

**BNP PARIBAS (BULGARIA) EAD**

**FINANCIAL STATEMENTS  
PREPARED IN ACCORDANCE WITH  
NATIONAL LEGISLATION APPLICABLE  
FOR BANKS IN REPUBLIC OF BULGARIA  
31 DECEMBER 2006**

**TOGETHER WITH INDEPENDENT  
AUDITOR'S REPORT AND  
ANNUAL REPORT ON THE ACTIVITIES**

*Unofficial translation of the original in Bulgarian*

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**BNP PARIBAS (BULGARIA) EAD**  
**YEAR ENDED 31 DECEMBER 2006**

*All amounts expressed in thousands of BGN unless otherwise stated*

**Income statement**

	Notes	Year ended 31 December	
		2006	2005
Interest and similar income		18,209	13,063
Interest expense and similar charges		(6,892)	(2,943)
<b>Net interest income</b>	4	<b>11,317</b>	<b>10,120</b>
Fee and commission income		4,461	4,098
Fee and commission expense		(1,558)	(1,611)
<b>Net fee and commission income</b>	5	<b>2,903</b>	<b>2,487</b>
Gains/(loss) arising from trading securities		(35)	(36)
Gains/(loss) arising from securities available for sale		28	36
Net gains from foreign currency revaluation		163	52
Net gains from foreign currency dealings		2,400	1,661
Other operating income	6	2,981	624
Operating expenses	7	(9,972)	(10,305)
Recovered (loss of) impairment	9	(58)	310
<b>Profit before income tax</b>		<b>9,727</b>	<b>4,949</b>
Income tax expense	10	(1,526)	(801)
<b>Profit for the year</b>		<b>8,201</b>	<b>4,148</b>

\_\_\_\_\_  
David Goyon  
Executive Director  
30 March 2007

\_\_\_\_\_  
Ivaylo Lubomirov  
Executive Director

Initialled for identification purposes in reference to the auditor's report:

\_\_\_\_\_  
Registered Certified Public Accountant

30 March 2007

The notes set out on pages 6 to 38 form an integral part of these financial statements.

**BNP PARIBAS (BULGARIA) EAD**  
**YEAR ENDED 31 DECEMBER 2006**

*All amounts expressed in thousands of BGN unless otherwise stated*

**Balance sheet**

	Notes	As at 31 December	
		2006	2005
<b>ASSETS</b>			
Cash and balances with Central Bank	11	32,011	29,583
Loans and advances to banks	12	269,159	159,258
Trading securities	13	261	3,548
Loans and advances to customers	14	165,895	150,488
Securities, available-for-sale	15	14,116	4,760
Deferred tax asset	22	-	57
Other assets	16	142	151
Property and equipment	17	1,037	11,036
Investment property	18	-	3,223
<b>Total assets</b>		<b>482,621</b>	<b>362,104</b>
<b>LIABILITIES</b>			
Deposits from banks	19	131,843	87,272
Due to customers	20	292,267	218,225
Other liabilities	21	1,960	4,306
Deferred tax liability	22	26	-
Current income tax payable		610	403
<b>Total liabilities</b>		<b>426,706</b>	<b>310,206</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	24	36,000	36,000
Statutory reserves	24	11,724	11,724
Revaluation reserve on available-for-sale securities		(10)	26
Retained earnings		8,201	4,148
<b>Total shareholders' equity</b>		<b>55,915</b>	<b>51,898</b>
<b>Total shareholders' equity and liabilities</b>		<b>482,621</b>	<b>362,104</b>

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**Statement of changes in shareholders' equity for the year ended 31 December 2006**

	Share capital	Statutory reserves	Revaluation reserve on available- for-sale securities	Retained earnings	Total
<b>Balance at 1 January 2005</b>	<b>36,000</b>	<b>11,724</b>	<b>(5)</b>	<b>2,503</b>	<b>50,222</b>
Profit for the year	-	-	-	4,148	4,148
Revaluation of available-for-sale securities, net of tax	-	-	31	-	31
Distribution of dividend	-	-	-	(2,503)	(2,503)
<b>Balance at 31 December 2005</b>	<b>36,000</b>	<b>11,724</b>	<b>26</b>	<b>4,148</b>	<b>51,898</b>
<b>Balance at 1 January 2006</b>	<b>36,000</b>	<b>11,724</b>	<b>26</b>	<b>4,148</b>	<b>51,898</b>
Profit for the year	-	-	-	8,201	8,201
Revaluation of available-for-sale securities, net of tax	-	-	(36)	-	(36)
Distribution of dividend	-	-	-	(4,148)	(4,148)
<b>Balance at 31 December 2006</b>	<b>36,000</b>	<b>11,724</b>	<b>(10)</b>	<b>8,201</b>	<b>55,915</b>

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**BNP PARIBAS (BULGARIA) EAD**  
**YEAR ENDED 31 DECEMBER 2006**

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**Cash flow statement**

	Notes	Year ended 31 December	
		2006	2005
<b>Cash flow from operating activities</b>			
Interest received		18,023	12,659
Interest paid		(6,852)	(2,915)
Fees and commissions received		4,530	4,092
Fees and commissions paid		(1,500)	(1,540)
Staff costs		(3,596)	(3,372)
Other operating income received		492	452
Other operating expenses paid		(2,686)	(3,881)
Income tax paid		(1,231)	(1,186)
Net cash flow from operating activities before changes in operating assets and liabilities		7,180	4,309
<b>Change in operating assets and liabilities</b>			
Increase in the required minimum reserves		(4,253)	(4,840)
Increase in loans and advances to other banks		-	(12,596)
(Increase)/decrease in trading securities		3,240	(1,506)
(Increase)/decrease in loans and advances to customers		(15,426)	8,065
Decrease in other assets		23	51
Increase in deposits from banks		44,535	21,030
Increase in due to customers		74,022	76,475
(Decrease)/increase in other liabilities		(2,278)	252
Net cash flow from operating activities		107,043	91,240
<b>Cash flow from investing activities</b>			
Purchase of tangible fixed assets		(122)	(257)
Proceeds from disposal of investments in subsidiaries		14,593	-
(Purchase)/sale of trading securities		(9,327)	4,290
Net cash flow from investing activities		5,144	4,033
<b>Cash flow from financing activities</b>			
Dividend paid		(4,148)	(2,503)
Net cash flow used in financing activities		(4,148)	(2,503)

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**BNP PARIBAS (BULGARIA) EAD**  
**YEAR ENDED 31 DECEMBER 2006**

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**Cash flow statement (Continued)**

	<b>Notes</b>	<b>Year ended 31 December</b>	
		<b>2006</b>	<b>2005</b>
<b>Net increase in cash and cash equivalents</b>		<b>108,039</b>	<b>92,770</b>
Cash and cash equivalents at beginning of year		<u>154,356</u>	<u>61,586</u>
<b>Cash and cash equivalents at end of year</b>	<b>25</b>	<b><u>262,395</u></b>	<b><u>154,356</u></b>

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30 March 2007

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**BNP PARIBAS (BULGARIA) EAD**  
**YEAR ENDED 31 DECEMBER 2006**  
**NOTES TO THE FINANCIAL STATEMENTS**

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**1 General information and summary of significant accounting policies**

BNP PARIBAS (Bulgaria) EAD (the Bank) was established in Bulgaria in December 1994. It is fully owned by the BNP PARIBAS SA (the Parent Company), being the ultimate parent of the Bank. The Bank has a licence granted by the Bulgarian National Bank (“BNB” or the “Central Bank”) to take deposits in local and foreign currency, trade with foreign currencies, trade with and invest in treasury bonds and other securities and perform other banking operations. The Bank is allowed to maintain its activities both locally and internationally.

The Bank’s operations are conducted through its main office in Sofia and a client development office situated in the city of Varna.

These financial statements have been approved for issue by the Management Board on March 30, 2007.

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

**Regulations**

The Bank's activities and operations are governed by the Banking Law and related regulations issued by the Central Bank.

Pursuant to the Banking Law and Regulation No. 8 on the Capital Adequacy of Banks, the paid-in capital of a bank should be at least BGN 10,000 thousand. Additionally, the Bank shall have at its disposal, at all times, a capital base of at least the minimum required paid-in capital.

Furthermore, the total capital adequacy ratio, calculated as a percentage ratio of a bank's capital base to the bank's total weighted risk component, shall not be lower than 12% and the primary capital adequacy ratio, calculated as a percentage ratio of the bank's primary capital to the bank's total risk component, shall not be lower than 6%.

**a Basis of presentation**

These financial statements are prepared in compliance with Bulgarian national accounting legislation, applicable for banks in Bulgaria. In accordance with the Accountancy Act (AA), effective January 1, 2005 on the territory of the Republic of Bulgaria shall be effective International Financial Reporting Standards (IFRS), 2005 edition, endorsed by the European Union Commission. Those standards are translated officially into Bulgarian language and adopted by the Council of Ministers of the Republic of Bulgaria with Decree № 207/07.08.2006 and promulgated in the State Gazette (SG, issue 66/2006). The current 2006 edition of the International Financial Reporting Standards which are applicable for the year ending December 31, 2006, have not been translated and have not been adopted by the Council of Ministers of the Republic of Bulgaria as statutory reporting framework.

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**BNP PARIBAS (BULGARIA) EAD**  
**YEAR ENDED 31 DECEMBER 2006 (CONTINUED)**  
**NOTES TO THE FINANCIAL STATEMENTS**

*All amounts expressed in thousands of BGN unless otherwise stated*

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**1 General information and summary of significant accounting policies**

**a Basis of presentation (continued)**

Furthermore, the Banking Law stipulates that banks shall periodically assess loans and other risk assets, including their off-balance sheet liabilities, and shall allocate allowances to cover the risk of losses, according to criteria set by an ordinance of the Central Bank. According to the Banking Law these allowances are part of accounting expenses and a corrective of the carrying amount of the assets. The Central Bank also provides obligatory guidance about financial reporting, which the Bank has implemented in the preparation of these financial statements (for example regarding valuation of loan loss impairment allowances, available for sale securities, etc.).

For the same reasons, the prior year financial statements have been prepared in accordance with the International Accounting Standards (IAS) approved at that time by Decree of the Council of Ministers №21/4.02.2003 and published in the State Gazette issue 13 of 2003, which were IAS edition 2002, and respectively applied the specific requirements of the Banking legislation.

Management believes that the chosen basis for preparation of the financial statements for 2006 provides users with useful and fair information about the financial position and operating results of the Bank. The adoption of new standards, amendments and interpretations to existing standards resulted in certain additional disclosures, but did not result in material changes to the Bank's accounting policies and accounting treatment of transactions. Where necessary corresponding figures have been reclassified to conform with changes in presentation of the current year.

The financial statements are prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities held at fair value through profit or loss.

These financial statements are the individual financial statements of the Bank. The Bank will not prepare consolidated financial statements in accordance with IAS 27 "Consolidated and separate financial statements", as far as the subsidiary, acquired on October 31, 2006 has been sold on December 12, 2006 and the effect of the transactions during this period is immaterial for the consolidated financial statements (Note 18).

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

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**BNP PARIBAS (BULGARIA) EAD**  
**YEAR ENDED 31 DECEMBER 2006 (CONTINUED)**  
**NOTES TO THE FINANCIAL STATEMENTS**

*All amounts expressed in thousands of BGN unless otherwise stated*

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**1 General information and summary of significant accounting policies (continued)**

**b Foreign currencies**

*(a) Functional and presentation currency*

Items included in the financial statements of the Bank are measured and presented in BGN, which is the Bank's functional and presentation currency.

*(b) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

At 31 December 2006, monetary assets and liabilities denominated in foreign currency are translated into Bulgarian Leva at the official Central Bank exchange rates – BGN 1.95583 for EURO 1 and BGN 1.48506 for USD 1 (31 December 2005: BGN 1.95583 for EURO 1 and BGN 1.6579 for USD 1).

**c Offsetting financial instruments**

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

**d Interest income and expense**

Interest income and expense are recognised in the income statement for all instruments measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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**BNP PARIBAS (BULGARIA) EAD**  
**YEAR ENDED 31 DECEMBER 2006 (CONTINUED)**  
**NOTES TO THE FINANCIAL STATEMENTS**

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*All amounts expressed in thousands of BGN unless otherwise stated*

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**1 General information and summary of significant accounting policies (continued)**

**d Interest income and expense (continued)**

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

**e Fees and commissions**

Fee and commission income consists mainly of fees for off-balance sheet commitments, foreign currency and domestic payments transactions and recharges. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognized as an adjustment to the effective interest rate on the loan.

Fees and commission expense relates to fees incurred by the Bank in dealings with other banks, including guarantees received and payment transactions and are accrued or recognized at the date of the transaction, as appropriate.

**f Financial assets**

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

*(a) 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. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges.

*(b) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money, goods or services directly to a debtor with no intention of trading the receivable.

*(c) Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. Whenever the Bank to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available for sale.

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**BNP PARIBAS (BULGARIA) EAD**  
**YEAR ENDED 31 DECEMBER 2006 (CONTINUED)**  
**NOTES TO THE FINANCIAL STATEMENTS**

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**1 General information and summary of significant accounting policies (continued)**

**f Financial assets (continued)**

*(d) Available-for-sale investments*

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Purchases and sales of financial assets at fair value through profit or loss, held to maturity and available for sale are recognised on trade-date – the date on which the Bank commits to purchase or sell the asset. Loans are recognised when cash is advanced to the borrowers. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the ‘financial assets at fair value through profit or loss’ category are included in the income statement in the period in which they arise.

Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity should be recognised in profit or loss. However, interest calculated using the effective interest method is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the entity’s right to receive payment is established.

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Bank establishes fair value by using valuation techniques. These include the use of recent arm’s length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

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**BNP PARIBAS (BULGARIA) EAD**  
**YEAR ENDED 31 DECEMBER 2006 (CONTINUED)**  
**NOTES TO THE FINANCIAL STATEMENTS**

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**1 General information and summary of significant accounting policies (continued)**

**g Sale and repurchase agreements**

Securities sold subject to repurchase agreements ('repos') are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or re-pledge the collateral; the counterparty liability is included in deposits from banks, other deposits or deposits due to customers, as appropriate. Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income. The obligation to return them is recorded at fair value as a trading liability.

**h Impairment of financial assets**

*(a) Loans and provisions for loan impairment and other risk exposures*

Loans are carried at amortised cost less provision for impairment. Amortisation is calculated using the effective interest method. The amount of the provision is the difference between the carrying amount and the estimated recoverable amount, calculated as the present value of expected cash flows, including amounts recoverable from highly-liquid collateral, discounted based on the interest rate at inception.

The methodology for calculating the provisions is based on the requirements of the national legislation applicable for banks in Bulgaria. Banks classify their risk exposures (loans and off-balance sheet instruments) in several categories. According to the local legislation certain minimum percentages of impairment are assigned to each loan and off-balance sheet instrument depending on its risk category. This percentage is applied to the contractual cash flows to determine the expected discounted cash flows. An exposure may be reclassified into a lower-risk classification group, provided it has persistently satisfied all the conditions for that lower-risk classification group for a period of not less than six months. Only so-called highly-liquid types of collateral could be incorporated into the impairment calculation. These types include bank deposits, Bulgarian government securities, certain other government securities and bank guarantees, and half of the value of first-pledge over liquid real estate.

The difference between the carrying amount and recoverable amount of the financial asset (provision for impairment) is charged to the income statement of the period in which it has occurred.

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**BNP PARIBAS (BULGARIA) EAD**  
**YEAR ENDED 31 DECEMBER 2006 (CONTINUED)**  
**NOTES TO THE FINANCIAL STATEMENTS**

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**1 General information and summary of significant accounting policies (continued)**

**h Impairment of financial assets (continued)**

If the amount of the impairment loss subsequently decreases, the recovered impairment is credited to the 'impairment loss' line in the income statement. Recoveries of loans previously written off are recognized in income statement as recovered impairment.

*(b) Assets carried at fair value*

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its carrying amount is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income.

**i Property and equipment**

All property and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement when the expenditure is incurred.

Land is not depreciated. Depreciation is calculated on the straight-line method to allocate the cost of each asset to their residual values over their estimated useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

The following depreciation rates have been used:

Buildings	4%
Equipment	15- 20%

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**BNP PARIBAS (BULGARIA) EAD**  
**YEAR ENDED 31 DECEMBER 2006 (CONTINUED)**  
**NOTES TO THE FINANCIAL STATEMENTS**

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**1 General information and summary of significant accounting policies (continued)**

**i Property and equipment (continued)**

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposal of property and equipment are determined by comparing proceed with carrying amount. These are included in the income statement.

**j Intangible fixed assets**

Intangible assets comprise mainly computer software and are stated at cost less accumulated amortisation and impairment. Amortisation is calculated on the straight-line method to write off the cost of each asset to their residual values over their estimated useful life of four years.

**k Investment property**

Property held for long-term rental yields that is not occupied by the Bank is classified as investment property. Investment property comprises freehold buildings. It is carried at cost less accumulated depreciation.

**l Cash and cash equivalents**

For the purposes of the cash flow statement, cash and cash equivalents comprise cash, balances with the Bulgarian National Bank, excluding the required amounts of minimum reserves, and including balances with other banks with less than three months maturity from the date of acquisition, without limitation for their use.

**m 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.

**n Operating leases**

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

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**BNP PARIBAS (BULGARIA) EAD**  
**YEAR ENDED 31 DECEMBER 2006 (CONTINUED)**  
**NOTES TO THE FINANCIAL STATEMENTS**

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**1 General information and summary of significant accounting policies (continued)**

**o Borrowings**

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost and any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement as interest expense on an amortised cost basis using the effective interest method.

**p Current and deferred income taxes**

Taxation has been provided for in the financial statements in accordance with Bulgarian legislation currently in force. Income tax expense in the income statement for the year comprises current tax and changes in deferred tax. Current tax is calculated on the basis of the taxable profit for the year, using the tax rates enacted at the balance sheet date. Taxes other than on income are recorded within operating expenses.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

The principal temporary differences arise from depreciation of property and equipment, revaluation of certain financial assets and liabilities, provisions for pensions and other post-retirement benefits.

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

Current income tax payable on profits, based on the applicable tax law in the jurisdiction, is recognised in the period in which profits arise.

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

**q Share capital**

Incremental external costs directly attributable to the issue of new shares are deducted from equity net of any related income taxes.

Dividends on ordinary shares are recognised in equity in the period in which they are declared and their distribution has been approved by the Company's shareholders. Dividends for the year, declared after the balance sheet date are disclosed in the note for subsequent events.

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**BNP PARIBAS (BULGARIA) EAD**  
**YEAR ENDED 31 DECEMBER 2006 (CONTINUED)**  
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**2 Use of financial instruments**

**a Strategy in using financial instruments**

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

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

The Parent Company places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions.

**b Credit risk**

The Bank takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due.

Impairment provisions are provided for losses that have been incurred at the balance sheet date. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Bank portfolio, could result in losses that are different from those provided for at the balance sheet date. Management therefore carefully manages its exposure to credit risk.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and the geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by product and industry sector are set by the Parent Company in the form of local delegations given to the Chief Executive Officer and Senior Credit Officer.

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

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

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**BNP PARIBAS (BULGARIA) EAD**  
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**2 Use of financial instruments (continued)**

**c Credit related commitments**

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurance that the Bank will make the payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

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

**d 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.

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**2 Use of financial instruments (continued)**

**d Derivative financial instruments and hedge accounting (continued)**

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 income statement along with the corresponding change in fair value of the hedged asset or liability that is attributable to the specific hedged risk. The ineffective element of the hedge is charged directly to the income statement. If the hedge no longer meets the criteria for hedge accounting, an adjustment to the carrying value of a hedged interest-bearing financial instrument is amortised to net profit and loss over the period to maturity.

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

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**2 Use of financial instruments (continued)**

**e Geographical concentration of assets and liabilities**

The following notes incorporate credit risk disclosure under IAS 32 “Financial Instruments: Disclosure and Presentation” and geographical concentration of assets, liabilities and off-balance sheet items disclosures under IAS 30 “Disclosures in the financial statements of banks and similar financial institutions”. The Bank’s exposure to credit risk is concentrated in the areas specified in the table below.

<b>As at 31 December 2006</b>	<b>Total assets</b>	<b>Total liabilities</b>
Bulgaria	254,156	337,920
France	187,010	22,393
United States of America	35	255
Other OECD countries	41,420	66,138
	<b>482,621</b>	<b>426,706</b>

<b>As at 31 December 2005</b>	<b>Total assets</b>	<b>Total liabilities</b>
Bulgaria	243,660	277,221
France	117,371	4,466
United States of America	5	19,598
Other OECD countries	1,068	8,921
	<b>362,104</b>	<b>310,206</b>

The Bank is exposed to many sectors of the Bulgarian economy. However, credit risk is well spread over a diversity of commercial customers. Economic sector risk concentrations within the customer loan portfolio were as follows:

	<b>2006</b>	<b>2006 %</b>	<b>2005</b>	<b>2005 %</b>
Commerce and finance	84,781	51	68,913	46
Manufacturing	58,050	35	53,702	35
Energy and commodities	19,218	11	21,861	14
Miscellaneous	5,745	3	7,872	5
	<b>167,794</b>	<b>100</b>	<b>152,348</b>	<b>100</b>

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**2 Use of financial instruments (continued)**

**d Market risk**

The Bank takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Bank estimates the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Parent Company sets limits on the value of risk that may be accepted, which is monitored on a daily basis.

**e Foreign currency risk**

The Bank takes on exposures to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Parent Company sets limits on the level of exposure by currency which are monitored daily.

The tables below summarize the Bank's exposure to foreign currency exchange rate risk at 31 December 2006 and December 31, 2005. Included in the tables are the Bank's assets and liabilities at carrying amounts, categorized by currency.

	<b>BGN</b>	<b>USD</b>	<b>EURO</b>	<b>Other</b>	<b>Total</b>
<b>As at 31 December 2006</b>					
<b>Assets</b>					
Cash and balances with BNB	31,120	597	276	18	32,011
Loans and advances to banks	27,154	45,856	192,840	3,309	269,159
Trading securities	261	-	-	-	261
Loans to customers and other receivables from customers	55,161	1,086	109,648	-	165,895
Investment securities	14,107	9	-	-	14,116
Other assets	129	-	13	-	142
Property and equipment	1,037	-	-	-	1,037
<b>Total assets</b>	<b>128,969</b>	<b>47,548</b>	<b>302,777</b>	<b>3,327</b>	<b>482,621</b>
<b>Liabilities</b>					
Deposits from banks	13,206	30,788	85,073	2,776	131,843
Due to customers	165,207	50,368	75,987	705	292,267
Other liabilities	1,487	41	416	16	1,960
Current tax liabilities and deferred tax liability	636	-	-	-	636
<b>Total liabilities</b>	<b>180,536</b>	<b>81,197</b>	<b>161,476</b>	<b>3,497</b>	<b>426,706</b>
<b>Net balance sheet position</b>	<b>(51,567)</b>	<b>(33,649)</b>	<b>141,301</b>	<b>(170)</b>	<b>55,915</b>
<b>Off-balance sheet commitments</b>	<b>218,729</b>	<b>105,224</b>	<b>122,483</b>	<b>-</b>	<b>446,436</b>

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**2 Use of financial instruments (continued)**

**e Currency risk (continued)**

	<b>BGN</b>	<b>USD</b>	<b>EURO</b>	<b>Other</b>	<b>Total</b>
<b>As at 31 December 2005</b>					
<b>Assets</b>					
Cash and balances with BNB	28,509	522	497	55	29,583
Loans and advances to banks	4,232	76,600	77,365	1,061	159,258
Trading securities	3,548	-	-	-	3,548
Loans to customers and other receivables from customers	38,360	3,458	108,670	-	150,488
Investment securities	4,760	-	-	-	4,760
Deferred tax asset	57	-	-	-	57
Other assets	127	14	10	-	151
Property and equipment	11,036	-	-	-	11,036
Investment property	3,223	-	-	-	3,223
<b>Total assets</b>	<b>93,852</b>	<b>80,594</b>	<b>186,542</b>	<b>1,116</b>	<b>362,104</b>
<b>Liabilities</b>					
Deposits from banks	29,416	26,854	30,954	48	87,272
Due to customers	90,635	53,204	73,281	1,105	218,225
Other liabilities	4,208	104	397	-	4,709
<b>Total liabilities</b>	<b>124,259</b>	<b>80,162</b>	<b>104,632</b>	<b>1,153</b>	<b>310,206</b>
<b>Net balance sheet position</b>	<b>(30,407)</b>	<b>432</b>	<b>81,910</b>	<b>(37)</b>	<b>51,898</b>
<b>Off-balance sheet commitments</b>	<b>89,016</b>	<b>57,859</b>	<b>83,023</b>	<b>1,427</b>	<b>231,325</b>

**f Cash flow and fair value interest rate risk**

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank takes on exposures to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Parent Company sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily. The Management is satisfied that the Bank's position is such that exposure to movements in interest rates is minimized.

The table overleaf summarizes the effective interest rate by major currencies for monetary financial instruments not carried at fair value through profit or loss.

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**2 Use of financial instruments (continued)**

**f Cash flow and fair value interest rate risk (continued)**

<b>As at 31 December 2006</b>	<b>BGN</b>	<b>USD</b>	<b>EURO</b>
<b>Assets</b>			
Loans and advances to banks	3.53	5.18	3.67
Trading securities	3.79	-	-
Loans to customers and other receivables from customers	4.93	8.03	5.99
<b>Liabilities</b>			
Deposits from banks	3.55	5.29	3.64
Due to customers	1.32	1.43	0.80
<b>As at 31 December 2005</b>	<b>BGN</b>	<b>USD</b>	<b>EURO</b>
<b>Assets</b>			
Loans and advances to banks	2.25	4.22	2.51
Trading securities	3.57	-	-
Loans to customers and other receivables from customers	5.21	6.43	5.74
<b>Liabilities</b>			
Deposits from banks	2.52	2.09	2.32
Due to customers	0.77	2.73	0.91

The table below summarises the Bank's exposure to interest rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The carrying amounts of derivative financial instruments, which are principally used to reduce the Bank's exposure to interest rate movements, are included in 'other assets' and 'other liabilities' under the heading 'Non-interest bearing'.

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**2 Use of financial instruments (continued)**

**f Cash flow and fair value interest rate risk (continued)**

	<b>Up to 1 month</b>	<b>1-3 months</b>	<b>3-12 months</b>	<b>1-5 years</b>	<b>Non- interest bearing</b>	<b>Total</b>
<b>As at 31 December 2006</b>						
<b>Assets</b>						
Cash and balances with BNB	-	-	-	-	32,011	32,011
Loans to banks	255,013	13,948	-	-	198	269,159
Trading securities	-	-	-	258	3	261
Loans to customers and other receivables from customers	123,485	39,487	438	2,031	454	165,895
Securities available for sale	5,000	8,932	9	-	175	14,116
Other assets	-	-	-	-	142	142
Property and equipment	-	-	-	-	1,037	1,037
<b>Total assets</b>	<b>383,498</b>	<b>62,367</b>	<b>447</b>	<b>2,289</b>	<b>34,020</b>	<b>482,621</b>
<b>Liabilities</b>						
Deposits from banks	131,608	-	-	-	235	131,843
Due to customers	194,772	5,387	2,438	-	89,670	292,267
Other liabilities	-	-	-	-	1,960	1,960
Current tax liabilities and deferred tax liability	-	-	-	-	636	636
<b>Total liabilities</b>	<b>326,380</b>	<b>5,387</b>	<b>2,438</b>	<b>-</b>	<b>92,501</b>	<b>426,706</b>
<b>Interest sensitivity gap</b>	<b>57,118</b>	<b>56,980</b>	<b>(1,991)</b>	<b>2,289</b>	<b>(58,481)</b>	<b>55,915</b>
<b>Off-balance sheet position</b>	<b>2,031</b>	<b>-</b>	<b>-</b>	<b>(2,031)</b>	<b>-</b>	<b>-</b>

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**YEAR ENDED 31 DECEMBER 2006 (CONTINUED)**  
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**2 Use of financial instruments (continued)**

**f Cash flow and fair value interest rate risk (continued)**

	Up to 1 month	1-3 months	3-12 months	Non- interest bearing	Total
<b>As at 31 December 2005</b>					
<b>Assets</b>					
Cash and balances with BNB	-	-	-	29,583	29,583
Loans to banks	142,288	13,970	3,000	-	159,258
Trading securities	-	1,425	2,123	-	3,548
Loans to customers and other receivables from customers	119,520	29,745	1,223	-	150,488
Securities available for sale	1,140	3,540	-	80	4,760
Deferred tax asset	-	-	-	57	57
Other assets	-	-	-	151	151
Property and equipment	-	-	-	11,036	11,036
Investment property	-	-	-	3,223	3,223
<b>Total assets</b>	<b>262,948</b>	<b>48,680</b>	<b>6,346</b>	<b>44,130</b>	<b>362,104</b>
<b>Liabilities</b>					
Deposits from banks	83,888	-	3,000	384	87,272
Due to customers	144,087	3,626	1,368	69,144	218,225
Other liabilities	-	-	-	4,709	4,709
<b>Total liabilities</b>	<b>227,975</b>	<b>3,626</b>	<b>4,368</b>	<b>74,237</b>	<b>310,206</b>
<b>Interest sensitivity gap</b>	<b>34,973</b>	<b>45,054</b>	<b>1,978</b>	<b>(30,107)</b>	<b>51,898</b>
<b>Off-balance sheet position</b>	<b>25,425</b>	<b>(25,425)</b>	<b>-</b>	<b>-</b>	<b>-</b>

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**YEAR ENDED 31 DECEMBER 2006 (CONTINUED)**  
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**2 Use of financial instruments (continued)**

**g Liquidity risk**

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

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

<b>As at 31 December 2006</b>	<b>Up to 1 month</b>	<b>1 – 3 months</b>	<b>3 – 12 months</b>	<b>1 – 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>Assets</b>						
Cash and balances with BNB	32,011	-	-	-	-	32,011
Loans and advances to banks	249,572	-	19,587	-	-	269,159
Trading securities	-	-	-	261	-	261
Loans to customers and other receivables from customers	77,151	14,440	9,466	64,838	-	165,895
Securities available for sale	-	8,979	108	5,029	-	14,116
Other assets	142	-	-	-	-	142
Property and equipment	-	-	-	-	1,037	1,037
<b>Total assets</b>	<b>358,876</b>	<b>23,419</b>	<b>29,161</b>	<b>70,128</b>	<b>1,037</b>	<b>482,621</b>
<b>Liabilities</b>						
Deposits from banks	131,843	-	-	-	-	131,843
Due to customers	274,728	3,760	13,779	-	-	292,267
Other liabilities	-	1,960	-	-	-	1,960
Current tax liabilities and deferred tax liability	-	610	26	-	-	636
<b>Total liabilities</b>	<b>406,571</b>	<b>6,330</b>	<b>13,805</b>	<b>-</b>	<b>-</b>	<b>426,706</b>
<b>Net maturity gap</b>	<b>(47,695)</b>	<b>17,089</b>	<b>15,356</b>	<b>70,128</b>	<b>1,037</b>	<b>55,915</b>
<b>Cumulative maturity gap</b>	<b>(47,695)</b>	<b>(30,606)</b>	<b>(15,250)</b>	<b>54,878</b>	<b>55,915</b>	<b>-</b>

**BNP PARIBAS (BULGARIA) EAD**  
**YEAR ENDED 31 DECEMBER 2006 (CONTINUED)**  
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**2 Use of financial instruments (continued)**

**g Liquidity risk (continued)**

<b>As at 31 December 2005</b>	<b>Up to 1 month</b>	<b>1 – 3 months</b>	<b>3 – 12 months</b>	<b>1 – 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>Assets</b>						
Cash and balances with BNB	29,583	-	-	-	-	29,583
Loans and advances to banks	136,699	-	3,009	19,550	-	159,258
Trading securities	-	-	-	3,548	-	3,548
Loans to customers	75,282	1,808	21,354	52,044	-	150,488
Securities available for sale	1,065	-	2,260	1,435	-	4,760
Deferred tax asset	-	-	57	-	-	57
Other assets	151	-	-	-	-	151
Property and equipment	-	-	-	-	11,036	11,036
Investment property	-	-	-	-	3,223	3,223
<b>Total assets</b>	<b>242,780</b>	<b>1,808</b>	<b>26,680</b>	<b>76,577</b>	<b>14,259</b>	<b>362,104</b>
<b>Liabilities</b>						
Deposits from banks	84,261	-	3,011	-	-	87,272
Due to customers	172,064	3,033	43,128	-	-	218,225
Other liabilities	2,146	1,948	18	597	-	4,709
<b>Total liabilities</b>	<b>258,471</b>	<b>4,981</b>	<b>46,157</b>	<b>597</b>	<b>-</b>	<b>310,206</b>
<b>Net maturity gap</b>	<b>(15,691)</b>	<b>(3,173)</b>	<b>(19,477)</b>	<b>75,980</b>	<b>14,259</b>	<b>51,898</b>
<b>Cumulative maturity gap</b>	<b>(15,691)</b>	<b>(18,864)</b>	<b>(38,341)</b>	<b>37,639</b>	<b>51,898</b>	<b>-</b>

**BNP PARIBAS (BULGARIA) EAD**  
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**2 Use of financial instruments (continued)**  
**h Fair values of financial assets and liabilities**

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price.

The estimated fair values of financial instruments have been determined by the Bank using available market information, where it exists, and appropriate valuation methodologies.

	Carrying value		Fair value	
	2006	2005	2006	2005
<b>Financial assets</b>				
Loans and advances to banks	269,159	159,258	269,385	159,258
Loans to customers	165,895	150,488	164,156	150,488
<b>Financial liabilities</b>				
Deposits from banks	131,843	87,272	131,843	87,272
Due to customers	292,267	218,225	292,267	218,225

*a) Loans and advances to banks*

Loans and advances to banks include inter-bank placements and items in the course of collection. The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity. Fair value incorporates expected future losses, while amortised cost and related impairment include only incurred losses at the balance sheet date.

*b) Loans and advances to customers*

Loans and advances to customers are net of provisions for impairment. The estimated fair value of loans and advances to customers represents the discounted amount of estimated future cash flows, expected to be received. Expected cash flows are discounted at current market rates to determine fair values. The estimated fair value is lower with BGN 1,739 thousand from the carrying amount of the loans as the average market interest rates by customer loans are higher than the contractual interest rates on the loan portfolio following the specific client range and main activities of the Bank.

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**BNP PARIBAS (BULGARIA) EAD**  
**YEAR ENDED 31 DECEMBER 2006 (CONTINUED)**  
**NOTES TO THE FINANCIAL STATEMENTS**

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**2 Use of financial instruments (continued)**  
**h Fair values of financial assets and liabilities (continued)**

*c) Deposits from banks*

Deposits from banks are due within a period of less than one month from the balance sheet date and their fair value does not materially differ from their carrying amount.

*d) Deposits and borrowings*

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand.

**3 Critical accounting estimates and judgements in applying accounting policies**

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

The Bank reviews its loan portfolios to assess impairment on a monthly basis. In determining whether an impairment loss should be recorded in the income statement, The Bank makes judgements as to whether there is any objective evidence indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Bank. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

**BNP PARIBAS (BULGARIA) EAD**  
**YEAR ENDED 31 DECEMBER 2006 (CONTINUED)**  
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**4 Net interest income**

	<b>2006</b>	<b>2005</b>
<b>Interest income</b>		
Loans and advances to customers	9,280	10,292
Banks	7,021	1,938
Trading and investment securities	793	524
Other	1,115	309
	<b>18,209</b>	<b>13,063</b>
<b>Interest expense</b>		
Banks	3,544	1,795
Customer deposits	2,289	810
Other	1,059	338
	<b>6,892</b>	<b>2,943</b>

**5 Net fee and commission income**

	<b>2006</b>	<b>2005</b>
<b>Fee and commission income</b>		
Commissions on guarantees issued	1,560	1,218
Commissions on foreign payment transactions	1,260	1,101
Domestic payments and cash transactions	715	729
Commissions from documentary business	277	396
Fees and recharges	322	342
Other fee and commission income	327	312
	<b>4,461</b>	<b>4,098</b>
<b>Fee and commission expense</b>		
Commissions on guarantees received	1,380	1,370
Commissions on foreign payment transactions	81	137
Other fee and commission expense	97	104
	<b>1,558</b>	<b>1,611</b>

**6 Other operating income**

	<b>2006</b>	<b>2005</b>
Income from investment in subsidiary (Note 18)	2,277	-
Rental income	305	366
Other	399	258
	<b>2,981</b>	<b>624</b>

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<b>7 Operating expenses</b>	<b>2006</b>	<b>2005</b>
Staff costs (Note 8)	4,112	3,923
Administrative expenses	3,000	3,675
Depreciation (Note 17 and 18)	1,025	1,167
Information technology support and maintenance	939	903
Materials	237	226
Professional services	333	216
Operating lease rentals	214	86
Advertising and marketing	110	83
Loss on disposal of property and equipment	2	26
	<b>9,972</b>	<b>10,305</b>
<b>8 Staff costs</b>	<b>2006</b>	<b>2005</b>
Wages and salaries	3,460	3,229
Social security costs	350	405
Other employee costs	302	289
	<b>4,112</b>	<b>3,923</b>
<b>9 Provision for impairment (release)/charge</b>	<b>2006</b>	<b>2005</b>
Recovery of (loss from) impairment (Note 14)	(58)	310
	<b>(58)</b>	<b>310</b>
<b>10 Income tax expense</b>	<b>2006</b>	<b>2005</b>
Current tax expense	1,438	833
Deferred tax expense/(income) (Note 22)	88	(32)
	<b>1,526</b>	<b>801</b>

Current tax expense is payable at tax rate of 15% (2005: 15%) on adjusted profit under Bulgarian tax law. Further information about deferred tax is presented in Note 22.

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**10 Income tax expense (continued)**

A reconciliation of income tax expense is as follows:

	<b>2006</b>	<b>2005</b>
Profit before tax	9,727	4,949
Statutory income tax rate applicable	15%	15%
Tax at a the statutory tax rate	1,459	742
Effect of changes in the tax rate	(12)	-
Tax effect of expenses not deductible for tax purposes	79	59
<b>Income tax expense</b>	<b>1,526</b>	<b>801</b>
<b>Effective tax rate</b>	<b>15.69%</b>	<b>16.19%</b>

**11 Cash and balances with Central Bank**

	<b>2006</b>	<b>2005</b>
Cash in hand (Note 25)	1,756	1,736
Balances with Central Bank:		
- current account with Central Bank (Note 25)	11,067	12,912
- required statutory minimum reserve	19,188	14,935
	<b>32,011</b>	<b>29,583</b>

At 31 December 2005 and 2006 the statutory minimum required reserve represented 8% of demand and time deposits, except for the deposits of local banks. The obligatory reserves maintained in BGN are held on the current account with the Central Bank. The Bank has access to 50% of the BGN equivalent of the reserves held with the Central Bank on a daily basis, but is to pay penalty interest if the average monthly balance of the current account is less than the required reserve, until the required reserve level is restored. Cash in hand, balances with the Central bank and mandatory reserve deposits are non-interest-bearing.

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**12 Loans and advances to banks**

	<u>2006</u>	<u>2005</u>
Placements with foreign banks	209,081	117,547
Placements with local banks	27,109	20,015
Current accounts with foreign banks	13,168	1,594
Current accounts with local banks	214	552
	<hr/>	<hr/>
Included in cash and cash equivalents (Note 25)	249,572	139,708
Loans and advances to other banks	19,587	19,550
	<hr/>	<hr/>
	<b>269,159</b>	<b>159,258</b>
	<hr/>	<hr/>

As set out in Note 26 placements and current accounts with foreign banks include deposits and nostro account of BGN 209,021 thousand in BNP PARIBAS Group members (2005: BGN 117,526 thousand). Loans and advances to banks with variable rates are BGN 32,969 thousand (2005: BGN 21,696 thousand) and fixed rates are BGN 236,190 thousand (2005: 137,562 thousand). Loans and advances to other banks include accrued interest receivable of BGN 51 thousand (2005: 37 thousand). Placements and current accounts include accrued interest receivable of BGN 69 thousand (2005: BGN 42 thousand).

**13 Trading securities**

	<u>2006</u>	<u>2005</u>
Bulgarian government treasury bills	261	3,548
	<hr/>	<hr/>
	<b>261</b>	<b>3,548</b>
	<hr/>	<hr/>

Trading securities include accrued interest receivable of BGN 3 thousand (2005: 34 thousand).

**14 Loans and advances to customers**

	<u>2006</u>	<u>2005</u>
Gross loans and advances to customers	167,794	152,348
Less provision for loan impairment	(1,899)	(1,860)
	<hr/>	<hr/>
	<b>165,895</b>	<b>150,488</b>
	<hr/>	<hr/>

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**14 Loans and advances to customers (continued)**

As at 31 December 2006 loans of BGN 90,171 thousand are secured by bank guarantees (2005: BGN 58,044 thousand) of which BGN 86,346 thousand were issued by BNP PARIBAS Group entities (2005: BGN 53,921 thousand). Loans and advances to customers include accrued interest receivable of BGN 545 thousand (2005: BGN 506 thousand).

**Provision for loan impairment**

	<b>2006</b>	<b>2005</b>
Balance at 1 January	1,860	2,199
(Release)/charge for the year (Note 9)	58	(310)
Loans written off during the year as uncollectible	(19)	(29)
<b>Balance at 31 December</b>	<b>1,899</b>	<b>1,860</b>

**15 Investment securities, available-for-sale**

	<b>2006</b>	<b>2005</b>
Bulgarian government bonds	8,970	4,680
FRN issued by the European Investment Bank (floating rate)	5,038	-
Equity securities	99	80
Certificates of deposits	9	-
	<b>14,116</b>	<b>4,760</b>

**16 Other assets**

	<b>2006</b>	<b>2005</b>
Prepayments and deferred expenses	85	80
Other	57	71
	<b>142</b>	<b>151</b>

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**17 Property and equipment**

	<b>Property</b>	<b>Equipment</b>	<b>Total</b>
<b>Year ended December 2005</b>			
Opening net book amount	9,783	2,039	11,822
Additions	-	257	257
Disposals	-	(26)	(26)
Depreciation charge	(309)	(708)	(1,017)
<b>Closing net book amount</b>	<b>9,474</b>	<b>1,562</b>	<b>11,036</b>
<b>At 31 December 2005</b>			
Gross book amount	10,611	4,984	15,595
Accumulated depreciation	(1,137)	(3,422)	(4,559)
<b>Net book amount</b>	<b>9,474</b>	<b>1,562</b>	<b>11,036</b>
<b>Year ended December 2006</b>			
Opening net book amount	9,474	1,562	11,036
Additions	-	122	122
Disposals (Note 18)	(9,218)	(3)	(9,221)
Depreciation charge	(256)	(644)	(900)
<b>Closing net book amount</b>	<b>-</b>	<b>1,037</b>	<b>1,037</b>
<b>At 31 December 2006</b>			
Gross book amount	-	5,103	5,103
Accumulated depreciation	-	(4,066)	(4,066)
<b>Net book amount</b>	<b>-</b>	<b>1,037</b>	<b>1,037</b>

**18 Investment property**

	<b>2006</b>	<b>2005</b>
Opening net book value	3,223	3,373
Disposals	(3,098)	-
Depreciation charge	(125)	(150)
<b>Closing net book value</b>	<b>-</b>	<b>3,223</b>

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**18 Investment property (continued)**

The rental income arising from the property owned by the Bank in the amount of BGN 305 thousand (2005: BGN 366 thousand) is included in 'Other income'.

Following a broader restructuring plan, as of 31 October 2006 the Bank established a wholly owned subsidiary, registered with the Sofia City Court, under corporate file 12870/2006, named BNP Paribas Tzar Osvoboditel EAD with a registered capital of BGN 50,000 paid-in through in-kind contribution of the owned by the Bank land and building with estimated fair value as determined by the appointed by the court valuers of BGN 14,593 thousand. The difference between the book value of the contributed in-kind property of BGN 12,316 thousand and the fair value of the obtained by the Bank equity holding in the subsidiary of BGN 14,593 thousand is recognized in the 'Other income'.

In December 2006 the shares of BNP Paribas Tzar Osvoboditel EAD were endorsed to the Parent Company which transferred to the Bank the total amount of BGN 14,593 thousand for obtaining the ownership over BNP Paribas Tzar Osvoboditel EAD.

**19 Deposits from banks**

	<u>2006</u>	<u>2005</u>
Current accounts	22,226	20,171
Term deposits	109,617	67,101
	<u><b>131,843</b></u>	<u><b>87,272</b></u>

Deposits from banks include accrued interest payable in the amount of BGN 59 thousand (2005: BGN 22 thousand). All deposits from banks have variable interest rates.

**20 Due to customers**

	<u>2006</u>	<u>2005</u>
Corporate customers		
– Current/settlement accounts	179,275	78,890
– Term deposits	42,960	71,538
Retail customers		
– Current/demand accounts	14,933	15,483
– Term deposits	13,999	11,103
Restricted deposits	41,100	41,211
	<u><b>292,267</b></u>	<u><b>218,225</b></u>

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**20 Due to customers (continued)**

Restricted deposits include amounts blocked to secure loans granted by the Bank. Due to customers balances include accrued interest payable in the amount of BGN 75 thousand (2005: BGN 56 thousand).

**21 Other liabilities**

	<u>2006</u>	<u>2005</u>
Creditors	1,449	3,068
Deferred income	511	578
Other accruals	-	660
	<u>1,960</u>	<u>4,306</u>

**22 Deferred taxes**

Deferred taxes are calculated on all temporary differences under the liability method using a principal tax rate of 10% (2005: 15%).

The movement on the deferred tax is as follows:

	<u>2006</u>	<u>2005</u>
Deferred tax asset at beginning of year	57	30
Income statement (debit)/credit (Note 10)	(88)	32
(Debited)/credited to equity	5	(5)
<b>Deferred tax asset/(liability) at end of year</b>	<u>(26)</u>	<u>57</u>

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

	<u>2006</u>	<u>2005</u>
<b>Deferred tax assets</b>		
Accruals	-	133
	<u>-</u>	<u>133</u>
<b>Deferred tax liabilities</b>		
Property and equipment	(26)	(72)
Revaluation reserve	-	(4)
	<u>(26)</u>	<u>(76)</u>
<b>Deferred tax asset/(liability) at end of year</b>	<u>(26)</u>	<u>57</u>

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**23 Contingent liabilities and commitments**

*Off-balance sheet commitments.* The following table indicates the contractual amounts of the Bank's off-balance sheet financial instruments before provisions that commit it to extend credit to customers.

	<u>2006</u>	<u>2005</u>
Guarantees	258,533	91,225
Letters of credit	27,658	3,573
Commitments to extend credit	160,245	136,526
	<u><b>446,436</b></u>	<u><b>231,324</b></u>

**24 Share capital and statutory reserves**

At 31 December 2006 the total share capital represents 36,000 ordinary shares with nominal value of BGN 1 thousand each (2005: 36,000). All issued shares are fully paid, rank equally for dividends, and carry one voting right.

**Statutory reserves**

Under the provisions of the banking laws, banks should allocate at least one-fifth of their profit for the year to a reserve fund, presented as part of the statutory reserves in the statement of changes in shareholders' equity and in the balance sheet. The minimum amount of the reserve fund should be equal to 1.25% of the total balance sheet assets plus all off-balance sheet commitments. In the event the amount of the reserve fund falls below the minimum required amount, the Bank should replenish the amount of difference in the reserve fund so that the minimum level is restored within two years. According to the provisions of the banking laws, banks should not pay dividends before making the required contributions.

**25 Cash and cash equivalents**

	<u>2006</u>	<u>2005</u>
Cash in hand (Note 11)	1,756	1,736
Current account with Central Bank (Note 11)	11,067	12,912
Loans and advances to banks (Note 12)	249,572	139,708
	<u><b>262,395</b></u>	<u><b>154,356</b></u>

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**26 Related party transactions**

The Bank is controlled by BNP Paribas (incorporated in France), which, at the balance sheet date, owns 100% of the ordinary shares. The volumes of related party transactions outstanding at the year end, and relating expense and income for the year are as follows:

	<b>2006</b>	<b>2006</b>	<b>2005</b>	<b>2005</b>
<b>Bank placements</b>	Parent company	Companies under common control	Parent company	Companies under common control
At the beginning of year	116,960	566	37,893	-
Net change for the year	91,452	43	79,067	566
<b>At the end of the year</b>	<b>208,412</b>	<b>609</b>	<b>116,960</b>	<b>566</b>
<b>Interest income</b>	<b>5,590</b>	<b>9</b>	<b>1,018</b>	<b>2</b>

No provisions have been recognised in respect of placements made to related parties.

	<b>2006</b>	<b>2006</b>	<b>2005</b>	<b>2005</b>
<b>Attracted deposits</b>	Parent company	Companies under common control	Parent company	Companies under common control
At the beginning of year	-	-	-	-
Net change for the year	-	5,107	-	-
<b>At the end of the year</b>	<b>-</b>	<b>5,107</b>	<b>-</b>	<b>-</b>

In 2006 the total management remuneration of the management board is BGN 929 thousand (2005: BGN 802 thousand).

	<b>2006</b>	<b>2006</b>	<b>2005</b>	<b>2005</b>
	Parent company	Companies under common control	Parent company	Companies under common control
Technical services received	939	319	903	252
Management services received	385	-	463	-
	<b>1,324</b>	<b>319</b>	<b>1,366</b>	<b>252</b>

Guarantees issued by the Bank	10,947	-	12,061	-
Guarantees received by the Bank	152,847	390,986	60,495	90,223

Guarantees received secure loans to customers and guarantees issued.

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**27 Subsequent events**

1. Following its general policy to act worldwide predominantly through branches and anticipating the growing needs of the Bulgarian market with the coming entry of Bulgaria in the European Union, the Parent Company had planned an internal restructuring of its activities in the Republic of Bulgaria via the setting up of a branch aimed at taking over the going concern of the Bank in accordance with the Article 15 of the Commercial Act.
2. BNP Paribas S.A. – Sofia branch (“the Branch”), which is the branch established by the Parent Company in the Republic of Bulgaria, has obtained a full license to perform banking operations issued by the Central Bank on November 28, 2006.
3. The incorporation of the Branch was registered with the Sofia City Court, decision N 1 under company file number 14557/2006 from December 4, 2006.
4. Under the agreement signed between the Branch and the Bank, the going concern of the latter was transferred to the Branch on January 1, 2007. As of that date the Branch became full legal successor of all rights, obligations, factual, regulator and commercial relationships related to the activity of the Bank.
5. Consequently, as all assets and liabilities of the Bank have been transferred to the Branch through the transfer of going concern, the Parent Company plans to initiate in 2007 the liquidation of the Bank.

**28 Going concern**

Notwithstanding the circumstances described in Note 27, as far as through the transfer of the entire commercial entity of the Bank to the Branch on the basis of the universal succession, the business of the Bank will continue to be performed by the Branch and will not be liquidated or curtailed, these financial statements have been prepared on the assumption, that the Bank is a going concern and will continue in operation for the foreseeable future.