HVB Bank Biochim

Annual Report 2006

Contents

Financial Highlights

(In thousand BGN, unless otherwise stated)

FINANCIAL HIGHLIGHTS	2006	2005	Growth
Key figures			
Net profit	42,913	17,058	151.6%
Shareholders' equity (eop)	238,649	194,988	22.4%
Total assets (eop)	2,914,560	2,822,793	3.3%
Bank customer deposits (eop)	1,528,733	1,310,045	16.7%
Bank customer deposits (av)	1,419,389	1,143,240	24.2%
Bank customer loans (eop)	1,677,598	1,558,987	7.6%
Bank customer loans (av)	1,618,293	1,349,827	19.9%
Earnings per share (in BGN)	1.16	0.46	151.6%
Income			
Net interest income	113,191	93,675	20.8%
Net fee and commission income	49,565	42,305	17.2%
Net income from financial assets at fair value through profit or loss	(3,586)	2,373	-251.1%
Income from non-trading investments	4	22	-81.8%
Gross operating income*	155,155	131,264	18.2%
Net operating income**	78,838	56,770	38.9%
Expenses			
Administrative expenses	76,317	74,494	2.4%
Staff costs	30,592	28,850	6.0%
Non-staff costs	38,920	37,758	3.1%
Depreciation	6,805	7,886	-13.7%
Impairment losses and credit risk charges	23,829	22,224	7.2%
Income tax expense	8,914	3,094	188.1%
Ratios (%)			
Return on average assets (ROA)	1.5%	0.7%	0.8pp
Return on average equity (ROE)	19.8%	9.4%	10.4pp
Capital/Asset ratio (eop)	8.2%	6.9%	1.3pp
Capital adequacy ratio	14.1%	12.9%	1.1pp
Tier I ratio	9.3%	9.1%	0.2pp
Risk weighted assets/Total assets	62.5%	59.5%	3.0pp
Non-performing loans/Gross loans	3.7%	5.3%	-1.6pp
Loan deposit ratio	109.7%	119.0%	-9.3pp
Cost income ratio	49.2%	56.8%	-7.6pp
Bank operating outlets	123	125	(2)
Employees	1423.75	1493.25	(69.5)
Sales force	362.75	368.25	(5.5)
Foreign exchange rate at period-end (BGN/USD)		1.4851	1.6579
Average annual foreign exchange rate over period (BGN/USD)		1.5587	1.5744

* Income before risk, restructuring costs and administrative expenses

** Income before risk and restructuring costs

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 Bulbank 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 merger process is quite complex. It targets consolidation of three banks and implementation of a new common 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 three 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 effected 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 HVB Bank Biochim exhibited healthy growth in all components of its income and volumes, confirming its strong focus on value creation and prudent risk policy. The Bank posted BGN 42.9 million net profit in 2006, more than twofold growth compared to 2005. Gross operating income went up by 18.2% to BGN 155.2 million. Net Loans increased by 7.6% and deposits by 16.7%. Profitability improved markedly: Return on average equity went up to 19.8% and Return on average assets to 1.5%. Cost/Income ratio further improved to 49.2%, dropping by 7.6 percentage points and Non-performing loan ratio stood at 1.6%, lower than last year.

The Bank was in position to successfully manage core business development projects, notwithstanding the strong focus on the integration related activities. Mortgage lending and the small business segment grew significantly, adding new innovative features to the value proposition. The deposit base was substantially strengthened. Assets under management tripled, and the Bank's leading position in custody business was fortified further. The particular focus in corporate banking was put on mid-sized corporate business development, where loans grew by 26%. Large corporate relations strengthened making us a reliable partner in servicing complex, global and large-scale finance needs. 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 Bulbank. 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. 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.

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 a very transforming year. We would like to express our gratitude to our managers and employees, who are the backbone of our business and integration success. We also want to thank all Supervisory Board and Management Board members who managed the institution successfully and prudently through a period of intensive changes.

Robert Zadrazil
Chairman of the Supervisory Board

Peter Harold
Chairman of the Management Board and CEO

Sofia, 16th February 2007

SUPERVISORY BOARD AND MANAGEMENT BOARD

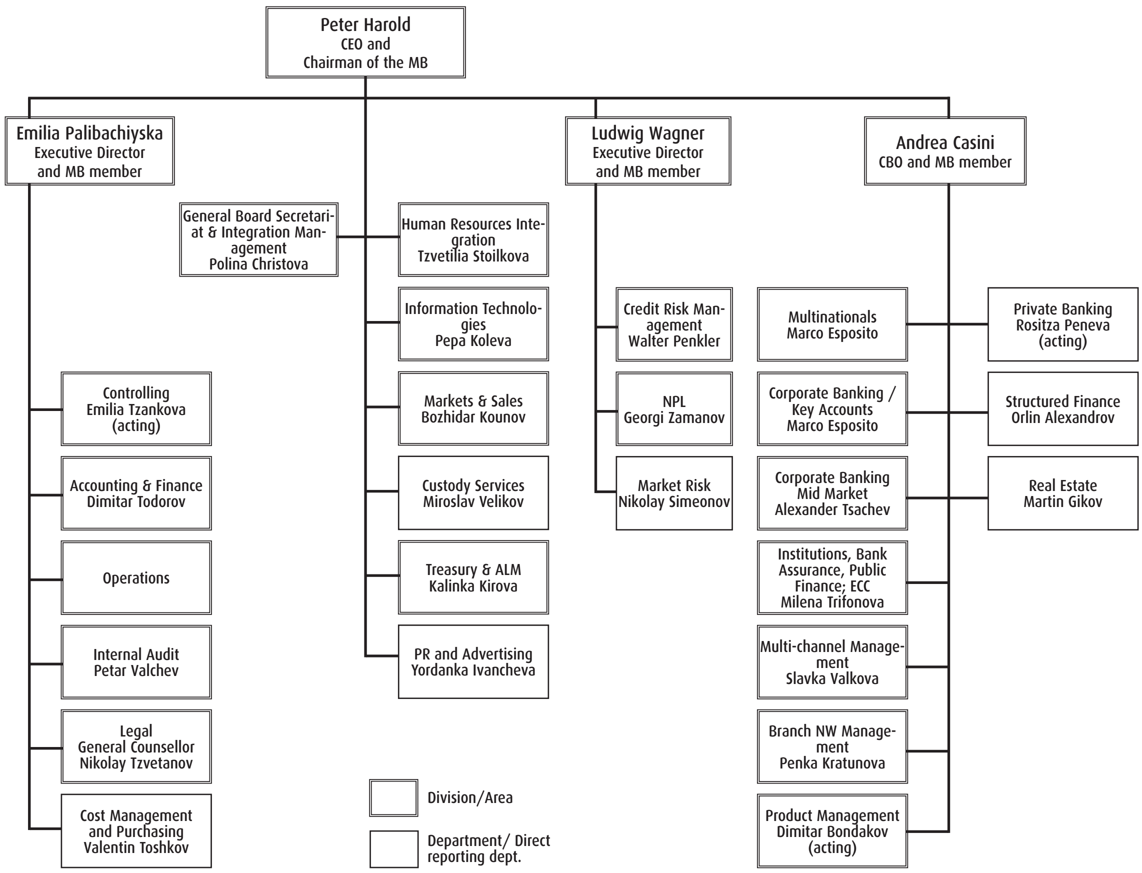
Supervisory Board *		
Regina Prehofer	Chairperson	Till 22.01.2007
Helmut Bernkopf	Vice-Chairman	Till 22.01.2007
Robert Zadrazil	Member*	
Heinz Meidlinder	Member	
Josef Durreger	Member	Till 22.01.2007
Wolfgang Edelmueler	Member	Till 22.01.2007
Wolfgang Helpa	Member	Till 28.06.2006
Marco Iannaccone	Vice-Chairman	From 22.01.2007
Thomas Gross	Member	From 22.01.2007
Elena Patricia Goitini	Member	From 22.01.2007

* By decision of the Extraordinary General Meeting of Shareholders held on 19th December 2006, the following members of the Supervisory Board stood down: Regina Prehofer, Helmut Bernkopf, Josef Durreger, Wolfgang Edelmueler

Newly elected members of the Supervisory Board effective from 22th January 2007: Marco Iannaccone (Vice-Chairman), Thomas Gross, Elena Goitini. Mr. Robert Zadrazil was elected as the new Chairman.

Management Board		
Peter Harold	Chairman and Chief Executive Officer	
Andrea Casini	Deputy Chairman and Executive Director	From 02.06.2006
Emilia Palibachiyska	Member and Executive Director	
Ludwig Wagner	Member and Executive Director	
Maria Ilieva	Member and Executive Director	Till 14.09.2006

ORGANISATION CHART

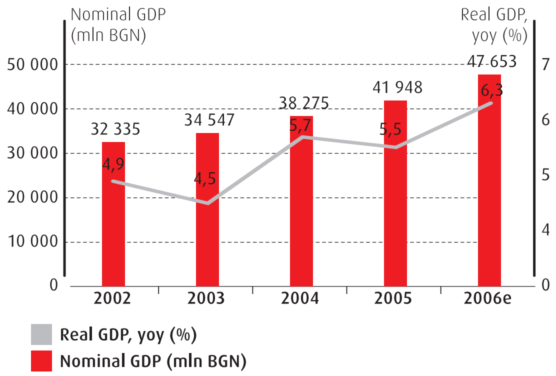


Bulgarian Economy

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 toward 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 particularly 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 accelerated investment 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 the export sales in 2006, which increasingly looks part of a sustainable improvement, imports also showed solid growth, fuelled by higher prices of crude oil and buoyant inward flows of investment goods.

GDP



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	–

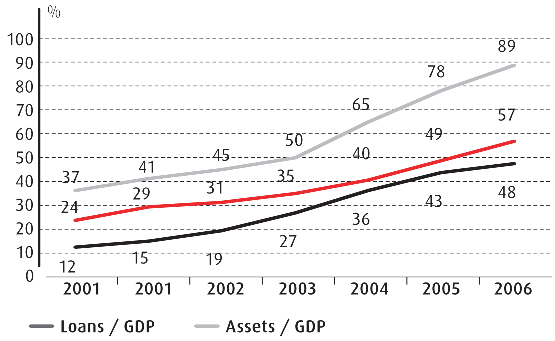
Source: BNB, NSI, Ministry of Finance and projections

[F] Forecast; * data as of Nov. 2006

The main areas of vulnerability on the macro side remain 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 sector reforms, especially those aimed at improving business climate and competitiveness.

2006 Overview of banking sector

The fundamentals in the banking sector continued to improve. Rapid growth in business volumes and stronger intermediation were observed as economic expansion gained momentum and demand for banking services increased. Banking sector profitability was strengthened as ROE after tax increased to 20.6% (up from 18.9% a year ago), thus ensuring a comfortable spread above the cost of equity. 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 softening of provisioning requirements by regulators.



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, 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 maintained 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 inflows of savings from Bulgarian emigrants back to their homeland, where they were mostly channelled to the booming real estate market.

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

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 forecasted 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, particularly on the level of indebtedness in the public sector.

World Economy

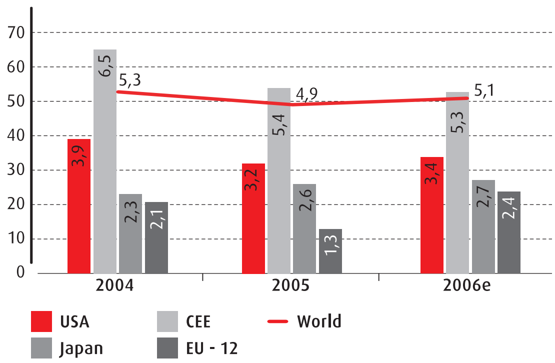
2006 Overview

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.

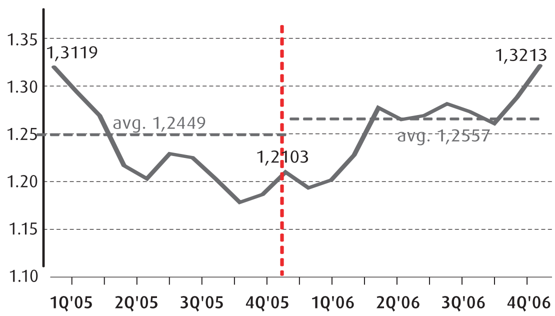
World merchandise trade gained pace, rising by 11% during the first eight months of 2006, up from 6% a year before. Geographically most of the acceleration came from China, Japan and the USA and was concentrated largely in the beginning of the year. Against this backdrop the value of China's exports 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.

Perceptions are that the USA economy is in a more mature stage of its cycle and therefore interest rate differentials vis-à-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

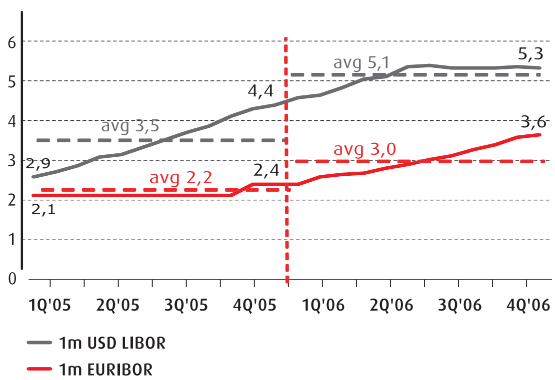
GPD Growth Rate (in %)



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 market.

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.

HVB Bank Biochim Activity Review

Financial Results

For the twelve months ended December 31, 2006, HVB Bank Biochim reported net profit of BGN 42.9 million, representing 5.3% of the preliminary year-end result of the whole bank sector[1]. Total gross operating income and net operating income for the period amounted to BGN 155.2 million and BGN 78.8 million, increases of 18.2% and 38.9% respectively from the results in 2005.

In thousand of BGN

Summary of operating income statement	2006	2005	Growth (%)	Growth (amount)
Net interest income	113,191	93,675	20.8%	19,516
Net fee and commission income	49,565	42,305	17.2%	7,260
Net income from financial instruments at fair value through profit or loss	(3,586)	2,373	(251.1)%	(5,959)
Net income from financial assets	4	22	(81.8)%	(18)
Other operating income	(4,019)	(7,111)	43.5%	3,092
Gross operating income	**155,155**	**131,264**	**18.2%**	**23,891**
Administrative expenses	(76,317)	(74,494)	2.4%	(1,823)
Net operating income	**78,838**	**56,770**	**38.9%**	**22,068**

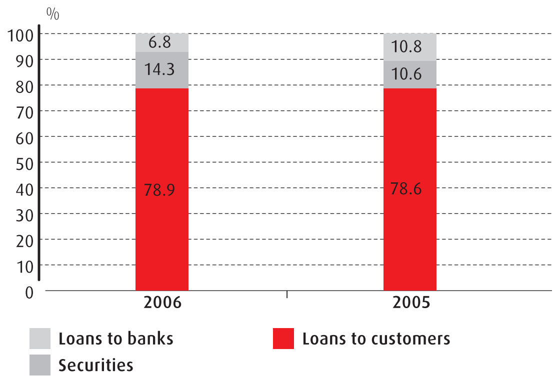
Despite restructuring activities accompanying the Bank's main business for the last two years, HVB Bank Biochim managed to maintain momentum in its expansion and considerably improved its key performance indicators. Return on average assets grew by 0.8 percentage points from 0.7% in 2005 to 1.5% in 2006; Return on average equity improved by 10.4 pp from 9.4% in 2005 to 19.8% in 2006 and the cost/income ratio fell by 7.6 pp from 56.8% in 2005 to 49.2% in 2006.

The steady expansion of the Bank was primarily driven by the growth in interest bearing assets, which resulted in 20.8% growth in net interest income from BGN 93.7 million to BGN 113.1 million.

Interest income from lending business maintained the same proportion of total interest income – 78.9% in 2006 and 78.6% in 2005. Interest and similar income arising from bonds and treasuries showed a steady increase and grew by 61.7% from BGN 14.0 million to BGN 22.7 million for the twelve months. In relative terms, interest income from securities increased its share of total interest income at the expense of a decreased share of interest related to money market business. The growth in interest expense lagged that of interest income and gave rise to a better interest efficiency ratio. The interest income/expense ratio rose from 3.4 in 2005 to 3.5 in 2006.

During 2006, the Bank continued to be active in the money market. It also performed as a liquidity centre for Hebros Bank. Generally, this resulted in the share of interest expenses paid to banks remaining the highest, although in relative terms it fell from 54.0% in 2005 to 44.4% in 2006. The pro-active primary funds policy of the Bank led to an increase in the customer deposit base by 24.2% and a consequent increase in the interest paid on such funds. In 2006, interest expense on customer deposits rose by 27.3%, a share of 30.0% (27.7% in 2005). Long-term financing increased by 46.4% as of December 31, 2006 compared to a year previous and was accompanied by an increase in interest paid on such funds. This amount rose by 29.9%.

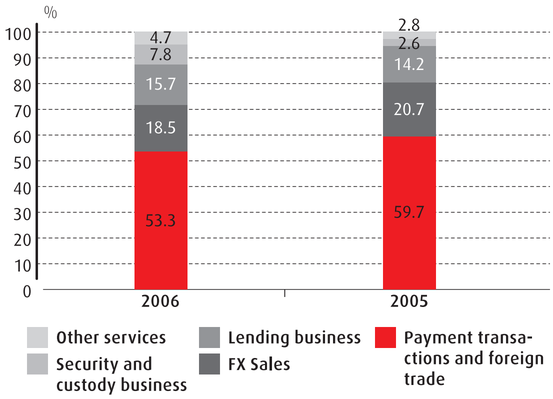
Share in interest income



[1] As per 4Q 2006 BNB data on the banking system.

The development of the core banking business resulted in a substantial increase in the fee and commission income of 17.2%, reaching BGN 49.6 million (BGN 42.3 million in 2005). For two consecutive years, the highest share was from fee income from payment transactions and foreign trade. One of the main drivers again is the lending business, where net fee income rose by 29.6% from BGN 6.0 million in 2005 to BGN 7.8 million in 2006. In terms of absolute increase, the fees arising from security and custody business remained on top. For the year ended December 31, 2006, HVB Bank Biochim reported fee income on security and custody business of BGN 3.9 million, being BGN 2.8 million higher than for 2005.

Net fee and commission income



Net income from financial instruments at fair value includes realised and unrealised gains and losses on trading instruments as well as instruments initially designated at fair value through profit or loss. In 2006, the market experienced increasing interest rates, which resulted in adverse changes in the market prices of certain debt and equity instruments. Due to the considerable volume of these instruments, the Bank reported an overall loss of BGN 3.6 million on them. However, the result split between trading and non-trading instruments showed a big increase in trading, which jumped from BGN 2.3 million in 2005 to BGN 3.4 million in 2006.

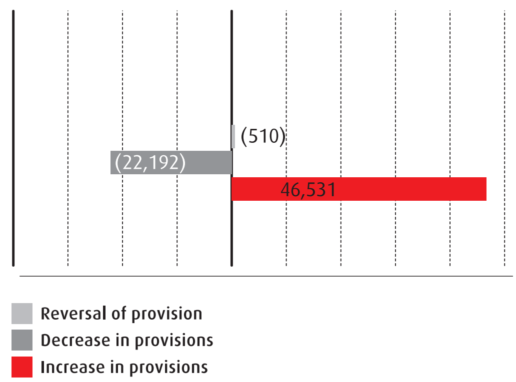
Other operating net income is negative in both 2006 and 2005 mainly due to the presence of legal and constructive reserves as disclosed in the Annual Financial Statements of the Bank.

In 2006, HVB Bank Biochim achieved higher cost efficiency, despite the ongoing integration and restructuring activities. Administration costs remained relatively unchanged, thus giving the Bank a considerable boost to its cost/income ratio. In terms of absolute amounts, the overall change in administrative expenses is driven by a slight increase in payroll costs of 6.0% – from BGN 28.9 million in 2005 to BGN 30.6 million in 2006 – and a higher guarantee fund annual contribution, which rose by 32.9% from BGN 3.9 million in 2005 to BGN 5.2 million. Offsetting this, the Bank reported a 15.9% decreased annual depreciation charge from BGN 7.9 million in 2005 to BGN 6.8 million in 2006.

Net risk provision charges for 2006 remained relatively unchanged in comparison to 2005. Keeping the cost at constant level, the Bank also reported a considerable decrease in its non-performing loans/gross loans ratio, which declined from 5.3% in 2005 to 3.7% in 2006.

Income tax expense correlates strongly with the higher result achieved in 2006 relative to 2005. The effective tax rate for 2006 was 17.2% while in 2005 it was 15.3%. The increase is due to changes in corporate tax rate for 2007 from 15% to 10% and respective appropriation of the deferred tax assets and liabilities.

Credit risk provisions charge 2006



Balance Sheet

As of December 31, 2006 HVB Bank Biochim reported an increase in total assets of 3.3% reaching BGN 2,915 million.

In thousand of BGN

	2006	2005	Growth (%)	Growth (amount)
Cash and cash equivalents	708,085	706,635	0.2%	1,450
Due to banks and repo deals	88,203	75,993	16.1%	12,210
Trading and non-trading securities	375,442	419,122	–10.4%	(43,680)
Loans to customers	1,677,598	1,558,987	7.6%	118,611
Residual sundry assets	65,232	62,056	5.1%	3,176
Total assets	**2,914,560**	**2,822,793**	**3.3%**	**91,767**
Due to banks and repo deals	859,705	1,091,913	–21.3%	(232,208)
Deposits from customers	1,528,733	1,310,045	16.7%	218,688
Long term borrowed funds	162,082	110,740	46.4%	51,342
Subordinated debt	78,983	76,052	3.9%	2,931
Residual sundry liabilities	46,408	39,055	18.8%	7,353
Total liabilities	**2,675,911**	**2,627,805**	**1.8%**	**48,106**
Shareholders' equity	**238,649**	**194,988**	**22.4%**	**43,661**
Total liabilities and shareholders' equity	**2,914,560**	**2,822,793**	**3.3%**	**91,767**

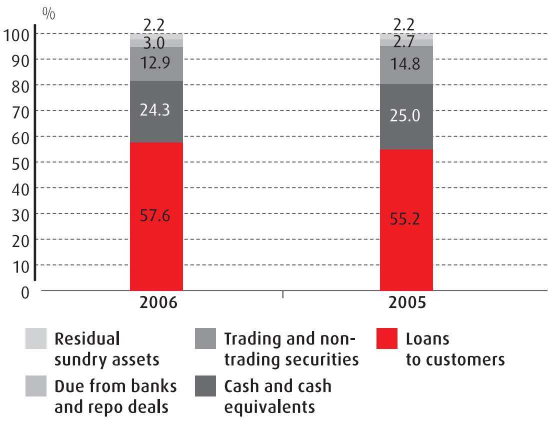
The asset structure of the Bank for the last two years remained stable. The biggest share traditionally belongs to loans and advances to customers, which for the last two years were 57.6% and 55.2% respectively.

In March 2006, Bank Austria-Creditanstalt restructured its controlling interests in Bulgaria and, as a result, HVB Bank Biochim sold back its participation in Hebros Bank. This deal was the main reason for the slight 1.9 pp decrease in trading and non-trading securities.

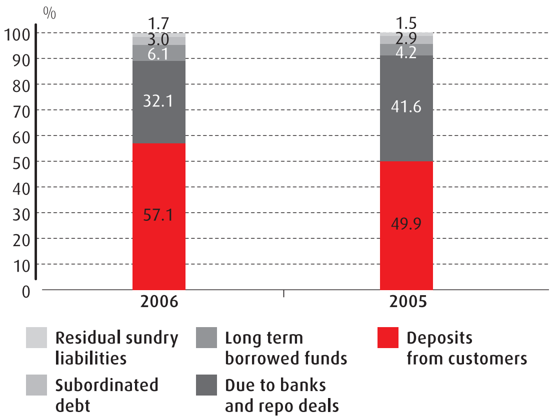
The Bank reported considerable growth in primary funds and at December 31, 2006 their share in total liabilities had grown by 7.2 pp to 57.1%, which in absolute amounts represented additions of BGN 218.7 million. This increase reflected a trade-off between primary funds and deposits from banks, as the latter fell at the end of 2006 by BGN 232.2 million and accounted for 32.1% of total liabilities (41.6% in 2005). Long-term borrowed funds also rose in 2006 and by the year-end amounted to BGN 162.1 million (BGN 110.7 million in 2005). No principal movement in subordinated loans was observed in 2006. The Bank continued to utilise the principal amount of EUR 38 million, which was eligible for Tier II inclusion, following consent from the BNB.

The net profit contribution is the main source boosting shareholders' equity in 2006. Shareholders' equity grew by 22.4% and, as of December 31, 2006, reached BGN 238.7 million. One of the Bank's main achievements in 2006 is the return on average equity, which grew by 10.4 pp – from 9.4% in 2005 to 19.8% in 2006.

Asset structure



Liability structure



Risk Management

The major focus was the successful combination of Credit Risk Management into one operational unit for HVB Bank Biochim and Hebros Bank in April 2006 as a quick win and working according to unified procedures.

The credit rating model was upgraded according to the latest benchmark analysis in CEE. Strong growth in loan portfolios accompanied the improved quality of their composition. The centralisation of private loan approval resulted in a significant decrease in loan loss provisions for this sector in comparison to 2005.

The Bank succeeded in selling a large amount of its doubtful receivables, resulting in sizeable releases of loan loss provisions and contributing to the Bank's net result. In March 2006, the Bank signed funding risk participation with BA-CA, thus effectively transferring the credit risk over a portfolio of loans totalling EUR 100 million.

All the above were reflected in the NPL ratio of the bank. Total loan provision coverage for HVB Bank Biochim is 3.85%, standard loans coverage is 0.55% and watch loans provision coverage is 10.32%.

Non-performing Loans (NPL) Management Division continued its efforts on restructuring and workout of impaired non-performing SME and corporate exposures and prompt collection of overdue instalments, hard collection and workout of fully claimed retail loans.

As a result of successful restructuring and workout of several big corporate exposures, based on existing collateral structures or by attracting new investors, contributing fresh equity to support growth of clients' business operations, the outstanding amount of non-performing loans (classified in group 3 and 4 according to BNB Regulation 9) diminished by 32% to BGN 43.3 million. (BGN 64.1 million at the end of 2005). The restructuring unit within the NPL division is focused on support of Credit Risk Management by early recognition of risk under watch-list procedures, and by rehabilitation of impaired exposures.

Endorsement of the 4-stage complete collection process for overdue personal retail loans in November 2005, halved average net monthly provision charges for 2006 in comparison to 2005. Significant improvement in the non-performing ratio was reported – 4.0% at end December 2006 compared to 5.3% a year earlier. The majority of collection activities have been outsourced (Call centres, regional agents for hard collection and lawyers for court enforced execution).

Basel II project activities, as part of the Group programme for Basel II standards implementation, included central as well as local implementation of instruments to ensure efficient preparation for the Basel II requirements, Group-wide consistent Basel II implementation and uniform application of risk management. Basel II is not only the fulfilment of regulatory reporting. The implementation activities provide an opportunity to improve risk management methods and instruments, to avoid adverse selection in using predictive and granular risk rating tools, to implement the " RAROC-concept" as the basis for economic investing and to refine active portfolio management.

Market risk monitoring was enhanced following the newly introduced requirements of the Central Bank enforced by the Capital Adequacy Regulation, which took into account EU and Basel II guidelines. Risk positions were carefully managed on an aggregate basis, focusing on reaching an optimal risk/return ratio. In 2006, the overall Value at Risk (VAR) limits have been observed. Maximum values reached 60-65% of the assigned limit of EUR 1,060 million. Average yearly levels fluctuated between 35% to 55% limit usage. The main risk factor was interest rate risk, with a modest level of FX risk due to virtually no positions in currencies other than EUR where the fixed Currency Board level guarantees almost zero volatility. To restrict the maximum interest rate risk positions by currency and time buckets, the Bank employed a Basis-Point-Value shift limit, with valuation changes based on interest rate moves of 1 basis point. Due to the active interest rate risk monitoring and management, exposures are more than satisfactorily lower. In terms of liquidity limits, designed to guarantee balanced and safe liquidity in/out flows, in 2006 the Bank duly observed two limits on a predefined regular basis: Short term liquidity limit (STL) and Structural liquidity limit (STR). FX Risk profile remained unchanged – the dominant long EUR/BGN position was used as a "liquidity buffer" for local currency needs. No limit breaches were observed. There were no trading intentions in currencies except BGN and EUR. All day-to-day exposures (residual bank book FX positions) have been closed on the market in an effective manner.

Corporate Banking

The international and multinational corporate segment continued to utilise fully the international experience of the Group in providing the local corporate community with excellent banking services and products. The loan margin level was stabilised in 2006 and the deposit margin level was even slightly increased. The results are strongly supported by fee-based income, which increased by 18%. Traditionally, the treasury deals contributed heavily to the overall result of the segment by generating approximately 30-40% of the fee-based result achieved. In 2006, the strong increase in funds volumes attracted were the result of intense business with some large international companies, which were provided with cash management services. At the same time, the focus of the domestic key accounts segment was placed on long-term and commission business, to react to margin erosions.

Real Estate and Structured finance units, already established in 2005, have further strengthened their market position in responding to the growing demand for tailored financing solutions. This enabled the Bank to capture business opportunities related to complex financing transactions. The Real Estate unit, supported by experts from the Group, has structured new financings totalling EUR 150 million for many of the largest real estate projects, developed in Bulgaria (an increase of 120% compared to 2005), the highest proportion being in the commercial and residential sectors.

During the year, HVB Bank Biochim has been well-represented in the largest real estate events domestically (FIABCHI annual conference) and abroad – Real Expo, Munich and Real Vienna. The Bank was proud to be admitted as an active member of the International Real Estate Federation in 2006.

2006 was another year of strong results for HVB Bank Biochim in the mid-market segment, comprising companies with annual sales revenues from BGN 1.5 to 15 million (EUR 0.8 to 7.7 million). The Group retained its leading role in the market despite strong competition. The loan portfolio was significantly expanded by 18%, up to BGN 386 million (EUR 197 million); the growth in attracted funds reached 17%, reaching BGN 171 million (EUR 87 million) as of December 31, 2006. The significant results were attributable to the full range of competitive products and high-grade tailor-made services provided through pro-active relationship management, as well as to the effective allocation of the sales force in the six Regional Corporate Centres.

In 2006 HVB Bank Biochim followed its strategy of supporting mid-sized corporate clients in Bulgaria, with the strong partnership of local and international institutions through mutual programmes. Some programmes provided long-term financing through cheaper resources, such as the mutual programme with the EBRD for energy efficiency and renewable energy resources and the KfW programme for investment project financing. Others were predominantly focused on enhancing the Group position in providing better conditions and long-term investment financing to farmers, agricultural producers and agribusiness – like the Bulgarian Agricultural Fund programme, USAID guarantee programme, etc.

The Group is a leader in public finance in Bulgaria (35.06% biggest market share as of 31.12.2006 from BNB statistics) and in generating best practice in Public Private Partnerships. The Bank is providing preliminary advice on EU-funds utilization including the best combination with bank products such as co-financing, bridge financing and ESCROW accounts. In 2006, the number of subsidised loans was tripled and with Bulgaria's EU accession in 2007, the Bank will be able to offer new and further opportunities to customers. A Bancassurance Unit was established in order to offer new products and complex solutions mainly to small and medium–sized companies and individuals.

Retail Banking

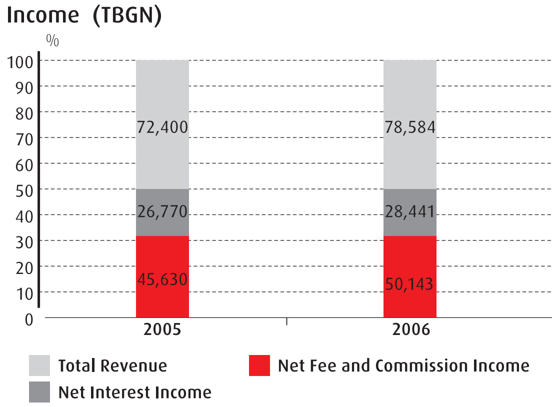
Retail banking revenues increased by 9%, compared to 2005, and reached BGN 78.6 million. This included 10% growth in net interest income, some BGN 50.1 million in 2006.

The loan portfolio of the segment grew 30%, reaching BGN 746.6 million at the end of the year. The lending spread dropped by more than 1.5 percentage points due to strong competition.

Customer deposits increased by 18% to BGN 1,017 million at year-end. The deposit spread increased by 0.2 percentage points.

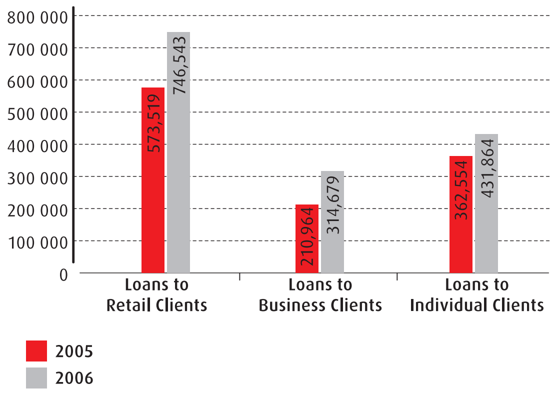
The loan portfolio to individuals has increased by 19%, reaching BGN 432 million at the end of 2006. The increase of 16% in consumer lending (BGN 332.6 million year end value) is mainly due to the improved consumer parameters

Income (TBGN)

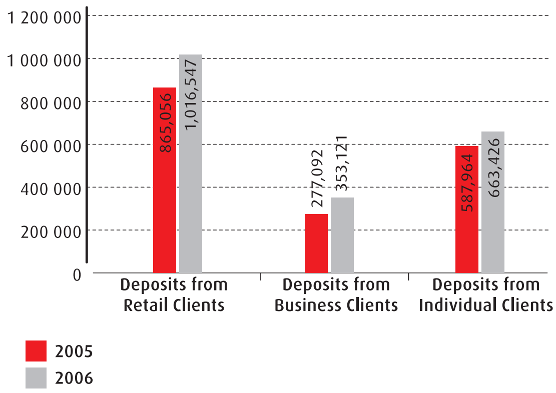


of the products and the whole process for granting and central approval of credit deals for individuals. During the reported period, a loyalty programme was conducted among bank clients with a good credit history by offering them promotional preferences in sales initiatives within the bank. The market share in consumer lending grew from 8.02% to 9.03%.

Loans (TBGN)



Deposits (TBGN)



HVB Bank Biochim achieved growth of 28% on sales of mortgage loans, by broadening the offer proposition in the retail market, to reach a value of BGN 80 million at the end of 2006. The Bank was represented at all exhibitions and events related to construction and renovation of houses, commercial events for real estate and mortgage lending during the year.

The funds attracted from individuals and households grew by 13% during the reported period and the year-end value amounted to BGN 663.4 million.

In retail banking during 2006, HVB Bank Biochim and Hebros Bank realised the modification and integration of the product portfolio, the development of a unified pricing model for both banks, according to the market conditions, and conducted joint marketing and advertising activities.

In 2006, HVB Bank Biochim started sales of Pioneer funds in selected branches across the country, aiming to become one of the market leaders for retail investment products, including mutual and capital guarantee funds.

During 2006, HVB Bank Biochim successfully strengthened its position as one of the main providers of financial services to local small businesses. The dedicated Bank products were enhanced and their parameters were improved to respond adequately to changing market conditions. The loan portfolio of business clients increased by 49%, reaching BGN 314.7 million at the end of 2006. Special focus was put on investment lending, which led to an increase in the investment loans portfolio of 68% compared to 2005. In cooperation with KfW, the Bank continued to support investment activities in under-developed regions of the country – the investment loans under the KfW credit facility increased 4.4 times. The synchronization of the product portfolios for business clients and related tariffs of HVB Bank Biochim and Hebros Bank was completed. The Bank was one of the first and most active financial intermediaries facilitating the access of small businesses to EU funds. Internet banking was implemented in September 2006. In a single quarter, significant sales were generated – involving 4 thousand customers and more than 50 thousand transactions. This demonstrates the strong customer demand for such a service. The funds attracted from business clients grew 27% during the period and the year-end value was BGN 353 million.

Aimed at expanding the retail business, HVB Bank Biochim took measures to further develop new card products and services. During the year, the growth in number of active credit cards with VISA and MasterCard logos was 72.5% compared to the previous year. In February 2006, the Bank started issuing two co-branded revolving credit card products in partnership with the biggest mobile operator in the country, MobilTel, and a successful marketing campaign was conducted. The Bank has launched two massive sales campaigns in partnership with the international card organizations – during the FIFA 2006 World Cup with MasterCard and during the premiere of the new James Bond movie, Casino Royale, with VISA.

The successful strengthening of HVB Bank Biochim's position as one of the leading banks in the Bulgarian market for card services continued with full migration of the ATM network to EMV acceptance in order to ensure secure usage of the ATMs. The total number of installed POS terminals has increased by 82.81% compared to the previous year. The turnover on POS terminals installed in merchant outlets has increased by 21.52%.

In 2006, the Bank continued to develop alternative channels and to emphasise sales through internet banking, mobile agents and partnerships. During the year, the Bank achieved growth of 65% in signed contracts with Mobile Agents and 57% in new partnership contracts, compared to the previous year.

Private Banking

The activity of the Private Banking department of HVB Bank Biochim is directed towards serving individuals with income well above the average for the country, savings above a clear-cut amount, according to criteria set by the Group, and long-term investment intentions, as the main emphasis is on investment banking.

Investment banking deploys different types of financial tools, for example trade in Bulgarian stocks and shares, foreign stocks and shares of international regulated markets, as well as sale of stakes from the mutual funds – Capital Invest and Pioneer funds, starting from September 2006.

During 2006, securities portfolio and investment funds of Private Banking clients topped BGN 16 million. The general amount of assets under the department's management reached BGN 58 million.

The team is focused on establishing long-standing relations with clients through a personal approach, providing professional services through optimal investment solutions, thereby responding to individual needs, objectives and appetites for risk.

In 2006, the Bank started offering offshore banking in close cooperation with experts from the Unicredit Group. Through Unicredit Suisse Bank S.A., the whole range of products and services, provided by the Swiss partners in private banking, were made accessible to our clients.

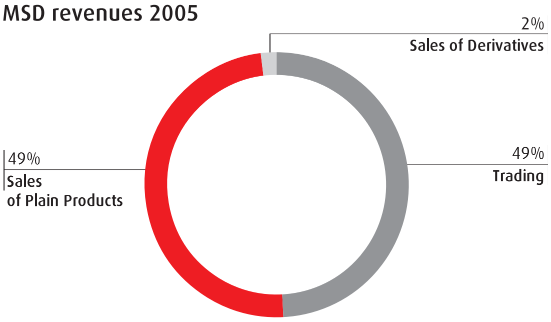
Markets and Sales

The International Markets professionals of HVB Bank Biochim/Hebros Bank and Bulbank, who joined forces in September 2006, are committed to being recognised as the best quality financial services provider to corporate and institutional clients operating in the Bulgarian market. The main focus product-wise is on derivatives (Fixed Income, Exchange Rates and Equity) and capital markets. In particular, debt and equity origination business is seen as an important growth area.

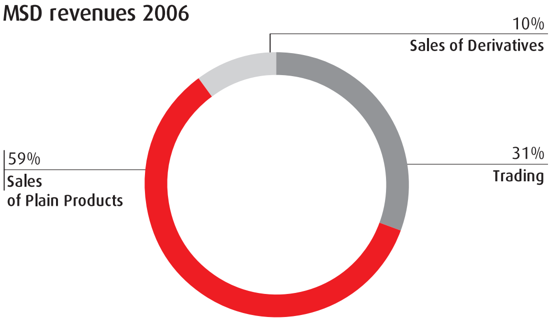
Following its strategy to penetrate the equity brokerage business, in 2006, the Bank improved its Stock Exchange rank from 6th to 3rd position by a threefold increase in traded volumes, exceeding EUR 300 million. On the origination side, HVB Bank Biochim, in cooperation with CAIB Corporate Finance, managed the first global IPO for a leading local credit institution.

The share of derivatives in terms of overall segment revenues showed outstanding growth – from 2% to 10%.

MSD revenues 2005



MSD revenues 2006



In 2006, the Bank further strengthened its position in the custody market. For the third consecutive year, Global Custodian magazine awarded HVB Bank Biochim "Best Agent Bank in Bulgaria" for both Domestic and Foreign Clients. In addition, this year the team was ranked No1 by Global Investor Magazine.

Information Technologies (IT)

In 2006, a stable operating environment was provided with a working schedule of 24x7 and more than 98% availability of the core systems and the satellites. Nonetheless, the main activities concentrated on ensuring the realisation of legal requirements, support to business activities and on the preparation for the technical merger with Hebros Bank and Bulbank in 2007.

The implementation of internet banking was an earlier target. With its successful implementation, IT supported business with an additional customer tool. The new BNB statistic reporting system was implemented successfully on schedule and the IBAN project, was delivered as planned. Business initiatives for common products and services were supported; a common sales performance tool was implemented.

The Group requirements for Basel II project were fulfilled in parallel with implementation of a new sales monitoring tool that supported sales with sufficient information to drive the business.

Human Resources

Management of human resources (HR) was again a focus of the Bank's executives. All HR activities were accomplished in compliance with the adopted strategy for the merger of HVB Bank Biochim with Hebros Bank and Bulbank. In April, the integrated HR Division for the three banks was established. It was a year of analysing and aligning methodologies, policies, standards and procedures.

HVB Bank Biochim and Hebros Bank started the year 2006 with a common headcount target. The total FTE number for HVB Bank Biochim decreased from 1493.25 at the end of 2005 to 1423.75 at the end of 2006. The total number of commercial staff slightly decreased to 362.75 FTEs, but remains 25% of the total. The total number of points of sales of the Bank at the end of the year is 124.

The MBO system (Management by Objectives) was applied to all the staff in HVB Bank Biochim for the third year. The process included appraisal of the targets achieved for 2005, preparation of a plan for professional development and agreeing annual targets for every employee for 2006. As a performance management system, MBO aims to link the individual performance with the business targets of the Bank, to encourage the professional development of the employees, to foster dialogue between employees and their managers and to define the individual needs for training and development of the employees. According to evaluation of individual performances for 2005, every employee was assessed with an individual weighted score and received remuneration adjusted to the results achieved.

Following the Integration goals, in July 2006, a common remuneration policy was approved, applying the UniCredit Group (USG) integral approach to the total compensation package of the employees, including fixed and variable part of remuneration in one system. The practice of UCG showed this approach is a very efficient method to stimulate employee performance and motivate the achievement of high business results.

In 2006, HR Development paid special attention to combining practices coming from new team members' expertise, on the one hand, and setting new development principles related to the business strategy, on the other. The foundation for new training policy was built, which firmly established equal development opportunities. The pool of internal trainers was reviewed and teams were established for the biggest training campaigns – "Commercial Training for Sales Forces and "Rroll-out Training, related to the New IT System implementation. In soft skills – train the trainers, successful selling, managerial training – the valuable help of external companies was used. 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, inviting people from the three banks, presenting the Bank's strategy along with discussions, working in groups and training. 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 the new UniCredit Bulbank and UniCredit Leasing and was involved also in the evaluation of middle level management potential. This supported the career planning process.

In 2006, the Bank introduced the Integrity Charter – a platform of common principles and corporate values – Fairness, Respect, Freedom, Transparency, Reciprocity, 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. It includes a set of well-designed measures and activities for communication, training and event organization and is to be continuously aligned with the corporate values and backed up by other measures, such as event management and awards.

Corporate Social Responsibility

HVB Bank Biochim, together with Hebros Bank, placed a special emphasis on corporate social responsibility activities in 2006. The two banks, already part of UniCredit Group, have traditions in sponsoring quality projects in the area of culture and art in Bulgaria, with a special focus on classical music events. For the fifth time, HVB Bank Biochim and Hebros Bank co-organised the Biochim Classic Jam 2006-2007 concert series with Classic FM Radio. The Banks supported the Young Musical Talents Foundation for the organization of the Young Musical Talents Festival as well as young Bulgarian violin players participating in Trenta, Slovenia. In 2006, the two Banks continued their support to underprivileged children in SOS Kinderdorf villages in Bulgaria and other orphanages. The Banks also participated in the Bulgarian Christmas national charity initiative.

One of the first joint initiatives of Bulbank, HVB Bank Biochim and Hebros Bank after the announced merger between UniCredit and HVB was support to the municipal authorities in creating a friendly and safe urban environment in one of the central public parks in Sofia. A number of other carefully selected projects (municipalities, military brigade for building a Christian chapel, etc.) were also backed by the Group.

Awards

Numerous awards distinguished the successful year of HVB Bank Biochim, already part of UniCredit Group. Along with the increased number of our clients, the awards provided objective external recognition of the performance of the Group.

Best Bank in Bulgaria – HVB Bank Biochim, member of UniCredit Group	**Euromoney Awards for Excellence**	**July 2006**
Best Bank in Bulgaria – HVB Bank Biochim, member of UniCredit Group	**Finance New Europe**	**December 2006**
Best Custody in Bulgaria – HVB Bank Biochim, member of UniCredit Group	**Global Custodian**	**January 2006**

Integration

The process of integration of HVB Bank Biochim with Hebros Bank and Bulbank 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 considerable 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, optimise 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.

Unconsolidated Financial Statements for the Year Ended 31 December 2006

With Independent Auditor`s Report Thereon

KPMG

REPORT
OF THE INDEPENDENT AUDITOR
TO THE SHAREHOLDERS OF HVB BANK BIOCHIM AD

Sofia, 15 February 2007

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2006, and of its financial performance and cash flows for the year then ended in accordance with national accounting legislation, applicable for the banks in Bulgaria, as described in note 1 (b).

Специализирано одиторско предприятие
София
Рег. №045
"КПМГ - България" ООД

Krassimir Hadjidinev
Registered auditor
Authorised representative
KPMG Bulgaria OOD
37 Fridtjof Nansen Str.
1142 Sofia
Bulgaria

0202 Маргарита Голева
Регистриран одитор

Margarita Goleva
Registered auditor

Income Statement

In thousands of BGN

		2006	2005 (restated)
Interest and similar income		158,431	132,193
Interest expense and similar charges		(45,240)	(38,518)
Net interest income	4	**113,191**	**93,675**
Net fee and commission income	5	**49,565**	**42,305**
Net income from financial instruments at fair value through profit or loss	6	(3,586)	2,373
Net gain from investment securities		4	22
Changes in the allowances for impairment and credit risk provision charges	7	(23,829)	(22,224)
Other operating income (net)	8	(4,019)	(7,111)
		(31,430)	**(26,940)**
Total income from banking operations		**131,326**	**109,040**
General administrative expenses	9	(76,317)	(74,494)
Profit from banking operations		**55,009**	**34,546**
Restructuring plan related costs	10	(3,182)	(14,394)
Profit before tax		**51,827**	**20,152**
Income tax expense	11	(8,914)	(3,094)
Profit after tax		**42,913**	**17,058**

Peter Harold
Executive Director
Chairman of the Management Board

Emilia Palibachiyska
Executive Director
Chief Financial Officer

Demeter Todorov
Head of Accounting and Finance Division

Специализирано одиторско предприятие
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Krassimir Hadjidinev
Authorised representative
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Margarita Goleva
Registered auditor

Маргарита Голева
0202
Регистриран одитор

Balance Sheet

In thousands of BGN

	Note	2006	2005 (restated)
Assets			
Cash and cash equivalents	12	708,085	706,635
Loans and advances to banks	13	83,328	72,634
Receivables under repurchase agreement	14	4,875	3,359
Financial assets held for trading	15	112,394	120,985
Financial assets designated at fair value through profit or loss	16	248,903	259,803
Available-for-sale investments	17	13,490	13,720
Investments in subsidiaries	18	655	24,614
Loans and advances to customers	19	1,677,598	1,558,987
Property, equipment and intangible assets	20	62,972	59,215
Other assets	21	2,260	2,841
Total assets		**2,914,560**	**2,822,793**
Liabilities			
Due to banks	22	763,584	989,690
Liabilities under repurchase agreement	23	96,121	102,223
Due to customers	24	1,528,733	1,310,045
Trading liabilities	25	7,795	4,349
Provisions	26	22,282	22,686
Other liabilities	27	16,289	11,445
Deferred tax liability	28	42	575
Long-term liabilities	29	162,082	110,740
Subordinated long term loans	30	78,983	76,05
Total liabilities		**2,675,911**	**2,627,805**
Shareholders' equity			
Issued share capital	31	36,842	36,842
Reserves	31	141,697	124,076
Revaluation reserves	31	17,197	17,012
Current year profit		42,913	17,058
Total shareholders' equity		**238,649**	**194,988**
Total liabilities and shareholders' equity		**2,914,560**	**2,822,793**
Contingent liabilities and other commitments	32	647,685	550,346

Peter Harold
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Chairman of the Management Board

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Executive Director
Chief Financial Officer

Demeter Todorov
Head of Accounting and Finance
Division

Krassimir Hadjidinev
Authorised representative
KPMG Bulgaria OOD

Margarita Goleva
Registered auditor

Statement of Cash Flows

In thousands of BGN

	2006	2005 (restated)
Net cash flow from operating activities		
Profit before taxation	51,827	20,152
Adjustments for non-cash items		
Increase in impairment allowances	24,339	22,511
Increase in provisions and other accruals	14,468	27,221
Depreciation	6,805	7,886
Impairment and write offs of long term assets	11	3,415
Unrealised gains related to trading activity	3,034	3,567
	100,484	**84,752**
Change in operating assets		
Decrease (increase) in financial instruments at fair value through profit or loss	16,457	(164,313)
Increase in placements with and loans to banks	(10,694)	(49,739)
Increase in loans to customers	(144,466)	(441,705)
Increase in other assets	581	1,279
Taxes paid	(8,820)	(5,184)
	(146,942)	**(659,662)**
Change in operating liabilities		
Increase (decrese) in deposits from banks	(226,106)	415,565
Increase in amounts owed to other depositors	218,688	333,611
Increase in other borrowings	48,171	70,598
Increase in other liabilities and provisions	(6,283)	(7,633)
	34,470	**812,141**
Net cash flow from operating activities	**(11,988)**	**237,231**
Cash flow from investing activities		
Purchase of investment bonds and securities	24,011	(38,334)
Purchase of long term assets	(10,573)	(2,128)
Net cash flow from investing activities	**13,438**	**(40,462)**
Net increase in cash and cash equivalents	**1,450**	**196,769**
Cash and cash equivalents at the beginning of period	**706,635**	**509,866**
Cash and cash equivalents at the end of period	**708,085**	**706,635**

Peter Harold
Executive Director
Chairman of the Management Board

Emilia Palibachiyska
Executive Director
Chief Financial Officer

Demeter Todorov
Head of Accounting and Finance
Division

Krassimir Hadjidinev
Authorised representative
KPMG Bulgaria OOD

Специализирано одиторско предприятие
София
Рег. №045
"КПМГ - България" ООД

Margarita Goleva
Registered auditor

0202 Маргарита Голева
Регистриран одитор

Statement of Changes in Equity

In thousands of BGN

	Share capital	Statutory reserve	Retained earnings	Revaluation reserve on tangible assets	Revaluation reserve on AfS investments	Total
Balance as of December 31, 2004	**36,842**	**27,010**	**92,295**	**8,717**	**3,081**	**167,945**
Restatement (see note 1)			3,081		(3,081)	
Balance as of December 31, 2004 (restated)	**36,842**	**27,010**	**95,376**	**8,717**	**–**	**167,945**
Net profit/(loss) for the year ended December 31, 2005 (restated see note 1)	–	–	17,058	–	–	17,058
Revaluation reserve on available-for-sale investments	–	–	–	–	(46)	(46)
Transfers of revaluation surplus on non-current assets disposed of	–	–	1,690	(1,690)	–	–
Net increase in revaluation reserve of non-current assets	–	–	–	11,793	–	11,793
Appropriations to statutory reserve	–	15,154	(15,154)	–	–	–
Deferred tax recognized in equity related to available-for-sale assets' reserve	–	–	–	–	7	7
Deferred tax related to revaluation reserve of non-current assets	–	–	–	(1,769)	–	(1,769)
Balance as of December 31, 2005	**36,842**	**42,164**	**98,970**	**17,051**	**(39)**	**194,988**
Net profit/(loss) for the year ended December 31, 2006	–	–	42,913	–	–	42,913
Revaluation reserve on available-for-sale investments	–	–	–	–	(178)	(178)
Transfers of revaluation surplus on non-current assets disposed of	–	–	563	(563)	–	–
Appropriations to statutory reserve	–	2,364	(2,364)	–	–	–
Deferred tax recognized in equity related to available-for-sale assets' reserve	–	–	–	–	15	15
Deferred tax related to revaluation reserve of non-current assets	–	–	–	911	–	911
	36,842	**44,528**	**140,082**	**17,399**	**(202)**	**238,649**

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Notes to the Financial Statements

1 BASIS OF PREPARATION

(a) Statute

Biochim AD was incorporated in 1987 in Bulgaria as a state owned joint-stock company. During 1993–1995 the Bank became a successor of eight banks which consolidated into one entity. In 2002 the Bank was privatized as the State sold 99.59 % of shareholding to Bank Austria Creditanstalt AG. Following the privatization the major shareholder of the Bank performed a legal merger of its Bulgarian subsidiary HVB Bank Bulgaria EAD into Biochim AD with effect from December 27, 2002.

Soon after the privatization, an integration project aiming to implement Bank Austria banking standards in Biochim AD started. In July 2004, the project was successfully completed. Among all structural and processional changes, Bank has been renamed to HVB Bank Biochim AD (the Bank).

By the end of 2005 following a successful deal where Unicredit Italiano took control over Hypovereins Bank AG and Bank Austria Creditanstalt AG, HVB Bank Biochim became part of Unicredit Group. In order to strengthen its position on the financial market, in May 2006 it was decided Bulgarian banking activities of Unicredit Group to be combined through a triple legal merger of Unicredit local subsidiaries represented by HVB Bank Biochim AD, Hebrosbank AD and Bulbank AD. In October 2006 the Management of the three banks approved a Merger Agreement, which was subsequently endorsed by the shareholders of the three banks. On the basis of this agreement it is plan HVB Bank Biochim AD and Hebrosbank AD to be merged into Bulbank AD through share-exchange transaction. The share-exchange ratio was derived on the basis of market valuation of the three banks. In exchange of their shares, each shareholder of HVB Bank Biochim will receive 1.42998 shares of Bulbank AD for one share in HVB Bank Biochim AD. As a consequence of this Merger, net assets of the HVB Bank Biochim AD and Hebrosbank AD shall pass over to Bulbank AD and the latter shall become their universal successor. The Merging Banks shall cease to exist and shall be wound – up without liquidation. The final completion of the deal is expected to take place in second quarter of 2007. Upon its completion the acquiring bank will be renamed to Unicredit Bulbank AD.

HVB Bank Biochim AD possesses a full-scope banking license for the performance of commercial Bank activities. It is domiciled in the Republic of Bulgaria, with registered address 1 Ivan Vazov st., Sofia, Bulgaria.

The activities of the Banks are carried out through Head Office, 39 branches, 46 offices and 38 agencies.

(b) Statement of compliance

These financial statements are prepared in compliance with applicable in Bulgaria accounting framework.

Effectively since January 1st, 2006 International Financial Reporting Standards, approved by International Accounting Standards Board, revision 2005, are official statutory accounting framework in Bulgaria. Upon first adoption for statutory purposes the Management has assessed the impact of the new accounting framework compared to the one applied by the Bank up to December 31, 2005. As a result of this assessment the opening balance of retained earnings has been restated in order to provide fair comparative figures presentation as required by the transitional provisions of respective International Accounting Standards (see also note d)

In addition banks in Bulgaria must regularly assess for impairment all their risk exposures, and when such is encountered, impairment loss has to be recognized. The criteria of risk exposures, risk assessment and impairment allowances calculation are defined by Bulgarian National Bank in Regulation 9. According to mentioned regulation these impairment allowances are integral part of the expenses and their total amount is deducted from the risk exposures' gross value. Based on that in these financial statements, all charges for impairment and credit risk provisions are estimated on the basis of strict requirements of Bulgarian National Bank.

(c) Basis of preparation

The functional currency of the Bank is Bulgarian Lev (BGN). These financial statements are also presented in BGN, rounded to the nearest thousand.

The financial statements are prepared on a fair value basis for financial assets and liabilities measured at fair value through profit or loss, available-for-sale assets and derivative financial instruments, except those for which a reliable measure of fair value is not available. Property, plant and equipment are stated at their revalued amount as determined by an independent registered appraiser. Other financial assets and liabilities and non-financial assets and liabilities are stated at amortised cost or historical cost.

These financial statements are prepared on unconsolidated basis. As of December 31, 2006 the financial statements of HVB Bank Biochim AD are fully consolidated in the financial statements of the direct parent company being Bank Austria Creditanstalt AG.

As disclosed in point a) above, the shareholders of HVB Bank Biochim AD, Hebrosbank AD and Bulbank AD have endorsed merger agreement based on which it is plan HVB Bank Biochim AD and Hebrosbank AD to merge into Bulbank AD. As under the merging agreement no plans for considerable shrinking or discontinuing activities are envisaged, these financial statements are prepared on going concern basis.

(d) Comparative information

As described in point b) above Management has assessed the implication of first adoption for statutory purposes of International Financial Reporting Standards, revision 2005 and as a result of this assessment the opening balance of retained earnings has been restated.

The restatement relates to first adoption of IAS 39 "Financial instruments: Recognition and Measurement". Bank has applied fair value option on certain financial assets which are not held for trading purposes and designated them as assets at fair value through profit or loss. The restatement is as follows:

	Retained earnings of AfS investments	Revaluation reserve
Balances as of December 31, 2004	92 295	3 081
Transferring revaluation reserves into retained earnings	3 081	(3 081)
Balances as of December 31, 2004 (restated)	95 376	–
Balances as of December 31, 2005	97 025	1,906
Transferring reserves into retained earnings	3 081	(1 945)
Adjustment in income from assets designated at fair value through profit and loss	(1 336)	–
Adjustment on taxation	200	
Balances as of December 31, 2005 (restated)	98 970	(39)

In addition certain reclassifications have been made to financial statements as of December 31, 2005 in order to provide more clear and precise comparison with figures as of December 31, 2006. Comparative information for the reclassifications made is given below:

Description of the position	Balance in thousand BGN	2006 annual financial statement presentation	2005 annual financial statement presentation
Assets acquired from collaterals foreclosure	2,520	Fixed assets	Other assets
Financial assets designated at fair value through profit or loss	259,803	Financial assets designated at fair value through profit or loss	Trading assets

2 SIGNIFICANT ACOUNTING POLICIES

(a) Income recognition

Interest income and expense is recognized in the income statement following the accruing principle, taking into account the effective yield of the asset in all material aspects. Interest income and expense includes the amortization of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Fee and commission income arises on financial services provided by HVB Bank Biochim AD and is recognized upon rendering the corresponding service.

Net trading income includes gains and losses arising from disposals and changes in the fair value of financial assets and liabilities held for trading as well as trading income in dealing with foreign currencies.

(b) Foreign currency transactions

Transactions in foreign currencies are translated at the official Bulgarian National Bank foreign exchange rate ruling at the date of the transaction. All monetary assets and liabilities denominated in foreign currencies are translated at the closing foreign exchange rate being the official rate of the Bulgarian National Bank. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the presentation currency at the foreign exchange rates ruling at the dates that the values were determined. As of each balance sheet date, all foreign currencies denominated monetary assets are revaluated on net basis using Bulgarian National Bank closing exchange rates. Any gain/loss is recognized in the income statement.

Bulgarian National Bank closing exchange rates of most common currencies as of December 31, 2006 and December 31, 2005 are as follows:

Currency	Closing rate December 31, 2006 BGN	Closing rate December 31, 2005 BGN
EUR, 1	1.95583	1.95583
USD, 1	1.48506	1.65790
CHF, 1	1.21714	1.25769
GBP, 1	2.91263	2.85398

(c) Financial instruments

(i) Classification

Financial instruments at fair value through profit or loss include trading instruments (including all derivatives) and other instruments initially designated at fair value through profit or loss.

Trading instruments are those that the Bank holds for the purpose of short-term profit taking. These include investments and derivative contracts that are not designated and effective hedging instruments, and liabilities from short sales of financial instruments. All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as trading assets. All trading derivatives in a net payable position (negative fair value), as well as written options, are reported as trading liabilities.

Financial instruments that are not held for trading but which are part of a group of financial assets which performance is evaluated on a fair value basis are initially designated as assets at fair value through profit or loss. For all such assets, where appropriate, Bank performs economic hedges of interest rate risk, which otherwise in case these assets were to be classified in different category would lead to material measurement inconsistency.

Loans and receivables are instruments where Bank provides money to a debtor other than those created with the intention of short-term profit taking. Loans and receivables comprise loans and advances to banks and customers as well as short term balances presented as other assets.

Held-to-maturity assets are financial assets with fixed or determinable payments and fixed maturity that HVB Bank Biochim AD has the intent and ability to hold to maturity. These include certain purchased loans and advances to banks and customers and certain debt investments.

Available-for-sale financial assets are those non derivative instruments which are designated as available for sale and are not carried at fair value through profit or loss.

(ii) Reclassification

Bank does not reclassify financial instruments in or out of any classification category after initial recognition.

(iii) Recognition

The Bank recognizes financial instruments on trade date.

(iv) Measurement

Financial instruments are measured initially at the fair value of consideration given/received, including transaction costs, for all the financial instruments which are not classified as instruments at fair value through profit or loss.

Subsequent to initial recognition all instruments at fair value through profit or loss and all available-for-sale assets are measured at fair value, except for 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.

All non-trading financial liabilities, loans and receivables and held-to-maturity investments 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.

(v) 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.

(vi) Disclosure of fair value

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.

The fair value of loans and advances customers is approximately equal to their carrying value due to fact that main part of the loan portfolio carry floating interest rates which reflect the changes in the market conditions.

(vii) Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of assets at fair value through profit or loss are recognized in the income statement.

(d) Cash and cash equivalents

Cash and cash equivalents comprise cash balances on hand, cash deposited with the Central Bank, current accounts with other banks and short-term highly liquid investments which mature three months or less when extended.

(e) Investments in subsidiaries and other investments

Investments in subsidiaries comprise of equity participations in entities where the Bank exercises control through owning more than half of the voting power of such entities or through virtue of an agreement with other investors to exercise more than half of the voting rights. In the unconsolidated financial statements Bank has adopted the policy of carrying all investments in subsidiaries at cost in accordance with IAS 27 "Consolidated Financial Statements and Accounting for Investments in Subsidiaries".

Investments in entities, where Bank has neither control or exercises significant influence, are classified as available for sale financial assets. The fair value of these assets can not be reliably measured therefore they are carried at cost. All such investments are regularly assessed for impairment.

(f) Loans and advances to banks and customers

Loans and advances originated by HVB Bank Biochim are classified as loans and receivables and presented as Loans and advances to banks, customers or other assets

Loans and advances are reported net of impairment allowances to reflect the estimated recoverable amounts (refer accounting policy j).

(g) Derecognition

A financial asset is derecognised on the date after HVB Bank Biochim loses control over the contractual rights that comprise that asset. This occurs when the rights are realized, expire or otherwise transferred. A financial liability is derecognized when it is extinguished.

Bank applies trading date for recognition/derecognition of all financial instruments.

(h) Repurchase agreements

HVB Bank Biochim AD enters into purchases (sales) of investments under agreements to resell (repurchase) substantially identical investments at a certain date in the future at a fixed price. Investments purchased subject to commitments to resell them at future dates are not recognized. The amounts paid are recognized in loans to either banks or customers and presented separately in the balance sheet under receivables under repurchase agreement. Investments sold under repurchase agreements continue to be recognized in the balance sheet and measured in accordance with the accounting policy for either assets at fair value through profit or loss or available-for-sale as appropriate. The proceeds from the sale of the investments are reported in the balance sheet under liabilities under repurchase agreements.

The difference between the sale and repurchase considerations is recognised on an accrual basis over the period of the transaction and is included in net interest income.

(i) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when the Bank has a legally enforceable right to set off the recognized amounts and the transactions are intended to be settled on a net basis.

(j) Impairment

The carrying amounts of Bank's assets are regularly reviewed to determine whether there is any objective evidence of impairment as follows:

- for financial assets – by the end of each month for the purposes of preparing interim financial statements;
- for non-monetary assets – by the end of each year for the purposes of preparing annual financial statements.

If any impairment indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

(i) Loans and advances

Loans and advances are assessed for impairment indicators on a monthly basis for the purposes of preparing monthly financial statements of the Bank. Review is performed and decisions are taken by Bank's Credit Committee which is a specialized internal body for monitoring, valuation and classification of risk exposures. Credit Committee operates under approved Credit Committee Rules in accordance with the requirements set by Bulgarian National Bank Regulation No 9 on Evaluation and Classification of the Risk Exposures of the Banks and the Allocation of Provisions to Cover Impairment Loss.

The recoverable amount of originated loans and advances is calculated as the present value of the expected cash flows, discounted at the instrument's original effective interest rate for fix rate instruments and reprised original effective interest rate in case of floating rate instruments. Short-term balances are not discounted. All credit exposures of the Bank are classified in four different categories as defined in Regulation 9. In estimating expecting cash flows, Bank applies certain default rates to instruments' contractual cash flows as follows:

Risk category	Applicable default rate
Regular	Impairment on portfolio basis only
Watch	min. 10%, for loans extended to individuals min. 20%
Irregular	min. 50%, for loans extended to individuals min. 75%
Non-performing	100%

Loans and advances are presented net of specific and general allowances for impairment. Specific allowances are made against the carrying amount of loans and advances that are identified as being impaired based on regular reviews of outstanding balances to reduce these loans and advances to their recoverable amounts. General allowances are maintained to reduce the carrying amount of portfolios of similar loans and advances to their estimated recoverable amounts at the balance sheet date. The expected cash flows for portfolios of similar assets are estimated based on previous experience late payments of interest, principals or penalties. Increases in the allowance account are recognized in the income statement. When a loan is known to be uncollectible, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is directly written off.

If in a subsequent period the amount of impairment loss decreases and the decrease can be linked objectively to an event occurring after the write down, the write-down or allowance is reversed through the income statement thus increasing the amortized cost to the amount that never exceeds the amortised cost had the loan never been impaired.

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

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

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

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

(k) Property, plant and equipment

The Bank has adopted a policy to carry its fixed assets at revalued amount under the allowed alternative in IAS 16, Property, plant and equipment.

Items of property, plant and equipment are stated at fair value determined periodically by an independent registered valuer. As of December 31, 2005 the entire class of property has been assessed and revaluated by independent appraiser (see also note 20). When the property, plant and equipment are revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset. When the carrying amount of assets is increased as a result of revaluation, the increase is credited directly to equity as revaluation surplus. When the carrying amount of assets is decreased as a result of revaluation, the decrease is recognized as and expensed in the income statement.

Depreciation is provided on a straight-line basis at prescribed rates designed to write down the cost or valuation of fixed assets over their expected useful lives.

The Bank performs regularly reviews of the useful life of all the items of property, plant and equipment. The depreciation rates determined based on such reviews are as follows:

	Year ended December 31, 2006 (%)	Year ended December 31, 2005 (%)
Buildings	2	2
Computer hardware	20	20
Fixtures and fittings	15	15
Vehicles	25	25

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

(l) Intangible assets

(i) Intangible assets are stated at cost less accumulated amortisation and any impairment losses.

(ii) Amortisation

Amortisation is calculated on a straight-line basis over the expected useful life of the asset. The annual rates of depreciation are as follows:

	%
Computer software	20

(m) Provisions

A provision is recognized in the balance sheet when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. As of December 31, 2006 Management has reviewed Bank's legal and constructive obligation and to the extent they are material provision has been recognized.

In 2006 Management Board and Supervisory Board of the Bank have approved and announced to all affected, a restructuring program aiming to integrate the activities of HVB Bank Biochim, Hebrosbank and Bulbank. As a result of that a detailed formal plan was prepared with regard to restructuring activities and related unavoidable direct costs. For all such costs, that fells within the scope of IAS 37 "Provisions, Contingent Liabilities and contingent assets", a restructuring provision has been recognized (see also note 10)

In accordance with the requirements of Labor Code and Collective Labor Agreement on termination of the labour contract of an employee, who has become entitled to retirement, the Bank is obliged to pay him a compensation amounting to his double gross monthly salary. For employees that have been employed in the Bank for the last ten years the amount of the compensation due is six times their gross monthly salary. As of December 31 2006, and December 31, 2005 Management has assessed Bank current obligation with regard to mandatory payments upon employees' retirement and respective provision has been recognized (see also note 26).

(n) Taxation

Tax on the profit for the year comprises current tax and the change in deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity. Current tax comprises tax payable calculated on the basis of the expected taxable income for the year, using the tax rates enacted by the balance sheet date, and any adjustment of tax payable for previous years.

Deferred tax is provided using the balance sheet liability method on all temporary differences between the carrying amounts for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is calculated on the basis of the tax rates that are expected to apply for the periods when the asset is realized or the liability is settled. The effect on deferred tax of any changes in tax rates is charged to the income statement, except to the extent that it relates to items previously charged or credited directly to equity.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(m) 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.

3 FINANCIAL RISK MANAGEMENT

A. Strategy and policy in financial instruments risk management

The nature of the major Bank's activities relate to dealing with financial instruments thus keeping open positions exposed to certain type of risks. Different types of risks are managed by specialized departments within the Bank's structure. The applicable policies entirely correspond to the requirements of Bank Austria Creditanstalt Risk Management Group Standards as well as all respective requirements set by Bulgarian banking legislation.

Assets and Liabilities Committee (ALCO) is a specialized body established in the Bank for the purposes of market risk and structural liquidity management.

Bank manages risk positions on aggregate basis, focusing in reaching optimal risk/return ratio.

As part of the internal management, HVB Bank Biochim has, approved by the Management, Financial Instruments Management Policy, where all deals and exposures in financial instruments, excluding originating loans, are defined.

Credit risk in the Bank is monitored through Credit Committee. It is a specialized body responsible for credit risk assessment, classification of credit risk exposures and impairment losses estimation.

Management of the Bank has approved certain limits aiming to mitigate the risk impact on the Bank's result. These limits are within the overall risk limits of Bank Austria Creditanstalt AG. There is an effective procedure established in the Bank for limits monitoring, including early warning in case of limits breaches.

Additionally a system for operational risk management, approved by the Management Board, is introduced in the Bank.

For the purposes of keeping the private interest of Bank's clients and avoiding any disruption of Bank's reputation, a specialized department responsible for avoiding unauthorized use of internal banking information is also established.

B. Risk hedging

Bank enters certain deals for the purposes of hedging interest rate risk mainly with regard to Bank's trading and investment portfolio. Such deals are usually concluded in Trading and Sales and Assets and Liabilities Management Divisions and are subject to monitoring by Market Risk department.

Hedging instruments, used by the Bank, usually include interest rate swaps, forward contracts and interest rate or FX options. As of December 31, 2006 Bank effectively hedges trading assets and assets designated at fair value through profit or loss, therefore no specific hedge accounting principles are in place as required by IAS 39 "Financial instruments: Recognition and measurement"

C. Type of risk measurement

(i) Market Risk

Market Risk department is a specialized department where all market risk generating positions of the Bank are monitored. Its activities are independent from the trading and sales activities. Market risk limits are explicitly defined in Market Risk Rule Book and International Markets Rule Book, reviewed at least annually.

For the purposes of measuring the potential overnight loss on an open risk position at a quantile of 99%, the Bank applies the VAR methodology developed by Bank Austria Creditanstalt. It is based on historical and Monte Carlo simulation of returns, and accounts for risk reducing correlation effects between the risk categories interest, credit spread, foreign exchange, equity, volatilities, and commodities. The simulation results of position returns, supplemented with distribution metrics, quantile/quantile plots and limit utilization (overall VAR limit, risk category relevant, FX volume and BPV shift limits) are reported to the management on a daily basis.

As of December 31, 2006 the overnight overall value at risk (diversified) amounts to EUR 325.984 thousand /30.75 % limit utilization/. Undiversified values at risk by risk factor were as follows: FX VAR of EUR 25.401 thousands, interest rates without spread VAR of EUR 151.195 thousand and spread including residual variance of EUR 333.090 thousands. The overall value at risk measured internally comprises the overnight potential loss on trading and investment positions, including general interest rate risk of bank book positions.

Bank prepares monthly reports for the statutory market risk capital requirements in accordance with Capital Adequacy Regulation set by BNB. According to it market risk is defined as the risk of losses, arising from movements in the market prices of debt (interest rate related) and equity instruments in the trading book and foreign exchange and commodity instruments in the trading and banking book. Generally applicable for HVB Bank Biochim, market risk includes position risk of debt and equity instruments in trading book as well as currency risk in the trading and banking book. As of December 31, 2006 the total risk weighted assets with regard to market risk are in the amount of BGN 119,926 thousand.

i. Interest rate risk

To restrict the maximum interest risk position by currency and time buckets, the Bank employs a Basis-Point-Value limit, with valuations changes based on interest rate move of 1 basis point. The table below provides overview of interest rate sensitivity of the Bank's positions as of December 31, 2006 in EUR equivalent.

CCY	0-3M	3M-1Y	1Y-3Y	3Y-10Y	10Y-	Sum
BGN	–3,231	–1,742	7,167	–4,154	–119	–2,079
CAD	0					0
CHF	–28	–532	–139	–618	–338	–1,656
DKK	0					0
EUR	–2,170	–5,651	1,746	3,328	5,071	2,325
GBP	8	16				24
HUF	0					0
JPY	0	9				9
NOK	0					0
SEK	0					0
USD	–206	494	–1,153	–15,301	6	–16,160
TOTAL	5,643	8,445	10,205	23,402	5,534	22,254

ii. Currency (FX) risk

HVB Bank Biochim AD is exposed to currency risk through transactions in foreign currencies.

As a result of the currency Board in place in Bulgaria, the Bulgarian currency is pegged to the Euro. As the currency in which HVB Bank Biochim AD presents its financial statements is the Bulgarian lev, HVB Bank Biochim AD's financial statements are affected by movements in the exchange rates between the currencies other than Euro and lev

Net FX open positions are monitored on a daily basis by Market Risk department. It includes all trading and banking book positions and is limited by positional overnight limits.

In thousands of BGN

	December 31, 2006 BGN and Euro	December 31, 2006 Other foreign currencies	December 31, 2006 Total
Assets			
Cash and cash equivalents	543,307	164,778	708,085
Loans and advances to banks	83,078	250	83,328
Receivables under repurchase agreement	4,875	–	4,875
Financial assets held for trading	68,238	44,156	112,394
Financial assets designated at fair value through profit or loss	177,072	71,831	248,903
Available for sale investments	13,490	–	13,490
Investments in subsidiaries	655	–	655
Loans and advances to customers	1,633,760	43,838	1,677,598
Property, plant, equipment and intangible assets	62,972	–	62,972
Other assets	2,259	1	2,260
Total assets	**2,589,706**	**324,854**	**2,914,560**
Liabilities			
Due to banks	654,736	108,848	763,584
Liabilities under repurchase agreements	59,178	36,943	96,121
Due to customers	1,353,276	175,457	1,528,733
Trading liabilities	7,234	561	7,795
Provisions	22,282	–	22,282
Other liabilities	16,283	6	16,289
Deferred tax liability	42	–	42
Long-term liability	162,082	–	162,082
Subordinated long term loan	78,983	–	78,983
Total liabilities	**2,354,096**	**321,815**	**2,675,911**
Equity	238,649	–	238,649
Net off-balance sheet spot and forward position	2,586	(2,371)	215
Net position	**(453)**	**668**	**215**

In thousands of BGN

	December 31, 2005 BGN and Euro	December 31, 2005 Other foreign currencies	December 31, 2005 Total
Assets			
Cash and cash equivalents	698,797	7,838	706,635
Loans and advances to banks	72,124	510	72,634
Receivables under repurchase agreement	3,359	–	3,359
Financial assets held for trading	59,771	61,214	120,985
Financial assets designated at fair value through profit or loss	188,217	71,586	259,803
Available for sale investments	13,720	–	13,720
Investments in subsidiaries	24,614	–	24,614
Loans and advances to customers	1,526,297	32,690	1,558,987
Property, plant, equipment and intangible assets	59,215	–	59,215
Other assets	2,781	60	2,841
Total assets	**2,648,895**	**173,898**	**2,822,793**
Liabilities			
Due to banks	825,572	164,118	989,690
Liabilities under repurchase agreements	65,201	37,022	102,223
Due to customers	1,104,185	205,860	1,310,045
Trading liabilities	4,233	116	4,349
Provisions	15,449	7,237	22,686
Other liabilities	11,439	6	11,445
Deferred tax liability	575	–	575
Long-term liability	110,740	–	110,740
Subordinated long term loan	76,052	–	76,052
Total liabilities	**2,213,446**	**414,359**	**2,627,805**
Equity	194,988	–	194,988
Net off-balance sheet spot and forward position	**(236,913)**	**237,327**	**414**
Net position	**3,548**	**(3,134)**	**414**

(ii) Credit risk

Credit risk is defined as potential losses arising from not fulfilment of any contractual obligation with regard to issued or originated financial instrument.

Bank effectively manages credit risk inherent to its trading and banking book

Bank applies different approach and has established different departments with regard to monitoring the credit risk related to corporate clients, small and middle enterprises and individuals.

i. Credit risk in the trading book

For the purposes of mitigating the counter party risk and settlement risk with regard to the deals in the trading book, Bank concludes deals with high ranking clients with string creditworthiness. For many such clients Bank has approved credit limits.

ii. Credit risk in the banking book

Credit risk, inherent in the banking book, is managed as the creditworthiness of Bank's clients is assessed for the whole life of the loan, from the date initial loan application till the date of final repayment. Issued Letters of Guarantees, Letters of Credit and all other irrevocable credit commitments fell also within the scope of Bank's credit risk monitoring

As a credit risk mitigation policy, Bank accepts different types of collaterals depending on the product and client. As a rule collaterals are registered on behalf of the Bank prior to the effective disbursal of the loans.

Risk classification of the exposures and allocating impairment allowances are in compliance with BNB Regulation 9. The competent body is the Credit Committee. Risk assessment is done at least once per month. Credit risk methodology adopted by the Bank is explicitly defined in the Policy for evaluation of risk exposures.

The practice adopted in the Bank is to prepare internal rules for all credit products, especially in the Retail banking, setting the loan parameters, acceptable collaterals and the documentation required from the clients for credit risk assessment.

Credit risk monitoring is also focused in fulfillment of statutory lending limits set in Law on Banks. Exposure to one client or group of related clients exceeding 10% of the capital base are treated as big exposures and it has to be approved by the Management Board. Maximum amount of an exposure to one client of group of related clients must not exceed 25% of the capital base of the bank and in addition the total of all big exposures must not exceed 800% capital base.

As of December 31, 2006 Bank has fulfilled all statutory lending limits.

Bank prepares monthly reports for the statutory credit risk capital requirements in accordance with Capital Adequacy Regulation set by BNB. As of December 31, 2006 the total amount of risk weighted assets with regard to credit risk amount to BGN 1,702,631 thousand.

The table below shows a breakdown of loans and advances to customers by economic sectors:

	2006	2005
Manufacturing	362,929	413,638
Commerce	448,036	396,890
Construction	59,291	46,849
Agriculture and forestry	12,213	14,328
Transport and communications	79,547	71,972
Services	142,339	171,702
Financial services	30,050	44,814
Other industry sectors and retail	610,870	461,480
	1,745,275	1,621,673
Impairment allowances	(67,677)	(62,686)
	1,677,598	**1,558,987**

The breakdown of impairment allowances for the years ended December 31, 2006 and December 31, 2005 is as follows:

	Carrying amount before impairment		Impairment allowance		Carrying amount	
	2006	2005	2006	2005	2006	2005
Risk classification group						
Individually impaired						
Watch	22,982	15,124	2,370	2,157	20,612	12,967
Irregular	14,480	15,730	7,663	8,435	6,817	7,295
Non-performing	49,591	69,726	48,454	51,012	1,137	18,714
	87,053	**100,580**	**58,487**	**61,604**	**28,566**	**38,976**
Collectively impaired						
Regular	1,658,222	1,521,093	9,190	1,082	1,649,032	1,520,011
Total	**1,745,275**	**1,621,673**	**67,677**	**62,686**	**1,677,598**	**1,558,987**

The table below shows a breakdown of loans and advances to customers by type of collateral:

In thousands of BGN

	2006	2005
Secured by mortgages	766,255	563,420
Cash collateral	6,451	7,276
Other collaterals	800,508	844,932
Unsecured	172,061	206,045
	1,745,275	1,621,673
Impairment allowances	(67,677)	(62,686)
	1,677,598	**1,558,987**

iii. Liquidity risk

Liquidity risk is defined as the risk of not fulfillment Banks' current obligations with regard to the financial instruments or ongoing business.

Bank monitors its liquidity on a daily basis following BNB requirements as well as applicable Group Standards.

The collective Bank's body for liquidity management is ALCO (Assets and Liabilities Committee). Bank has an approved Liquidity Management Policy.

The liquidity is operationally managed through Markets and Sales Division and the structural liquidity through Assets and Liabilities Division. According to the Liquidity Policy, Assets and Liabilities Division monitors on a daily basis short term liquidity arising form Treasury activities with a time horizon up to one month. The structural liquidity is monitored on a weekly basis prepared under three scenarios – going concern, liquidity crisis and original maturity scenario. For the purposes of liquidity management, depending on the primary funds, short tem limits are applied.

The following table provides an analysis of the financial assets and liabilities of the Bank into relevant maturity groupings based on the remaining contractual periods to repayment for items with fixed maturity and historical pattern and Managements' expectations for items with no fixed maturity.

Maturity table as of December 31, 2006

In thousands of BGN

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Maturity not defined	Total
Assets							
Cash and cash equivalents	708,085	–	–	–	–	–	708,085
Loans and advances to banks	2,724	34,473	45,881	–	–	250	83,328
Receivables under repurchase agreements	4,875	–	–	–	–	–	4,875
Financial assets held for trading	112,394	–	–	–	–	–	112,394
Financial assets at fair value through profit or loss	248,903	–	–	–	–	–	248,903
Financial assets available for sale	11,799	7	–	–	511	1,173	13,490
Investments in subsidiaries	–	–	–	–	–	655	655
Loans and advances to customers	201,981	100,331	374,795	441,970	558,521	–	1,677,598
Property, plant, equipment and intangible assets		–	–	–	–	62,972	62,972
Other assets	2,260	–	–	–	–	–	2,260
Total assets	**1,293,021**	**134,811**	**420,676**	**441,970**	**559,032**	**65,050**	**2,914,560**
Liabilities							
Due to banks	662,912	–	–	100,672	–	–	763,584
Liabilities under repurchase agreements	96,121	–	–	–	–	–	96,121
Due to customers	657,124	48,208	53,701	769,700	–	–	1,528,733
Trading liabilities	7,795	–	–	–	–	–	7,795
Provisions	–	–	18,703	3,579	–	–	22,282
Other liabilities	–	–	16,289	–	–	–	16,289
Deferred tax liability	–	–	–	42	–	–	42
Long-term liabilities	–	–	–	92,533	69,549	–	162,082
Subordinated debt	–	–	–	–	78,983	–	78,983
Total liabilities	1,440,241	48,208	72,404	966,526	148,532	–	2,675,911
Net liquidity gap	**(130,931)**	**86,603**	**331,983**	**(524,556)**	**410,500**	**65,050**	**238,649**
Cumulative	**(130,931)**	**(44,328)**	**287,655**	**(236,901)**	**173,599**	**238,649**	

Maturity table as of December 31, 2005

In thousands of BGN

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Maturity not defined	Total
Assets							
Cash and cash equivalents	706,635	–	–	–	–	–	706,635
Loans and advances to banks	14,736	6,475	51,156	–	–	267	72,634
Receivables under repurchase agreements	978	2,381	–	–	–	–	3,359
Financial assets held for trading	120,985	–	–	–	–	–	120,985
Financial assets at fair value through profit or loss	259,803	–	–	–	–	–	259,803
Financial assets available for sale	3,192	144	–	9,216	–	1,168	13,720
Investments in subsidiaries	–	–	–	–	–	24,614	24,614
Loans and advances to customers	40,439	100,719	368,547	481,386	567,896	–	1,558,987
Property, plant, equipment and intangible assets	–	–	–	–	–	59,215	59,215
Other assets	2,841	–	–	–	–	–	2,841
Total assets	**1,149,609**	**109,719**	**419,703**	**490,602**	**567,896**	**85,264**	**2,822,793**
Liabilities							
Due to banks	800,740	33,340	54,938	100,672	–	–	989,690
Liabilities under repurchase agreements	102,223	–	–	–	–	–	102,223
Due to customers	607,062	56,441	50,690	595,852	–	–	1,310,045
Trading liabilities	4,349	–	–	–	–	–	4,349
Provisions		231	22,455	–	–	22,686	
Other liabilities	11,445	–	–	–	–	–	11,445
Deferred tax liability	–	–	–	575	–	–	575
Long-term liabilities	–	–	477	54,448	55,815	–	110,740
Subordinated debt	–	–	–	–	76,052	–	76,052
Total liabilities	1,525,819	89,781	106,336	774,002	131,867	–	2,627,805
Net liquidity gap	**(376,210)**	**19,938**	**313,367**	**(283,400)**	**436,029**	**85,264**	**194,988**
Cumulative	**(376,210)**	**(356,272)**	**(42,905)**	**(326,305)**	**109,724**	**194,988**	

D. Capital adequacy requirements

Bank reports on a monthly basis the capital requirements as set by Regulation 8 of the Bulgarian National Bank for capital adequacy of Banks.

The minimum capital adequacy Tier 1 and total capital adequacy ratios are 6% and 12% respectively.

As of December 31, 2006 and December 31, 2005 Bank meets all the requirements.

In thousands of BGN

	December 31, 2006	December 31, 2005
Risk weighted assets for covering credit risk	1,702,631	1,564,480
Risk weighted assets for covering market risk	119,926	115,691
Total risk weighted assets	1,822,557	1,680,171
Total eligible capital base	256,381	217 193
there of Tier 1 capital	*169,363*	*152 780*
Tier 1 ratio	**9.29%**	**9.09%**
Total capital adequacy ratio	**14.07%**	**12.93%**

4 NET INTEREST INCOME

In thousands of BGN

	2006	2005
Interest and similar income		
Interest and similar income arise from:		
Loans and advances to banks	10,789	14,283
Loans and advances to customers	124,765	103,641
Receivables under repurchase agreements	219	260
Assets at fair value through profit or loss	22,246	13,554
Available for sale investments	412	455
Total interest income	**158,431**	**132,193**
Interest expense and similar charges		
Interest expense and similar charges arise from:		
Deposits from banks	(20,097)	(20,784)
Deposits from other customers	(13,568)	(10,659)
Liabilities under repurchase agreements	(4,349)	(2,083)
Credit lines and subordinated loans	(7,226)	(4,992)
Total interest expense	**(45,240)**	**(38,518)**
Net interest income	**113,191**	**93,675**

5 NET FEE AND COMISSION INCOME

In thousands of BGN

	2006	2005
Net Fee and commission income		
Security and custody business	3,883	1,106
Lending business	7,772	5,996
Payment transactions and foreign trade	26,436	25,239
FX currency sales	9,157	8,763
Other services	2,317	1,201
Net fee and commission income	**49,565**	**42,305**

6 NET INCOME FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

In thousands of BGN

	2006	2005
Net income from trading instruments	3,076	643
FX trading income	286	1,638
Total trading income	**3,362**	**2,281**
Net income from assets designated at fair value through profit or loss	(6,948)	92
Net income from financial instruments at fair value through profit or loss	**(3,586)**	**2,373**

7 CHANGES IN THE ALLOWANCES FOR IMPAIRMENT AND CREDIT RISK PROVISION CHARGES

In thousands of BGN

	2006	2005
Balance 1 January		
Loans and advances to customers	62,686	55,337
Loans and advances to banks	15	11
Credit risk provisions on contingent liabilities	510	328
	63,211	**55,676**
Increase		
Loans and advances to customers	46,531	31,501
Placements with banks and other financial institutions	–	4
Credit risk provisions on contingent liabilities	–	390
	46,531	31,895
Decrease		
Loans and advances to customers and other assets	(21,812)	(9,176)
Credit risk provisions on contingent liabilities	(380)	(208)
Recoveries from non-performing loans previously written off	(510)	(287)
	(22,702)	(9,671)
Net provision charge	**23,829**	**22,224**
Written-off		
Loans and advances to customers	(19,728)	(14,976)
Placements with banks and other financial institutions	(15)	
	(19,743)	(14,976)
Balance 31 December		
Loans and advances to customers	67,677	62,686
Loans and advances to banks	–	15
Credit risk provisions on contingent liabilities	130	510
	67,807	**63,211**

8 OTHER OPERATING INCOME, NET

In thousands of BGN

	2006	2005
Gain (loss) on sale of property, plant and equipment	78	2,728
Net costs on legal proceedings against the bank	292	(9,583)
Out of court agreements costs	–	(98)
Provisions on constructive obligation	(5,604)	(231)
Income from transfer of assets	943	–
Other income, net	272	73
Other operating income, net	**(4,019)**	**(7,111)**

Net costs on legal proceedings against the Bank for the years ended December 31, 2006 and December 31, 2005 are BGN 292 thousand and BGN (9,583) thousand, respectively. These costs represent the actual amount paid by the Bank on the ground of effective court decisions as well as the net movement in provisions related to court cases (see also note 26).

The Provisions on constructive obligations includes:

- provisions for implementing new IBAN numbers upon change of the IT system in the amount of BGN 840 thousand;
- provisions related to Bulgarian National Bank Regulation 18 in the amount of BGN 2,300 thousand;
- provisions with regard to Instruction I-171 issued by Bulgarian National Bank and Ministry of Internal Affairs in the amount of BGN 2,464 thousand..

Following the decision for triple legal merger between Bulbank AD, HVB Bank Biochim AD and Hebrosbank AD a uniform SWIFT code for the new entity shall be set up with subsequent change in customers' IBAN accounts. By requirement of Regulation No 3 of the Bulgarian National Bank customers shall be notified for the respective changes. The allocated provisions relates to unavoidable costs for implementing the new IBAN accounts as well as respective notification costs.

In March 2006, HVB Bank Biochim AD and Bank Austria Creditanstalt AG signed a Funding Risk Participation Agreement, based on which HVB Bank Biochim effectively transferred the credit risk over a portfolio of loans for a consideration being equal to the fair value of the loans at the date of transfer. Upon this agreement HVB Bank Biochim has:

- no obligation to pay amounts to Bank Austria Creditanstalt AG unless it collects equivalent amounts from the borrowers;
- no right to sell or pledge the original loans;
- the obligation to remit all cash flows in collects on behalf of the Bank Austria Creditanstalt AG without material delay.

The above mentioned transfer qualifies for derecognition in according to IAS 39 "Financial instrument: Recognition and measurement", therefore the Bank has derecognized the assets as of the date of transfer. The net result upon derecognition is BGN 943 thousand, representing gross income out of the deal in the amount of BGN 1,151 thousand and undertaken servicing liability in the amount of BGN 208 thousand.

9 GENERAL ADMINISTRATIVE EXPENSES

In thousands of BGN

	2006	2005
General and administrative expenses arise from:		
Personnel expenses	30,592	28,850
External services purchased	25,290	24,780
Depreciation charge	6,805	7,886
Impairment of long-term assets	–	125
Materials, office supplies and other consumables	1,857	1,983
Deposit guarantee fund annual contribution	5,207	3,917
Other	6,566	6,953
General administrative expenses	**76,317**	**74,494**

Personnel expenses include all salaries and other benefits paid to employees as well as all related social security payments.

Impairment of long-term assets represents the reduction in the fair value of long term assets based on performed valuation as of December 31, 2005 (for impairment of assets related to restructuring activities see also note 10)

According to the Law on Bank Deposit Guarantee, all Bulgarian Banks pay annual contribution in the amount of 0.5% from the year-average daily balances of deposits to customers. For the year ended December 31, 2006, the Bank has paid BGN 5,207 thousand.

10 RESTRUCTURING PLAN RELATED COSTS

In the first half of 2006 the previously planed restructuring activities related to merger of BA-CA subsidiaries HVB Bank Biochim AD and Hebrosbank AD have been reassessed in light of the successfully completed deal in the end of 2005 when Unicredit Italiano took control over Hypoveriens Bank AG and Bank Austria Creditanstalt AG. Upon completion of this deal Unicredit Group directly and indirectly controls three banks in Bulgaria, namely HVB Bank Biochim AD, Hebrosbank AD and Bulbank AD.

Upon performed profound analysis of Unicredit Group position on Bulgarian market, on May 29th a decision for triple legal merger of the three banks has been taken. This decision was subsequently endorsed by the shareholders of the three banks. The planed completion of the merger is second quarter of 2007.

Based on the above, a new detailed formal restructuring plan was established where all restructuring related direct costs have been quantified. The new restructuring plan overrode the implementation of the previously approved plan related to legal merger of HVB Bank Biochim and Hebrosbank, therefore the activities of the old plan have been finally reassessed and unutilized restructuring provisions released.

The restructuring plan related costs includes all direct costs that are not associated with the ongoing activities of the Bank as well as impairment of long-term assets which operation will be discontinued upon merger completion.

As of December 31, 2006 and December 31, 2005 the total restructuring plan related costs are as follows:

In thousands of BGN

	2006	2005
Restructuring provisions related to legal merger of HVB Bank Biochim and Hebrosbank	(11,104)	11,104
Impairment loss (reversal) of long-term assets	(131)	3,290
Restructuring provisions related to legal merger of HVB Bank Biochim, Hebrosbank and Bulbank	14,417	–
Total restructuring plan related costs	**3,182**	**14,394**

11 INCOME TAX EXPENSE

In thousands of BGN

	2006	2005 restated
Current taxes	(8,381)	(6,750)
Deferred tax income (expense) related to origination and reversal of temporary differences	485	3,747
Deferred tax expense resulting from reduction in the tax rate	(878)	–
Underprovided prior years income tax	(140)	(91)
Income tax expense	**(8,914)**	**(3,094)**

Deferred tax income or expense results from the change of carrying amounts of deferred tax assets and deferred tax liabilities (see also note 28).

Reconciliation between tax (income)/expense and the accounting profit is as follows:

In thousands of BGN

	2006	2005
restated		
Accounting profit before taxation	**51,827**	**20,152**
Corporate tax at applicable tax rate (15% for 2006 and 15% for 2005)	7,774	3,023
Tax effect of permanent tax differences	149	95
Tax effect of reversals of temporary differences	(27)	(115)
Tax effect of reduction of applicable tax rate (10% for 2007)	878	–
Underprovided prior years income tax	140	91
Income tax expense	**8,914**	**3,094**
Effective tax rate	17,20%	15.35%

12 CASH AND CASH EQUIVALENTS

In thousands of BGN

	2006	2005
Cash on hand		
In Bulgarian Leva	29,765	21,567
In foreign currencies	17,214	13,872
		46,979
35,439		
Current account with the Central Bank	**164,273**	**193,794**
Current accounts with banks		
In Bulgarian Leva	24	13
In foreign currencies	4,551	3,142
		4,575
3,155		
Placements with banks with original maturity less than 3 months		
In Bulgarian Leva	258,334	271,591
In foreign currencies	233,924	202,656
	492,258	**474,247**
Total cash and cash equivalents	**708,085**	**706,635**

Cash and cash equivalents reflects Banks' short term liquidity needs as well as statutory requirements for liquidity ratios and minimum required reserves maintained in the Bulgarian National Bank.

13 LOANS AND ADVANCES TO BANKS

In thousands of BGN

	2006	2005
Loans and advances to banks	83,078	72,383
Restricted accounts in foreign currency	250	266
	83,328	72,649
Less impairment allowances	–	(15))
	83,328	**72,634**

Average effective interest rate of loans and advances to banks varies between 4% – 4.35% and depends on the current liquidity needs on the market and currency currency denomination.

Restricted accounts in foreign currency represent amounts blocked as margin deposits for credit cards transactions.

14 RECEIVABLES UNDER REPURCHASE AGREEMENTS

Receivables under repurchase agreements represent reverse repo deals, where the Bank has acted as a lender of funds collateralized with certain low risk and high liquid bonds and securities.

As of December 31, 2006 and December 31, 2005 the Bank has extended under reverse repo deals funds in the amount of BGN 4,875 thousand and BGN 3,359 thousand, respectively

15 FINANCIAL ASSETS HELD FOR TRADING

In thousands of BGN

	2006	2005
Government securities – Republic of Bulgaria		
Middle-term securities in Bulgarian Leva	28,434	29,134
Long term securities in Bulgarian Leva	92	1,117
Long-term securities in foreign currencies	51,105	63,414
	79,631	93,665
Foreign securities		
Middle-term securities	4,150	3,165
Long term securities	–	373
Bonds of local financial institutions	17,146	19,753
Municipal bonds and other trading assets	1	741
Trading derivatives	11,466	3,288
Total financial assets held for trading	**112,394**	**120,985**

The maturity structure of the bonds presented in the note above should be read as follows:

- Short term securities – original maturity up to 1 year;
- Middle term securities – original maturity from 1 to 5 years;
- Long-term securities – original maturity above 5 years.

Under trading derivatives the Bank presents ongoing FX forward, swap and interest rate swap contracts that have positive fair value as estimated by the Bank.

As of December 31, 2006 trading securities in the amount of BGN 62,583 thousand are pledged for repurchase agreements deals and for securing state budget funds.

16 FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THORUGH PROFIT OR LOSS

In thousands of BGN

	2006	2005
Government securities – Republic of Bulgaria		
Middle-term securities in Bulgarian Leva	12,818	15,693
Long term securities in Bulgarian Leva	6,977	1,837
Long-term securities in foreign currencies	109,761	111,438
	129,556	**128,968**
Bonds of local financial institutions	116,292	127,774
Municipal bonds and other trading assets	3,055	3,061
Total financial assets held for trading	**248,903**	**259,803**

As of December 31, 2006 assets designated at fair value through profit or loss in the amount of BGN 86,114 thousand are pledged for repurchase agreements deals and for securing state budget funds.

17 AVAILABLE FOR SALE INVESTMENTS

In thousands of BGN

	2006	2005
Available for sale government securities	12,317	12,552
Available for sale equity investments in Bulgarian companies	1,173	1,168
Total investments	**13,490**	**13,720**

Investments comprise of available for sale assets which are held by the Bank for the purpose of maintaining middle and long term liquidity and State Budget coverage, rather than held for trading.

As of December 31, 2006 and December 31, 2005 government securities are measured at fair value which is the average closing quotation of market makers. Increase of fair value compared to the closing amortised cost of the assets is directly recorded into equity (see also the statement of changes in equity).

Equity investments represent shares in domestic companies as well as shares in local and international banking, settlement and stock exchange institutions, incident to the Bank's membership in them. These assets are classified as available-for-sale. The investments classified as equity investments and other non-fixed income instruments available for sale are stated at cost, as their fair value cannot be reliably determined.

As of December 31, 2006 and December 31, 2005 all available-for-sale investments are assessed for impairment. As a result no impairment loss has been recognized for the year.

18 INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries includes participations in entities where HVB Bank Biochim can exercise control through owning more than half of the voting power of such entities or through virtue of an agreement with other investors to exercise more than half of the voting rights. In the separate financial statements, all participations are carried at cost in accordance with IAS 27 "Consolidated Financial Statements and Accounting for Investments in Subsidiaries".

As of December 31, 2005 the balance of investments in subsidiary includes HVB Bank Biochim participation in the capital of local Hebrosbank in the amount of BGN 23,959 thousand, representing 10% of the voting rights, as well as participation of local Hypovereins Immobilien EOOD in the amount of BGN 655 thousand, representing 100% of the voting rights.

In March 2006, HVB Bank Biochim has transferred its participation in Hebrosbank to Bank Austria Creditanstalt AG. As of December 31, 2006 the balance comprises only of Bank's participation in Hypovereins Immobilien EOOD.

19 LOANS AND ADVANCES TO CUSTOMERS

In thousands of BGN

	2006	2005
Individuals		
In Bulgarian Leva	316,489	270,864
In Foreign currencies	203,399	130,668
Private companies		
In Bulgarian Leva	416,293	357,904
In Foreign currencies	793,738	852,395
State owned companies		
In Bulgarian Leva	–	–
In Foreign currencies	4	4
State and local Budget		
In Bulgarian Leva	15,352	9,838
	1,745,275	1,621,673
Less impairment allowances (see also note 7)	(67,677)	(62,686)
	1,677,598	**1,558,987**

The average interest rate is approximately 8.8% for loans denominated in Bulgarian Leva and 6.7% for loans denominated in foreign currency.

20 PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

In thousands of BGN

	Land and buildings	Machines and equipment	Fixtures and fittings	Motor Vehicles	Tangible assets under construction	Intangible assets	Total
Cost or revalued amount							
As of December 31, 2005	**41,496**	**23,090**	**6,458**	**898**	**1,239**	**9,074**	**82,255**
Additions	**337**	**2,070**	**300**	**–**	**3,237**	**4,721**	**10,665**
Transfers	**7**	**860**	**221**	**–**	**(1,088)**	**–**	**–**
Write offs	**(17)**	**(2,789)**	**(325)**	**–**	**–**	**(245)**	**(3,376)**
Disposals	(2)	(451)	(34)	(278)	(42)	–	(807)
As of December 31, 2006	**41,821**	**22,780**	**6,620**	**620**	**3,346**	**13,550**	**88,737**
Depreciation							
As of December 31, 2005	**1,121**	**13,502**	**1,945**	**550**	**–**	**5,922**	**23,040**
Depreciation charge for the period	811	3,976	1,010	161	–	847	6,805
Impairment loss/reversals related to restructuring plan	–	(454)	12	–	–	311	(131)
Write offs	(17)	(2,757)	(219)	–	–	(237)	(3,230)
On disposals	(2)	(436)	(13)	(268)	–	–	(719)
As of December 31, 2006	**1,913**	**13,831**	**2,735**	**443**	**–**	**6,843**	**25,765**
Net book value as of December 31, 2006	**39,908**	**8,949**	**3,885**	**177**	**3,346**	**6,707**	**62,972**
Net book value as of December 31, 2005	**40,375**	**9,588**	**4,513**	**348**	**1,239**	**3,152**	**59,215**

As of December 31, 2005 Bank has performed independent market valuation on the entire class of land and buildings. As a result of it an increase in the net book value in the amount of 11,915 thousand and decrease in value in the amount of 165 thousand has been recognized. The increase in value was recognized in the equity under revaluation reserve, net of any deferred taxes, unless it reverses a previously recognized impairment to which extent it has been recognized in the income statement. The decrease in value was recognized in the income statement, unless it reverses previously recognized increase in equity, to which extent it was recognized in equity.

As disclosed on note 10, Management has committed to a restructuring plan with regard to planed legal merger between HVB Bank Biochim, Hebrosbank and Bulbank. As an outcome of the plan certain items of hardware and software will be terminated. For all such items impairment assessment was performed and as a result net impairment reversal in the amount of BGN 131 thousand has been recognized, split by impairment loss in the amount of BGN 376 thousand and reversal of previously recognized impairment loss in the amount of BGN 507 thousand.

21 OTHER ASSETS

In thousands of BGN

	2006	2005
Receivables and prepayments	1,417	1,407
Receivable from the State Budget	309	100
Materials, spare parts and consumables	266	245
Other assets	268	1,089
Total other assets	**2,260**	**2,841**

22 DUE TO BANKS

In thousands of BGN

	2006	2005
Deposits and other amounts payable to local banks		
In Bulgarian Leva	276,789	301,897
In foreign currencies	302,789	334,605
	579,578	636,502
Deposits and other amounts payable to foreign banks		
In Bulgarian Leva	183,761	102,116
In foreign currencies	245	251,072
	184,006	353,188
Total due to Banks	**763,584**	**989,690**

Interest rates on the amounts due to banks and other financial institutions are between 2.05% – 8.4% and depend on the current market liquidity needs and foreign interbank reference quotations, currency denominations and tenor.

As of December 31, 2006 amounts of BGN 102 thousand reported as due to foreign banks and BGN 573 thousand reported as due to local banks, respectively, represent temporary outstanding balances related to card, cheques and budget payments.

23 LIABILITIES UNDER REPURCHASE AGREEMENTS

Bank funds its short term liquidity needs directly from the money market through concluding sell-buy repurchase agreements with banks.

In parallel to that the Bank considerably increased the clients' repo business, offering attractive rates and high-liquid collaterals.

As of December 31, 2006 the overall attracted funds under repo deals amount to BGN 96,121 thousand. These deals are collateralized with low risk trading and investments assets, measured at fair value of BGN 94,822 thousand as of December 31, 2006.

24 DUE TO CUSTOMERS

(a) Segmentation by clients and currency

In thousands of BGN

	2006	2005
Deposits to individuals		
In Bulgarian Leva	252,218	221,347
In foreign currencies	421,883	373,714
Deposits to corporate and business clients		
In Bulgarian Leva	458,262	358,260
In foreign currencies	275,749	200,109
Deposits to budget and State companies		
In Bulgarian Leva	92,438	98,794
In foreign currencies	11,491	12,515
Other		
In Bulgarian Leva	3,388	3,871
In foreign currencies	13,304	41,435
	1,528,733	**1,310,045**

(b) Segmentation by deposits types

In thousands of BGN

	2006	2005
Current accounts and sight deposits	831,956	633,597
Time deposits	352,928	383,409
Saving deposits	327,157	247,733
Other	16,692	45,306
	1,528,733	**1,310,045**

Under the Due to customers, Bank presents outstanding balances as of year end on clients' deposits comprising of current accounts, term deposits, saving deposits as well as other accounts payable to customers.

Other accounts payable to customers includes transfers in execution process as well as some temporary balances related to card business and other clients' business. As of December 31, 2006 and December 31, 2005 transfers in execution amount to BGN 16,224 thousand and BGN 44,687 respectively.

25 TRADING LIABILITIES

Trading liabilities consist of derivative financial instruments, mostly FX short-term forward and swaps contracts as well as interest rate swap contract which by the year end have negative fair value as estimated by the Bank. As of December 31, 2006 the FX forward and swap contracts have negative market value in the amount of BGN 102 thousand.

As of December 31, 2006 the Bank reports negative market value of interest rate swaps, equity swaps and FX options in the amount of BGN 7,693 thousand.

26 PROVISIONS

As of December 31, 2006 Bank has assessed its contingent liabilities as if there are any amounts that need to be recognized as provisions pursuant to the requirements of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"

In addition to that pursuant requirements of IAS 19 "Employee benefits" as of December 31, 20056 Bank has applied certain actuary methods for calculation of present value of its retirement benefit obligation set by statue.

The movement of provisions for the year ended December 31, 2006 is as follows:

	Provisions on letter of guarantees	Legal cases provision	Retirement benefit provisions	Restructuring provisions	Regulatory provision	Total
Balance at December 31, 2004	**328**	**797**	**568**	**–**	**–**	**1,693**
Additions	390	9,591	66	11,104	231	21,382
Utilization	–	(103)	(28)	–	–	(131)
Releases	(208)	(50)	–	–	–	(258)
Balance at December 31, 2005	**510**	**10,235**	**606**	**11,104**	**231**	**22,686**
Additions	–	865	–	14,417	5,604	20,886
Utilization	–	(6,810)	(85)	(1,508)	(171)	(8,574)
Releases	(380)	(1,225)	(7)	(11,104)		(12,716)
Balance at December 31, 2006	**130**	**3,065**	**514**	**12,909**	**5,664**	**22,282**

Provisions on letters of guarantees relates to guarantees issued where due to considerable deterioration in clients' creditworthiness, it is highly probable that Bank would have to settle the undertaken obligation.

Provisions on legal cases address litigation procedures against the Bank. A regular assessment on Bank's position is performed and whenever it is more likely than not that an outflow of resources would be needed to settle such obligations, provisions are set aside.

Provisions for restructuring represents those direct costs that are not associated with the ongoing activity of the Bank and that are related to implementation of the detailed restructuring plan with regard to planed legal merger between HVB Bank Biochim, Hebrosbank and Bulbank.

Regulatory provisions include cost with regard to constructive obligations of the Bank as described in detail in note 8

27 OTHER LIABILITIES

In thousands of BGN

	2006	2005
Liabilities to the state budget	1,612	2,790
Liabilities to personnel	5,548	3,353
Employee benefits payables	1,451	1,105
Other creditors	7,678	4,197
	16,289	**11,445**

Under employee benefits payables, HVB Bank Biochim presents the amounts of unused paid-leave for the current and prior years. This amount is paid upon actual paid-leave utilization by the employees or upon retirement and/or termination of labour contracts.

28 DEFERRED TAXATION

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 15% for 2006 and tax rate 10% for 2007 when the first possible reversal of the differences might occur.

Deferred income tax balances are attributable to the following items:

In thousands of BGN

	Assets		Liabilities		Net	
	2006	2005	2006	2005	2006	2005
Property, plant, equipment and intangible assets	(57)	(594)	2,586	4,359	2,529	3,765
Available for-sale assets	(22)	–	–	336	(22)	336
Provisions	(2,187)	(3,340)	–	–	(2,187)	(3,340)
Other liabilities	(278)	(186)	–	–	(278)	(186)
Net tax (assets)/liabilities	**(2,544)**	**(4,120)**	**2,586**	**4,695**	**42**	**575**

Movement in temporary differences during the year:

In thousands of BGN

	Balance 2005	Recognised during period Loss/(Profit)	Recognised in equity	Balance 2006
Property, plant, equipment and intangible assets	3,765	(325)	(911)	2,529
Provisions for contingent liabilities	(3,340)	1,153	–	(2,187)
Available-for-sale assets reserve	336	(343)	(15)	(22)
Other liabilities	(186)	(92)	–	(278)
	575	**393**	**(926)**	**42**

29 LONG-TERM LIABILITIES

In thousands of BGN

	2006	2005
Liabilities to foreign banks	159,298	110,375
Long-term loans from the state budget	2,784	365
	162,082	**110,740**

Long-term liabilities to banks represent credit lines granted by foreign banks specifically as local lending funding. They all are at floating interest rates linked to EURIBOR and deviating with margins from 0.036% to 1.30%.

The loans from the state budget represent liabilities to the State Agricultural Fund under an agreement for lending to agricultural sector companies. Funds are at 2% flat annual rate.

30 SUBORDINATED LONG TERM LOANS

As of December 31, 2006 there are three subordinated loan facilities agreements with Bank Austria Creditanstalt based on which long term funding at principal amount of EUR 38 million has been provided to HVB Bank biochim AD. The summary of these loans is as follows:

Start date	Term to maturity	Principal amount in thousands of EUR
November 26, 2004	10 years	10,000
February 3, 2005	10 years	13,000
August 2, 2005	10 years	15,000

All three loans meet the requirements set by Bulgarian capital adequacy regulations for Tier 2 inclusion for which Bank has received a written approval by the Bulgarian National Bank. No principal or interest repayments are envisaged prior to final maturity on these loans unless explicitly approved by the National Bank. The interest rate on the loans is a fix margin over EURIBOR.

31 CAPITAL AND RESERVES

(a) Number and face value of registered shares and earnings per share

	Number of shares	2006 Value in BGN	Number of shares	2005 Value in BGN
Number and value of shares in issues as of January 1st	36,842,360	36,842,360	36,842,360	36,842,360
Number and value of shares in issue as of December 31st	36,842,360	36,842,360	36,842,360	36,842,360
Average number of shares for the year	36,842,360	36,842,360	36,842,360	36,842,360
Net profit for the year (2005 restated)	–	42,913,117	–	17,058,149
EPS (in BGN)		1.16	–	0.46

(b) Statutory reserves

Statutory reserves are required by the Banking Act. Pursuant to article 24 of the Act all banks should allocate in statutory reserves fund at least one-fifth of their profit, after taxation and before dividends distribution, until the amount in the fund reaches 1.25 percent of the total assets plus off-balance-sheet commitments. These reserves are non-distributable. As of December 31, 2006 Bank presents as statutory reserve the amount of BGN 44,528 thousand, which is the minimum required amount as of that date.

(c) Revaluation reserve

The revaluation reserve comprises with the revaluation surplus of the property, plant and equipment and available for sale investments net of related deferred tax. As of December 31, 2006 revaluation reserve on fixed assets and available-for-sale investments is in the amount of BGN 17,197 thousand.

(d) Retained earnings

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

32 CONTINGENT LIABILITIES AND OTHER COMMITMENTS

In thousands of BGN

	2006	2005
Bank guarantees and letters of credit		
in Bulgarian Leva	79,211	47,472
in foreign currencies	100,832	68,117
Credit commitments		
in Bulgarian Leva	258,642	224,516
in foreign currencies	209,000	210,241
	647,685	550,346

(a) Memorandum items

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties.

The contractual amounts of financial guarantees and letters of credit are set out in the above table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognized at the balance sheet date if counterparties failed completely to perform as contracted.

These commitments and contingent liabilities have off balance-sheet credit risk and only fees and accruals for probable losses are recognized in the balance sheet until the commitments are fulfilled or expire. Most of the contingent liabilities and commitments will expire without being advanced in whole or in part.

As of December 31, 2006 and December 31, 2005 the Bank has made assessment in compliance with IAS 37 Provisions, Contingent liabilities and Contingent assets. Due to abnormal credit risk related to certain clients' exposures, Bank's Management has evaluated the risk, where it is more probable that any issued Bank guarantee could lead to an outflow of resources from the Bank. Based on this assessment provisions related to issued Bank guarantees in the amount of BGN 130 thousand and BGN 510 thousand have been accrued as of the end of 2006 and 2005, respectively.

(b) Litigation

As of December 31, 2006 litigation proceedings against the Bank are in total amount of approximately BGN 4.5 million. There is significant uncertainty as to the timing and outcome of such proceedings. Since the ultimate outcome of the claims against the Bank cannot presently be determined with sufficient reliability, provisions have been accrued only on cases where sufficient degree of certainty exists. Total of litigation claims provided for in the financial statements as of December 31, 2006 is in the amount of BGN 3,065 thousand.

(c) Credit commitments

During the course of normal lending activity the Bank has negotiated with clients different types of credit facilities including credit lines, overdraft facilities and revolving loans. Contractually the Bank has committed itself for a certain amount which is at clients' disposal.

As of December 31, 2006 and December 31, 2005 the Bank presents committed but unutilized credit facilities as part of its off-balance sheet positions.

33 CAPITAL COMMITMENTS

As described in note 10, shareholders of HVB Bank Biochim, Hebrosbank and Bulbank approved a merging agreement, based on which it is plan HVB Bank Biochim and Hebrosbank to merge into Bulbank in 2007. Based on this decision in 2006 the three banks involved signed an agreement for jointly constructing the IT system of the merged Bank on the principal of equal involvement of all the parties. As of the date of signing these financial statements, the final quantification of the future capital expenditures is under development and prediscussions with certain vendors and suppliers.

34 ASSETS PLEDGED AS COLLATERAL

HVB Bank Biochim AD has a permission from Bulgarian Ministry of Finance to service budget holders' accounts. According to the local requirements the Bank has to pledge government securities on a daily basis in an amount at least equal to the budget holders' resources attracted.

In the course of normal trading activity, the Bank manages its short-term liquidity needs or surpluses through repurchase agreements with banks and key clients. As of December 31, 2006 the Bank has opened sell-buy repurchase agreements, where certain owned trading and investment assets have been pledged for.

As of December 31, 2006 HVB Bank Biochim AD has the following assets pledged as collaterals for its liabilities:

In thousands of BGN

	2006	2005
Securities pledged for budget holders' accounts service		
in Bulgarian Leva	13,096	–
in foreign currencies	52,578	55,234
	65,674	**55,234**
Securities pledged on REPO deals		
in Bulgarian Leva	35,400	43,230
in foreign currencies	59,422	61,784
	94,822	**105,014**
Blocked deposit for credit cards issuance	250	266
	160,746	**160,514**
Pledged securities include		
Trading assets	62,583	77,772
Assets designated at fair value through profit or loss	86,114	79,252
Available-for-sale assets	11,799	3,224
	160,496	**160,248**

35 RELATED PARTY TRANSACTIONS

HVB Bank Biochim AD has a controlling related party relationship with its parent company. Additionally the Bank has relativeness with employees of the Bank and members of the Managing bodies.

HVB Bank Biochim AD has a related party relationship with its other parent company subsidiaries and with its directors and executive officers.

The related parties' transactions in terms of balance sheet items as of December 31, 2006 and income statement items for the year ended thereafter are as follows:

In thousands of BGN

	Assets	Liabilities
Current accounts and deposits placed	324,580	
Extended loans	23,519	
Long term assets	865	
Other assets	60	
Liabilities under repurchase agreements		58,691
Current accounts and deposits taken		576,863
Other liabilities		850
Subordinated loans		78,983
	349,024	715,387

In thousands of BGN

	Income (Expense)
Interest and similar expenses	(19,183)
Interest and similar income	4,942
Net fee income	161
Administrative expenses	(4,512)
	(18,592)

As of December 31, 2006 the loans extended to key management personnel amount to BGN 128 thousand. For the twelve months ended December 31, 2006 the payroll costs of key management personnel included in position administrative expenses amount to BGN 875 thousand.

36 GROUP ENTERPRISE

HVB Bank Biochim AD's immediate parent company is Bank Austria Creditanstalt. As of December 31, 2006 the ultimate parent company is Unicredito Italiano SPA.

37 EFFECT OF IFRS APPLICATION

For comparative information, in parallel to these financial statements prepared in accordance with official accounting framework in Bulgaria as described in note 1 b, HVB Bank Biochim also keeps track of adjustment differences between statutory accounting framework and IFRS.

For the years ended December 31, 2006 and December 31, 2005 the differences relate only to recognition of impairment loss with regards to loans and advances to customers.

As of December 31, 2006 there are no differences in the net assets between statutory accounting framework and IFRS. With accession of Bulgaria in European Union, since January 1st, 2007 the official accounting framework in Bulgaria becomes IFRS as approved by the European Commission.

Reconciliation table of differences between IFRS and statutory accounting framework:

	Profit after taxation	Shareholders' equity
2005 Local report (restated)	17,058	194,988
2005 IFRS report	18,917	196,847
Difference	**1,859**	**1,859**
Difference explanation	Impairment allowances on loans and advances to customers	
2006 Local report	42,913	238,649
2006 IFRS report	41,054	238,649
Difference	**(1,859)**	–
Difference explanation	Impairment allowances on loans and advances to customers	

38 APPLICABLE ACCOUNTING STANDARDS FOR 2006

IFRS 1	First-time Adoption of International Financial Reporting Standards
IFRS 2	Share-based Payment
IFRS 3	Business Combinations
IFRS 4	Insurance Contracts
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations
IFRS 6	Exploration for and Evaluation of Mineral Resources
IAS 1	Presentation of Financial Statements
IAS 2	Inventories
IAS 7	Cash Flow Statements
IAS 8	Accounting Policies, Changes inAccounting Estimates and Errors
IAS 10	Events after the Balance Sheet Date
IAS 11	Construction Contracts
IAS 12	Income Taxes
IAS 14	Segment Reporting
IAS 16	Property,Plant and Equipment
IAS 17	Leases
IAS 18	Revenue
IAS 19	Employee Benefits
IAS 20	Accounting for Government Grants and Disclosure of Government Assistance
IAS 21	The Effects of Changes in Foreign Exchange Rates
IAS 23	Borrowing Costs
IAS 24	Related Party Disclosures
IAS 26	Accounting and Reporting by Retirement Benefit Plans
IAS 27	Consolidated and Separate Financial Statements
IAS 28	Investments in Associates
IAS 29	Financial Reporting in Hyperinflationary Economies
IAS 30	Disclosures in the Financial Statements of Banks and Similar Financial Institutions
IAS 31	Interests in Joint Ventures
IAS 32	Financial Instruments: Disclosure and Presentation
IAS 33	Earnings per Share
IAS 34	Interim Financial Reporting
IAS 36	Impairment of Assets
IAS 37	Provisions, Contingent Liabilities and Contingent Assets
IAS 38	Intangible Assets
IAS 39	Financial Instruments: Recognition and Measurement
IAS 40	Investment Property
IAS 41	Agriculture
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities
IFRIC 2	Members' Shares in Co-operative Entities and Similar Instruments
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation
SIC–7	Introduction of the Euro
SIC–10	Government Assistance – No Specific Relation to Operating Activities
SIC–12	Consolidation – Special Purpose Entities
SIC–13	Jointly Controlled Entities – Non-Monetary Contributions by Ventures
SIC–15	Operating Leases — Incentives
SIC–21	Income Taxes – Recovery of Revalued Non-Depreciable Assets
SIC–25	Income Taxes – Changes in the Tax Currently effective version of an Entity or its Shareholders
SIC–27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease
SIC–29	Disclosure – Service Concession Arrangements
SIC–31	Revenue – Barter Transactions Involving Advertising Services
SIC–32	Intangible Assets –Web Site Costs

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)

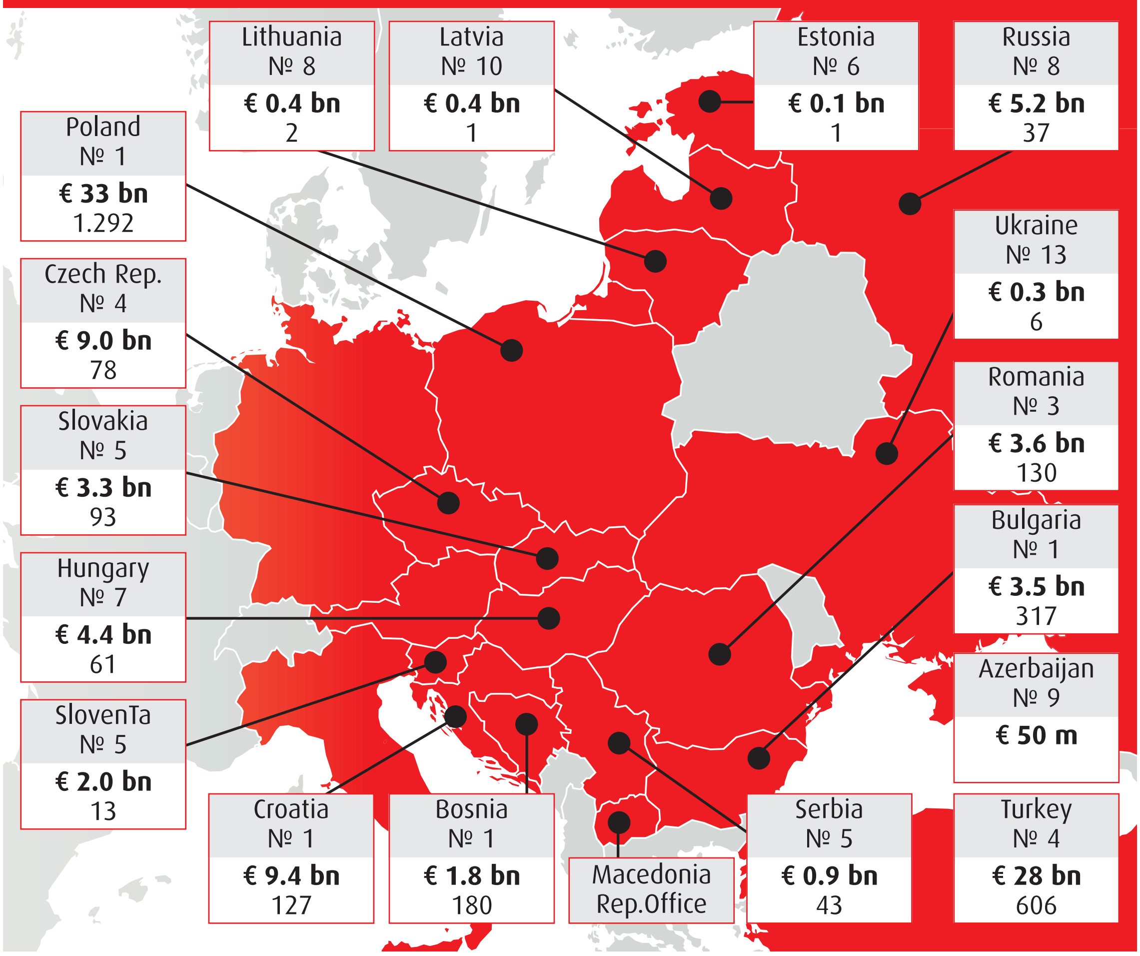
14th bank world-wide in terms of Market Capitalization[4]

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

Branch Network

Southeast Region

Bourgas	Bourgas, 4-6 "P. Iavorov" str.	Tel: 056/ 87 41 37; 87 41 32; 87 41 34, fax 056/840943
Vodna palata	Bourgas, 3 "Ferdinandova" str.	Tel: 056/ 87 41 85, 87 41 80, fax 056/840188
NHK	Bourgas, "Lukoil Neftohim"	Tel: 056/ 89 80 36, fax 056/898038
Hemus	Bourgas, complex "Slavejkov", factory "Hemus-Mark" AD	Tel: 056/ 88 00 32
Nesebar	Nesebar, 19 "Mesembria" str.	Tel: 0554/ 219 20, 21, 22, 23, 24, 25, fax 0554/21912
Sozopol	Sozopol, 17 "Apolonia" str.	Tel: 0550/ 26 310, fax 0550/22423
Sliven	Sliven, 11 "H. Dimitar" blvd.	Tel: 044/ 61 31 27, 61 31 20, 61 31 39; fax 044/613112
TDD Sliven	"Gen. Stolipin" 19	Tel: 044/61 31 34
Iambol	Iambol, 56 "Targovska" str.	Tel: 046/ 68 51 21; 68 51 22; 68 51 24, fax 046/685112

Northeast Region

Varna	Varna, 4 "Han Omurtag" str.	Tel: 052/ 66 31 27; 66 31 26; 66 31 36, fax 052/663112
Podaraci	43 "Kniaz Boris I" str.	Tel: 052/ 66 40 20; 66 40 22; 66 40 31, fax 052/664012
Albena	KK "Albena"	Tel: 0579/ 62 607, fax 0579/62654
Valtchi dol	Valtchi dol, 13 "3-ti mart" str.	Tel: 05131/ 24 07, fax 05131/2406
Devnia	Devnia, administrative building of "Solvay Sodi" AD	Tel: 0519/ 971 10; 971 21, fax 0519/92623
Centre	36-38 Vladislav Varnentchik blvd.	Tel: 052/68 79 32; 33; 34; 39; 48; 49, fax 052/687911
RDVR	Varna, 2 "Patleina" str.	Tel: 052/ 63 33 35
Business Park	Business park Varna, building 1	Tel: 730 125; 730 126, fax 730128
Dobritch	Dobritch, 3 "Bulgaria" str.	Tel: 058/ 65 57 28, 65 57 30, 65 57 31, fax 058/600482
SIlistra	Silistra, 4 “Rakovski” str.	Tel: 086/ 82 08 49, 82 08 47, fax 086/820847
Baltchik	Baltchik, 3 "Ivan Vazov" str.	Tel: 0579/ 74 061, 71110, 71121, 71122, 71120, fax 0579/71112

General Toshevo	General Toshevo, 5 "Treti mart" str.	Tel: 05731/ 21 37, fax 05731/2137
Kavarna	Kavarna, 35 "Dobrotitsa" str.	Tel: 0570/ 86 151, 81120, 81110, fax 0570/86151
Tervel	Tervel, 10 "St. St. Kiril & Metodii" str.	Tel: 05751/ 41 47 /Вътр.10, 21, 20/, fax 05751/4147
Shabla	Shabla, 4 "Petko Balgaranov" str.	Tel: 05743/ 30 11 /Вътр.20, 22, 10/, 05743/3011
Shumen	Shumen, 8 "Slavianski" blvd.	Tel: 054/ 85 81 33, 85 81 11, fax 054/858112
Razgrad	Razgrad, 9 "Maritsa" str.	Tel: 084/ 61 21 10, fax 084/660663

North Region

Veliko Tarnovo	Veliko Tarnovo, 4 "Rafail Mihailov" str.	Tel: 062/ 61 48 20; 61 48 21; 61 48 11, fax 062/614812
G. Oriahovitca	Gorna Oriahovitca, 2 "Patriarh Evtimii" str.	Tel: 0618/ 618 22; 618 25; 618 23, fax 0618/61812
Pavlikeni	Pavlikeni, 1 "Vassil Levski" str.	Tel: 0610/ 526 83; 526 82; 526 84, fax 0610/52684
Gabrovo	Gabrovo, 6 "Parvi mai 1876" square	Tel: 066/ 81 90 30; 81 90 22, fax 066/819011
Mitnitca	Gabrovo, 14 "Stancionna" str.	Tel: 066/ 80 74 32
Sevlievo	Sevlievo, 32 "Stara Planina" str.	Tel: 0675/ 397 21; 397 23, fax 0675/39712
Ruse	Ruse, 1 " Kiril Startsev " str.	Tel: 082/ 888 127; 888 128; 888 129, fax 082/888112
Svishtov	Svishtov, 16 "Tsar Osvoboditel" str.	Tel: 0631/ 611 27; 611 26, fax 0631/61113
Belene	Belene, 1 "Ferdinand Detchev" str.	Tel: 0658/ 24 852, fax 0658/24851
Mitnitca	Svishtov, 10 "Dunav" str.	Tel: 0631/ 60 062, fax 0631/60062
SA D. A. Tsenov	Svishtov, 2 "Em. Tchakarov" str.	Tel: 0631/ 60 056
Troian	Troian 5600, 1 “Gen. Kartsev” str.	Tel: 0670/ 68 873, 68 874, fax 0670/68862
Lovetch	Lovetch, 29 "Targovska" str.	Tel: 068/ 68 92 21; 68 92 24; 68 92 25, fax 068/689222
Regional Court Lovetch	Lovetch, 41 "Targovska" str.	Tel: 068/ 60 14 10
Lesoplast	Troian, quarter "Industrialen"	Tel: 0670/ 688 64
Regional Court, Police	Troian, sq. "Centralen"	Tel: 0670/ 34 081/ B.22

Northwest Region

Vidin	Vidin, 68 A "Tsar Simeon Veliki" str.	Tel: 094/ 605 812; 605 802; 605 821; 605 823, fax 094/600059
Centre	Vidin, 1 "Tsar Simeon Veliki " str.	Tel: 094/ 605 807; 605 822, fax 094/600056
Vratsa	Vratsa, 6 "St. Kalatchev" str.	Tel: 092/ 66 82 34; 66 82 32; 66 82 30, fax 092/668262

Montana	Montana, 72 "Treti mart" blvd.	Tel: 096/ 39 19 50; 39 19 52, fax 096/391955
Kozlodui Regional Court	Kozlodui, 14 "St. St. Kiril & Metodii" str.	Tel: 0973/ 80 004
Kozlodui - AEC V block	Kozlodui, NEC AD branch "AEC-Kozlodui"	Tel: 0973/ 80 235; 80 653; 73 677, fax 0973/80235
Lom Centre	18 “Dunavska” str.	Tel: 0971-66836
Pleven	Pleven, 1 "Kosta Hadjipakev" str.	Tel: 064/ 880 226; 880 222: 880 201, fax 064/880214
Mitnica	Pleven, 60 "Tchataldja" str.	Tel: 064/ 80 03 25, 064/800325
Kneja	Kneja, 72 "Marin Boev" str.	Tel: 09132/ 28 25; 28 75, fax 09132/2875
Dragoman	Dragoman, 26 "Z. Stoianov" str.	Tel: 07172/ 21 08, fax 071722108
Slivnitsa	Slivnitsa, 1 "Saedinenie" square	Tel: 0727/ 22 72, fax 0727/2221
Kalotina	Kalotina, GKPP "Kalotina"	Tel: 07174/252, fax 07174/222
Mitnitsa	Dragoman, 3 "N. I. Vaptsarov" str.	Tel: 07172/ 22 41; 21 08
Godetch	Godetch, 2 "Svoboda" square	Tel: 0729/ 23 22, 23 06, fax 0729/2322
Kostinbrod	Kostinbrod, 13 "Ohrid" str.	Tel: 0721/681-30, 681-25, 681-27, fax 0721/68119
Svoge	Svoge, 21 "Tsar Simeon" str.	Tel: 0726/ 23 49, fax 0726/2102
Etropole	Etropole, 22 "M. Gavrilova" str.	Tel: 0720/ 72-22, fax 0720/3732
Elin Pelin	Elin Pelin, 5 "Nezavisimost" square	Tel: 0725/ 688 14, fax 0725/68821
Gorna Malina	Gorna Malina, Municipality of Gorna Malina	Tel: 07152/ 222

Sofia – West Region

Batenberg	Sofia, 12 "Batenberg" str.	Tel: 02/ 93 57 841; 93 57 835; 93 57 820, fax 02/9357810
Pirin	Sofia, 143 "Al. Stamboliiski" blvd.	Tel: 02/ 920 12 78; 920 00 79; 920 00 83; 920 28 68, fax 02/9208023
Liulin	Sofia, complex "Liulin-5" block 549, entrance B	Tel: 02/ 827 31 81, fax 02/8275480
Sirbank	Sofia, 18 "Dondukov" str.	Tel: 02/ 921 89 64; 921 89 66; 921 89 53, fax 02/9218959
Sofia France Auto (Liulin)	Sofia, complex "Liulin 10", "Dobrinova skala" blvd.	Tel: 02/ 925 09 81
Evropa - 2	Sofia, 14 "Todor Alexandrov" blvd.	Tel: 02/ 937 70 71; 937 70 77, fax 02/9377078
Beli brezi	Sofia, "Nishava" str., block 12	Tel: 02/ 818 87 60; 818 87 58, fax 02/8188759
Vitosha	Sofia, 6 "Vitosha" blvd.	Tel: 02/ 810 29 26; 810 29 32, fax 02/8102918
Bojurishte	Bojurishte, 85 "Evropa" blvd.	Tel: 07112/ 30 15, fax 07112/2001

Iliantsi	Sofia, Stokov bazaar Iliantsi	Tel: 02/ 917 74 59; 917 74 36, fax 02/91177436
Moto Pfohe	Sofia, 444A "Slivnitsa" blvd.	Tel: 02/ 827 91 72; fax 02/8276388
Kremikovtsi	Sofia, quarter "Botunets", hotel complex "Trivia"	Tel: 02/ 994 54 42, fax 02/9945442
Iujen park	Sofia, block 1, "P. I. Todorov" str.	Tel: 02/ 818 67 20; 818 67 50; 818 67 55, fax 02/8186712
Sofia – South Region		
Slatina	Sofia, 63 "Shiptchenski prohod" str.	Tel: 02/ 817 29 17; 817 29 20; 817 29 24, fax 02/8172935
Sedmi kilometar	Sofia, 7-mi km, "Tsarigradsko shaussee", blvd.	Tel: 02/ 817 80 29; 817 80 30; 817 80 11, fax 02/8178019
RDVR	Sofia, 71 "Geo Milev" str.	Tel: 02/ 982 52 96
Hemus	Sofia, 1 "Madrid" blvd.	Tel: 02/ 948 09 71; 948 09 75; 948 09 87; 948 09 84, fax 02/9480968
Tcarevets	Sofia, 2 "Ivan Assen II" str.	Tel: 02/ 942 30 24; 942 30 28, fax 02/9423035
Centralen	Sofia, 1 "Ivan Vazov" str.	Tel: 02/ 9269 210, fax 02/9269642
Business	Sofia, 9 "Jolliot Curie" str.	Tel: 02/ 817 37 29; 817 37 26; 817 37 18, fax 02/8173719
Test-service	Sofia, 31 A "Dragan Tsankov" blvd.	Tel: 02/ 960 81 29,
Business park Sofia	Sofia, "Alexander Malinov" blvd., building 2	Tel: 02/976 94 48, fax 02/9769447
Lozenetc	Sofia, 57 A "Tcherni vrah" blvd.	Tel: 02/ 81 640 76; 81 640 77, fax 02/8164079
Enpro	Sofia, 51 "J. Bauchier" blvd.	Tel: 02/ 868 10 34
Studentski grad	Sofia, 90 "Akad. St. Mladenov" blvd.	Tel: 02/ 961 98 60; 850 52 83
Evropa	Sofia, 58 "Alabin" str.	Tel: 02/ 939 78 14; 939 78 16; 939 78 17, fax 02/9865400
Sofia France Auto (Tsarigradsko chaussee)	Sofia, Tsarigradsko chaussee Blvd.	Tel: 02/ 960 11 99

Southwest Region

Blagoevgrad	Blagoevgrad, 18 "St. St. Kiril and Metodii" blvd.	Tel: 073/ 82 87 18; 82 87 22; 82 87 19, fax 073/828735
Bulgartabac	Blagoevgrad, 57 "V. Levski" str.	Tel: 073/ 885 065, fax 073/885064
Razlog	Razlog, 6 "Preobrajenie" square	Tel: 0747/ 80 036
Gotce Deltchev	Gotce Deltchev, 25 "Targovska" str.	Tel: 0751/ 602 29
Bansko	Bansko, 54 "Tsar Simeon" str.	Tel: 0749/ 8 83 87
Dupnitsa	Dupnitca, 1 "Christo Botev" str.	Tel: 0701/ 599 14; 599 26; 599 13, fax 0701/50874
Sapareva bania	Sapareva bania, municipality	Tel: 0707/ 40 54
Kiustendil	Kiustendil, 39 "Democratsia" str.	Tel: 078/ 5596 11; 5596 15, fax 078/559619

Petritch	Petritch, 48 "Rokfeler" str.	Tel: 0745/ 695 28; 695 21; 695 30, fax 0745/69527
Sandanski	Sandanski, 14 "Svoboda" blvd.	Tel: 0746/ 30 174, 30 180, fax 0746/30175
Pernik	Pernik, 46 "Targovska" str. fax 076/688720	Tel: 076/ 68 87 16; 68 87 27,
Samokov	Samokov, 3 "Prof. V. Zahariev" str.	Tel: 0722/ 688 14; 688 18; 688 13, fax 0722/66311
Borovets	KK "Borovets"	Tel: 07128/ 22 04, fax 07128/2408
Ihtiman	Ihtiman, 9 "Polk. B. Draganov" str.	Tel: 0724/ 20 91, fax 0724/2013
Kostenets	Kostenets, 2 "Belmeken" str.	Tel: 07142/ 23 00, fax 07142/2329

South Central Region

Kazanlak	Kazanlak, 4 "Rozova dolina" str.	Tel: 0431/ 681 20; 681 30; 681 29, fax 0431/68112
Arsenal	Kazanlak, 100 "Rozova dolina" str.	Tel: 0431/ 23 746
Regional court	Kazanlak, 16 "Paisii Hilendarski" str.	Tel: 0431/ 63 486
Karlovo	Karlovo, 2 "Vodopad" str.	Tel: 0335/ 905 25, 905 26, 905 46, 905 45 905 39, 905 18, fax 0335/90511
Regional court	Karlovo, 4 "Dimitar Sabev" str.	Tel: 0335/ 93 171
Pazardjik	Pazardjik, 4 "Ekzarh Iosif" str.	Tel: 034/ 40 51 22; 40 51 23; 40 51 24; 40 51 30, fax 034/405112
Regional court	Pazardjik, 3 "Han Krum" str.	Tel: 034/ 44 48 86
Plovdiv	Plovdiv, 1 "Bankova" str.	Tel: 032/ 65 60 35; 65 60 56; 65 60 21, fax 032/656013
Smolian	Smolian, 4 "Bulgaria" blvd.	Tel: 0301/673 20; 673 21; fax 0301/67312
DAI-Stotchna gara	Plovdiv, 82 "Christo Botev" blvd.	Tel: 032/ 63 26 00
Svilengrad	Svilengrad, 60 "Bulgaria" blvd.	Tel: 0379/ 707 28; 707 29; 707 27, fax 0379/70711
Stara Zagora	Stara Zagora, 62 "Tsar Simeon Veliki" blvd.	Tel: 042/ 69 21 16, 69 21 21, 69 21 18, 69 21 34, fax 042/692131
Rudnik "Troianovo sever"	Rudnik "Troianovo sever", village Kovatchevo	Tel: 0417/ 82 402
Nova Zagora	Nova Zagora, 60 "Preslavska" str.	Tel: 0457/ 22 203, fax 0457/22203
Nova Zagora	Nova Zagora, 34 ”Vassil Levski” str.	Tel: 0457/23 818, fax 0457/23817
Harmanli	Harmanli, 1 "Vazrajdane" square	Tel: 0373/ 26 88; 22 72, fax 0373/2272
Haskovo	Haskovo, 12-14 "Stefan Karadja" str.	Tel: 038/ 60 27 24; 60 27 25; 60 27 18, fax 038/664946
Dimitrovgrad	Dimitrovgrad, 2 "Treti mart" blvd.	Tel: 0391/ 650 11; 650 13; 650 14, fax 0391/67114
Kardjali	Kardjali, 51 "Bulgaria" blvd.	Tel: 0361/ 670 15; 670 14; 670 13; 670 11, fax 0361/65936