.4851	1.6579	−10.4%
Average annual exchange rate over the period (USD/BGN)	1.5600	1.5741	−0.9%	1.5600	1.5741	−0.9%

* Sterilizing the effect of integration with HVB Bank Biochim and Hebros Bank, providing fair comparability of 2005 and 2006 numbers.

Letter to Shareholders


Dear Shareholders,

It is our privilege to present our 2006 annual accounts and development plans.

For us, 2006 was a year of preparation for the integration with HVB Bank Biochim and Hebros Bank, as part of the global merger of UniCredit Group and HVB Group in Bulgaria. Our merger will create a national leader in most market segments and business lines possessing a strong customer base, robust capital and sound asset quality. The consolidation process is quite complex. It targets consolidation of three banks and implementation of a brand new IT platform. During the year, we adopted the common strategy of the new bank, developed all business and functional models and, on this basis, selected the most appropriate technical solutions. A comprehensive integration plan was adopted for all areas of activity, the respective project management structure created and implementation started. The corporate governance of the 3 banks was aligned in a synchronised decision-making model, and also through exchange of board members. A great number of new, common internal group rules and regulations were adopted and the affected processes adjusted. Where relevant, certain functional organisation units were merged, such as Treasury and HR management. A common budget and business plan was prepared for 2007. In December, the shareholders of the three banks gave the green light to the legal merger and the change of the name of the combined entity into UniCredit Bulbank. A new Supervisory Board was elected, in line with the new corporate governance structure of the Group and the related allocation of responsibility on a global level. The Group Integrity Charter was implemented as an exemplary set of values and rules of conduct and market behaviour.

We can proudly state, that despite the extensive efforts towards integration, Bulbank exhibited healthy growth in all components of its income and volumes, confirming its strong focus on value creation and its prudent risk policy. Bulbank posted BGN 77.4 million unconsolidated net profit in 2006. After normalisation for integration related effects, this would have shown growth of 25.1% compared to 2005. On a consolidated basis, Group net profit was BGN 80.2 million, a normalised growth of 25.5%. Gross operating income of the Bank went up by 10.7% to BGN 249 million, including 19.2% growth in fee income. Total assets increased by 23%, customer deposits by 27% and customer loans by 25%. Bulbank preserved its combination of good profitability, financial strength and cost efficiency. Profitability improved markedly: on a normalised basis the Bank's Return on average equity went up to 19.5% and Return on average assets to 3.2%. The total capital ratio remains solid at 16.7%. Normalised Cost/Income ratio further improved to 38.9% and the Non-performing loan ratio stood at 1.5%, lower than last year. All this led to another upgrade of Standard & Poor's long-term credit rating to BBB+ in October; equal to the sovereign rating of the country.

The Bank was in position to successfully manage core business development projects, notwithstanding the strong focus on integration related activities. Clarima Bulgaria, 49% owned by Bulbank and 51% by Clarima Italy, opened its doors in the middle of the year, entering the fast growing POS financing market in Bulgaria. Mortgage lending and the small business segment grew significantly, above the market trend, adding new innovative features to the value proposition. All regional personal credit centres were opened as planned. Innovative deposit products were launched to strengthen the deposit base. Assets under management sales went up, supported by the increased number of mutual funds offered and the high return on almost all 25 Pioneer funds on offer, at the end of the year. The particular focus in corporate banking was put on mid-sized corporate business development, where loans grew by 29% and deposits by 41%. Large corporate relations strengthened, making us a reliable partner in servicing complex, global and large-scale finance needs. Leasing volumes doubled. The factoring business increased significantly and was prepared to be separated into a standalone company from 2007. Structured and project finance business expanded.

2007 will be the year of merger completion. By the end of April, the legal merger will be finalised, creating the new UniCredit Bank. A new organisation structure will be launched. The technical merger triggered by the implementation of the new common IT platform is planned for the second and third quarters. This will enable effective amalgamation of front-office and back-office operations and thus full consolidation and unification of business infrastructure. It allows the launch of the new business and service model, including sales force, value propositions, tariffs, risk assessment, control mechanisms and procedures. As a result, the branch network will be restructured, offering high quality and convenience to all categories of customers. The divisionalisation principle, focusing on a segment-based, customer-centric approach of doing business, will be reinforced. Loan administration and back-office functions will be centralised and rationalised, making use of the advanced and customised applications. Consequently, we plan not only to complete the main part of technical and organisational integration, but also to achieve a good financial result from synergy and leverage on a broader knowledge base and stronger market positions. In accordance with the new corporate structure of UniCredit Group, the UCI shares in Bulbank were transferred to Bank Austria Creditanstalt on 6 February 2007, which will be the responsible sub-holding for the Central and Eastern European business of the Group. We do already work closely with the sub-holding, particularly with the newly-established CEE division in BA-CA, on integration and operating matters. All prerequisites to make all these ambitious plans happen are available due to the careful planning, management creation of the process, strong Group support and high levels of commitment.

In conclusion, we would like to thank our customers, partners and shareholders for their trust and patience in an extremely transforming year. We would like to express our gratitude also to our managers and employees, who are the backbone of our business and integration success. We want to thank all Supervisory Board and Management Board members who managed the institution so successfully and prudently through this period of intensive changes. We would like to express our special gratitude to Mr. Andrea Moneta, who chaired the Supervisory Board during 2006.

Robert Zadrazil
Chairman of the Supervisory Board

Levon Hampartzoumian
Chairman of the Management Board and CEO

16 February 2007
Sofia

SUPERVISORY BOARD AND MANAGEMENT BOARD[1]

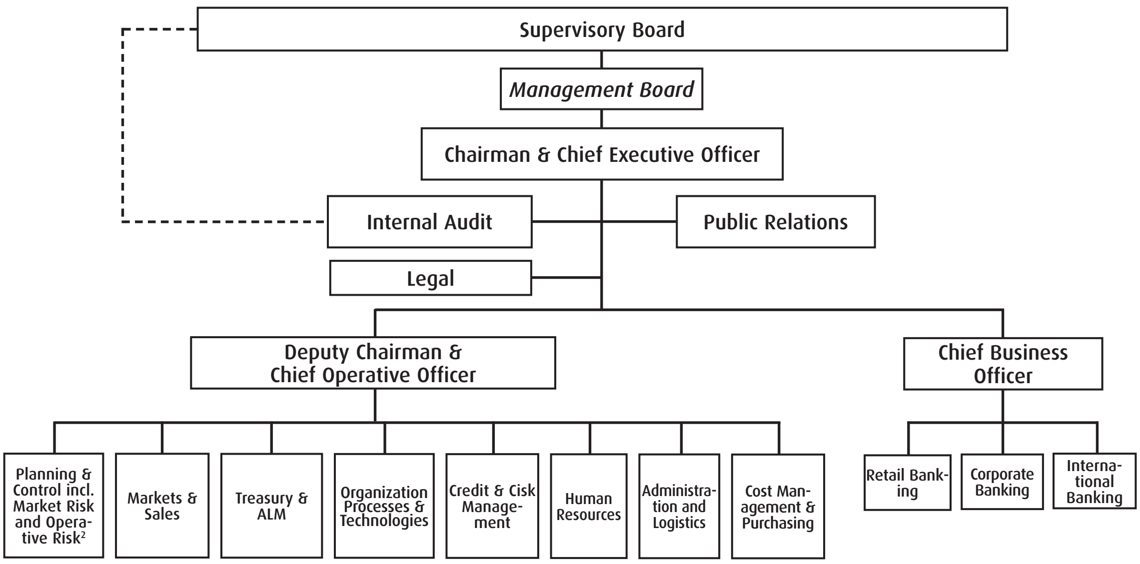
Supervisory Board		**Starting date of mandate**
Andrea Moneta	Chairman	3 November 2004
Fausto Alberto Galmarini	Deputy Chairman	3 October 2000
Dimitar Zhelev	Member	3 October 2000
Ivan Stancioff	Member	19 October 2001
Jan Beliecki	Member	25 September 2003
Alessandro Decio	Member	8 March 2006
Marco Iannaccone	Member	8 June 2006

Management Board		
Levon Hampartzoumian	Chairman and Chief Executive Officer	31 August 2001
Peter Harold	Deputy Chairman and Chief Operative Officer	8 June 2006
Andrea Casini	Member and Chief Business Director	8 March 2006
Ljubomir Punchev	Member	7 January 2005
Kalinka Kirova	Member	4 February 2003
Stanislav Georgiev	Member	3 October 2000

By decision of the Extraordinary General Meeting of the Shareholders of Bulbank AD, held on 20 December 2006, the following changes in the Supervisory Board of Bulbank were made in line with the new corporate governance structure of UniCredit Group:

- Newly elected members of the Supervisory Board effective 23 January 2007: Robert Zadrazil – Chairman, Alberto Devoto – Vice-Chairman, Heinz Meidlinger, Thomas Gross, Elena Patrizia Goitini.
- Released members of the Supervisory Board as of 23 January 2007: Andrea Moneta, Fausto Alberto Galmarini, Ivan Stancioff, Jan Beliecki and Alessandro Decio.

ORGANISATION CHART[2]



COUNTERPARTY CREDIT RATING (STANDARD & POOR'S)

Long-term	**BBB+**[3], upgraded from BBB on 26 October 2006
Short-term	**A-2**
Outlook	**Stable**

[1] As of 31 December 2006.
[2] As of 31 December 2006.
[3] Equal to the S&P sovereign rating of Bulgaria in foreign currency.

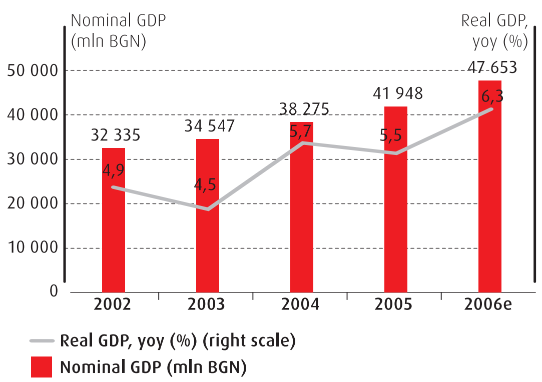
Bulgarian Economy

2006 Overview of economy

The speed of economic expansion gained momentum in 2006, with real GDP rising by an anticipated 6.3% year-on-year, its strongest yearly reading since the start of transition. The structure of GDP growth components on the demand side pointed to a mild improvement in the pattern of growth towards a more sustainable one; where there is a smaller gap between the positive contribution of domestic demand and the negative contribution of net exports. Household consumption grew strongly, underpinned by improving confidence of private individuals in their capacity to earn and spend more. In contrast, public consumption is expected to have posted only a moderate increase as public expenditure was held tight to counterbalance the rising spending appetite among private individuals and the surge in demand for investments in the corporate sector. Gross fixed capital formation held its growth impetus almost unchanged in 2006, providing extra evidence for the sustainable course of investment acceleration in the run up to EU entry and the surge in demand for new residential property among private individuals. Net exports remain the biggest drag on economic growth. Despite a sizeable recovery of export sales in 2006, which increasingly looks part of a sustainable process, imports also showed solid growth, fuelled by higher prices of crude oil and buoyant inward flow of investment goods.

The main areas of vulnerability on the macro side remains associated with the large current account deficit and inflation. The significant imbalance on the external current account is considered to be a natural phenomenon for a transitional economy, which would eventually decrease to a more risk-free level as long as strong investments in new equipment and technology boost competitiveness and add to the capacity of the economy to produce and export more. The current account gap is financed in a sustainable manner, mostly by FDI, which has reached 16.5% of GDP at the end of 2006 – the highest ever reported. The key downside risk for the economy remains associated with the pace of implementation of real

GDP



Annual growth of GDP demand-side components and outstanding customer loans growth

sector reforms, especially those aimed at improving business climate and competitiveness.

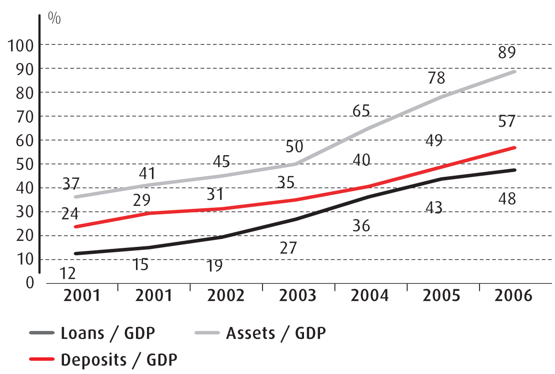
Selected economic indicators	2006	2005	2004	2003	2002	2001	Growth 06/05
Official exchange rate at the end of the period (BGN/USD)	1.48	1.65	1.46	1.59	1.92	2.19	–10.3%
Average Official exchange rate (BGN/USD)	1.56	1.57	1.58	1.73	2.08	2.18	–0.9%
Avg. Basic Interest Rate (%)	2.68	2.04	2.61	2.68	3.96	4.48	0.6
Inflation at the end of the period (%)	6.5	6.5	4.0	5.6	3.8	4.8	0.0
Avarage inflation (%)	7.3	5.0	6.2	2.4	5.8	7.4	2.3
Nominal GDP (EUR million)F	24,365	21,448	19,570	17,663	16,533	15,190	13.6%
Real GDP growth (%)F	6.3	5.5	5.7	4.5	4.9	4.1	0.8
GDP per capita (EUR)F	3,172	2,779	2,522	2,264	2,107	1,925	14.1%
Balance of payments final balance (EUR millions)	1,786	569	1,400	630	717	425	213.6%
Current account balance (EUR millions)	–3,879	–2,427	–1,131	–972	–403	–855	59.8%
Foreign trade turnover, FOB (EUR millions)	29,250	23,275	18,923	15,762	14,004	13,207	25.7%
Trade balance, FOB (EUR millions)	–5,285	–4,343	–2,954	–2,426	–1,878	–1,778	21.7%
Foreign direct investments (EUR millions)	4,015	2,326	2,728	1,851	980	903	72.6%
Gross foreign debt at the end of the period (EUR millions)*	18,727	15,111	12,572	10,641	10,769	11,935	30.0%
Gross foreign debt / GDP (%)F	75.0	71.4	64.2	60.2	65.1	78.6	5.0%
Gross internal public debt at the end of the period (EUR millions)	1,511	1,453	1,371	1,154	1,080	951	4.0%
BNB FX reserves (EUR millions)	8,926	7,370	6,770	5,309	4,575	4,061	21.1%
Budget surplus(deficit)/GDP (%)F	3.7	2.3	1.7	0.0	–0.6	–0.6	1.4
Unemployment rate at the end of the period (%)	9.1	10.7	12.2	13.5	16.3	17.3	–1.6
Acting commercial banks at the end of the period	32	34	34	35	35	35	–

Source: BNB, NSI and Bulbank projections
F Bulbank forecast; * data as of Nov. 2006

2006 Overview of banking sector

The fundamentals of the banking sector continued to improve. Rapid growth in business volumes and stronger financial intermediation were observed as economic expansion gained momentum and demand for banking services increased. Banking sector profitability strengthened as ROE increased to 20.6% (up from 18.9% a year ago). Efficiency measured by the cost-to-income ratio recorded only a marginal improvement to 55.0% at the end of 2006, as compared with 55.4% a year earlier. Non-performing loans remained at the very comfortable level of 3.1% of total gross customer loans, not least because of the dilution effect coming from the solid increase in newly extended credit. Loan loss provisions set aside during the year stayed at the very healthy level of 4.8% of total operating income (down from 12.1% in 2005), also underpinned by the loosening in statutory provisioning requirements.

Level of banking intermediation



Credit growth gradually lost impetus, rising by 24% annually, down from over 30% reported for the three consecutive years prior to 2006. Against this backdrop, the Bulgarian National Bank (BNB) started to dismantle administrative controls over the pace of credit expansion in the second half of the year. However, the rate on minimum reserve requirements, the only classical central banking instrument for control of money supply under the Currency Board in Bulgaria, remained unchanged at 8%. Similarly, the BNB left intact most of the regulatory measures specifically designed to strengthen the supervisory stance on credit risk, which were introduced back in 2005 and in early 2006. Despite buoyant domestic consumption in both corporate and household sectors, customer deposits reported an impressive 35% year-on-year increase, largely underpinned by strong foreign capital inflows that added to the liquidity of the local economy. Importantly, solid growth in retail deposits drew support from the inflow of savings from Bulgarian emigrants back to their homeland, where they were mostly channelled to the booming real estate market.

Outlook for 2007

Favourable external conditions and solid growth momentum behind domestic demand will sustain the strong pace of economic expansion through 2007, when GDP growth is further expected to be positively influenced by EU accession. However, scope for reducing the deficit on the external current account will remain limited, while inflationary pressure is forecast to recede only marginally relative to the previous year. Positive perceptions of international investors will also improve with EU entry, which will bring another year of FDI above the threshold of 10% of GDP. Policy priorities will be focused on avoiding activation of safeguard clauses and ensuring maximum utilization of EU grants. Risks to fiscal performance are marginal and are linked mostly to the expenditure side, where ambitious government plans to increase state involvement in new infrastructure projects are likely to have an adverse impact on the sustainability of GDP growth and particularly on the level of indebtedness in the public sector.

World Economy

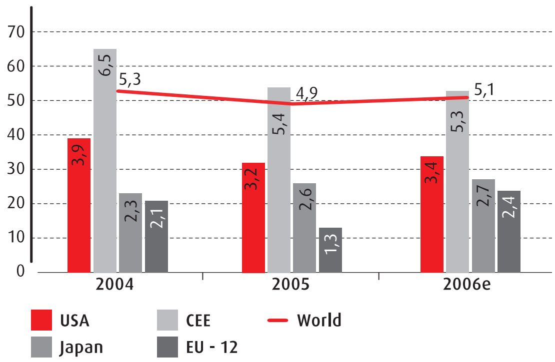
2006 Overview

The pace of global economic expansion accelerated in the first half of 2006 and global output is expected to have increased by 5.1% during the year. Stronger growth was relatively widely based, reaching all economic regions of the world, with the exception of the USA where GDP growth slowed moderately to 3.2%, becoming closer to its potential rate. In the Euro zone, output growth gained momentum, while China is on its way to report economic growth of over 10% for the third year in a row. The pace of economic expansion was particularly strong in CEE countries, underpinned by rapidly rising trade volumes and strong domestic demand in both household and corporate sectors.

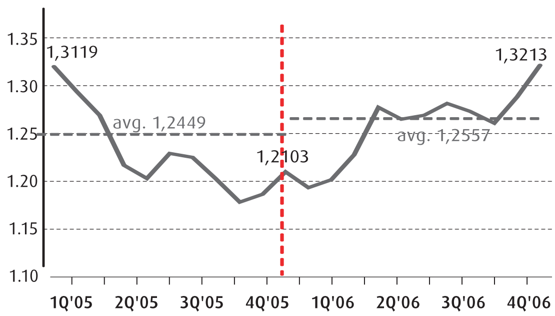
World merchandise trade gained pace, rising by 11% during the first eight months of 2006, up from 6% a year before. Geographically, most of the acceleration came from China, Japan and the USA and was concentrated largely in the beginning of the year. Against this backdrop, the value of China's exports is expected to have overtaken those of the USA, making it the second-largest exporter in the world. The robust pace of economic expansion led to increases in capacity utilization close to 100% in a number of sectors and to building up of inflationary pressure. Oil prices continued to crack records in the context of tight spare capacity in both production and refining and on top of rising security concerns in the Middle East and Nigeria. Headline inflation approached readings above comfort zones of many central banks in developed economies, triggering tightening in short-term interest rates.

Perceptions are that the USA economy is in a more mature stage of its cycle and therefore interest rates differentials vis-И-vis other countries will continue to narrow. In addition, rising concerns over the size of the twin deficits paved the way for a depreciation of the US dollar against the Euro by 9.2% in 2006. Volatility in currency markets increased, nearing the average historical level, as monetary policy decisions became more data-dependant and harder to predict. Rising inflationary concerns and clear signs of tightening in global liquidity led to a sizeable retreat of foreign capital from some emerging economies. Thus, currencies of some countries (Iceland, New Zealand and Hungary) which exhibited particularly wide and unsustainable current account deficits underwent sharp devaluations, accompanied by a reduction of asset prices on local equity markets. Still, for the most part, asset price declines appeared to have represented corrections after major run-ups, rather than a

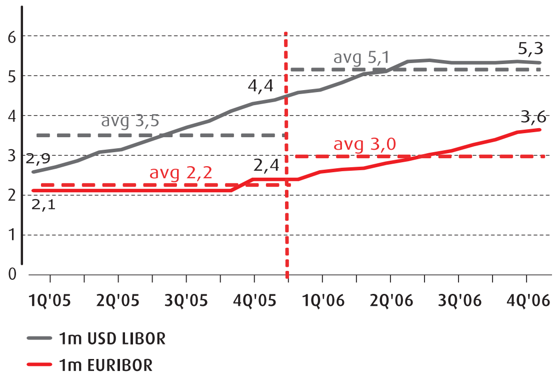
GPD Growth Rate (in %)



EUR/USD



1m USD LIBOR & 1m EURIBOR (%)- 2005/06



reassessment of the economic fundamentals. Therefore, the impact on the cost of borrowing in emerging markets was relatively subdued, also reflecting consolidation of fiscal positions, comfortable levels of international reserves and the large scale of early debt withdrawal programmes, which improved the overall supply-demand balance of the markets.

Outlook for 2007

Outlook for global output growth remains favourable. The IMF baseline scenario envisages only a small GDP growth softening in 2007 to 4.9%, which, if it occurred, would complete the strongest four-year period of economic expansion since the early 1970's. This is based on the anticipation that modest further interest rate increases would be enough to successfully contain inflationary pressures in the developed economies. A cooling housing market will increasingly dampen individual consumption and the appetite for investments in new residential property. Nevertheless, domestic demand in the USA and the Euro zone will grow stronger. It will draw support from the solid acceleration of investments in the corporate sector underpinned by a healthy increase in corporate profits and a reduction in spare capacity in a number of industries.

Bulbank Activity Rewiew

Financial results

Bulbank reported a consolidated net profit of BGN 80.2 million in 2006 (down from BGN 96.1 million in 2005). This incorporated a net profit from the Bank of BGN 77.4 million and a net profit from Bulbank Leasing Bulgaria of BGN 4 million. Adjusting for the one-off costs and restructuring provisions relating to the integration with HVB-Biochim and Hebros Bank, Bulbank's group net profit from operations would have been 120.7 million, representing 25.5% annual growth. Total gross operating income was up 11.5% to BGN 255 million and net operating income (after operational expenses) increased by 12.8% reaching BGN 157 million.

В хил. лв.

Summary normalised consolidated operating income statement	2006	2005	Growth (%)	Growth (amount)
Net interest income	177,569	162,850	9.0	14,719
Fees and commissions income	53,252	44,657	19.2	8,595
Net trading income	13,221	11,615	13.8	1,606
Gains from investment securities	3,881	3,090	25.6	791
Other operating income	6,913	6,377	8.4	536
GROSS OPERATING INCOME	**254,836**	**228,589**	**11.5**	**26,247**
Operating Expenses	(98,201)	(89,781)	9.4	(8,420)
NET OPERATING INCOME	**156,635**	**138,808**	**12.8**	**17,827**

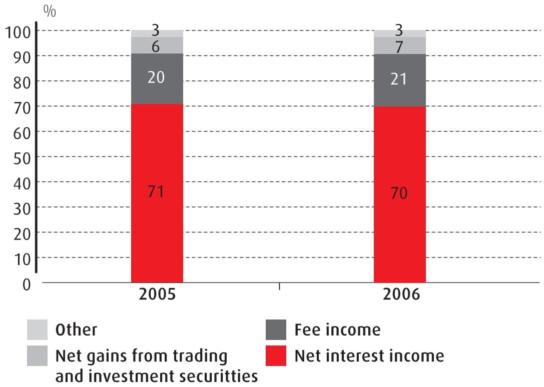
Profitability and efficiency improved on a normalised basis: return on assets was 3.2%, return on average equity 19.8%, earnings per share was up by 26% to BGN 0.73 and cost/income ratio was down by 0.7 percentage points to 38.5%.

Net interest income was the main earnings contributor with 70% of gross operating income. It grew 9% year-on-year to BGN 178 million. Lending interest income, representing 72% of total interest income, grew by 23%, supported by the 22.6% increase in the Bank's average annual loan portfolio and by the high contribution of leasing operations. Interest income from securities accounted for 20% of interest income but declined by 5.5% due to lower spreads and volumes. Interest expense on customer deposits went up by 63.2% due to the increase in both prices and average volumes. Interest income was supported by the increase in the major base rates. Average 1-month USD LIBOR increased from 3.5% to 5.1% (46%) and the average 1-month EURIBOR was up from 2.2% to 3% (36%). Interest income from inter-bank placements grew by 70% and accounted for 8% of total interest income. Lending spread for the year went down by 73 basis points in line with market trends. The effect on net interest income was partially offset by some increase in deposit spread. Overall, net interest margin[1] declined from 4.9% to 4.7%, returning to its 2004 levels and reflecting the market dynamics over the year.

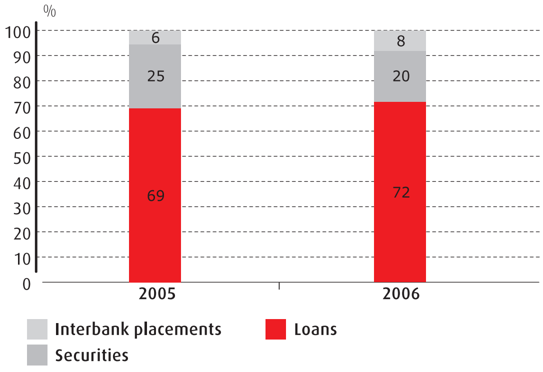
Fee income was up by 19.2% to BGN 53.3 million, accounting for 21% of gross operating income. The growth is main-

[1] Net interest income/Average assets.

Revenue structure



Interest income structure



ly attributable to the 65% increase in loan-related fees, 33% increase in fee income from documentary operations and 27% growth in fees from packages. Clean payment-related fees increased by 8% and those from cash operations by 12%.

Net securities operations gains were BGN 3.9 million, up by 25.6% year-on-year. Other operating net income was up 8.4% to BGN 6.9 million.

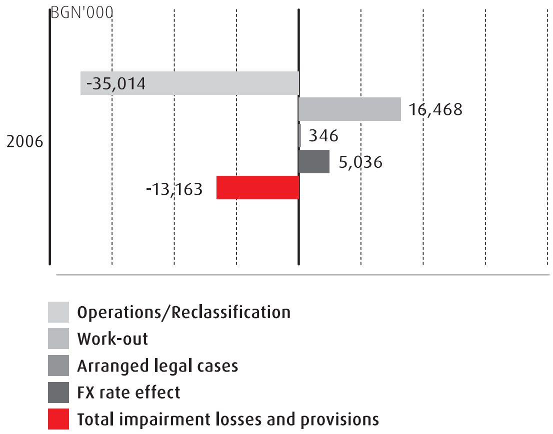
Operating costs normalised for the integration effects reached BGN 98.2 million. The increase of 9.4% was below the growth of gross operating income and the market, which further demonstrated the ability of the bank to conduct its business in an efficient way. Personnel costs grew by 10.4%, reflecting the competitive labour-market environment. Non-personnel costs were up 10.8% in 2006, mostly as a result of increased deposit insurance premiums, higher rent and utility payments.

Net impairment losses and provisions, less restructuring provisions, amounted to BGN 13.2 million compared to BGN 25.4 million in 2005. A large proportion of the impairment was offset by the receipt of BGN 16.5 million from active collection and work-out activity. Bulbank continued to pursue a strict, conservative and prudent risk assessment and provisioning policy, thus properly covering potential risks in the rapidly expanding lending market. As a result, the bank's NPL ratio of 1.5% was well below the 3% for the banking system.

Total integration effect on the income statement is BGN 47.6 million, including BGN 34.4 million impairment of assets and BGN 14.3 million restructuring provisions.

Income tax was BGN 15.7 million, down 9% year-on-year following the lower accounting net profit.

Normalised Net provisions (2006 cumulative)[2]



Balance sheet

The value of the consolidated balance sheet reached BGN 4,347 million, up by 25.1% compared with the end of 2005. This incorporates the balance sheet numbers of BGN 4,210 million for the Bank and BGN 180 million of UniCredit Leasing Bulgaria[1]. Interest-earning assets accounted for 87.8% of total assets.

The currency structure of assets changed. USD-denominated assets continued losing share at the expense of those denominated in EUR and BGN.

BGN Millions.

Summary Consolidated Balance Sheet*	2006	2005	Growth (%)	Growth (amount)
Assets				
Cash and balances with Central Bank	413	239	72.8	174
Due from Banks (net)**	610	372	63.9	238
Securities	980	979	0.1	1
Loans and Advances to customers (net)***	2,198	1,707	28.8	491
Property and equipment	118	154	(23.5)	(36)
Other assets, net	28	24	19.6	5
Total assets	**4,347**	**3,475**	**25.1**	**872**
Liabilities and shareholdersT equity				
Customer deposits	3,337	2,619	27.4	718
Long-term borrowings	204	93	119.3	111
Other liabilities	175	154	14.1	22
Total liabilities	3,716	2,865	29.7	851
ShareholdersT equity	**631**	**610**	**3.5**	**21**
Total liabilities and shareholdersT equity	**4,347**	**3,475**	**25.1**	**872**

* Balance Sheet Structure from the financial statements is adjusted for analytical purpose.

** Excluding loans to financial institutions, added to this item in financial statements.

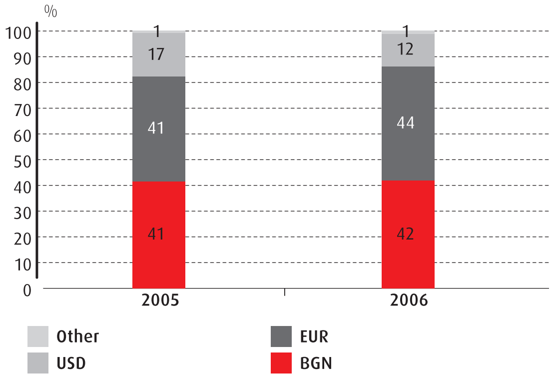
*** Including loans to financial institutions, classified as Due from banks in financial statements.

[1] The value of the consolidated assets is not an exact sum of the assets of the bank and the leasing company due to inter-company transactions.
[2] Less restructuring provisions.

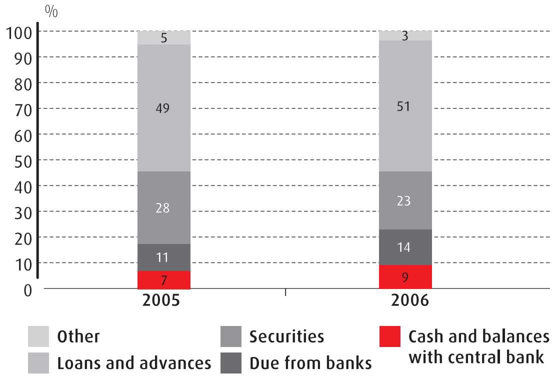
The gradual shift from treasury components to those related to commercial banking also continued in 2006. The loan portfolio weight rose to 51% of total assets against 49% for the previous year, reaching BGN 2,198 million in net terms (up 28.8% year-on-year). Securities portfolio remained unchanged at BGN 980 million and its share of total assets declined from 28% to 23%. Inter-bank placements were up by 63.9% at the end of 2006, registering an increase in their share of total assets from 11% to 14%, mainly due to large-ticket inflows at the end of the year. Property and equipment declined by 23.5% reflecting the impact of IT system impairment.

The bank continued to finance its operations predominantly through customer deposits and internal funds. Nonetheless, in 2006, external long-term borrowings increased from BGN 93 million to BGN 204 million, mainly from international financing institutions (e.g. European Investment Bank, Council of Europe, European Bank for Reconstruction and Development). Customer deposits grew healthily by 27.4%, reaching BGN 3,337 million.

Asset currency structure



Asset structure by instrument



Consolidated shareholders' equity amounts to BGN 631 million, up 3.5% for the year (BGN 610 million in 2005) due to reinvestment of some of the net profit in 2006. The equity ratio decreased to 14.5%, down from 17.5% in 2005. Total capital adequacy ratio is 18.1% (21.6% in 2005), and Tier 1 ratio is 15.9%, down from 18.8% in 2005. Risk-weighted assets to total assets ratio is up by 2 percentage points to 63.5%, reflecting the growth of loan portfolio. This affords complete compliance with BNB Regulation 8 on Capital Adequacy.

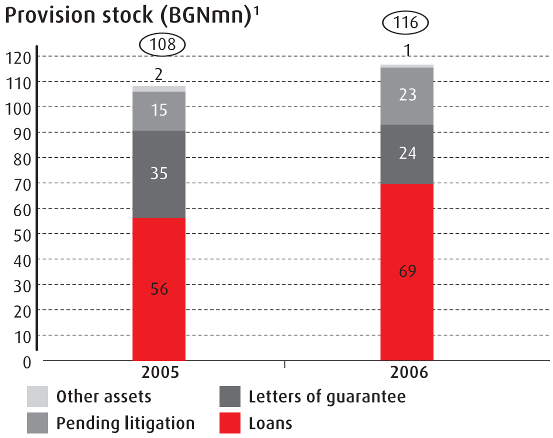
Risk management

In the context of the fast lending growth and increasing level of complexity of lending products, Bulbank has demonstrated continued focus on risk management and control.

The strong emphasis on asset quality is reflected in the NPL ratio of Bulbank, which improved even further in 2006 to 1.5%. Bulbank continued to pursue a prudent credit risk assessment and provisioning policy. Total loan provision coverage was 3.2% at the end of the year.

Market risk monitoring was enhanced through the newly- introduced requirements of the Central Bank embedded in the Capital Adequacy Regulation, which took into account the EU and Basel II guidelines. The Bank was running a balanced foreign currency position. The total net open FX position of 1.9% of the capital base at the end of the year fully met the statutory requirements. The open position in EUR was not considered at risk by the regulator in the context of the Currency Board regime. With the high volatility of the EUR/USD exchange rate in mind, the Bank continued to hedge the FX risk of its USD denominated, uncollateralized off-balance sheet exposures. Interest rate risk was closely scrutinised, due to the upward trend of EUR base interest rates, the uncertainty around USD base rates and the highly competitive pricing environment. Interest rate positions were carefully monitored and managed. The Bank partially hedged its interest rate risks through interest rate swaps. It also utilized other standard derivative instruments to manage market risks. VaR tools were applied to determine the potential maximum loss. Bulbank remains comfortably liquid. Despite active lending, expected cash receipts exceeded outflows.

Provision stock (BGNmn)[1]



[1] Less restructuring provisions.

Liquid asset-to-deposit ratios[1] were at satisfactory levels: 33.6% in total exposure and 40.8% for those denominated in foreign currency. Stress test analyses with different scenarios of expected cash flows have been performed regularly for monitoring and managing of liquidity risks. The developments in the market risk analysis and control area during the year continued the process towards full Basel II compliance for statutory purposes from 2007.

In 2006, the improvement and consistency of the operational risk management framework in accordance with Basel II requirements continued. Analysis and monitoring of the internal processes were performed in order to minimise risk. Reports on risk exposure indicators have been presented regularly to senior management. Development of risk scenario analyses was introduced. Close observation and follow-up of the established risk indicators was in place to prevent future exposures. The ratios of sustained losses and estimated losses to gross operating income fell markedly in 2006.

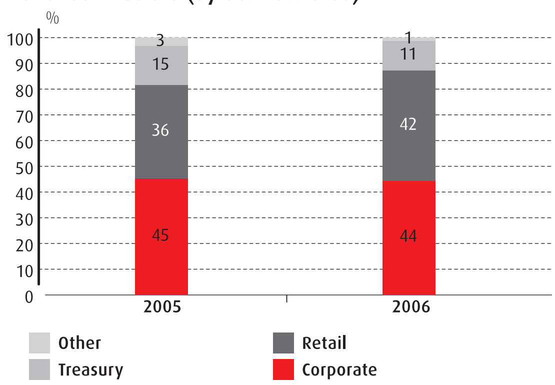
Bulbank continued to maintain healthy geographical distribution of its assets. It invested 74.2%[2] of its assets in Bulgaria, 23.6% in OECD countries (mainly Italy, Germany and USA) and only 2.2% in other countries, as at the end of 2006, in compliance with its investment policy.

Commercial banking

Commercial banking reinforced its position as the main revenue growth driver. It generated revenues of BGN 214 million in 2006, up 18.5% year-on-year. This represents 86% of total gross operating income of the Bank (compared to 80% a year earlier) and 84% of that of the Group. This growth was achieved through strong improvements in loans and deposits, number of customers and the versatile product offer. During the year, the number of customers grew by 42 thousand, net[3] across all segments, thus increasing the customer base by 10% to 477 thousand.

Loan portfolio value increased by 24.9% at the end of the year compared to the end of 2005, bringing the loan to deposit ratio to 63.9%, down 1.3 percentage points. Loans to individuals increased by 68% in 2006. Mortgages were the fastest growing lending instrument, up by 73%, followed by small business loans, up by 55%. Despite the selective consumer lending policy pursued, consumer loans increased by 52%.

Revenue structure (by business area)



Corporate banking

In 2006, corporate banking revenues grew by 9% and reached BGN 109 million[4]. Net interest income from lending was the main component of revenue, accounting for 54.8% of total corporate revenues. Spreads on loans continued to drop due to the enhanced price competition. The corporate loan portfolio grew by 11% reaching BGN 1,401 million at the end of the year (9.7% or BGN 1,370 million average for the year). Loan quality remained high with an NPL ratio of 0.9%.

Offering a great variety of transactional services, both in a traditional way and via electronic channels, was one of the priorities in the corporate segment. As a result, fee income grew 19%. Alongside its growing cash management business, Bulbank enhanced its value proposition to large supplier companies having a wide network of buyers with its Bulcollect product. This facilitated the effective cash collection and reconciliation of suppliers' cash receivables through the Bank's network. Additional functionality was implemented in Telebank and Bulbank Online e-channels, resulting in a record use of e-channels in customer transfers at the end of the year, 65% in all local currency payments and 68% in all foreign currency payments. It is expected that with the further growth and development of the local market, the demand for comprehensive cash management services will grow and provide good business opportunities.

Bulbank continued to develop its factoring business launched in 2005, leveraging its core competences in corporate banking, strength of network, size, brand and UCI Group global business potential. Total factoring turnover reached BGN 370 million, closing the year with a portfolio of BGN 60 million. The factoring business is planned to be transferred into a separate company as required by the Group business model. The company was legally registered in 2006 and started operations at the beginning of 2007. Bulbank developed further its project and structured financing business.

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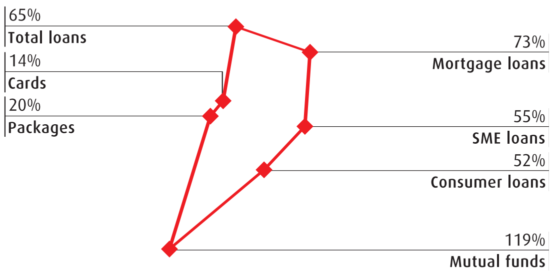
[1] Liquidity ratios as per BNB Regulation 11. Liquid assets are adjusted with the amount of overdue or pledged assets.
[2] Data as of 31 December 2006.
[3] New net customers, including gross new less gross left customers and closed dormant accounts.
[4] Revenues of business segments are calculated through application of internal transfer an pricing model, comparable for 2005 and 2006.

Retail banking

In 2006, retail banking revenues increased by 30.5% compared to the previous year, reaching BGN 105 million. This was supported by 36% growth in net interest income and 20% in fee income. Retail loan portfolio increased by 65%, reaching BGN 727 million at the end of the year. At the same time, the lending spread dropped by 140 basis points as a result of a fast fall in market spreads. Retail banking[1] was subject to active development during the year, driven by the fast market development, the Bank's positions and its longer-term plans. The Bank improved its service model and value proposition for small businesses[2], which recorded 57% growth in loan portfolio and 37% in deposits. The service model was further differentiated between small companies (with annual turnover of between BGN 50 thousand and BGN 2 million) and micro companies (with annual turnover below BGN 50 thousand).

Annual growth of retail banking products



Mortgage lending was another strategic area, where Bulbank is one of the market leaders with a 13% share. The mortgage portfolio of the Bank grew by 73% during the year to BGN 460 million. The specialised personal lending centres opened in 2005 and 2006 were highly instrumental in this growth in a very competitive environment. Cash loans rose by 56%, yet granted in a conservative way compared to the market, due to the prudent approach adopted in the risk profile of the product and the market.

In 2006, Bulbank designed and launched several new deposit products creating one of the most diverse deposit value propositions in the market place. As a result, deposits went up by 15% at an acceptable cost. Sales of asset management products sustained their strong momentum. Mutual funds more than doubled (up by 119%) to BGN 63 million and structured term-deposits increased by 31% to BGN 92 million. In 2006, EMV Acquiring Certification and Implementation projects and EMV Issuing Certification and Implementation projects were completed for both Visa International and MasterCard International, which were important preliminaries to further expand the banking card business. The number of cards in circulation grew by 14% to 318 thousand.

Retail business was supported by active commercial campaigns and aligned advertising, focused on specific products.

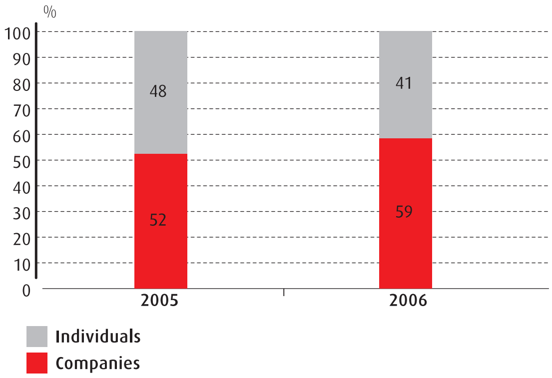
Customer deposits

In 2006, customer deposits increased by a healthy 27.5% and reached BGN 3,338 million. About 60% of all deposits are denominated in foreign currency, particularly in Euro. Nevertheless, BGN deposits increased their share of total deposits during the year by 5 percentage points to 40%.

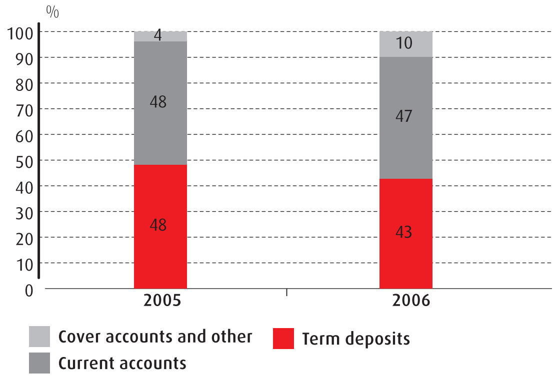
Company deposits increased to BGN 1,954 million at the end of 2006, 58.5% of total. Deposits of individuals are up by 10.9% to BGN 1,385 million or 41.5% of total. Current accounts decreased their share from 48% to 43% of total.

Deposit structure (by currency)

Deposit structure (by client type)



Deposit structure (by instrument)



[1] Including all segments of individuals (private, affluent and family) and small businesses
[2] Companies with annual turnover of up to BGN 2 million.

Bank loan portfolio

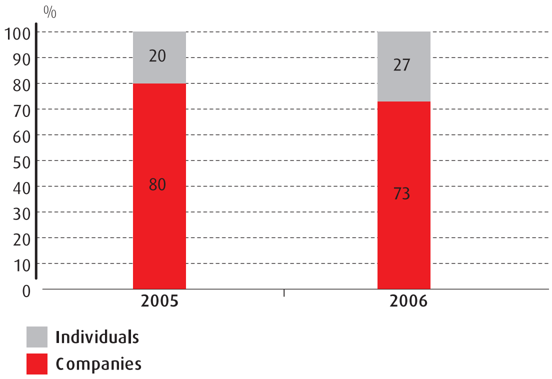
In 2006, the loan portfolio of the Bank experienced another year of strong growth. It increased by 24.9% to BGN 2,132 million[1] on a gross basis, up from BGN 1,707 million a year earlier. The average annual loan portfolio was BGN 1,957 million in 2006, up 22.6% compared to 2005. Due to the robust growth of deposits at the end of the year, the loan-to-deposit ratio decreased by 1.2 pp on an annual basis to 64% (compared to 78% for the banking sector).

The structure of the portfolio changed, reflecting the commercial activities during the year. The share of loans to individuals increased to 27% (20% in 2005) driven by the steep growth in mortgages, which reached a share of 22% (up from 16% in 2005) of total portfolio. The proportion of foreign currency loans dropped from 55% to 50%. The second fastest growing instrument after mortgages was consumer loans and overdrafts, which increased by 51% reaching 6% of total portfolio.

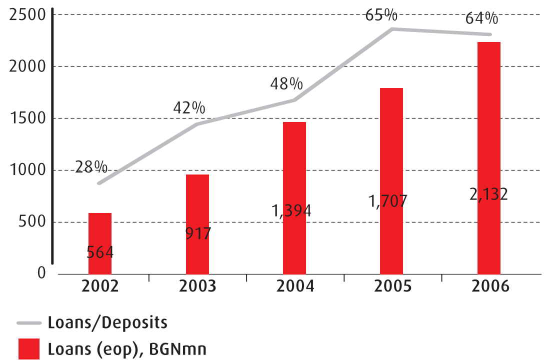
Loans to companies grew by 14% to BGN 1,552 million, accounting for 73% of the total portfolio. The share of working capital loans[2] is 72.1% of total company loans (58.8% in 2005). Concentration risk is down with the 25 largest exposures to total loans ratio falling to 27% from 34% in 2005.

Loans to individuals grew by 68.1% (32.1% growth for the market) to BGN 579 million, and accounted for 27% of total loans. Given the booming property market and the strong demand, mortgage lending was again central to the commercial efforts. The Bank increased its mortgage portfolio by 73% to BGN 460 million. Despite the high demand, con-

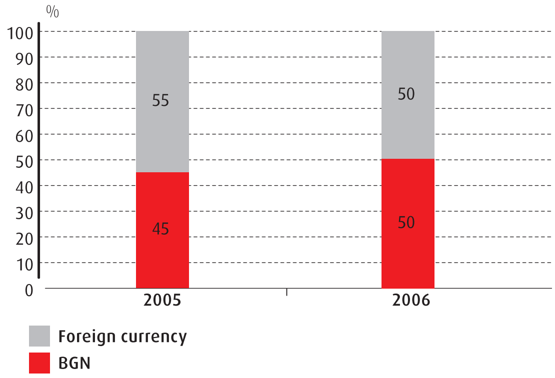
Loan portfolio structure (by client type)



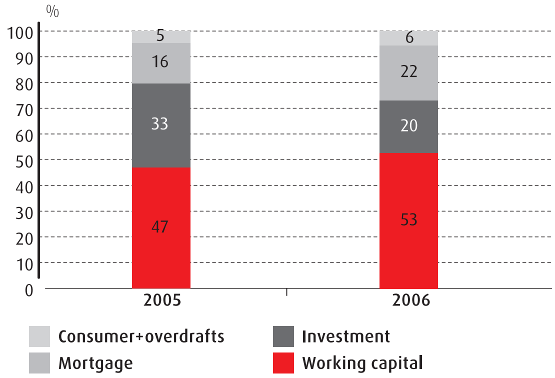
Loans (eop), BGNmn



Loan portfolio structure (by currency)



Loan portfolio structure (by instrument)



BGN Millions

Industry structure	2006 Amount	2006 Share	2005 Amount	2005 Share
Processing and manufacturing	564	26%	611	36%
Commerce	454	21%	323	19%
Tourism	93	4%	148	9%
Households and individuals	579	27%	345	20%
Agriculture	46	2%	44	3%
Services	277	13%	148	9%
Transport	26	1%	49	3%
Construction	79	4%	36	2%
Other	16	1%	3	0%
Total	**2,132**	**100%**	**1,707**	**100%**

[1] Including BGN 21.1 million loans to financial institutions.
[2] Including overdrafts.

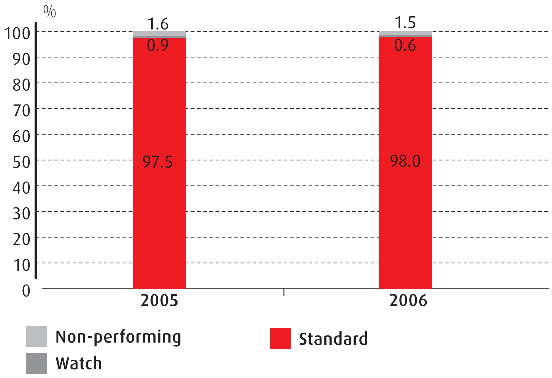
sumer loans and overdrafts had a lower priority for risk considerations. They were nonetheless up by 51.2% to BGN 119 million. Personal loans were almost entirely denominated in BGN.

The industry structure changed slightly during the year. The share of manufacturing declined by 10 percentage points, while that of services increased by 4 percentage points. The main areas of concentration as of year-end 2006 were manufacturing, commerce and services, accounting together for 61% of the total.

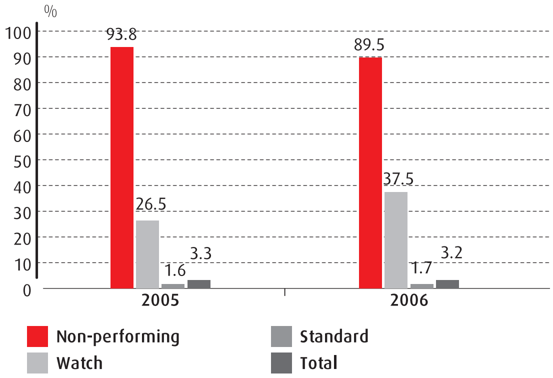
Loan quality remained good. Non-performing loan ratio[1] improved from 1.6% to 1.5%. The share of standard loans increased to 98% of total. The overall amount of write-offs is only BGN 2.8 million.

During the year, the Bank continued its prudent policy of loan loss impairment. Total provision coverage as of December 2006

Loan portfolio structure (by risk)



Loan provision coverage



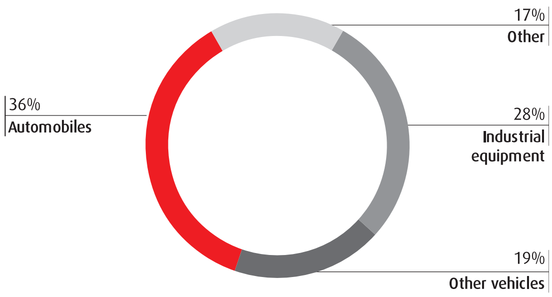
was 3.2%. Watch loans coverage reached 37.5% and NPL coverage was 89.5%.

Leasing

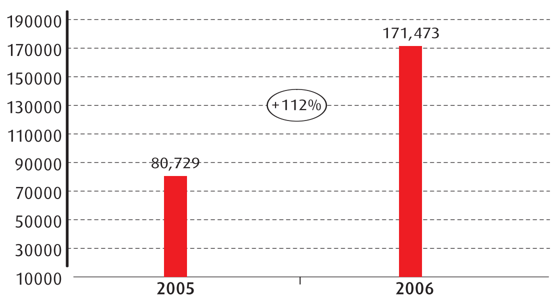
Bulbank Leasing[2] more than doubled its portfolio during the year to BGN 171 million. Consolidated net profit (including Bulbank Auto Leasing) more than doubled to BGN 4 million. Gross operating income increased by 98% to BGN 7.2 million.

The leasing company successfully continued using the distribution channels of the Bank, providing 70% of the newly generated business during the year. Vehicles held 55% of total new leasing volumes, followed by industrial equipment with 28%. In 2006, the company started offering car leasing products to individuals, which motored beyond expectations, driven by fast growth in the market.

Bulbank Leasing 2006 new portfolio by product



Leasing Portfolio, BGN ths



In 2006, Bulbank Leasing started its integration with Hebros Leasing and HVB Leasing as part of the overall consolidation process between all UniCredit Group subsidiaries in Bulgaria. The new consolidated entity will operate under the name of UniCredit Leasing and will be one of the two largest leasing companies in the country. The operational consolidation is planned for completion in 2007.

[1] Non-performing loans to total gross loans. Non-performing are all those loans classified as sub-standard and loss as per the ruling BNB Regulation 9 as of 31 December 2006.
[2] At the end of 2006 UniCredit Leasing Bulgaria changed it name to Bulbank Leasing as a part of the actions for consolidation of the 3 core leasing companies of UniCredit Group in Bulgaria.

Money market and capital market operations

In 2006, Bulbank continued to implement an active and risk prudent investment policy. All activities were fully compliant with the existing limits and rules. The Bank was active in securities trading, looking for higher yields, better liquidity and taking into consideration the maturity structure of liabilities. At the same time, the Bank was more focused on the investments in the domestic market; the value of BGN denominated securities thereby increased to BGN 447 million.

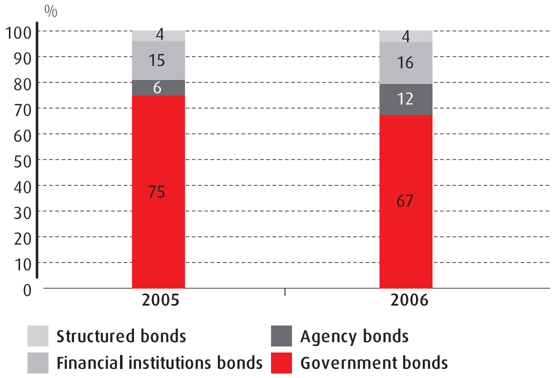
Net interest income from securities portfolio declined from BGN 27.2 million to BGN 20.8 million as a result of the decreasing average portfolio size and tightening market spreads. The average rating of the portfolio measured by Standard & Poor's is "A-" and the average duration is 2.99 years, close to the 2005 level.

With the financing of lending activities in mind, the asset structure was further optimized. The total size of the securities portfolio remained near BGN 980 million.

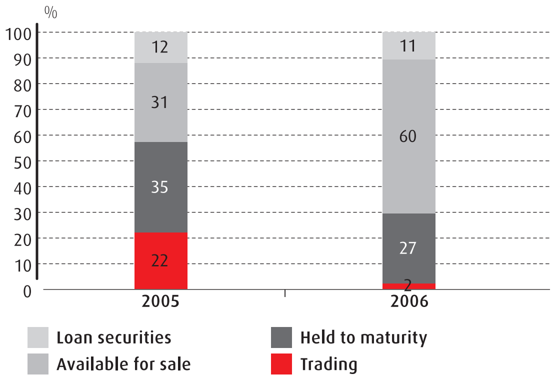
Over the course of the year, Bulbank gradually reduced the value of its placements with first-class international banks. The Bank participated in the local inter-bank market on a limited scale and predominantly for liquidity purposes. Bulbank was active in acquiring alternative financing sources. During the previous year, it received funds from several international institutions (EIB, COE, and EBRD) for financing EU strategic subject areas like energy efficiency, health care and community development.

Bulbank owned shares in 12 companies at the end of 2006. The total carrying value of these investments was BGN 9.4 million, up from BGN 7.0 million in 2005. During the year, Bulbank established UniCredit Factoring and participated in the establishment of UniCredit Clarima.

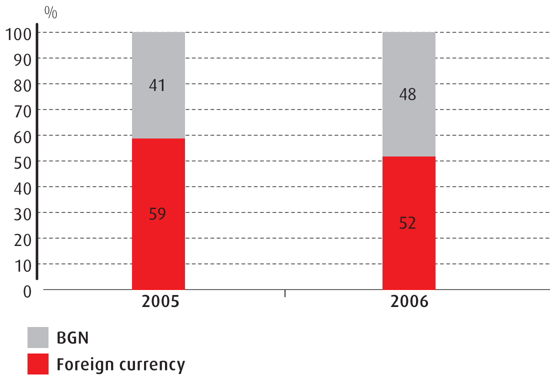
Securities portfolio (by instrument)



Securities portfolio (by type of portfolio)



Securities portfolio (by currency)



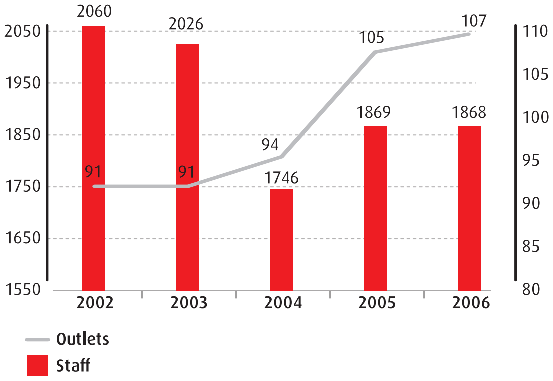
Human resources

Management of human resources was in the centrefield of senior management attention. All HR activities were accomplished in compliance with the adopted strategy for the merger of Bulbank with HVB Bank Biochim and Hebros Bank. In April, an integrated HR Division for the three banks was established. HR policies, standards and procedures were aligned.

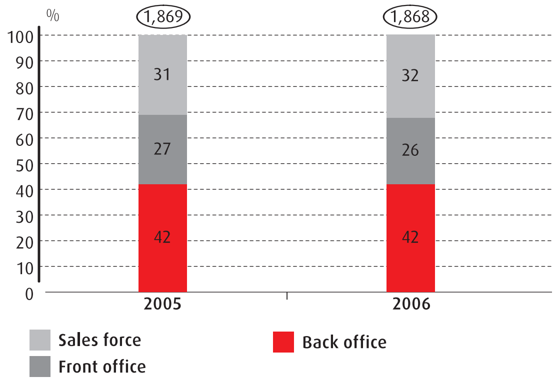
After the start of the integration process in February, the branch network expansion plans were progressed, rather than cancelled, due to the fit to business strategy. Three new lending centres and one office were established in some of the largest towns in the country – Stara Zagora, Russe and Pleven, with a total of almost 20 new employees. The total number of points of sale of the Bank at the end of the year was 107. The unit responsible for consumer finance in the Head Office, created in 2005, was separated as a stand-alone company – UniCredit Clarima. The plans for operationally spinning-off the factoring business into a stand-alone company were postponed to the beginning of 2007.

The total number of Bulbank Group employees remained almost unchanged, 1,899 at the end of 2006, whereas the total number of employees of the Bank stayed at 1,868. Total number of commercial staff reached 601, over 32% of total staff. Sales force (people directly engaged in commercial activities) increased to 481, from 24% to 26% of total staff. Front office was 58% of total staff and administrative staff decreased from 9% to 8% of total. Head Office personnel increased to 622, largely for the centralization of the loan administration function, but remained at the healthy level of 33% of total staff.

Number of bank staff and outlets



Structure of bank staff



According to the compensation policy of the Bank for a second year, the semi-annual reporting of MBO (Management by Objectives) was applied to the entire sales force. The variable part of compensation, strictly linked to contribution, was developed further. The principles of personal target allocation, performance related bonus range, pre-advice and team solidarity factors, previously in force for the MBO-covered positions, were cascaded to the whole bank.

In 2006, HR Development paid special attention to combining good practice coming from the three banks' expertise on the one hand, and to setting the new development principles, related to the business strategy, on the other. The foundation for the new training policy was designed, founded on the principle of equal development opportunities. The pool of internal trainers was reviewed and teams were established for the biggest training campaigns – "Commercial Training for the Sales Force" and "Roll-out Training Related to the New IT System Implementation". In soft skills, the Bank used valuable help from external companies (e.g. "Train the Trainers", "Successful Selling", managerial training). IT training continued, provided by leading companies in this field, aimed at introducing new technologies related to the Bank's infrastructure and supporting the business and services. Again this year, special corporate and small business events were organised. In addition to the "Young Talents" programme, several new initiatives for management development were launched at the UniCredit Group level: "UniQuest" for young people with high potential, Executive Development and Talent Management programmes.

The new Assessment Centre of the three banks participated actively in the introduction and implementation of the New Competency Model. It also supported the selection process of the senior management team for UniCredit Bulbank and UniCredit Leasing and was involved also in the evaluation of middle level management potential.

In 2006, the Bank introduced the Integrity Charter – a platform of common principles and corporate values – Fairness, Respect, Freedom, Transparency, Reciprocity and Trust, designed to provide UniCredit Group people with behavioural guidelines for everyday activities and to help create a distinctive reputation in the market.

A new programme named Become ONE was launched, aiming to help people cope with change throughout the integration process and creating and implementing a common culture in the three banks based on the Integrity Charter values.

Corporate social responsibility

In 2006, the corporate social responsibility policy of the Bank continued to evolve. Together with Unidea UniCredit Foundation, Bulbank carried out one of the biggest gift-matching corporate campaigns in the country, involving over 200 employees. Employees selected one from a number of carefully selected worthwhile causes to support with small regular amounts from their monthly salaries, subsequently doubled by the Bank and Unidea. The main focus of the selected causes was to support orphanages.

As an active member of Global Compact, the United Nations initiative, Bulbank supported one of the major projects implemented in Bulgaria, "Increase of Public Awareness of Mentally Disabled People", together with the Ministry of Labour and Social Policy, and also supported by the British Embassy. Bulbank supported a project to celebrate the EU membership of the country by publishing a book on Bulgarian cultural heritage. The Bank sponsored numerous other charity projects in the areas of health, culture and sport.

Integration

The process of integration of Bulbank with HVB Bank Biochim and Hebros Bank formally started in 2006. As a result, in the first half of 2007, the largest Bulgarian bank will be created. From the very start, it was clearly defined that the goal of the integration was not only to simply merge the operations of the three banks, but do it in a way that will allow business potential to strengthen through careful redesign and upgrade of business and operational models, implementation of a customer centric organisational structure and new IT system, enhanced quality of service, straightforward and efficient internal processes, strong and balanced risk management systems. The merger should be completed rapidly.

Having all areas of business and operations affected, the integration process was run through a formal programme management structure, synchronised with the central integration functions in Vienna and Milan. The project was launched in February 2006. The process was split into three phases – strategy, planning and implementation. During the strategic phase, the mission, main targets and strategies of the consolidated bank were determined. The main components of the strategy were: increase of growth potential; enhanced competitiveness through an effective business model, efficient operations structure and low cost positions; flawless integration. The programme was structured in clusters, covering all business, operational and head office functions. After detailed analysis and evaluation, the target IT platform of the new bank was selected.

During the planning phase, a master plan and detailed functional plans for integration were developed, synchronised and approved. The legal merger was planned for the second quarter of 2007 and the technical merger (including migration to the new IT system) in the second half of 2007.

The implementation phase started in the second half of 2006. During it, detailed business and operational models of the to-be bank were developed and their implementation started. This included service models, operations, risk management models, product catalogues, new tariffs, branch network structure and design and location, amongst others. In IT, gap analysis, design of application landscape and main infrastructure, and systems selection were completed. The real development started in the last quarter of 2006 and the implementation and roll out are planned for 2007.

The triple merger, as it is designed, will create significant growth potential. Significant synergies will be realised. The bigger size will trigger economies of scale, improved efficiency, higher market share, a more diverse customer base, better knowledge and more competences. This will allow the bank to establish a strong corporate governance structure, optimize its processes and enhance innovations. The result will be measured through a value based system of metrics. The main target will be creation of maximum economic added value.

Consolidated Financial Statements for the Year Ended 31 December 2006

Prepared in Accordance
with International Financial Reporting Standards
with Independent Auditor`s Rreport Thereon

KPMG

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF "BULBANK" AD

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of "Bulbank" AD, which comprise the consolidated balance sheet as at December 31, 2006, the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of "Bulbank" AD as at December 31, 2006, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Krassimir Hadjidinev
Authorized representative

Margarita Goleva
Registered auditor

0202 Маргарита Голева
Регистриран одитор

Sofia, 15 February 2007
KPMG Bulgaria OOD
37 Fridtjof Nansen Str.
1142 Sofia

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

Consolidated income statement

In thousands of BGN

	Notes	Year ended 31 December 2006	2005
Interest income		228 886	193 063
Interest expense		(51 317)	(30 213)
Net interest income	**4**	**177 569**	**162 850**
Fee and commission income		57 313	48 505
Fee and commission expense		(4 061)	(3 848)
Net fee and commission income	**5**	**53 252**	**44 657**
Net trading income	6	13 221	11 615
Net profit from investment securities	7	3 881	3 090
Other operating income, net	8	8 138	6 377
TOTAL OPERATING INCOME		**256 061**	**228 589**
Operating expenses	9	(97 127)	(89 781)
Impairment losses	10	(15 591)	(19 193)
Provisions	11	2 455	(6 250)
Restructuring costs	12	(48 702)	–
Share of loss of equity accounted investee	20	(1 225)	–
PROFIT BEFORE TAX		**95 871**	**113 365**
Income tax expense	13	(15 701)	(17 249)
NET PROFIT FOR THE PERIOD		**80 170**	**96 116**

The accompanying Notes 1 to 37 are an integral part of these consolidated financial statements.

Consolidated balance sheet

In thousands of BGN

	Notes	As at 31 December 2006	2005
ASSETS			
Cash and balances with central bank	14	412 560	238 764
Due from banks	15	630 626	405 352
Trading securities	16	108 263	115 495
Derivative financial instruments	17	15 828	14 383
Loans and advances to customers	18	2 176 590	1 673 358
Investment securities	19	870 988	863 638
Goodwill		416	416
Investments in equity accounted investee	20	920	–
Other assets	21	12 231	9 010
Property and equipment	22	118 172	154 413
TOTAL ASSETS		**4 346 594**	**3 474 829**
LIABILITIES			
Due to banks	23	68 232	50 290
Derivative financial instruments	17	9 917	10 654
Due to customers	24	3 336 875	2 618 771
Long-term Borrowings	25	203 808	92 927
Other liabilities	26	34 648	28 942
Deferred tax liability	27	5 568	13 798
Provisions	29	46 328	49 838
Restructuring provisions	30	10 437	–
TOTAL LIABILITIES		**3 715 813**	**2 865 220**
SHAREHOLDERS' EQUITY			
Share capital	33	166 370	166 370
Statutory reserves		51 155	51 155
Retained earnings		347 121	332 377
Revaluation reserves		66 135	59 707
TOTAL SHAREHOLDERS' EQUITY		**630 781**	**609 609**
TOTAL EQUITY AND LIABILITIES		**4 346 594**	**3 474 829**
CONTINGENT LIABILITIES	**31**	**842 959**	**582 966**

The accompanying Notes 1 to 37 are an integral part of these consolidated financial statements.

Levon Hampartzoumian
Chairman of the Management Board
and Chief Executive Officer

Peter Harold
Deputy Chairman of the Management Board
and Chief Operating Officer

15 февруари 2007 г.

Consolidated statement of changes in shareholders' equity

In thousands of BGN

	Share capital	Statutory reserve	Retained earnings	Property and equipment revaluation reserve, net of deferred tax	Revaluation reserve on AFS investments, net of deferred tax	Total
Balance as of 1 January 2005	**166 370**	**51 155**	**295 418**	**61 826**	**(657)**	**574 112**
Available-for-sale investments						
- Net fair value losses	–	–	–	–	(1 060)	(1 060)
Transfer to statutory reserves	–	–	–	–	–	–
Transfer of revaluation reserves on realised surplus	–	–	402	(402)	–	–
Net profit for the period	–	–	96 116	–	–	96 116
Dividend distribution	–	–	(59 177)	–	–	(59 177)
Other distribution	–	–	(382)	–	–	(382)
Balance as of 31 December 2005	**166 370**	**51 155**	**332 377**	**61 424**	**(1 717)**	**609 609**
Balance as of 1 January 2006	**166 370**	**51 155**	**332 377**	**61 424**	**(1 717)**	**609 609**
Available-for-sale investments						
- Net fair value profit	–	–	–	–	4 125	4 125
Transfer to statutory reserves	–	–	–	–	–	–
Transfer of revaluation reserves on realised surplus	–	–	592	(592)	–	–
Revaluation of fixed assets	–	–	–	(161)	–	(161)
Net profit for the period	–	–	80 170	–	–	80 170
Dividend distribution	–	–	(65 550)	–	–	(65 550)
Lower tax rate effect	–	–	–	3 569	(513)	3 056
Other distribution	–	–	(468)	–	–	(468)
Balance as of 31 December 2006	**166 370**	**51 155**	**347 121**	**64 240**	**1 895**	**630 781**

The accompanying Notes 1 to 37 are an integral part of these consolidated financial statements.

Consolidated cash flow statement

In thousands of BGN

	Notes	Year ended 31 December 2006	2005
Profit after taxation		80 170	96 116
Increase in allowances for impairment losses	10	15 591	19 193
Decrease in accruals		(14 780)	(33 259)
Increase/(decrease) in provisions	11	(2 455)	6 250
Increase in restructuring provisions	30	10 437	–
Depreciation and amortization	9	14 906	16 773
Unrealised (gains)/losses on revaluation of securities		(3 117)	6 359
Deferred tax	27	(5 174)	1 719
Tax expense	13	20 875	15 530
Profit on disposal of property and equipment		–	(585)
Impairment of fixed assets related to the restructuring of the bank		34 372	–
Other non-cash movements		4 251	–
		155 076	**128 096**
Change in operating assets:			
(Increase)/decrease in obligatory reserve with the National Bank	14	(74 079)	38 077
Decrease in Trading securities		10 280	124 628
Derivative financial instruments		(1 045)	(1 141)
(Increase)/decrease in loans and advances to banks (repayment beyond 3 months)		(5 602)	13 617
Increase in loans to customers		(510 782)	(360 828)
Increase in other assets		(3 164)	(1 839)
		(584 392)	**(187 486)**
Change in operating liabilities:			
Derivative financial instruments		(1 386)	1 519
Net increase in deposits from banks		128 180	121 083
Net increase/(decrease) in amounts owed to other depositors		709 730	(303 081)
Net decrease in accrued other liabilities		(1 055)	–
Share of loss of equity accounted investee	20	1 225	–
Income tax paid		(16 138)	(12 316)
Dividend paid		(68 202)	(56 005)
		752 354	**(248 800)**
Net cash flow from operating activities		**323 038**	**(308 190)**
Purchase of property and equipment		(13 324)	(14 010)
Proceeds from the sale of non-current assets		–	4 077
Acquisition of investments		(2 146)	(15 345)
Sale of investments		11 436	–
Net cash flows from investing activities		**(4 034)**	**(25 278)**
NET INCREASE IN CASH AND CASH EQUIVALENTS		**319 004**	**(333 468)**
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**34**	**415 243**	**748 711**
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**34**	**734 247**	**415 243**

The accompanying Notes 1 to 37 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1 Background

Bulbank AD (hereinafter, "Bulbank" or the "Bank") was incorporated in 1964 under the name of Bulgarian Foreign Trade Bank as a joint-stock company under the requirements of the Bulgarian Trade Act. The Bank possesses full banking service licence issued by the BNB.

2 Accounting Policies

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

A. Basis of Preparation

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board ("IASB"), and interpretations issued by the Standing Interpretations Committee of the IASB.

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

The consolidated financial statements are presented in Bulgarian leva (BGN), rounded to the nearest thousand. They are prepared on the historical cost basis except that derivative financial instruments, financial instruments at fair value through profit or loss and financial instruments classified as available-for-sale are stated at fair value and items of property are stated at revaluated amount less accumulated depreciation.

B. Basis of consolidation

Basis of consolidation of subsidiaries

Subsidiaries are entities controlled by the Bank. Control exists when the Bank has the right, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiearies are included in the consolidated fiancial statements from the date that control commences until the date that control ceases.

Basis of consolidation of Associates (equity accounted investees)

Associates are those entities in which the Bank has significant influence, but not control, over the financial and operating policies. Associates are accounted for using the equity method (equity accounted investees). The consolidated financial statements include the Bank's share of the income and expenses of equity accounted investees, from the date that significant influence commences until the date that significant influence ceases. When the Bank's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest is reduced to nil and the recognition of further losses is discontinued except to the extent that the Bank has an obligation or has made payments on behalf of the investee.

C. Foreign Currency Transactions

Transactions denominated in foreign currencies are recorded in the reporting currency at the official exchange rate set by the Bulgarian National Bank (hereinafter "BNB" or "Central Bank") at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are reported at the rates of exchange effective at the end of the reporting period. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss under "Net trading income" caption in the income statement.

The exchange rates at 31 December 2006 of the main foreign currencies traded by the Bank against the BGN set by the BNB are as follows:

BGN per currency unit

	2006	2005
US Dollar (USD)	1.485	1.658
Euro (EUR)	1.956	1.956
Swiss Franc (CHF)	1.217	1.258
Pound Sterling (GBP)	2.913	2.854

D. Derivative financial instruments

Derivative financial instruments including currency options, interest rate swaps, credit default swaps and other derivative financial instruments are initially recognised in the balance sheet at cost (including transaction costs) and subsequently are remeasured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models and pricing models as appropriate. 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.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains and losses reported in income.

E. Financial assets and liabilities

(i) Recognition

The Bank initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date that they are originated. All other financial assets and liabilities are initially recognised on the settlement date.

(ii) Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability.

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

(iii) Measurement

Financial instruments are measured initially at the fair value of consideration given/received, including transaction costs.

Subsequent to initial recognition all trading instruments and all available-for-sale assets are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured, in which case such an instrument is stated at cost, including transaction costs, less impairment losses.

All non-trading financial liabilities, originated loans and receivables and held-to-maturity assets are measured at amortised cost less impairment losses where appropriate. Amortised cost is calculated based on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument, where material, and amortised based on the effective interest rate of the instrument.

(iv) Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date.

The fair value of derivatives that are not exchange-traded is estimated on the basis of pricing models giving best estimate of the amount that the Bank would receive or pay if terminates the contract at the balance sheet date on an arms' length transaction.

F. Offsetting financial instruments

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 recognised amounts and there is an intention to settle on a net basis, or realise the asset and to settle the liability simultaneously.

G. Interest and discount 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 rate method.

The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

The calculation of the effective interest rate includes all fees and points paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

H. Fees and commissions

Fees and commissions on the financial services, provided by the Bank are generally recognised on an accrual basis when the service has been provided. Fees and commissions arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities, are recognised on completion of the underlying transaction.

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

I. Trading securities

Trading securities are securities which were acquired for generating profit from short term fluctuations. Trading securities are initially recognised at cost on a settlement date basis and subsequently re-measured at fair value based on quoted bid prices. All related realised and unrealised gains and losses are included in net trading income. Interest earned whilst holding trading securities is reported as interest income.

However, in a developing capital market, the prices with which transactions are realised can be different from quoted prices. While management has used available market information in estimating fair value, the market information may not be fully reflective of the value that could be realised in the current circumstances.

J. Sale and repurchase agreements

Securities sold subject to a linked repurchase agreements ('repos') are retained in the consolidated financial statements as trading securities and the counterparty liability is included in amounts due to banks, or due to customers, as appropriate. Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to 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 yield method.

K. Investment securities

The Bank classified its investment securities into the following two categories: held-to-maturity and available-for-sale assets. Investment securities with fixed maturity where management has both the intent and the ability to hold to maturity are classified as held-to-maturity. Investment securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as available-for-sale.

Management determines the appropriate classification of its investments at the time of the purchase.

Investment securities are initially recognised at cost (which includes transaction costs). Debt securities, available-for-sale are subsequently re-measured at fair value based on quoted bid prices or amounts derived from cash flow models. Unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in equity. Equity securities classified as available-for-sale investments comprise unlisted shares, for which fair values cannot be measured reliably and are recognised at cost less impairment. When the securities are disposed of or impaired, the related accumulated fair value adjustments are included in the income statement as gains less losses from investment securities.

Held-to-maturity investments are carried at amortised cost using the effective yield method, less any provision for impairment

A financial asset is impaired if its carrying value is greater than its estimated recoverable amount. The amount of the impairment loss for assets carried at amortised cost is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate. By comparison, the recoverable amount of an instrument measured at fair value is the present value of expected future cash flows discounted at the current market rate of interest for a similar financial asset.

Interest earned whilst holding investment securities is reported as interest income.

L. Loans and impairment losses

Loans originated by the Bank by providing money directly to the borrower or to a sub-participation agent at draw down, other than those that are originated with the intent of being sold immediately or in the short term which are recoded as trading assets, are categorized as loans originated by the Bank and are carried at amortised cost, which is defined as the fair value of cash consideration given to originate those loans as is determinable by reference to market prices at origination date. Debt securities acquired at the primary market and not held for trading are classified as loans. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction.

All loans and advances are recognised when cash is advanced to borrowers.

Impairment for loan loss is established if there is objective evidence that the Bank will not be able to collect all amounts due according to the original contractual terms of loans, in line with IFRS and special statutory regulations (Regulation ? 9 of BNB). The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans.

The impairment for loan loss also covers losses where there is objective evidence that probable losses are present in components of the loan portfolio at the balance sheet date. These have been estimated based upon historical patterns of losses in each component, the credit ratings allocated to the borrowers and reflecting the current economic climate in which the borrowers operate. When a loan is uncollectible, it is written off against the related provision for impairments. Subsequent recoveries are credited to the provision for loan losses in the income statement.

M. Property and equipment

All property and equipment is stated at historical cost less depreciation except land and buildings which are carried at fair value. The last revaluation of land and buildings has been made at the end of 2003 and the appraisal has been performed by a qualified independent valuer.

Depreciation is calculated on the straight line method to write off the cost of each asset to their residual values over their estimated useful life. Construction in progress is not depreciated until it is transferred into use. Land is also not depreciated.

The estimated useful life of assets is as follows:

	Years of useful life	
	2006	2005
Tangible fixed assets		
Buildings for own use	33	33
Furniture and installations	5 – 7	5 – 7
Office and data processing equipment	5 – 9	5 – 9
Motor vehicles	4	4
Intangible fixed assets	**5 – 7**	**5 – 7**

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining net operating income.

Repairs and maintenance are charged to the income statement when the expenditure is incurred.

N. Operating leases

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

O. Provisions

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

In accordance with IAS 19 "Employee benefits" the bank has accrued expenses for unused annual leave and due payments for post – employment benefits.

P. Critical accounting estimates, and judgements in applying accounting policies

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

(i). Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment on a monthly basis. In determining whether an impairment loss should be recorded in the income statement, the 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. These evidences 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.

ii). Income taxes

Taxation has been provided for in the consolidated 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. Taxes other than those related to 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 consolidated financial statements. The tax rate applicable for 2007 (10%) is applied in the calculation of deferred income tax amount.

The principal temporary differences arise from depreciation of property and equipment, provisions and other accruals.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

3 Financial Risk Management

A. Strategy in using financial instruments

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

The Bank also seeks to raise its interest margins by obtaining above average margins, net of provisions, through lending to commercial borrowers with a range of credit standing. Such exposures involve not just on-balance sheet loans and advances but the Bank also enters into guarantees and other commitments such as letters of credit and bonds of performance.

The Bank also trades in financial instruments where it takes positions in traded and over the counter instruments including derivatives to take advantage of short-term market movements in currency and interest rate prices. The Management places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions. With the exception of specific hedging arrangements, foreign exchange and interest rate exposures associated with these derivatives are normally offset by entering into counterbalancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

B. 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. 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 on a revolving basis and subject to an annual or more frequent review.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored regularly.

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 also managed in part by obtaining collateral and corporate and personal guarantees.

Derivatives

The Bank maintains strict control limits on net open derivative positions, i.e. the difference between purchase and sale contracts, by both amount and term. At any time the amount subject to credit risk is limited to the current fair value of instruments that are favorable to the Bank (i.e. assets), 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, except where the Bank requires margin deposits from counterparties.

Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. 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 mainly by cash or other form of collateral by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused approved credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. 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.

Geographical concentration of assets and liabilities

The Bank's exposure to credit risk is concentrated in the areas specified in the table below. Operations connected to Bulgaria include all primary business segments. The predominant activity in Italy, Germany, USA and other OECD countries is related to corporate and treasury operations. The loan customers of the Bank are mainly Bulgarian, and all placements and current accounts with foreign banks are domiciled in OECD countries.

In thousands of BGN

As at 31 December 2006	Total assets	Total liabilities	Commitments
Bulgaria	3 224 984	3 396 104	754 263
Italy	248 325	181 038	69 428
Germany	120 764	4 900	3 595
USA	151 388	3 388	49
Other OECD countries	506 891	90 978	7 400
Other countries	94 242	39 405	8 224
	4 346 594	3 715 813	842 959
Unallocated assets/liabilities	–	–	–
	4 346 594	**3 715 813**	**842 959**
As at 31 December 2005			
Bulgaria	2 548 426	2 573 597	454 404
Italy	181 343	92 026	6 409
Germany	185 439	22 806	11 656
USA	114 203	3 301	2 993
Other OECD countries	361 138	145 301	41 678
Other countries	84 280	28 189	65 826
	3 474 829	2 865 220	582 966
Unallocated assets/liabilities	–	–	–
	3 474 829	**2 865 220**	**582 966**

The Bank's loan portfolio is exposed to different sectors of the Bulgarian economy. However, credit risk is well spread over a diversity of individual and commercial customers.

C. Market risk

The Bank assumes in a prudent manner exposures to market risks, arising from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Bank estimates the market risk of positions held and the maximum losses expected based upon a number of assumptions for various changes in market conditions. The Bank applies limits on the value of risk that may be accepted, which is monitored on a regular basis.

D. Currency risk

The Bank assumes exposures to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Bank applies limits on the level of exposure by currency which are monitored regularly.

The table below summarizes the Bank's exposure to foreign currency exchange rate risk at 31 December 2006. Included in the table are the Bank's assets and liabilities at carrying amounts, categorized by currency.

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

In thousands of BGN

As at 31 December 2006	BGN	USD	EUR	Other currencies	Total (net)
Assets					
Cash and balances with Central bank	215 262	4 776	189 989	2 533	412 560
Due from other banks	13 035	167 518	406 238	43 835	630 626
Trading securities	75 818	–	32 445	–	108 263
Derivative financial instruments	–	4 581	11 247	–	15 828
Loans and advances to customers	1 022 782	57 570	1 096 238	–	2 176 590
Investment securities	370 615	304 899	186 730	8 744	870 988
Goodwill	416	–	–	–	416
Investments in equity accounted investee	920	–	–	–	920
Other assets	12 100	3	128	–	12 231
Property and equipment	118 172	–	–	–	118 172
Total Assets	**1 829 120**	**539 347**	**1 923 015**	**55 112**	**4 346 594**
Liabilities					
Due to other banks	33 607	3 861	30 325	439	68 232
Derivative financial instruments	–	6 420	3 497	–	9 917
Due to customers	1 338 035	9 275	1 936 555	53 010	3 336 875
Long-term borrowings	–	–	203 808	–	203 808
Other liabilities	31 261	445	2 916	26	34 648
Deferred tax	5 568	–	–	–	5 568
Provisions	5 691	23 762	2 707	14 168	46 328
Restructuring provisions	10 437	–	–	–	10 437
Total Liabilities	**1 424 599**	**43 763**	**2 179 808**	**67 643**	**3 715 813**
Net Position	**404 521**	**495 584**	**(256 793)**	**(12 531)**	**630 781**
Commitments	**347 394**	**110 204**	**365 244**	**20 117**	**842 959**
As at 31 December 2005					
Total Assets	**1 436 371**	**585 135**	**1 428 370**	**24 953**	**3 474 829**
Total Liabilities	**964 372**	**676 348**	**1 155 753**	**68 747**	**2 865 220**
Net Position	**471 999**	**(91 213)**	**272 617**	**(43 794)**	**609 609**
Commitments	**281 195**	**77 437**	**193 040**	**31 294**	**582 966**

E. Interest rate risk

The Bank applies limits on the overall interest rate exposure that may be undertaken, which is monitored regularly. The Management is satisfied that the Bank's position is such that exposure to movements in interest rates is minimized.

The table below summarizes 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 carrying amounts of derivative financial instruments which are principally used to reduce the Bank's exposure to interest rate movements are included in 'Other assets' and 'Other liabilities' under the heading 'Non-interest bearing'. The off-balance sheet gap represents the net notional amounts of all interest-rate sensitive derivative financial instruments.

In thousands of BGN

As at 31 December 2006	Up to 1 month	1-3 month	3-12 month	Over 1 year	Non-interest bearing	Total
Assets						
Cash and balances with Central bank	–	–	–	–	412 560	412 560
Due from other banks	627 346	–	–	–	3 280	630 626
Trading securities	3 081	3 940	1 996	99 246	–	108 263
Derivatives	–	–	–	–	15 828	15 828
Loans and advances to customers	2 159 127	2 308	5 997	5 652	3 506	2 176 590
Investment securities	56 322	58 131	88 944	662 169	5 422	870 988
Goodwill	–	–	–	–	416	416
Investments in equity accounted investee	–	–	–	–	920	920
Other assets	–	–	–	–	12 231	12 231
Property and equipment	–	–	–	–	118 172	118 172
Total Assets	**2 845 876**	**64 379**	**96 937**	**767 067**	**572 335**	**4 346 594**
Liabilities						
Due to other banks	61 348	–	–	–	6 884	68 232
Derivatives	–	–	–	–	9 917	9 917
Due to customers	2 650 465	203 085	294 058	44 522	144 745	3 336 875
Long-term borrowings	66 498	71 323	65 987	–	–	203 808
Other liabilities	–	–	–	–	34 648	34 648
Deferred tax	–	–	–	–	5 568	5 568
Provisions	–	–	–	–	46 328	46 328
Restructuring provisions	–	–	–	–	10 437	10 437
Total Liabilities	**2 778 311**	**274 408**	**360 045**	**44 522**	**258 527**	**3 715 813**
Total interest sensitivity gap	**67 565**	**(210 029)**	**(263 108)**	**722 545**	**313 808**	**630 781**

In thousands of BGN

As at 31 December 2005	Up to 1 month	1-3 month	3-12 month	Over 1 year	Non-interest bearing	Total
Assets						
Cash and balances with Central bank	–	–	–	–	238 764	238 764
Due from other banks	400 707	–	–	–	4 645	405 352
Trading securities	3 716	–	27 120	84 659	–	115 495
Derivatives	–	–	–	–	14 383	14 383
Loans and advances to customers	1 663 023	895	5 638	1 863	1 939	1 673 358
Investment securities	95 109	50 280	82 212	630 684	5 353	863 638
Goodwill	–	–	–	–	416	416
Other assets	–	–	–	–	9 010	9 010
Property and equipment	–	–	–	–	154 413	154 413
Total Assets	**2 162 555**	**51 175**	**114 970**	**717 206**	**428 923**	**3 474 829**
Liabilities						
Due to other banks	35 547	2 801			11 942	50 290
Derivatives	–	–	–	–	10 654	10 654
Due to customers	2 124 055	152 519	179 434	69 564	93 199	2 618 771
Long-term borrowings	39 299	24 205	29 423	–	–	92 927
Other liabilities	–	–	–	–	28 942	28 942
Deferred tax	–	–	–	–	13 798	13 798
Provisions	–	–	–	–	49 838	49 838
Total Liabilities	**2 198 901**	**179 525**	**208 857**	**69 564**	**208 373**	**2 865 220**
Total interest sensitivity gap	**(36 346)**	**(128 350)**	**(93 887)**	**647 642**	**220 550**	**609 609**

The tables below summarize the average interest rate by major currencies for monetary financial instruments for 2005 and 2006. The interest rates for loans and advances to customers, investment securities and long-term borrowings from banks represent the average effective interest rate for the period.

2006	BGN	EUR	USD
Assets			
Current accounts	–	1.71%	2.76%
Due from other banks	1.50%	2.19%	5.03%
Trading securities	5.34%	5.67%	8.25%
Loans and advances to customers	8.04%	6.48%	8.16%
Investment securities	5.52%	4.89%	4.15%
Liabilities			
Time deposits from other banks	2.88%	3.13%	5.09%
Long-term borrowings from banks	–	3.38%	–
Current accounts of other banks	0.10%	0.09%	0.07%
Time deposits from customers	3.64%	2.32%	1.50%
Current accounts of customers	0.13%	0.73%	0.28%

2005	BGN	EUR	USD
Assets			
Current accounts	–	0.73%	3.26%
Due from other banks	2.22%	2.20%	3.24%
Trading securities	5.81%	7.01%	6.65%
Loans and advances to customers	8.59%	6.22%	5.97%
Investment securities	5.94%	5.12%	3.72%
Liabilities			
Time deposits from other banks	2.01%	2.70%	2.78%
Long-term borrowings from banks	–	3.01%	–
Current accounts of other banks	0.10%	0.10%	0.08%
Time deposits from customers	2.89%	1.61%	0.74%
Current accounts of customers	0.11%	0.81%	0.15%

F. Liquidity risk

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, and guarantees. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with reasonable certainty. The Bank applies limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

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

In thousands of BGN

As at 31 December 2006	Up to 1 month	1-3 month	3-12 month	Over 1 year	Non-interest bearing	Total
Assets						
Cash and balances with Central bank	412 560	–	–	–	–	412 560
Due from other banks	630 582	–	–	–	44	630 626
Trading securities	108 263	–	–	–	–	108 263
Derivatives	–	–	–	–	15 828	15 828
Loans and advances to customers	110 364	159 579	907 098	999 549	–	2 176 590
Investment securities	40 025	45 452	90 606	689 483	5 422	870 988
Goodwill	–	–	–	–	416	416
Investments in equity accounted investee	–	–	–	–	920	920
Other assets	–	–	–	–	12 231	12 231
Property and equipment	–	–	–	–	118 172	118 172
Total Assets	**1 301 794**	**205 031**	**997 704**	**1 689 032**	**153 033**	**4 346 594**
Liabilities						
Due to other banks	62 804	4 420	284	189	535	68 232
Derivatives	–	–	–	–	9 917	9 917
Due to customers	1 232 210	200 543	290 906	1 613 216	–	3 336 875
Long-term borrowings	–	–	16 529	187 279	–	203 808

Other liabilities	–	–	–	–	34 648	34 648
Deferred tax	–	–	–	–	5 568	5 568
Provisions	–	–	–	–	46 328	46 328
Restructuring provisions	–	–	–	–	10 437	10 437
Total Liabilities	**1 295 014**	**204 963**	**307 719**	**1 800 684**	**107 433**	**3 715 813**
Net Liquidity Gap	**6 780**	**68**	**689 985**	**(111 652)**	**45 600**	**630 781**
As at 31 December 2005						
Total Assets	**894 584**	**142 488**	**764 134**	**1 490 011**	**183 612**	**3 474 829**
Total Liabilities	**995 434**	**156 022**	**178 253**	**1 431 520**	**103 991**	**2 865 220**
Net Liquidity Gap	**(100 850)**	**(13 534)**	**585 881**	**58 491**	**79 621**	**609 609**

G. Fair values of financial instruments

According to IAS 32 the Bank disclose fair value information on assets or liabilities for which published market information is readily available and where the fair value is materially different from their recorded amounts.

The fair value of cash and cash equivalents, deposits and other current receivables and liabilities is approximately equal to the book value given, because of their short-term maturity.

According to the management, given the existing circumstances, the fair value of loans should not significantly differ from the reported carrying amounts.

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

H. Application of published IFRS that are not yet effective, have not been applied in preparing these financial statements and are relevant to the operating activities of the Bank

• IFRS 7 (effective from 1 January 2007) – Financial Instruments: Disclosure

The standard will require increased disclosure in respect of the Company's financial instruments. It supersedes IAS 30 – Disclosures in the Financial Statements of Banks and Similar Financial Institutions and is applicable to all entities that prepare financial statements in accordance with IFRSs.

• Amendments to IAS 1 (effective from 1 January 2007) – Presentation of Financial Statements – Capital Disclosures.

As a complimentary amendment arising from IFRS 7 the standard will require increased disclosure in respect of the Bank's capital.

• IFRIC 9 Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006)

The Interpretation requires that a reassessment of whether an embedded derivative should be separated from the underlying host contract should be made only when there are changes in the terms of the contract that significantly modify the cash flows that otherwise would be required under the contract.

4 Net interest income

In thousands of BGN

	Year ended 31 December	
	2006	2005
Interest income		
Interest income arises from:		
Due from banks	18 236	10 752
Loans and advances to customers	164 305	133 246
Investment securities	39 519	39 579
Trading securities	5 885	8 336
Other financial instruments	941	1 150
	228 886	**193 063**
Interest expense		
Interest expense arises from:		
Due to other banks	(7 511)	(2 325)
Due to customers	(40 233)	(24 647)
Other financial instruments	(3 573)	(3 241)
	(51 317)	**(30 213)**
Net interest income	**177 569**	**162 850**

5 Net fee and commission income

In thousands of BGN

	Year ended 31 December 2006	2005
Fee and commission income		
Clean payments	18 675	17 289
Card transactions	8 872	8 545
Cash operations	6 574	5 858
Opening and maintenance of accounts	5 759	5 133
Documentary operations	4 148	3 128
Packages	4 080	3 208
Transactions with mutual funds	1 817	658
Other	7 388	4 686
	57 313	**48 505**
Fee and commission expense		
Card transactions	(2 840)	(2 701)
Maintenance of correspondent accounts	(324)	(372)
Other	(897)	(775)
	(4 061)	**(3 848)**
Net fee and commission income	**53 252**	**44 657**

6 Net trading income

In thousands of BGN

	Year ended 31 December 2006	2005
Net trading income arises from:		
Trading securities	(538)	2 402
Derivative financial instruments	(4 638)	2 361
Foreign exchange fluctuations and related derivatives	18 397	6 852
	13 221	**11 615**

7 Net profit from investment securities

In thousands of BGN

	Year ended 31 December 2006	2005
Net gain on disposal	1 427	4 111
Market revaluation of securities, net	2 454	(1 021)
	3 881	**3 090**

8 Other operating income, net

In thousands of BGN

	Year ended 31 December 2006	2005
Other operating income		
From loans	1 920	1 478
Discount of granted government loans	1 284	1 292
Vaults	697	668
Received from insurance companies	78	765
Disposal of property and equipment	79	584
Other	4 244	1 800
	8 302	**6 587**
Other operating expense		
Charities and contributions	(66)	(90)
Other	(98)	(120)
	(164)	**(210)**
	8 138	6 377

9 Operating expenses

In thousands of BGN

	Year ended 31 December	
	2006	2005
Wages and salaries, including incentive schemes	(31 595)	(26 779)
Social security cost	(6 109)	(6 487)
Depreciation and amortization	(14 906)	(16 773)
Deposit Insurance Fund contribution	(10 282)	(8 734)
External services purchased	(11 394)	(8 647)
IT maintenance	(7 420)	(7 714)
Post and telephone	(2 889)	(2 718)
Operating lease rentals	(2 535)	(1 927)
Advertising	(2 218)	(1 742)
Heating and lighting	(1 447)	(1 187)
Repairs and maintenance of property and equipment	(1 916)	(2 172)
Non-recoverable levies and taxes	(1 098)	(1 296)
Stationery	(1 562)	(1 748)
Other	(1 756)	(1 857)
	(97 127)	**(89 781)**

The average number of persons employed by the bank during the year was 1,928 (1,917 for 2005).

10 Impairment losses

In thousands of BGN

	Year ended 31 December	
	2006	2005
Write downs		
Due from other banks	–	–
Loans and advances to customers	(25 038)	(30 247)
Other assets	(123)	(437)
	(25 161)	**(30 684)**
Reversal of write downs		
Due from other banks	–	38
Loans and advances to customers	9 390	11 453
Other assets	180	–
	9 570	**11 491**
Impairment losses	**(15 591)**	**(19 193)**

11 Provisions

In thousands of BGN

	Year ended 31 December	
	2006	2005
Provisions		
Letters of guarantee	(53)	(4 607)
Litigations	(9 299)	(5 363)
	(9 352)	**(9 970)**
Reversal of provisions		
Letters of guarantee	10 904	–
Litigations	903	3 720
	11 807	**3 720**
Net provisions	**2 455**	**(6 250)**

12 Restructuring costs

As a result of the acquisition of HVB and BA-CA by UCI the Steering Committee took a decision on 29 May 2006 for legal merger between Bulbank, HVB Biochim and Hebros Bank up to 30 April 2007. A detailed formal restructuring plan for the necessary merging activities has been built. An integral part of the plan is the quantification of all direct unavoidable costs related to the planned restructuring. Management's best estimate for those costs that qualify for restructuring provision recognition in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" amounts to BGN 14,330 thousand and therefore a restructuring provision in that amount has been booked in the financial statement.

In line with the acquisition and the Group global IT policy a decision was made for implementation of a common IT platform for the combined entity in Bulgaria and Flex Cube was selected as target core IT platform. As a result the Management Board took a decision on 8 February 2006 for implementation of FlexCube from 1 July 2007. On that basis the current core IT system ICBS and a number of operating satellite systems (such as OPICS, CORONA and others) will be discontinued. This requires impairment of these systems amounting to BGN 34,372 thousand.

Total restructuring provisions are comprised of:

In thousands of BGN

	Year ended 31 December	
	2006	2005
Restructuring provisions	(14 330)	–
Impairment of fixed assets	(34 372)	–
	(48 702)	**–**

The restructuring provisions which were initially approved by the Management Board of the bank include:

In thousands of BGN

	As at 31 December	
	2006	2005
Restructuring provisions		
HR area	3 446	–
IT area	3 960	–
Real estate area	992	–
Other	5 932	–
	14 330	**–**

13 Income tax expense

Taxation is payable at a statutory rate of 15 % on adjusted profits under the annual tax return prepared under the Bulgarian tax law. Deferred tax is calculated using a tax rate of 10 %, applicable for 2007.

The breakdown of tax charges in the income statement is as follows:

In thousands of BGN

	Year ended 31 December	
	2006	2005
Profit before tax	95 871	113 365
Tax at tax rate in force (15%)	14 381	17 004
Tax on permanent tax differences	444	84
Tax on deferred tax differences	6 050	(1 558)
Current tax	**20 875**	**15 530**
Change in deferred tax	(5 174)	1 719
Tax expense	**15 701**	**17 249**

The tax on the Bank's profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

In thousands of BGN

	Year ended 31 December	
	2006	2005
Profit before tax	95 871	113 365
Tax at tax rate in force (15%)	14 381	17 004
Temporary tax difference, transformed into permanent	–	161
Tax on permanent tax differences	444	84
Adjustment due to decreased tax rate from 01.01.2007	876	–
Tax expense	**15 701**	**17 249**
Effective tax rate	**16.38%**	**15.22%**

14 Cash and balances with central bank

In thousands of BGN

	As at 31 December 2006	2005
Cash in hand	63 306	47 088
Precious metals	3	3
Current account with Central Bank	83 499	–
Statutory minimum required reserve with Central bank	265 752	191 673
	412 560	**238 764**

The balances held with the Central Bank are operational, serving inter-bank domestic commercial transactions of the Bank in Bulgarian Leva. In accordance with the regulations, those funds maintained with the Central Bank did not earn interest during 2006 and 2005.

Commercial banks in Bulgaria are required to maintain a minimum reserve with the Central Bank. The minimum reserve is based on a percentage of Bulgarian Leva and foreign currency funds attracted, excluding deposits due to local banks. The minimum reserve was established at 8% of deposits. The obligatory reserves denominated in Euro are held in a special reserve account while the BGN denominated component of the reserves is held on the current account maintained with the Central Bank. The Bank has access to 50% of its BGN reserve held with the Central Bank on a daily basis, but is to pay overdraft interest if the average monthly balance on the current account is less than the required reserve, until the required reserve level is restored.

15 Due from banks

In thousands of BGN

	As at 31 December 2006	2005
Time deposits (OECD countries)	547 110	343 219
Time deposits with domestic banks	35 812	17 858
Current accounts	4 847	7 712
Loans and advances	21 080	33 586
Overdrafts	31	1 163
Receivables under repurchase agreements	21 746	1 950
Gross Total	**630 626**	**405 488**
Less allowance for impairment losses	–	(136)
	630 626	**405 352**

Due from banks include interest receivable amounting to BGN 385 thousand as of 31.12.2006 and BGN 215 thousand as of 31.12.2005.

16 Trading securities

In thousands of BGN

	As at 31 December 2006	2005
Government bonds (Bulgaria)	67 349	98 552
Corporate bonds	38 813	16 943
Government bonds (Other countries)	2 101	–
	108 263	**115 495**

Trading securities include interest receivable amounting to BGN 2,385 thousand as of 31.12.2006 and BGN 2,660 thousand as of 31.12.2005.

17 Derivative financial instruments

The Bank utilizes interest rate swaps representing commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of interest rates (for example, fixed rate for floating rate) and no exchange of principal takes place. The Bank's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, the notional amount of the contracts and the liquidity of the market.

Credit derivatives are agreements where the Bank buys or sells credit protection.

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

Currency options, are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date, a specific amount of a foreign currency at a predetermined price. In consideration for the assumption of foreign exchange risk, the seller receives a premium from the purchaser. Options may be either exchange-traded or negotiated between the bank and a customer (OTC).

The notional amounts of certain types of financial instruments 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 rates 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 outstanding derivative instruments held are set out in the following table.

In thousands of BGN

	Contract /notional amount	Fair values	
		Assets	Liabilities
As at 31 December 2006			
Currency forwards	53 690	204	158
Currency options, bought	20 048	554	–
Currency options, written	20 048	–	554
Options on capital securities, bought	63 023	5 027	–
Options on capital securities, written	63 023	–	5 027
Опции върху борсови индекси, купени	7 389	566	–
Опции върху борсови индекси, продадени	7 389	–	566
Forex swaps	–	–	–
Credit default swaps	81 678	769	–
Interest rate swaps	98 812	8 544	3 612
Future contracts	7 823	164	–
	422 923	**15 828**	**9 917**
As at 31 December 2005			
Currency forwards	94 539	965	399
Currency options, bought	29 842	698	–
Currency options, written	–	–	–
Options on capital securities, bought	34 052	1 653	–
Options on capital securities, written	34 052	–	1 653
Forex swaps	74 268	1 934	1 934
Credit default swaps	91 184	1 251	–
Interest rate swaps	124 414	7 882	6 668
Future contracts	–	–	–
	482 351	**14 383**	**10 654**

18 Loans and advances to customers

The detail of the balances of this caption by type of customer is as follows:

In thousands of BGN

	As at 31 December	
	2006	2005
Receivables under repurchase agreements	–	150
Receivables under accepted letters of credit	3 506	1 939
Loans and advances		
Private enterprises	1 588 920	1 337 190
State owned enterprises	68 061	45 345
Private individuals	585 417	345 243
	2 242 398	1 727 778
Total loans and advances	**2 245 904**	**1 729 867**
Less allowance for impairment losses	(69 314)	(56 509)
	2 176 590	**1 673 358**

Loans and advances to customers include interest receivable amounting to BGN 8,098 thousand as of 31.12.2006 and BGN 5,569 thousand as of 31.12.2005.

The breakdown, by industry, of the commercial loan portfolio, before provisions, is as follows:

В хил. лв.

	As at 31 December	
	2006	2005
Processing and manufacturing	606 977	591 729
Commerce	467 946	333 994
Tourism	93 155	146 993
Households	585 417	345 243
Agriculture	49 727	45 763
Transport	55 125	48 664
Construction	101 466	41 637
Services	250 151	173 023
Other	32 434	732
Total loans	**2 242 398**	**1 727 778**

The ten largest loan exposures amount to BGN 271,542 thousand or 13% of the commercial loan portfolio, (301,048 thousand or 18% for 2005).

The next table summarizes the types of collaterals for loans to customers:

In thousands of BGN

	As at 31 December	
	2006	2005
Mortgages	2 403 883	1 367 396
Pledged assets	1 150 953	913 972
Securities	163 717	1 376
Precious metals	2 902	–
Cash	34 484	38 708
Total collaterals	**3 755 939**	**2 321 452**

19 Investment securities

In thousands of BGN

	As at 31 December	
	2006	2005
Debt and other fixed income instrument available for sale		
Bonds and notes issued by:		
Bulgarian Government	352 944	299 452
Foreign Governments	80 487	113 961
Other issuers	166 924	98 225
	600 355	**511 638**
Listed	600 355	165 592
Unlisted	–	346 046
Debt and other fixed income instrument held to maturity		
Bonds and notes issued by:		
Bulgarian Government	64 983	78 426
Foreign Governments	88 346	137 568
Other issuers	111 882	130 653
	265 211	**346 647**
Listed	265 211	296 489
Unlisted	–	50 158
Equity investments and other non-fixed income instruments available for sale		
Equity investments	5 422	5 353
	5 422	**5 353**
Listed	–	–
Unlisted	5 422	5 353
	870 988	**863 638**

Investment securities include interest receivable amounting to BGN 16,331 thousand as of 31.12.2006 and BGN 14,909 thousand as of 31.12.2005.

The list of the equity securities as at 31 December 2006 is as follows:

In thousands of BGN

	As at 31 December			
	2006		2005	
	Carrying value	Share in %	Carrying value	Share in %
Generali Bulgaria Holding AD	4 084	19.3	4 084	19.3
Generali Zakrila Health Insurance AD	200	5.0	200	10.0
Bankservice AD	345	6.8	345	6.8
Free Trade Zone – Burgas AD	12	5.7	12	5.7
Borika AD	519	5.3	519	5.3
POK Saglasie AD	158	4.3	158	4.3
Central Depository AD	3	3.0	3	3.0
Bulgarian Stock Exchange – Sofia AD	22	0.4	1	0.4
SWIFT	79	–	30	–
	5 422		**5 352**	

20 Investments in equity accounted investee

In thousands of BGN

	Ownership	Total assets	Total liabilities	Revenues	Expenses	Loss
2006						
Unicredit Clarima AD	49.9%	7 508	5 663	283	(2 738)	(2 455)

The Group`s share of loss in its equity accounted investee for the year amounts to BGN 1,225 thousand.

21 Other assets

In thousands of BGN

	As at 31 December	
	2006	2005
Settlements	4 845	3 248
Prepayments	2 262	2 176
Materials	3 060	503
Receivables on overpaid taxes	2 600	1 995
Other	296	2 912
Gross Total	**13 063**	**10 834**
Less allowance for impairment losses	(832)	(1 824)
	12 231	**9 010**

22 Property and equipment

In thousands of BGN

	Land and Buildings	Equipment	Software	Construction in progress	Total
Movement, incl. revaluation					
Balance at 1 January 2005	**105 549**	**35 752**	**60 324**	**1 329**	**202 954**
Additions	–	3 051	195	10 764	14 010
Disposals	(2 605)	(2 434)	(251)	(538)	(5 828)
Transferred to other categories	(1 274)	1 274	–	–	–
Transfers	–	2 203	1 643	(3 846)	–
Balance at 31 December 2005	**101 670**	**39 846**	**61 911**	**7 709**	**211 136**
Additions	–	3 769	1 573	7 982	13 324
Disposals	(92)	(1 603)	(344)	–	(2 039)
Transferred to other categories	–	–	–	–	–
Revaluation	(55)	(821)	(33 685)	–	(34 561)
Transfers	329	2 877	1 446	(4 652)	–
Balance at 31 December 2006	**101 852**	**44 068**	**30 901**	**11 039**	**187 860**
Accumulated depreciation					
Balance at 1 January 2005	**9 966**	**24 479**	**7 841**	**–**	**42 286**
Charge for the year	3 024	4 845	8 904	–	16 773
Disposals	(106)	(2 150)	(80)	–	(2 336)
Transferred to other categories	(139)	139	–	–	–
Balance at 31 December 2005	**12 745**	**27 313**	**16 665**	**–**	**56 723**
Charge for the year	2 955	5 090	6 861	–	14 906
Disposals	(3)	(1 595)	(343)	–	(1 941)
Transferred to other categories	–	–	–	–	–
Balance at 31 December 2006	**15 697**	**30 808**	**23 183**	**–**	**69 688**
Net Book Value					
Balance at 31 December 2005	**88 925**	**12 533**	**45 246**	**7 709**	**154 413**
Balance at 31 December 2006	**86 155**	**13 260**	**7 718**	**11 039**	**118 172**

23 Due to banks

In thousands of BGN

	As at 31 December	
	2006	2005
Current accounts		
Foreign banks	3 600	3 690
Local banks	5 909	11 544
	9 509	**15 234**
Time deposits – local banks	30 035	26 460
Settlements	536	759
Payables for accepts on LCs	3 506	1 939
Repo	24 646	5 898
	58 723	**35 056**
	68 232	**50 290**

Due to banks include interest payable amounting to BGN 21 thousand as at 31.12.2006 and BGN 18 thousand as at 31.12.2005.

24 Due to customers

In thousands of BGN

	As at 31 December 2006	As at 31 December 2005
By type of customer		
Private individuals	1 384 560	1 248 298
Companies and other entities	1 952 315	1 370 473
	3 336 875	**2 618 771**
By type of instrument		
Current accounts	1 426 386	1 253 219
Time deposits	1 584 586	1 264 246
Cover accounts	288 223	77 242
Liabilities under repurchase agreements	–	2 002
Transfers in transit	37 680	22 062
	3 336 875	**2 618 771**

Due to customers include interest payable amounting to BGN 8,374 thousand as of 31.12.2006 and BGN 4,683 thousand as of 31.12.2005.

25 Long-term borrowings

In thousands of BGN

	As at 31 December 2006	As at 31 December 2005
International financial institutions	41 453	4 599
Foreign Banks	162 355	88 328
	203 808	**92 927**

Long-term borrowings include interest payable amounting to BGN 622 thousand as of 31.12.2006 (BGN 509 thousand as of 31.12.2005).

26 Other liabilities

In thousands of BGN

	As at 31 December 2006	As at 31 December 2005
Payments, subject to further execution	14 275	11 562
Due to personnel	10 946	8 772
Tax payable	4 334	1 154
Dividends payable	286	3 324
Obligations under lease contracts	4 807	4 130
	34 648	**28 942**

The amount of liabilities to personnel includes BGN 748 thousand, representing the amount of due payments for post – employment benefits, accrued in accordance with Labor Code (BGN 579 thousand for 2005).

27 Deferred tax liability

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

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

In thousands of BGN

	Assets		Liabilities		Net	
	December 2006	December 2005	December 2006	December 2005	December 2006	December 2005
Property, plant, equipment	(3 459)	–	11 639	16 512	8 180	16 512
Securities available for sale	–	(303)	210	–	210	(303)
Provisions	(1 281)	(1 518)	–	–	(1 281)	(1 518)
Restructuring provisions	(1 044)	–	–	–	(1 044)	–
Other liabilities	(497)	(893)	–	–	(497)	(893)
Net tax (assets)/liabilities	**(6 281)**	**(2 714)**	**11 849**	**16 512**	**5 568**	**13 798**

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

In thousands of BGN

	Balance December 2005	Recognised in P&L	Recognised in equity	Balance December 2006
Property, plant, equipment	16 512	(4 763)	(3 569)	8 180
Securities available for sale	(303)	–	513	210
Provisions	(1 518)	237	–	(1 281)
Restructuring provisions	–	(1 044)	–	(1 044)
Other liabilities	(893)	396	–	(497)
	13 798	**(5 174)**	**(3 056)**	**5 568**

28 Impairment losses

The table below summarizes the allowance for impairment losses:

In thousands of BGN

	As at 31 December 2006	2005
Impairment		
Due from banks (Note 15)	–	136
Loans and advances to customers (Note 18)	69 314	56 509
Other assets (Note 21)	832	1 824
	70 146	**58 469**

The movement in impairment allowances is as follows:

В хил. лв.

	As at 31 December 2006	2005
Impairment		
Balance as at 1st January	58 469	44 162
Increase	25 161	30 684
Decrease	(9 570)	(11 491)
	74 060	**63 355**
Write-offs	(3 914)	(4 886)
Balance at the end of the period	**70 146**	**58 469**

29 Provisions

Provisions on letters of guarantee and letters of credit relate to claimed financial guarantees and letters of credit, which are in process of dispute with the relevant counterparties. The provisions on outstanding and probable court proceedings relate to court claims made against the bank, which are also subject to dispute. The timing of utilizing these provisions is uncertain and depends on the future developments on the relevant cases.

The table below summarizes the items to which provisions relate:

In thousands of BGN

	As at 31 December	
	2006	2005
Letters of guarantee	23 717	34 568
Litigations	22 611	15 270
	46 328	**49 838**

The movement in provisions is as follows:

В хил. лв.

	As at 31 December	
	2006	2005
Balance as at 1st January	49 838	43 588
Increase	9 352	9 969
Decrease	(11 807)	(3 719)
	47 383	**49 838**
Write-offs	(1 055)	–
Balance at the end of the period	**46 328**	**49 838**

30 Restructuring provisions

The movement in restructuring provisions is as follows:

В хил. лв.

	As at 31 December	
	2006	2005
Restructuring provisions		
Balance as at 1st January	–	–
Increase for the period	14 330	–
Decrease for the period	–	–
	14 330	**–**
Utilization for the period		
HR area	(191)	–
IT area	(701)	–
Real estate area	(36)	–
Other	(2 965)	–
	(3 893)	**–**
Balance at the end of the period	**10 437**	**–**

31 Contingent liabilities and commitments

Off-balance sheet commitments. The following table indicates the contractual amounts of the Bank's off-balance sheet financial instruments before provisions that commit it to extend credit to customers or to cover customer's liability. Provisions in respect of this disclosure are disclosed in Note 28.

In thousands of BGN

	As at 31 December	
	2006	2005
Letters of credit and letters of guarantee	315 885	201 026
Credit commitments	527 074	381 940
	842 959	**582 966**

32 Assets pledged

Assets are pledged as collateral related to deposits of budgetary organizations. Mandatory reserve deposits are also held with the Central Bank in accordance with statutory requirements. These deposits are limited to the Bank's use in day to day operations.

In thousands of BGN

	Asset		Related Liability	
	2006	2005	2006	2005
Balances with central bank	26 996	191 673	–	–
Securities related to deposits of public sector organisations	435 480	313 493	337 446	264 334
	462 476	**505 166**	**337 446**	**264 334**

33 Shareholders' equity

(a) Share capital

As at 31 December 2006, the share capital of Bulbank AD consisted of 166,370,160 fully subscribed and paid registered shares of BGN 1 face value each with the same voting and dividend rights.

A summary table with the structure of shareholding at 31 December 2006 is as follows:

Shareholder	As at 31 December 2006		As at 31 December 2005	
	Number of Shares	Shareholding %	Number of Shares	Shareholding %
UniCredito Italiano SpA	143 304 252	86.14	143 294 088	86.13
International Finance Corporation	8 817 618	5.30	8 817 618	5.30
Allianz AG	8 318 295	5.00	8 318 295	5.00
Simest SpA	4 159 254	2.50	4 159 254	2.50
Financial institutions	18 787	0.01	18 787	0.01
Businesses and non-commercial organisations	1 401 453	0.84	1 414 653	0.90
Private individuals	350 501	0.21	347 465	0.20
	166 370 160	**100.0**	**166 370 160**	**100.0**

(b) Statutory reserve

Statutory reserves comprise amounts appropriated for purposes defined by the local legislation. Under local legislation, the Bank is required to set aside one fifth of its profit in a statutory reserve until it reaches 1.25% of the bank's total assets and off-balance-sheet liabilities.

(c) Retained earnings

The Bank presents under retained earnings section all distributable reserves in excess of the statutory required legal reserves under (b).

(d) Revaluation reserves

The revaluation reserves comprise with the revaluation surplus of the property and equipment and securities available for sale net of the related deferred tax liability.

34 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition including: cash, balances with the Central Bank excluding the statutory minimum required reserve, and amounts due from banks:

In thousands of BGN

	As at 31 December	
	2006	2005
Cash in hand	63 306	47 088
Demand deposits with banks	88 019	7 224
Time deposits with banks up to 90 days	582 922	360 931
	734 247	**415 243**

35 Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The Bank is subject to such influence by UniCredito Italiano SpA. A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits, securities purchased and other transactions. These transactions were carried out on commercial terms and conditions and at market rates. The volumes of related party transactions with UniCredito Italiano Group members as well as with members of Management Board and Supervisory Board outstanding at the year end are as follows:

In thousands of BGN

	UniCredito Italiano Group		Management Board and Supervisory Board	
	2006	2005	2006	2005
Loans and short term placements	318 363	169 616	679	499
Securities purchased	11 700	11 518	48	30
Interest income earned	4 726	5 898	12	23
Deposits, long-term borrowing, lease contracts	37 587	30 948	875	550
Interest expense	1 263	114	–	–
Operating income	103	69	–	–
Operating expenses	2 293	1 859	–	–
Commission income	20	143	–	–
Commission expenses	324	254	–	–
Derivatives at fair value (assets)	5 588	4 276	–	–
Derivatives at fair value (liabilities)	3 461	10 382	–	–
Letters of Guarantee issued in favour of Bulbank	50 909	17 301	–	–
Letters of Guarantee issued by Bulbank	356	38	–	–

In 2006, the total remuneration of the members of the Management Board was BGN 1,493 thousand (BGN 1,611 thousand for 2005). The remuneration of the members of the Supervisory Board was BGN 24 thousand.

36 Capital adequacy compliance

In accordance with Ordinance ? 8 on the Capital Adequacy of Banks, Bulbank calculates and reports on a monthly basis to the Bulgarian National Bank the amount of risk-weighted assets, the capital base and the capital adequacy ratios. The Ordinance requires minimum 12% overall capital adequacy ratio and minimum 6% Tier 1 capital adequacy ratio.

The following table summarizes the results of Bulbank in compliance with requirements under Ordinance ? 8 of BNB:

In thousands of BGN

	As at 31 December	
	2006	2005
Risk weighted assets for covering credit risk	2 714 531	2 055 544
Risk weighted assets for covering market risk	46 061	76 337
Total Risk-weighted assets	**2 760 592**	**2 131 881**
Total eligible capital base	498 974	456 208
there of Tier 1 capital	438 260	401 201
Tier 1 ratio	**15.88%**	**18.82%**
Total capital adequacy ratio	**18.07%**	**21.40%**

37 Post balance sheet events

There are no events after the balance sheet date that would require either adjustments or additional disclosures in the consolidated financial statements.

Unconsolidated Financial Statements for the Year Ended 31 December 2006

Prepared in Accordance with International Financial Reporting Standards with Independent Auditor`s Rreport Thereon

KPMG

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF "BULBANK" AD

Report on the unconsolidated financial statementss

We have audited the accompanying unconsolidated financial statements of "Bulbank" AD, which comprise the unconsolidated balance sheet as at December 31, 2006, the unconsolidated income statement, the unconsolidated statement of changes in equity and the unconsolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the unconsolidated financial statements give a true and fair view of the unconsolidated financial position of "Bulbank" AD as at December 31, 2006, and of its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Krassimir Hadjidinev
Authorized representative

Margarita Goleva
Registered auditor

Sofia, 15 February 2007
KPMG Bulgaria OOD
37 Fridtjof Nansen Str.
1142 Sofia

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

0202 Маргарита Голева
Регистриран одитор

Income statement

In thousands of BGN

	Notes	Year ended 31 December 2006	2005
Interest income		219 272	189 395
Interest expense		(48 323)	(29 834)
Net interest income	**4**	**170 949**	**159 561**
Fee and commission income		57 271	48 480
Fee and commission expense		(4 066)	(3 848)
Net fee and commission income	**5**	**53 205**	**44 632**
Net trading income	6	13 235	11 628
Net profit from investment securities	7	3 881	3 090
Other operating income, net	8	7 718	6 062
TOTAL OPERATING INCOME		**248 988**	**224 973**
Operating expenses	9	(95 905)	(89 015)
Impairment losses	10	(14 495)	(18 585)
Provisions	11	2 455	(6 250)
Restructuring costs	12	(48 702)	–
PROFIT BEFORE TAX		**92 341**	**111 123**
Income tax expense	13	(14 951)	(16 913)
NET PROFIT FOR THE PERIOD		**77 390**	**94 210**

Balance sheet

In thousands of BGN

	Notes	As at 31 December 2006	2005
ASSETS			
Cash and balances with central bank	14	412 560	238 762
Due from banks	15	630 626	405 352
Trading securities	16	108 263	115 495
Derivative financial instruments	17	15 828	14 383
Loans and advances to customers	18	2 045 280	1 613 040
Investment securities	19	874 991	865 246
Other assets	20	4 034	3 893
Property and equipment	21	117 943	154 309
TOTAL ASSETS		**4 209 525**	**3 410 480**
LIABILITIES			
Due to banks	22	68 232	50 290
Derivative financial instruments	17	9 917	10 654
Due to customers	23	3 338 095	2 618 897
Long-term borrowings	24	77 877	34 022
Other liabilities	25	27 287	25 590
Deferred tax liability	26	5 569	13 799
Provisions	28	46 328	49 838
Restructuring provisions	29	10 437	–
TOTAL LIABILITIES		**3 583 742**	**2 803 090**
SHAREHOLDERS' EQUITY			
Share capital	32	166 370	166 370
Statutory reserves		51 155	51 155
Retained earnings		342 123	330 158
Revaluation reserves		66 135	59 707
TOTAL SHAREHOLDERS' EQUITY		**625 783**	**607 390**
TOTAL EQUITY AND LIABILITIES		**4 209 525**	**3 410 480**
CONTINGENT LIABILITIES	30	**842 959**	**582 966**

Levon Hampartzoumian
Chairman of the Management Board
and Chief Executive Officer

Peter Harold
Deputy Chairman of the Management Board
and Chief Operating Officer

15 февруари 2007 г.

Statement of changes in shareholders' equity

In thousands of BGN

	Share capital	Statutory reserve	Retained earnings	Property and equipment revaluation reserve, net of deferred tax	Revaluation reserve on AFS investments, net of deferred tax	Total
Balance as of 1 January 2005	**166 370**	**51 155**	**295 107**	**61 826**	**(657)**	**573 801**
Available-for-sale investments						
– Net fair value losses	–	–	–	–	(1 060)	(1 060)
Transfer to statutory reserves	–	–	–	–	–	–
Transfer of revaluation reserves on realised surplus	–	–	402	(402)	–	–
Net profit for the period	–	–	94 210	–	–	94 210
Dividend distribution	–	–	(59 177)	–	–	(59 177)
Other distribution	–	–	(384)	–	–	(384)
Balance as of 31 December 2005	**166 370**	**51 155**	**330 158**	**61 424**	**(1 717)**	**607 390**
Balance as of 1 January 2006	**166 370**	**51 155**	**330 158**	**61 424**	**(1 717)**	**607 390**
Available-for-sale investments						
– Net fair value profit	–	–	–	–	4 125	4 125
Transfer to statutory reserves	–	–	–	–	–	–
Transfer of revaluation reserves on realised surplus	–	–	592	(592)	–	–
Revaluation of fixed assets	–	–	–	(161)	–	(161)
Net profit for the period	–	–	77 390	–	–	77 390
Dividend distribution	–	–	(65 550)	–	–	(65 550)
Effect from changed tax rate in deferred tax	–	–	–	3 569	(513)	3 056
Other distribution	–	–	(467)	–	–	(467)
Balance as of 31 December 2006	**166 370**	**51 155**	**342 123**	**64 240**	**1 895**	**625 783**

Cash flow statement

In thousands of BGN

	Notes	Year ended 31 December 2006	2005
Profit after taxation		77 390	94 210
Increase in allowances for impairment losses	10	14 495	18 585
Decrease in accruals		(18 265)	(17 393)
Increase/(decrease) in provisions	11	(2 455)	6 250
Increase in restructuring provisions	29	10 437	–
Depreciation and amortization	9	14 858	16 754
Unrealised (gains)/losses on revaluation of securities		(3 117)	6 359
Deferred tax	26	(5 174)	1 719
Tax expense	13	20 125	15 194
Profit on disposal of property and equipment		–	(585)
Impairment of fixed assets related to the restructuring of the bank	12	34 372	–
Other non-cash movements		4 251	–
		146 917	**141 093**
Change in operating assets:			
(Increase)/decrease in obligatory reserve with the National Bank	14	(74 079)	38 077
Decrease in Trading securities		10 280	124 628
Derivative financial instruments		(1 045)	(1 141)
(Increase)/decrease in loans and advances to banks (repayment beyond 3 months)			(5 602)
13 617			
Increase in loans to customers		(438 694)	(314 072)
Increase in other assets		(84)	(2 080)
		(509 224)	**(140 971)**
Change in operating liabilities:			
Derivative financial instruments		(1 386)	1 519
Net increase in deposits from banks		61 154	62 560
Net increase/(decrease) in amounts owed to other depositors		710 824	(303 214)
Net decrease in accrued other liabilities		(1 055)	–
Income tax paid		(15 911)	(12 250)
Dividend paid		(68 202)	(56 005)
		685 424	**(307 390)**
Net cash flow from operating activities		**323 117**	**(307 268)**
Purchase of property and equipment		(13 151)	(13 931)
Proceeds from the sale of non-current assets		–	4 077
Acquisition of investments		(2 396)	(16 345)
Sale of investments		11 436	–
Net cash flows from investing activities		**(4 111)**	**(26 199)**
NET INCREASE IN CASH AND CASH EQUIVALENTS		**319 006**	**(333 467)**
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**33**	**415 241**	**748 708**
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**33**	**734 247**	**415 241**

Financial Highlights – 5-year retrospective (Consolidated)

(in thousands of BGN, unless otherwise stated)

	2006 Normalised	2005	2004	2003	2002
Key figures					
Net profit	120,654	96,116	86,279	89,752	79,130
Shareholders' equity*	630,781	609,609	574,112	550,026	513,249
Total assets*	4,346,594	3,474,829	3,614,696	2,825,439	2,721,980
Bank customer deposits*	3,336,875	2,618,771	2,917,169	2,177,781	2,049,957
Bank customer loans*	2,131,577	1,706,858	1,393,968	916,634	563,935
Earnings per share (in BGN)	0.73	0.58	0.52	0.54	0.48
Income					
Net interest income	177,569	162,850	134,502	106,081	91,112
Net fee and commission income	53,252	44,657	39,758	32,978	41,059
Net gains from securities	13,221	11,615	4,318	9,129	12,642
Net gains from foreign currency operations and fluctuations	3,881	3,090	7,042	10,387	7,095
Gross operating income	254,836	228,589	198,470	169,977	158,192
Net operating Income	156,635	138,808	114,384	103,690	104,207
Expenses					
Operating expenses	98,201	89,781	84,086	66,287	62,988
HR expenses	36,738	33,266	30,319	27,145	26,658
Non-HR expenses	44,023	39,742	40,460	29,568	26,160
Depreciation	17,439	16,773	13,307	9,574	10,170
Impairment losses and provisions	13,136	25,443	7,719	14,706	(9,004)
Tax	22,845	17,249	20,386	28,644	25,077
Ratios (%)					
Return on average assets (ROA)	3.2%	2.9%	2.8%	3.4%	2.9%
Return on average equity (ROE)	19.8%	16.3%	15.7%	17.4%	16.2%
Capital/Asset ratio*	14.5%	17.5%	15.9%	19.5%	18.9%
Total capital ratio*	18.1%	21.6%	23.3%	38.0%	38.7%
Tier 1 capital ratio*	15.9%	18.8%	20.4%	20.5%	19.7%
Risk weighted assets/Total assets ratio*	63.5%	61.5%	53.0%	43.9%	32.9%
Loan/Deposit ratio*	63.9%	65.2%	47.8%	42.1%	27.5%
Cost/Income ratio[1]	38.5%	39.3%	42.4%	39.0%	39.8%
Resources (number)*					
Operating outlets	107	105	94	91	91
Employees	1,899	1,897	1,760	2,026	2,060
Foreign exchange rate at period-end (BGN/USD)	1.4851	1.6579	1.4359	1.5486	1.8850
Average annual exchange rate over the period (BGN/USD)	1.5600	1.5741	1.5751	1.8067	2.0770

* End of period.

[1] Depreciation is included in the nominator of cost to income ratio.

UniCredit is a Truly European Bank...

Main Structural Figures[1]

- Employees[2]: over 134,000
- Customers: over 35 mn
- Branches[3]: over 7,000
- Deposits and debt securities in issue: € 475 bn
- Loans: € 430 bn
- Banking operations in 20 countries
- Market capitalization – EUR 73 billion (February 2007)

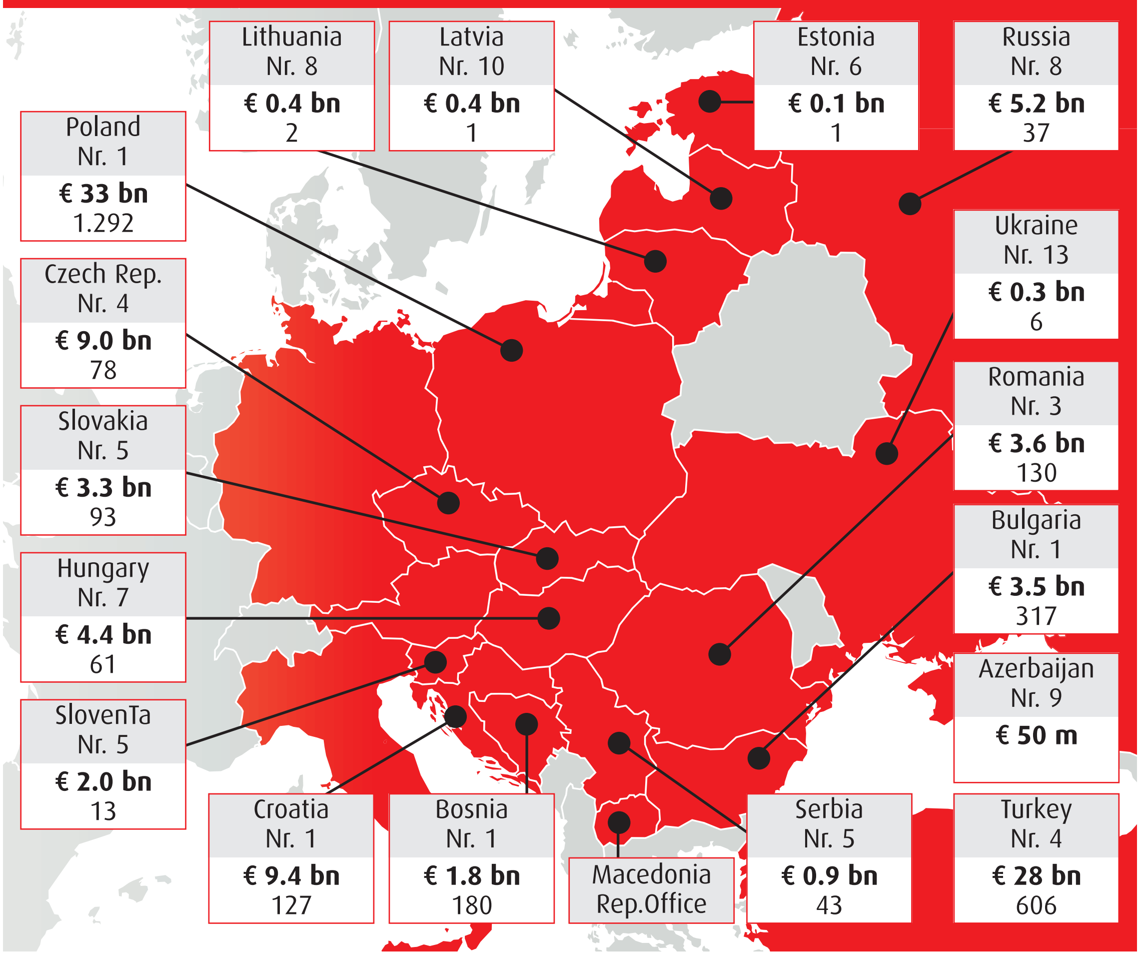
14th bank world-wide in terms of Market Capitalization[4]

The strongest banking network in CEE...

CEE region

~ € 105 bn total assets
~ 3,000 offices
~ 65,000 employees
~ 24 m customers

Country ranking by total assets (2005), total assets and number of branches (H1 2006 pro-forma)



[1] Data as at 30 June 2006
[2] "Full time equivalent". KoH Group (including Yapi) is consolidated proportionally
[3] KoH Group considered at 100%
[4] Source: The Banker – July 2006

Network Addresses

I. SOFIA REGION		
Sveta Nedelya	Sofia, 7 Sveta Nedelya sq.	9232111
Aksakov	Sofia 8 Aksakov str.	9233410
Al. Stamboliiski	Sofia,108 Al. Stamboliiski blvd.	8102620
BGA Balkan	Sofia, 1 Christophore Columb blvd	9459002
Botevgrad	Botevgrad 79 3-ti Mart blvd	0723/66872
Boulevard Bulgaria	Sofia, 27 Tvardishki prohod str.	8182721
Business Park Sofia	Sofia, Mladost 4, Business Park, House N 10	8173322
Cherni Vrah	Sofia, 54 Cherni Vrah blvd.	9690020
Credit Centre	Sofia, 7 Sveta Nedelya sq.	9232689
Customs Sofia	Sofia, 84 Vesletz str.	8105920
Customs Sofia Airport	Sofia, 1 Christophore Columb blvd	9809795
Dragoman	Dragoman 3 N. Vaptzarov str.	07172/2229
Fantastiko	Sofia 12 Anton Naydenov str.	9681997
Kaloyan	Sofia 3 Kaloyan str.	9268300
Levski Memorial	Sofia, 100 V. Levski blvd.	8145021
Mladost	Sofia, Mladost 1, 16 Al. Malinov blvd. floor 1	8174921
Nadezhda	Sofia, 2 Lomsko Shousse	9360439
Ruski Pametnik	Sofia, 2 Bouzludja str.	9530262
Scorpion Shiping	Sofia, 18 Ist Bulgarian Army blvd.	9311846
SMEs Centre	Sofia, Mladost 1 16 Al. malinov blvd. floor 2	8174926
Sopharma	Sofia, 16 Iliensko shousse str.	9362606
Tzar Samuil	Sofia, 1 Tzar Samuil str.	9173020
Yanko Sakazov	Sofia 88 Yanko Sakazov str.	9448710
II. PLOVDIV REGION		
Asenovgrad	Asenovgrad 2 Rechna str.	0331/65505
Credit Centre	Plovdiv 1A Raiko Daskalov str.	032/646950
Customs	Plovdiv 32A Kouklensko shousse blvd.	032/673602
Ivan Vazov	Plovdiv, 4 Ivan Vazov blvd	032/601601
Karlovo	Karlovo, 2 P. Sabev str.	0335/92048
Karlovsko shousse	Plovdiv, 8 Karlovsko shousse str.	032/ 946335
KAT – Pazardjuk	Pazardjik KAT	034/441290
Maritza	Plovdiv 4 Vasil Levski str.	032/ 945466
Panagiurishte	Panagiurishte 24 G. Benkovski str.	0357/4087
Pazardjik	Pazardjik, 5 Esperanto str.	034/405717
Peshtera	Peshtera 16 Dimitar Gorov str.	0350/2107
Police Department – Pazardjik	Police Department Pazardjik	034/440993
Raiko Daskalov	Plovdiv 1A Raiko Daskalov str.	032/646960
Rodopi	Plovdiv, 1 Asenovgradsko shousse str.	032/623746

Smolian	Smolian 51 Bulgaria blvd. Building 14	0301/6319118
Trakia	Plovdiv, 3 Osvobozhdenie blvd.	032/ 681914
Velingrad	Velingrad Svoboda sq.	0359/52318
III. BOURGAS REGION		
Aitos	Aitos, 27 Stantzionna str.	0558/22109
Bourgas	Bourgas 22 Alexandrovska str.	056/877395
Bourgas Airport	Bourgas - Bourgas Airport	056/870357
Credit Centre	Bourgas 22 Alexandrovska str.	056/870357
Customs Malko Tarnovo	Border Control Office M. Tarnovo	05952/4235
Karnobat	Karnobat 14 Bulgaria blvd.	0559/28800
Malko Tarnovo	Malko Tarnovo 2 Malkotarnovska komuna	05952/2214
Port Bourgas	Bourgas Port Complex	056/877237
Primorsko	Primorsko, 9 Cherno more str.	0550/32051
Slanchev Bryag	Slanchev Bryag PO Box 123	0554/23313
Sozopol	Sozopol 14 Republikanska str.	0550/22436
Sungurlare	Sungurlare 15 Hr. Smirnenski str.	05571/2493
Tzarevo	Tzarevo 20 Kraimorska str.	0550/52045
IV. VARNA REGION		
Cherno more	Varna, 1 P. Karavelov str.	052/662115
Credit Centre	Varna 74-76 Knyaz Boris I blvd	052/654405
Dobrich	Dobrich, 7 Nezavisimost str.	058/600082
Razgrad	Razgrad, 1 Vasil Levski str.	084/660762
Shipka	Varna, 39 Maria Luiza str.	052/ 600025
Shumen	Shumen, 64 Slavyanski blvd.	054/800697
Silistra	Silistra 20 Simeon Veliki str.	086/821556
Targovishte	Targovishte, 1 Vasil Levski str.	0601/61225
Zlatni piasatzi	Zlatni piasatzi, Shipka Hotel Po Box 81	052/355893
V. ROUSSE REGION		
Gabrovo	Gabrovo, 13 Radetski str.	066/814220
Gorna Oryahovitsa	Gorna Oryahovitsa, 1A M. Todorov str.	0618/60023
Rousse	Rousse, 5 Sveta Troitza sq.	082/818283
Rousse Credit Centre	7000 Rouse, Alexandrovska str. 55	082/818 333
Rousse Alexandrovska office	7000 Rouse, Alexandrovska str 55	082/818 341
Feribot	7000Rousse	082/844 492
West Industrial Zone	7000 Rousse, Treti Mart blvd. 40	082/823 548
Sevlievo	Sevlievo, Svoboda sq. Building 21	0675/34928
Svishtov	Svishtov, Aleko sq, Aleko Cinema	0631/60054
Veliko Tarnovo	Veliko Tarnovo, 2B Marno Pole str.	062/600151

VI. BLAGOEVGRAD REGION		
Blagoevgrad	Blagoevgrad, 22 Tzar Shishman str.	073/828621
Dupnitza	Dupnitza, 19 Hr. Botev str.	0701/50034
Gotze Delchev	Gotza Delchev, 22 Hr. Botev str.	0751/60203
Kustendil	Kustendil, 54 Tzar Osvoboditel str.	078/559300
Pernik	Pernik, K. Pernishki Building 14	076/603201
Petrich	Petrich, 10 Macedonia sq.	0745/61668
VII. STARA ZAGORA REGION		
Chirpan	Chirpan, 2 Yavorov str.	0416/4551
Dimitrovgrad	Dimitrovgrad, 3 D. Blagoev blvd.	0391/61455
Galabovo	Galabovo, 8 Dr. Zhekov str.	0418/62380
Haskovo	Haskovo, 4 Han Kubrat str.	038/607701
Haskovo Municipality	Haskovo Municipality	038/662438
Kardjali	Kardjali, 1 Republikanska str.	0361/65025
KAT – Haskovo	Haskovo – KAT	038/662447
Kazanlak	Kazanlak, 11 Sevtopolis sq.	0431/64777
Nova Zagora	Nova Zagora 49 V. Levski str.	0457/23906
Police Department Dimitrovgrad		0391/61454
Radnevo	Radnevo, 6 G. Dimitrov str.	0417/83075
Regional Police Department Haskovo	Haskovo, Police Department	038/662439
Sliven	Sliven, 23 Rakovski str.	044/622446
Stara Zagora	Stara Zagora, 126 Simeon Veliki blvd.	042/696355
Stara Zagora – Credit Centre	Stara Zagora, 126 Simeon Veliki blvd.	042/696216
Svilengrad	Svilengrad, 40 Bulgaria blvd.	0379/71542
Yambol	Yambol, 19 Targovska str.	046/661641
VIII. PLEVEN REGION		
Knezha	Knezha, 71 Marin Boev str.	09132/3024
Levski	Levski, 57 Al. Stamboliiski str.	0650/6320
Lom	Lom, 14 Dunavska str.	0971/66720
Lovech	Lovech, 22A D. Pashkov str.	068/689949
Montana	Montana, 4 St. Karadja str.	096/390423
Pleven	Pleven, 11 Tzar Simen str.	064/890311
Regional Police Department	Vidin, 87 Tzar Simeon Veliki str.	094/6947574
SOMAT Vidin	Vidin, North Industrial Zone	094/602022
Troyan	Troyan, 188 V. Levski str.	0670/62604
Vidin	Vidin, 3 Tzar Simeon Veliki str.	094/690214
Vitrade Vidin	Vidin, Vitrade Wholesale	094/601298
Vratza	Vratza, 10 Loukashov str.	092/668866