HEBROS BANK

Annual Report 2006

Contents

Financial Highlights

	2006	2005	Growth
Key figures			
Net profit	14,468	(7,883)	283.5%
Shareholders' equity (eop)	107,847	93,641	15.2%
Total assets (eop)	922,210	952,201	-3.1%
Bank customer deposits (eop)	587,345	537,752	9.2%
Bank customer deposits (av)	562,549	485,553	15.9%
Bank customer loans (eop)	442,397	434,963	1.7%
Bank customer loans (av)	438,680	395,913	10.8%
Earnings per share (in BGN)	1.06	(0.58)	283.5%
Income			
Net interest income	38,636	35,339	9.3%
Net fee and commission income	14,935	14,199	5.2%
Net income from financial assets at fair value through profit or loss	1,587	1,580	0.4%
Income from non-trading investments	17,240	3,587	380.6%
Gross operating income*	73,166	55,152	32.7%
Net operating income**	32,185	14,254	125.8%
Expenses			
Administrative expenses	40,981	40,898	0.2%
Staff costs	14,214	13,955	1.9%
Non staff costs	20,826	20,424	2.0%
Depreciation	5,941	6,519	-8.9%
Impairment losses and credit risk charges	10,960	11,255	-2.6%
Income tax expense	3,139	(1,362)	-330.5%
Ratios (%)			
Return on average assets (ROA)	1.5%	-1.0%	2.6pp
Return on average equity (ROE)	14.4%	-8.3%	22.6pp
Capital/Asset ratio (eop)	11.7%	9.8%	1.9pp
Capital adequacy ratio	18.8%	18.1%	0.7pp
Tier I ratio	13.9%	13.4%	0.5pp
Risk weighted assets/Total assets	58.2%	57.1%	1.1pp
Non-performing loans/Gross loans	5.6%	4.8%	0.8pp
Loan deposit ratio	75.3%	80.9%	-5.6pp
Cost income ratio	56.0%	74.2%	-18.1pp
Bank operating outlets	87	92	(5)
Employees	862.5	908	(45.5)
Sales force	236.5	235	1.5
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 HVB Bank Biochim and Bulbank, 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, as 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. The Group Integrity Charter was implemented as an exemplary set of values and rules of conduct and market behaviour.

Despite the extensive efforts towards integration, Hebros Bank exhibited healthy growth rates in all components of its income and volumes, confirming its strong focus on value creation and prudent risk policy. The Bank posted BGN 14.5 million net profit in 2006, recovering from the reported loss in the previous year. Gross operating income went up by 33% to BGN 73.2 million. Net Loans increased by 2% and deposits by 9%. The acquisition of the Bank in 2005 was followed by notably improved operating efficiency: Return on average equity went up to 14% and Return on average assets to 1.5%. Cost/Income ratio further improved to 56%, dropping by 22 percentage points.

The Bank was in position to successfully manage core business development projects, notwithstanding the strong focus on the integration activities. Mortgage and consumer lending business grew significantly, adding innovative features to the value proposition. The deposit base was strengthened.

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 each of these ambitious plans happen are available due to the careful planning, management creation of the process, strong Group support and high level of commitment. In conclusion, we would like to thank our customers, partners and shareholders for their trust and patience in an extremely transforming year. We would like also to express our gratitude to our managers and employees, who form the backbone of our business and its success. We want to thank all members of the Supervisory and Management Boards, who managed the institution so successfully and prudently through this period of intensive change.

Ludwig Wagner
Deputy-Chairman of the Supervisory Board

Peter Harold
Chairman of the Management Board and CEO

Sofia, 16th February 2007

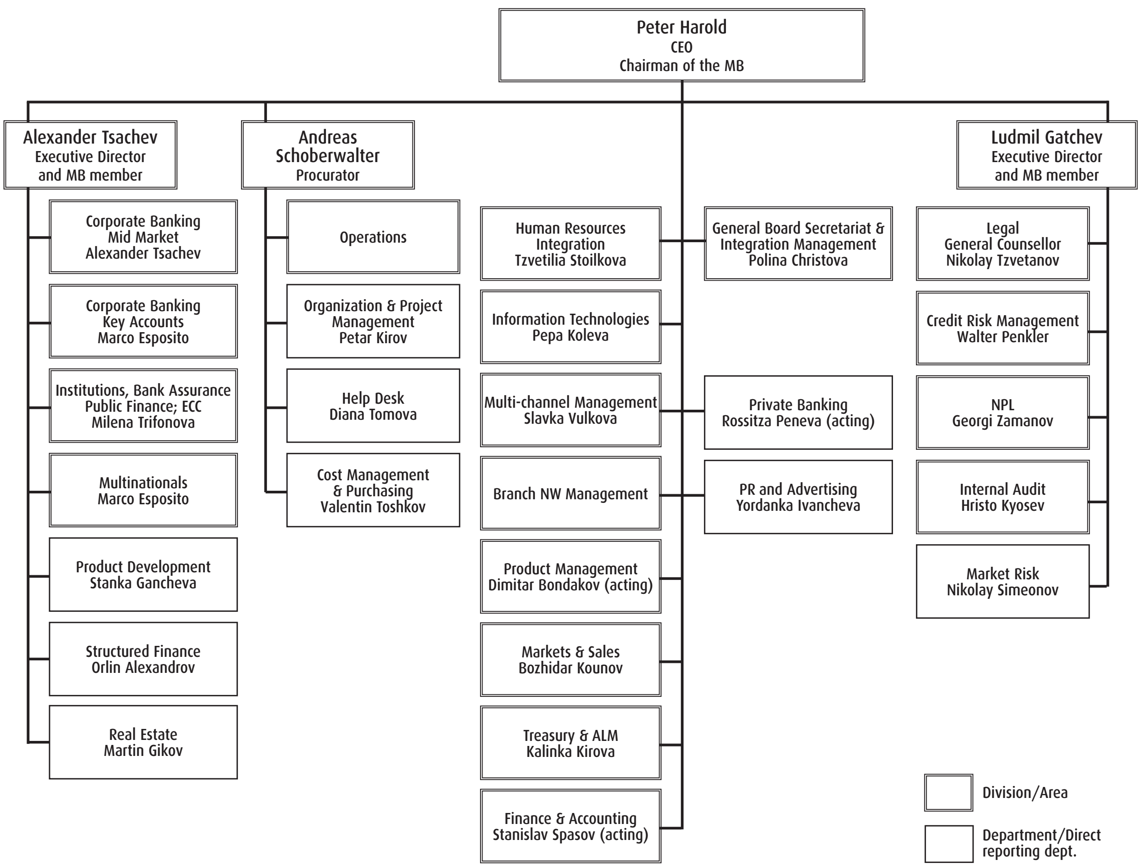
SUPERVISORY BOARD AND MANAGEMENT BOARD

Supervisory Board		
Helmut Bernkopf	Chairman	
Ludwig Wagner	Deputy Chairman	
Josef Durreger	Member	

Management Board*		
Peter Harold	Chairman and Chief Executive Officer	
Liudmil Gatchev	Member and Executive Director	
Alexander Tsachev	Member and Executive Director	(till 5.02.2007)

* By decision of the Supervisory Board of Bank Hebros AD, Emilia Palibachiyska and Andrea Casini were appointed as members of the Management Board and Executive Directors as of 5th February 2007

ORGANISATION CHART

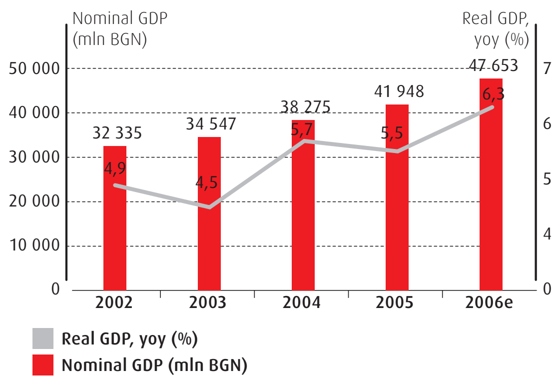


Bulgarian Economy

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

GDP



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

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 (%)	6.50	6.50	4.00	5.60	3.80	4.82	0.0
Average inflation (%)	7.30	5.00	6.20	2.40	5.80	7.36	2.3
Nominal GDP (EUR millions)[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%
Curent 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%
Cross foreign debt at the end of the period (EUR millions)*	18,727	15,111	12,572	10,641	10,769	11,935	30.0%
Cross foreign debt/ GDP (%)[F]	75.0	71.4	64.2	60.2	65.1	78.6	5.0%
Cross 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 (%)	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	−2

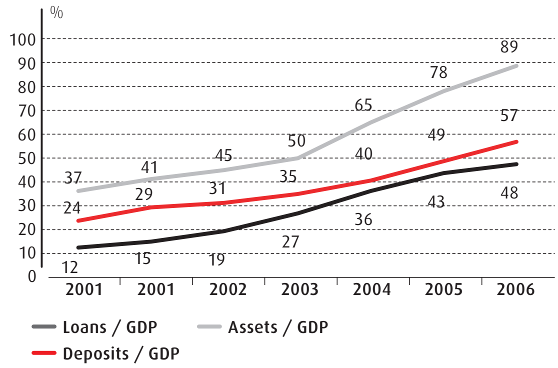
Source: BNB, NSI, Ministry of Finance and projections

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

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 financial intermediation were observed as economic expansion gained momentum and demand for banking services increased. Banking sector profitability strengthened as ROE increased to 20.6% (up from 18.9% a year ago), 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 loosening in statutory provisioning requirements.



Credit growth gradually lost impetus, rising by 24% annually, down from over 30% reported for the three consecutive years prior to 2006. Against this backdrop, the Bulgarian National Bank (BNB) started to dismantle administrative controls over the pace of credit expansion in the second half of the year. However, the rate on minimum reserve requirements, the only classical central banking instrument for control of money supply under the Currency Board in Bulgaria, remained unchanged at 8%. Similarly, the BNB 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 inflow 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

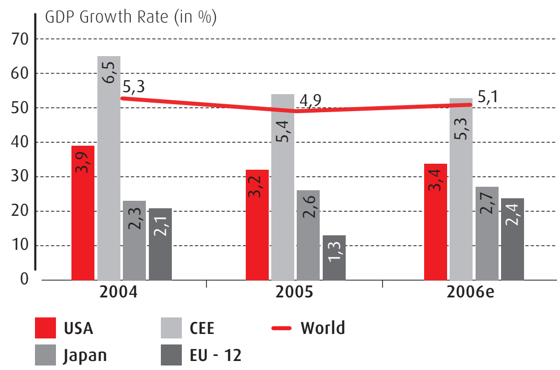
Outlook for 2007

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 forecast to recede only marginally relative to the previous year. Positive perceptions of international investors will also improve with EU entry, which will bring another year of FDI above the threshold of 10% of GDP. Policy priorities will be focused on avoiding activation of safeguard clauses and ensuring maximum utilization of EU grants. Risks to fiscal performance are marginal and are linked mostly to the expenditure side, where ambitious government plans to increase state involvement in new infrastructure projects are likely to have an adverse impact on the sustainability of GDP growth particularly on the level of indebtedness in the public sector.

World Economy

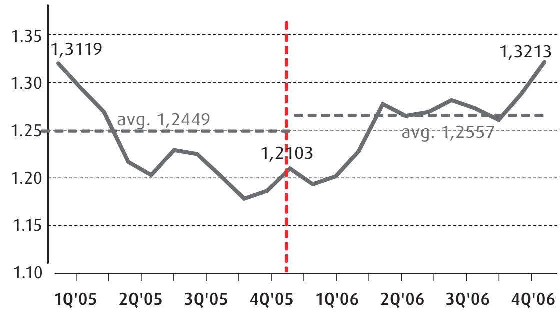
2006 Overview

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.



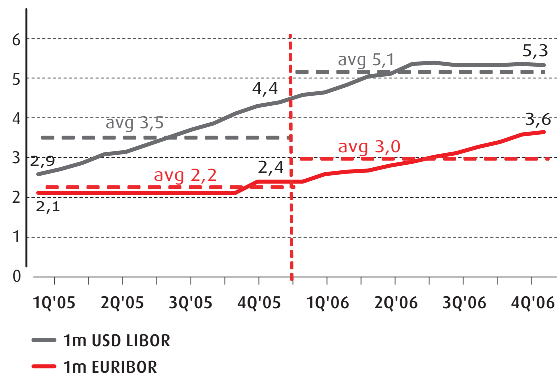
World merchandise trade gained pace, rising by 11% during the first eight months of 2006, up from 6% a year before. Geographically, most of the acceleration came from China, Japan and the USA and was concentrated largely in the beginning of the year. Against this backdrop, the value of China's exports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

EUR/USD



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

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



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

Outlook for 2007

Outlook for global output growth remains favourable. The IMF baseline scenario envisages only a small GDP growth softening in 2007 to 4.9%, which, if it occurred, would complete the strongest four-year period of economic expansion since the early 1970s. 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.

Hebros Bank Activity Review

Financial Results

With BGN 14.5 million net profit in 2006 Hebros Bank recovered from the reported loss in the previous year and recorded substantial growth in its financial result, improving by BGN 22.4 million, with the main driving force being the core banking business.

In thousand of BGN

Summary of operating income statement	2006	2005	Growth (%)	Growth (amount)
Net interest income	38,636	35,339	9.3%	3,297
Net fee and commission income	14,935	14,199	5.2%	736
Net income from financial instruments at fair value through profit or loss	1,587	1,580	0.4%	7
Net income from financial assets	17,240	3,587	380.6%	13,653
Other operating income	768	447	71.8%	321
Gross operating income	**73,166**	**55,152**	**32.7%**	**18,014**
Administrative expenses	(40,981)	(40,898)	0.2%	(83)
Net operating income	**32,185**	**14,254**	**125.8%**	**17,931**

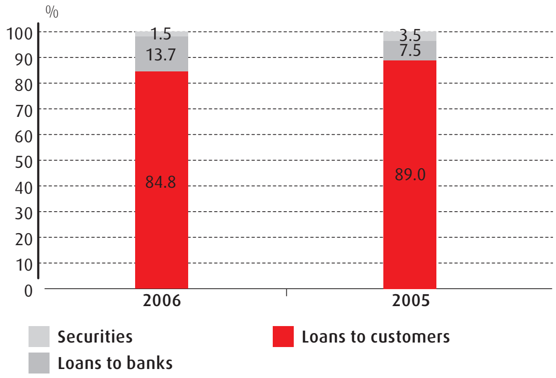
The acquisition of the Bank in 2005 was followed by remarkably improved operating efficiency. The cost/income ratio has been significantly lowered from 74.2% to 56.0% in just a single year due to stable revenue growth, strict cost control and the positive impact of integration synergies. Return on average equity grew by 22.6 pp and reached 14.4%, return on assets is 1.5%. Earnings per share are BGN 1.06, recovering from the loss in 2005.

Net interest income was the main earnings contributor with 52.8% of gross operating income. It grew 9.3% in 2006 to BGN 38.6 million. Lending interest income represents 84.8% of the total interest income and increased by 3.2% annually. The growth was maintained by the 10.8% increase in average loan volume, which compensated for decreasing loan margins. Intensified competition among commercial banks in Bulgaria and market saturation propelled the progressive decline in loan margins.

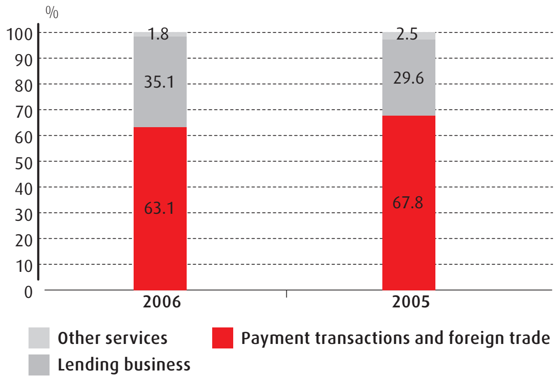
Net fee and commission income reached BGN 14.9 million, up by 5.2%. This accounts for 20.4% of gross operating income. The growth is mainly attributable to the 24.6% growth in lending business, reinforced by optimisation measures implemented – centralisation of activities, focus on receivables collection and general increase in business volumes.

Net income from financial instruments at fair value maintained the same level as the year before, while the income from financial assets grew by 381% due to disposal of an investment in a subsidiary. In early 2006, following the management decision to pass control over the local leasing business to BA-CA Leasing, 51% of the Bank's shares in Hebros Leasing were divested, realising a net gain of BGN 16.8 million.

Share in interest income



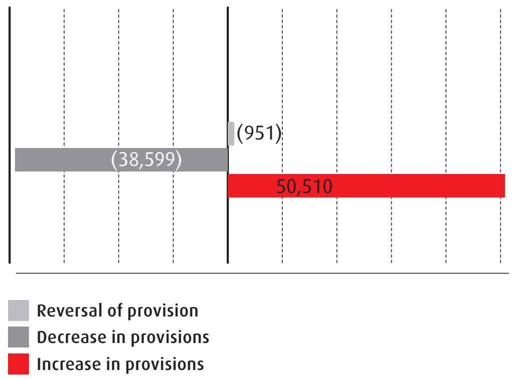
Net fee and commission income



Credit risk was subject to close monitoring, performed within a new centralised structure. Net impairment losses and credit risk costs amounted to BGN 11.0 million, reducing by 2.7% compared to the previous year. NPL ratio slightly increased to 5.6% and the share of risk weighted assets to total assets increased to 58.2% from 57.1% in 2005.

Administrative expenses amounted to BGN 41.0 million. Despite the ongoing integration process, costs increased by only 0.2% year on year basis, positively affected by the integration synergies and increased cost control. Personnel costs reached BGN 14.2 million, increasing slightly by 1.9% mainly due to the key employees retention initiative, undertaken in 2006, while the staff number has been decreased by 5%. Non-personnel costs amount to BGN 20.8 million, up with 2.0%, and the depreciation charge, BGN 5.9 million, was decreased by 8.9% due to an assets revaluation and disposal of redundant and obsolete assets.

Credit risk provisions charge 2006



Balance Sheet

Total assets of the bank amounted to BGN 922.2 million at the year end, decreasing 3.1%. The decrease is mainly due to revaluations and impairments related to the ongoing integration. Net assets available to shareholders came out at BGN 107.8 million and grew by 15.2% year on year, increasing their share of total assets from 9.8% in 2005 to 11.7%.

In thousand of BGN

	2006	2005	Growth (%)	Growth (amount)
Cash and cash equivalents	380,742	406,079	-6.2%	(25,337)
Due from banks and repo deals	36,949	37,028	-0.2%	(79)
Trading and non-trading securities	18,614	23,003	-19.1%	(4,389)
Loans to customers	442,397	434,963	1.7%	7,434
Residual sundry assets	43,508	51,128	-14.9%	(7,620)
Total assets	**922,210**	**952,201**	**-3.1%**	**(29,991)**
Due to banks and repo deals	179,775	274,491	-34.5%	(94,716)
Deposits from customers	587,345	537,752	9.2%	49,593
Long term borrowed funds	4,716	4,973	-5.2%	(257)
Subordinated debt	21,055	20,228	4.1%	827
Residual sundry liabilities	21,472	21,116	1.7%	356
Total liabilities	**814,363**	**858,560**	**-5.1%**	**(44,197)**
Shareholders' equity	107,847	93,641	15.2%	14,206
Total liabilities and shareholders' equity	**922,210**	**952,201**	**-3.1%**	**(29,991)**

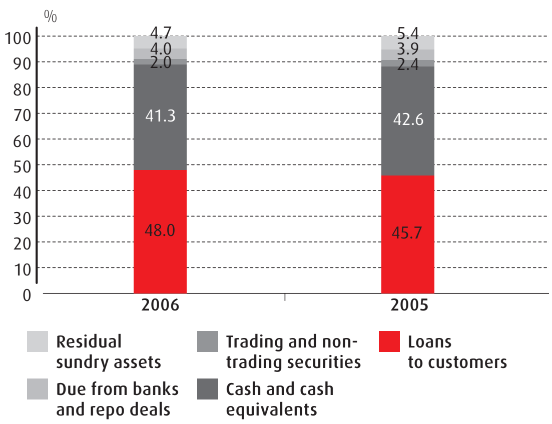
Net loans to customers reached BGN 442.4 million and increased BGN 7.4 million since 2005. The net loan portfolio weighting rose to 48.0% of total assets against 45.7% previous year.

Investments available for sale amounted to BGN 17.3 million, decreasing by 16.3%. They are held by the bank for the purpose of maintaining middle and long term liquidity and state budget cover, rather than for trading.

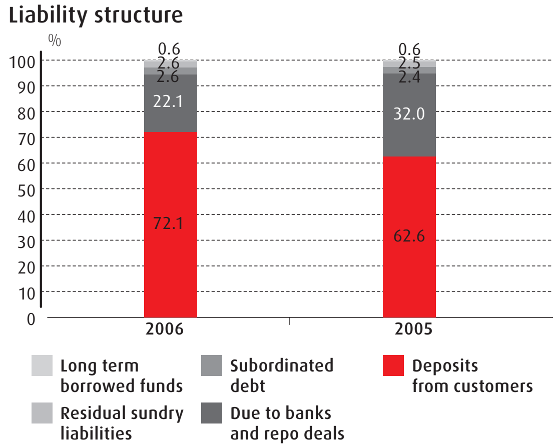
The bank continued to finance its operations through customer deposits and internal funds. It also utilised short-term intragroup funds and long-term subordinated debt from BA-CA, at a lower weight of total funding sources, however, and for liquidity purposes mainly.

Deposits from customers amount to BGN 587.3 million and grew BGN 50 million. The net customer loan coverage increased to 133% from 123% in previous year.

Asset structure



Liability structure



Risk Management

The major focus was the successful combination of Credit Risk Management into one operational unit for both 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.

Non-performing loans (NPL) Management Division has focused efforts on the workout of big corporate non-performing exposures, on-time restructuring of impaired exposures and prompt collection of overdue instalments, hard collection and workout of fully claimed retail loans. An improvement in the non-performing ratio of the Retail Individuals portfolio was reported - 3.6% at end of December 2006, in comparison to 4.3% for December 2005.

Total loan provision coverage for Hebros Bank is 6.70%, standard loans coverage is 1.65% and watch loans provision coverage is 24%. The increase in NPL ratio of Hebros Bank is generated mainly by write off of private loan collateral.

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 70-75% of the assigned limit of EUR 900 million. Average yearly levels fluctuated between 30% to 45% limit usage. The main risk factor is interest rate risk, with close to zero FX risk due to a maximum open overnight position limited to EUR 0.5 million for major currencies, lower for others. 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. 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) - in compliance with all time-line triggers up to a three months horizon, and Structural liquidity limit (STR) – 1 month: 1.09/ limit min 0.95, 1 year 1.01/limit min 1.0. As to the FX risk profile, small residual bank book positions closed on the market on a daily basis. Limits were duly observed during the year.

Corporate Banking

The international and multinational corporates segment continued to utilise fully the international experience of the Group in providing the local corporate community with excellent banking services and products. The results are strongly supported by fee-based income, which increased by 18%. The loan margin level was stabilised in 2006 and the deposit margin level was even slightly increased.

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).

In 2006, Hebros Bank was again committed to provide high-grade tailor-made products and services to its clients in the mid-market segment, comprising companies with annual sales revenues in the amount of BGN 1.5 to 15 million (EUR 0.8 million to 7.7 million). Loan and deposit volumes kept pace with the high levels achieved in the previous year, loans amounting to BGN 95.2 million, and deposits – BGN 40.4 million at the end of the year. The net income from lending business improved and grew to BGN 6 million.

The Bank continued to follow its strategy in supporting mid-sized corporate clients in Bulgaria to grow their business, with the strong partnership of local and international institutions through mutual programmes. These programmes were predominantly focused on agribusiness, such as the Bulgarian Agricultural Fund and the USAID guarantee, which allowed the Group to offer better conditions to borrowers and enhanced its position in long-term investment financing in the agricultural sector.

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.

[1] RAROC - Risk-Adjusted Return On Capital

Retail Banking

Retail banking revenues reached BGN 34.6 million. This included net interest income of BGN 22.6 million and net fees and commissions BGN of 11 million.

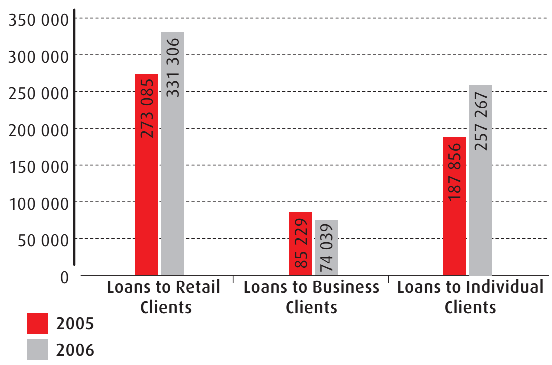
The loan portfolio of the segment grew by 21%, reaching BGN 331.3 million at the end of the year.

Customer deposits increased by 13% with a value of BGN 528.7 million at year-end.

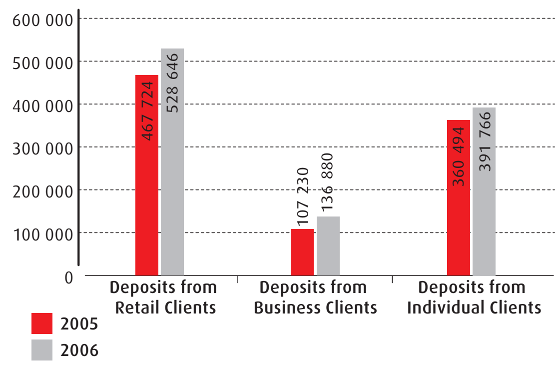
In retail banking during 2006 HVB Bank Biochim and Hebros Bank realised modification and unification of product portfolio, development of unified pricing models of both banks, according to the market conditions, and conducted joint marketing and advertising activities. A unified product portfolio was successfully established for both banks with common retail products and a focus on clear rules, streamlined procedures and processes for optimal sales support.

Hebros Bank focused on the retail commercial activities in 2006 and in growth in mortgage lending, including the mobile sales force network. The bank substantially improved the value proposition for mortgage lending in the retail market. That was reflected in achieving BGN 35.8 million year-end volume, or growth of 52%. The bank was represented in all exhibitions and events related to construction and renovation of property, commercial events for real estate and mortgage lending during the whole year.

Loans (TBGN)



Deposits (TBGN)



The increase of 37% in consumer lending (BGN 202.8 million at year-end volume) to individuals and households is mainly due to the improved consumer parameters of the products and the whole process for granting and central approval of credit deals for individuals. The market share in consumer lending grew from 3.96% to 4.76%.

The funds attracted from individuals and households grew by 9% during the reported period and the year-end value amounted to BGN 391.8 million.

In 2006, Hebros Bank started sales of Pioneer funds in selected branches in the country.

During 2006, a new business model with special focus on small businesses was successfully implemented in Hebros Bank. A dedicated product portfolio was implemented, synchronised between Hebros Bank and HVB Bank Biochim, and accompanied by common terms and conditions. The value of the loan portfolio was BGN 74 million at the end of 2006. As a part of the new lending process, in June 2006, Hebros Bank signed Annex to the Framework Contract between Hebros Bank and the Ministry of Labour and Social Policy for granting micro-credit to stimulate employment. Thus, the conditions for these loans were significantly improved. Special focus was also placed on improvement of the sales of internet banking. The Bank was one of the first and most active financial intermediaries facilitating the access of small businesses to EU funds. The funds attracted from business clients grew by 28% during the reported period and the year-end value amounted to BGN 137 million.

Aimed at expanding the retail business, Hebros Bank took measures to further develop card products and services. During the year the growth in number of active credit cards with VISA and MasterCard logos was 3.7 times the previous year. 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 Bond movie with VISA. The successful strengthening of Hebros Bank'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 number of installed POS terminals has increased by 12.68% compared to the previous year.

In 2006, the Bank continued to develop alternative channels and emphasised sales through internet banking, mobile agents and partnerships. Hebros Bank kept improving the internet banking as an e-channel. The Bank achieved growth of 92% in sold certificates. In July 2006, the Bank introduced the Mobile Agents concept as a sales channel.

Private Banking

The activity of the Private Banking department of Hebros Bank 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.

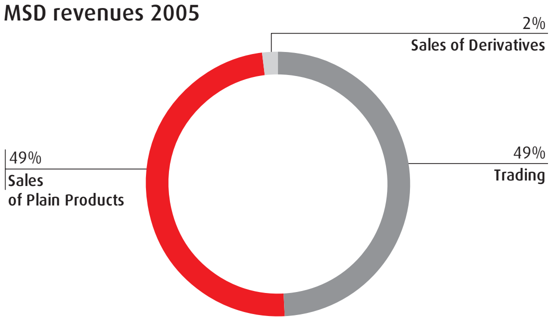
Markets and Sales

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.

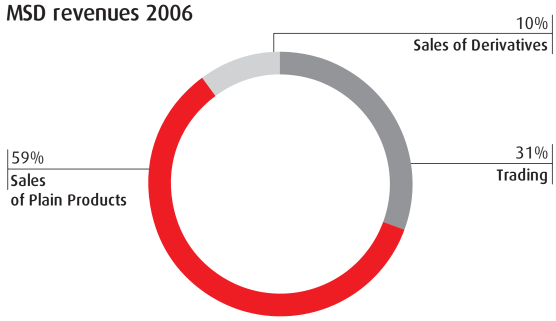
Following its strategy to penetrate the equity brokerage business, in 2006 the Bank improved its Stock Exchange rank from 6th to 3rd position by a threefold increase in traded volumes, exceeding EUR 300 million.

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

MSD revenues 2005



MSD revenues 2006



Information Technologies (IT)

The operating environment with a working schedule of 24x7 and over 95% availability of the core systems and satellites proved the stability of the I-Flex system. The upgrade of the servers, due to business requirements to provide a high level of disaster recovery, was done on schedule.

Main activities for projects were focused on developing the BNB statistics reporting system including new network topology, preparation of security hardware specifications and implementation of system software, to ensure the fulfilment of the Group's Basel II requirements on a daily basis and to implement the legal requirements arising from IBAN. Business initiatives for common products and services were supported; a common sales performance tool was implemented.

Due to the upcoming triple merger in 2007 with HVB Bank Biochim and Bulbank, the IT organisation was restructured and further optimised with specified functional definition, departmental capacities and careful staff allocation.

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 Hebros Bank with HVB Bank Biochim 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.

Hebros Bank and HVB Bank Biochim started the year 2006 with a common headcount target. The total FTE number for Hebros Bank decreased from 908 at the end of 2005 to 862.5 at the end of 2006. The total number of commercial staff slightly increased to 236.5 FTE thus growing from 26% to 27% of total staff. The total number of bank's outlets at the end of the year is 87.

Due to the changes and based on the practice of HVB Bank Biochim, the performance appraisal system MBO (Management by Objectives) was implemented in Hebros Bank during 2006. The MBO process included appraisal of 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 (UCG) integral approach to the total compensation package of the employees, including fixed and variable parts of remuneration in one system. The practice of UCG showed this approach is a very efficient method to stimulate employee performance and motivate towards 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 the Sales Forces" and "Roll-out Training Related to the New IT System Implementation". In soft skills – train the trainers, successful selling, managerial trainings - 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

Hebros Bank, together with HVB Bank Biochim, 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 our banks.

Integration

The process of integration of Hebros Bank with HVB Bank Biochim 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 December 31, 2006

KPMG

REPORT OF THE INDEPENDENT AUDITOR TO THE SHAREHOLDERS OF HEBROS BANK AD

Sofia, 15 February 2007

Report on the Financial Statements

We have audited the accompanying financial statements of Hebros Bank 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 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 misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

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

Opinion

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

Annual report of the activities of the Bank according to article 33 of the Accountancy Act

The historical financial information presented in the annual report of the activities of the Bank prepared by the Management is consistent, in all material aspects with the financial information disclosed in the financial statements of the Bank as of 31 December 2006 prepared in accordance with national accounting legislation applicable to banks in Bulgaria. Management is responsible for the preparation of the annual report of the activities of the Bank which was approved by the Management Board of the Bank on 1 February 2007.

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

Margarita Goleva
Registered auditor

Income Statement

In thousand BGN

	Note	2006	2005 (restated)
Interest and similar income		49,619	45,791
Interest expense and similar charges		(10,983)	(10,452)
Net interest income	**4**	**38,636**	**35,339**
Net fee and commission income	**5**	**14,935**	**14,199**
Net income from assets held for dealing purposes	6	1,587	1,580
Net income from investment assets	7	17,240	3,587
Changes in provisions for impairment and other credit risk provisions	8	(10,960)	(11,255)
Other income, net	9	768	447
		8,635	**(5,641)**
Net income from banking operations		**62,206**	**43,897**
Administrative expenses	10	(40,981)	(40,898)
Total profit from banking operations		**21,225**	**2,999**
Restructuring plan related costs	11	(3,618)	(12,244)
Profit before tax		**17,607**	**(9,245)**
Income tax expense	12	(3,139)	1,362
Profit after tax		**14,468**	**(7,883)**

Peter Harold
Executive Director,
Chairman of the Managing Board

Ludmil Gatchev
Executive Director

Dimitar Todorov
Chief Accountant

Krassimir Hadjidinev
Authorised representative

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

Margarita Goleva
Registered auditor

0202 Маргарита Голева
Регистриран одитор

Balance Sheet

In thousand BGN

	Note	2006	2005 (restated)
Assets			
Cash and cash equivalents	13	380,742	406,079
Loans and advances to banks	14	6	6
Receivables under repurchase agreements	15	36,943	37,022
Available for sale investments	16	17,303	20,669
Investments in subsidiaries and associated companies		1,311	2,334
Loans and advances to customers	17	442,397	434,963
Property, equipment and intangible assets	18	39,852	42,502
Other assets	19	3,650	8,407
Deferred tax assets	20	6	219
Total assets		**922,210**	**952,201**
Liabilities			
Due to banks	21	179,775	274,491
Due to customers	22	587,345	537,752
Provisions	23	14,159	13,708
Other liabilities	24	7,313	7,408
Other borrowed funds	25	4,716	4,973
Subordinated long-term loan	26	21,055	20,228
Total liabilities		**814,363**	**858,560**
Shareholders' equity			
Issued share capital	27	41,103	41,103
Reserves	27	41,954	49,808
Revaluation reserves	27	10,322	10,613
Current year profit		14,468	(7,883)
Total shareholders' equity		**107,847**	**93,641**
Total liabilities and shareholders' equity		**922,210**	**952,201**
Contingent liabilities and other commitments	28	50,489	64,695

Peter Harold
Executive Director,
Chairman of the Managing Board

Ludmil Gatchev
Executive Director

Dimitar Todorov
Chief Accountant

СПЕЦИАЛИЗИРАНО ОДИТОРСКО ПРЕДПРИЯТИЕ
София
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Krassimir Hadjidinev
Authorised representative

Margarita Goleva
Registered auditor

Маргарита Голева
0202
Регистриран одитор

Cash Flow Statement

In thousand BGN

	Note	2006	2005
Net cash flow from operations			
Profit before taxation		17,607	(9,245)
Changes, representing movements in non cash items			
Increase in impairment allowances		11,911	11,446
Increase in provision		2,695	8,729
Increase in other accruals		3,899	5,173
Depreciation and impairment		6,322	7,038
		42,434	**23,141**
Change in operating assets			
Decrease in trading assets		-	24,042
Decrease in loans and advances to banks		-	205
Increase in loans and advances to customers		(19,266)	(126,232)
Increase in other assets		4,757	1,372
Change in operating liabilities			
Increase (decrease) in deposits from banks		(94,716)	259,698
Increase in deposits to customers		49,593	105,000
Increase (decrease) in other borrowed funds and subordinated loan		570	(22,088)
(Decrease) in other liabilities		(5,023)	(9,620)
Net cash flow from operating activity		**(21,651)**	**255,518**
Corporate tax paid		(3,032)	(636)
Cash flows from investment activities			
Decrease of investments		3,518	1,934
Increase in property, equipment and intangible assets		(4,172)	(5,693)
Net cash flow from investing activities		**(654)**	**(3,759)**
Net increase in cash and cash equivalents		**(25,337)**	**251,123**
Cash and cash equivalents in the beginning of the period	**13**	**406,079**	**154,956**
Cash and cash equivalents at the end of the period	**13**	**380,742**	**406,079**

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Statement of Changes in Equity

In thousand BGN

	Issued capital	RESERVES	Retained earnings	Revaluation reserve on non-current assets	Revaluation reserve on available for sale investments	Total
Balance as of January 1st, 2005	**41,103**	**25,725**	**24,019**	**3,730**	**2,616**	**97,193**
Net profit for the year ended December 31, 2005	-	-	(7,883)	-	-	(7,883)
Revaluation reserve on available for sale investments	-	-	-	-	(2,398)	(2,398)
Deferred tax related to revaluation reserve on available for sale investments	-	-	-	-	360	360
Revaluation reserve of non-current assets	-	-	-	7,517	-	7,517
Transfer of revaluation reserve on non-current assets disposed of	-	-	64	(64)	-	-
Deferred tax related to revaluation reserve on non-current assets	-	-	-	(1,148)	-	(1,148)
Appropriation of legal reserves	-	1,400	(1,400)	-	-	-
Balance as of December 31, 2005	**41,103**	**27,125**	**14,800**	**10,035**	**578**	**93,641**
Net profit for the year ended December 31, 2006	-	-	14,468	-	-	14,468
Revaluation reserve on available for sale investments	-	-	-	-	(871)	(871)
Deferred tax related to revaluation reserve on available for sale investments	-	-	-	-	121	121
Transfer of revaluation reserve on non-current assets disposed of	-	-	29	(29)	-	-
Deferred tax related to revaluation reserve on non-current assets	-	-	-	488	-	488
Appropriation of legal reserves	-	4,107	(4,107)	-	-	-
Balance as of December 31, 2006	**41,103**	**31,232**	**25,190**	**10,494**	**(172)**	**107,847**

Peter Harold
Executive Director,
Chairman of the Managing Board

Ludmil Gatchev
Executive Director

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СПЕЦИАЛИЗИРАНО ОДИТОРСКО ПРЕДПРИЯТИЕ
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Margarita Goleva
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0202 Маргарита Голева
Регистриран одитор

Notes to the Financial Statements

1 BASIS OF PREPARATION

(a) Statue

Hebros Bank AD was established in 1993 as a result of the merger of eight state-owned banks. The Bank was privatized in the year 2000. SWC B.V. was major shareholder in the bank till March 2005, possessing 90.77% of the ordinary shares.

On 3 November 2004, Bank Austria Creditanstalt AG and its subsidiary in Bulgaria - HVB Bank Biochim AD signed a share purchase agreement with SWC B.V. and SWR Investments Limited for acquiring their shares in Hebros Bank AD, i.e. 99.91%.

The deal was completed and the shares were transferred to the new owners on March 1, 2005.

By the end of 2005 following a successful deal where Unicredit Italiano took control over Hypovereins Bank AG and Bank Austria Creditanstalt AG, Hebros Bank AD 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, Hebros Bank 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 planned 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 Hebros Bank AD will receive 1.47448 shares of Bulbank AD for one share in Hebros Bank 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 wind – up without liquidation. The finalization of the deal is expected in second quarter of 2007. Upon its completion the acquiring bank will be renamed to Unicredit Bulbank AD.

The bank possesses full-scope banking license and has the right to operate with foreign currency and to perform other banking operations, permitted by Bulgarian law. It is a commercial bank offering the full spectrum of banking services to private and state-owned enterprises and individuals through its sale centers all over Bulgaria.

The bank has a registered address in Bulgaria, Plovdiv, 37 Tsar Boris III Obedinitel Blvd. Plovdiv.

The Bank's activities are regulated by the Banking Act and the Ordinances of Bulgarian National Bank.

(b) Statement of compliance

The financial statements have been prepared in accordance with the applicable accounting framework in Bulgaria.

Effective from January 1, 2006, the International Accounting Standards, issued by the International Accounting Standards Board, revised 2005, have been applicable in Bulgaria. Upon first adoption, the Management of the Bank assessed the accounting policy applied up to December 31, 2005 with respect to the proper treatment of the applicable framework changes in the Bank's Statements for previous periods. As a result of this assessment no adjustments have been made to the Financial Statements of the Bank for the prior years.

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

These financial statements are presented in BGN, rounded up to the nearest thousand.

These financial statements have been prepared in compliance with the fair value principle for the financial assets and liabilities held for trading purposes, the financial assets held for sale, as well as of all derivative financial instruments, excluding those where reliable measure of their fair value is not available. Property, plant and equipment are stated at revalued amount as determined by independent appraisers. Other financial assets and liabilities and the non-financial assets and liabilities are stated at amortised or historical cost. The accounting policy is consistently applied by the Bank.

These Financial Statements have been prepared on unconsolidated basis. As of December 31, 2006, Hebros Bank AD does not prepare consolidated Financial Statements because the Bank and its subsidiaries are fully consolidated in the Financial Statements of Bank Austria Creditanstalt AG.

In December 2006, the shareholders of Hebros Bank AD, HVB Bank Biochim AD and Bulbank AD approved Merging Agreement, by virtue of which Hebros Bank AD and HVB Bank Biochim AD shall be transformed by merging into Bulbank AD. Net assets of the two banks shall be transferred to Bulbank AD which will be their universal successor. In accordance with the Merging Agreement no plans for considerable shrinking or discontinuing activities are envisaged, these Financial Statements are prepared on a going concern basis.

(d) Comparative information

Bank has made certain reclassifications to the 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 fro the reclassifications made are given below:

Description of the position	Balance in thousand BGN	2006 annual financial statements presentation	2005 annual financial statements presentation
Assets acquired from collaterals foreclosure	878	Property, equipment and intangible assets	Other assets

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Income recognition

Interest income and expense is recognized in the income statement on an accrual basis, 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 Hebros Bank 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. Arising exchange differences are recognized in the income statement. 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

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, the Bank performs economic hedges of interest rate risk, which otherwise if these assets were to be classified in different category would lead to material measurement inconsistency.

Loans and receivables are instruments where the 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 Hebros Bank 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 instruments include debt and equity instruments measured at fair value with changes recognized in equity. All changes (except impairment losses) are recognized directly in equity and presented as revaluation reserve on available for sale investments net of related deferred tax and exchange differences.

(ii) Recognition

The Bank recognizes financial instruments on a trade date.

(iii) 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 held for trading.

Subsequent to initial recognition all instruments held for trading and all available-for-sale instruments 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.

(iv) Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of assets held for trading 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 in three months after extension.

(e) Investments

Investments include participations in other entities as well as debt instruments, which are not held for trading. If not designated as held to maturity, they are classified as available for sale. Whenever Bank exercises control or significant influence, they are classified as investments in subsidiaries and associated companies.

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 less impairment, if applicable.

Investment with reliable estimation of market price are stated at fair value with changes recognized directly in equity under revaluation reserve on available for sale investment.

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. 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".

All investments are assessed on a regular basis for impairment.

(f) Loans and advances to banks and customers

Loans and advances originated by Hebros Bank AD 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.

(g) Disclosure of fair value

According to IAS 32 the Bank discloses 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, loans, 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 to customers is approximately equal to their carrying value due to the fact that the main part of the loan portfolio carry floating interest rates which reflect the changes in the market conditions.

(h) Derecognition

A financial asset is derecognised on the date Hebros Bank 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.

(i) Repurchase agreements

Hebros Bank 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 recognized on an accrual basis over the period of the transaction and is included in net interest income.

(j) 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.

(k) 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 expected cash flows, the 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 amortized 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.

(iii) Goodwill

Recoverable amount of goodwill is estimated as of each balance sheet date. Impairment loss is recognized when the carrying amount exceeds the recoverable amount. Impairment losses are recognized in income statement.

(I) Property and equipment

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

Items of property, plant and equipment are stated at fair value determined periodically by an independent registered appraiser. 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 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
Hardware	20	20
Equipment	15	15
Machinery	30	30
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.

(m) Intangible assets

(i) Goodwill

Goodwill is the excess of the cost of acquisition over the fair value of net assets of the acquired entity. Goodwill is presented net of any impairment loss.

(ii) Other intangible assets

Other intangible assets are carried at cost less accumulated depreciation and impairment loss, if any.

(iii) Amortization

Amortization is accrued throughout the useful life the assets consistently applying straight line method. Annual amortisation rates are as follows:

	%
Software	20

(n) 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 are within the scope of IAS 37 "Provisions, Contingent Liabilities and contingent assets", a restructuring provision has been recognized (see also note 11)

In accordance with the requirements of Labor Code and Collective Labor Agreement on termination of the labor 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's current obligation with regard to mandatory payments upon employees' retirement and respective provision has been recognized (see also note 23).

In 2006 restructuring plan related to forthcoming merger of Hebros Bank in Bulbank AD was written. This plan includes quantification of all direct unavoidable restructuring costs which are not associated with the ongoing activities of the Bank. To the extent that these costs fall within the scope of IAS 37 "Provisions, contingent liabilities and contingent assets", restructuring provisions have been recognized in the Financial Statements as of December 31, 2006.

(o) 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 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.

(p) 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 comply with 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.

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 keeping the client's interest and avoiding disruption of the Bank's reputation, a specialized department responsible for preventing unauthorized use of internal banking information is established.

B. Type of risk measurement

(i) Market risk

Market Risk department is a specialized department where all market risk 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 259.119 thousand /32.79 % limit utilization/. Undiversified values at risk by risk factor were as follows: FX VAR of EUR 0.198 thousand, interest rates without spread VAR of EUR 297.443 thousand and spread including residual variance of EUR 8.713 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 Hebros Bank AD, market risk includes position risk of debt and equity instruments in trading book as well as currency risk in the trading and banking book.

(ii) Interest rate risk

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

CCY	0-3M	3M-1Y	1Y-3Y	3Y-10Y	10Y-	Sum
BGN	104	404	–2,757	–6,142	–646	–9,037
CHF	–18	–321	–2	–146		–487
EUR	99	558	–21	1,336	–4,909	2,325
GBP	8	29				24
USD	93	443	170		–43	662
TOTAL	322	1,754	2,950	7,624	5,598	15,833

(iii) Currency (FX) risk

Hebros Bank 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 Hebros Bank AD presents its financial statements is the Bulgarian lev, Hebros Bank AD's financial statements are affected by movements in the exchange rates between the currencies other than Euro and Leva.

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 position overnight limits.

In thousand BGN

	31.12.2006 EUR and BGN	31.12.2006 Other currencies	31.12.2006 Total
Assets			
Cash and cash equivalents	329,877	50,865	380,742
Loans and advances to banks	6	-	6
Receivables under repurchase agreements	-	36,943	36,943
Available for sale investments	17,303	-	17,303
Investments in subsidiaries and associates	1,311	-	1,311
Loans and advances to customers	427,360	15,037	442,397
Property, equipment and intangible assets	39,852	-	39,852
Other assets	3,625	25	3,650
Deferred tax assets	6	-	6
Total assets	**819,340**	**102,870**	**922,210**
Liabilities			
Due to banks	162,059	17,716	179,775
Due to customers	502,073	84,272	587,345
Provisions	14,159	-	14,159
Other liabilities	7,313	-	7,313
Long-term liabilities	4,716	-	4,716
Subordinated long-term loan	21,055	-	21,055
Total liabilities	**712,375**	**101,988**	**814,363**
Shareholders' equity	**107,847**	**-**	**107,847**
Net off-balance sheet spot position	**5,786**	**(912)**	**4,874**
Net position	**4,904**	**(30)**	**4,874**

In thousand BGN

	31.12.2005 EUR and BGN	31.12.2005 Other currencies	31.12.2005 Total
Assets			
Cash and cash equivalents	348,530	57,549	406,079
Loans and advances to banks	6	-	6
Receivables under repurchase agreements	-	37,022	37,022
Available for sale investments	17,757	2,912	20,669
Investments in subsidiaries and associates	2,334	-	2,334
Loans and advances to customers	430,276	4,687	434,963
Property, equipment and intangible assets	42,502	-	42,502
Other assets	7,985	422	8,407
Deferred tax assets	219	-	219
Total assets	**849,609**	**102,592**	**952,201**
Liabilities			
Due to banks	274,423	68	274,491
Due to customers	435,405	102,347	537,752
Provisions	13,708	-	13,708
Other liabilities	7,348	60	7,408
Long-term liabilities	4,973	-	4,973
Subordinated long-term loan	20,228	-	20,228
Total liabilities	**756,085**	**102,475**	**858,560**
Shareholders' equity	93,641	-	93,641
Net off-balance sheet spot and forward position	17,982	(2,604)	15,378
Net position	**17,865**	**(2,487)**	**15,378**

(iv) Credit risk

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 of the 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 disbursment of the loans.

The Credit Committee is the competent body responsible for identifying the risk classification and allocating impairment allowances of the exposures in compliance with BNB Regulation 9. Risk assessment is performed at least once per month.

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 on 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 or 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.

The Bank monitors concentrations of credit risk by sector. An analysis of concentrations of credit risk at the reporting date is shown below:

In thousand BGN

	2006	2005
Manufacturing	65,231	78,855
Commerce	67,669	90,584
Construction	8,406	7,899
Agriculture and forestry	29,033	27,508
Transport and communications	8,613	6,228
Services	30,548	44,134
Financial services	4,004	16,295
Other industry sectors and retail	262,515	190,295
	476,019	461,798
Impairment allowances	(33,622)	(26,835)
	442,397	**434,963**

A breakdown of loans and advances to customers by type of collateral is shown in the table below:

In thousand BGN

	2006	2005
Secured by mortgages	266,330	269,003
Cash collaterals	8,241	10,316
Other collaterals	190,578	170,566
Unsecured	10,870	11,913
	476,019	461,798
Impairment allowances	(33,622)	(26,835)
	442,397	**434,963**

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

In thousand BGN

Risk classification group	Carrying amount before impairment		Impairment allownce		Carrying amount	
	2006	2005	2006	2005	2006	2005
Individually impaired						
Watch	16,448	19,007	3,886	3,430	12,562	15,577
Doubtful	8,058	4,812	4,359	2,310	3,699	2,502
Non-performing	18,824	17,497	18,273	16,049	551	1,448
Collectively impaired						
Regular	432,689	420,482	7,104	5,046	425,585	415,436
Total	**476,019**	**461,798**	**33,622**	**26,835**	**442,397**	**434,963**

(v) 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 operational liquidity is managed through Markets and Sales Division, while the structural liquidity is managed through Assets and Liabilities Division. According to the Liquidity Policy, Assets and Liabilities Division monitors on a daily basis short term liquidity arising from 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 groups based on the remaining contractual periods to repayment for items with fixed maturity and historical pattern and Managements' expectations for items with maturity not defined.

Maturity table as of December 31, 2006

In thousand 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	380,742	-	-	-	-	-	380,742
Loans and advances to banks	6	-	-	-	-	-	6
Receivables under repurchase agreements	36,943	-	-	-	-	-	36,943
Available for sale investments	16,459	-	-	-	-	844	17,303
Investments in subsidiaries and associates	-	-	-	-	-	1,311	1,311
Loans and advances to customers	26,289	24,145	125,512	176,400	90,051	-	442,397
Property, equipment and intangible assets						39,852	39,852
Other assets	2,674	-	976	-	-	-	3,650
Deferred tax assets	-	-	-	6	-	-	6
Total assets	**463,113**	**24,145**	**126,488**	**176,406**	**90,051**	**42,007**	**922,210**
Liabilities							
Due to banks	179,775	-	-	-	-	-	179,775
Due to customers	260,148	118,355	122,872	85,970	-	-	587,345
Provisions	-	-	9,730	4,429	-	-	14,159
Other liabilities	3,862	3,251	200	-	-	-	7,313
Long-term liabilities	246	115	1,402	2,878	75	-	4,716
Subordinated loan	-	-	-	-	21,055	-	21,055
Total liabilities	**444,031**	**121,721**	**134,204**	**93,277**	**21,130**	**-**	**814,363**
Net liquidity gap	**19,082**	**(97,576)**	**(7,716)**	**83,129**	**68,921**	**42,007**	**107,847**
Cumulative	**19,082**	**(78,494)**	**(86,210)**	**(3,081)**	**65,840**	**107,847**	

Maturity table as of December 31, 2005

In thousand 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	406,079	-	-	-	-	-	406,079
Loans and advances to banks	6	-	-	-	-	-	6
Receivables under repurchase agreements	37,022	-	-	-	-	-	37,022
Available for sale investments							
Available for sale investments	19,840	-	-	-	-	829	20,669
Investments in subsidiaries and associates	-	-	-	-	-	2,334	2,334
Loans and advances to customers	11,357	24,879	142,628	205,656	50,443	-	434,963
Property, equipment and intangible assets	-	-	-	-	-	42,502	42,502
Other assets	7,057	-	1,350	-	-	-	8,407
Deferred tax assets	-	-	-	219	-	-	219
Total assets	**481,361**	**24,879**	**143,978**	**205,875**	**50,443**	**45,665**	**952,201**
Liabilities							
Due to banks	274,491	-	-	-	-	-	274,491
Due to customers	266,080	197,914	68,567	5,191	-	-	537,752
Provisions	-	-	3,520	10,188	-	-	13,708
Other liabilities	2,470	4,687	251	-	-	-	7,408
Long-term liabilities	540	125	1,298	2,966	44	-	4,973
Subordinated loan	-	-	-	-	20,228	-	20,228
Total liabilities	**543,581**	**202,726**	**73,636**	**18,345**	**20,272**	**-**	**858,560**
Net liquidity gap	**(62,220)**	**(177,847)**	**70,342**	**187,530**	**30,171**	**45,665**	**93,641**
Cumulative	**(62,220)**	**(240,067)**	**(169,725)**	**17,805**	**47,976**	**93,641**	

C. 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 thousand BGN

	2006	2005
Risk weighted assets for credit risk	536,668	541,213
Risk weighted assets for market risk	-	2,706
Total risk weighted assets	**536,668**	**543,919**
Total eligible capital base	100,970	98,439
There of Tier 1 capital	74,743	72,837
Tier 1 ratio	**13.93%**	**13.39%**
Total capital adequacy ratio	**18.81%**	**18.10%**

4 NET INTEREST INCOME

In thousands of BGN

	2006	2005
Interest income arising from		
Loans and advances to banks	4,925	2,796
Loans and advances to customers	42,070	40,756
Receivables under repurchase agreements	1,892	642
Trading assets	-	412
Available for sale investments	732	1,108
Dividend income	-	77
Total interest income	**49,619**	**45,791**
Interest expense		
Deposits from banks	(965)	(496)
Deposits from clients	(9,029)	(8,624)
Credit lines and subordinated loans	(989)	(1,332)
Total interest expense	**(10,983)**	**(10,452)**
Net interest income	**38,636**	**35,339**

5 NET FEE AND COMMISSION INCOME

In thousands of BGN

	2006	2005
Net fee and commission income		
Lending business	5,240	4,206
Payments transactions and foreign trade	9,426	9,632
Other services	269	361
Net fee and commission income	**14,935**	**14,199**

6 NET INCOME FROM ASSETS HELD FOR DEALING PURPOSES

In thousands of BGN

	2006	2005
Realized gains from trading instruments	-	212
Unrealized gains from trading instruments	-	91
Net income from trading instruments	-	303
Foreign exchange trading	1,587	1,277
Net trading income	**1,587**	**1,580**

7 NET INCOME FROM INVESTMENT ASSETS

Net income from investment assets comprise of realized gain on disposal of available for sale investments, including the unrealized gain/loss previously recorded in equity. In 2006 this item comprises net income from sale of available for sale investments in the amount of BGN 408 thousand as well as net income from sale of 51% of Bank's participation in the capital of Hebros Leasing AD in the amount of BGN 16,832 thousand.

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

In thousands of BGN

	2006	2005
Balance as of January 1st		
Loans and advances to customers	26,835	18,622
	26,835	**18,622**
Increase		
Loans and advances to customers	50,510	52,827
	50,510	**52,827**
Decrease		
Loans and advances to customers	(38,599)	(41,381)
Recoveries from non-performing loans previously written off	(951)	(191)
	(39,550)	**(41,572)**
Net provision charge	**10,960**	**11,255**
Write offs		
Loans and advances to customers	(5,124)	(3,233)
	(5,124)	(3,233)
Balance as of December 31st	**33,622**	**26,835**

9 OTHER INCOME, NET

In thousands of BGN

	2006	2005
Income from non-financial services	227	372
Income from disposal of property, plant and equipment	1	3
Net costs on legal proceedings against the Bank	1,372	-
IBAN provisions	(850)	-
Other income, net	8	72
Total other operating income, net	**768**	**447**

Following the decision for the 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. According to the requirement of Regulation No 3 of the Bulgarian National Bank customers shall be notified for the respective changes. The IBAN provisions relate to unavoidable costs for implementing the new IBAN accounts and respective notification costs.

10 ADMINISTRATIVE EXPENSES

In thousands of BGN

	2006	2005
General administrative expenses arising from:		
Personnel expenses	14,214	13,955
External services purchased	13,175	12,386
Depreciation	5,941	6,519
Materials, office supplies and other consumables	1,750	1,908
Deposit guarantee fund annual contribution	2,248	1,925
Other	3,653	4,205
Total administrative expenses	**40,981**	**40,898**

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

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, Bank has paid BGN 2,248 thousand.

11 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 was taken. This decision was subsequently endorsed by the shareholders of the three banks. The completion of the merger is planned for the second quarter of 2007.

Based on the above, a new detailed restructuring plan was established where all restructuring related direct costs have been quantified. The new restructuring plan substituted the implementation of the previously approved plan related to the legal merger of HVB Bank Biochim AD and Bank Hebros AD, thus the activities of the old plan have been finally reassessed and unutilized restructuring provisions in the amount of BGN 7,821 thousand released. The new plan includes assessment of all direct costs related to the restructuring activities, including impairment of property, plant and equipment which could be discontinued upon the merger completion. As a result of the assessment performed, restructuring provisions in the amount of BGN 11,058 thousand and impairment loss in the amount of BGN 381 thousand have been recognized.

The impact of the restructuring costs for the years ended December 31, 2006 and December 31, 2005 are as follows:

In thousands of BGN

	2006	2005
Restructuring provisions related to merger of HVB Bank Biochim and Hebros Bank	(7,821)	11,743
Impairment of property, plant and equipment related to merger of HVB Bank Biochim and Hebros Bank.	-	501
Restructuring provisions related to merger of HVB Bank Biochim, Hebros Bank and Bulbank	11,058	-
Impairment of property, plant and equipment related to merger of HVB Bank Biochim, Hebros Bank and Bulbank	381	-
Restructuring plan related costs	**3,618**	**12,244**

12 INCOME TAX EXPENSE

In thousands of BGN

	2006	2005
Current taxes	(2,317)	-
Deferred tax income (expense) related to origination and reversal of temporary differences	(341)	1,378
Deferred tax expense resulting from reduction in the tax rate	(481)	-
Underprovided prior years income tax	-	(16)
Income tax expense	**(3,139)**	**1,362**

Deferred tax income or expense results from the change of carrying amounts of deferred tax assets and deferred tax liabilities and changes in the applicable tax rate effective from January 1st, 2007 from 15% to 10%.

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

In thousands of BGN

	2006	2005
Accounting profit before taxation	**17,607**	**(9,245)**
Corporate tax at applicable tax rate (15% for 2006 and 15% for 2005)	(2,641)	1,387
Tax effect of permanent tax differences	(7)	(20)
Tax effect of reversals of temporary differences	(10)	11
Tax effect of reduction of applicable tax rate (10% for 2007)	(481)	-
Underprovided prior years income tax		(16)
Income tax expense	**(3,139)**	**1,362**
Effective tax rate	17.83%	14.73%

13 CASH AND CASH EQUVALENTS

In thousands of BGN

	2006	2005
Cash in hand		
In Bulgarian Leva	17,454	14,426
In foreign currencies	5,653	7,551
	23,107	**21,977**
Current account with the Central Bank	**46,184**	**47,992**
Current accounts with banks		
In Bulgarian Leva	2,091	161
In foreign currencies	3,649	4,677
	5,740	**4,838**
Placements with banks with original maturity less than 3 months		
In Bulgarian Leva	229,318	209,626
In foreign currencies	76,393	121,646
	305,711	**331,272**
Total cash and cash equivalents	**380,742**	**406,079**

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.

14 LOANS AND ADVANCES TO BANKS

Under loans and advances to banks, Bank represents restricted amounts in foreign banks.

15 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 the Bank has extended under reverse repo deals funds in the amount of BGN 36,943 thousand. The underlying bonds are pledged against maintenance of state budget finds.

16 AVAILABLE FOR SALE INVESTMENTS

In thousands of BGN

	2006	2005
Government securities	16,459	19,401
Corporate bonds	-	439
Equities	844	829
Available for sale investments	**17,303**	**20,669**

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 or in case no such are available the Bank applies certain internal models in arriving at the market price. Decrease 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 all available-for-sale investments are assessed for impairment

17 LOANS AND ADVANCES TO CUSTOMERS

In thousands of BGN

	2006	2005
Individuals		
In Bulgarian Leva	209,435	167,634
In foreign currency	71,589	56,194
Private companies		
In Bulgarian Leva	103,578	102,974
In foreign currency	90,100	133,299
State owned companies		
In Bulgarian Leva	814	1,107
In foreign currency	149	-
State and local budget		
In Bulgarian Leva	353	590
In foreign currency	1	-
	476,019	461,798
Less impairment allowances (see note. 7)	(33,622)	(26,835)
	442,397	**434,963**

Loans and advances to customers bear an average interest rate of 10.63% for local currency denominated loans and 9.29% for foreign currency denominated loans.

18 PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

In thousands of BGN

	Land and buildings	Plant and equipment	Fixtures and fittings	Motor vehicles	Assets under construction*	Intangible assets	Total
Cost or revalued amount							
As of December 31, 2005	**24,428**	**16,650**	**3,257**	**628**	**3,920**	**12,171**	**61,054**
Additions	550	623	116	-	2,242	158	3,689
Transfers	1,259	692	2	-	(1,989)	36	-
Disposals	(14)	(3,362)	(145)	(6)	-	(97)	(3,624)
As of December 31, 2006	**26,223**	**14,603**	**3,230**	**622**	**4,173**	**12,268**	**61,119**
Depreciation							
As of December 31, 2005	**1,102**	**11,128**	**2,172**	**210**	**-**	**3,940**	**18,552**
Depreciation charge for the period	729	2,356	328	126	-	2,402	5,941
Impairment	-	-	118	-	-	263	381
Write offs	(4)	(3,359)	(143)	(4)	-	(97)	(3,607)
As of December 31, 2006	**1,827**	**10,125**	**2,475**	**332**	**-**	**6,508**	**21,267**
Net book value as of December 31, 2006	**24,396**	**4,478**	**755**	**290**	**4,173**	**5,760**	**39,852**
Net book value as of December 31, 2005	**23,326**	**5,522**	**1,085**	**418**	**3,920**	**8,231**	**42,502**

Assets under construction include prepaid amounts and costs related to acquisition or construction of property, plant and equipment, which are not yet put into operation. As of December 31, 2006 the amount comprises of costs related to acquisition/construction of tangible assets in the amount of BGN 1,892 thousand and BGN 2,281 related to acquisition/construction of intangible assets.

19 OTHER ASSETS

In thousands of BGN

	2006	2005
Prepayments	2,314	697
Receivables from State budget	996	2,250
Materials, spare parts and consumables	175	231
Guarantee deposits	27	5,081
Other assets	138	148
Total other assets	**3,650**	**8,407**

20 DEFERRED TAX

In thousands of BGN

	Assets		Liabilities		Net	
	2006	2005	2006	2005	2006	2005
Property, equipment and intangible assets	-	-	1,680	2,395	1,680	2,395
Impairment of property, plant and equipment	(95)	(142)	-	-	(95)	(142)
Available for sale investments	(43)	-	24	102	(19)	102
Provisions	(345)	(708)	-	-	(345)	(708)
Restructuring provisions	(1,057)	(1,311)	-	-	(1,057)	(1,311)
Other liabilities	(170)	(555)	-	-	(170)	(555)
Net tax (assets) liabilities	**(1,710)**	**(2,716)**	**1,704**	**2,497**	**(6)**	**(219)**

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

Movement in temporary differences during the year:

In thousands of BGN

	Balance 2005	Recognised during period Loss (profit)	Recognised in equity	Balance 2006
Property, equipment and intangible assets	2,395	(227)	(488)	1,680
Impairment of property, plant and equipment	(142)	47	-	(95)
Available for sale investments	(708)	363	-	(345)
Provisions	102	-	(121)	(19)
Restructuring provisions	(1,311)	254	-	(1,057)
Other liabilities	(555)	385	-	(170)
	(219)	**822**	**(609)**	**(6)**

21 DUE TO BANKS

In thousands of BGN

	2006	2005
Due to local banks		
In Bulgarian Leva	162,059	163,023
In foreign currency	17,716	43,005
	179,775	206,028
Due to foreign banks		
In foreign currency	-	68,463
	-	68,463
Total due to banks	**179,775**	**274,491**

The average interest rates on amount due to banks are 2.65% for local currency denominated funds and 3.17% foreign currency denominated funds.

22 DUE TO CUSTOMERS

(a)) Segmentation by clients and currency

In thousands of BGN

	2006	2005
Individuals		
In Bulgarian Leva	194,825	162,019
In foreign currency	212,205	201,901
Private companies		
In Bulgarian Leva	98,870	101,685
In foreign currency	24,366	21,776
State companies		
In Bulgarian Leva	32,041	12,872
In foreign currency	239	1,000
State and local budget		
In Bulgarian Leva	19,626	32,582
In foreign currency	5,173	3,917
	587,345	**537,752**

(b) Segmentation by deposits types

In thousand BGN

	2006	2005
Current accounts and demand deposits	236,206	195,318
Term deposits	245,413	268,324
Saving accounts	105,726	74,110
	587,345	**537,752**

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

As of December 31, 2006 the transfers in execution are in the amount of BGN 1,725 thousand. These amounts have not been paid yet by the Bank as of December 31, 2006 therefore they are presented as amounts due to customers.

23 PROVISIONS

As of December 31, 2006 the Bank has assessed its contingent liabilities as if there are amounts that need to be recognized as provisions pursuant to the requirements of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" (see also note 11).

In addition pursuant requirements of IAS 19 "Employee benefits" as of December 31, 2005 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:

	Restructuring provisions	IBAN provisions	Legal Cases provisions	Retirement benefit provisions	Total
Balance at December 31, 2004	**-**	**-**	**4,720**	**259**	**4,979**
Additions	11,743	-	-	-	11,743
Utilization	(3,006)	-	-	(8)	(3,014)
Releases	-	-	-	-	-
Balance at December 31, 2005	**8,737**	**-**	**4,720**	**251**	**13,708**
Additions	11,058	840	3,304	10	15,212
Releases	(2,244)	-	-	(20)	(2,264)
ʌЦЙФЗФКМТП	(7,821)	-	(4,676)	-	(12,497)
Balance at December 31, 2006	**9,730**	**840**	**3,348**	**241**	**14,159**

Released legal cases provisions relate to a single case on which as of December 31, 2006 there is no residual risk for the Bank for possible outflow of resources.

24 OTHER LIABILITIES

In thousand BGN

	2006	2005
Liabilities to State budget	1,394	1,480
Employees benefit payables	523	416
Other liabilities	5,396	5,512
	7,313	**7,408**

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

25 OTHER BORROWED FUNDS

In thousand BGN

	2006	2005
Financial lease liabilities	385	849
Loans from the State budget	4,331	4,124
	4,716	**4,973**

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.

26 SUBORDINATED LONG-TERM LOAN

On December 20, 2004 Hebros Bank signed subordinated loan agreement with Bank Austria Creditanstalt AG at the amount of EUR 10 million. The Bank has received Bulgarian National Bank approval to include the amount in the Tier II capital calculation for the purposes of capital adequacy of the Bank.

No principal or interest repayments are envisaged prior to final maturity of the loan unless explicitly approved by the Bulgarian National Bank. The interest rate on the loan is a fixed margin above EURIBOR.

27 CAPITAL AND RESERVES

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

As of December 31, 2006 and December 31, 2005 the registered capital of the Bank is BGN 41,103 thousand comprising of 13,701,120 voting shares with face value BGN 3, each.

(b) Reserves

Legal 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 has legal reserves at the amount of BGN 30,959 thousand and other reserves in the amount of BGN 273 thousand.

(c) Revaluation reserves

The revaluation reserve comprises 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 property, plant and equipment and available-for-sale investments is in the amount of BGN 10,322 thousand.

(d) Retained earnings

Bank presents under retained earnings, undistributed profits from current and prior years.

28 CONTINGENT LIABILITIES AND OTHER COMMITEMENTS

In thousand BGN

	2006	2005
Bank guarantees and letters of credit		
in Bulgarian Leva	7,810	17,101
in foreign currencies	3,513	8,353
Credit commitments		
in Bulgarian Leva	17,081	21,965
in foreign currencies	22,085	17,276
	50,489	**64,695**

(a) Contingent liabilities and other commitments

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 no such provisions have been recognized in the Financial Statements as of December 31, 2006.

(b) Litigations

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 3,348 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.

29 CAPITAL COMMITMENTS

As described in note 10, shareholders of HVB Bank Biochim, Hebrosbank and Bulbank approved a merging agreement, based on which it is planned HVB Bank Biochim and Hebros Bank to merge into Bulbank in 2007. Based on this decision in 2006 the three banks signed an agreement for jointly constructing the IT system of the merged Bank on the principal of equal involvement of all the parties. As at the date of signing these financial statements, the Bank has not finalized the estimation of the future capital expenditures.

30 ASSETS PLEDGED AS COLLATERAL

Hebros Bank AD holds 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 which is equal to the budget holders' resources borrowed.

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

In thousand BGN

	2006	2005
Securities pledged for budget holders' accounts service		
in Bulgarian Leva	6,187	106
Total assets pledged as collateral	**6,187**	**106**
there of available for sale investments	6,187	106

31 RECEIVABLES UNDER REPURCHASE AGREEMENTS

As of December 31, 2006 Bank has the following receivables under repurchase agreements:

Face value of collateral	Market value of colateral	Funds provided	Interest rate rate	Trading date	Maturity date
31,186,260	36,877,441	36,942,770	5.295%	27.12.2006	29.01.2007
Total	**36,877,441**	**36,942,770**			

32 RELATED PARTY TRANSACTIONS

Hebros Bank 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.

Hebros Bank 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 thousand BGN

Related party	Current accounts	Repo deals	Nostro accounts and deposit placed	Deposits taken liabilities	Subordinated long term loan	Loans granted
Companies in UCI Group	850	36,943	308,238	176,433	21,055	1
	850	**36,943**	**308,238**	**176,433**	**21,055**	**1**

Related party	Administrative expenses	Interest expenxes	Interest income	Fee and incommission income	Net income from investment assets	Other income	Total
Companies in UCI Group	(2,406)	(1,588)	6,844	61	16,832	2	19,745
	(2,406)	**(1,588)**	**6,844**	**61**	**16,832**	**2**	**19,745**

As of December 31, 2006 Bank reports under administrative expenses, payroll cost of key management personnel in the amount of BGN 110 thousand.

33 GROUP ENTERPRISES

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

34 CURRENTLY EFFECTIVE IFRS'S

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

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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)

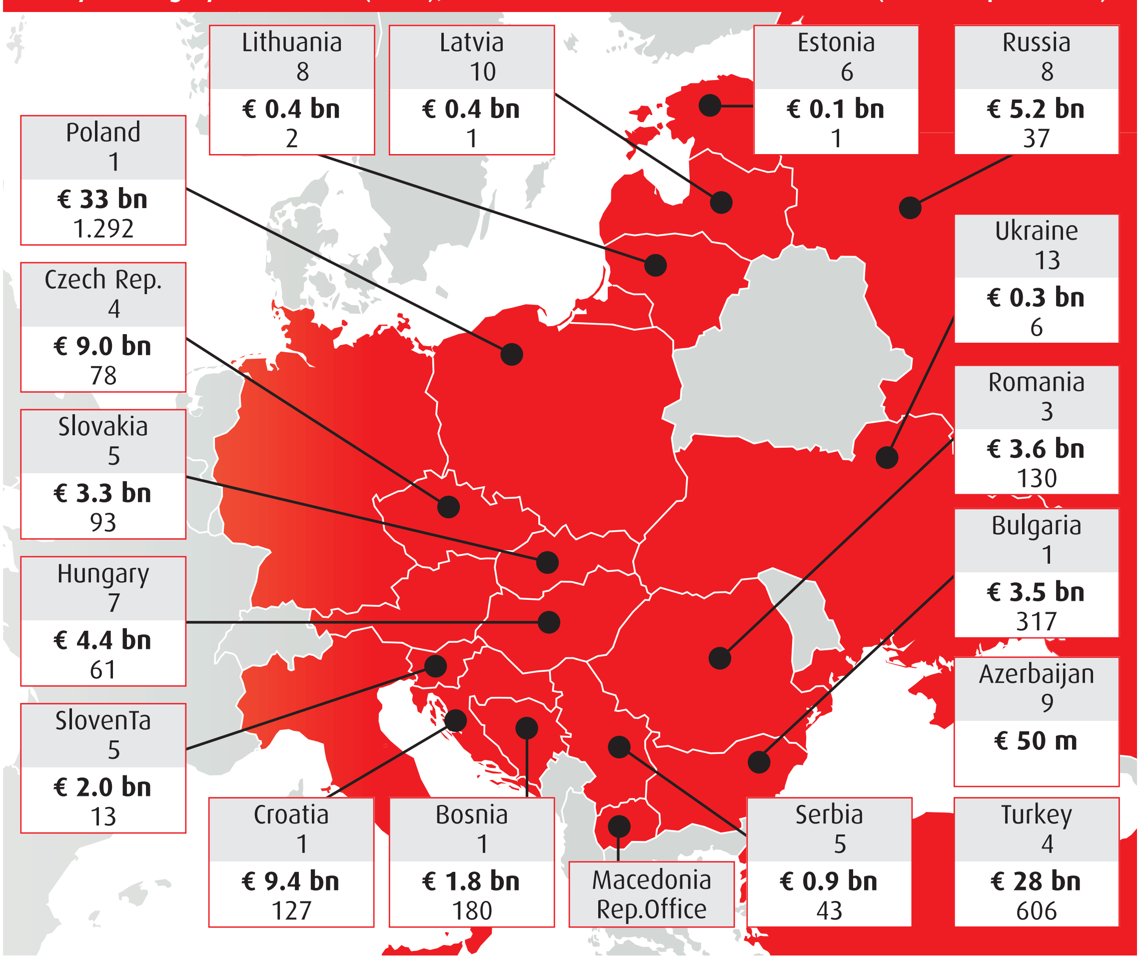
14th bank world-wide in terms of Market Capitalization[4]

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