BULGARIAN-AMERICAN CREDIT BANK AD

ANNUAL MANAGEMENT REPORT OF THE ACTIVITIES
AND
CONSOLIDATED FINANCIAL STATEMENTS PREPARED
IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS
31 DECEMBER 2007

TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

ANNUAL MANAGEMENT REPORT

OF THE ACTIVITIES OF

THE BULGARIAN-AMERICAN CREDIT BANK

ON CONSOLIDATED BASIS

2007

INTRODUCTORY LETTER TO THE SHAREHOLDERS

During fiscal year 2007, the Bulgarian-American Credit Bank (BACB) earned approximately EUR 27.2 million while growing assets to EUR 357.8 million and net loans and advances to customers to EUR 301.7 million.

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

* Annualized return on average equity is calculated by dividing net profit for the year by the simple average of shareholders' equity for the period.

Net profit for the year grew by 55.6% year-over-year due to growth in the loan portfolio, sustained net interest margin and low expense growth. Operating profit grew by 52.2% year-over-year. Loan quality remains high and an additional loan reserve expense of EUR 2.8 million was recorded as a precautionary measure.

Growth and profitability continued to be fueled by strong loan demand, reflecting favorable business conditions in Bulgaria and BACB's focus on the vibrant SME sector.

- In 2007 the loan portfolio grew by 56.1% to EUR 301.7. At the same time, growth prospects remain high as loans committed but not yet disbursed grew 28.5% year-over-year to EUR 59.9 million.

- Return on average equity was 39.74%, return on average assets 8.96% and profit after tax. The ratio of cost to income, and net interest margin all equaled or exceeded expectations.

- In August, 2007 the Bulgarian National Bank (BNB) increased its minimum reserve requirements from 8% to 12% of attracted funds. It is hoped that this measure will slow down the growth in bank loans to 20-30% p.a. Management believes that this will not have a significant impact on the Bank's competitiveness and profitability. Further restrictive measures are possible but the nature of such measures and their likelihood cannot be assessed.

- The international liquidity crisis experienced in August, and to some extent continuing to today, 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, there is a chance that BACB's funding costs will increase; however, in such event management does not expect this to threaten the Bank's competitiveness. In January, 2008 Standard & Poor's affirmed the Bank's credit rating – BB/Stable/B.

Total capital adequacy ratio at December 31, 2007 on a consolidated basis was 15.48% and on individual basis 15.28% -- well in excess of the Bulgarian National Bank requirement of 12%.

BACB's performance was recognized in the annual Euromoney Emerging Europe best managed company rankings for 2007. BACB won honors in the following four categories:

- Best Managed Company in Bulgaria for 2006 - #1
- Most Convincing and Coherent Strategy in Emerging Europe - #3 (shared with Ceska Sporitelna)

- Best in Banking and Finance in Emerging Europe - #3 (shared with Russian Standard Bank)
- Most Transparent Accounts in Emerging Europe - #2

For the fourth time in its history, BACB received the Pari Daily award for most efficient bank in Bulgaria in 2006.

In addition, for a fifth year in a row BACB received Finance Central Europe's achievement awards for Best Bank in Bulgaria. This year performance was recognized in two categories - by ROE and ROA.

In summary, BACB had a record year in 2007 as the bank continues to broaden and strengthen its participation in the SME sector, which is benefiting from EU accession, continuing foreign direct investment and accelerated structural spending. All of this leads to Bulgaria having one of the best growth stories in the region. We believe that this will continue in 2008 and beyond and as a result that the Bank will maintain a high level of profitability and grow at rate commensurate with that of the banking system.

On February 21, 2008 the Bulgarian-American Enterprise Fund (BAEF) entered into an agreement to sell 49.99 per cent interest in BACB to Allied Irish Banks P.l.s., Ireland. The consideration payable by AIB to BAEF is approximately €216 million which shall be satisfied by way of cash on completion of the transaction. Completion is conditional upon receipt of the requisite regulatory approvals.
In result, BAEF's share in the Banks capital will be reduced to 3.89%.

This transaction would not have been possible without the dedication and hard work of our exceptional staff, which we highly appreciate.

We believe that, as a new strategic investor, AIB will bring the same high standards of entrepreneurial and operational excellence. The combination should benefit everyone – clients, employees, management and shareholders – indeed, the Bank is up for a great start of 2008.

Sincerely,

Frank L. Bauer,
Chairman of the Management Board and Chief Executive Officer

FINANCIAL STATEMENTS AND MANAGEMENT REPORT OF BULGARIAN-AMERICAN CREDIT BANK 2007

The following is a discussion of the results of operations and financial condition of the Bank for the year ended 31 December 2007. 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 2007 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 2006 and 2007 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 2007, the Bank was the 19th largest bank in Bulgaria on the basis of total assets, the 11th largest bank on the basis of total capital and had the highest return on assets and return on equity of all the Bulgarian banks included in the BNB's statistics.

At 31 December 2007 and 2006 the Bank 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 licence 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 BULSTAT unified register under code 121246419. The Bank is registered as an issuer of publicly traded bonds with the Bulgarian Financial Supervision Commission's 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 BSE-Sofia.

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 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 on the disclosure of information by the public companies and other issuers of securities; Corporate Tax Act; Personal Income Tax Act; Currency 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

In 2006 the bank acquired from the BAEF 100% of the shares of Kapital Direct EAD, a non-bank financial institution, which had no operations. Kapital Direct is BACB's only subsidiary and its results are consolidated in BACB's financial statements. The bank paid 100,000 BGN (nominal value) and then increased Kapital Direct's capitalization to €1.5 million. The bank is using Kapital Direct as a vehicle for originating and possibly for securitizing loans. Kapital Direct's after tax profit represents 3.7% of the Bank's consolidated profit for 2007. At 31 December 2007 Kapital Direct's assets were € 11.2 million or approximately 3.1% of the Bank's consolidated total assets.

Significant Factors Affecting Results of Operations

Effect of Growth Policy

Since its formation in 1996, the Bank has pursued a policy of managed growth. At 31 December 2007, the Bank had total assets of €357.8 million, compared to total assets of €248.5 million at 31 December 2006. Loans and advances to customers comprise the Bank's principal asset on its balance sheet and increased by 56.1% to €301.7 million at 31 December 2007.

The Bank seeks to manage its loan portfolio growth at sustainable levels. However, growth in any given year or month varies with the flow of new business and the rate of loan repayments. The Bank's average loan portfolio before provisions for impairment, taken on a monthly basis, was €177.8 million in 2006 and increased 44.9% to €257.6 million in 2007.

The Bank has also achieved consistent growth in profitability for the ten years since inception. For the year ended 31 December 2007, the Bank's net profit for the year was approximately €27.2 million, an increase of 55.6% from €17.5 million for the year ended 31 December 2006.

Net interest income for the year ended 31 December 2007 increased to €35.2 million, an increase of 44.5% from €24.4 million in 2006. The increase was due to the Bank's growing loan portfolio, stable funding costs and sustained margins on loans, which the Bank was able to achieve despite increasing competition.

Effect of Diversification of Funding Base

At 31 December 2007, the Bank had total liabilities of €278.2 million, compared to liabilities of €191.4 million at 31 December 2006. Taken together, credit lines and long-term loan facilities from international financial institutions and international banks and the BAEF have historically been the Bank's principal sources of funding. Since inception the Bank has gradually diversified its funding from the Bulgarian debt capital markets through the issue of unsecured and mortgage bonds, from international banks, through syndicated loans, and from customer and bank deposits.

Results of Operations for the Years Ended 31 December 2007 and 2006

The following table sets out the Bank's net profit for the year and the principal components thereof for the years ended 31 December 2007 and 2006, as well as the percentage variation within each line item.

	Year ended 31 December		Variation
	2007	2006	2007/2006
	(€ 000)		(%)
Income Statement Data			
Interest income	45,237	31,874	41.9
Interest expense	(10,017)	(7,495)	33.6
Net Interest Income	**35,220**	**24,379**	**44.5**
Fees and commission income, net	3018	1,830	64.9
Other non-interest income	864	729	18.5
Operating Income	**39,102**	**26,938**	**45.2**
Operating expenses	(6,111)	(5,259)	16.2
Provisions for impairment	(2,805)	(2,152)	30.3
Income before taxation	**30,186**	**19,527**	**54.6**
Income tax expense	(3,029)	(2,072)	46.2
Net profit for the year	**27,157**	**17,455**	**55.6**
Cash Flow Statement Data			
Net cash (used in) operating activities	(86,660)	(39,366)	120.1
Net cash (used in)/provided investing activities	1,985	(1,450)	(236.9)
Net cash provided by financing activities	81,398	37,478	117.2
Net (decrease)/increase in cash and cash equivalents	**(3,305)**	**(4,383)**	**(24.6)**

	At 31 December	
	2007	2006
Key ratios		
Return on average total assets (%)(1)	9.0	7.9
Return on average total equity (%)(2)	39.7	36.0
Earnings per share (€ per share)(3)	2.15	1.38
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)	0.75
Cost/income ratio (%)(5)	15.5	19.3
Shareholders' equity/Total assets (%)(6)	22.2	23.0
Tier 1 capital ratio	15.5	18.5
Capital to risk-weighted assets ratio	15.5	18.5

(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) The Supervisory Board has decided to propose to the Annual General Meeting of the Shareholders, to be held on April 15, 2008, to vote a dividend of BGN 1.5 per share.

(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	
	2007	2006
Net profit for the year	27,157	17,455
Average Total Assets	303,138	221,712
Average Shareholders' Equity	68,345	48,447
Net profit for the year as a Percentage of Average Total Assets	9.0%	7.9%
Net profit for the year as a Percentage of Average Shareholders' Equity	39.7%	36.0%
Average Shareholders' Equity/Average Total Assets	22.5%	21.9%

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.

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.

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 2007 and 2006, as well as the percentage variation within each line item.

	Year ended 31December		Variation
	2007	2006	2007/2006
	(€ 000)		*(%)*
Interest income	45,237	31,874	41.9
Interest expense	(10,017)	(7,495)	33.6
Net interest income	35,220	24,379	44.5

Interest Income

Interest income is comprised of interest and deferred loan management fees paid to the Bank. It also includes interest earned on inter-bank placements and debt securities held by the Bank for its own account.

The following table sets out the principal components of Bank's interest income for the years ended 31 December 2007 and 2006.

	Year ended 31December 2007	2006	Variation 2007/2006
	(€ 000)		(%)
Interest Income			
Loans	44,277	30,474	45.3
Due from banks	719	1,076	(33.2)
Securities	241	324	(25.6)
Total interest income	45,237	31,874	41.9

Interest income increased by €13.3 million, or 41.9%, from €31.9 million in the year ended 31 December 2006 to €45.2 million in the year ended 31 December 2007. These increases were primarily a result of the loan portfolio growth and sustained interest margins during the years ended 31 December 2007 and 2006, 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 its liquid assets.

Interest Income from Loans

During the year ended 31 December 2007, interest income from loans increased by €13.8 million, or 45.3%, from €30.5 million during the year ended 31 December 2006 to €44.3 million in the year ended 31 December 2007. 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 in part due to the growth in GDP, increased investment activity associated with the EU accession and rising asset prices.

The interest income from deposits placed and interest income from securities have historically been relatively small in size and do not have a significant effect on the Bank's net profit for the year.

Interest Expense

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. The following table sets out the principal components of the Bank's interest expense for the years ended 31 December 2007 and 2006, as well as the percentage variation within each line item.

	Year ended 31 December 2007	2006	Variation 2007/2006
	(€ 000)		(%)
Interest expense			
Deposits	(2,300)	(1,386)	65.9
Debt securities issued	(4,980)	(3,815)	30.5
Other borrowed funds	(2,737)	(2,294)	19.3
Total interest expense	(10,017)	(7,495)	33.6

Interest expense increased by €2.5 million, or 33.6%, from €7.5 million in the year ended 31 December 2006 to €10.0 million in the year ended 31 December 2007. The increase resulted from the increase in the volume of interest-bearing liabilities and to limited extent to a slight increase in the average effective interest on the interest-bearing liabilities.

Interest Expense on Deposits

Interest expense on deposits increased by €0.9 million, or 65.9%, from €1.4 million in the year ended 31 December 2006 to €2.3 million in the year ended 31 December 2007. The increases resulted from increases in deposits and to a small extent to the higher interest rates over the relevant period.

Deposits increased by €41.2 million, or 59.2%, from €69.4 million at 31 December 2006 to €110.6 million at 31 December 2007.

Interest Expense on Debt Securities

Interest expense on debt securities issued increased by €1.2 million, or 30.5%, from €3.8 million in the year ended 31 December 2006 to €5.0 million in the year ended 31 December 2007. The increases resulted from increases in debt securities issued by the Bank and to a small extent to the higher interest rates over the relevant period. Debt securities issued increased on a net basis by €9.6 million, or 11.0%, from €87.3 million at 31 December 2006 to €96.9 million at 31 December 2007.

Interest Expense on Other Borrowed Funds

Interest expense on other borrowed funds increased by €0.4 million, or 19.3%, from €2.3 million in the year ended 31 December 2006 to €2.7 million in the year ended 31 December 2007. The increase resulted mainly from increase in the average amounts of deposits, borrowed funds from international financial institutions and international banks over the respective period and to some extent to increases of the EURIBOR rates. These increases have been partially offset by lower interest margins on some of the new borrowings. The total principal amount of the Bank's other borrowed funds increased by €34.8 million, or 109.4%, from €31.8 million at 31 December 2006 to €66.6 million at 31 December 2007.

Net Interest Income and Interest Margin

Net interest income increased by €10.8 million, or 44.5%, from €24.4 million in the year ended 31 December 2006 to €35.2 million in the year ended 31 December 2007. Increases in net interest income were caused by the growth in interest income exceeding the growth in interest expense, which was the result of the increase of the loan portfolio combined with steady interest margins and stable or only slightly increasing funding costs.

Operating Income

The operating income of the Bank increased by €12.2 million or 45.2% from €26.9 million for the year ended 31 December 2006 to €39.1 million for the year ended 31 December 2007. A number of factors affect the Bank's operating income, the most important being net interest income. Net interest income represented 90.1 and 90.5% of operating income for the years 2007 and 2006.

Fees and Commission Income

Fees and commission 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. Net fee and commission income increased by €1.2 million, or 64.9%, from €1.8 million during the year ended 31 December 2006 to €3.0 million during the year ended 31 December 2007.

Other Non-interest Income

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

Operating Expenses

Operating expenses comprised salaries and benefits and other administrative expenses. Total operating expenses increased by €0.852 million, or 16.2%, from €5.2 million during the year ended 31 December 2006 to €6.1 million during the year ended 31 December 2007.

Personnel

Personnel expenses include wages, staff bonuses and social security contributions. Personnel expenses increased by €0.541 million, or 18.8%, from €2.9 million during the year ended 31 December 2006 to €3.4 million during the year ended 31 December 2007. The increase is primarily due to the continued growth of the Bank's business and the increased amount of employee bonuses, following the increased profitability of the Bank in accordance with the Bank's Long Term Employee Incentive Plan.

Net of the employee bonuses, personnel expenses increased by €0.078 million, or 3.6%, from €2.2 million during the year ended 31 December 2006 to €2.3 million during the year ended 31 December 2007. The Bank employed 137 people at 31 December 2007 and 137 people at 31 December 2006.

Contribution to and Payment under the Long Term Employee Incentive Plan

The Bank's contribution to and payment under the Long Term Employee Incentive Plan increased by €0.464 million, or 65.8%, from €0.705 million in 2006 to €1.169 million in 2007.

Depreciation and Amortization

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

Other Operating Expenses

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 €0.167 million, or 13.9%, from €1.205 million in the year ended 31 December 2006 to €1.372 million in the year ended 31 December 2007. 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.

Provisions for Impairment

Provisions for impairment amounted to €15.687 million in 2007 as compared to €12.919 million in 2006.

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 €0.5 million in year 2006.

As a percentage of total loans and advances to customers, provisions for impairment decreased from 6.3% at 31 December 2006 to 4.9% 31 December 2007. The aggregate amount of all classified loans fell from 9.5% of the Bank's total portfolio at 31 December 2006 to 7.4% at 31 December 2007.

Income Taxes

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

The Bank's income taxes increased by €0.957 million, or 46.2%, to €3.0 million for the year ended 31 December 2007, as compared to €2.1 million for the year ended 31 December 2006. Due to certain exemptions explained in the Bank's financial statements, the Bank's effective tax rate for 2006 was 10.6% and for 2007 - 10.0%. The increase in the Bank's income tax expense was attributable to an increase in taxable operating profits for each year.

Net profit for the year

The increase in net profit for the year for the year ended 31 December 2007 was caused by a combination of the factors discussed above, including the higher rate of growth of income compared to the rate of growth of expenses and fluctuations in the provisions for impairment expense. In particular, the Bank's operating income grew by €12.2 million or 45.2% to €39.1 million for the year ended 31 December 2007, as compared to €26.9 million for the year ended 31 December 2006. The Bank's operating expenses grew by €0.852 million or 16.2% to €6.1 million for the year ended 31 December 2007, as compared to €5.2 million for the year ended 31 December 2006. The ratio of operating expenses to operating income fell from 19.3% at 31 December 2006 to 15.5% at 31 December 2007.

CAPITAL RESOURCES

Liabilities and Shareholders' Equity

The following table sets out the structure of liabilities and equity of the Bank at 31 December 2007 and 2006.

	At December 31		
	2007	2006	2007/2006
Liabilities		('000)	(%)
Deposits from banks	11,513	15,342	(25.0)
Deposits from customers	99,068	54,098	83.1
Other liabilities	4,097	2,869	42.8
Other borrowed funds	66,599	31,804	109.4
Debt securities outstanding	96,903	87,293	11.0
Total Liabilities	278,180	191,406	45.3
Shareholders' Equity			
Share capital	6,455	6,455	-
Share premium	435	435	-
Retained earnings	72,596	50,280	44.4
Revaluation reserve	90	(56)	260.7
Total Shareholders' Equity	79,576	57,114	39.3
Total Liabilities and Shareholders' Equity	357,756	248,520	44.0

The principal sources of the Bank's funding 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 58.8% of the Bank's total liabilities at 31 December 2007. At that date, deposits from customers and bank deposits comprised 39.8% 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			
	2007		2006	
	Amount	% of Total	Amount	% of Total
	(€ 000)	(%)	(€ 000)	(%)
Deposits from Banks	11,513	4.2	15,342	8.1
Deposits from Customers	99,068	36.1	54,098	28.7
Loans from International Banks	29,561	10.8	5,006	2.6
Loans from International Financial Institutions	28,716	10.5	12,538	6.7
Loans from the BAEF	8,321	3.0	14,260	7.6
Debt Securities	96,903	35.4	87,293	46.3
Total Funding	274,082	100.00	188,537	100.0

At 31 December 2007, the Bank had total liabilities of approximately €278.2 million, compared to liabilities of €191.4 million at 31 December 2006. 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 issuing bonds 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.

Overall, the Bank's average cost of funding has been declining since its formation in 1996. The Bank issued its first mortgage bonds in 2001 at a fixed interest rate of 7.75%, which was approximately 330 basis points over the three-year swap rate. In contrast, the Bank's most recent mortgage bonds were issued in March 2006 at 64 basis points over the six-month EURIBOR rate. The last general corporate bond of the Bank was issued in July 2007 at 93 basis points over the twelve-month EURIBOR 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 2007, debt securities comprised 34.8% of the Bank's total liabilities, compared to 45.6% of total liabilities at 31 December 2006. All of the Bank's mortgage bonds were issued under the Mortgage Bonds Act of 2000 and are collateralized by a lien on the receivables from a pool of mortgage loans.

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 BAEF. As Bulgarian debt capital markets have developed, the Bank has begun to place less emphasis on borrowing from international financial institutions but it still remains an important source of funds. At 31 December 2007, loans from international financial institutions comprised 10.3% of total liabilities, compared to 6.6% of total liabilities at 31 December 2006.

Since 2001, various international banks have advanced loans to the Bank. In 2004, the Bank agreed a syndicated term loan of €12 million with several European banks, which was repaid in full in 2006. Loans from international banks comprised 10.6% of total liabilities at 31 December 2007 compared to 2.6% of total liabilities at 31 December 2006.

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 have become its largest source of funds due to an increase in institutional deposits and BAEF group deposits during the year. Still, the Bank continues to view customer deposits as an additional service provided to its clients and it does not advertise or attempt to "cross-sell" its deposit facilities actively.

At 31 December 2007, non-bank deposits held by the Bank comprised 35.6% of total liabilities, compared to 28.3% of total liabilities on 31 December 2006.

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. In result of the implementation of the new requirements associated with operating risk and market risk, the Bank's total capital adequacy ratio has decreased by approximately 2 per cent points.

The Bank's total capital adequacy ratio at 31 December 2007 was 15.5% (assuming that 2007 profits are not retained) and at 31 December 2006 was 18.4%, and its Tier 1 capital adequacy ratio at 31 December 2007 was 15.5% and at 31 December 2006 was 18.5%.

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. However, the Bank is currently sufficiently capitalized, if not overcapitalized and for this reason the Bank is expected to continue its dividend payment program, initiated in 2006. For this reason and due to its strong 2007 results, the Supervisory Board of the Bank intends to propose to its shareholders a dividend of BGN 1.5 (€0.777) per share for year 2007.

LIQUIDITY

The Bank's liquidity ratio (i.e. the ratio of liquid assets to total deposits) was 46.9% at 31 December 2007, compared to 74.0% at 31 December 2006. The decrease of the ratio in comparison to the 2006 figure is due to the increase of the deposits as percentage of the liabilities. The increase is mainly in the interbank and the corporate deposits which the bank uses as a temporary source of funds. "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. The following table sets out the Bank's liquidity ratios at 31 December 2006 and 2007.

	At 31 December	
	2007	**2006**
	(%)	
Loans/assets	84.3	77.8
Loans/equity	379.2	338.4
Liquid assets/total assets	14.5	20.7
Liquid assets/total deposits	46.9	74.0

The Bank began investing in debt securities in 2002, principally to optimize its liquidity management. The Bank typically invests in Bulgarian government securities and has made some limited investments in Bulgarian corporate bonds 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.

At 31 December 2007, the Bank's portfolio of debt securities amounted to €2.6 million as compared to €6.4 million at 31 December 2006.

RISK FACTORS

Risks relating to the Bank

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

Banking activity in Bulgaria is dependent on the overall level of economic activity in the country. As a result, the Bank's business, results of operations and financial condition largely depend on the condition of the Bulgarian economy, 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.

Increased competition in the Bulgarian banking sector may reduce interest rate margins for market participants

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. If the Bulgarian banking sector becomes more competitive, the Bank's interest rate margins may fall. This could have a material adverse effect on the Bank's business, results of operation and 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 down-turn 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 2007 and 2006, the Bank's largest 20 risk exposures (which includes exposures under loans, guarantees and other instruments) comprised 32.1% and 30.2%, 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 business and financial condition is largely dependant on the continuation and the increase 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 90% of the Bank's total loans and advances to customers were secured by interests in Bulgarian real estate as at 31 December 2007. 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.

At 31 December 2007 provisions for impairment of loans and advances to borrowers in the construction and tourism sector comprised 30.0% and 3.9% respectively of the total provisions for impairment. As at 31 December 2006 those provisions comprised 14.6% and 6.7% respectively.

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.

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 54.0% in 2007 and 30.8% in 2006. 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.

Increased competition may adversely affect the Bank

Whilst there is currently no competitor that follows the same strategy as the Bank, the Bank competes with many Bulgarian banks in lending to small- and medium-size companies and in lending to the construction and tourism sectors. Since 2002, competition among banks in Bulgaria has increased significantly. The Bank believes that competition between banks in Bulgaria is likely to continue to increase, including in respect to lending to small- and medium-size companies, as the large foreign-owned banks which already have operations in Bulgaria pursue aggressive growth strategies. In addition, competition may increase if foreign banks, which currently do not operate in Bulgaria, enter the market. Increased competition may lead to, amongst other things, increased prepayments by the Bank's customers, loss of existing customers and a reduction in the growth of the Bank's loan portfolio. As a result, the Bank's continued succes in lending to small- and medium-size companies will depend on its ability to remain competitive with other financial institutions. However, there can be no assurance that increased competition will not adversely affect the Bank's business, results of operations or 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 of types of risk 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 interests of the Bank's Controlling Shareholder, may conflict with the Bank's interests, which could impede the Bank's development

At 31 December 2007, the Controlling Shareholder holds 6,802,103 Shares, representing approximately 53.88% of the Shares. As the Bank's principal shareholder, it will be able to exercise substantial influence over all or substantially all matters requiring approval by the Bank's shareholders, including amending the Bank's articles of association, appointing and removing Directors and approving significant transactions other than transactions with the Controlling Shareholder or its related parties. In addition, as the Bank has not entered into a non-compete agreement with the Controlling Shareholder, it may expand its business lines or channels of distribution to compete with the Bank.

The Bank continues to have contractual and other business relationships with the Controlling Shareholder. Although the management of the Bank expects that any future transactions and agreements will be on terms no less favourable to the Bank than it could obtain in comparable contracts with unaffiliated third parties, conflicts of interest could arise between the Bank and the Controlling Shareholder.

On February 21, 2008 BACB was informed that the BAEF has entered into an agreement to sell 49.99 per cent interest in BACB (6,311,100 shares) to Allied Irish Banks P.l.s., Ireland at a price per share of BGN 67.00. ("**AIB Transaction**") The consideration payable by AIB to BAEF is approximately €216 million which shall be satisfied by way of cash on completion of the transaction. Completion is conditional upon receipt of the requisite regulatory approvals. In result, BAEF's share in the Bank's capital may be reduced to 3.89%.

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 licence. 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 2007 and management does not foresee a need for any capital increases in the medium term. Based on the Bank's current business plan and existing lines of business, the Bank will seek funds in the debt markets in 2008. To the extent that the Bank departs from 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, 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 the requirement to comply with regulatory capital requirements.

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

Certain members of the Bank's current senior management team have been with the Bank since its incorporation in 1996 or have been working for the BAEF (the Controlling Shareholder). Such persons are also heavily involved in the day-to-day control and running of the business. The Bank's continuing success depends, in part, on its ability to continue to retain and motivate these individuals and other qualified and experienced banking and management personnel. Furthermore, to allow for additional growth, the Bank must hire additional personnel on a regular basis. Competition in the Bulgarian labour market for qualified operating, financial and technical personnel is intense due to the relatively small number of qualified personnel available, and the Bank competes with other banks specifically, and other Bulgarian employers generally, to employ such persons. The successful implementation of the Bank's business plan will, in part, depend upon its ability to hire and retain such personnel. 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. The management of the Bank cannot assure potential investors 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 centres 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 organisation 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 programmes 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.

The Bank is substantially dependent on long-term funding sources

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 the BAEF, its Controlling Shareholder, loans from international financial institutions, loans from various European banks and by issuing bonds in the Bulgarian debt capital markets. The Bank only has a limited branch network with which to accept deposits, and at 31 December 2007, only 35.6% and 4.1%, respectively, of the Bank's total non-equity funding was in the form of customer deposits and bank deposits. Whilst the Bank has been successful to date in securing long-term funding on favorable terms from its Controlling Shareholder, from international financial institutions or European banks or from the debt capital markets, there can be no assurance that the Bank will continue to be able to do so. Failure to do so may result in the Bank's liquidity and financial position being adversely affected, and the Bank may be required to seek funding from more expensive sources or to expand its branch network to attract a higher proportion of customer deposits, each of which could have a material adverse effect on the Bank's business, results of operations and 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 29 to the Bank's consolidated financial statements for the year ended 31 December 2007.

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 maintains 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 limits the Bank's six-month open position to 10% of total assets and its twelve-month open position to 10% of total assets. The Bank has not materially breached these targets to date.

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 2007. 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 €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 a review of the capital strength, liquidity position and shareholding structure of the counterparty bank.

Investment Risk

The Bank's investments in securities are approved by the ALCO after a review of the credit risk of the issuer. At 31 December 2007, 48.6% of the Bank's securities portfolio consisted of equity securities, 32% of debt securities issued by the Republic of Bulgaria and 19.4% of Bulgarian corporate bonds. The total amount of the portfolio is €5.1 million,

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 2007.

IMPORTANT DEVELOPMENTS AFTER THE DATE OF THE LAST BALANCE SHEET

In January, 2008 Standard & Poor's affirmed the Bank's credit rating – BB/Stable/B.

On 21 February 2008 BACB was informed that the Bulgarian-American Enterprise Fund (BAEF) has entered into an agreement to sell 49.99 per cent interest in BACB (6,311,100 shares) to Allied Irish Banks P.l.s., Ireland at a price per share of BGN 67.00. ("the **AIB Transaction**") The consideration payable by AIB to BAEF is approximately €216 million which shall be satisfied by way of cash on completion of the transaction. Completion is conditional upon receipt of the requisite regulatory approvals. In result, BAEF's share in the Banks may be reduced to 3.89%.

Following the AIB Transaction announcement, on 25 February 2008 Standard & Poor's placed the BB/Stable/B ratings of BACB on Credit Watch Positive.

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

EXPECTED DEVELOPMENT OF THE BANK

The Bulgarian banking sector is facing new challenges as Bulgaria entered the European Union. The banking sector has become more competitive, the growing financial awareness of customers is creating demand for more sophisticated financial products for diverse customer needs, and all market participants are facing changes in the regulatory environment resulting from the accession. Management believes that the Bank is well prepared to succeed in this environment, and that the Bank's flexible management and prompt decision-making will allow it to continue to take advantage of its opportunities. In particular, management believes that the Bank's focused strategy and specialization in serving its selected target market and services, and its cost efficiency, prudent risk management and solid capitalization will continue to allow for sustained asset growth and profitability, resulting in growth in shareholder value.

The Bank's objectives for the current financial year are focused on sustaining growth in assets and earnings in existing product lines, greater efficiency, and improving asset quality through enhanced risk management and successful work-outs of non-performing loans.

In 2005, the BNB set loan portfolio growth targets applicable from the second quarter of the year to limit the growth of loans in the banking system. Any bank which exceeds these growth targets is required to maintain additional reserves with the BNB. These limitations restricted somewhat the Bank's growth in the years ended 31 December 2005 and 2006. The growth in the Bank's loan portfolio exceeded the BNB's target growth rates and, therefore, the Bank was required to maintain additional reserves at the BNB. BNB removed growth restrictions in late 2006, effective in early 2007.

In August, 2007 the Bulgarian National Bank (BNB) increased its minimum reserve requirements from 8% to 12% of attracted funds. It is hoped that this measure will slow down the growth in bank loans to 20-30% p.a. Management believes that this measure will likely be effective in limiting loan growth, but that it will not have a significant impact on the Bank's competitiveness. Further restrictive measures are possible but the nature of such measures and their likelihood cannot be assessed.

The international liquidity crisis which started in August, 2007 and is continuing to today, 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 increase; however, in such event management does not expect this to threaten the Bank's competitiveness. In January, 2008 Standard & Poor's affirmed the Bank's credit rating – BB/Stable/B. Management intends to continue to implement its existing funding strategy and does not envision an aggressive expansion in deposit taking. The bank will continue to employ its existing sources of wholesale funding and look for further diversification. However, it may be expected that, given the current state of the markets, funding costs increase in 2008.

Since 31 December 2007, the Bank's levels of business activity and growth have continued to develop as expected. Overall, the outlook for the Bank's trading for 2008 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 21 to the consolidated financial statements of the Bank contain a detailed breakdown of the Bank's debt securities outstanding at 31 December 2007 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					
	2007			2006		
	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	25,000	719	4.4	29,294	1,076	3.3
Loans and advances to customers	247,498	44,277	17.2	169,980	30,474	17.1
Trading portfolio	608	53	7.3	489	21	7.4
Investment securities-available-for-sale	3,857	188	5.6	5,337	303	6.1
Total interest earning assets	**276,962**	**45,237**	**16.0**	**205,100**	**31,874**	**14.8**
Non interest earning assets	26,175	-	-	16,612	-	-
Total Assets	303,138	45,237	14.7	221,712	31,874	13.1

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					
	2007			2006		
	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	13,427	212	4.7	12,658	48	3.3
Deposits from customers	76,584	2,088	2.9	43,942	1,338	2.5
Other borrowed funds	49,201	2,737	5.8	43,531	2,294	6.2
Debt securities outstanding	92,098	4,980	5.2	70,722	3,815	4.8
Interest bearing liabilities	**231,310**	**10,017**	**4.5**	**170,854**	**7,495**	**4.4**
Non interest bearing liabilities	3,483	-	-	2,411	-	-
Shareholders' Equity	68,345	-	-	48,447	-	-
Total Liabilities and Shareholders' Equity	303,138	10,017	-	221,712	7,495	-

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					
	2007			2006		
	Net Change Due to			Net Change Due to		
	Volume	Rate	Total	Volume	Rate	Total
	(€ 000)			(€ 000)		
Due from other banks	(708)	351	(357)	466	163	629
Loans and advances to customers	13,714	88	13,802	6,882	(1,033)	5,849
Trading portfolio	33	0	33	13	4	17
Investment securities-available-for-sale	(92)	(23)	(115)	(47)	43	(4)
Change in interest income	**12,947**	**415**	**13,363**	**7,314**	**(823)**	**6,491**
Deposits from banks	124	39	163	(20)	8	(12)
Deposits from customers	572	179	751	546	101	647
Other borrowed funds	575	(132)	443	(1,381)	(170)	(1,551)
Debt securities outstanding	832	333	1,165	2,098	(599)	1,499
Change in interest expense	**2,103**	**419**	**2,522**	**1,243**	**(660)**	**583**
Net change in interest income	**10,844**	**(4)**	**10,840**	**6,071**	**(163)**	**5,908**

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	
	2007	2006
Average Interest Earning Assets	277,001	205,100
Interest Income	45,237	31,874
Net Interest Income	35,220	24,379
Average Yield (1)	16.0%	14.8%
Average Margin (2)	12.4%	11.3%
Average Spread (3)	11.5%	10.4%

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			
	2007		2006	
Program	*(€ 000)*	%	*(€ 000)*	%
SME	172,640	54.4	116,565	56.5
Tourism	68,087	21.5	48,798	23.7
Construction	65,234	20.6	32,851	15.9
MLG	11,459	3.5	7,968	3.9
Total	**317,420**	**100.0**	**206,182**	**100.0**

Loan Portfolio: By Currency

Table 6: Loan Portfolio: By Currency

	At 31 December			
	2007		2006	
	(€ 000)	%	*(€ 000)*	%
Euros	311,056	98.0	197,879	96.0
US Dollars	4,310	1.4	8,097	3.9
Leva	2,054	0.6	206	0.1
Total	**317,420**	**100**	**206,182**	**100**

Loan Portfolio: By Size

Table 7: Loan Portfolio: By Size

	At 31 December					
	2007			2006		
	No. of loans	*(€ 000)*	*% of LP*	*No. of loans*	*(€ 000)*	*% of LP*
Under 10,000	478	2,162	0.7	642	3,050	1.5
10,000 - 100,000	682	25,935	8.2	806	29,219	14.2
100,000 - 1,000,000	398	138,180	43.5	363	109,156	52.9
over 1,000,000	75	151,143	47.6	38	64,757	31.4
TOTAL	**1,633**	**317,420**	**100**	**1,849**	**206,182**	**100**

Loan Portfolio: Large Exposures (including unutilized loan commitments)

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

	At 31 December			
	2007		2006	
	(€ 000)	*% of Total exposures*	*(€ 000)*	*% of Total exposures*
Largest total exposure to a single client group	11,699	3.1	9,167	3.6
Agregate of five largest exposures	48,069	12.7	32,922	12.9
Agregate of ten largest exposures	79,847	21.2	51,743	20.3
Agregate of twenty largest exposures	121,132	32.1	77,133	30.2

Loan Portfolio: By Remaining Term to Maturity by Program

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

	At 31 December 2007						
	Amount as at 31 Dec, 2007	**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	7,516	6,307	17,124	23,297	65,085	24,462	28,849
Tourism	109	419	5,444	6,788	21,898	12,943	20,486
Construction	2,800	3,238	13,351	19,380	24,343	326	1,796
MLG	403	85	2,198	893	5,581	925	1,374
Total	**10,828**	**10,049**	**38,117**	**50,358**	**116,907**	**38,656**	**52,505**

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 2007					
	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	9,242	26,564	62,012	19,510	41,582	13,730
Tourism	2,812	3,489	17,436	2,237	40,937	1,176
Construction	30	38,974	167	23,505	2,013	545
MLG	9	2,228	1,440	4,155	3,223	404
Total	**12,093**	**71,255**	**81,055**	**49,407**	**87,755**	**15,855**

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	
	2007	2006
		(€ 000)
Watch	0	155
Irregular	0	43
Non-performing	1,251	1,738
Total	**1,251**	**1,936**

Portfolio: By Credit Quality

Table 12: Portfolio: By Credit Quality

	At 31 December			
	2007		2006	
	(€ 000)	%	*(€ 000)*	%
Total performing loans	293,834	92.6	186,591	90.5
Classified loans				
Watch	9,090	2.9	5,720	2.8
Irregular	348	0.1	3,982	1.9
Non-performing	14,148	4.5	9,889	4.8
Total classified loans	**23,586**	**7.4**	**19,591**	**9.5**
Total loans	**317,420**	**100**	**206,182**	**100**

Loan Portfolio: Collateralization by Program

Table 13: Loan Portfolio: Collateralization by Program

	At 30 December	
	2007	
	(€ 000)	%
SME	**172,640**	
Collateralised	172,315	99.8
Uncollateralised	325	0.2
Tourism	**68,087**	
Collateralised	68,087	100.0
Uncollateralised	0	0.0
Construction	**65,234**	
Collateralised	65,234	100.0
Uncollateralised	0	0.0
MLG	**11,459**	
Collateralised	11,459	100.0
Uncollateralised	0	0.0
Total	**317,420**	**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

Funding	At 31 December 2007 (€ 000)	%	2006 (€ 000)	%
Deposits from Banks	11,513	4.2	15,342	8.1
Deposits from Customers	99,068	36.1	54,098	28.7
Loans from International Banks	29,561	10.8	5,006	2.7
Loans from IFIs	28,717	10.5	12,538	6.7
Loans from BAEF	8,321	3.0	14,260	7.6
Debt Securities	96,903	35.4	87,293	46.3
Total	**274,083**	**100**	**188,537**	**100**

Non-Equity Funding: Deposits by Type and Currency

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

Funding	At 31 December 2007	2006
	(€ 000)	
Demand deposits		
in EUR	16,238	9,959
in USD	1,005	1,016
in GBP	128	35
in BGN	6,299	4,772
Total	**23,670**	**15,782**
Term deposits		
in EUR	73,968	33,055
in USD	5,006	17,393
in BGN	7,937	3,210
Total	**86,911**	**53,658**

Table 16: Non-Equity Funding: Deposits by Type

Demand deposits	At 31 December 2007	2006
Bank	0	0
Institutional	15,629	9,951
Individual	8,041	5,831
Total	**23,670**	**15,782**
Term deposits	**2007**	**2006**
Bank	11,513	15,342
Institutional	63,535	28,166
Individual	11,863	10,150
Total	**86,911**	**53,658**

Off-Balance Sheet Liabilities: By Type

Table 17: Off-Balance Sheet Liabilities: By Type

	At 31 December			
	2007		2006	
	(€ 000)	%	(€ 000)	%
Unutilised Loan Liabilities	59,929	96.9	46,645	91.7
Letters of Credit	156	0.3	210	0.4
Bank Guarantees	1,760	2.8	4,006	7.9
Total	**61,845**	**100**	**50,861**	**100**

Off-Balance Sheet Liabilities: By Maturity

Table 18: Off-Balance Sheet Liabilities: By Maturity

	At 31 December 2007				
	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	2,028	5,971	7,655	23,704	20,571
Letters of Credit	0	156	0	0	0
Bank Guarantees	50	808	100	383	419
Total	**2,078**	**6,935**	**7,755**	**24,087**	**20,990**

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

Sources of revenue and their dynamics in 2007

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 2007 as compared to 2006.

	31.12.2007		31.12.2006		Variance
INCOME	EUR'000	% Total	EUR'000	% Total	2007/2006
Interest Income	45,237	92.1	31,874	92.6%	41.9
Fees and commission income, net	3,018	6.1	1,830	5.3%	64.9
Other non-interest income	864	1.8	729	2.1%	18.5
TOTAL INCOME	49,119	100.0	34,433	100.0%	42.7

As can be seen, interest income represents over 92% of the Bank's total income. For a detailed discussion and further breakdowns, please, see section **Results of Operations for the Years Ended 31 December 2007 and 2006** 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.

Two lenders, DEG and the Bank's Controlling Shareholder – BAEF, accounted for 29.4% of BACB's interest expense.

The activity of Kapital Direct EAD is 100% funded with loans from BAEF (EUR 8.3 million) on an arms length basis. BACB owns 100% of Kapital Direct, while BAEF owns 53.9% of BACB.

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

In 2007 the Bank did not enter into any significant or unusual transactions on the assets side. At 31 December 2007 the largest loan exposure to a single client group amounted to€11.7 million or less than 3.3% 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 are part of the ordinary course of business of the Bank and are executed on an arm length basis. The interest payments to two counterparties have exceeded 10% of the Bank's interest expense. The aggregate interest payments to BAEF on a consolidated basis amounted to €1.9 million or 18.5% of interest expense. The aggregate interest payments to DEG amounted to €1.1 million or 10.9% of interest expense.

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

In 2007 the Bank has executed a number of transactions with related parties within its normal scope of business at an arms length basis. BACB considers as related parties the companies in which BAEF has substantial participation, such as: BAPM, Kapital Direct -1 ADSIP, ERG Capital–1 ADSIP, ERG Capital–2 ADSIP, ERG Capital-3 ADSIP, Shipka Enterprise EOOD, Preslav Enterprise EOOD, Lozenetz Development Co., Sredetz Enterprise EOOD, Ameta Holding AD and others. For details on transactions with related parties, please see Note 27 to the Consolidated Financial Statements for 2007.

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

There were no such events in 2007.

Off-balance sheet exposures

The unutilized commitments on loans represent funds that are committed but not yet disbursed to borrowers. At 31 December 2007 unutilized commitments on loans represented 19.9% of net loans. For a detailed breakdown of off-balance sheet exposures, please see Note 24 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 2007 and 2006 are provided in Note 14 to the Consolidated Financial Statements of the Bank.

At 31 December 2007 the Bank had the following participations in other companies:

Company	# of shares held	Nominal value of 1 share	Date of acquisition	Portfolio	% shareholding
Kapital Direct EAD	3,000,000	1.00	13.04.2006	Subsidiary	100.00
ERG Capital-1 ADSIP	299,700	1.00	4/29/2005 - 4/13/2006	Trading	9.99
ERG Capital-2 ADSIP	344,650	1.00	6/20/2006 - 1/30/2007	Trading	9.99
ERG Capital-3 ADSIP	96,667	10.00	6/26/2007 - 7/26/2007	AFS Investment	4.60
Bulgarian Stock Exchange (BSE)	20,000	1.00	13.03.2003	AFS Investment	0.34
Capital Entertainment AD	5,000	1.00	01.04.2004	AFS Investment	10.00
PRC ADSIP	15,000	10.00	11.07.2007	Held for sale	23.08

All material properties owned or leased by the Bank are:

Properties Owned or Leased by the Bank:

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 2008	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
7 Democracy Street 8000 Bourgas	Offices	Freehold	156.83
Sea Garden/Morska Gradina Bourgas	Land and buildings	Freehold for sale	15% ideal parts of 1,000
Chepelare, Bulgaria	Land	Freehold for sale	10,831
Primorsko Bulgaria	10 apartments and one office in an apartment house	Freehold for sale	893
Apartment in Varna	Apartment & cellar	Freehold for sale	120
Plovdiv, Bulgaria (1)	Factory	Freehold (subject to a financial lease)	16,488
Stamboliiski region Plovdiv	Agricultural land	Freehold for sale	52,096
Sport facility in Sofia	apartment	Freehold for sale	69

Note: (1) This property does not appear on the Bank's balance sheet. It was acquired as part of a financial leasing transaction.

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 resale in "Other Assets". Assets held for resale had a book value of €687 thousand at 31 December 2007, corresponding to less than 0.2% 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 and providing 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 12 to the Bank's consolidated financial statements for 2007.

Use of proceeds from the issuance of new bonds or shares

The Bank has not issued any new shares in 2007.

In 2007 BACB issued one bond: a general, unsecure corporate obligation in the amount of €20.00 million that was fully underwritten by three local banks. The Bank used the proceeds 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. Accordingly, the Bank does not actively seek deposits from its clients and it does not rely on deposits for funding its growth. Although the Bank accepts deposits from corporate and retail clients and selectively offers other commercial banking services to its clients, the Bank does not actively promote these services.

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 is that the maturity mismatch between the Bank's funding and its expected cash inflow from client loans and other revenue-generating activities is much reduced. This allows the Bank to maintain strong liquidity position using fewer on-balance sheet liquid assets.

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 growing 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 2007 the Bank has not changed its general governance principles and there have been no changes to its economic group. At the Regular Annual General Meeting of the Shareholders, held in April, 2007, 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 Credit Institutes. These changes did not affect the governance principles of the Bank.

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

At the Regular Annual General Meeting of the Shareholders, held in April, 2007, Mr. Valentin Braykov was dismissed as member of the Bank's Supervisory Board. The General Meeting elected Mr. Kiril Manov as member of the Bank's Supervisory Board. There have been no other changes to the Bank's governing bodies in 2007.

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

The General Meeting of the Shareholders decided that the members of the Supervisory Board shall not receive any remuneration for 2007.

During the year ended 31 December 2007 the Bank paid a total of €218.5 thousand to the members of the Management Board as described below.

The Bank has entered into service agreements with each of Stoyan Nikolov Dinchiiski and Dimiter Stoyanov Vouchev as summarised below.

Dimiter Stoyanov Voutchev entered into a contract with the Bank, which provides for him to act as an Executive Director of the Bank. Mr. Voutchev received remuneration in the amount of €109.3 thousand for 2007.

Stoyan Nikolov Dinchiiski entered into a contract with the Bank, which provides for him to act as an Executive Director of the Bank. Mr. Dinchiiski received remuneration in the amount of €109.3 thousand for 2007.

Dimiter Stoyanov Voutchev entered into a contract with Kapital Direct, which provides for him to act as a Procurator. Mr. Voutchev did not receive any remuneration from Kapital Direct for his service.

Stoyan Nikolov Dinchiiski entered into a contract with Kapital Direct, which provides for him to act as a Procurator. Mr. Voutchev did not receive any remuneration from Kapital Direct for his service.

Save as set out above no other amounts or benefits or remuneration of any kind has been paid by the Bank to the members of the Supervisory and the Management Board.

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 members of the Supervisory Board or the Management Board received any remunerated from the Bank in 2007.

There are no any conditional or postponed payments, which have arisen during 2007, 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	-	-
Frank Bauer	-	-
Dimiter Stoyanov Voutchev	14,291	0.11
Stoyan Nikolov Dinchiiski	13,780	0.11
Michael Hunsberger	-	-
Dennis E. Fiehler	-	-
Maria Sheytanova	4,159	0.03

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

No member of the Supervisory Board and the Management Board of the Bank has bought or sold any shares of the Bank during year 2007.

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, 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 Office
Frank L. Bauer	BAEF – President and CEO; Serdica Capital Advisors LLC, USA – Executive Director; Enterprise Realty Group EOOD, Sofia – Manager SEGA 21 EOOD, Sofia – Manager;	SEGA 21 EOOD, Sofia – Sole owner; Serdica Capital Advisors LLC, USA – Partner
Dimiter Stoyanov Voutchev	Delta Capital EOOD Partners Bulgaria Foundation – Board member; Zarnobazi AD, Dobrich – Board member	Delta Capital EOOD
Stoyan Nikolov Dinchiinski	Fen Consult EOOD– Manager Board member	Fen Consult EOOD, Sofia – Sole owner
Michael Hunsberger	EVCHE EOOD, Sofia – Manager; Bulgarian-American Property Management EOOD, Sofia – Manager; Enterprise Realty Group EOOD, Sofia – Manager; Lozenets Development Company EOOD, Sofia Manager Shipks Enterprise EOOD- Manager	EVCHE EOOD, Sofia– Sole owner
Dennis E. Fiehler	Bulgarian-American Property Management EOOD, Sofia– Manager; Preslav Enterprise EOOD, Sofia – Manager; Sredetz Enterprise EOOD, Sofia –Manager Kapital Direct EAD – Manager Shipka Enterprise EOOD – Manager	Serdika Capital Advisors LLC, USA–partner

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.

Save as set out below, 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.

Certain of the Bank's directors and employees, including Messrs. Bauer, Voutchev, Dinchiiski, Fiehler and Hunsberger and Ms. Sheytanova are participants in a BAEF Long-Term Incentive Plan. As a result, to the extent that the BAEF sells an investment or a portion of an investment for a gain, these directors and employees are each entitled to receive a specified percentage of the gain realised on the sale of the investment. As a result, upon the completion of sale of shares of BACB by BAEF each of Messrs. Bauer, Voutchev, Dinchiiski, Fiehler and Hunsberger and Ms. Sheytanova will receive a payment from BAEF as participants in the BAEF Plan.

Possible change in control

In August 2007, the Controlling Shareholder, BAEF, informed the Bank that it has appointed Unicredit Markets & Investment Banking to explore its options with respect to its remaining shares of the Bank, representing 53.9% of its capital. The outcome of the mandate is the AIB Transaction as described in section *Important developments after the date of the last balance sheet* above. Therefore, a substantial reduction in the BAEF's holding in the Bank's shares is possible in 2008.

Save as set out above, 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, regading 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 on April 4, 2006 following a public offering to both Bulgarian and international investors in which the Bulgarian-American Enterprise Fund (BAEF), which is the principal shareholder of BACB, sold 3.75 million shares (30% of its holdings).

According to the BSE statistics for the period January 1, 2007 – December 21, 2007 there were 3,523 deals with the Bank's shares in which 3,196,480 shares were traded for a total volume of BGN 197,141,901.92 (€100,797,053.90). The closing price on December 21, 2007, the last day of trading for year 2007, was BGN 81.99 (€41.92) as compared to BGN 49.99 (€25.56) on December 22, 2006.

On February 9, 2007 BSE announced changes to the SOFIX index constituents and the methodology in calculating the index. Beginning February 26, 2007 BACB's shares will be included in the calculation of SOFIX. The weight of the index constituents is a function of their market capitalization and free float.

On January 1, 2007 the BSE SOFIX index opened at 1,224.12 and on December 21, 2007 it closed at 1,767.88.

CORPORATE GOVERNANCE AND SHARES OF THE BANK

The Bank has adopted a Good Corporate Governance Program (GCGP) in 2006. During 2007 the activity of the Supervisory Board and the Management Board has been in compliance with the Bank's GCGP. BACB believes that its existing GCGP is adequate and does not intend to amend it. Instead, as in 2008, the focus will continue to be placed on execution.

In 2007 the Bank updated its web site and, among other changes, broadened the investor relations section of the side. This step represented a significant improvement in the area of disclosure of information.

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 2007, 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 2007.

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 2006	12,624,725	12,624,725
31 December 2007	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, 2007	
	Number of Shares	% of issued share capital
Bulgarian American Enterprise Fund....	6,802,103	53.879
Balkan Ventures LLC	1,262,042	9.997
Gramercy Emerging Markets Fund.	1,259,545	9.977
Others	3,301,035	26.147
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

Bulgarian American Enterprise Fund

The BAEF is a US corporation, established pursuant to the SEED Act, the primary aim of which is to encourage entrepreneurialism and promote development in the former communist countries of Central and Eastern Europe. Under the SEED Act, the BAEF was granted $57.8 million to invest in Bulgaria for the purposes of promoting the development of the private sector by supporting small- and medium-sized businesses in different sectors of the economy.

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. Unless otherwise provided by law or by the Bank's bylaws the decisions of the general meeting are taken with a 50%+1 or more of the voting shares. These provisions of the bylaws reflect the general requirements of the Commercial Act 1990.

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, nny 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 2007 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.

Dimitar Voutchev
Executive Director

Stoyan Dinchiiski
Executive Director

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ИНГ БАНК

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"), which comprise the consolidated balance sheet as at December 31, 2007, 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 approved by the European Union Commission. 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 Bank'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 Bank'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 Bank as of December 31, 2007, and of its financial performance and its cash flows for the year then ended in accordance with IFRS, as approved by the European Union Commission.

Other Reports on legal and regulatory requirements - Annual management report of the activities of the Bank 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 management report. The Annual management report is not a part of the consolidated financial statements. The historical financial information presented in the annual management report of the activities of the Bank is consistent, in all material respects, with the annual financial information disclosed in the consolidated financial statements of the Bank as of December 31, 2007 prepared in accordance with IFRS, as approved by the European Union Commission. Management is responsible for the preparation of the Annual management report of the Bank dated February 25, 2008.

Deloitte Audit

Deloitte Audit OOD

СПЕЦИАЛИЗИРАНО ОДИТОРСКО ПРЕДПРИЯТИЕ
София
Рег. №033
"Делойт Одит" ООД

Sylvia Peneva
Managing Director
Registered Certified Public Accountant

February 25, 2008
Sofia

BULGARIAN-AMERICAN CREDIT BANK AD

CONSOLIDATED FINANCIAL STATEMENTS PREPARED
IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS
31 DECEMBER 2007

TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

BULGARIAN-AMERICAN CREDIT BANK AD
CONSOLIDATED STATEMENT OF INCOME
YEAR ENDED 31 DECEMBER 2007

All amounts are in thousands of EUR unless otherwise stated

	Notes	2007	2006
Interest income		45,237	31,874
Interest expense		(10,017)	(7,495)
Net interest income	4	**35,220**	**24,379**
Fees and commission income, net	5	3,018	1,830
Gains/(losses) from securities		(11)	161
Gains/(losses) from foreign currency dealings		347	264
Gains/(losses) from foreign currency revaluation		(237)	(280)
Other operating income		765	584
Operating income		**39,102**	**26,938**
Operating expenses	6	(6,111)	(5,259)
Provisions for impairment	7	(2,805)	(2,152)
Profit before tax		**30,186**	**19,527**
Income tax expense	8	(3,029)	(2,072)
Profit for the year		**27,157**	**17,455**
Earnings per share (in EUR)			
Basic	9	***2.15***	***1.38***
Diluted	9	***2.15***	***1.38***

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 2007

All amounts are in thousands of EUR unless otherwise stated

	Notes	2007	2006
Assets			
Cash and balances with the Central Bank	10	23,132	17,490
Due from other banks	11	23,696	26,305
Loans and advances to customers	12	301,733	193,263
Trading portfolio	13	1,804	1,948
Investment securities – available-for-sale	14	3,251	5,665
Other assets	15	1,579	1,359
Goodwill	28	80	80
Property, plant and equipment	16	2,481	2,410
Total Assets		**357,756**	**248,520**
Liabilities and Shareholders' Equity			
Liabilities			
Deposits from banks	17	11,513	15,342
Deposits from customers	18	99,068	54,098
Other liabilities	19	4,097	2,869
Other borrowed funds	20	66,599	31,804
Debt securities outstanding	21	96,903	87,293
Total Liabilities		**278,180**	**191,406**
Shareholders' Equity			
Share capital	22	6,455	6,455
Share premium		435	435
Retained earnings		72,596	50,280
Revaluation reserve		90	(56)
Total Shareholders' Equity		**79,576**	**57,114**
Total Liabilities and Shareholders' Equity		**357,756**	**248,520**

These financial statements have been prepared by the Management Board and approved by the Supervisory Board on 25 February 2008.

Dimitar Voutchev
Executive Director

Stoyan Dinchiiski
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	Retained earnings	Revaluation reserve	Total
31 December 2005	**6,455**	**435**	**32,825**	**65**	**39,780**
Revaluation of securities, net of taxes	-	-	-	(121)	(121)
Profit for the year	-	-	17,455	-	17,455
31 December 2006	**6,455**	**435**	**50,280**	**(56)**	**57,114**
Dividend relating to 2006	-	-	(4,841)	-	(4,841)
Revaluation of securities, net of taxes	-	-	-	146	146
Profit for the year	-	-	27,157	-	27,157
31 December 2007	**6,455**	**435**	**72,596**	**90**	**79,576**

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	2007	2006
Cash flows from operating activities:			
Profit for the year		**27,157**	**17,455**
Adjustments to reconcile net income to net cash provided by operating activities:			
Increase in provision for impairment	7	2,805	2,152
Deferred tax income	8	(119)	(7)
Depreciation and amortization	6, 16	336	339
Changes in operating assets and operating liabilities			
Increase in statutory minimum required reserve		(6,338)	(8,414)
Investments in loans and advances to customers	12	(111,773)	(49,659)
Decrease / (increase) in trading portfolio	13	144	(1,625)
Increase in other assets	15	(118)	(554)
Increase in other liabilities	19	1,246	947
Net cash (used in) operating activities		**(86,660)**	**(39,366)**
Cash flows from investing activities:			
Purchase of securities	14	(1,554)	(1,013)
Proceeds from sale and redemption of securities	14	3,946	59
Investment in subsidiaries, net of cash acquired		-	(48)
Purchases of property, plant and equipment	16	(425)	(448)
Proceeds from sale of property, plant and equipment	16	18	-
Net cash provided by / (used in) investing activities		**1,985**	**(1,450)**
Cash flows from financing activities:			
Increase in deposits from banks and customers, net	17, 18	41,835	27,822
Proceeds from other borrowed funds	20	79,373	29,540
Repayments of other borrowed funds	20	(44,579)	(53,024)
Proceeds from debt securities outstanding	21	24,771	38,884
Repayments of debt securities outstanding	21	(15,161)	(5,744)
Dividends paid		(4,841)	-
Net cash provided by financing activities		**81,398**	**37,478**
Net effect of exchange rate changes on cash and cash equivalents		(28)	(1,045)
Net (decrease) in cash and cash equivalents		**(3,305)**	**(4,383)**
Cash and cash equivalents at the beginning of the year	10, 11	**29,025**	**33,408**
Cash and cash equivalents at the end of the year	10, 11	**25,720**	**29,025**
Supplemental cash flow information:			
Income tax paid		2,551	1,854
Interest paid		8,835	7,257

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 (Note 28). 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 is 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 owns a stake of 53.88%. The ordinary shares of the Bank are registered for trading on the BSE under the ticker: BACB.

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. Pursuant to Ordinance No 100-000476, dated 30 December 1998, and supplemented by Ordinance No.RD22-1202/ 29.11.2002 and pursuant to articles 11 and 15 of the Banking Act, BNB licensed BACB to operate both locally and abroad in local and foreign currency.

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 and companies in the tourism and construction sectors. 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 2007 and 2006, the Bank had 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 Security 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.

The Group applies all new and revised IFRS, issued by the International Accounting Standards Board (IASB) and the interpretations, issued by the IFRIC, approved by the European Union Commission and effective for 2007. IFRS as adopted by the EUC do not differ from IFRS, issued by the IASB, and are effective for reporting periods ended as of December 31, 2007, except for certain requirements for hedge reporting in accordance with the IAS 39 Financial Instruments: Recognition and Measurement, which has not been adopted by the Commission. The Bank's management believes that if the hedge requirements have been approved by the Commission it would have no effect on these financial statements.

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

In 2007 the Group has adopted the IFRS 7"Financial instruments: Disclosures" effective for reporting periods beginning on or after 1 January 2007, and consequential amendment to IAS 1"Presentation of Financial Statements"– Capital disclosures. IFRS 7 supersedes IAS 30 and the disclosure requirements of IAS 32. The application of these standards had no financial effect as it concerns only additional disclosures in the financial statements with regards to the financial instruments of the Bank and capital management. (Note 29)

The following interpretations of the IFRIC became effective in 2007:

- IFRIC7 *Applying the restatement approach under* IAS29 *Financial Reporting in Hyperinflationary Economies*;
- FRIC 8 *Scope of IFRS 2*;
- IFRIC 9 *Reassessment of Embedded derivatives*,
- IFRIC 10 *Interim Financial Reporting and Impairment*;
- IFRIC 11 *IFRS 2 - Group and Treasury share transactions.*

All amounts are in thousands of EUR unless otherwise stated

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, 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
- Amendment to IAS 23 *Borrowing Costs*, effective for reporting periods beginning on or after January 1, 2009
- IFRS 8 *Operating Segments*, effective for periods beginning on or after January 1, 2008

The Bank's management intends to apply in 2008 the above mentioned interpretations and believes that their application will have no material effect on the financial statements within the period of first time adoption.

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 recognised 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 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 income statement.

At 31 December 2007, monetary assets and liabilities denominated in foreign currency are translated into Bulgarian Leva at the BNB's official exchange rate–BGN 1.95583 for EUR 1(fixed under a Currency Board Arrangement) and BGN 1.33122 for USD 1; and BGN 1.48506 for USD 1 as of 31 December 2006, respectively.

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 "Due from other 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 available-for-sale financial assets. 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 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 cost and subsequently re-measured to fair value 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) from securities". Interest earned on securities is reported as interest income. Dividend income earned on equity securities held for trading is included in "Gains/(losses) from securities" 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 provisions 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 provision 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 recognised in the income statement. 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 income statement.

Investment securities 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.

Investment securities available for sale are initially recognized at cost (including transaction costs) and are subsequently re-measured at fair value 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

All amounts are in thousands of EUR unless otherwise stated

securities. Interest earned on securities is reported as interest income. Dividend income earned on equity securities is included in "Gains/(losses) from securities" section of the income statement.

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 "Trading portfolio", or "Investment securities" 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 "Due from other 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.

Property, plant and equipment

Property, plant and equipment 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 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:

	2007	2006
Building	4%	4%
Computers and software	25%	25%
Office equipment	20%	20%
Vehicles	20%	20%
Office furniture	15%	15%
Intangibles	15%	15%

Property, plant and equipment 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 resale

Real estate and other non-current assets acquired from realization of collateral or exclusively with a view to its subsequent disposal in the near future are stated at the lower of their carrying amount and fair value less cost to sell. No depreciation is accrued on such assets. They are included in "Other assets" in the balance sheet.

All amounts are in thousands of EUR unless otherwise stated

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.

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 8).

All amounts are in thousands of EUR unless otherwise stated

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 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 profit and loss 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

All amounts are in thousands of EUR unless otherwise stated

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 profit and loss.

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.

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.

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

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

All amounts are in thousands of EUR unless otherwise stated

4 Interest Income, Net

	2007	2006
Interest income		
Loans	44,277	30,474
Deposits	719	1,076
Trading securities	53	21
Investment securities	188	303
Total interest income	45,237	31,874
Interest expense		
Deposits	(2,300)	(1,386)
Other borrowed funds	(2,737)	(2,294)
Debt securities issued	(4,980)	(3,815)
Total interest expense	(10,017)	(7,495)
Interest income, net	35,220	24,379

5 Fees and Commissions Income, Net

	2007	2006
Fees and commissions income	3,069	2,022
Fees and commissions expense	(51)	(192)
Fees and commissions income, net	3,018	1,830

6 Operating Expenses

	2007	2006
Personnel	3,425	2,884
Rent	68	60
Utilities and telecommunications	252	246
Professional services	658	525
Depreciation and amortization (Note 16)	336	339
Other expenses	1,372	1,205
Operating expenses	6,111	5,259

All amounts are in thousands of EUR unless otherwise stated

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.

7 Provisions for Impairment

	Provisions for loans
Balance at 31 December 2005	10,907
Increase in Provisions in 2006	2,152
Reductions for loans written-off	(140)
Balance at 31 December 2006	12,919
Increase in Provisions in 2007	2,805
Reductions for loans written-off	(37)
Balance at 31 December 2007	15,687

8 Income tax expense

	2007	2006
Current tax expense	3,148	2,079
Deferred tax (income)	(119)	(7)
Income tax expense	3,029	2,072

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:

All amounts are in thousands of EUR unless otherwise stated

	Corporate Income Tax Rates		
Tax period	1 January 2006 – 31 December 2006	1 January 2007 – 31 December 2007	1 January 2008 – onwards
Corporate income tax	15.0%	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.

In 2006 BACB passed a tax audit covering the financial years 2002, 2003 and 2004. There were no material tax claims to the Bank. No tax audits were performed in 2007.

Effective tax rates

A reconciliation of income tax expense for the years ended 31 December 2007 and 2006 is as follows:

	2007	2006
Profit before tax	30,186	19,527
Statutory income tax rate applicable	10.0%	15.0%
Tax expense at the statutory tax rate	3,019	2,929
Non-deductible expenditures	7	11
Income not subject to tax	(2)	(6)
Other temporary differences	5	21
Effect of tax relief	-	(871)
Utilization of previous year tax loss	-	(12)
Income tax expense	3,029	2,072
Effective tax rate	10.03%	10.61%

Deferred taxation

Deferred taxes are calculated on all temporary differences under the liability method using the effective tax rate of 10% (2006: 10%).

The movement on the deferred tax account is as follows:

	2007	2006
Deferred tax asset / (liability) at beginning of year	4	(21)
Income statement income	119	7
Available-for-sale securities		
- revaluation	1	18
- transfer to profit	(18)	-
Deferred tax asset at end of year	106	4

All amounts are in thousands of EUR unless otherwise stated

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

	2007	2006
Deferred tax assets		
Temporary differences	136	17
Available-for-sale securities revaluation	-	6
Total deferred tax assets	136	23
Deferred tax liabilities		
Accelerated tax depreciation	(18)	(19)
Temporary differences	(1)	-
Available-for-sale securities revaluation	(11)	-
Total deferred tax liabilities	(30)	(19)
Total deferred tax asset, net	106	4

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

	2007	2006
Accelerated tax depreciation	1	10
Other temporary differences	118	(3)
Deferred tax income	119	7

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 2007 and 2006, verifying BAEF's eligibility for protection under the agreement. As a result, in 2007 and 2006, the Bank did not withhold tax on interest paid to BAEF.

9 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.

	2007	2006
Profit attributable to the bank's shareholders	27,157	17,455
Weighted average number of ordinary shares in issue	12,625	12,625
Basic / Diluted earnings per share (in EUR)	2.15	1.38

All amounts are in thousands of EUR unless otherwise stated

10 Cash and Balances with the Central Bank

	2007	2006
Cash on hand	2,024	1,416
Balances with the Central Bank	21,108	16,074
Cash and balances with the Central Bank	23,132	17,490

The balances with the Central Bank include the minimum required reserve (MRR), amounting to EUR 21,108 and EUR 14,770 as of 31 December 2007 and 2006, 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. Additional minimum reserves were required if a bank exceeded these limits. In 2006, the Bank's unconsolidated loan portfolio growth exceeded the BNB's growth target which resulted in the Bank being required to maintain additional reserves. At 31 December 2006 BACB maintains EUR 5.1 million additional reserves related to its portfolio growth. 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.

11 Due From Other Banks

Due from other banks represents current accounts and short-term deposits with local banks and foreign correspondent banks.

	2007	2006
Current accounts with other banks	947	603
Deposits with other banks	22,749	25,702
Due from other banks	23,696	26,305

All amounts are in thousands of EUR unless otherwise stated

12 Loans and Advances to Customers

	2007	2006
Loans and advances to customers	317,420	206,182
Less: Provisions for impairment (Note 7)	(15,687)	(12,919)
Loans and advances to customers, net	301,733	193,263

Segmentation of loans and advances to customers

Type of Customer	2007	2006
Individuals	23,646	20,420
Corporate	293,774	185,762
Loans and advances to customers	317,420	206,182

Industry Sector*	2007	2006
Real estate investment & Land development	69,600	22,211
Real estate construction	65,339	35,865
Hotels	47,837	31,330
Mortgage loans - residential	27,332	25,450
Mortgage loans - commercial	27,258	21,528
Other light industry	12,800	10,972
Entertainment and Recreation	9,923	6,821
Wholesale distribution	6,959	4,842
Retail trade	6,576	5,665
Bread baking and confections	5,979	4,250
Garments and textiles	5,748	5,606
Primary agriculture and farming	5,625	4,676
Restaurants	4,813	1,447
Furniture and wood products	2,886	2,018
Warehousing and storage	2,802	807
Professional and other services	2,291	1,291
Electricity production	1,672	1,551
Transportation	1,583	1,686
Other	3,791	2,818
Total (only for the Bank)	310,814	190,834
Loans of subsidiary	6,606	15,348
Loans and advances to customers	317,420	206,182

* In 2007 the Bank implemented certain changes in its industry sector classification by increasing the number of industries from eighteen (18) to twenty one (21). The changes were introduced with the objective to improve transparency and better reflect the evolving business strategies and areas of growth. The figures for 2006 are adjusted to conform to the new classification.

All amounts are in thousands of EUR unless otherwise stated

Loans and advances to customers include finance lease receivables in the total net amount of 842 and 2,838 as of 31 December 2007 and 2006 respectively.

The investment in finance leases as of 31 December 2007 is presented in the table below:

	Up to 1 year	1 to 5 years	Over 5 years	Total
Gross investment in finance leases	234	1,926	-	2,160
Unearned future income on finance leases	(200)	(646)	-	(846)
Net minimum lease payments	34	1,280	-	1,314
Provisions for impairment	(12)	(460)	-	(472)
Net investment in finance leases	22	820	-	842

13 Trading portfolio

As of 31 December 2007 and 2006, respectively BACB has a trading portfolio consisting of bonds issued by private companies and shares in special purpose entities, which are related to the Bank. All securities are listed and at the balance sheet date are measured at fair value based on their market price.

	2007	2006
Debt securities	471	745
Equity securities	1,333	1,203
Trading portfolio	1,804	1,948

14 Investment Securities Available-for-Sale

The fair values of investment securities classified as available-for-sale at 31 December 2007 and 2006 are as follows:

	2007	2006
Equity securities (Note 27)	1,122	4
BG USD Eurobonds (1)	821	464
BG ZUNK FRN (2)	795	963
RZB Bonds (3)	513	515
BG EUR Eurobonds (4)	-	3,197
BGN EIB Bonds (5)	-	522
Investment Securities Available-for-Sale	3,251	5,665

(1) Bulgarian Government Bonds denominated in USD. Fixed rate, bullet, final maturity January 2015

All amounts are in thousands of EUR unless otherwise stated

(2) 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
(3) Unsecured Corporate Bonds denominated in BGN. Floating rate, bullet, final maturity October 2009
(4) Bulgarian Government Bonds denominated in EUR. Fixed rate, final maturity March 2007
(5) EUR Medium Term Note denominated in BGN, issued by the European Investment Bank. Fixed rate, final maturity November 2009

15 Other Assets

	2007	2006
Assets held for resale	687	467
Prepayments and other receivables	758	888
Hedging derivative	28	-
Deferred tax asset (Note 8)	106	4
Other assets	1,579	1,359

16 Property, plant and equipment

	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
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
Net book value				
31 December 2007	1,853	517	111	2,481
31 December 2006	1,880	417	113	2,410

All amounts are in thousands of EUR unless otherwise stated

17 Deposits from Banks

All deposits from banks at 31 December 2007 and 2006 are term deposits received from Bulgarian banks.

	2007	2006
Term deposits from banks		
in EUR	11,513	9,904
in USD	-	4,148
in BGN	-	1,290
	11,513	15,342

18 Deposits from Customers

The table below represents deposits from customers as of 31 December 2007 and 2006 by type of currency:

	2007	2006
Demand deposits from customers		
in EUR	16,238	9,959
in BGN	6,300	4,772
in USD	1,005	1,016
In GBP	128	35
	23,671	15,782
Term deposits		
in EUR	62,455	23,151
in BGN	7,937	1,920
in USD	5,005	13,245
	75,397	38,316
Deposits from customers	99,068	54,098

19 Other Liabilities

As of 31 December 2007 and 2006, other liabilities consist of the following:

	2007	2006
Amounts due to personnel	1,378	908
Income tax payable	1,144	546
Bank transfers outstanding	782	260
Hedging derivative (Note 29.2.2.)	316	417
Other	477	738
Other liabilities	4,097	2,869

All amounts are in thousands of EUR unless otherwise stated

20 Other Borrowed Funds

As of 31 December 2007 and 2006, other borrowed funds consist of the following:

	2007	2006
Loans from International Banks	29,560	5,006
Loans from International Finance Institutions /IFI/	28,717	12,538
Loans from BAEF	8,322	14,260
Other borrowed funds	66,599	31,804

As of 31 December 2007 other borrowed funds are repayable according to remaining maturity as follows:

	Banks	IFIs	BAEF	Total
2008	24,560	9,738	8,322	42,620
2009	5,000	8,388	-	13,388
2010	-	5,607	-	5,607
2011	-	4,984	-	4,984
Total	29,560	28,717	8,322	66,599

Loans from BAEF

As of the date of these financial statements all outstanding loans from the BAEF were extended to the Bank's wholly owned subsidiary KD, fully consolidated by the Bank.

In 2006 BAEF provided to 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 credit line is used to finance the lending activity of the entity.

As of 31 December 2007 and 2006 the outstanding balances payable to BAEF are 8.3 million and 14.3 million, respectively.

In 2006, the Bank fully repaid a USD 15 million loan to the BAEF, USD 10 million of which the BAEF had provided in the form of a debt/capital hybrid instrument. The Bank replaced this finance by issuing a EUR 12 million, seven-year unsecured corporate bond purchased by the BAEF on an arm's length basis and at a market rate.

Loans from International Banks and International Finance Institutions

As of 31 December 2007 and 2006 the outstanding balances due to banks and IFI are EUR 58.3 million and EUR 17.5 million, respectively.

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) and other. The amounts are advanced to the Bank under a number of long-term loans and short-term revolving credit line facilities.

All amounts are in thousands of EUR unless otherwise stated

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 (2006: nil).

21 Debt Securities Outstanding

As of 31 December 2007 and 2006 the debt securities issued by BACB are as follows:

ISIN Code	Debt securities in issue	Due	2007	2006
BG2100027049	EURO floating rate unsecured bonds	2007	-	7,999
BG2100001036	EURO fixed rate mortgage bonds	2008	10,290	10,270
BG2100039051	EUR fixed rate unsecured bonds	2008	19,724	19,608
BG2100017073	EUR discounted unsecured bonds	2008	19,388	-
BG2100004048	EURO fixed rate mortgage bonds	2009	10,132	10,121
BG2100010060	EURO floating rate mortgage bonds	2011	25,295	25,214
BG2100016067	EURO floating rate unsecured bonds	2013	12,074	12,062
N/A	EURO fixed rate promissory notes	2007	-	2,019
	Total		96,903	87,293

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 57,267 and EUR 53,996 at 31 December 2007 and 2006, respectively.

In July 2007 BACB issued a discounted unsecured bond with the nominal value of EUR 20,000.

In December 2007 the 8.0 million EUR floating rate unsecured bond was fully repaid at maturity.

The EUR 20 million unsecured corporate bond with final maturity in December 2008, is hedged against interest rate risk through interest rate swap linked to a market floating rate. In accordance with applicable accounting policies, this bond is remeasured at fair value.

At 31 December 2007 all of the Bank's outstanding mortgage bonds and two of the corporate bond issues are listed on the Bulgarian Stock Exchange.

22 Share Capital

The registered capital of BACB at 31 December 2007 and 2006 is BGN 12.625 million comprising in 12.625 million shares with a face value of BGN 1 each with equal voting rights.

All amounts are in thousands of EUR unless otherwise stated

Shareholder	Shares held 31 December 2007	%	Shares held 31 December 2006	%
BAEF	6,802,103	53.9%	7,941,503	62.9%
Other shareholders	5,822,622	46.1%	4,683,222	37.1%
Total	12,624,725	100.00%	12,624,725	100.00%

BAEF is a not-for-profit U.S. corporation established pursuant to the Support for East European Democracy Act of 1989 (the "SEED Act") for the primary purpose of promoting the development of the Bulgarian private sector and policies and practices conducive to such development. It is engaged in a broad private investment program in Bulgaria, which, through equity investments, loans, grants, technical assistance and other measures, emphasizes a commitment to small-to-medium sized businesses.

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. At 31 December 2007 BAEF remains the majority shareholder with approximately 54% of the shares.

23 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 2006 the General Meeting of the Shareholders of BACB held on 18 April 2007 voted a dividend of BGN 0.75 per share in the total amount of EUR 4, 841 and retained the rest of the profit in the Reserve fund. The dividend was paid to the eligible shareholders on 31 May 2007.

The 2006 net profit of KD was allocated to the Reserve Fund as well, after covering the previous year loss.

As of the date of this report no dividends were declared for 2007. The Supervisory Board of the Bank intends to suggest to the General Meeting of the Shareholders that part of the 2007 profit is distributed as dividends.

All amounts are in thousands of EUR unless otherwise stated

24 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 2007 and 2006 the off-balance sheet liabilities consisted of:

	2007	2006
Bank guarantees	1,760	4,006
Letters of credit	156	210
Unutilized commitments on loans	59,929	46,645
Total	61,845	50,861

25 Litigation

As of 31 December 2007 and 2006 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 2007 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 lawsuit was filed in the United States against BAEF and BACB by a former loan customer of BACB alleging various claims in connection with its loan from BACB. Management considers that these claims have no merit. Therefore, no litigation provisions have been recognized for these claims in the accompanying consolidated financial statements.

26 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 for this purpose 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 certain purchases and sales of loans and 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.

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

All amounts are in thousands of EUR unless otherwise stated

	Carrying Value		Fair Value	
	2007	2006	2007	2006
Due from other banks	23,696	26,305	23,696	26,305
Loans and advances to customers	301,733	193,263	301,112	193,437
Deposits from banks	11,513	15,342	11,513	15,342
Deposits from customers	99,068	54,098	99,068	54,098
Other borrowed funds	66,599	31,804	66,599	31,804
Debt securities outstanding	96,903	87,293	96,992	88,008

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.

27 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 companies in which BAEF contains substantial participation, such as: BAPM, Kapital Direct -1 ADSIP, ERG Capital–1 ADSIP, ERG Capital–2 ADSIP, ERG Capital-3 ADSIP, Shipka Enterprise EOOD, Preslav Enterprise EOOD, Lozenetz Development Co., Sredetz Enterprise EOOD, Ameta Holding AD and other.

Due to related parties

The balances due to related companies and the related expense as of 31 December 2007 and 2006 were as follows:

Related party	2007	2006
Loans and other debt due to BAEF	20,462	26,322
Deposits payable to BAEF	29,658	12,590
Deposits payable to other related companies	21,815	12,815
Deposits payable to key management personnel	83	170
Total due to related parties	72,018	51,897
Interest expense	2,359	1,840

All amounts are in thousands of EUR unless otherwise stated

Loans to related parties

As of 31 December 2007 and 2006, the Bank had extended loans to the members of its key management personnel. These loans were as follows:

Related party	2007	2006
Loans to key management personnel	29	33
Total loans to related parties	29	33
Interest income earned	2	10

As of 31 December 2007 and 2006, respectively no provisions are recognized in respect to loans to related parties. In 2006 a recovery from a related party in the amount of EUR 500 is recognized in "Other income". The recovery is on a problem loan written-off in 2005 against provisions for impairment.

Equity securities held

As of 31 December 2007 and 2006 BACB held shares from related companies as follows:

Related company	Portfolio	% of Shares held		Fair Value	
		2007	2006	2007	2006
ERG Capital–1 ADSIP	Trading	9.99%	9.99%	598	575
ERG Capital–2 ADSIP	Trading	9.99%	9.90%	735	628
ERG Capital–3 ADSIP	A-F-S	4.60%	-	1,118	-
Total				2,451	1,203
Gains from securities (including dividend income)				191	155

Off-balance Sheet liabilities

As of 31 December 2007 and 2006 BACB has issued letters of guarantee to related companies in the amount of EUR 30 and EUR 173 respectively.

Key management personnel remuneration

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

In the financial year ended 31 December 2006 the aggregate total amount of remuneration accrued to key management personnel amounts to EUR 238.

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.

All amounts are in thousands of EUR unless otherwise stated

28 Acquisitions

There were no acquisitions in 2007.

On 13 April 2006 BACB purchased from BAEF all of the shares in Kapital Direct EAD at nominal value for EUR 51. Following the acquisition the Bank increased the total capitalization of the company to EUR 1,534 by issuing additional 2.9 million new shares. KD as a non-bank financial institution is used by the Bank as a vehicle for generating loans and increased interest income, expected to result in better utilization of Bank's capital.

29 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 and subsequently approved by the Supervisory 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 on an 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.

29.1. 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 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, sets rules on the loan documentation required by the Bank and prescribes processes for disbursing loan funds and for the ongoing monitoring of loans.

Risk limit control and mitigation policies

The Bank structures the levels of credit risk concentration by placing limits in relation to one borrower, or group of borrowers, by industry or geographical location. Such limits are monitored on a revolving basis and subject to a periodical review.

All amounts are in thousands of EUR unless otherwise stated

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 consists exclusively 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 Treasury department and reviewed at each ALCO meeting. 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 and submitted to the Credit Risk bi-weekly.

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 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.

All amounts are in thousands of EUR unless otherwise stated

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, although this is no more its focus.

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 exceeding EUR 5,000,000 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 and corporate and personal guarantees for each loan.

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 client groups(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 client group is a client whose total exposure is more than 10% of the Bank's capital base.

The Large exposures of the Bank at 31 December 2007 and 2006 respectively were as follows:

All amounts are in thousands of EUR unless otherwise stated

	2007		2006	
	(€ 000)	*% of Capital base*	*(€ 000)*	*% of Capital base*
Largest exposure to a single client group	11,699	22.5	9,167	23.2
Aggregate of five largest exposures	48,069	92.3	32,922	83.2
Aggregate of all largest exposures	85,276	163.8	37,331	94.3

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 Loan Loss Reserve 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.

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:

All amounts are in thousands of EUR unless otherwise stated

- 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 does not allocate provisions for impairment on a portfolio basis.

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 2007 and 2006 was EUR 317,420 and EUR 206,182, respectively and the related provisions for impairment were EUR 15,687 and EUR 12,919, respectively. Loans and advances are summarized as follow:

	At 31 December 2007		At 31 December 2006	
	Corporate	Individuals	Corporate	Individuals
Neither past due nor impaired	260,331	20,171	161,694	18,276
Past due but not impaired *	12,467	865	6,400	222
Impaired	20,976	2,610	17,668	1,922
Gross	**293,774**	**23,646**	**185,762**	**20,420**
Less: provisions for impairment	(14,211)	(1,476)	(12,103)	(816)
Total	**279,563**	**22,170**	**173,659**	**19,604**

* 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.

All amounts are in thousands of EUR unless otherwise stated

Arrears on impaired loans are presented below:

	At 31 December 2007		At 31 December 2006	
	Corporate	Individuals	Corporate	Individuals
Past due up to 1 month	11,222	841	10,335	621
Past due up to 1 - 2 months	382	343	238	143
Past due up to 2 - 3 months	-	331	54	153
Past due over 3 months	9,372	1,095	7,041	1,005
Total	**20,976**	**2,610**	**17,668**	**1,922**

Breakdown of Loan Portfolio by type of collateral at 31 December 2007 and 2006:

	2007		2006	
	EUR' 000	*%*	*EUR' 000*	*%*
Real Estate	294,610	92.8	186,633	90.5
Inventory	275	0.1	646	0.3
Equipment	4,508	1.4	3,109	1.5
Other Assets	17,702	5.6	15,201	7.4
Unsecured	325	0.1	593	0.3
Total	**317,420**	**100**	**206,182**	**100**

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 2007 and 2006.

29.2. 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.

All amounts are in thousands of EUR unless otherwise stated

29.2.1. 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 2007 and 2006, 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, 2007 and 2006 is presented in the tables below.

31 December 2007

	USD	EUR	BGN	Other	Total
Cash and balances with the Central Bank	119	16,123	6,853	37	23,132
Due from other banks	2,058	14,851	6,654	133	23,696
Loans and advances to customers	3,531	296,675	1,527	-	301,733
Trading portfolio	-	471	1,333	-	1,804
Investment securities-available-for-sale	1,616	-	1,635	-	3,251
Other assets	-	569	1,010	-	1,579
Goodwill	-	-	80	-	80
Property, plant and equipment	-	-	2,481	-	2,481
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
Other liabilities	158	1,078	2,861	-	4,097
Other borrowed funds	-	66,599	-	-	66,599
Debt securities outstanding	-	96,903	-	-	96,903
Total liabilities	6,169	254,786	17,097	128	278,180
Foreign currency gap	1,155	73,903	4,476	42	79,576

All amounts are in thousands of EUR unless otherwise stated

31 December 2006

	USD	EUR	BGN	Other	Total
Cash and balances with the Central Bank	290	13,192	3,981	27	17,490
Due from other banks	11,876	14,349	31	49	26,305
Loans and advances to customers	6,757	186,418	88	-	193,263
Trading portfolio	-	745	1,203	-	1,948
Investment securities-available-for-sale	1,427	3,197	1,037	-	5,661
Other assets	1	595	767	-	1,363
Goodwill	-	-	80	-	80
Property, plant and equipment	-	-	2,410	-	2,410
Total assets	20,351	218,496	9,597	76	248,520
Deposits from banks	4,148	9,904	1,290	-	15,342
Deposits from customers	14,261	33,110	6,692	35	54,098
Other liabilities	96	959	1,814	-	2,869
Other borrowed funds	-	31,804	-	-	31,804
Debt securities outstanding	-	87,293	-	-	87,293
Total liabilities	18,505	163,070	9,796	35	191,406
Foreign currency gap	1,846	55,426	(199)	41	57,114

29.2.2. 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. 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. 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. The Bank has not materially breached these targets to date.

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 fair value of the swap at 31 December 2007 and 2006 was EUR 417 and EUR 316, respectively. The Bank does not trade in interest rate derivatives.

All amounts are in thousands of EUR unless otherwise stated

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 2007, 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 183 (2006: EUR 361) 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 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
Trading portfolio	-	-	-	471	-	1,333	1,804
Investment securities available-for-sale	1,309	-	-	-	820	1,122	3,251
Other assets	-	-	-	541	-	1,038	1,579
Goodwill	-	-	-	-	-	80	80
Property, plant and equipment	-	-	-	-	-	2,481	2,481
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
Other liabilities	-	-	-	-	-	4,097	4,097
Other borrowed funds	53,756	12,843	-	-	-	-	66,599
Debt securities outstanding	35,585	22,205	39,113	-	-	-	96,903
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

31 December 2006

	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	-	-	-	-	-	17,490	17,490
Due from other banks	26,152	-	-	-	-	153	26,305
Loans and advances to customers	74,204	65,824	20,776	27,625	4,834	-	193,263
Trading portfolio	-	240	-	505	-	1,203	1,948
Investment securities available-for-sale	4,675	-	-	522	464	-	5,661
Other assets	-	-	-	524	-	839	1,363
Goodwill	-	-	-	-	-	80	80
Property, plant and equipment	-	-	-	-	-	2,410	2,410
Total assets	105,031	66,064	20,776	29,176	5,298	22,175	248,520
Deposits from banks	14,052	-	1,290	-	-	-	15,342
Deposits from customers	46,707	2,505	1,796	1,632	20	1,438	54,098
Other liabilities	-	-	57	-	-	2,812	2,869
Other borrowed funds	13,257	4,287	14,260	-	-	-	31,804
Debt securities outstanding	25,214	22,080	-	39,999	-	-	87,293
Total liabilities	99,230	28,872	17,403	41,631	20	4,250	191,406
Interest Sensitivity Gap	5,801	37,192	3,373	(12,455)	5,278	17,925	57,114
Interest rate derivatives net position	-	(20,000)	-	20,000	-	-	-
Total Interest Sensitivity gap	5,801	17,192	3,373	7,545	5,278	17,925	57,114

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 2007 and 2006, respectively:

	2007	2006
Assets		
Due from banks (1)	4.41%	3.33%
Trading portfolio	7.31%	7.36%
Investment securities	5.60%	6.06%
Loans and advances to customers	17.19%	17.13%
Liabilities		
Deposits from banks (1)	4.66%	3.27%
Deposits from customers	2.86%	2.53%
Other borrowed funds	5.81%	6.16%
Debt securities	5.23%	4.81%

(1) Note: 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;

29.3. 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 2007 and 2006 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 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
Due from other banks	23,696	-	-	-	-	23,696
Loans and advances to customers	25,414	23,655	48,583	152,879	51,202	301,733
Trading portfolio	-	5	-	466	1,333	1,804
Investment securities available-for-sale	847	-	-	507	1,897	3,251
Other assets	102	114	295	962	106	1,579
Goodwill	-	-	-	-	80	80
Property, plant and equipment	-	-	-	-	2,481	2,481
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
Other liabilities	2,417	1,251	337	92	-	4,097
Other borrowed funds	11,595	18,980	12,045	23,979	-	66,599
Debt securities outstanding	10,627	253	39,078	34,945	12,000	96,903
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

All amounts are in thousands of EUR unless otherwise stated

31 December 2006

	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	17,490	-	-	-	-	17,490
Due from other banks	26,305	-	-	-	-	26,305
Loans and advances to customers	20,279	15,982	35,588	86,588	34,826	193,263
Trading portfolio	1,203	-	-	745	-	1,948
Investment securities available-for-sale	3,240	-	3	1,030	1,388	5,661
Other assets	236	73	584	466	4	1,363
Goodwill	-	-	-	-	80	80
Property, plant and equipment	-	-	-	-	2,410	2,410
Total assets	68,753	16,055	36,175	88,829	38,708	248,520
Deposits from banks	14,052	-	1,290	-	-	15,342
Deposits from customers	46,344	2,570	2,345	2,381	458	54,098
Other liabilities	1,399	742	164	564	-	2,869
Other borrowed funds	6,645	744	16,248	8,167	-	31,804
Debt securities outstanding	560	2,276	7,985	64,472	12,000	87,293
Total liabilities	69,000	6,332	28,032	75,584	12,458	191,406
Maturity gap	(247)	9,723	8,143	13,245	26,250	57,114
Cumulative maturity gap	(247)	9,476	17,619	30,864	57,114	
Off-Balance sheet liabilities						
Bank guarantees	324	248	3,143	283	8	4,006
Letters of credit	200	-	10	-	-	210
Unutilized commitments on loans	4,239	5,336	16,990	19,712	368	46,645
Total	4,763	5,584	20,143	19,995	376	50,861

All amounts are in thousands of EUR unless otherwise stated

29.2. 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 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.

Capital base	
Tier I capital	
Paid in Share capital	6,455
Share premium	435
Disclosed reserves	45,439
Less: Unrealized losses from investments available-for-sale	(6)
Less: Intangible assets	(112)
Less: Goodwill	(80)
Less: Investments in other companies	(79)
Total Tier I capital	***52,052***
Tier II capital	-
Total Capital base	52,052

All amounts are in thousands of EUR unless otherwise stated

Capital requirements	
Capital requirements for credit risk	*23,689*
Capital requirements for settlement risk	-
Capital requirements for market risks (FX and stock price)	-
Capital requirements for operational risk - Basic Indicator Approach	*3,216*
Additional capital requirements BNB - 4%	*13,452*
Total Capital requirements - Standardized Approach	**40,357**
Ratios	
Total capital adequacy (%)	***15.5%***
Tier I capital adequacy (%)	***15.5%***

The table below summarizes the Group's capital adequacy position at 31 December 2006 calculated according to the old BIS capital requirements:

Capital base	
Tier I capital	
Paid in Share capital	6,455
Share premium	435
Disclosed reserves	32,825
Total Tier I capital	***39,715***
Tier II capital	***(56)***
Unrealized losses from investments available-for-sale	(56)
Deductions from Tier I and Tier II capital	***(80)***
Less: Goodwill	(80)
Total Capital base	**39,579**
Risk Weighted Assets	
Balance sheet items	195,302
Off-Balance sheet items	19,274
Total Risk Weighted Assets	**214,576**
Ratios	
Total capital adequacy (%)	***18.4%***
Tier I capital adequacy (%)	***18.5%***

30 Events after the Balance Sheet Date

BACB has been informed that BAEF, the Bank's majority shareholder, entered into an agreement dated February 21, 2008 to sell a substantial portion of its BACB shares representing approximately 49.99% of the Bank's outstanding capital stock. The completion of the transaction is conditional upon receipt of requisite regulatory approvals and is expected later in 2008.