BULGARIAN-AMERICAN CREDIT BANK AD

ANNUAL CONSOLIDATED MANAGEMENT REPORT
OF THE ACTIVITIES AND
CONSOLIDATED FINANCIAL STATEMENTS PREPARED
IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS
31 DECEMBER 2008

TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

ANNUAL CONSOLIDATED REPORT
ON THE ACTIVITIES FOR 2008

ANNUAL MANAGEMENT REPORT

OF THE ACTIVITIES OF

THE BULGARIAN-AMERICAN CREDIT BANK

ON CONSOLIDATED BASIS

2008

APPROVED ON FEBRUARY 18, 2009

INTRODUCTORY LETTER TO THE SHAREHOLDERS

During fiscal year 2008, the Bulgarian-American Credit Bank (BACB) earned approximately Euro 26.5 million while growing assets to Euro 418.6 million and net loans and advances to customers to Euro 345.8 million.

In EUR '000	2008	2007	2006
Net interest income	40,740	35,220	24,379
Other income, net	2,240	3,882	2,559
Operating income	42,980	39,102	26,938
Operating expenses	(6,005)	(6,111)	(5,259)
Operating profit	36,975	32,991	21,679
Profit before tax	29,384	30,186	19,527
Profit for the year	26,462	27,157	17,455
Total assets	418,580	357,756	248,520
Loans and advances to customers, net	345,763	301,733	193,263
Shareholders' equity	96,097	79,576	57,114
Return on Average Equity *	30.1%	39.7%	36.0%
Cost-to-Income	14.0%	15.5%	19.3%

* Annualized return on average equity is calculated by dividing net income by the simple average of shareholders' equity for the beginning and the ending of the period.

Growth continued to be fueled by loan demand in the SME sector, which is the focus of BACB's strategy. During the year net loan portfolio grew by 14.6% to EUR 345.8 million.

Profit for the year (net income) decreased by 2.6% year-over-year, which among other things reflects a higher provision for impairment expense and slightly lower net interest margin owing to higher funding cost. Operating profit grew 12.1% year-over-year. The Bank continues to operate efficiently and the cost-to-income ratio decreased to an industry best 14.0%. While loan quality remains good, in 2008 the Bank increased its provisions for impairment by EUR 7.6 million. At 31 December, 2008 the ratio of provisions for impairment to loans classified as non-performing was 102.4% - within the Bank's historic norms.

Total capital adequacy ratio (Basel II) at December 31, 2008 on a consolidated basis was 16.9% -- well in excess of the Bulgarian National Bank requirement of 12%.

BACB continues to be very profitable with return on average equity of 30.1% and return on average assets of 6.8% for 2008. Profit after tax, return on assets, the ratio of cost to income, and net interest margin were about as planned.

During the first quarter of 2008 the Bank signed a EUR 32 million term loan facility and in the third quarter of 2008 the Bank issued its sixth mortgage bond and its sixth corporate bond, raising approximately EUR 55 million of additional funding.

The regular Annual General Meeting of the Shareholders (AGM) was held on April 22, 2008. Following the recommendation of management, the AGM approved a dividend of BGN 1.50 (EUR 0.767) per share, which was paid in June, 2008. This amounted to approximately EUR 9.7 million or a payout ratio of 35.7% of consolidated profit for 2007, possible because of BACB's high profitability and strong capital position.

On August 29, 2008 the Bulgarian-American Enterprise Fund (BAEF) sold 49.99% of the shares from the registered capital of BACB at a price of BGN 67.00 per share to Allied Irish Banks, p.l.c., Ireland.

After the deal certain changes occurred to the composition of the Bank's Supervisory Board and Management Board following the decisions of the Extraordinary General Meeting (EGM) of the

Shareholders, held on 20 October 2008. The EGM elected three new members to the Supervisory Board: Mr. Gerald Byrne, Mr. John Power and Mr. Evgeni Ivanov. Mrs. Maria Sheytanova, formerly COO of the Bank, was appointed as member of the Management Board and Executive Director. Messrs. Frank Bauer and Stoyan Dinchiiski resigned as Executive Directors of the Bank, however Mr. Bauer remains as a Non-Executive member of the Management Board.

On 18 November 2008, Standard & Poor's Ratings Services affirmed BACB's credit rating at BB+ /B and revised the outlook to negative from stable citing concerns that the rising economic risks in Bulgaria may have adverse impact on the Bulgarian financial sector.

In late 2008 the Bulgarian National Bank (BNB) reduced its minimum reserve requirements from 12% to 10% of locally attracted funds and from 12% to 5% of attracted funds from international sources. It is hoped that this and other expected BNB anti-cyclical measures will help sustain bank lending in Bulgaria.

The Bank has performed internal assessments and stress tests to measure the possible impact of a deterioration of the business environment on its portfolio. Based on the results, management believes that given BACB's high provision levels, strong capital base and low write-off levels (five year average of EUR 207 thousand), the Bank is adequately positioned to face the economic hardships that might befall on Bulgarian SMEs.

Negative global economic developments are being felt more acutely since September 2008. For the time being these developments have not yet had a significant impact upon the Bank or its clients. However, if adversity persists, NPLs may increase, resulting in additional provisions for impairment expense. In addition, BACB relies upon wholesale funding and, depending upon market developments, the availability of wholesale funds and their cost could become an issue. To date, we have seen some tightening in availability and, as a result, have experienced an increase in funding cost. Therefore, in light of the uncertainty of how global economic conditions will affect the Bulgarian economy, management has moderated its growth objectives and strengthened risk management.

In summary, while operating in an uncertain economic environment, overall 2008 was a good year for BACB. We remain optimistic about our prospects. While the Bank will continue to closely manage the existing portfolio, it will also be aiming at taking advantage of the opportunities that the current instability creates. In 2009 BACB plans to continue its managed growth policy with a focus on diversifying the loan portfolio and broadening sources of funding.

Dimiter Voutchev Executive Director	Maria Sheytanova Executive Director

FINANCIAL STATEMENTS AND MANAGEMENT REPORT OF BULGARIAN-AMERICAN CREDIT BANK 2008

The following is a discussion of the results of operations and financial condition of the Bank for the year ended 31 December 2008. Investors should read this discussion together with the Bank's historical financial statements and the related notes included elsewhere in this document and should not rely just on the key summarized information contained in this document. The Bank has prepared its historical financial statements for the year ended 31 December 2008 in accordance with IFRS. The financial information in this section has been extracted without material adjustment from the Bank's historical financial statements for the years ended 31 December 2007 and 2008 and the related notes thereto included elsewhere in this document or from the Bank's accounting records that formed the underlying basis of the financial information in those financial statements.

This section contains forward looking statements. These statements are subject to risks, uncertainties and other factors that could cause the Bank's future results of operations or cash flows to differ materially from the results of operations or cash flows expressed or implied in such forward looking statements. Save for the discussion contained herein management is not aware of any other trends, circumstances or risks for which there is a significant chance to affect the financial position and the results from operation of the Bank.

OVERVIEW

The Bank is a specialist provider of secured finance to small- and medium-sized businesses in Bulgaria, with specific lending programs for financing SME companies in a variety of industries, and companies in the tourism and construction sectors. The Bank lends to its clients through its head office in Sofia and four other representative offices. Based on statistics published by the BNB, at 30 September 2008, the Bank was the 18th largest bank in Bulgaria on the basis of total assets, the 12th largest bank on the basis of total capital, had the highest return on assets of all banks and foreign bank branches, included in the BNB's statistics and ranked 3rd by return on equity.

At 31 December 2008 the Bank employed 146 people and on 31 December 2007 it employed 137 people.

The Bank reports its results of operations in Euro.

The foundation meeting of the Bank's shareholders was held on 22 December 1995. After being granted a banking license by the BNB, the Bank was registered with the Sofia City Court pursuant to a court resolution dated 3 December 1996 under court file No. 12587/1996, batch No. 35659, volume 397, register I, page 180 as a joint stock company under the Commercial Act 1991. The Bank is registered in the Trade Register with the Registry Agency under EIK 121246419 The Bank is registered as an issuer of publicly traded bonds with the Bulgarian Financial Supervision Commission's (FSC) Public Companies and other Securities Issuers register pursuant to resolution No. 296-E /2001 under batch No. 05-1082. The Bank is duly incorporated and validly existing under the laws of Bulgaria. The existence of the Bank is not limited by term.

The Bank is a public company and the Bank's shares are registered with the FSC and are listed on the Bulgarian Stock Exchange –Sofia (BSE).

The registered, head office and principal place of business in Bulgaria of the Bank is at 16 Krakra Street, 1504 Sofia, Bulgaria, phone number: +(3592) 9658 345, fax number: +(3592) 9445 010, email: bacb@bacb.bg, and web page: www.bacb.bg.

The principal legislation under which the Bank operates is the Credit Institutions Act 2007, the Public Offer of Securities Act 2000 (POSA) and the Commercial Act 1991. Issues related to the public offering of shares of the Bank and important to the investors are settled in the following legislative acts: Ordinance No 2 on the prospectuses in the case of public offering of securities and admission to trading on a regulated market and on the disclosure of information by the public companies and other issuers of securities; Corporate Tax Act; Personal Income Tax Act; Currency Act, Measures Against Market Abuse With Financial Instruments Act, Markets in Financial Instruments Act. The regulations of Section I, Chapter 11 of the POSA and the Ordinance on disclosure of share capital participation in a public or investment company specify the disclosure requirements for the Bank. The transactions of the Bank with own shares are settled in art. 111, par. 2 and 5 of the POSA and in the Commercial Act. Takeover bids are regulated with Art.149, Art. 150-157a of the Public Offer of Securities Act 2000, the Regulation on requirements for the contents of the memorandum on the price of the shares of a public company, including valuation methods applied to corporate transformations, joint ventures and takeover bids, as well as Regulation 13/22.12.2003 on takeover bids for the purchase and exchange of shares. The requirements for delisting the Bank as a public company from the registry kept under the requirements of Art.30.(1).3 of the Act on FSC are set out in the Public Offer of Securities Act 2000 and FSC Regulation 22 on the requirements and procedure for listing and delisting public companies, other issuers of securities and issues of securities in the FSC registry.

OPERATING AND FINANCIAL REVIEW AND RESULTS OF OPERATIONS

Results of Operations for the Years Ended 31 December 2008 and 2007

The following table sets out the Bank's net profit for the year and the principal components thereof for the years ended 31 December 2008 and 2007, as well as the percentage variation within each line item.

	Year ended 31 December		Variation
	2008	2007	2008/2007
	(€ 000)		(%)
Data from the Consolidated Statement of Income			
Interest income	56,534	45,237	25.0
Interest expense	(15,794)	(10,017)	57.7
Net Interest Income	**40,740**	**35,220**	**15.7**
Fees and commission income, net	1,949	3,018	(35.4)
Other non-interest income	291	864	(66.3)
Operating Income	**42,980**	**39,102**	**9.9**
Operating expenses	(6,005)	(6,111)	(1.7)
Provisions for impairment	(7,590)	(2,805)	170.6
Profit before tax	**29,385**	**30,186**	**(2.7)**
Income tax expense	(2,923)	(3,029)	(3.5)
Profit for the year	**26,462**	**27,157**	**(2.6)**
Data from the Consolidated Statement of Cash Flows			
Net cash (used in) operating activities	(3,042)	(44,825)	(93.2)
Net cash provided by investing activities	289	1,985	(85.4)
Net cash provided by financing activities	13,984	39,563	(64.7)
Net change in cash and cash equivalents	**12,317**	**(3,305)**	**(472.7)**

	At 31 December	
	2008	2007
Key ratios		
Return on average total assets (%)(1)	6.8	9.0
Return on average total equity (%)(2)	30.1	39.7
Earnings per share (€ per share)(3)	2.10	2.15
Shares Outstanding	12,624,725	12,624,725
Registered capital (BGN)	12,624,725	12,624,725
Declared dividend (BGN per share)(4)	See (4)	1.5
Cost/income ratio (%)(5)	14.0	15.5
Shareholders' equity/Total assets (%)(6)	23.0	22.2
Tier 1 capital ratio	16.9	15.5
Capital to risk-weighted assets ratio	16.9	15.5

(1) Return on average total assets is calculated by dividing net profit for the year for the period by the average of total assets at

the end of the period, and at the end of the previous period.

(2) Return on average total equity is calculated by dividing net profit for the year for the period by the average of total shareholders' equity at the end of the period, and at the end of the previous period.

(3) Earnings per share is calculated by dividing net profit for the year for the period by the average number of shares outstanding during the period.

(4) At the date of this report no dividend payment has been proposed to the Annual General Meeting of the Shareholders, to be held on April 29, 2009.

(5) Cost/income ratio is calculated by dividing operating expenses for the period by operating income for the period (excluding any losses or gains from foreign currency revaluation).

(6) Shareholder equity/Total assets is calculated by dividing total shareholders equity at the end of the period by total assets at the end of the period.

Return on assets and equity

	Year Ended 31 December	
	2008	2007
Profit for the year	26,462	27,157
Average Total Assets	388,168	303,138
Average Shareholders' Equity	87,837	68,345
Profit for the year as a Percentage of Average Total Assets	6.8%	9.0%
Profit for the year as a Percentage of Average Shareholders' Equity	30.1%	39.7%
Average Shareholders' Equity/Average Total Assets	22.7%	22.5%

Among other things, the discussion below addresses the requirements of Appendix 10, Section IVa of Ordinance No.2 of the Financial Supervision Commission, taking into account the specific activities of the Bank as a lending institution.

Net Interest Income

A number of factors affect the Bank's net interest income. It is primarily determined by the volume of interest earning assets, such as loans and advances to customers, interest-earning securities which the Bank holds and loans to other credit institutions, and the volume of interest bearing liabilities, such as debt securities issued, loan facilities from international financial institutions, deposits from other credit institutions and customer deposits, as well as the difference between rates it earned on interest earning assets, on the one hand, and rates it paid on interest-bearing liabilities on the other.

The following table sets out the principal components of the Bank's net interest income for the years ended 31 December 2008 and 2007, as well as the percentage variation within each line item.

	Year ended 31December		Variation
	2008	2007	2008/2007
	(€ 000)		*(%)*
Interest income	56,534	45,237	25.0
Interest expense	(15,794)	(10,017)	57.7
Net interest income	40,740	35,220	15.7

Note 4 to the Consolidated Financial Statements for 2008 contains detailed breakdowns of the principal components of net interest income for the years ended 31 December 2008 and 2007.

Interest income is comprised of interest and deferred loan management fees paid to the Bank (96.7% of interest income for 2008) and interest earned on inter-bank placements and securities held by the Bank for its own account (3.3% of interest income for 2008).

Interest income increased by €11.3 million, or 25.0%, from €45.2 million in the year ended 31 December 2007 to €56.5 million in the year ended 31 December 2008. These increases were primarily a result of the loan portfolio growth and sustained albeit slightly declining interest margins during the year ended 31 December 2008, but were also influenced by the variations in the timing of when new loans and advances to customers were made during the course of these years and the size of liquid assets.

During the year ended 31 December 2008, interest income from loans increased by €10.4 million, or 23.5%, from €44.3 million during the year ended 31 December 2007 to €54.7 million in the year ended 31 December 2008. This increase was attributable to the increase in the Bank's loans and advances to customers over the period. The size of the Bank's portfolio of loans and advances to customers increased due to stable loan demand by the Bank's customers related in part to the beneficial effect on Bulgarian SMEs of growth in GDP, increased investment activity following the EU accession and rising asset prices for most of 2008.

The interest income from money market instruments, trading and investment securities have historically been relatively small in size due to the limited size of such investments and they do not have a significant effect on the Bank's net profit for the year.

Interest expense comprises amounts paid by the Bank as interest on funds deposited or lent by customers and as interest on debt securities issued and other borrowed funds.

Interest expense increased by €5.8 million, or 57.7%, from €10.0 million in the year ended 31 December 2007 to €15.8 million in the year ended 31 December 2008. The increase resulted from the increase in the volume of interest-bearing liabilities and to the increase in the average effective interest on the interest-bearing liabilities.

Interest expense on deposits increased by €3.1 million, or 133.7%, from €2.3 million in the year ended 31 December 2007 to €5.4 million in the year ended 31 December 2008. The increases resulted from increases in deposits and to the higher interest rates over the relevant period. Total deposits increased by €22.2 million, or 20.1%, from €110.6 million at 31 December 2007 to €132.8 million at 31 December 2008.

Interest expense on debt securities issued increased by €0.7 million, or 14.6%, from €5.0 million in the year ended 31 December 2007 to €5.7 million in the year ended 31 December 2008. The increases resulted from increases in debt securities issued by the Bank and to a lesser degree to the higher interest rates over the relevant period. Debt securities issued increased on a net basis by €8.9 million, or 9.2%, from €96.9 million at 31 December 2007 to €105.8 million at 31 December 2008.

Interest expense on other borrowed funds increased by €2.0 million, or 72.3%, from €2.7 million in the year ended 31 December 2007 to €4.7 million in the year ended 31 December 2008. The increase resulted mainly from increase in the average amounts of borrowed funds from international financial institutions and international banks over the respective period, to increases of the base rates, such as EURIBOR and to higher spreads on newly attracted funds. The total principal amount of the Bank's other borrowed funds increased by €15.7 million, or 23.5%, from €66.6 million at 31 December 2007 to €82.3 million at 31 December 2008.

Net interest income increased by €5.5 million, or 15.7%, from €35.2 million in the year ended 31 December 2007 to €40.7 million in the year ended 31 December 2008. Increases in net interest income were caused by the increase of the loan portfolio while growth in interest expense exceeded the growth in interest income, which was due to the increased funding costs. In result, interest margins declined slightly.

Fees and commissions income

Fees and commissions income is composed of fees in connection with current accounts, such as maintenance and transfer fees; certain loan fees, such as prepayment, appraisal and guarantee fees; asset servicing fees; and fees and commissions on settlement and brokerage operations. Note 5 to the Consolidated Financial Statements for 2008 contain detailed breakdowns of the principal components of fees and commissions income and fees and commissions expense for the years ended 31 December 2008 and 2007.

Net fee and commissions income decreased by €1.1 million, or 35.4%, from €3.0 million during the year ended 31 December 2007 to €1.9 million during the year ended 31 December 2008. The decrease was due to the decrease in fee and commissions income from loans and advances to customers, which resulted primarily from a smaller level of prepayments, compared to 2007.

Other non-interest income

Historically, other non-interest income has not been a material part of the operating income of the Bank.

Operating Income

The operating income of the Bank increased by €3.9 million or 9.9% from €39.1 million for the year ended 31 December 2007 to €43.0 million for the year ended 31 December 2008. A number of factors affect the Bank's operating income, the most important being net interest income. Net interest income represented 94.8 and 90.1% of operating income for the years 2008 and 2007.

Operating Expenses

Operating expenses comprised salaries and benefits and other administrative expenses. Total operating expenses decreased by €0.106 million, or 1.7%, from €6.1 million during the year ended 31 December 2007 to €6.0 million during the year ended 31 December 2008.

Personnel expenses include wages and staff bonuses. Personnel expenses decreased by €0.306 million, or 9.6%, from €3.2 million during the year ended 31 December 2007 to €2.9 million during the year ended 31 December 2008. The decrease is primarily due to the decreased amount of employee bonuses, following the slower growth in assets and profitability relative to 2007 in accordance with the Bank's Long Term Employee Incentive Plan. Net of the employee bonuses, personnel expenses increased by €0.386 million, or 19.0%, from €2.03 million during the year ended 31 December 2007 to €2.4 million during the year ended 31 December 2008. The Bank employed 146 people at 31 December 2008 and 137 people at 31 December 2007. The Bank's contribution to and payment under the Long Term Employee Incentive Plan decreased by €0.692 million, or 59.2%, from €1.169 million in 2007 to €0.477 million in 2008.

Other operating expenses consist of general and administrative expenses, employee training, travel related expenses, the annual contribution to the Deposit Insurance Fund and marketing expenses and other expenses related to operations. Other operating expenses increased by €0.125 million, or 9.1%, from €1.372 million in the year ended 31 December 2007 to €1.497 million in the year ended 31 December 2008. The main causes of the increase were the increases in equipment maintenance, marketing expenses and contributions to the Deposit Insurance Fund, following an increase in customer deposits.

The Bank's depreciation and amortization expense does not have a significant impact on net profit for the year.

Provisions for Impairment

Provisions for impairment amounted to €23.0 million in 2008 as compared to €15.7 million in 2007, an increase of 46.9%.

Recoveries on previously written-off exposures are recognized directly in the income statement as other income and do not change provisions for impairment. Recoveries were nil in 2007 and €0.018 million in 2008.

As a percentage of total loans and advances to customers, provisions for impairment increased from 4.9% at 31 December 2007 to 6.2% at 31 December 2008. The aggregate amount of all classified loans increased from 7.4% of the Bank's total portfolio at 31 December 2007 to 14.7% at 31 December 2008. The increase in classified loans is primarily due to the negative global economic developments, which began to be felt more acutely in the last quarter of 2008 and resulted in deteriorating performance of certain loans. The Bank adheres to a very conservative provisioning policy and immediately increased provisions for impairment.

Income Taxes

Income tax expense comprises the current tax expense and the deferred tax expense.

The Bank's income taxes decreased by €0.106 million, or 3.5%, to €2.9 million for the year ended 31 December 2008, as compared to €3.03 million for the year ended 31 December 2007. The Bank's effective tax rate for 2008 as in 2007 was 10.0%. The change in the Bank's income tax expense was attributable to the change in taxable operating profits for each year.

Profit for the year

Profit for the year decreased by €0.695 million or 2.6% from €27.157 million for the year ended 31 December 2007 to €26.462 million for the year ended 31 December 2008.

The decrease in the profit for the year ended 31 December 2008 compared to the record year ended 31 December 2007 was caused by a combination of the factors discussed above, including higher growth in the provisions for impairment expense and the higher growth rate of interest expense compared to the growth rate of interest income. At same time, the Bank's operating income grew by €3.9 million or 9.9% from €39.1 million for the year ended 31 December 2007 to €43.0 million for the year ended 31 December 2008. The Bank's operating expenses decreased by €0.106 million, or 1.7%, from €6.1 million during the year ended 31 December 2007 to €6.0 million during the year ended 31 December 2008. The ratio of operating expenses to operating income improved from 15.5% at 31 December 2007 to 14.0% at 31 December 2008.

CAPITAL RESOURCES

Liabilities and Shareholders' Equity

The following table sets out the structure of liabilities and equity of the Bank at 31 December 2008 and 2007.

	At December 31		
	2008	2007	2008/2007
Liabilities		*('000)*	*(%)*
Deposits from banks	10,766	11,513	(6.5)
Deposits from customers	121,989	99,068	23.1
Hedging derivatives	0	317	n.a.
Other liabilities	1,654	3780	(56.3)
Other borrowed funds	82,259	66,599	23.5
Debt securities in issue	105,815	96,903	9.2
Total Liabilities	322,483	278,180	15.9
Shareholders' Equity			
Share capital	6,890	6,890	-
Retained earnings	89,375	72,596	23.1
Revaluation reserve	(168)	90	(286.7)
Total Shareholders' Equity	96,097	79,576	20.8
Total Liabilities and Shareholders' Equity	418,580	357,756	17.0

In 2008 the Bank's funding structure remained relatively unchanged to previous years. The principal funding sources for the Bank have been the Bulgarian debt capital markets, long-term loans from international financial institutions and European banks, with these three categories of funding sources accounting for 58.3% of the Bank's total liabilities at 31 December 2008. At that date, deposits from customers and bank deposits comprised 41.2% of the Bank's total liabilities.

The table below provides more information on the Bank's non-equity funding:

Non-Equity Funding: Sources of Non-Equity Funding by Category, Amount and Percentage

	Year ended 31 December			
	2008		2007	
	(€ 000)	*% of Total*	*(€ 000)*	*% of Total*
Deposits from Banks	10,766	3.4	11,513	4.2
Deposits from Customers	121,989	38.0	99,068	36.1
Loans from International Banks	49,922	15.6	29,560	10.8
Loans from IFIs	32,337	10.1	28,717	10.5
Loans from BAEF	0	0.0	8,322	3.0
Debt Securities	105,815	33.0	96,903	35.4
Total Funding	**320,829**	**100**	**274,083**	**100**

At 31 December 2008, the Bank had total liabilities of €322.5 million, compared to liabilities of €278.2 million at 31 December 2007. Unlike many other banks, a substantial portion of the Bank's funding

requirements are met through comparatively expensive, long-term funding sources, including loans from international financial institutions, loans from European banks and by bonds placed in the Bulgarian debt capital markets. This strategy results in relatively higher interest expenses for the Bank, but these are offset, at least in part, by lower operating expenses. This approach does not require a costly branch network or substantial marketing campaigns, and fits with the Bank's lending strategy. An additional benefit of this strategy is that the maturity mismatch between the Bank's funding and its expected cash inflow from client loans and other revenue-generating activities is minimal. This allows the Bank to maintain a strong liquidity position using fewer on-balance sheet liquid assets. However, the financial crisis, which deepened in 2008, led to certain tightening in the wholesale funding markets and a respective increase in funding cost. In response to these negative developments the Bank seeks to further diversify its funding sources and step up its efforts to increase its deposit base by attracting deposits from institutional and retail clients.

The Bank's average cost of funding increased from 4.5% for 2007 to 5.1% in 2008.The Bank's most recent three year mortgage bond of €35.0 million was issued in July 2008 at a fixed rate of 7.25% per annnum. The last general two year corporate bond of the Bank of $31.0 million was also issued in July 2008 at 190 basis points over the six-month LIBOR rate.

Debt securities are currently the Bank's second largest source of funding, and the Bank continues to be one of the leading bond issuers in Bulgaria. At 31 December 2008, debt securities comprised 32.8% of the Bank's total liabilities, compared to 34.8% of total liabilities at 31 December 2007. All of the Bank's mortgage bonds were issued under the Bulgarian Mortgage Bonds Act of 2000 and are collateralized by a lien on the receivables from a pool of loans secured by mortgages.

Between 1999 and 2004, international financial institutions such as the IFC and the EBRD advanced a number of loans to the Bank. The first of these loans in 1999 represented the Bank's first funding source other than loans from the then Controlling Shareholder - BAEF. As Bulgarian debt capital markets developed, the Bank placed less emphasis on borrowings from international financial institutions but they remained an important source of funding. At 31 December 2008, loans from international financial institutions comprised 10.0% of total liabilities, compared to 10.3% of total liabilities at 31 December 2007.

Since 2001, various international banks have advanced loans to the Bank. In 2004, the Bank signed a syndicated term loan of €12 million with several European banks, which was repaid in full at maturity in 2006. In April 2008 the Bank signed its second syndicated term loan of €32 million with nine European banks. Loans from international banks comprised 15.5% of total liabilities at 31 December 2008 compared to 10.6% of total liabilities at 31 December 2007.

The Bank started accepting institutional deposits in 2000, and retail deposits in 2001. At 31 December 2007, for the first time since the Bank's establishment, deposits became its largest source of funds due to an increase in institutional deposits and BAEF group deposits during the year. This trend continued in 2008. Deposits from customers comprised 37.8% of total liabilities at 31 December 2008 compared to 35.6% of total liabilities at 31 December 2007. As part of its strategy to further expand and broaden its funding base within the context of a tighter liquidity on the financial markets, in 2009 the Bank is planning to put a stronger emphasis on the deposit markets.

The Bank is subject to, and is in compliance with, the capital adequacy requirements of the BNB. Among other things, these regulations require the Bank to maintain a capital adequacy ratio of 12% (including Tier 1 and Tier 2 capital) and a Tier 1 capital ratio of 6%. Since January 1, 2007 the provisions of the Basel II accord are implemented in Bulgaria.

The Bank's total capital adequacy ratio at 31 December 2008 was 16.9% (prior to taking into account the profit for year 2008) and at 31 December 2007 was 15.5% (prior to taking into account the profit for year 2007), and its Tier 1 capital adequacy ratio at 31 December 2008 was 16.9% and at 31 December 2007 was 15.5%.

The Bank's high capital adequacy is primarily due to the high level of the Bank's profitability and its policy of retaining earnings. Management believes that the high capital ratios which resulted from this policy have enabled the Bank to attract funding on favorable terms, in part because investors and rating agencies assess the Bank's capitalization to be consistent with its risk profile as a specialist provider of finance to small- and medium-sized businesses in Bulgaria.

As a response to the recently heightened economic risks BNB has recommended to all Bulgarian banks to refrain from paying dividends for 2008. In consideration of the BNB recommendation and as a matter of prudence, notwithstanding the very strong capital position of the Bank, the Supervisory Board intends to propose to its shareholders to capitalize the 2008 year profit and pay no dividends.

LIQUIDITY

The Bank's liquidity ratio (i.e. the ratio of liquid assets to total deposits) was 48.6% at 31 December 2008, compared to 46.9% at 31 December 2007. The ratio has not changed significantly in comparison to 2007. "Liquid assets" means cash and all assets which can easily be converted into cash within one month, including cash, short-term deposits with banks, and liquid securities. Unlike many other Bulgarian banks, whose funding generally contain a greater proportion of customer deposits, the majority of the Bank's liabilities have fixed maturity dates because these liabilities are in the form of bonds and term loans which allows the Bank to maintain a strong liquidity position using fewer on-balance sheet liquid assets. The following table sets out the Bank's liquidity ratios at 31 December 2008 and 2007.

	At 31 December	
	2008	2007
	(%)	
Loans/assets	82.6	84.3
Loans/equity	359.8	379.2
Liquid assets/total assets	15.4	14.5
Liquid assets/total deposits	48.6	46.9

At 31 December 2008 94.2% of the Bank's liquid assets comprised of cash and balances with the Central Bank and loans and advances to banks, compared to 90.3% at 31 December 2007. The Bank has made some minor investments in Bulgarian securities (government bonds, corporate bonds and equity) in order to enhance the yield earned on its liquid funds. The Bank aims to keep no more than 50% of its liquid funds in the form of debt securities and, to date, has kept below this target.

RISK FACTORS

Risks relating to the Bank

The Bank's continued growth and success depend substantially on the health of the Bulgarian and the global economy

Banking activity in Bulgaria is dependent on the overall level of economic activity in the country and the global economy. As a result, the Bank's business, results of operations and financial condition largely depend on the global and local economic condition, which in turn affects loan growth, interest costs and customers' ability to meet their obligations on time. Any negative change in one or more macroeconomic factors, such as interest rates, inflation, wage levels, unemployment, foreign investment and international trade, could have a material adverse effect on the Bank's business, results of operations and financial condition.

The Bank is substantially dependent on long-term funding sources, the availability of which may tighten and cost increase in result of the global financial crisis

A substantial portion of the Bank's funding requirements are met through comparatively expensive, long-term funding sources, including loans from international financial institutions, loans from various European banks and by issuing bonds in the Bulgarian debt capital markets. The Bank has a limited branch network with which to accept deposits, and at 31 December 2008, 37.8% and 3.3%, respectively, of the Bank's total liabilities were in the form of customer deposits and bank deposits. The Bank has been successful to date in securing long-term funding on favorable terms from international financial institutions (including among others its former Controlling Shareholder – BAEF), European banks or from the debt capital markets. However, there can be no assurance that the Bank will continue to be able to do so or that the cost of funds will not increase significantly. Any of these developments may result in lower growth, lower profitability or funding shortages. In result, the Bank's liquidity and financial position may be adversely affected. While the Bank is seeking to broaden its sources of funding, including increased focus on attracting customer deposits, any further deepening of the global financial crisis and/or its ramifications through the global economy could have a material adverse effect on the Bank's business, results of operations and financial condition.

Increased competition in the Bulgarian banking sector may reduce net interest margins for market participants or otherwise affect the Bank's competitive position

Experience in other emerging markets suggests that as the banking sector in a particular country becomes more competitive, the interest rate margins earned by banks in that country decline. Since 2002, competition among banks in Bulgaria has increased significantly. Despite of the global financial crisis competition between banks in Bulgaria may continue to increase, including in respect to lending to small- and medium-size companies and to attracting customer deposits. If the Bulgarian banking sector continues to become more competitive, the Bank's interest rate margins may fall either in result of declining loan rates or increased funding costs or both. This could have a material adverse effect on the Bank's business, results of operation and financial condition. The Bank's continued success in lending to small- and medium-size companies will depend on its ability to remain competitive with other financial institutions through maintaining its superior flexibility and efficiency. However, there can be no assurance that increased competition will not adversely affect the Bank's business, results of operations or financial condition.

A substantial percentage of the Bank's customer base is particularly sensitive to adverse developments in the economy

Small- and medium-size companies are more likely to be negatively affected by adverse developments in the economy than large companies. As a result, the Bank's substantial lending to these types of companies causes the Bank to assume a relatively higher degree of risk than if it were focused more heavily on lending to larger companies.

A substantial percentage of the Bank's customer base is concentrated in a limited number of industry sectors

The Bank has set various internal restrictions to limit the risk of over-exposure to a particular industry sector, including limiting the Bank's exposure to borrowers engaged in the tourism and hotel industry to 30% of the Bank's loans and advances to customers and its exposure to borrowers in any other single industry sector to 25% of its loans and advances to customers. Notwithstanding these limits, a downturn in any one or more of the key industry sectors in which the Bank's customers are involved may cause financial difficulties for the Bank's customers in those sectors, increasing the risk of default, which may have a material adverse effect on the Bank's business, results of operations and financial condition.

A substantial percentage of the Bank's loan portfolio is concentrated in a limited number of customers

At 31 December 2008 and 2007, the Bank's largest 20 risk exposures (which include exposures under loans, guarantees and other instruments) comprised 32.9% and 32.1%, respectively, of the Bank's total loans and advances to customers. A credit exposure is the amount of the loans and advances to a single borrower or a related group of borrowers. Notwithstanding the statuary limits for large exposures, there can be no assurance that Bank's business, financial condition and results of operations will not be adversely affected by a default by one or more of the Bank's largest borrowers. In addition, this concentration of the Bank's loan portfolio in a limited number of customers means that the Bank's loan portfolio growth is largely dependant on the continuation of the Bank's business with these large customers. If some or all of these customers prepay their loans or refinance their loans with finance provided by the Bank's competitors, it could have a material adverse effect on the Bank's business, results of operations and financial condition.

A substantial portion of the Bank's loans are secured by property interests

More than 93.9% of the Bank's total loans and advances to customers were secured by interests in Bulgarian real estate as at 31 December 2008. If the Bank were to experience a significant level of foreclosures, or there is a down-turn in the Bulgarian real estate market, this could have a material adverse effect on the Bank's business, results of operations and financial condition.

Risks concerning borrower credit quality and general economic conditions are inherent in the Bank's business

Risks arising from changes in credit quality and the recoverability of loans and amounts due from counterparties are inherent in a large part of the Bank's business. Adverse changes in the credit quality of the Bank's borrowers or a general deterioration in Bulgarian, European or global economic conditions, or problems arising from systemic risks in the financial systems, could reduce the recoverability and value of the Bank's assets and require an increase in the Bank's level of provisions for bad and doubtful debts which could have a material adverse effect on the Bank's business, results of operation and financial condition.

At 31 December 2008 provisions for impairment of loans and advances to borrowers in the construction and tourism sector comprised 9.6% and 15.9% respectively of the total provisions for impairment. As at 31 December 2007 those provisions comprised 2.4% and 30.7%, respectively.

Failure to manage and monitor growth in the Bank's loans and advances to customers adequately could have a material adverse effect on the business

Loans and advances to customers by the Bank have increased significantly in recent years, growing, before provisions, by 16.2% in 2008 and 54.0% in 2007. This significant increase in credit exposure requires continued review by the Bank of the quality of the credit and the adequacy of its provisioning levels, together with continued development of its risk management strategies and systems. Failure to manage the growth of the Bank's assets successfully or to develop and maintain the quality of its assets could have a material adverse effect on the Bank's business, results of operations and financial condition.

The Bank faces a number of types of risk that could adversely affect it should its risk management policies not succeed

As with any bank, the Bank faces a number risks that could adversely affect it. These include but are not limited to: interest rate, liquidity, foreign exchange, credit, investment and operational risk. Although the Bank invests substantial time and effort in its risk management strategies and systems, these strategies and systems may nevertheless fail in certain circumstances, particularly when confronted with risks that the Bank did not identify correctly or in a timely fashion. Furthermore, risk methodologies and techniques may not cover the entire spectrum of risks to which the Bank may be subject. If any such risks materialize, the associated losses could be greater than the Bank may have anticipated which could have a material adverse effect on the Bank's business, results of operation and financial condition.

The Bank is a highly regulated entity and changes to applicable law or regulation, the interpretation or enforcement of such law or regulation, or the failure to comply with such law or regulation could have a material adverse effect on the Bank

The Bank is subject to a number of regulations designed to maintain the safety and soundness of banks, ensure their compliance with economic and other obligations and limit their exposure to risk. These regulations include Bulgarian laws and regulations, particularly those of the Bulgarian National Bank. These regulations may limit the Bank's activities, and changes in these regulations may increase the Bank's cost of doing business. In addition, breach of regulatory guidelines could expose the Bank to potential liabilities and sanctions, including, in extreme cases, loss of license. Changes in these laws and regulations may have a material adverse effect on the Bank's business, results of operations and financial condition.

The Bank may need to raise additional capital in the future

The Bank's capital requirements depend on numerous factors, including the growth of its balance sheet and earnings, regulatory capital requirements, its credit ratings and potential acquisitions. The management of the Bank cannot accurately predict the timing and amount of these requirements.

The Bank's capital adequacy ratio was well above the minimum levels set by the Bulgarian National Bank at 31 December 2008 and management does not foresee a need for any capital increases in the medium term. To the extent that the Bank modifies its current business plan, such as through the development of additional products, the entry by the Bank into new lines of business or the rapid growth of the Bank's loan portfolio, or if the Bank fails to generate sufficient profit to ensure consistent growth in equity through retained earnings, in coming years the Bank's debt and equity capital requirements may be greater than currently anticipated. Events outside the Bank's control may also result in additional funding requirements, including changes to regulatory capital requirements or worsening of the global economic and market conditions.

Any additional equity financing may be dilutive to the Bank's shareholders and debt or other forms of financing, if available, may affect the Bank's profitability and may involve restrictions on the Bank's future financing and operating activities. In addition, if adequate capital is not available, the Bank may be subject to increased regulatory supervision or even intervention, and its business, operating results and financial condition could be adversely affected.

The Bank depends on experienced personnel and competition for such employees is intense

The Bank's continuing success depends, in part, on its ability to continue to retain and motivate current senior management and other qualified and experienced banking and management personnel. Furthermore, to allow for additional growth and strong risk management, the Bank must hire additional personnel on a regular basis. The successful implementation of the Bank's business plan will, in part, depend upon its ability to hire and retain qualified operating, financial and technical personnel in the competitive Bulgarian labor market. Whilst the Bank has been successful to date in recruiting and retaining highly qualified personnel, if any key members of management or certain other specialized staff become unwilling or unable to continue in their role, or if the Bank is unable to attract, promote and retain other qualified personnel, it could have a material adverse effect on the Bank's business, results of operation and financial condition.

The Bank's compliance systems might not be fully effective

The Bank's ability to comply with all applicable laws and rules is largely dependent on the establishment and maintenance of compliance, audit and reporting systems and procedures, as well as its ability to retain qualified compliance and other risk management personnel. Although the management of the Bank believes that it has adequate compliance systems and procedures in place, no assurance can be given that these systems and procedures are fully effective. The Bank is subject to extensive oversight by regulatory authorities, including regular examination activity. In the case of actual or alleged non-compliance with regulations, the Bank could be subject to investigation and judicial or administrative proceedings that may result in substantial penalties or civil lawsuits, including by customers for damages. Any of these could have a material adverse effect on the Bank's business, results of operations or financial condition.

The Bank depends on complex information technology systems

The Bank depends on sophisticated information technology systems, including its management information systems, to conduct its operations and the failure, ineffectiveness or disruption of these systems could have a material adverse effect on the Bank.

Information technology systems in general are vulnerable to a number of problems, such as computer virus infection, malicious hacking, physical damage to vital information technology centers and software or hardware malfunctions. Any failure or interruption or breach in security of these systems could result in failures or interruptions in customer relationship management, risk management, general ledger, deposit, servicing and/or loan organization systems. If the Bank's information technology systems were to fail, even for a short period of time, the Bank could be unable to serve some customers' needs on a timely basis and could thus lose their business. Likewise, a temporary shut down of the information systems could result in extraordinary costs for information retrieval and verification. In addition, any failure to update and develop the existing information systems as effectively as competitors do may result in a competitive disadvantage. Although the management of the Bank believes that it has adequate security and continuity-of-business programs and protocols in place, including maintaining a fully equipped disaster recovery centre, no assurance can be given that these will be sufficient to prevent these problems or to ensure that the Bank's operations are not significantly disrupted as a consequence.

Any of these or other systems-related problems could have a material adverse effect on the Bank's business, results or operations or financial condition.

RISK MANAGEMENT

Overview

The Bank has established a set of risk management policies and procedures to identify, monitor and manage the levels of risk to which it is exposed. The policies and procedures are approved by the Management Board and subsequently approved by the Supervisory Board. These risk management policies set standards for various types of risks, including strategic risk, credit risk, operational risk, liquidity risk, interest rate risk, exchange rate risk, investment risk and counterparty risk. The main objective of the Bank's risk policies is to impose clearly defined parameters on the Bank's operations to limit the Bank's risk exposure. Compliance with the various requirements of the risk policies is reviewed on a regular basis, depending on the level of risk and potential impact on the Bank's operations. Any variances from the Bank's standards are reported to the Bank's management for remedial action. The Bank also reviews its risk policies on an annual basis based on an analysis of the economic trends and operating environment in Bulgaria for small- and medium-sized businesses and in particular business sectors, such as the construction and tourism sectors.

For a detailed discussion on financial risk management, please see note 32 to the Bank's consolidated financial statements for the year ended 31 December 2008.

Strategic Risk

Due to the inherent risks of being a specialist provider to small- and medium-sized businesses in an emerging economy, the Bank is particularly focused on maintaining a high level of capital adequacy. Accordingly, the Bank's policy is to ensure that it always has sufficient capital to cover the risks arising in the ordinary course of its business and to cover unforeseen emergencies. The Bank, therefore, has historically exceeded the BNB's capital adequacy requirements, which in turn are more stringent than the recommendations of the Basel Accord.

Credit Risk

The Bank's lending policy is developed by the credit risk, legal and credit process units, and is approved by the Management Board and subsequently by the Supervisory Board. The lending policy is a comprehensive document which outlines the credit analysis and approval process, defines who has authority to approve loans, states when loans should be classified into one of the default categories specified by the BNB, regulates loan loss provisioning (including provisioning for off-balance sheet exposures), sets rules on the loan documentation required by the Bank and prescribes processes for disbursing loan funds and for the ongoing monitoring of loans.

Operational Risk

Managing operational risk is an important feature of sound risk management practice in modern financial institutions. The most important types of operational risk involve breakdowns in internal controls and corporate governance. Such breakdowns can lead to financial losses through error, fraud, or failure to perform in a timely manner or cause the interests of the bank to be compromised in some other way. BACB has adopted an operational risk methodology that governs the process of operational risk management and supervision within the bank. This methodology is developed in accordance with BNB Ordinance 8 and provides for detailed categorization of events and their monitoring. The Bank uses insurance coverage to mitigate operational risk; currently the bank carries Property Insurance, Bankers Blanket Bond Policy, Felonious Assault and Public Liability Insurance Policy. For calculating capital requirements the Bank uses the Basic Indicator Approach.

Liquidity Risk

Liquidity risk is the risk that the Bank will be unable to meet its obligations to its various counterparties when those obligations mature. Liquidity risk management seeks to ensure that the Bank has the ability, under varying scenarios, to fund increases in assets and meet maturing obligations as they arise.

The Bank believes that it has a conservative liquidity policy. At any time, the Bank maintains liquid assets (including cash, short-term deposits with banks and liquid securities) in excess of all deposits maturing within one month. The Bank also aims to maintain a positive twelve-month maturity gap, so that short-term assets match or exceed short-term liabilities. The Bank typically uses interbank deposits to bridge temporary funding mis-matches rather than to fund loans.

Interest Rate Risk

The Bank manages interest rate risk by matching the repricing of assets and liabilities to the extent possible. The ALCO takes an integrated view of the interest rate risk across all of the Bank's operations.

For several years after the Bank was formed in 1996, most of the Bank's assets and liabilities were at fixed rates. In recent times, the market has shifted towards floating rate loans, and in response the Bank has moved the majority of its funding to floating rates. In late 2005, the Bank commenced using interest rate derivatives to hedge against an interest rate mismatch resulting from the issue of a fixed rate bond in 2005. The Bank does not trade in interest rate derivatives.

The Bank manages its interest rate risk using an asset/liability repricing gap model which targets the Bank's six-month open position to 10% of total assets and its twelve-month open position to 10% of total assets. In 2008, following the issuance of its sixth mortgage bond under fixed interest rate, the ALCO agreed some temporary increase of the interest rate position above the target levels to allow the Bank to fund some fixed rate loans to clients.

Exchange Rate Risk

Whilst the Bank operates in Euro, US dollars and Leva, it has relatively limited foreign exchange exposure because the Lev is pegged to the Euro through a currency-board system which has been in operation since 1997 (when the Lev was pegged to the Deutsche mark). Compliance with foreign exchange limits is reviewed by the ALCO.

The exchange rate risk management policy aims to maintain an open US dollar position that is as close as practicable to neutral by attempting to match the amounts and terms of its US dollar liabilities with its US dollar denominated loan receivables and other assets. The Bank maintains a limit on its US dollar open position of 15% of its capital base and this limit was not exceeded at any time during year 2008. The Bank maintains a long Euro position (i.e. its Euro-denominated assets are greater than its Euro-denominated liabilities), equal to or greater than the Bank's equity. The Bank does not trade in foreign exchange for its own account.

The Bank only offers foreign exchange services to its clients upon request. The limit for such open overnight foreign exchange positions for all currencies is €100,000. Due to the currency board arrangement, the position of the Euro against the Lev is not considered to be an open position.

Counterparty Risk

The Bank has interbank lines with around one-half of the banks operating in Bulgaria (including branches of foreign banks), and with its main Euro and US dollar correspondent banks. Limits on each of these lines are approved by the ALCO.

Exposure limits for the Bank's interbank lines are approved based on the capital strength, liquidity position and shareholding structure of the counterparty bank.

Investment Risk

The Bank's investments in securities are limited. Each investment is approved by the ALCO after a review of the credit risk of the issuer. The total amount of the securities portfolio at 31 December 2008 is €3.7 million. At 31 December 2008, 57.3% of the Bank's securities portfolio consisted of equity securities, 39.4% of debt securities issued by the Republic of Bulgaria and 3.3% of Bulgarian corporate bonds.

Hedging

For a short summary of the hedging instruments used and the types of risks being hedged, please refer to Note 3 of the Bank's Consolidated Financial Statements for 2008.

IMPORTANT DEVELOPMENTS AFTER THE DATE OF THE LAST BALANCE SHEET

No important developments have occurred since the date of the last balance sheet.

EXPECTED DEVELOPMENT OF THE BANK

In 2008 the Bulgarian banking sector became more competitive, the growing financial awareness of customers created demand for more sophisticated financial products for diverse customer needs, and all market participants faced difficulties due to the more complicated environment on the international markets. Early in 2008 management recognized the implications of the increased uncertainty posed by the ensuing financial crisis and in following its managed growth policy the Bank, as a precautionary measure, started tightening its loan portfolio growth and strengthening its risk management. Negative global economic developments, resulting from the financial crisis were felt more acutely in Bulgaria in the autumn of 2008. If adversity persists, 2009 may be expected to be a difficult year for the Bulgarian banking system, possibly resulting in lower loan growth compared to 2008 and/or increase in non-performing loans.

Management believes that the Bank is prepared to meet the challenges of this more uncertain environment. It also believes that the Bank's flexible management and prompt decision-making will allow it to continue to take advantage of its opportunities in a constantly changing competitive landscape. In particular, management believes that the Bank's focused strategy and specialization in serving its selected target markets, combined with its cost efficiency, prudent risk management and solid capitalization will continue to support BACB's business prospects.

The Bank's objectives for the financial year 2009 are set on continuing its managed growth policy with a focus on diversifying the loan portfolio and broadening sources of funding. At the same time the Bank will continue to closely manage its existing loan portfolio through enhanced risk management and successful work-outs of non-performing loans, while also aiming at taking advantage of the opportunities that the current instability creates.

In November, 2008 the Bulgarian National Bank (BNB) introduced changes to the minimum reserve requirements. Effective 1 January 2009 BNB decreased its minimum reserve requirements from 12% to 10% of attracted funds from local sources and to 5% of attracted funds from international sources. It is hoped that this countercyclical measure will support interbank liquidity and help sustain growth in bank loans. Further supportive measures are possible but the nature of such measures and their likelihood cannot be assessed.

To date the international financial crisis has not had a significant impact upon BACB's ability to finance its activity. Still, BACB relies upon wholesale funding and, depending upon further market developments, it is likely that BACB's funding costs will continue to increase. Management intends to broaden its existing funding strategy by putting stronger emphasis on deposit taking. At the same time the bank will continue to employ its existing sources of funding and look for further diversification. However, it may be expected that, given the current state of the markets, funding costs will increase in 2009.

Overall, the outlook for the Bank's trading for 2009 remains positive and management is confident of the Bank's prospects for the year, although volatility is likely to increase.

RESEARCH AND DEVELOPMENT

BACB is a bank and as such it does not have a specialized research and development unit. The Bank provides loans tailored to the specific needs of each client. In result, the Bank does not have pre-specified products or price lists for its lending activity.

TREASURY STOCK AND TRADING WITH THE BANKS OWN SHARES

The Bank does not own any treasury stock and has not bought or sold any of its own shares for its own account. Kapital Direct EAD is the only subsidiary of the Bank. BACB holds a 100% of Kapital Direct's shares. Kapital Direct does not own any treasury stock, has not bought or sold any of its own shares for its own account and does not own any of the shares of the Bank.

BRANCHES OF THE BANK

Other than its headquarters in Sofia, the Bank has four representative offices in the cities of Plovdiv, Varna, Burgas and Stara Zagora. These cities are the centers of the five largest business areas in Bulgaria. The Bank has not registered any branches. Information about the locations of the five offices may be found on the Bank's web site.

FINANCIAL INSTRUMENTS ISSUED BY THE BANK AND KAPITAL DIRECT EAD

Note 24 to the consolidated financial statements of the Bank contains a detailed breakdown of the Bank's debt securities outstanding at 31 December 2008 and information on any hedges used. At the same date Kapital Direct EAD did not have any debt securities issued and outstanding.

SELECTED STATISTICAL INFORMATION

Average Balances and Related Interest Rates: Assets

Table 1: Average Asset Balances and Related Interest Rates

	At 31 December					
	2008			2007		
	Average Balance (1)	Interest income	Average interest rate (2)	Average Balance (1)	Interest income	Average interest rate (2)
	(€ 000)	(€ 000)	%	(€ 000)	(€ 000)	%
Due from other banks	29,573	1,741	5.0	25,000	719	4.4
Loans and advances to customers	323,748	54,685	15.8	247,498	44,277	17.2
Trading portfolio	236	7	6.9	608	53	7.3
Investment securities-available-for-sale	1,862	101	5.9	3,895	188	5.6
Total interest earning assets	**355,419**	**56,534**	**14.8**	**277,001**	**45,237**	**16.0**
Non interest earning assets	30,749	-	-	26,137	-	-
Total Assets	388,168	56,534	13.5	303,138	45,237	14.7

Note:

(1) Average balance is the arithmetic average of the opening and closing balances for each period. Note that the average balance calculated on a daily basis, monthly basis, or weighted average basis may be different to the average balance calculated on an annual or semiannual basis, and these differences may be substantial.

(2) Average interest rates were calculated on the basis of management accounts using average monthly balances.

Average Balances and Related Interest Rates: Liabilities

Table 2: Average Liabilities Balances and Related Interest Rates

	At 31 December					
	2008			2007		
	Average Balance (1)	Interest expense	Average interest rate (2)	Average Balance (1)	Interest expense	Average interest rate (2)
	(€ 000)	(€ 000)	%	(€ 000)	(€ 000)	%
Deposits from banks	11,139	453	5.1	13,427	212	4.7
Deposits from customers	110,528	4,922	4.1	76,584	2,088	2.9
Other borrowed funds	74,429	4,711	6.0	49,201	2,737	5.8
Debt securities outstanding	101,359	5,708	5.5	92,098	4,980	5.2
Interest bearing liabilities	**297,455**	**15,794**	**5.1**	**231,310**	**10,017**	**4.5**
Non interest bearing liabilities	2,876		-	3,483	-	-
Shareholders' Equity	87,837		-	68,345	-	-
Total Liabilities and Shareholders' Equity	388,168	15,794	5.0	303,138	10,017	4.4

Note:

(1) Average balance is the arithmetic average of the opening and closing balances for each period. Note that the average balance calculated on a daily basis, monthly basis, or weighted average basis may be different to the average balance calculated on an annual or semiannual basis, and these differences may be substantial.

(2) Average interest rates were calculated on the basis of management accounts using average monthly balances.

Volume and Rate Analysis

Table 3: Volume and Rate Analysis

	At 31 December					
	2008			2007		
	Net Change Due to			Net Change Due to		
	Volume	Rate	Total	Volume	Rate	Total
		(€ 000)			(€ 000)	
Due from other banks	678	344	1,022	(708)	351	(357)
Loans and advances to customers	13,946	(3,538)	10,408	13,714	87	13,801
Trading portfolio	(43)	(3)	(46)	33	0	33
Investment securities-available-for-sale	(97)	10	(87)	(92)	(23)	(115)
Change in interest income	14,484	(3,187)	11,297	12,947	415	13,362
Deposits from banks	60	181	241	124	39	163
Deposits from customers	1,917	917	2,834	572	179	751
Other borrowed funds	1,866	108	1,974	575	(132)	443
Debt securities outstanding	500	228	728	832	333	1,165
Change in interest expense	4,343	1,434	5,777	2,103	419	2,522
Net change in interest income	10,141	(4,621)	5,520	10,844	(4)	10,840

Note:

(1) The net change due to a change in volume is the change in the average monthly outstanding balance multiplied by the average interest rate for the current period.

(2) The net change due to a change in interest rate is the change in the average interest rate multiplied by the average monthly outstanding balance for the prior period.

Average Interest Earning Assets, Yields, Margins and Spreads

Table 4: Average Interest Earning Assets, Yields, Margins and Spreads

	Year Ended 31 December	
	2008	2007
Average Interest Earning Assets	355,419	276,962
Interest Income	56,534	45,237
Net Interest Income	40,740	35,220
Average Yield [1]	14.8%	16.0%
Average Margin [2]	10.7%	12.4%
Average Spread [3]	9.7%	11.5%

Note:

(1) Average yield is interest income expressed as a percentage of average monthly interest earning assets for the period.

(2) Average margin is net interest income divided by average monthly interest earning assets for the period.

(3) Average spread is average yield minus interest expense, expressed as a percentage of average monthly interest bearing liabilities for the period.

Loan Portfolio: By Lending Program

Table 5: Loan Portfolio: By Lending Program

	At 31 December			
	2008		2007	
Program	*(€ 000)*	*%*	*(€ 000)*	*%*
SME	187,879	50.9	172,640	54.4
Tourism	76,519	20.7	68,087	21.5
Construction	86,959	23.6	65,234	20.6
MLG	17,446	4.7	11,459	3.6
Total	**368,803**	**100**	**317,420**	**100**

Loan Portfolio: By Currency

Table 6: Loan Portfolio: By Currency

	At 31 December			
	2008		2007	
	(€ 000)	*%*	*(€ 000)*	*%*
Euros	365,849	99.2	311,056	98.0
US Dollars	2,381	0.6	4,310	1.4
Leva	573	0.2	2,054	0.6
Total	**368,803**	**100**	**317,420**	**100**

Loan Portfolio: By Size

Table 7: Loan Portfolio: By Size

	At 31 December					
	2008			2007		
	No. of loans	*(€ 000)*	*% of LP*	*No. of loans*	*(€ 000)*	*% of LP*
Under 10,000	380	1,607	0.4	478	2,162	0.7
10,000 - 100,000	551	20,894	5.7	682	25,935	8.2
100,000 - 1,000,000	388	138,796	37.6	398	138,180	43.5
over 1,000,000	95	207,506	56.3	75	151,143	47.6
TOTAL	**1,414**	**368,803**	**100**	**1,633**	**317,420**	**100**

Loan Portfolio: Large Exposures (including unutilized loan commitments)

Table 8: Loan Portfolio: Large Exposures (Including Unutilized Loan Commitments) before impairment

	At 31 December			
	2008		2007	
	(€ 000)	*% of Total exposures**	(€ 000)	*% of Total exposures*
Largest total exposure to a single client group	14,152	3.5	11,699	3.1
Agregate of five largest exposures	52,989	13.0	48,069	12.7
Agregate of ten largest exposures	82,865	20.3	79,847	21.2
Agregate of twenty largest exposures	134,418	32.9	121,132	32.1

Loan Portfolio: By Remaining Term to Maturity by Program

Table 9: Loan Portfolio: By Remaining Term to Maturity by Program

	At 31 December 2008						
	Amount as at 31 Dec, 2008	**Maturity within 1 month**	**Maturity after 1 month but before 6 months**	**Maturity after 6 months but before 12 months**	**Maturity after 1 year but before 3 years**	**Maturity after 3 years but before 5 years**	**Maturity after 5 years**
				(€ 000)			
SME	13,781	3,634	41,618	26,946	49,818	20,649	31,433
Tourism	4,460	829	8,833	14,308	17,839	10,778	19,472
Construction	1,726	4,640	34,944	27,922	16,806	272	649
MLG	391	179	2,988	3,267	5,384	1,739	3,498
Total	**20,358**	**9,282**	**88,383**	**72,443**	**89,847**	**33,438**	**55,052**

Loan Portfolio: Sensitivity of Loans to Changes in Interest Rates by Program

Table 10: Loan Portfolio: Sensitivity of Loans to Changes in Interest Rates by Program

	At 31 December 2008					
	Due in 1 year or less		**Due after 1 year and up to 5 years**		**Due after 5 years**	
	Floating	**Fixed**	**Floating**	**Fixed**	**Floating**	**Fixed**
			(€ 000)			
SME	26,036	34,513	53,614	10,712	53,500	9,504
Tourism	11,026	5,646	22,798	670	32,309	4,070
Construction	0	67,020	5	18,780	483	671
MLG	409	4,166	3,666	1,997	6,788	420
Total	**37,471**	**111,345**	**80,083**	**32,159**	**93,080**	**14,665**

Loan Portfolio: Off-balance sheet Interest Accrued on Non-Performing Loans

Table 11: Loan Portfolio: Off-balance sheet Interest Accrued on Non-Performing Loans

	At 31 December	
	2008	2007
Watch	0	0
Irregular	0	0
Non-performing	1,598	1,251
Total	**1,598**	**1,251**

Portfolio: By Credit Quality

Table 12: Portfolio: By Credit Quality

	At 31 December			
	2008		2007	
	(€ 000)	%	*(€ 000)*	%
Total performing loans	314,767	85.3	293,834	92.6
Classified loans				
Watch	16,247	4.4	9,090	2.9
Irregular	15,288	4.1	348	0.1
Non-performing	22,501	6.1	14,148	4.5
Total classified loans	**54,036**	**14.7**	**23,586**	**7.4**
Total loans	**368,803**	**100**	**317,420**	**100**

Loan Portfolio: Collateralization by Program

Table 13: Loan Portfolio: Collateralization by Program

	At 31 December	
	2008	
	(€ 000)	%
SME	**187,879**	
Collateralised	186,545	99.3
Uncollateralised	1,334	0.7
Tourism	**76,519**	
Collateralised	76,519	100.0
Uncollateralised	0	0.0
Construction	**86,959**	
Collateralised	86,959	100.0
Uncollateralised	0	0.0
MLG	**17,446**	
Collateralised	17,446	100.0
Uncollateralised	0	0.0
Total	368,803	100.0

Non-Equity Funding: Sources of Non-Equity Funding by Category, Amount and Percentage

Table 14: Non-Equity Funding: Sources of Non-Equity Funding by Category, Amount and Percentage

	Year ended 31 December			
	2008		2007	
	(€ 000)	*% of Total*	*(€ 000)*	*% of Total*
Deposits from Banks	10,766	3.4	11,513	4.2
Deposits from Customers	121,989	38.0	99,068	36.1
Loans from International Banks	49,922	15.6	29,560	10.8
Loans from IFIs	32,337	10.1	28,717	10.5
Loans from BAEF	0	0.0	8,322	3.0
Debt Securities	105,815	33.0	96,903	35.4
Total Funding	**320,829**	**100**	**274,083**	**100**

Non-Equity Funding: Deposits by Type and Currency

Table 15: Non-Equity Funding: Deposits by Type and Currency

	At 31 December	
Funding	2008	2007
	(€ 000)	
Demand deposits		
in EUR	11,019	16,238
in USD	817	1,005
in GBP	19	128
in BGN	4,910	6,299
Total	**16,765**	**23,670**
Term deposits		
in EUR	92,564	73,968
in USD	7,473	5,006
in BGN	15,953	7,937
Total	**115,990**	**86,911**

Table 16: Non-Equity Funding: Deposits by Type

	At 31 December	
Demand deposits	2008	2007
Bank	1	0
Institutional	11,535	15,629
Individual	5,229	8,041
Total	**16,765**	**23,670**
Term deposits	2008	2007
Bank	10,765	11,513
Institutional	94,873	63,535
Individual	10,352	11,863
Total	**115,990**	**86,911**

Off-Balance Sheet Liabilities: By Type

Table 17: Off-Balance Sheet Liabilities: By Type

	At 31 December			
	2008		2007	
	(€ 000)	%	(€ 000)	%
Unutilised Loan Liabilities	40,357	96.7	59,929	96.9
Letters of Credit	0	0.0	156	0.3
Bank Guarantees	1,376	3.3	1,760	2.8
Total	**41,733**	**100**	**61,845**	**100**

	At 31 December			
	2008		2007	
	(€ 000)	%	(€ 000)	%
Unutilised Loan Liabilities	40,357	96.7	59,929	96.9
Letters of Credit	0	0.0	156	0.3
Bank Guarantees	1,376	3.3	1,760	2.8
Total	**41,733**	**100**	**61,845**	**100**

Off-Balance Sheet Liabilities: By Maturity

Table 18: Off-Balance Sheet Liabilities: By Maturity

	At 31 December 2008				
	Maturity within 1 month	**Maturity after 1 month but before 3 months**	**Maturity after 3 months but before 6 months**	**Maturity after 6 months but before 12 months**	**Maturity after 1 year**
			(€ 000)		
Unutilised Loan Liabilities	885	2,414	7,698	14,370	14,990
Letters of Credit	0	0	0	0	0
Bank Guarantees	38	49	498	411	380
Total	**923**	**2,463**	**8,196**	**14,781**	**15,370**

OTHER INFORMATION, RELATED TO THE BANKS PERFORMANCE IN 2007 (APPENDIX 10, ORDINANCE 2 FSC)

Sources of revenue and their dynamics in 2008

The table below provides a breakdown of the sources of income of the Bank on a consolidated basis, as well as the growth in revenue by source in 2008 as compared to 2007.

	31.12.2008		31.12.2007		Variance
INCOME	EUR'000	% Total	EUR'000	% Total	2008/2007
Interest Income	56,534	96.2	45,237	92.1	24.5%
Fees and commission income, net	1,949	3.3	3,018	6.1	(35.4%)
Other non-interest income	291	0.5	864	1.8	(66.3%)
TOTAL INCOME	**58,774**	100.0	**49,119**	100.0	19.0%

As can be seen, interest income represents over 96% of the Bank's total income. For a further discussion, please, see section **Results of Operations for the Years Ended 31 December 2008 and 2007** above.

Main markets, sources of funds and concentration of borrowers and lenders

The Bank operates exclusively in Bulgaria, where it generates a 100 per cent of its income.

For a detailed discussion on sources of funds, please, see section *Capital Resources* above.

No single borrower accounted for more than 10% of BACB's total income and no lender accounted individually for more than 10% of the Groups interest expense.

Large transactions or transactions with significant influence for the Bank's operations

In 2008 the Bank did not enter into any significant or unusual transactions on the assets side. At 31 December 2008 the largest loan exposure to a single client group amounted to €14.2 million or less than 3.4% of total assets.

The Bank executed a number of deals on the funding side. Even if the size of any of these deals may have exceeded 5 or more per cent of the Bank's assets on the date of execution of the respective transaction, such deals have been approved within the approval authorities set by the By-laws and are part of the ordinary course of business of the Bank and are executed on an arm length basis.

Transactions with related parties, transactions outside of the normal scope of activity or unusual transactions

In 2008 the Bank has executed a number of transactions with related parties within its normal scope of business at an arms length basis. For details on transactions with related parties, please see Note 31 to the Consolidated Financial Statements for 2008.

Unusual events, circumstances or ratios that may have material impact on the Bank's activity or results from operations

On 29 August 2008 the then controlling shareholder of the Bank, BAEF, sold 49.99% of the shares of the Bank to Allied Irish Banks, P.l.c. (AIB). In result, AIB became the single largest shareholder of the Bank, while following certain changes to the Supervisory Board and the Management Board BAEF is no longer a related party to BACB as per POSA.

On 4 September 2008 Standard & Poor's Ratings Services announced that pursuant to this acquisition it increases BACB's long-term counterparty credit rating from BB to BB+ due to the expected strengthening of the Bank's market position and funding profile that could stem from the support of a shareholder such as AIB.

Off-balance sheet exposures

The unutilized commitments on loans represent funds that are committed but not yet disbursed to borrowers. At 31 December 2008 unutilized commitments on loans represented 11.6% of net loans. For a detailed breakdown of off-balance sheet exposures, please see Note 28 to the Consolidated Financial Statements of the Bank.

Equity interests, fixed assets and investment in securities

Details on the fair values of investment securities classified as available-for-sale at 31 December 2008 and 2007 are provided in Note 17 to the Consolidated Financial Statements of the Bank.

At 31 December 2008 the Bank had the following participations in other companies:

Company	# of shares held	Nominal value of 1 share	Date of acquisition	% shareholding
Kapital Direct EAD	3,000,000	1.00	13.04.2006	100.00
ERG Capital – 1 ADSIP	299,700	1.00	4/29/2005 – 4/13/2006	9.99
ERG Capital – 2 ADSIP	344,650	1.00	6/20/2006 – 1/30/2007	9.99
ERG Capital – 3 ADSIP	96,667	10.00	6/26/2007 – 7/26/2007	4.60
Bulgarian Stock Exchange	20,000	1.00	13/03/2003	0.34

All material properties owned or leased by the Bank for operational purposes are:

Address	Description	Tenure	Area (m2)
16 Krakra Street 1504 Sofia, Bulgaria	Head office and land	Freehold	2,321
20-22 Oborishte Street 4000 Plovdiv	Offices	Leasehold expiring August 2012	264
Business Park Sofia	Storage facility	Leasehold expiring April 2013	66
6 Ruski Blvd 6000 Stara Zagora	Offices	Leasehold expiring May 2012	109
91-93 Slivnitza Street 9000 Varna	Offices	Leasehold expiring May 2012	171
5 Adam Mitzkevitch Street 8000 Bourgas	Offices	Freehold	157

As part of foreclosures and workouts the Bank has acquired land and real estate in certain locations in the country. The Bank intends to gradually dispose of these assets and they are accounted for as "Assets held for sale". At 31 December 2008 assets held for sale had a book value of €1.483 million, corresponding to less than 0.4% of the Bank's total assets.

All of the above investments are funded with the Bank's capital resources.

Loans and guarantees extended by the Bank

The Bank is a lending institution which provides banking services, including extending loans and providing guarantees represents the core of its business activity. For details on the Bank's loan portfolio, please, see the discussion above as well as Note 32 to the Bank's consolidated financial statements for 2008.

Use of proceeds from the issuance of new bonds or shares

The Bank has not issued any new shares in 2008. In 2008 BACB issued two bonds: (1) a general, unsecured corporate bond in the amount of $31.0 million and (2) a mortgage bond of €35.0 million, listed for trading on the BSE. The Bank used the proceeds from these bonds to fund its business activity, i.e. grow its loan portfolio and/or repay maturing obligations.

Earnings guidance and results forecasts

The Bank has a policy not to provide earnings guidance and it does not publish forecasts of its expected results.

Funding strategy and management

The Bank's funding strategy, which is designed around the longer-term funding requirements of its target markets, is to raise wholesale funds from domestic and foreign debt capital markets and international banks. As a result, the Bank has not developed a large network of branches as most of its competitors have done. However, following the market developments in 2008, which resulted in pressures on international liquidity, the Bank decided to increase its deposit activities. Although the Bank has been accepting deposits from corporate and retail clients and selectively offers other commercial banking services to its clients, the Bank was not actively promoting these services. Plans are for this to change in 2009.

For further details on the Bank's funding see sections *Capital Resources* and *Risk Management* above.

Planned investments and ability to finance

The Bank intends to maintain its focus on providing loans to SME's in Bulgaria. Other than continuing to grow its loan portfolio, the Bank does not have any major plans to acquire other assets or make other significant investments or acquisitions. For details on the Bank's ability to finance the organic growth of its loan portfolio and the associated financial risks, please see sections *Capital Resources, Liquidity* and *Risk Management* above.

Changes to the general governance principles of the Bank and in its economic group

In 2008 the Bank has not changed its general governance principles but certain important changes occurred to its economic group and the composition of the Supervisory Board and the Management Board as described below.

At the Regular Annual General Meeting of the Shareholders, held in April, 2008, the Bank adopted certain changes in its by-laws in order to bring them in compliance with the, then recently adopted, requirements of the Act on Markets in Financial Instruments. These changes did not affect the governance principles of the Bank.

On August 29, 2008 Allied Irish Banks, P.l.c. acquired from BAEF 49.99% of the shares of the Bank (AIB Transaction). In result the Bank seized to be a part of the economic group of the BAEF and is no longer a related party to BAEF as per POSA. Currently the Group consists of the Bank and its only subsidiary, Kapital Direct EAD, and does not belong to other economic groups.

Internal control, compliance and risk management

The Bank maintains clearly defined operating procedures with respect to its internal controls, which are updated as and when necessary to cope with the growth in the Bank's business. The Bank's organizational structure and human resources policies are designed to ensure that all areas of the Bank's operations, including those associated with financial reporting, are managed and supervised effectively by competent and well-qualified staff. The Internal Audit Department also reviews the operation of the Bank's internal control systems and reports the results of this review directly to the Supervisory Board and to the general meeting of the shareholders. Management is confident that the Bank's internal control systems are adequate and the Bank continues to refine its systems to ensure that this remains the case.

For details on risk management, please see section *Risk Management* above.

Changes to the Bank's Management Board and Supervisory Board

Following the AIB Transaction described above, on 20 October 2008 the Extraordinary General Meeting of the Shareholders (EGM) elected three new members of the Supervisory Board: Mr. Gerald Byrne, Mr. John Power and Mr. Evgeni Ivanov. The minutes of the EGM and the detailed biographies of the members of the Supervisory Board are available on the Bank's web site (http://www.bacb.bg/en/annual-meeting.php?year=2008 and http://www.bacb.bg/en/investors-supervisory-board.php).

On 28 October 2008 Mr. Michael Hunsberger and Mr. Dennis Earl Fiehler were relieved as members of the Management Board and Mrs. Maria Sheytanova was appointed to serve as member of the Management Board and Executive Director.

On 17 November 2008 Mr. Stoyan Dinchiiski was relieved as Executive Director and Member of the Management Board of BACB and Mr. Frank Bauer was relieved as Executive Director but retained his position as Member of the Management Board of BACB. The Bank is represented by its Executive Directors Dimiter Voutchev and Maria Sheytanova always jointly. The detailed biographies of the members of the Management Board are available on the Bank's web site (http://www.bacb.bg/en/investors-management-board.php).

Remuneration of the members of the Bank's Management Board and Supervisory Board, paid by BACB and/or its subsidiaries

Members of the Supervisory Board have not received any remuneration for 2008 in any form.

During the year ended 31 December 2008 the Bank paid a total of €235.7 thousand to members of the Management Board as described below.

Dimiter Voutchev as an Executive Director of the Bank received remuneration by the Group in the amount of €123.5 thousand for 2008.

Stoyan Dinchiiski as an Executive Director of the Bank for the period 1 January 2008 – 17 November 2008 received remuneration by the Group in the amount of €94.9 thousand for 2008.

Maria Sheytanova as an Executive Director of the Bank for the period 28 October 2008 – 31 December 2008 received remuneration in the amount of €17.3 thousand for 2008.

Save as set out above there are no existing or proposed service agreements between any Member of the Supervisory Board, the Management Board or senior manager of the Bank and the Bank providing for benefits upon termination of employment.

Save as disclosed in this section, no other current members of the Supervisory Board or the Management Board received any remunerated from the Bank in 2008.

There are no any conditional or postponed payments, which have arisen during 2008, but are due at a later moment.

Shares and options of the Bank owned by members of Senior Management

The table below sets out the interests of the Members of the Supervisory Board, the Management Board and senior managers of the Bank in the Share capital of the Bank at the date of this document.

At the date of this document

	Number of Shares currently held	% of issued share capital
Stephen Fillo	-	-
Marshall L. Miller	-	-
Kiril Manov	-	-
Gerald Byrne	-	-
John Power	-	-
Evgeni Ivanov	-	-
Frank Bauer	5,000	0.040
Dimiter Voutchev	14,291	0.113

Maria Sheytanova	4,159	0.033
Edward O'Hara	-	-
Brendan Long	-	-

Save as set out above, no Member of the Supervisory Board, the Management Board or senior manager of the Bank has any other interest in the share capital of the Bank.

Except for Frank Bauer, who acquired 1,000 shares of the Bank in 2008, no other current member of the Supervisory Board and the Management Board of the Bank has bought or sold any shares of the Bank during year 2008.

Rights or privileges of the Directors to buy shares or bonds issued by the Bank

Members of the Supervisory Board and the Management Board of the Bank do not have any special rights or privileges in acquiring securities issued by the Bank. The Bank does not have a stock option plan.

Other ownerships and directorships of the Directors

As of the date of this document in addition to their directorships of the Bank, the Members of the Supervisory Board and Management Board hold the following directorships with commercial companies, and are members of the following partnerships.

Director's Name	Current directorships / management roles	Current partnerships / other interests (at least 25% or control)
Stephen Fillo	BAEF – Board member	Fillo & Co. – partner
Marshall L. Miller	BAEF – Board member; Electronic Warfare Associates, Inc. – Board member	Baise & Miller P.C. – Partner
Kiril Manov	None	None
Gerald Byrne	AIB – Member of the Executive Committee Bank Zachodni WBK S.A., Poland - Member of the Supervisory Board	Saski Limited - Partner Alawana Holdings Limited - Partner Camcor SPzoo - Partner
John Power	Lelewela Enterprises – Director Pavillion Design Centre – Director Bank Zachodni WBK S.A., Poland - Member of the Supervisory Board	Lelewela Enterprises Ltd - Partner Pavillion Design Centre Ltd. - Partner
Evgeni Ivanov	Arco Capital Corporation - Member of the Supervisory Board	None
Frank L. Bauer	BAEF – President and CEO; BAPM EOOD - Manager Serdika Capital Advisors LLC, USA – Executive Director; Enterprise Realty Group EOOD, Sofia – Manager SEGA 21 EOOD, Sofia – Manager;	SEGA 21 EOOD, Sofia – Sole owner; Serdika Capital Advisors LLC, USA – Partner
Dimiter Voutchev	Delta Capital EOOD Kapital Direct EAD – Executive Director	Delta Capital EOOD
Maria Sheytanova	None	None

Conflicts of interest (Article 240b of the Commercial Act)

In accordance with Art.116b.(1).2. of POSA and the Bank's Articles of Association the members of the Management Board and the Supervisory Board should avoid any direct or indirect conflicts of interest and if such conflicts arise they should disclose it in writing before the respective authority and should not participate in and should not try to influence the other Board members when taking a decision.

None of the Directors or the senior management of the Bank has any potential conflicts of interest between his or her duties to the Bank and his or her private interests or other duties.

No member of the Supervisory Board and the Management Board of the Bank or a party related to them has entered into any deals or agreements with the Bank outside of its ordinary course of business. All transactions between the Bank and members of the Supervisory Board and the

Management Board, to the extent that there are any, are executed at an arms length basis and following approval according to the Bank's bylaws and rules of operation.

Possible change in control

The Bank is not aware of any contracts or other actions or intentions that may result in changes to its ownership or in its bondholders.

Litigation

The Bank is not a party to any pending court, administrative or arbitration proceedings, regarding receivables or obligations exceeding 10 per cent of its capital.

Investor relations officer

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CHANGES IN THE PRICE OF THE SHARES

The Bank listed its shares for trading on the Bulgarian Stock Exchange – Sofia (BSE) on April 4, 2006 following a public offering to both Bulgarian and international investors by BAEF, which sold 3.75 million shares in that transaction.

The ticker of the Bank's shares is 5BN, formerly BACB. Based on the BSE statistics for the period 1 January 2008 – 31 December 2008 the Bank's estimates that the number of its shares traded on the BSE was 1,534,358 for a total volume of BGN 71.8 million (€36,7million). The closing price on December 23, 2008, the last day of trading for year 2008, was BGN 12.00 (€6.14) as compared to BGN 81.99 (€41.92) on December 21, 2007.

BACB's shares are included in the calculation of all three official broad market indices, calculated by the BSE: SOFIX, BG40 and BGTR30. The weight of the index constituents of SOFIX is a function of market capitalization and free float. BG40 is a price based index and BGTR30 is an equal weight index.

On January 1, 2008 the most widely followed index, SOFIX, opened at 1,767.88 and on December 23, 2008 it closed at 358.66.

CORPORATE GOVERNANCE AND SHARES OF THE BANK

The Bank has adopted a Good Corporate Governance Program (GCGP) in 2006. During 2008 the activity of the Supervisory Board and the Management Board has been in compliance with the Bank's GCGP. Following the Extraordinary General Meeting of the Shareholders on October 20, 2008 the Supervisory Board changed the composition and adopted a new charter of the Audit Committee and established a Remuneration Committee. BACB adheres to high corporate governance standards and rather than further amending its existing GCGP, the Bank intends to declare adherence to the Bulgarian National Code for Corporate Governance, created by a Task Force sponsored by the BSE.

The discussion in the following sections provides additional information on the Bank's share capital and disclosures related to its corporate governance.

SHARES OF THE BANK (APPENDIX 11, ORDINANCE 2 FSC)

1. Capital structure

Share Capital

At 31 December 2008, the Bank's issued and outstanding share capital was BGN 12,624,725 comprising 12,624,725 Shares, each with a nominal value of BGN 1. All the issued and outstanding Shares were fully paid-up and registered for trading on the Bulgarian Stock Exchange - Sofia. There have not been any changes in the Bank's share capital during 2008.

The Bank has a single class of ordinary shares, representing 100% of its registered capital. Each of the Shares ranks pari passu amongst themselves, with no preferential rights attached to any of the Shares. Each Share entitles its holder to one vote at a general meeting of shareholders, to dividends when declared and to participate in a liquidation of the Bank in proportion to the nominal value of the Share. The Bank does not have non-listed shares.

The following table shows the issued and outstanding share capital of the Bank at the dates indicated:

	Number of issued Shares	Paid-up share capital (BGN)
31 December 2007	12,624,725	12,624,725
31 December 2008	12,624,725	12,624,725

Pre-emption Rights

Each holder of Shares has pre-emptive rights to subscribe for any new shares or convertible bonds issued by the Bank pro rata to its existing holding of Shares. The number of Shares required to subscribe for one new share or convertible bond must be specified in the shareholder resolution approving the share capital increase. Under Bulgarian law, pre-emption rights may not be removed in any way, unless those pre-emption rights are automatically removed by operation of Bulgarian law, which occurs whenever shares are issued for the following purposes: (i) to be allotted to holders of interests in another company as part of a merger or a non-cash tender offer for the shares in that company; (ii) to be allotted to holders of convertible bonds or warrants due to the conversion of those instruments; or (iii) in order to increase a bank's share capital at the direction of the BNB if its capital adequacy is insufficient, but only so long as that bank is unable to raise share capital in a rights issue.

If the capital increase is authorized by a shareholder resolution, the pre-emption rights accrue to those persons registered as shareholders at the Central Depository on the ex-dividend date. If the capital increase is authorized by a unanimous resolution of the Management Board, the pre-emption rights accrue to those persons registered as shareholders at the Central Depository on the seventh day after the publication of the announcement of the rights issue in the Bulgarian State Gazette. On the business day following the ex-dividend date (or the seventh day after the announcement, as appropriate) the Central Depository opens rights accounts in the name of the relevant shareholders based on the register at the Central Depository at such date.

The first date on which pre-emption rights may either be: (1) exercised to subscribe for new shares or convertible bonds; or (2) traded on the BSE is required to be specified in the announcement of the rights issue. The final date for the exercise of pre-emption rights must be between fourteen and thirty days from the date set for the first exercise of such rights. All rights not exercised within this time must be offered to the public by means of an auction organized by the BSE five business days after the final date on which rights may be traded. This auction is open for a period of one day. Any right acquired pursuant to the auction must be exercised within ten business days of the auction.

2. Restrictions on Share Transfers

In general there are no limitations on the transfer of the shares and shareholders do not need the approval of the Bank or of any other shareholder in order to do so. However, due to the fact that BACB is in the banking business certain rules and regulations, stipulated in the Act on Credit Institutions do apply.

Certain Permissions under Bulgarian Act on Credit Institutions

Pursuant to the Act on Credit Institutions 2006, the pre-approval of the Bulgarian National Bank (BNB) is required whenever a person intends to acquire, directly and/or through related parties, a number of shares such that its interest in the bank's capital may reach or exceed the thresholds of 20%, 33%, 50%, 66%, 75% or 100% ("qualified ownership"). If the acquisition is done on the Bulgarian Stock Exchange or without pre-approval, the acquirer has no voting rights at the general meeting of the shareholders until proper permission is obtained. If BNB declines to issue proper permission, it has the authority to demand the acquirer to sell the excess number of shares within 1 month.

Any person intending to reduce its qualified ownership in a bank's capital is obliged to inform BNB of its intent to reduce its ownership and to specify the number of shares it intends to sell in that transaction not later than 10 days prior to executing the transfer.

3. Principal Shareholders

The following table sets out details, insofar as they are known to the Bank, of the interests in Shares held by persons who are directly or indirectly interested in five per cent or more of the Bank's issued share capital at the date of this document.

	At January 04, 2008	
	Number of Shares	**% of issued share capital**
Allied Irish Banks, P.l.c.....	6,311,100	49.990
Gramercy Emerging Markets Fund, directly and indirectly	3,903,399	30.919
Others	2,410,226	19.091
Total	**12,624,725**	**100.000**

Save as disclosed in the table above, the Bank is not aware of any person who is holding directly or indirectly, 5% or more of the Bank's registered share capital.

None of the Bank's shareholders have different voting rights from any other holder of Shares in respect of any Shares held by them.

4. Controlling Shareholders

By virtue of the Bank's bylaws the general meeting of the shareholders has a quorum if at least 50% of the voting shares are presented.

Until 29 August 2008 the Controlling Shareholder of the Bank was BAEF. After that date there is no shareholder who has any special controlling rights.

5. Employees and Directors as Shareholders

Bank's employees and directors hold certain interest in the Bank's shares, which does not exceed 1% of its capital. The Bank is not aware of any shareholder agreement, restriction or limitation being imposed on directors and employees in voting their shares. Each shareholder exercises his/her voting right or may choose to authorize a third party of its own choice to vote by proxy. The Bank is not aware of any employee shares being blocked or restricted.

6. Voting Rights Restrictions

The Bank is not aware of any restrictions or limitations on voting rights on any grounds. Two limitations may arise by law: (i) surpassing certain thresholds without BNB's preapproval (for more details see

"Certain Permissions and Disclosure Requirements under Bulgarian Act on Credit Institutions") and (ii) voting on certain deals with interested parties as stipulated in article 114 et sec. of POSA.

7. Restrictive Shareholder Agreements

The Bank is not aware of any agreements between any of its shareholders that might lead to restrictions in transferring the Bank's shares or in exercising voting rights.

8. Appointment of the Supervisory Board and the Management Board and amendments and supplements of Bylaws

The bylaws of the Bank provide for a two-tier management system consisting of a Supervisory Board and a Management Board. Members of the Supervisory Board may be either individuals or legal entities. Only individuals are able to serve on the Management Board, not legal entities.

Supervisory Board

Bulgarian law and the Bank's bylaws provide that a Supervisory Board must consist of at least three and not more than seven persons. The members of the Supervisory Board may be appointed and dismissed by a resolution passed by a two-thirds vote of the shareholders in general meeting. Under Bulgarian law at least one third of the members of the Supervisory Board should be independent (i.e. not related to the Bank, its majority shareholder, another board member or to a person in a long-term commercial relationship with the Bank).

The Supervisory Board has the power to appoint and dismiss members of the Management Board, and it must approve any resolutions of the Management Board to delegate the power to represent the Bank.

Management Board

Bulgarian law and the Bank's bylaws provide that the Management Board should consist of at least three and not more than nine persons. Subject to the requirements for BNB consent, the members of the Management Board may be appointed and dismissed by the Supervisory Board.

The Bank's bylaws provide that a quorum of at least half of all Management Board members is necessary for a valid meeting and for passing of resolutions. A simple majority is sufficient for passing resolutions unless the law or the bylaws require otherwise. The Management Board has, with the approval of the Supervisory Board, authorized the Executive Directors to represent the Bank and to take responsibility for its daily operations. Board members may be re-elected without limitation and may be dismissed at any time by the Supervisory Board. A board member may resign and require to be deregistered as a Board member in the commercial register with notice in writing addressed to the Bank.

Amendments or supplements to the bylaws

The Bank's bylaws provide that the shareholder resolution to amend or supplement the bylaws require the approval of two-thirds of the voting shares present at the meeting. In addition, any amendment or supplement to the Bank's bylaws require the prior written approval of the BNB. The BNB and the Financial Supervision Commission each has the power to issue a "stop order" or a compulsory instruction or injunction to the Bank if any resolution of the shareholders in general meeting or resolution of the Management Board or Supervisory Board is found to be illegal. The BNB alone may issue such an order if a resolution would be detrimental to interests of the Bank or its depositors, or would be detrimental to the stability of the payment system. The Financial Supervision Commission alone may make such an order if a resolution of the Management Board or Supervisory Board would be detrimental to the interests of shareholders or other investors.

Amendments and supplements to the bylaws of the Bank are only effective at the date of the registration of the resolution at the Bulgarian commercial register and the approval of the BNB.

9. Powers of the Supervisory Board and the Management Board

Supervisory Board

The Supervisory Board supervises the activities of the Management Board and approves the Bank's annual and three-year business plans. The Supervisory Board also monitors the Bank's risk control mechanisms and its management information systems. The Supervisory Board has the power to appoint and dismiss members of the Management Board, and it must approve any resolutions of the Management Board to delegate the power to represent the Bank. The approval of the Supervisory Board is also required for resolutions of the Management Board for:

- changing the internal and organizational structure of the Bank and substantial organizational changes;
- changing the internal regulations and rules which set down procedures for the Bank's operations and transactions;
- opening and closing of branches;
- increasing the Bank's capital under the powers given to the Management Board in the bylaws;
- acquiring and disposing of equity interests;
- amending of the bylaws;
- real estate transactions, other than in relation to foreclosing security granted in connection with a loan, but only if the value of the transaction exceeds certain internal thresholds;
- authorizing a procurator;
- extending credits which form a large exposure over 15% of the Bank's capital and credits to board members and employees; and
- approving a bond issue with a total nominal value of more than one-third of the Bank's capital base.

Management Board

The Management Board is responsible for securing the lawful and viable operation of the Bank. It resolves on all issues that are not of the exclusive competence of the general meeting or the Supervisory Board. The Management Board shall report on its activities before the Supervisory Board and the General Meeting of the Shareholders.

The most important resolutions of the Management Board are listed in the previous section and require the approval of the Supervisory Board, if not the approval of the General Meeting of the Shareholders. The Management Board resolves on all issues that are not of the sole competence of the General Meeting or the Supervisory Board.

Buy-back of Shares

Deciding on share buy-backs is of the sole competence of the General Meeting of the Shareholders. In addition, the Bank may repurchase its own shares upon written permission by the Central Bank pursuant to the Act on Credit Institutions, the Commercial Act, the POSA and the other applicable Bulgarian laws.

The Bank is not allowed to exercise any rights arising from the repurchased shares. Such rights are exercisable after the shares are transferred by the Bank to third parties.

During 2008 the Bank and its subsidiary Kapital Direct have not executed any share buybacks. Neither the Bank, nor Kapital Direct own any of the Bank's shares. The Bank has not extended any loans against its shares and has not accepted collateral in the form of its own shares. In summary, the Bank has not been a party to any of the transactions listed in Art. 187d and 187e of the Bulgarian Commercial Act.

10. Agreements Representing a Takeover Defense

The Bank is not aware of any agreements that shall become in effect, supplemented or cancelled in the event of change in control or a takeover bid.

11. Agreements on Severance Packages in Case of Termination of Employment

The Bank is not aware of any arrangements between the company and its directors or employees that may result in extra payments, bonuses or other compensation in case of termination of employment, dismissal or cancellation of employment without any legal grounds or due to a takeover bid.

Dimiter Voutchev
Executive Director

Maria Sheytanova
Executive Director

INDEPENDENT AUDITOR'S REPORT AND
ANNUAL CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Bulgarian American Credit Bank AD

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Bulgarian American Credit Bank AD ("the Bank") and a subsidiary ("the Group"), which comprise the consolidated balance sheet as at December 31, 2008, and the consolidated 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 Consolidate Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparations and fair presentation of the consolidated 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 Group'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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Emphasis of Matter

Without qualifying our opinion, we draw attention to the following:

As disclosed in note 15 to the accompanying consolidated financial statements, at the end of 2008 and the beginning of 2009 as a result of the global economic crisis different industries and sectors in the Bulgarian economy, including construction, real estate and hotel industry, have marked a decline which causes a material uncertainty and risks for their development in the forseable future. As of December 31, 2008 a substantial portion of the Bank's credit portfolio (approximately 47%) is concentrated in the sectors "Construction" and "Investments in/and development of real estate" under the Bank's construction financing program. The share of loans granted to "Hotels" sector (approximately 13%) and "Mortgage loans" sector (approximately 18%) is also substantial. The loan concentration in economic sectors with declining rates of development causes a significant risk concentration. Therefore, the level of the impairment losses in subsequent reporting periods may differ substantially from the current levels. In addition, as of December 31, 2008, there are loans in grace period for which the principal repayment begins after the balance sheet date. The principal repayment for a major portion of these loans is related to the successful finalization of the investment projects and the expected cash flows from the sale of properties subject to financing. The recoverability of these loans and the adequacy of the recognized impairment loss, as well as the Group's liquidity maintenance are dependent on the financial position and the borrowers' ability to repay the loans at their maturity date in the subsequent reporting periods.

Other Reports on legal and regulatory requirements - Annual consolidated management report of the activities of the Group according to article 33 of the Accountancy Act

Pursuant to the requirements of the Bulgarian Accountancy Act, article 38, paragraph 4 we have read the accompanying Annual consolidated report on the activities of the Group, prepared by the Bank's management. The Annual consolidated report on the activities of the Group is not a part of the consolidated financial statements. The historical financial information presented in the Annual consolidated report on the activities of the Group, prepared by the management, is consistent, in all material respects, with the financial information disclosed in the annual consolidated financial statements of the Group as of December 31, 2008, prepared in accordance with International Financial Reporting Standards, as adopted by the European Union. Management is responsible for the preparation of the Annual consolidated report on the activities of the Group dated February 18, 2009.

Deloitte Audit

Deloitte Audit OOD

Sylvia Peneva
Managing Director
Registered auditor

Специализирано одиторско предприятие
София
Рег. №033
"Делойт Одит" ООД

February 18, 2009
Sofia

All amounts are in thousands of EUR unless otherwise stated

	Notes	2008	2007
Interest income		56,534	45,237
Interest expense		(15,794)	(10,017)
Net interest income	4	**40,740**	**35,220**
Fees and commission income		1,988	3,069
Fees and commission expense		(39)	(51)
Fees and commission income, net	5	**1,949**	**3,018**
Dividend income	6	95	71
Gains/(losses) on assets held for trading	7	147	469
Gains/(losses) on financial assets available-for-sale		1	(204)
Gains/(losses) on hedge instruments		(518)	(232)
Exchange differences, net		(77)	(237)
Other operating income	8	643	997
Operating income		**42,980**	**39,102**
Administrative expenses	9	(5,657)	(5,775)
Depreciation and Amortization	18	(348)	(336)
Impairment on financial assets	10	(7,590)	(2,805)
Profit before tax		**29,385**	**30,186**
Income tax expense	11	(2,923)	(3,029)
Profit for the year		**26,462**	**27,157**
Earnings per share (in EUR)			
Basic	12	***2.10***	***2.15***
Diluted	12	***2.10***	***2.15***

The accompanying notes to the financial statements should be read in conjunction with these financial statements.

BULGARIAN-AMERICAN CREDIT BANK AD
CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER 2008
All amounts are in thousands of EUR unless otherwise stated

	Notes	2008	2007
Assets			
Cash and balances with the Central Bank	13	24,748	23,132
Loans and advances to banks	14	36,021	23,696
Loans and advances to customers	15	345,763	301,733
Financial assets held for trading	16	21	1,804
Financial assets available-for-sale(A-F-S)	17	3,736	3,251
Hedging derivatives	24	1,869	28
Tangible assets	18	2,222	2,370
Intangible assets	18	83	111
Goodwill		80	80
Current tax asset		525	-
Deferred tax asset	11	40	106
Assets held for sale	19	1,483	687
Other assets	20	1,989	758
Total Assets		**418,580**	**357,756**
Liabilities and Shareholders' Equity			
Liabilities			
Deposits from banks	21	10,766	11,513
Deposits from customers	22	121,989	99,068
Hedging derivatives		-	316
Other borrowed funds	23	82,259	66,599
Debt securities in issue	24	105,815	96,903
Other liabilities	25	1,654	3,781
Total Liabilities		**322,483**	**278,180**
Shareholders' Equity			
Share capital	26	6,455	6,455
Share premium		435	435
General reserve	27	62,913	45,439
Current year profit		26,462	27,157
Revaluation reserve		(168)	90
Total Shareholders' Equity		**96,097**	**79,576**
Total Liabilities and Shareholders' Equity		**418,580**	**357,756**

These financial statements have been prepared by the Management Board and approved by the Supervisory Board on 18 February 2009.

Dimitar Voutchev
Executive Director

Maria Sheytanova
Executive Director

The accompanying notes to the financial statements should be read in conjunction with these financial statements.

All amounts are in thousands of EUR unless otherwise stated

	Share capital	Share premium	General reserve	Current year profit	Revaluation reserve	Total
31-Dec-06	**6,455**	**435**	**32,825**	**17,455**	**(56)**	**57,114**
Dividends related to 2006 income	-	-	-	(4,841)	-	(4,841)
Transfer to general reserves			12,614	(12,614)	-	-
Revaluation of securities available-for-sale	-	-	-	-	146	146
Profit for the year	-	-	-	27,157	-	27,157
31-Dec-07	**6,455**	**435**	**45,439**	**27,157**	**90**	**79,576**
Dividends related to 2007 income	-	-	-	(9,683)	-	(9,683)
Transfer to general reserves			17,474	(17,474)	-	-
Revaluation of securities available-for-sale	-	-	-	-	(258)	(258)
Profit for the year	-	-	-	26,462	-	26,462
31-Dec-08	**6,455**	**435**	**62,913**	**26,462**	**(168)**	**96,097**

The accompanying notes to the financial statements should be read in conjunction with these financial statements.

All amounts are in thousands of EUR unless otherwise stated

	Notes	2008	2007
Cash flows from operating activities:			
Profit for the year		**26,462**	**27,157**
Adjustments to reconcile net income to net cash provided by operating activities:			
Current tax expense	11	2,857	3,148
Deferred tax expense / (income)	11	66	(119)
Increase in impairment of financial assets	10	7,590	2,805
Depreciation and amortization	18	348	336
Changes in operating assets and operating liabilities			
Increase in statutory minimum required reserve	13	(1,624)	(6,338)
Investments in loans and advances to customers	15	(51,524)	(111,773)
Decrease in assets held for trading	16	638	144
Net change in hedging derivatives		(2,158)	(128)
Increase in assets held for sale	19	(796)	(221)
(Increase) / decrease in other assets	20	(1,230)	130
Increase in deposits from banks and customers	21, 22	21,838	41,835
(Decrease) / increase in other liabilities	25	(984)	750
Net cash from operating activities before taxes		**1,483**	**(42,274)**
Income tax paid		(4,525)	(2,551)
Net cash (used in) operating activities		**(3,042)**	**(44,825)**
Cash flows from investing activities:			
Purchase of financial assets available-for-sale	17	-	(1,554)
Proceeds from sale and redemption of financial assets A-F-S	17	460	3,946
Purchases of tangible and intangible assets	18	(178)	(425)
Proceeds from sale of tangible and intangible assets	18	7	18
Net cash provided by investing activities		**289**	**1,985**
Cash flows from financing activities:			
Proceeds from other borrowed funds	23	54,739	79,373
Repayments of other borrowed funds	23	(39,078)	(44,579)
Proceeds from debt securities in issue	24	56,919	24,771
Repayments of debt securities in issue	24	(48,913)	(15,161)
Dividends paid	27	(9,683)	(4,841)
Net cash provided by financing activities		**13,984**	**39,563**
Net effect of exchange rate changes on cash and cash equivalents		1,086	(28)
Net change in cash and cash equivalents		**12,317**	**(3,305)**
Cash and cash equivalents at the beginning of the year	13, 14	**25,720**	**29,025**
Cash and cash equivalents at the end of the year	13, 14	**38,037**	**25,720**
Supplemental cash flow information:			
Interest paid		13,732	8,835

The accompanying notes to the financial statements should be read in conjunction with these financial statements.

All amounts are in thousands of EUR unless otherwise stated

1 Organization and Operations

The consolidated group of the Bulgarian-American Credit Bank (the "Group") consists of Bulgarian-American Credit Bank ("BACB" or the "Bank") and its fully owned subsidiary Kapital Direct EAD (KD) – a non banking financial institution, acquired in 2006. The Bank generates the main part of the Group's income and represents substantially all of the assets and liabilities of the Group.

The Bulgarian-American Credit Bank was registered as a Bulgarian joint stock company under the requirements of the Bulgarian Commercial Act on 3 December 1996. The main shareholder of the BACB was the Bulgarian-American Enterprise Fund (BAEF). In April 2006 the BAEF reduced its shareholding in the Bank from 99.1% to 69.4% via a listing on the Bulgarian Stock Exchange (BSE), Sofia and following subsequent share sales at 31 December 2007 owned a stake of 53. 88%. On August 29, 2008 BAEF sold 49.99% of the shares from the registered capital of BACB to Allied Irish Banks, p.l.c., Ireland.

The ordinary shares of the Bank are registered for trading on the BSE under the ticker: 5BN.

Initially, BACB was established as a limited-purpose bank whose operations were an extension of the activities of BAEF, namely, lending to small and medium size enterprises in Bulgaria. The Bank commenced banking operations in May 1997 under a limited banking license granted by the Bulgarian National Bank (BNB). Gradually, the Bank expanded its range of banking operations and on 30 December 1998, BACB received substantially full banking license from the BNB, allowing BACB to maintain its activity both locally and internationally.

BACB operated primarily as a business bank in the areas of small and medium size enterprises (SME) lending and mortgage lending. BACB began attracting deposits in 2000 mainly from banks and other institutional investors. In 2002 the Bank expanded its operations and began to offer other banking services.

Currently the Bank is a specialist provider of secured finance with specific lending programmes for financing SME companies in a variety of industries. The Bank also provides mortgage loans to individuals, although this is not a primary focus of the Bank. The activities of BACB are conducted through its headquarters in Sofia and representative offices in the cities of Bourgas, Plovdiv, Varna and Stara Zagora. The representative offices offer the full range of services provided by BACB.

At 31 December 2008 and 2007, the Bank had 146 and 137 employees. The Bank's registered office is located at 16 Krakra St., Sofia, Bulgaria.

2 Regulatory Environment

Currently the Bank's activities and operations are governed by the Credit Institutions Act effective 1 January 2007 and all regulations issued by the BNB. The BNB is responsible for supervising the Bank's compliance with the banking laws and regulations. Following the Bank's listing on the BSE, the Bank's activity as a public entity is also subject to supervision by the Financial Supervision Commission (FSC).

All amounts are in thousands of EUR unless otherwise stated

3 Summary of Significant Accounting Policies

Basis of preparation

The consolidated financial statements comprise the accounts of the Bank and its subsidiary and have been prepared, in all material aspects, in accordance with the International Financial Reporting Standards (IFRS) and the interpretations, issued by the International Financial Reporting Interpretations Committee (IFRIC), approved by the European Union Commission (EUC) and applicable in the Republic of Bulgaria.

When preparing the financial statements the Group uses the historical cost method as a basis for reporting the asset and liabilities, except for the available-for-sale securities, financial assets and financial liabilities held at fair value through profit or loss and all financial derivatives to fair value.

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

The accounting policies have been consistently applied by the entities in the Group.

Changes in IFRS

The following IFRS and interpretations of the IFRIC became effective for reporting periods beginning on or before 1 January 2008:

- IFRIC 12 *Service Concession Agreements*, effective for reporting periods beginning on or after January 1, 2008
- IFRIC 13 *Customer Loyalty Programmes*, effective for reporting periods beginning on or after July 1, 2008
- IFRIC 14 *IAS 19 - The Limit on a Defined Benefit Asset Minimum Funding Requirements and their Interaction*, effective for reporting periods beginning on or after January 1, 2008
- *IFRS 7 (revised) Financial Instruments: Disclosure (effective since July 1, 2008)*
- Reclassification of financial assets – Effective date and transition – Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures*. The amendments are issued by IASB in November 2008 and could be applied on or after 1 July 2008.

The adoption of these interpretations has resulted in no changes in the accounting policies of the Group.

The stated below IFRS, IFRS revisions, and IFRIC, have been approved by IASB and IFRIC as of the date of the financial statements, but are effective for annual periods beginning on or after January 1, 2009.

- Amendment to IFRS 2 *Share-based Payment* effective for reporting periods beginning on or after 1 January 2009
- Amendment to IFRS 3 *Business Combinations* effective for reporting periods beginning on or after 1 July 2009
- Amendment to IFRS 8 *Operating Segments*, effective for periods beginning on or after January 1, 2009
- Amendment to IAS 1 *Presentation of Financial Statements* effective for reporting periods beginning on or after 1 January 2009
- Amendment to IAS 23 *Borrowing Costs*, effective for reporting periods beginning on or after January 1, 2009

All amounts are in thousands of EUR unless otherwise stated

- Amendment to IAS 27 *Consolidated and Separate Financial Statements,* IAS 28 *Investments in Associates* and IAS 31 *Interests in Joint Ventures* effective for reporting periods beginning on or after 1 July 2009
- Amendment to IAS 32 *Financial Instruments: Presentation,* effective for annual periods beginning on or after 1 January 2009
- Amendment to IAS 39, *Financial Instruments: Recognition and Measurement* effective for annual periods beginning on or after 1 July 2009
- Amendment to IAS 40, *Investment Property* effective for annual periods beginning on or after 1 January 2009
- IFRIC 15 *Agreements for the Construction of Real Estate* effective for annual periods beginning on or after 1 January 2009
- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* effective for annual periods beginning on or after 1 October 2009
- IFRIC 17 *Distributions of Non-cash Assets to Owners* effective prospectively for annual periods beginning on or after 15 July 2009

The Bank's management does not intend to adopt early the above mentioned IFRS and interpretations. Most of the IFRS and IFRIC stated above are not applicable to the Group's activity and will have no material effect on the financial statements. The following amendments to the standards and interpretations might have effect to some extend on the financial statements:

- The Revised IAS 1 Presentation of Financial Statements, which requires information in the financial statements to be aggregated on the basis of shared characteristics and introduces a statement of comprehensive income.

Principles of Consolidation

Subsidiaries are entities over which the Bank has the power to govern the financial and operating policies generally accompanying a shareholding of more than 50% of the voting rights, or otherwise has power to exercise control over the operations. Subsidiaries are fully consolidated from the date on which effective control is transferred to the Bank and are no longer consolidated from the date on which control ceases.

At acquisition the subsidiaries are accounted for by applying the purchase method. The cost of an acquisition is measured as the fair value at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued, plus any costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the Bank's share in the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement. Goodwill acquired in a business combination is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired.

All inter-company transactions, balances and unrealized gains on inter-company transactions are eliminated.

Functional and presentation currency

The functional currency of the Bank and its subsidiary is the national currency of Bulgaria, the Lev (BGN).These consolidated financial statements are presented in Euro (EUR).

Following the requirements of IAS 21 all assets and liabilities for all balance sheets presented (i.e. including comparatives) have been translated at the closing rate at the date of each balance sheet presented. In addition, income and expense items for all periods presented have been translated at the

All amounts are in thousands of EUR unless otherwise stated

exchange rates existing at the dates of the transactions. Equity items other than the net profit for the period that is included in the balance of retained earnings have been translated at the closing rate existing at the date of each balance sheet presented.

Foreign currency

Foreign currency transactions, i.e. transactions denominated in currencies other than BGN are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of income.

At 31 December 2008 and 2007, monetary assets and liabilities denominated in foreign currency are translated into Bulgarian Leva at the BNB's official exchange rates as follows:

Currency	31-Dec-2008	31-Dec-2007
EUR*	1.95583	1.95583
USD	1.38731	1.33122

**fixed under a Currency Board Arrangement*

Cash and cash equivalents

For the purposes of the cash flow statement, cash consists of cash and amounts maintained with the BNB excluding the minimum required reserve (MRR).

The Group considers as cash equivalents accounts with correspondent banks and placements with banks with original maturity up to three months, which are included in "Loans and advances to banks" in the balance sheet.

Financial assets

The Group classifies its financial assets in accordance with IAS 39 "Financial instruments: Recognition and measurement" (IAS 39) in four categories: financial assets through profit and loss, held-to-maturity investments, loans and receivables, and financial assets available-for-sale. Management determines the classification of investments at initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset and allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows (including all fees received and other premiums or discounts) through the expected life of the financial asset, or where appropriate, a shorter period.

Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. Trading debt and equity securities are defined as securities held by the

All amounts are in thousands of EUR unless otherwise stated

Bank with the intention of reselling them, thereby generating profits on price fluctuation in short term. Derivatives are also categorized as held for trading unless they are designated as hedging instruments.

Financial assets at fair value through profit or loss are initially recorded at fair value and subsequently re-measured to fair value on the balance sheet date based on quoted bid prices. If there is no an active market for a financial asset the faire value is based on valuation techniques such as discounted cash flow analysis, pricing models and other as appropriate. Changes in the fair value of such assets are recognized in the income statement as "Gains / (losses) on assets held for trading". Interest earned on securities is reported as interest income. Dividend income earned on equity securities held for trading is included in "Dividend income" section of the income statement.

Loans and advances to customers

Loans and advances to customers are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and advances to customers are carried at amortized cost, reflecting provisions for impairment. All loans and advances are recorded on the balance sheet when cash is disbursed to borrowers. The Group records the unutilized loan commitments on the off-balance sheet.

Impairment of loans and advances to customers

IAS 39 requires impairment losses to be measured based on an assessment of the recoverable amount of individually significant assets or portfolios of assets with similar risks, determined as the expected future cash flows from the instrument, including the fair value of collateral if foreclosure is probable, discounted to the balance sheet date using the instrument's effective interest rate.

A credit risk provision for loan impairment is established if there is objective evidence that the Group will not be able to collect all amounts due. The amount of impairment is the difference between the carrying amount and the recoverable amount, being the present value of the expected cash flows, including amounts recoverable from guarantees and collateral, discounted based on the rate implicit in the loan. The carrying amount of the loan is reduced using an allowance account and the loss is recognized in the statement of income. If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of provision is credited to the provision for impairment.

The amount of potential losses not specifically identified but which experience indicates are present in the portfolio of loans and advances is also recognized as an expense and deducted from the total carrying amount of loans and advances as a provision for impairment on loans and advances. The potential losses are estimated based upon historical patterns of losses, the credit rating allocated to the borrowers and the economic climate in which the borrowers operate.

When loans and advances cannot be recovered, they are written off and charged against the provision for impairment. Loans and advances are not written off until all necessary legal procedures have been completed or the amount of the loss has been determined. Recoveries from loans previously written off are recognized as "Other operating income" in the statement of income.

Financial assets available-for-sale

Investment securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in market conditions, are classified as available-for-sale. The Bank determines the appropriate classification of its investments at the time of the purchase.

All amounts are in thousands of EUR unless otherwise stated

Investment securities available for sale are initially recognized at fair value (including transaction costs) and are subsequently re-measured at fair value on the balance sheet date based on quoted bid prices or valuation techniques if appropriate. Unrealized gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognized in equity, net of tax effect. When the securities are disposed of or impaired, the related accumulated fair value adjustments are included in the income statement as gains and losses from financial assets available-for-sale. Interest earned on securities is reported as interest income. Dividend income earned on equity securities is included in "Dividend income" section of the income statement.

Reclassifications of Financial assets

IAS 39 Financial instruments: recognition and measurement requires the financial assets to be classified into one of the four categories upon initial recognition. Transfers of assets between categories should be relatively uncommon and should happen only in accordance with the rules of the standard. In October 2008 the IASB published *Amendments to IAS 39 and IFRS 7 – reclassification of financial assets.* The amendment to IAS 39 only permits reclassification of certain non-derivative financial assets. Financial liabilities, derivatives and financial assets that are designated as at fair value through profit or loss at inception cannot be reclassified. The amendments therefore only permit reclassification of debt and equity financial assets subject to meeting specified criteria. The amendment does not permit reclassification into at fair value through profit or loss category. The amendment to IFRS 7 requires additional disclosure on any reclassification under the new requirements of IAS 39. The Amendments *Reclassification of financial assets are* effective 1 July 2008 and shall not be applied retrospectively.

Sale and repurchase agreements

Securities sold under sale and repurchase agreements (repo transactions) in the normal course of banking business, are recorded as assets in the balance sheet lines "Financial assets held for trading", or "Financial assets available-for-sale" and the counterparty liabilities are included in "Deposits from banks" or "Deposits from customers" as appropriate. Securities purchased under agreements to purchase and resell (reverse repos) are recorded as assets in the balance sheet line "Loans and advances to banks" or "Loans and advances to customers" as appropriate. The difference between the sale and repurchase price is treated as interest and accrued over the life of the repo agreement using the effective interest rate where appropriate.

Tangible and intangible assets

Property, equipment and software are stated at historical cost less accumulated depreciation. Historical cost includes expenditures directly attributable to the acquisition. Subsequent costs are included in the assets carrying amount or are recognized as separate asset, as appropriate, only when the cost of the item can be measured reliably and it is probable that future economic benefits associated with the item will flow to the bank. All other repairs and maintenance are charged to the income statement when the expenditure is incurred.

Land and buildings comprise Bank's premises. Land is not depreciated. Depreciation of other assets is based on the straight-line method over the estimated useful life of the asset. Annual rates of depreciation used in the accompanying financial statements are as follows:

All amounts are in thousands of EUR unless otherwise stated

	2008	2007
Building	4%	4%
Computers and software	25%	25%
Office equipment	20%	20%
Vehicles	20%	20%
Office furniture	15%	15%
Leasehold improvements	15%	15%

Property, equipment and software are periodically reviewed for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposal of property and equipment are determined by reference to their carrying amounts and are taken into account in determining the income for the relevant period. These are included in "Other operating income".

Assets held for sale

Real estate and other non-current assets acquired from realization of collateral on foreclosed loans or assets acquired exclusively with a view to subsequent disposal in the near future are initially measured at cost. After initial recognition such assets are stated at the lower of their carrying amount and fair value less cost to sell. No depreciation is accrued on such assets.

Operating leases

Rentals of property and buildings under operating lease are charged as an operating expense over the lease term.

Finance leases

Assets sold under finance leases are recognized as receivables at their present value and included in "Loans and advances to customers" in the balance sheet. Lease income is recognized over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

Financial guarantee contracts

The IASB has amended IAS 39 to require certain financial guarantee contracts to be accounted for in accordance with that Standard. Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of the debt instrument.

Financial guarantee contracts are initially recognised at their fair value, which is likely to be the premium received at inception. Subsequently, the Bank's liabilities under such contracts are measured at the higher of the amount initially recognised less amortisation calculated to recognise in the income statement the fee income earned on a straight-line basis over the life of the guarantee, and the best estimate of the expenditure required to settle any obligation arising at the balance sheet date. These estimates are based on experience of similar transactions and history of past losses, supplemented by the judgment of management.

All amounts are in thousands of EUR unless otherwise stated

Taxation

Income tax expense is based on taxable profit for the year and includes deferred taxation. Taxes other than on income are recorded as operating expenses.

Deferred taxes are calculated using the balance sheet liability method and reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are recognized regardless of when the temporary difference is likely to reverse.

Deferred tax assets are recognized when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilized. At each balance sheet date, the Bank assesses unrecognized deferred tax assets and the carrying amount of deferred tax assets. The Bank recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. The Bank conversely reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or the entire deferred tax asset to be utilized. A deferred tax liability is recognized for all taxable temporary differences (Note 11).

Deferred tax related to fair value remeasurement of available-for-sale investments, which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognized in the income statement together with the deferred gain or loss when securities are sold.

Offsetting financial assets and liabilities

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

Derivative financial instruments and hedge accounting

In the normal course of business, the Bank enters into contracts for financial instruments which represent financial instruments that require a very low or zero initial investment relative to the nominal value of the contract. The derivative financial instruments are classified as held for trading or for hedging and include interest rate and currency forwards and swaps. These financial instruments are used by the Bank mainly to hedge interest rate risk and currency exposures associated with its transactions in the financial markets.

Derivative financial instruments are initially recognised in the balance sheet at cost (including transaction costs) and subsequently are remeasured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models and pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

On the date a derivative contract is entered into, the Bank always designates derivatives as either trading or hedging. Changes in the fair value of derivatives held for trading are directly included in the income statement. Hedge accounting is used for derivatives designated in this way provided certain

All amounts are in thousands of EUR unless otherwise stated

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

Hedging derivatives are accounted for according to the type of a hedging relationship which can be either (i) a hedge of the fair value of a recognised asset or liability (fair value hedge), or (ii) a hedge of a future cash flow attributable to a recognised asset or liability, a forecasted transaction or a firm commitment (cash flow hedge).

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that prove to be highly effective in relation to the hedged risk, are recorded in the profit and loss statement along with the corresponding change in fair value of the hedged asset or liability that is attributable to the specific hedged risk. The ineffective element of the hedge is charged directly to the income statement.

If the hedge no longer meets the criteria for hedge accounting, an adjustment to the carrying value of a hedged interest-bearing financial instrument is amortised to net profit and loss over the period to maturity.

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges and that prove to be highly effective in relation to hedged risk are recognised in the "*Hedging reserve*" in shareholders' equity. Amounts deferred in equity are transferred to the income statement and classified as revenue or expense in the periods during which the hedged assets and liabilities affect the income statement. The ineffective element of the hedge is charged directly to the statement of income.

Certain derivative transactions, while providing economic hedges under the Bank's risk management positions, do not qualify for hedge accounting under the specific rules of IAS 39 and are therefore treated as derivatives held for trading with fair value gains and losses reported in the income statement.

Interest income and expense

Interest income and expense are recognized in the income statement for all interest bearing instruments on an accrual basis using the effective interest method. Interest income includes coupons earned on investment securities and accrued discount on other discounted instruments. When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognized based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount. Interest income on non-performing loans is recognized as income when cash is received and is included in "Other operating income" to the extend it relates to preceding reporting periods.

Fee and commission income

Fees and commissions are generally recognized on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down and loan management fees are deferred and recognized as an adjustment to the effective interest rate on the loan.

All amounts are in thousands of EUR unless otherwise stated

Borrowings

Borrowings are recognized initially at 'cost', being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the income statement over the period of the borrowing using the effective interest method.

Share capital

Incremental external costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any related income taxes. Dividends on ordinary shares are recognized in equity in the period in which they are approved by the shareholders. Dividends for the year declared after the balance sheet date, are dealt with in the subsequent events note.

Provisions

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

Comparatives

Comparative figures have been adjusted to conform to changes in presentation in the current year, where necessary.

4 Interest Income, Net

	2008	2007
Interest income		
Loans and advances to banks	1,711	719
Loans and advances to customers	54,685	44,277
Financial assets held for trading	37	53
Financial assets available-for-sale	101	188
Total interest income	56,534	45,237
Interest expense		
Deposits	(5,375)	(2,300)
Borrowed funds	(4,712)	(2,737)
Debt securities in issue	(5,707)	(4,980)
Total interest expense	(15,794)	(10,017)
Interest income, net	40,740	35,220

All amounts are in thousands of EUR unless otherwise stated

5 Fees and Commissions Income, Net

	2008	2007
Fees and commissions income		
Loans and advances to customers	1,355	2,368
Guarantees and letters of credit	50	133
Deposit accounts	97	91
Payment and other services	486	477
Total fees and commissions income	1,988	3,069
Fees and commissions expense		
Borrowings	(32)	(19)
Payment and other services	(7)	(32)
Total fees and commissions income	(39)	(51)
Fees and commissions income, net	1,949	3,018

6 Dividend Income

	2008	2007
Equity securities held for trading	83	68
Equity securities available-for-sale	12	3
Dividend income	95	71

7 Gains (Losses) on Assets Held for Trading

	2008	2007
Debt securities	3	(1)
Equity securities	(188)	123
Foreign exchange dealing	332	347
Gains (losses) on assets held for trading	147	469

8 Other Operating Income

	2008	2007
Interest income on non-performing loans, related to preceding reporting periods	512	855
Gains on disposal of assets held for sale, net	4	-
Miscellaneous other	127	142
Other operating income	643	997

All amounts are in thousands of EUR unless otherwise stated

9 Administrative Expenses

	2008	2007
Personnel cost	2,895	3,201
Social security cost	265	224
Rent	63	68
Utilities and telecommunications	242	252
Professional services	695	658
Other expenses	1,497	1,372
Administrative expenses	5,657	5,775

As a part of management's strategy to promote a performance-driven culture within the Bank, the management adopted a Long Term Employee Incentive Plan (the "Plan") effective 1 January 2002. It provided for the distribution to eligible employees of up to 5 per cent of the profit of the Bank should the profit exceed a certain level as defined in the Plan. The distribution is pro-rated based on an employee's monthly gross salary. In 2006 the BACB's Management board approved changes to the plan to reflect the Bank's position as a listed company. The amount to be distributed to eligible employees is calculated according to a formula which takes into account both the return on average assets and assets growth for the relevant year.

The bonus is accounted for in the Bank's financial statements as personnel expense for the respective year.

10 Impairment on Financial Assets

	Impairment on loans
Balance at 31 December 2006	12,919
Additions in 2007	8,020
Reversals in 2007	(5,215)
Reductions for loans written-off	(37)
Balance at 31 December 2007	15,687
Additions in 2008	15,864
Reversals in 2008	(8,274)
Reductions for loans written-off	(237)
Balance at 31 December 2008	23,040

All amounts are in thousands of EUR unless otherwise stated

11 Income Tax Expense

	2008	2007
Current tax expense	2,857	3,148
Deferred tax expense / (income)	66	(119)
Income tax expense	2,923	3,029

Corporate tax

As the Bank and its subsidiary are registered in Bulgaria as joint stock companies, they are subject to Bulgarian income and other corporate taxes. Tax rates applicable to the Group are summarized in the following table:

	Corporate Income Tax Rates		
Tax period	1 January 2007 – 31 December 2007	1 January 2008 – 31 December 2008	1 January 2009 – onwards
Corporate income tax	10.0%	10.0%	10.0%

Generally, tax returns remain open and subject to inspection for five-year period. If a tax review does not occur within the five years the tax declaration is closed and is not subject to audit. If a tax declaration is reviewed, then that tax declaration is subject to further review within 5 years after the closing date of the review.

No tax audits were performed in 2007 and 2008.

Effective tax rates

A reconciliation of income tax expense for the years ended 31 December 2008 and 2007 is as follows:

	2008	2007
Profit before tax	29,385	30,186
Statutory income tax rate applicable	10.0%	10.0%
Tax expense at the statutory tax rate	2,938	3,019
Non-deductible expenditures	7	7
Income not subject to tax	(2)	(2)
Other temporary differences	(20)	5
Income tax expense	2,923	3,029
Effective tax rate	9.95%	10.03%

All amounts are in thousands of EUR unless otherwise stated

Deferred taxation

Deferred taxes are calculated on all temporary differences under the liability method using the effective tax rate of 10% (2007: 10%).

The movement on the deferred tax account is as follows:

	2008	2007
Deferred tax asset at beginning of year	106	4
Income statement (expense) / income	(66)	119
Financial assets available-for-sale		
- revaluation	-	1
- transfer to profit	-	(18)
Deferred tax asset at end of year	40	106

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

	2008	2007
Deferred tax assets		
Temporary differences	94	136
Total deferred tax assets	94	136
Deferred tax liabilities		
Accelerated tax depreciation	(18)	(18)
Temporary differences	(25)	(1)
Financial assets available-for-sale	(11)	(11)
Total deferred tax liabilities	(54)	(30)
Total deferred tax asset, net	40	106

The deferred tax charges in the income statement comprise the following temporary differences:

	2008	2007
Accelerated tax depreciation	-	(1)
Other temporary differences	66	(118)
Deferred tax expense (income)	66	(119)

Withholding tax

Rules and regulations associated with withholding amounts related to payments abroad or to foreign individuals or entities require withholding tax to be remitted to the Republic of Bulgaria. Under a bilateral agreement between the Government of the United States of America and the Government of Bulgaria, BAEF is exempt from taxation on income received in connection with implementation of the United States assistance program. BAEF received a letter from the Bulgarian Ministry of Economy, covering the fiscal years 2008 and 2007, verifying BAEF's eligibility for protection under the agreement. As a result, in 2008 and 2007, the Bank did not withhold tax on interest paid to BAEF.

All amounts are in thousands of EUR unless otherwise stated

12 Earnings per Share

Basic / Diluted

Basic earnings per share are calculated by dividing the net profit attributable to the Bank's shareholders by the weighted average number of ordinary shares in issue during the year. The Bank does not have any dilutive potential ordinary shares thus basic and diluted earnings per share are equal.

	2008	2007
Profit attributable to the bank's shareholders	26,462	27,157
Weighted average number of ordinary shares in issue	12,625	12,625
Basic / Diluted earnings per share (in EUR)	2.10	2.15

13 Cash and Balances with the Central Bank

	2008	2007
Cash on hand	2,016	2,024
Balances with the Central Bank	22,732	21,108
Cash and balances with the Central Bank	24,748	23,132

The balances with the Central Bank include the minimum required reserve (MRR), amounting to EUR 22,732 and EUR 21,108 as of 31 December 2008 and 2007, respectively.

The minimum required reserve does not bear interest and is calculated as a percentage of the Bank's attracted funds excluding those attracted from local banks. MRR is measured on a monthly basis and daily fluctuations are allowed.

In 2005, BNB set loan portfolio growth limits applicable from the second quarter of the year. As of 1 January 2007 the BNB removed the portfolio growth limits, but according to the regulation the Bank was required to maintain an additional EUR 7.2 million in reserves for the period from 4 February 2007 to 3 May 2007.

In July 2007, concerned at the rapid pace of loan growth, the BNB increased the minimum reserve on attracted funds from 8% to 12%. The measure becomes effective on 1 September 2007. Along with the increase in the attracted funds, this measure has resulted in an increase of the Bank's minimum required reserve as of 31 December 2007. In November 2008 the BNB decreased the ratio of the minimum reserve to 10% effective 1 December 2008 and additionally decreased the ratio on attracted funds from foreign institutions and customers to 5% effective 1 January 2009.

All amounts are in thousands of EUR unless otherwise stated

14 Loans and Advances to Banks

Loans and advances to banks represent current accounts and short-term deposits with local banks and foreign correspondent banks with original maturity up to three months. For the purposes of statement of cash flows they are included in cash and cash equivalents.

	2008	2007
Current accounts with other banks	570	947
Deposits with other banks	35,451	22,749
Loans and advances to banks	36,021	23,696

15 Loans and Advances to Customers

	2008	2007
Loans and advances to customers	368,803	317,420
Less: Provisions for impairment (Note 10)	(23,040)	(15,687)
Loans and advances to customers, net	345,763	301,733

As of 31 December 2007 BACB had one asset sold under a finance lease with a carrying amount of EUR 842. In 2008 the contract was cancelled due to a delinquency in contractual payments. Subsequently the Bank sold the asset under a presale agreement with a third party. There are no assets sold under finance lease in 2008.

Segmentation of loans and advances to customers

Type of Customer	2008	2007
Individuals	23,526	23,646
Corporate	345,277	293,774
Loans and advances to customers	368,803	317,420

All amounts are in thousands of EUR unless otherwise stated

Industry Sector	2008	2007
Real estate construction	87,092	65,339
Real estate investment & Land development	85,353	69,600
Hotels	48,511	47,837
Mortgage loans - commercial	42,452	27,258
Mortgage loans - residential	25,272	27,332
Other light industry	13,142	12,800
Entertainment and Recreation	12,691	9,923
Retail trade	10,344	6,576
Primary agriculture and farming	5,851	5,625
Restaurants	5,230	4,813
Garments and textiles	5,024	5,748
Wholesale distribution	4,740	6,959
Furniture and wood products	3,381	2,886
Bread baking and confections	3,142	5,979
Professional and other services	2,819	2,291
Transportation	2,478	1,583
Electricity production	1,993	1,672
Warehousing and storage	1,602	2,802
Other	3,597	3,791
Total (only for the Bank)	364,714	310,814
Loans of subsidiary	4,089	6,606
Loans and advances to customers	368,803	317,420

As a result of the global economic crisis at the end of 2008 and the beginning of 2009 different industries and sectors in the Bulgarian economy, including construction, real estate, hotel industry, have marked a decline which causes material uncertainty and risks for their development in the near future. As of 31 December 31 2008 a significant portion of the Bank's loan portfolio (approximately 47%) is concentrated in the sectors "Real estate Construction" and "Real estate investments and land development". The share of loans in "Hotels" sector (approximately 13%) and "Mortgage loans" sector (approximately 18%) is also substantial.

Additional risk for servicing the portfolio is caused by the loans with grace period or new disbursed loans for which the principal repayment begins after the balance sheet date. The principal repayment for a major portion of these loans is related to the successful finalization of the investment projects and the expected cash flows from the sale of properties subject to financing. The return of these loans and the adequacy of the recognized impairment loss, as well as the Bank's liquidity maintenance are dependent on the financial position and the borrowers' ability to redeem the loans at their maturity in the subsequent reporting periods.

16 Financial Assets Held for Trading

	2008	2007
Fair value of derivatives	21	-
Debt securities	-	471
Equity securities	-	1,333
Financial assets held for trading	21	1,804

All amounts are in thousands of EUR unless otherwise stated

At 31 December 2007 BACB had a trading portfolio consisting of listed debt securities issued by a private company and listed shares in special purpose entities ERG Capital–1 ADSIP and ERG Capital–2 ADSIP, which were related to the Bank. The debt securities were sold during 2008.

In 2008 BACB has adopted the *Amendments to IAS 39 and IFRS 7 – Reclassification of financial assets* published by the IASB in October 2008 and has reclassified the shares held into available for sale portfolio. The positions were mainly built subsequent to the IPO of the two special investments purpose companies (SPIC) with the intention that BACB will trade in those shares actively. Both SPICs own completed and fully leased properties in Sofia (ERG-1) and Varna (ERG-2). The first will be liquidated in 2011 and 2012. Under the SPIC Act the companies are obliged to dividend at least 90% of their profits. In return they are exempt from corporate tax. Since BACB made the two investments its intent to make market in the stocks changed. Most of the investors that bought into the stocks were local institutional investors that intend to hold them till liquidation. Until October 2008 no reclassification out of trading category was allowed under IAS 39. As the two positions, ERG-1 and ERG-2 are no longer held for trading and the Bank intends and is able to hold them for the foreseeable future, the management believes that the reclassification into Available for Sale Portfolio is more appropriate.

The fair value of shares reclassified was EUR 1,144 at the date of the reclassification 1 December 2008. The loss on fair value re-measurement of the shares reclassified, for the period 1 January 2008 – 30 November 2008, is EUR 188 and is included in the "Gain (losses) on assets held for trading" in income statement.

The bank from time to time is using short term foreign currency swaps in EUR/USD and EUR/BGN to manage its respective operational currency flows and also as an instrument that allows the Bank to decrease its cost of borrowing in some of those currencies by taking advantage of the existing interest rate differences. At 31 December 2008 BACB has 7 open foreign currency swaps with a nominal value of EUR 6,191 (2007:0), which are not designated as part of hedge transaction. The positive fair value of EUR 21 of these swaps is included in "Financial assets held for trading" and the negative value of EUR 2 in "Other liabilities".

17 Financial Assets Available-for-Sale

The fair values of investment securities classified as available-for-sale at 31 December 2008 and 2007 are as follows:

	2008	2007
Equity securities (1)	2,141	1,122
BG USD Eurobonds (2)	722	821
BG ZUNK FRN (3)	750	795
RZB Bonds (4)	123	513
Investment Securities Available-for-Sale	3,736	3,251

(1) Shares in listed special purpose entities ERG Capital–1, ERG Capital–2 and Capital–3 ADSIP
(2) Bulgarian Government Bonds denominated in USD. Fixed rate, bullet, final maturity January 2015
(3) Bulgarian Government Bonds issued in exchange for the non-performing foreign currency debts of state owned enterprises, denominated in USD. Floating rate, amortizing, final maturity January 2019
(4) Unsecured Corporate Bonds denominated in BGN. Floating rate, bullet, final maturity October 2009

All amounts are in thousands of EUR unless otherwise stated

18 Tangible and Intangible Assets

	Land and buildings	Other Tangibles	Intangibles	Total
Cost				
31 December 2006	2,356	2,064	342	4,762
Additions	58	315	52	425
Disposals	-	(82)	(26)	(108)
31 December 2007	2,414	2,297	368	5,079
Additions	-	153	25	178
Disposals	-	(19)	-	(19)
31 December 2008	2,414	2,431	393	5,238
Accumulated Depreciation and Amortization				
31 December 2006	476	1,647	229	2,352
Charge for 2007	85	199	52	336
Disposals	-	(66)	(24)	(90)
31 December 2007	561	1,780	257	2,598
Charge for 2008	96	199	53	348
Disposals	-	(13)	-	(13)
31 December 2008	657	1,966	310	2,933
Net book value				
31 December 2008	1,757	465	83	2,305
31 December 2007	1,853	517	111	2,481

19 Assets Held for Sale

Balance at 31 December 2006	467
Additions in 2007	327
Reversals in 2007	(107)
Balance at 31 December 2007	687
Additions in 2008	2,432
Reversals in 2008	(1,636)
Balance at 31 December 2008	1,483

All amounts are in thousands of EUR unless otherwise stated

20 Other Assets

	2008	2007
Receivables under presale agreements	1,565	541
VAT receivable	245	-
Prepayments and other receivables	179	217
Other assets	1,989	758

21 Deposits from Banks

Deposits from banks at 31 December 2008 and 2007 are as follows:

	2008	2007
Deposits from banks		
in EUR	1	11,513
in BGN	7,927	-
in USD	2,838	-
	10,766	11,513

22 Deposits from Customers

The table below represents deposits from customers as of 31 December 2008 and 2007 by type of currency:

	2008	2007
Demand deposits from customers		
in EUR	11,018	16,238
in BGN	4,910	6,300
in USD	817	1,005
In GBP	19	128
	16,764	23,671
Term deposits from customers		
in EUR	92,564	62,455
in BGN	8,026	7,937
in USD	4,635	5,005
	105,225	75,397
Deposits from customers	121,989	99,068

At 31 December 2008 the Deposits from customers include EUR 71,926 deposits from related parties (Note 31)

All amounts are in thousands of EUR unless otherwise stated

23 Other Borrowed Funds

As of 31 December 2008 and 2007, other borrowed funds consist of the following:

	2008	2007
Loans from International Banks	49,922	29,560
Loans from International Finance Institutions /IFI/	32,337	28,717
Loans from BAEF	-	8,322
Other borrowed funds	82,259	66,599

As of 31 December 2008 other borrowed funds are repayable according to remaining maturity as follows:

	Banks	IFIs	Total
2009	18,070	21,746	39,816
2010	31,852	5,606	37,458
2011	-	4,985	4,985
Total	49,922	32,337	82,259

BACB included in "Other borrowed funds" amounts due to various international banks and other international financial institutions such as the European Bank for Reconstruction and Development (EBRD), Deutsche Investitions-und Entwicklungsgesellschaft mbH (DEG), Black Sea Trade and Development Bank (BSTDB) and other. The amounts are advanced to the Bank under a number of long-term loans and short-term revolving credit line facilities.

In April 2008 the Bank agreed a Syndicated Term Loan of EUR 32.0 million with several international banks. The term of the loan facility is two years with an extension option for one year period.

In April 2008 BACB agreed a credit line of EUR 12.5 million with the Black Sea Trade and Development Bank. The facility is for one year with extension options.

Some of the loan agreements contain various financial covenants and other restrictions that are typical for this type of facility. The Group did not have any defaults of principal, interest or other breaches with respect to its borrowed funds during the reporting period (2007: nil).

In 2006 BAEF provided to the Bank's wholly owned subsidiary KD a short-term revolving line of credit in the amount of EUR 6 million, increased in November by additional EUR 10 million. In 2007 the maturity of the loan facility was extended for 12 months. The loan was fully repaid by KD on maturity - 30 October 2008. The repayment was partially financed by a funds received under a short-term line of credit received from BACB. The transaction is eliminated for the purposes of consolidation.

24 Debt Securities in Issue

As of 31 December 2008 and 2007 the debt securities issued by BACB are as follows:

All amounts are in thousands of EUR unless otherwise stated

ISIN Code	Debt securities in issue	Due	2008	2007
BG2100001036	EURO fixed rate mortgage bonds	2008	-	10,290
BG2100039051	EUR fixed rate unsecured bonds	2008	-	19,724
BG2100017073	EUR discounted unsecured bonds	2008	-	19,388
BG2100004048	EURO fixed rate mortgage bonds	2009	10,142	10,132
BG2100020085	USD floating rate unsecured bonds	2010	22,408	-
BG2100010060	EURO floating rate mortgage bonds	2011	25,341	25,295
BG2100019087	EURO fixed rate mortgage bonds	2011	35,856	-
BG2100016067	EURO floating rate unsecured bonds	2013	12,068	12,074
	Total		105,815	96,903

All of the Bank's mortgage bonds were issued under the Mortgage Bonds Act and are collateralized by a lien on the receivables of a predetermined pool of loans, secured by mortgages. The outstanding gross amount of loans pledged as security for the issued mortgage bonds is EUR 82,829 and EUR 57,267 at 31 December 2008 and 2007, respectively.

In July 2008 BACB issued one mortgage bond in the amount of EUR 35 million and one unsecured corporate bond with the nominal value of USD 31 million. The term to maturity of the mortgage bond is 3 years and of the unsecured bond 2 years. The unsecured corporate bond was issued in USD to meet the demand of the buyers of the bond at the time of issuance.

The funds received from the USD unsecured corporate bond were exchanged into EUR in order to finance EUR loans. This created a negative USD open position of USD 31 million. The foreign exchange risk of the open position is hedged by a fair value hedge in the form of cross currency interest rate swap with maturity matching that of the bond - 2 years. The economics of the two deals is exchanging the USD 31 million debt floating rate instrument with the equivalent of EUR 20 million floating rate liability. The fair value of the hedging derivative at 31 December 2008 is recognized as an asset and amounts to EUR 1,869. The gain on the hedging instrument in 2008 is EUR 1,869. The loss on the hedged item attributable to the hedged risk is EUR 1,989.

In 2008 matured three of the bonds issued by BACB in previous years and were fully repaid.

At 31 December 2008 all of the mortgage bonds issued are listed on the Bulgarian Stock Exchange.

25 Other Liabilities

As of 31 December 2008 and 2007, other liabilities consist of the following:

	2008	2007
Amounts due to personnel	643	1,378
Income tax payable	-	1,144
Deposit insurance fund contribution	316	252
Bank transfers outstanding	268	782
Negative fair value of non-hedging derivatives	2	-
Other payables	425	225
Other liabilities	1,654	3,781

All amounts are in thousands of EUR unless otherwise stated

26 Share Capital

The registered capital of BACB at 31 December 2008 and 2007 is BGN 12.625 million comprising in 12.625 million shares with a face value of BGN 1 each with equal voting rights.

In 2006 the Bank became a public company and its shares are listed on the Bulgarian Stock Exchange – Sofia. After a successful IPO in April 2006 the ownership structure of the Bank was diversified amongst international and local investors.
On August 29, 2008 the BAEF, the majority shareholder as of December, 31 2007 sold 49.99% of the shares from the registered capital of BACB to Allied Irish Banks, p.l.c., Ireland.

At 31 December 2008 the shareholders' structure of the Bank was as follows:

Shareholder	Shares held 2008	Percentage	Shares held 2007	Percentage
Bulgarian-American Enterprise Fund (BAEF)	-	0.00%	6,802,103	53.88%
Allied Irish Banks p.l.c. (AIB)	6,311,100	49.99%	0	0.00%
Gramercy Emerging Markets Fund (GEMF), directly and indirectly	3,903,399	30.92%	3,012,589	23.86%
Other	2,410,226	19.09%	2,810,033	22.26%
Total	12,624,725	100.00%	12,624,725	100.00%

27 Reserves

Local legislation requires at least 10% of the Bank's net profit to be transferred from retained earnings to a non-distributable statutory reserve until this reserve represents 10% of the Bank's share capital. Banks may not pay dividends before making contributions to the Reserve Fund. The same requirements apply to the Bank's subsidiary Kapital Direct EAD.

Since its formation, the Bank has adopted a policy of retaining earnings rather than paying dividends or making distributions to shareholders. Partly as a result of this policy, the Bank has historically maintained a capital position well in excess of the requirements of the BNB and the international framework adopted by the Basel Committee on Banking Regulations and Supervisory Practice for capital measurement and capital standards of banking institutions (the "Basel Accord"). The Bank constantly analyses the alternatives for efficient use of its capital and considers distributing excess capital to shareholders through payment of a dividend. Due to the strong financial results for 2007 the General Meeting of the Shareholders of BACB held on 22 April 2008 voted a dividend of BGN 1.5 per share in the total amount of EUR 9, 683 and retained the rest of the 2007 profit in the Reserve fund. The dividend was paid to the eligible shareholders on 6 June 2008.

The 2007 net profit of KD was allocated to the Reserve Fund.

As of the date of this report no dividends were declared for 2008.

All amounts are in thousands of EUR unless otherwise stated

28 Off-Balance Sheet Liabilities

The Bank is counterparty to financial instruments with off-balance sheet risk in the normal course of business to meet the financial needs of its customers. Those instruments involve, to various degrees, elements of credit and interest-rate risk.

At 31 December 2008 and 2007 the off-balance sheet liabilities consisted of:

	2008	2007
Bank guarantees	1,376	1,760
Letters of credit	-	156
Unutilized commitments on loans	40,357	59,929
Total	41,733	61,845

29 Litigation

As of 31 December 2008 and 2007 there were no material claims against BACB or its subsidiary, except following:

In March 2005 a litigation proceeding against BACB was commenced for a claim concerning the assignment by BACB of its rights as a secured creditor over the shares of a company, pledged as collateral in favor of BACB. At 31December 2008 the proceeding is still outstanding. No provision has been made as legal advice indicates it is unlikely that any significant loss will arise.

During 2007 a claim was filed in the United States against BAEF and BACB by a former loan customer of BACB with various assertions for violations in connection with its loan from BACB. In 2008 BACB has submitted to the US Court a series of motions seeking dismissal. Management considers that these claims have no merit. Therefore, no litigation provisions have been recognized for these claims in the accompanying consolidated financial statements.

30 Fair Value Information

International Financial Reporting Standard 7 "Financial Instruments: Disclosures" (IFRS 7), provides for the disclosure in the notes to the financial statements of information about the fair value of the financial assets and liabilities. Fair value is defined as the amount for which an asset can be exchanged, or a liability settled, between knowledgeable, willing parties in an arms length transaction. Sufficient market experience, stability and liquidity do not currently exist for loans and advances to customers and for certain other financial assets or liabilities, for which published market information is not readily available. Accordingly, their fair values cannot be readily determined. In the opinion of the management, their reported carrying amounts are the most valid and useful reporting value in the circumstances.

All amounts are in thousands of EUR unless otherwise stated

The following table summarizes information about the carrying and fair value of financial assets and liabilities.

	Carrying Value		Fair Value	
	2008	2007	2008	2007
Due from other banks	36,021	23,696	36,021	23,696
Loans and advances to customers	345,763	301,733	344,240	301,112
Deposits from banks	10,766	11,513	10,766	11,513
Deposits from customers	121,989	99,068	121,989	99,068
Other borrowed funds	82,259	66,599	82,259	66,599
Debt securities in issue	105,815	96,903	105,601	96,992

Management has estimated that the fair value of certain balance sheet instruments is not materially different from their recorded values. The fair value of floating rate loans and advances to customers approximate their carrying amount. The expected cash flows on fixed rate loans are discounted at current rates to determine fair value. The fair value of debt securities issued, which are traded on the secondary market, is calculated based on quoted market prices. The funds borrowed from different international financial institutions are at floating rates and the fair values approximate their carrying amount.

31 Related Party Transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The Group enters into transactions with related parties in the normal course of business. These transactions are carried out at market rates and include loans and deposits.

BACB considers as related parties the members of its key management personnel and entities owned, controlled or significantly influenced by such persons.

At 31 December 2008 BACB is not controlled by a parent company. Allied Irish Banks, p.l.c., Ireland considers BACB as an associate.

BACB considered as related parties the companies in which BAEF, former majority shareholder, contained substantial participation. Due to the changes in the Banks shareholders' structure in 2008 these parties are not considered to be related to the Bank at 31 December 2008.

The related parties with which the Bank carried out transactions in 2008 are as follows:

All amounts are in thousands of EUR unless otherwise stated

Related party	Relationship
BAEF	entity that is controlled or significantly influenced by a member of the key management personnel
Bulgarian-American Property Management EOOD (BAPM)	entity that is controlled or significantly influenced by a member of the key management personnel
Delta Capital EOOD	entity that is controlled or significantly influenced by a member of the key management personnel
Enterprise Realty Group EOOD	entity that is controlled or significantly influenced by a member of the key management personnel
Sega 21 EOOD	entity that is controlled or significantly influenced by a member of the key management personnel
Serdika Capital Advisors L.L.S.	entity that is controlled or significantly influenced by a member of the key management personnel
Foundation America for Bulgaria	entity that is controlled or significantly influenced by a member of the key management personnel
Kapital Direct-1 ADSIC	related entity till 17 November 2008; BACB and the entity are under common control of BAEF
ERG Capital-1 ADSIC	related entity till 17 November 2008; BACB and the entity are under common control of BAEF
ERG Capital-2 ADSIC	related entity till 17 November 2008; BACB and the entity are under common control of BAEF
ERG Capital-3 ADSIC	related entity till 17 November 2008; BACB and the entity are under common control of BAEF
Shipka Enterprise EOOD	related entity till 17 November 2008; BACB and the entity are under common control of BAEF
Sredets Enterprise EOOD	related entity till 17 November 2008; BACB and the entity are under common control of BAEF
Preslav Enterprise EOOD	related entity till 17 November 2008; BACB and the entity are under common control of BAEF

The information on related parties' transactions and the related income and expense as of 31 December 2008 and 2007 is summarized as follows:

2008

Balances at 31 December 2008	BAEF	Key management personnel	Other related parties	Total
Assets	-	-	-	-
Liabilities				
Deposits from customers	28,392	162	43,372	71,926
Debt securities in issue	12,068	-	-	12,068
Total	40,460	162	43,372	83,994

The major part of deposits from Other related parties are deposits from BAPM EOOD and the Foundation America for Bulgaria.

All amounts are in thousands of EUR unless otherwise stated

Expenses and income generated by transactions with related parties in 2008*	BAEF	Key management personnel	Other related parties	Total
Expenses				
Interest expense	2,799	4	1,341	4,144
Administrative expenses	-	-	2	2
Total expenses	2,799	4	1,343	4,146
Income				
Interest income	-	1	0	1
Gains/(losses) on assets held for trading	(6)	7	(189)	(188)
Fee and commission income	4	4	3	11
Dividend income	-	-	83	83
Other operating income	-	-	4	4
Total income	(2)	12	(99)	(89)

*The income end expense related to transactions with former related parties for the period from 1 January 2008 to 17 November 2008 are included in this table.

Balances at 31 December 2007	BAEF	Key management personnel	Other related parties	Total
Assets				
Loans and advances to customers	-	29	-	29
Financial assets held for trading	-	-	1,333	1,333
Available-for-sale financial assets	-	-	1,118	1,118
Total	-	29	2,451	2,480
Liabilities				
Deposits from customers	29,658	83	21,815	51,556
Other borrowed funds	8,322	-	-	8,322
Debt securities in issue	12,074	-	-	12,074
Total	50,054	83	21,815	71,952
Off-balance sheet liabilities:				
Bank guarantees	-	-	30	30

Expenses and income generated by transactions with related parties in 2007	BAEF	Key management personnel	Other related parties	Total
Expenses				
Interest expense	1,850	4	505	2,359
Administrative expenses	-	-	2	2
Total expenses	1,850	4	507	2,361
Income				
Interest income	-	2	-	2
Gains on assets held for trading	10	-	125	135
Fee and commission income	13	3	8	24
Dividend income	-	0	68	68
Other operating income	-	0	9	9
Total income	23	5	210	238

All amounts are in thousands of EUR unless otherwise stated

As of 31 December 2008 and 2007, respectively no provisions are recognized in respect to loans to related parties.

Key management personnel remuneration

In the financial year ended 31 December 2008 the aggregate total amount of remuneration accrued to key management personnel amounts to EUR 236.

In the financial year ended 31 December 2007 the aggregate total amount of remuneration accrued to key management personnel amounts to EUR 219.

There are no existing or proposed agreements between any member of the Supervisory Board, Management Board or senior manager and the Bank providing for benefits upon termination of employment.

32 Financial Risk Management

The Group's activities are exposed to a variety of financial risks. Taking risk is core to the financial business and the operational risks are an inevitable consequence of being in business. The Bank has established risk management policies and procedures to identify, monitor and manage the levels of risk to which it is exposed. The policies and procedures are approved by the Management Board. The risk management policy sets standards for various types of risks. The most important types of risks are credit risk, liquidity risk, market risk and other operational risks. The main objective of the Bank's risk policy is to impose clearly defined parameters on the Bank's operations in order to minimize potential adverse effects on the Bank's financial performance. Compliance with the various requirements of the risk policy is reviewed on a regular basis, depending on the level of risk and potential impact on the Bank's operations. Any variances from the Bank's standards are reported to the Bank's management for remedial action. The Bank also reviews its risk policy annually based on an analysis of the economic trends and operating environment in Bulgaria for small- and medium-sized businesses and in particular business sectors, such as the construction and tourism sectors. In addition, internal audit is responsible for the independent review of risk management and the control environment.

32.1. Credit Risk

The Bank is exposed to credit risk in its investment activities. Credit risk is the risk that a counterparty will be unable to pay contractual amounts in full when due. Credit risk is the most important risk for the Group's business. Management therefore carefully manages Group exposure to credit risk. The Bank's lending policy is developed by the credit risk, legal and credit process units, and is approved by the Management Board. The lending policy is a comprehensive document which outlines the credit analysis and approval process, defines who has authority to approve loans, sets rules on the loan documentation required by the Bank and prescribes processes for disbursing loan funds and for the ongoing monitoring of loans.

All amounts are in thousands of EUR unless otherwise stated

Risk limit control and mitigation policies

The Bank structures the levels of credit risk concentration by placing limits in relation to one borrower, group of borrowers and to industry sectors. Such limits are monitored on a revolving basis and subject to a periodical review. The Bank monitors also the concentration by geographical location, without placing specific limits.

By countries and treasury counterparties

BACB does not have investments outside Bulgaria, except for money market placements and nostro account balances with high grade investment banks. The securities portfolio of BACB consists of Bulgarian Government debt mainly. The loan portfolio includes majority of loans to companies operating in Bulgaria and individuals residing in Bulgaria.

The treasury counterparty limits are approved by the Asset and Liability Management Committee of BACB (ALCO), following a proposal by the Treasury department. The exposures are monitored on a daily basis by the Back office and reviewed periodically at ALCO meetings. Exposure limits for the bank's interbank lines are approved based on a review of the capital strength, liquidity position and shareholding structure of the counterparty bank. The list of the approved counterparties is reviewed and updated at least once a year.

By industry sectors

The loan portfolio of BACB is spread across various economic sectors. The decision to increase the weight in a particular sector depends on the Bank's assessment of the growth potential of this sector. Proper diversification of the portfolio (as a whole and within each sector) is one of the main goals of the credit risk management of the bank. The internal industry limits accepted by BACB provide for 25% threshold for all sectors except for the exposure to the tourism sector where the exposure shall not exceed 30%. An industry classification report is prepared by Credit Risk department and submitted to the management monthly.

Although the Bank has internal limits on its exposure to particular industry sectors, it does not aim to predetermine a minimum amount for lending to particular sectors. If a potential loan is approved according to the Bank's credit assessment processes, that loan will be funded unless this would breach the Bank's internal limits. There have been no material breaches to date.

By customers

The Bank's core business is providing secured finance to small- and medium-sized enterprises.

The loans are originated through lending officers grouped in teams under four lending programs:

- The SME Lending Program, under which the Bank makes loans to small- and medium-sized businesses that have highly specialized financing needs and require more flexible funding. The majority of loans made under this program are to businesses that have existing operations, although loans are also made to start-up businesses in exceptional circumstances.
- The Tourism Lending Program, under which the Bank makes investment loans mostly to the tourism sector. The majority of these loans are for the construction, refurbishment or, occasionally, the

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acquisition of tourism and business hotels.

- The Construction Lending Program, under which the Bank makes construction loans for residential and commercial property developers. This lending program is aimed at experienced developers of residential apartment buildings and complexes and, on a selective basis, developers of commercial premises. The Bank typically finances up to 75% of the cost of any given project.
- The Mobile Lending Program, under which the Bank, through mobile lending consultants, makes loans to various industries with a focus on business mortgage loans.

The Bank continues to provide mortgage loans to individuals, including loans to finance the purchase of apartments built with funds provided under the Construction Lending Program.

The loans extended under the four lending programs are analyzed extensively and structured on a case-by-case basis. The analysis is aimed at evaluating the credit risk of the borrower and includes review of the legal status of the borrower, background / reference checks, related parties checks, company analysis (i.e. products, markets, suppliers, management, finances etc), collateral analysis (i.e. clean title, market value etc.). All loans in amount equal to or exceeding 10% of Bank's capital base are approved by the Management Board and additionally confirmed by the Supervisory Board. The large exposures are monitored in compliance with BNB Regulation No 7 and are reported to the BNB on a regular basis. Exposure to credit risk is minimized by obtaining collateral as well as corporate and personal guarantees.

Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees, which represent irrevocable commitment that the Bank will make the payment in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans and guarantees. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total commitments since commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because long-term commitments generally have a greater degree of credit risk than short-term commitments.

The limits on the Bank's lending operations are summarized in the table below:

Exposure	**Limit**
Tourism sector	30% of the Bank's total loans and advances to clients
To any other sector	25% of the Bank's total loans and advances to clients
Single borrower /group exposure(1)	25% of the Bank's capital base
Large exposures(2)	300% of the Bank's capital base

(1) Total exposure includes all on- and off-balance sheet exposures to a single borrower or to a group of related borrowers.
(2) A large exposure is an exposure to a client or group of clients which is equal or exceeds 10% of the Bank's capital base.

All amounts are in thousands of EUR unless otherwise stated

The Bank's Large exposures before provisions for impairment at 31 December 2008 and 2007 respectively were as follows:

	2008		2007	
	(€ 000)	*% of Capital base*	*(€ 000)*	*% of Capital base*
Largest exposure to a single client group	12,912	19.0	11,699	22.5
Aggregate of five largest exposures	51,749	76.3	48,069	92.3
Aggregate of all largest exposures	51,749	76.3	85,276	163.8

Collateral

Loans advanced by the Bank are normally secured by all or certain of the borrower's assets and, in some cases security is taken over assets of third parties such as the directors or shareholders of a corporate borrower. The Bank does not generally provide unsecured loans.

The Bank has implemented detailed guidelines on the acceptability of specific classes of collateral. The principal collateral types are:

- Mortgage on real estate
- Cash collateral
- Pledge on movable assets
- Pledge on shares
- Pledge on commercial enterprises
- Pledge on receivables
- Various guarantees

Prior to advancing a loan, the Bank values the loan collateral at both fair and liquidation value taking into account comparable market values, the cost/replacement value of an asset and the capitalization of income method, as applicable. Typically, the Bank will lend up to 75% of the appraised value of the real estate asset. In some cases, the Bank may lend at higher loan-to-value ratios to prime clients and/or against highly liquid collateral, and with the approval of the relevant internal credit committee. All real estate is valued by specialized internal and occasionally by an external real estate appraiser.

Impairment and provisioning policies

The Bank has established an internal policy for monitoring and classification of risk exposures and allocation of provisions for impairment. The policy requires monthly review of all risk exposures and assessment of probable impairment. On a monthly basis, a Provisioning Committee evaluates and classifies each loan where there is objective evidence of impairment. Impairment provisions are recognised only for losses that have been incurred at the reporting date based on objective evidence of impairment.

All amounts are in thousands of EUR unless otherwise stated

The Bank following the requirements of IAS 39 and in compliance with BNB regulations, has established quantitative risk classification parameters for valuating the risk category of a financial asset. The classification of the assets is based on the criteria set out below and four risk classification groups are defined:

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

Classification group	Discount applied by the Bank(1)
Regular	Not required
Watch	10%
Irregular	50%
Non-performing	100%

(1) The minimum discount made by the Bank to the contractual cash flows in respect of an impaired loan to calculate the recoverable amount of the loan. This discount does not include any discount at the effective interest rate at the inception of the loan

For each loan which is "classified" (i.e. which is categorized as other than "Regular") the impairment is individually assessed and accounted for in an allowance account on a case-by-case basis. The assessment usually includes collateral held under specific requirements.

BACB has analyzed all loans which are not identified to be impaired and are classified as "Regular" at 31 December 2008. These loans are grouped into portfolios for the purpose of collective evaluation of impairment. The Bank identifies limited number of groups due to the specifics of its loan portfolio. Regular loans are grouped on the basis of similar risk characteristics, same industry classification or similar collateral on the loans.
The analyses show that at present no indications or objective evidences of impairment in the portfolios exist and no provisions for potential losses have been allocated. There are no historical losses from impairment of portfolios. The Bank will continue to review the portfolios' performance on a regular base and will allocate impairment provisions on a portfolio base if needed.

The BACB internal loan procedure provides detailed guidelines for monitoring the use of loan proceeds, the financial status of the borrower and his guarantors, as well as the adequacy and sufficiency of collateral. The borrowers are required to submit their semi-annual financial reports, which are used as a basis for updated analysis in case of material adverse change in the borrower's financial status, industry or quality and/ or quantity of the loan collateral.

Loans and advances

The total value of outstanding loans in the Bank's loan portfolio at 31 December 2008 and 2007 was EUR 368,803 and EUR 317,420, respectively and the related provisions for impairment were EUR 23,040 and EUR 15,687, respectively.

All amounts are in thousands of EUR unless otherwise stated

Loans and advances are summarized as follow:

	At 31 December 2008		At 31 December 2007	
	Corporate	Individuals	Corporate	Individuals
Neither past due nor impaired	262,337	19,888	260,331	20,171
Past due but not impaired *	31,021	1,521	12,467	865
Impaired	51,919	2,117	20,976	2,610
Gross	**345,277**	**23,526**	**293,774**	**23,646**
Less: provisions for impairment	(21,432)	(1,608)	(14,211)	(1,476)
Total	**323,845**	**21,918**	**279,563**	**22,170**

* Loans with delinquency of not more than one month are considered not impaired except if other objective evidences of impairment exist. Such loans are presented as past due but not impaired.

Arrears on impaired loans are presented below:

	At 31 December 2008		At 31 December 2007	
	Corporate	Individuals	Corporate	Individuals
Past due up to 1 month	22,386	68	11,222	841
Past due up to 1 - 2 months	2,592	307	382	343
Past due up to 2 - 3 months	7,456	134	-	331
Past due over 3 months	19,485	1,608	9,372	1,095
Total	**51,919**	**2,117**	**20,976**	**2,610**

Breakdown of Loan Portfolio by type of collateral at 31 December 2008 and 2007:

	2008		2007	
	EUR' 000	*%*	*EUR' 000*	*%*
Real Estate	346,273	93.9	294,610	92.8
Inventory	119	0.0	275	0.1
Equipment	3,970	1.1	4,508	1.4
Other Assets	18,229	4.9	17,702	5.6
Unsecured	212	0.1	325	0.1
Total	368,803	100	317,420	100

All amounts are in thousands of EUR unless otherwise stated

Geographical concentrations of assets, liabilities and off-balance sheet items

The Group's operations are concentrated primarily in Bulgaria. The exposures to other countries do not exceed 10% of the Bank's total assets as of 31 December 2008 and 2007.

32.2. Market Risk

The Bank is exposed to market risks. The market risks are associated with the risk of adverse effects of the changes in the prevailing market conditions on the financial position of the Bank. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements such as change of interest rates, credit spreads, foreign exchange rates and equity prices. The Bank has established management policies and procedures to identify, monitor and manage the levels of risk to which it is exposed. The policies and procedures are approved by the Management Board. The main objective of the risk policy is to impose clearly defined parameters on the Bank's operations to limit the exposure to different risks.

The Bank estimates the market risk by type of instruments held and the maximum losses expected based upon a number of assumptions for various changes in market conditions. The internal risk management systems of BACB evolve with the growth of the Bank to ensure that the Bank is always within the limits set internally for each risk category.

32.2.1. Exchange Rate Risk

The Bank is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

Whilst the Bank operates in Euro, US dollars and Leva, it has relatively limited foreign exchange exposure because since 1997, the Lev has been pegged to the Deutsche mark and, subsequently to the Euro through a currency-board system. Compliance with foreign exchange limits is monitored daily by the Treasury Department and is reviewed by the ALCO on a monthly basis.

The exchange rate risk management policy aims to maintain an open US dollar position that is as close as practicable to neutral by attempting to match the amounts of its US dollar liabilities with its US dollar denominated loan receivables and other assets. The Bank maintains a limit on its US dollar open position of 15% of its capital base and this limit was not exceeded at any time during the reporting periods ended 31 December 2008 and 2007, respectively. The Bank maintains a long Euro position (i.e. its Euro-denominated assets are greater than its Euro-denominated liabilities), equal to or greater than the Bank's equity. The Bank does not trade in foreign exchange for its own account.

The Bank only offers foreign exchange services to its clients upon request. The limit for such open overnight foreign exchange positions in all currencies is EUR 100,000. In special circumstances, this limit may be exceeded with the approval of an Executive Director. Due to the currency board arrangement, the position of the Euro against the Lev is not considered to be an open position.

The information about the Bank's exposure in the different currencies at 31 December, 2008 and 2007 is presented in the tables below.

All amounts are in thousands of EUR unless otherwise stated

31 December 2008

	USD	EUR	BGN	Other	Total
Cash and balances with the Central Bank	174	18,442	6,105	27	24,748
Loans and advances to banks	1,158	2,357	32,486	20	36,021
Loans and advances to customers	1,883	343,265	615	-	345,763
Financial assets held for trading	-	-	21	-	21
Financial assets available-for-sale	1,472	-	2,264	-	3, 736
Hedging derivatives	-	1,869	-	-	1,869
Tangible and intangible assets	-	-	2,305	-	2,305
Goodwill and Other assets	-	1,565	2,552	-	4,117
Total assets	4,687	368,737	46,228	47	418,580
Deposits from banks	2,838	1	7,927	-	10,766
Deposits from customers	5,452	103,582	12,936	19	121,989
Other borrowed funds	-	82,259	-	-	82,259
Debt securities in issue	22,408	83,407	-	-	105,815
Other liabilities	29	391	1,211	23	1,654
Total liabilities	30,727	269,640	22,074	42	322,483
Foreign currency gap	(26,040)	97,858	24,274	5	96,097
Currency contracts – off-balance sheet	26,245	9,685	(33,838)	23	2,115
Net foreign currency gap	205	107,543	(9,564)	28	

31 December 2007

	USD	EUR	BGN	Other	Total
Cash and balances with the Central Bank	119	16,123	6,853	37	23,132
Loans and advances to banks	2,058	14,851	6,654	133	23,696
Loans and advances to customers	3,531	296,675	1,527	-	301,733
Financial assets held for trading	-	471	1,333	-	1,804
Financial assets available-for-sale	1,616	-	1,635	-	3,251
Hedging derivatives	-	-	28	-	28
Tangible and intangible assets	-	-	2,481	-	2,481
Goodwill and Other assets	-	569	1,062	-	1,631
Total assets	7,324	328,689	21,573	170	357,756
Deposits from banks	-	11,513	-	-	11,513
Deposits from customers	6,011	78,693	14,236	128	99,068
Hedging derivatives	-	316	-	-	316
Other borrowed funds	-	66,599	-	-	66,599
Debt securities in issue	-	96,903	-	-	96,903
Other liabilities	158	762	2,861	-	3,781
Total liabilities	6,169	254,786	17,097	128	278,180
Foreign currency gap	1,155	73,903	4,476	42	79,576
Currency contracts – off-balance sheet	(613)	5,000	(4,348)	-	39
Net foreign currency gap	542	78,903	128	42	

All amounts are in thousands of EUR unless otherwise stated

32.2.2. ***Interest Rate Risk***

The interest rate risk relates to the potentially adverse impact of interest rate fluctuations on BACB's net income and equity value. It is BACB's policy to reduce the interest rate risk by extending floating rate loans against floating rate funding and matching the corresponding repricing periods as closely as possible. Additionally, BACB charges pre-payment penalties as a percentage of the principal balance outstanding. This reduces significantly the loan portfolio pre-payment risk and the overall interest rate risk.

The Bank's interest rate position is monitored and managed by the Treasury Department, which reports to the ALCO on a monthly basis. The ALCO takes an integrated view of the interest rate risk across all of the Bank's operations.

For several years after the Bank was formed, most of the Bank's assets and liabilities were at fixed rates. Subsequently the market has shifted towards floating rate loans, and in response the Bank has moved the majority of its funding to floating rates. The Bank manages its interest rate risk using an asset/liability repricing gap model which limits the Bank's six-month open position to 10% of total assets and its twelve-month open position to 10% of total assets. As a result of the 35 million fixed rate mortgage bond issued in July 2008 the Bank temporary exceeds these targets. The excess is approved by ALCO. The funds received from the issuance of fixed rate debt allow the Bank to offer fixed rate loans to its customers.

In 2005 the Bank hedged part of its interest rate risk resulting from any potential decrease in the fair value of a fixed rate debt security issued in 2005, using an interest rate swap. The hedge transaction was closed in December 2008 at maturity. The effect of the transaction on the 2008 income statement is loss of EUR 402. The fair value of the swap at 31 December 2007 was a liability of EUR 417. The Bank does not trade in interest rate derivatives.

The Bank uses GAP model for management decision purposes. The GAP model plots the interest rate sensitive assets against the interest rate sensitive liabilities by repricing periods.
For a given period the interest rate gap is the difference between the assets and the liabilities that reprice in that period. The gap is positive if the assets that reprice are more than the respective liabilities and negative vice versa.

At 31 December 2008, if market interest rates had experienced parallel shift by 100 basis points up/down in the up to 12 month period, with all else kept constant, the income before taxes of the Bank would have been approximately EUR 817 (2007: EUR 183) higher/lower, as a result of the positive/negative interest rate gap for that period.

The interest rate sensitivity of assets and liabilities based on contractual repricing or maturity dates, whichever is earlier, is summarized as follows:

All amounts are in thousands of EUR unless otherwise stated

31 December 2008

	On demand/ up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Non-interest bearing	Total
Cash and balances with the Central Bank	-	-	-	-	-	24,748	24,748
Loans and advances to banks	35,945	-	-	-	-	76	36,021
Loans and advances to customers	129,386	138,637	39,668	31,013	7,059	-	345,763
Financial assets held for trading	-	-	-	-	-	21	21
Financial assets available-for-sale	900	-	-	-	695	2,141	3,736
Hedging derivatives	-	-	-	-	-	1,869	1,869
Tangible and intangible assets	-	-	-	-	-	2,305	2,305
Goodwill and Other assets	815	180	360	210	-	2,552	4,117
Total assets	167,046	138,817	40,028	31,223	7,754	33,712	418,580
Deposits from banks	10,766	-	-	-	-	-	10,766
Deposits from customers	41,598	40,425	18,003	21,394	22	547	121,989
Other borrowed funds	59,927	22,332	-	-	-	-	82,259
Debt securities in issue	48,834	22,210	-	34,771	-	-	105,815
Other liabilities	-	-	-	-	-	1,654	1,654
Total liabilities	161,125	84,967	18,003	56,165	22	2,201	322,483
Total Interest Sensitivity gap	5,921	53,850	22,025	(24,942)	7,732	31,511	96,097

All amounts are in thousands of EUR unless otherwise stated

31 December 2007

	On demand/ up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Non-interest bearing	Total
Cash and balances with the Central Bank	-	-	-	-	-	23,132	23,132
Due from other banks	23,327	-	-	-	-	369	23,696
Loans and advances to customers	95,177	112,752	32,149	48,024	13,631	-	301,733
Financial assets held for trading	-	-	-	471	-	1,333	1,804
Financial assets available-for-sale	1,309	-	-	-	820	1,122	3,251
Hedging derivatives	-	-	-	-	-	28	28
Tangible and intangible assets	-	-	-	-	-	2,481	2,481
Goodwill and Other assets	-	-	-	541	-	1,090	1,631
Total assets	119,813	112,752	32,149	49,036	14,451	29,555	357,756
Deposits from banks	9,011	2,502	-	-	-	-	11,513
Deposits from customers	81,916	11,764	2,276	1,344	20	1,748	99,068
Hedging derivatives	-	-	-	-	-	316	316
Other borrowed funds	53,756	12,843	-	-	-	-	66,599
Debt securities in issue	35,585	22,205	39,113	-	-	-	96,903
Other liabilities	-	-	-	-	-	3,781	3,781
Total liabilities	180,268	49,314	41,389	1,344	20	5,845	278,180
Interest Sensitivity Gap	(60,455)	63,438	(9,240)	47,692	14,431	23,710	79,576
Interest rate derivatives net position	-	(20,000)	20,000	-	-	-	-
Total Interest Sensitivity gap	(60,455)	43,438	10,760	47,692	14,431	23,710	79,576

All amounts are in thousands of EUR unless otherwise stated

The following table summarizes the effective interest rates for monetary financial instruments for the years ended 31 December 2008 and 2007, respectively:

	2008	2007	
Assets			
Loans and advances to	4.98%	4.41%	*
Debt securities held for trading	6.92%	7.31%	
Debt securities A-F-S	5.88%	5.60%	
Loans and advances to customers	15.81%	17.19%	
Liabilities			
Deposits from banks	5.12%	4.66%	*
Deposits from customers	4.12%	2.86%	
Other borrowed funds	6.04%	5.81%	
Debt securities in issue	5.47%	5.23%	

* Note: For 2007 - weighted average rate at year end; The effective rate calculation results in understated rates due to dynamics of the interbank deposit balances; Average life of placed interbank deposits is one week; Average life of attracted interbank deposits is three months;

32.3. Liquidity Risk

The liquidity risk refers to the risk that a bank might not have sufficient cash to meet deposit withdrawals or other financial obligations and arises from mismatches in cash flows. BACB follows a conservative liquidity management policy.

Liquidity risk management seeks to ensure that the Bank has the ability, under varying scenarios, to fund increases in assets and meet maturing obligations as they arise. The Bank's Treasury Department is responsible for liquidity management under the guidance and supervision of the ALCO. The Treasury Department produces weekly liquidity reports on the liquidity position of the Bank and prepares monthly forward-looking liquidity reports. Both types of reports are sent to the ALCO and discussed at monthly meetings.

The Bank believes that it has a conservative liquidity policy. At any time, the Bank maintains liquid assets (including cash, short-term deposits and liquid securities) in excess of all deposits maturing within one month. The Bank also targets to maintain a positive twelve-month maturity gap, so that short-term assets match or exceed short-term liabilities. The Bank typically uses interbank deposits only to bridge temporary funding mis-matches, rather than to fund loans.

Targeting optimization of its liquidity management the Bank has some limited investments in debt securities. The Bank typically invests in Bulgarian government securities and has made some investments in Bulgarian corporate bonds in order to enhance the yield earned on its liquid funds. Such investments are approved by ALCO on a case-by-case basis. The Bank's debt securities are generally booked as "available for sale" in its investment portfolio. The Bank aims to keep no more than 50% of its liquid funds in the form of debt securities and, to date, has kept below this limit.

The tables below allocate assets and liabilities at 31 December 2008 and 2007 based on the time remaining from the balance sheet date to contractual maturity dates:

All amounts are in thousands of EUR unless otherwise stated

31 December 2008

	On demand/ up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Total
Cash and balances with the Central Bank	24,748	-	-	-	-	24,748
Loans and advances to banks	36,021	-	-	-	-	36,021
Loans and advances to customers	49,746	52,181	71,627	119,144	53,065	345,763
Financial assets held for trading	21	-	-	-	-	21
Financial assets available-for-sale	108	-	121	1,295	2,212	3,736
Hedging derivatives	-	-	-	1,869	-	1,869
Tangible and intangible assets	-	-	-	-	2,305	2,305
Goodwill and Other assets	1,676	221	1,888	212	120	4,117
Total assets	112,320	52,402	73,636	122,520	57,702	418,580
Deposits from banks	10,766	-	-	-	-	10,766
Deposits from customers	40,022	40,401	18,448	22,882	236	121,989
Other borrowed funds	9,388	21,625	8,803	42,443	-	82,259
Debt securities in issue	1,927	10,210	-	93,678	-	105,815
Other liabilities	1,059	506	63	26	-	1,654
Total liabilities	63,162	72,742	27,314	159,029	236	322,483
Maturity gap	49,158	(20,340)	46,322	(36,509)	57,466	96,097
Cumulative maturity gap	49,158	28,818	75,140	38,631	96,097	
Off-Balance sheet liabilities						
Bank guarantees	87	498	411	330	50	1,376
Unutilized commitments on loans	3,299	7,698	14,370	14,990	-	40,357
Total	3,386	8,196	14,781	15,320	50	41,733

All amounts are in thousands of EUR unless otherwise stated

31 December 2007

	On demand/ up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Total
Cash and balances with the Central Bank	23,132	-	-	-	-	23,132
Loans and advances to banks	23,696	-	-	-	-	23,696
Loans and advances to customers	25,414	23,655	48,583	152,879	51,202	301,733
Financial assets held for trading	-	5	-	466	1,333	1,804
Financial assets available-for-sale	847	-	-	507	1,897	3,251
Hedging derivatives	-	-	28	-	-	28
Tangible and intangible assets	-	-	-	-	2,481	2,481
Goodwill and Other assets	102	114	267	962	186	1,631
Total assets	73,191	23,774	48,878	154,814	57,099	357,756
Deposits from banks	9,011	2,502	-	-	-	11,513
Deposits from customers	81,891	11,787	2,425	2,734	231	99,068
Hedging derivatives	-	-	316	-	-	316
Other borrowed funds	11,595	18,980	12,045	23,979	-	66,599
Debt securities in issue	10,627	253	39,078	34,945	12,000	96,903
Other liabilities	2,417	1,251	21	92	-	3,781
Total liabilities	115,541	34,773	53,885	61,750	12,231	278,180
Maturity gap	(42,350)	(10,999)	(5,007)	93,064	44,868	79,576
Cumulative maturity gap	(42,350)	(53,349)	(58,356)	34,708	79,576	
Off-Balance sheet liabilities						
Bank guarantees	858	100	383	411	8	1,760
Letters of credit	156	-	-	-	-	156
Unutilized commitments on loans	7,999	7,655	23,704	20,383	188	59,929
Total	9,013	7,755	24,087	20,794	196	61,845

32.2. Capital management

The Bank is subject to the capital adequacy requirements of the Bulgarian legislation. In Bulgaria the paid-in capital of a bank should be at least BGN 10 million (EUR equivalent 5.1 million). Additionally, all banks shall have at their disposal, at all times, a capital base of at least the minimum required paid-in capital. Furthermore, the required total capital adequacy ratio set by the BNB for banks is 12% compared to the Bank for International Settlements ("BIS") requirement (the Basel Accord requirement) of 8%. The Tier 1 capital ratio set by the BNB is 6%, compared to the BIS requirement of 4%. The limits are set both on an individual and on a consolidated base.

Due to the inherent risks of being a specialist provider to small- and medium-sized businesses in an emerging economy, the Bank is particularly focused on maintaining a high level of capital adequacy. Accordingly, the Bank's policy is to ensure that it always has sufficient capital to cover the risks arising in the ordinary course of its business and to cover unforeseen emergencies. Historically, due to the high level of the Bank's profitability and to its policy of retaining earnings the Bank's capital adequacy has considerably exceeded the limits set by the BNB and therefore those of the Basel Accord.

Since 1 January 2007, all Bulgarian banks calculate capital adequacy according to the new Basel II requirements, as implemented in the new BNB Regulation 8, for supervisory purposes.

The effect of the implementation by the Bank of the new capital adequacy requirements was a decrease in the Tier 1 and Tier 2 capital adequacy ratios of the Bank by approximately 2 percentage points, due mainly to the introduction of additional capital requirements for the operational risk, which is a part of the new approach, as well as some changes in the risk assigned to particular types of assets. The capital adequacy is monitored monthly for managerial purposes. The reporting to the BNB is due on a quarterly basis.

Regardless of the Basel II implementation the capital adequacy of the Bank remains substantially above the regulatory limits.

The table below summarizes the Group's capital adequacy position at 31 December 2008 and 2007 calculated according to the new Basel II requirements. The Bank uses standardized approach for the purpose of calculating the capital requirements for credit risk and basic indicator approach for measuring the operational risk.

All amounts are in thousands of EUR unless otherwise stated

Capital base	**2008**	**2007**
Tier I capital		
Paid in Share capital	6,455	6,455
Share premium	435	435
Disclosed reserves	62,913	45,439
Less: Unrealized losses from investments available-for-sale	(262)	(6)
Less: Intangible assets	(83)	(112)
Less: Goodwill	(80)	(80)
Less: Investments in other companies	-	(79)
Less: BNB specific provisions for credit risk	(1,557)	-
Total Tier I capital	***67,821***	***52,052***
Tier II capital	-	-
Total Capital base	67,821	52,052
Capital requirements		
Capital requirements for credit risk	*27,713*	*23,689*
Capital requirements for settlement risk	-	-
Capital requirements for market risks (FX and stock price)	-	-
Capital requirements for operational risk - Basic Indicator Approach	*4,375*	*3,216*
Additional capital requirements BNB - 4%	*16,044*	*13,452*
Total Capital requirements - Standardized Approach	48,132	40,357
Ratios		
Total capital adequacy (%)	***16.9%***	***15.5%***
Tier I capital adequacy (%)	***16.9%***	***15.5%***