

CIBANK AD
NOTES TO THE FINANCIAL STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2008

All amounts are in thousands of Bulgarian levs, unless otherwise stated.

1. Corporate information for the Bank

1.1 Organisation and activities

CIBANK AD (the “Bank”) was incorporated as a joint-stock bank and commenced its activity in May 1995 under its former name Bulgarian-Russian Investment Bank AD. The registered address of the Bank is at 2 Slavyanska street, Sofia 1000, Bulgaria. The Bank has a full banking licence issued by the Bulgarian National Bank (“BNB”, the “Central Bank”), according to which the Bank is granted the right to perform the following activities:

- to accept deposits and to grant loans and investments;
- to purchase bills of exchange and promissory notes;
- to transact in foreign currencies and precious metals;
- to accept valuables at safe custody;
- to trade in securities and to manage securities;
- to carry out guarantee transactions;
- to perform operations relating to cashless payments and clearing of checking accounts of other persons;
- to manage investment funds in accordance with the Public Offering of Securities Act;
- to purchase receivables originating from supply of goods and provision of services, and to assume the risks related to their collection (factoring);
- to perform transactions with:
 - financial futures and options;
 - derivatives related to exchange rates and interest rates;
- to acquire and manage shareholdings;
- to consult companies regarding their capital structure, Bank strategy and matters related thereto, as well as to provide advice and services related to transformation of companies and transactions related to acquisition of enterprises;
- to provide consultations regarding portfolio investments.

The Bank operates through its Headquarters office in Sofia and 27 branches around the country.

At 31 December 2008 and 31 December 2007, the employees of the Bank were 1,711 and 1,559 respectively.

The ultimate parent Bank of the Bank is the Belgium Group KBC.

At 31 December 2008, KBC Bank owns 77.75% (5,420,697 shares) of the Bank’s capital.

The Bank has a two-tier management system – Management and Supervisory Boards. Four of the Management Board members are Executive Directors of the Bank.

2.1 Basis of preparation of the financial statements

Statement of compliance

The financial statements of the Bank have been prepared in accordance with the International Financial Reporting Standards, as endorsed by the European Union (IFRS endorsed by the EU).

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2.1 Basis of preparation of the financial statements (continued)

The Bank has adopted all new and revised IFRS issued by the International Accounting Standards Board (IASB) and respectively, the Interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC), endorsed by the Commission of the European Union, effective for 2008.

The Bank's financial statements have been prepared on a historical cost basis for its assets and liabilities, with the exception of securities for trading, investments for sale and derivative financial instruments, revalued on an ongoing basis, as well as land and buildings stated at revalued amount.

2.2 Changes in accounting policies and disclosures

Changes in accounting policies

The accounting policies adopted in the preparation of the annual financial statements of the Bank for 2008 are consistent with those applied in the preparation of the annual financial statements for 2007, except as follows:

The Bank has adopted for the first time the following IFRIC interpretations during the year. They did not have any effect on the financial performance and/or position of the Bank.

- IFRIC 11, IFRS 2-Group and Treasury Share Transactions
- IFRIC 14 IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
- IAS 39 and IFRS 7 Reclassification of Financial Assets (Amended)

Effects from the change of accounting policy are as follows:

IFRIC 11, IFRS 2-Group and Treasury Share Transactions

IFRIC 11 requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme by an entity even if the entity acquires those equity instruments from another party, or the shareholders of the entity provide the equity instruments needed. The Bank has neither issued nor acquired or obtained from its shareholders any instruments falling within the scope of IFRIC 11.

IFRIC 14 IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

IFRIC 14 provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 19 *Employee Benefits*. The Bank expects that this Interpretation will have no impact on its financial position and/or performance as it does not operate funded defined benefit schemes.

IAS 39 and IFRS 7, Reclassification of Financial Assets (Amended)

The amendments were issued in October 2008 and become effective from 1 July 2008. The amendment to IAS 39 permits reclassification of non-derivative financial assets (other than those designated at fair value through profit or loss by the entity upon initial recognition) out of the fair value through profit or loss category as well as transfer from the available-for-sale category to loans and receivables, in particular circumstances. The Bank has not reclassified any financial instruments.

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2.2 Changes in accounting policies and disclosures (continued)

Reclassification of comparatives

Where the presentation or classification of items of the financial statements has been changed, then the comparative data shall also be changed in order to achieve comparability with the current reporting period. Such reclassifications are required in order to ensure more detailed presentation of the balance sheet and income statement items.

Reclassifications in the balance sheet

At 31 December 2008, deposits from clients are presented net of prepaid interest on the respective deposit products, and the comparative data as at 31 December 2007 has also been restated in order to achieve the necessary comparability. These reclassifications do not have an impact on the equity and profit for the year.

Reclassifications in the income statement

For the year ended 31 December 2008, commissions income received as a result of deferral of fees on loans at amortised cost using the effective interest rate method are stated as interest income with the aim to report the substance of this income. Comparatives for the year ended 31 December 2007 are also restated in order to achieve the necessary comparability. These reclassifications do not have an impact on the profit for the year.

2.3 Significant accounting judgements, estimates and assumptions

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities as of the balance sheet date, and the reported amounts of income and expenses for the reporting period. These estimates are made on the basis of the best estimate of the management based on historical experience and factors of importance in the circumstances as at the date of the financial statement. The actual results could ultimately differ from those estimates.

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period are discussed below.

Useful life of property, plant and equipment, and intangible assets

Financial reporting of property, plant and equipment, and intangible assets involves the use of estimates for their expected useful life and residual values, which are based on judgments of the Bank's management. Further details on useful lives are disclosed in the accounting policies of the Bank (Note 2.4).

Revaluation of land and properties

Land and buildings are stated at revalued amount determined by accredited independent valuers. Revaluations are made on a regular basis so that to ensure that the fair value of a particular revalued asset does not differ significantly from its carrying amount.

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2.3 Significant accounting judgements, estimates and assumptions (continued)

Fair value of financial instruments

Where the fair values of financial assets and liabilities on the balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets, where possible, but where this is not feasible, a degree of judgement is required by the management in establishing fair values. The judgement includes considerations of comparativeness of financial instruments, estimation of future cash flows, liquidity and model inputs such as correlation and sensitivity of longer dated derivative financial instruments.

Allowance for impairment losses and uncollectibility

The Bank reviews its problematic loans at each reporting date to assess whether an allowance for impairment should be recorded in the income statement. In particular, judgement by management is required for the analysis on financial performance of the borrowers and availability of sources of the borrower to repay its loans when determining the risk category in which the borrower should be classified and the level of allowance required respectively. Judgement by management is required as well in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to individually classified and provided loans, the Bank also conducts an analysis on portfolio basis to determine allowance against individually insignificant exposures which have a greater concentration of risk that the loans existing at the balance sheet date may not be recovered. This analysis takes into consideration factors such as analysis of historical losses and risks determined on portfolio basis.

Impairment of investments

The Bank treats its investments classified as available-for-sale financial assets, as impaired when there has been a significant or prolonged decline in the fair value below their carrying amount or where other objective evidence of impairment exist. The determination of what is “significant” or “prolonged” requires judgement in evaluating all significant factors, such as the share price volatility.

2.4 Summary of significant accounting policies

Functional and presentation currency

All amounts in these financial statements are stated in thousands of Bulgarian levs, which is the Bank’s functional and presentation currency.

Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling of Bulgarian National Bank at the last working day for the current year. All exchange rate differences are recognised in the income statement. Non monetary assets and liabilities that are measured at historical cost in a foreign currency are translated into the functional currency using the exchange rates as at the dates of the initial transactions (acquisition). Since 1 January 1999 the Bulgarian lev has been pegged to Euro at an exchange rate of BGN1.95583 : EUR1, according to the Law on BGN of 1997.

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2.4. Summary of significant accounting policies (continued)

Cash and cash equivalents

For the purpose of the cash flow statement cash and cash equivalents consist of cash in hand and balances with BNB, and also cash in Nostro accounts with other banks as well as funds provided to banks with original term to maturity of up to 3 months.

Financial instruments

Date of recognition

Regular way purchases or sales of financial assets are recognised on the settlement date, i.e. the date that the Bank commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require the delivery of the asset within the time frame generally established by regulation or convention in the marketplace.

Initial recognition of financial instruments

The classification of financial assets at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. Financial assets within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are classified as financial assets at fair value through profit or loss, or as loans and receivables, or as investments held to maturity or as financial assets available for sale, whichever is more appropriate.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are acquired in order to gain profit from the short-term price fluctuations or to be included in a portfolio of securities with a model of obtaining short-term profit. Securities at fair value are recognised initially at cost of acquisition, plus the transaction costs, and subsequently are measured at fair value on the basis of quoted prices. Gains or losses related to securities at fair value, whether realised or not, are recognised in the income statement as profit/(loss) from transactions with securities. Interest income related to securities for trading is reported as interest income.

Sales and repo agreements and borrowing of securities

Securities sold under the terms of binding repo agreements are reported in the financial statements as securities at fair value through profit or loss or available-for-sale investments, and the liability to the contractor under the agreement is stated as a payable on repo deals. Securities acquired under repo deals ("reverse repo") are stated as receivables on repo deals. The difference between the agreed selling price and the repo price is reported as interest expense over the life of the agreement using the effective interest rate method.

Securities obtained with a clause for future reverse sale are not recognised in the financial statements, unless sold to third parties. The obligation for their return is stated at fair value as payables under repo agreements.

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2.4. Summary of significant accounting policies (continued)

Financial instruments (continued)

Available-for-sale investments

Available-for-sale investments comprise Bulgarian government securities, equity investments, corporate securities and corporate debt instruments. They are reported at fair value, and if not such could be determined reliably – at cost of acquisition for equity instruments or amortised cost for debt instruments. Any gains or losses at revaluation are recognised directly in equity and revaluation reserves, with the exception of impairment losses, and the interest income calculated using the effective interest rate method and any foreign currency gains or losses are recognised directly in the current financial result. Upon disposal of available-for-sale investments, the Bank includes the accumulated revaluation reserve in the financial result for the current period.

Capital investments are made in domestic and foreign companies. These investments are not quoted on the open market. At 31 December 2008 and 31 December 2007, the Bank does not hold the controlling interest in those companies. Capital investments are stated at acquisition cost, less the impairment losses, if any. Dividends are recognised in the income statement for the period when the Bank's right to receive payment is established.

Corporate securities comprise shares in Bulgarian companies quoted on the Bulgarian stock exchange, which is a regulated market. They are stated at fair value in the cases where the market quotations for the shares are a result of sufficiently developed and liquid market; the change to this amount is recognised in the statement of changes in equity. Shares for which there is no sufficiently reliable quotation due to the small volumes of trade are reported at cost of acquisition. Dividends are recognised as other income upon their receipt.

Corporate debt instruments comprise debt of domestic and foreign companies not actively traded in financial markets. They are reported at fair value, and if no such can be determined reliably - at amortised cost. Interest income is recognised as interest income in the income statement.

Derivative financial instruments

The Bank uses derivative financial instruments to respond to the financial needs of its clients, acting as an agent, and to facilitate its own transactions. These instruments include purchases and sales of foreign currencies, securities, forward and futures contracts and foreign currency swaps in the open market. Such derivative financial instruments are initially recognised at fair value (including the transactions costs) and are subsequently remeasured at fair value. The fair value is determined on the basis of market quotations, cash flows discount models and other financial valuation models, depending on the type of derivative. Derivatives are reported as assets when their fair value is a positive figure, and as liabilities, when it is negative. Any changes in the fair value of derivative financial instruments held for sale are included in the income statement.

Certain derivative instruments, although acquired with the purpose to cover the market risk, do not meet the specific criteria for hedging accounting under IAS 39, and therefore, they are reported as derivatives for trading.

Contracts for purchase or sale of financial assets, which require the transactions to be settled within the usual time, as established by the market practices or in an agreement ("regular" contracts), are recognized in the balance sheet on the date of settlement. The change in the fair value of assets received is recognised as a result for the period.

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2.4. Summary of significant accounting policies (continued)

Offsetting of financing instruments

Financial assets and financial liabilities are offset and the net amount is reported in the Bank's balance sheet if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously. Financial instruments based on framework agreements for offsetting and assets and liabilities related thereto are not offset but are reported separately in the Bank's balance sheet.

Loans and advances to clients

Loans originated initially with the Bank, through granting the funds directly to the borrower, are classified as loans granted by the Bank and are reported at amortised cost using the effective interest rate method, less any adjustments for impairment.

Loans and advances are recognised at the time the cash is provided to borrowers.

Impairment and uncollectibility of loans and advances to clients

Allowance for impairment losses and uncollectibility are measured as the difference between the asset's book value and its estimated recoverable amount, which is the present value of estimated future cash flows discounted at the loan's original effective interest rate. Cash flows related to short-term loans are not discounted.

The Bank classifies the loans granted to clients in a number of risk classification groups. Analysis of expected cash flows is made and after discounting the recoverable amount is calculated. The present value of future cash flows is discounted at the agreed effective interest rate on loan. If the loan bears floating interest rate, upon calculating the discount rate for the purposes of determining the impairment loss the present effective interest rate is used. The calculation of the present value of future cash flows on a secured loan also reflects the estimated cash flows at the time of sale of the collateral.

The difference between the book value and the recoverable amount is the impairment loss and uncollectibility. For individually significant loans (determined on the basis of existing objective evidence for impairment), the Bank calculates the impairment for each individual exposure.

Assets which have been assessed as individually significant and for which impairment has been made are not included in the assets' assessment upon calculating the impairment on a portfolio basis. For individually insignificant loans of homogeneous nature the allowance for impairment is determined on the basis of an analysis of historical losses and risks, determined on a portfolio basis.

Any difference between the carrying amount and the recoverable amount of the financial asset (impairment loss and uncollectibility) is taken to the income statement in the period in which it arises. Any reversal of the impairment loss and uncollectibility is taken to the income during the respective period. When such reversal is due to the realisation of collateral, the release of the provision is reported as income in the calendar year when the proceeds from the sale are received. Any recovered amounts previously written off are charged as income through a reduction of the accumulated impairment loss and uncollectibility for the year.

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2.4. Summary of significant accounting policies (continued)

Impairment and uncollectibility of loans and advances to clients (continued)

Loans for which there are grounds to believe that they might not be collected are derecognised against the accumulated impairment. Such loans are not written off until the time of completion of all legal proceedings or until the time the actual amount of the loss is established. Any subsequently collected amounts on already derecognised loans are recognised as other operating income in the income statement for the current period.

Guarantee provisions and other off-balance sheet credit commitments

Guarantee provisions and other off-balance sheet credit commitments are recognised as an expense on provision and a liability, as well as when the Bank has a present legal or constructive obligation as a result of a past event, as a result of which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Any losses occurred as a result of the recognition of liability provisions are recognised in the income statement for the relevant period.

Deposits from banks, other financial institutions, non-financial institutions and other clients

Deposits /loans/ from banks and other financial institutions, non-financial institutions and other clients include funds attracted by the Bank in the form of current, escrow, deposit, budget and other accounts. They are reported from the date of the transaction at the fair value of deposit received. Financial liabilities are subsequently measured at amortised cost, and those denominated in foreign currency are revalued on a daily basis at the central exchange rate of the BNB for the respective currency. Deposits are stated together with the contractual interest accrued thereon at the date of the financial statements.

Subordinated term debt and debt securities issued

Borrowings are recognised initially at the fair value of cash flows received at the origination of the liability, less any directly attributable transactions costs. Subsequently, borrowings are stated at amortised cost and any difference between the net cash flows and the remaining value is taken to the income statement using the effective interest rate method for the term of the liability.

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2.4. Summary of significant accounting policies (continued)

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the contractual rights to receive cash flows from the asset have expired;
- the contractual rights to receive cash flows from the asset have been retained, but a contractual obligation has been assumed for their payment in full without material delay to a third party under a 'pass through' arrangement; or the contractual rights to receive cash flows from the financial asset have been transferred and either (a) the Bank has transferred substantially all the risks and rewards of the financial asset, or (b) the Bank has neither transferred nor retained substantially all the risks and rewards of the financial asset, but has transferred the control of the asset.

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the Bank's continuing involvement is the amount of the transferred asset that the Bank may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

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2.4. Summary of significant accounting policies (continued)

Disclosure of fair value

IAS 32 “Financial instruments: Disclosure and presentation” requires disclosure in the notes to the financial statements of information regarding the fair value of financial assets and liabilities. For the purpose, the fair value is determined as the amount at which a financial instrument may be exchanged or settled in an arm’s length transaction between knowledgeable and willing parties. It is a policy of the Bank to disclose information about the fair value of those assets and liabilities, for which there is market information available and the fair value of which significantly differs from the carrying amount.

The fair value of cash and cash equivalents, deposits and loans provided by the Bank, other receivables, deposits, loans and other short-term liabilities approximates their carrying amount, if their maturity will occur in a shorter period of time.

If no quotations are available, other methods for reliable calculation of the fair value of the financial instrument are used, by comparing it with the current market value of another similar financial instrument or by determining the discounted cash flows expected from the financial instrument through discount percentages equal to the prevailing rate of return on the financial instrument.

Guarantees provided

Financial guarantee contracts are the contracts which bind the guarantee issuer to make a specific payment in order to cover the loss of the guarantee beneficiary, which have occurred as a result of the debtor’s failure to make the necessary payments in accordance with the debt instrument. Such financial guarantees are provided to banks, financial institutions and other bodies in behalf of users in order to secure loans, overdrafts and other bank funds.

Financial guarantees are recognised initially in the financial statements at fair value on the date of issue of the guarantee. Subsequently, the Bank’s liabilities on such guarantees are reported at the higher of the initially recognized amount, less any amortisation expenses, in order to report in the income statement incomes from fees calculated on the basis of the straight line method over the guarantee term, and the best estimate of expenses necessary to settle each financial liability which have occurred at the balance sheet date. These estimates are determined on the basis of the experience with similar transactions and data of past losses, obtained as a result of the management’s judgement.

The increase of guarantee-related liabilities is taken to the income statement.

Borrowing costs

Borrowing costs are recognised as an expense in the period when incurred.

Property, plant and equipment

Land and buildings are stated at revalued amount, and any other items of property, plant and equipment are stated at cost less accumulated depreciation and any impairment loss. Depreciation is calculated on a straight line basis over the useful life of the assets.

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2.4. Summary of significant accounting policies (continued)

Property, plant and equipment (continued)

The annual depreciation rates used in the financial statements for 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Buildings	4% (25 years)	4% (25 years)
Office equipment – computer systems	25% (4 years)	50% (2 years)
Office equipment – others	30% (3.3 years)	30% (3.3 years)
Motor vehicles, incl.:		
Cars	25% (4 years)	25% (4 years)
Cars for collection of cash	10% (10 years)	10% (10 years)
Office furniture	15% (6.7 years)	15% (6.7 years)
ATM	20% (5 years)	50 % (2 years)
Other	15% (6.7 years)	15% (6.7 years)

Land is not depreciated.

If the increase of the assets' book value results from revaluation, the increase is credited directly to equity as a revaluation reserve. Where the decrease of the assets' book value results from revaluation, its amount is deducted directly from the revaluation reserve or is recognised as an expense if the amount of the revaluation reserve for this asset is not enough.

The asset's useful lives and methods of depreciation are reviewed at least at each financial year end.

Long-term intangible assets

Long-term intangible assets, including computer software, are measured at cost less any accumulated amortisation and any accumulated impairment losses.

Amortisation is calculated on a straight line basis over the useful life of the assets of 4 years, by applying an annual amortisation rate of 25% for computer software for 2008 and 50 % for 2007, and 6.7 years, with an annual amortisation rate of 15% for the other intangible assets. The asset's useful lives and methods of amortisation are reviewed at least at each financial year end for all intangible assets with finite useful lives.

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2.4. Summary of significant accounting policies (continued)

Impairment of non-financial assets

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Bank makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation models, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

An assessment is made by the Bank at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Bank makes an estimate of the recoverable amount of this asset. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement, unless the asset is carried at revalued amount in which case the reversal is treated as revaluation surplus.

Taxes

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax reflects the net tax effect of all temporary differences between the carrying amount of the assets and liabilities for financial reporting purposes and their value calculated for tax purposes. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised.

The valuation of deferred tax assets and liabilities reflects the tax consequences that might arise out of the manner in which the Bank expects, at the balance sheet date, to recover or settle the book value of its assets and liabilities. Deferred tax assets and liabilities are recognised despite of the fact when the temporary difference will reverse.

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2.4. Summary of significant accounting policies (continued)

Taxes (continued)

Deferred income tax assets are recognised to the extent that it is probable that taxable profit will be available against which the tax assets can be utilised. The Bank revalues at each balance sheet date the unrecognised deferred tax assets and the book value of deferred tax assets. The Bank recognises a deferred tax asset, which has not been recognised previously, to the extent that it is probable that the deferred tax asset will be recovered from a future taxable income. Conversely, the Bank reduces the book value of a deferred tax asset up to the amount to which it is no longer probable that a sufficient taxable income will be generated against which a part or the entire amount of deferred tax could be utilised.

Current and deferred taxes are recognised as income or expense and included in the net income for the period, except when the tax occurs as a result of transactions or events recognised directly in the income statement for the current or a different period. Current and deferred taxes are accrued or taken directly to equity when the tax relates to items, which have been accrued or taken directly to equity in the same or a different period.

Deferred tax assets and liabilities are offset by the Bank only when there is a legally enforceable right to offset current tax assets against current tax liabilities and where they relate to income taxes levied by the same taxing authority.

Value Added Tax (VAT)

Revenues, expenses and assets are recognised net of the amount of VAT except:

- where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Interest income and expenses

Interest income and expenses are stated in the income statement for all interest-bearing instruments using the effective interest rate method and by applying the current accrual principle. Loan-related fees are deferred and recognised as an adjustment of the effective interest income on loan.

Fees and commissions income

Fees and commissions are recognised on an accrual basis. They comprise mainly fees charged on transactions performed at the teller's desk and on cash transfers, guarantees and other services offered by the Bank.

Foreign currency transactions

Transactions entered into in foreign currencies are translated by using the BNB's exchange rate ruling at the transaction date. Monetary assets and liabilities denominated in foreign currencies are retranslated into BGN at the exchange rate ruling at the balance sheet date. Any gain or loss arising on the restatement of such balances is taken to the profit and loss account.

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2.4. Summary of significant accounting policies (continued)

Foreign currency transactions (continued)

The exchange rates of the more important currencies at 31 December 2008 and 31 December 2007 are presented in the table below:

Currency	<u>2008</u>	<u>2007</u>
EUR	1.95583	1.95583
USD	1.38731	1.33122

Operating lease

Real estate necessary for the Bank's branches activities is hired under long-term operating leases. Expenses related to such contracts are reported in the income statement as rental expenses for the respective period.

Share capital

The share capital of the Bank is stated at the nominal value of shares issued and subscribed by the Bank. Any other additional income from the sale of shares over their nominal value is reported in issue premium.

2.5 Future changes in accounting policies

Standards, interpretations and amendments issued but not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for accounting periods beginning on or after 1 January 2009 or later periods but which the Bank has not early adopted, as follows:

IFRS 1 First-time Adoption (Amended) and IAS 27 Consolidated and Separate Financial Statements (Amended)

The amendments to IFRS 1 and IAS 27 become effective for financial years beginning on or after 1 January 2009. The amendments to IFRS 1 allow the cost of investments in subsidiaries, jointly controlled entities or associates (in the opening IFRS financial statements) to be determined as either cost in accordance with IAS 27 or deemed cost. The amended IAS 27 requires all dividends from subsidiaries, jointly controlled entities or associates to be recognized in profit or loss in separate financial statements. The revision to IAS 27 will have to be applied prospectively. Further, it allows cost of an investment in a subsidiary, in limited reorganizations, to be based on the previous carrying amount of the subsidiary rather than its fair value. The Bank does not expect these changes to have an impact on its financial statements.

CIBANK AD
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2.5 Future changes in accounting policies (continued)

Standards, interpretations and amendments issued but not yet effective (continued)

IFRS 2 Share-based Payments – Vesting Conditions and Cancellations

This amendment to IFRS 2 Share-based Payments was issued in January 2008 and becomes effective for financial years beginning on or after 1 January 2009.

The Standard restricts the definition of “vesting condition” to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. The Bank is not a party on share-based payment schemes and therefore, it does not expect that the standard will have any significant impact on the accounting of the share-based payments.

IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Revised)

The revised standards were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009. The revised IFRS 3 introduces a number of changes in the accounting for business combinations occurring after this date that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. The revised IAS 27 requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by the revised IFRS 3 and the revised IAS 27 must be applied prospectively and will affect future acquisitions or loss of control and transactions with minority interests. The revised standards have not yet been endorsed by the EU.

IFRS 7 Financial Instruments: Disclosure

The amendment intended to enhance the disclosures for fair value measurement and liquidity risk. Entities will be required to use a 3-level hierarchy of disclosures for financial instruments recorded at fair value. Businesses will need to carefully consider whether they need to modify their management information systems and internal controls to capture both the quantitative and qualitative disclosures required by the amendments. The amendments become effective for fiscal years starting on or after 1 January 2009. The impacts of the first-time application of these amendments on the Bank’s financial statements are currently being reviewed.

IFRS 8 Operating segments

IFRS 8 replaces IAS 14 *Segment Reporting* and is effective for financial years beginning on or after 1 January 2009. IFRS 8 adopts a management approach to segment reporting. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. This information may be different from that reported in the balance sheet and income statement and entities will need to provide explanations and reconciliations of the differences. As the Bank does not report any operating segment, this standard will have no impact on it.

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2.5. Future changes in accounting policies (continued)

Standards, interpretations and amendments issued but not yet effective (continued)

Improvements to International Financial Reporting Standards (“IFRSs”) 2008

Improvements to IFRSs were issued on 22 May 2008 by the International Accounting Standards Board and is the first standard issued as part of its “Annual Improvements Process” and include a number of minor changes to various IFRSs. The amendments are made to specify the contents of the rules and eliminate unintended inconsistencies among the standards. Most of the amendments become effective for fiscal years starting on or after 1 January 2009. The impacts of the first-time application of these amendments on the Bank’s financial statements are currently being reviewed.

IAS 1 Presentation of Financial Statements (revised)

The revised Standard was issued in September 2007 and becomes effective for financial years beginning on or after 1 January 2009. The Standard separates owner (shareholder) and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners (shareholders), with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Bank is still evaluating whether it will have one or two statements..

IAS 23 Borrowing Costs (revised)

The revised IAS 23 Borrowing Costs was issued in March 2007, and becomes effective for financial years beginning on or after 1 January 2009. The standard has been revised to require capitalisation of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. The Bank will be required to change its accounting policy from 1 January 2009 to capitalise borrowing costs on qualifying assets prospectively from that date. In accordance with the transitional requirements in the Standard, the Bank will adopt this as a prospective change. Accordingly, borrowing costs will be capitalised on qualifying assets with a commencement date on or after 1 January 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.

IAS 39 Financial Instruments: Recognition and Measurement – Embedded derivatives

This amendment to IAS 39 was issued in March 2009 and become effective for financial years beginning on or after 1 July 2009. The amendment addresses the separation of embedded derivatives from the hybrid contracts by reclassification out of at fair value through profit and loss categories. If the entity is unable to measure separately the embedded derivative the whole financial assets remains classified as at fair value at profit and loss. The Bank does not reclassify any financial instruments with embedded derivatives and, therefore, this amendment will have no impact on the Bank’s financial statements.

IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items (amended)

These amendments to IAS 39 were issued in August 2008 and become effective for financial years beginning on or after 1 July 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. The Bank does not expect these amendments to impact its financial statements. The amendments to IAS 39 have not yet been endorsed by EU.

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2.5. Future changes in accounting policies (continued)

Standards, interpretations and amendments issued but not yet effective (continued)

Amendments to IAS 32 and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation

The amendments to IAS 32 and IAS 1 were issued in February 2008 and become effective for annual periods beginning on or after 1 January 2009. The amendment to IAS 32 requires certain puttable financial instruments and obligations arising on liquidation to be classified as equity if certain criteria are met. The amendment to IAS 1 requires disclosure of certain information relating to puttable instruments classified as equity. The Bank does not expect these amendments to impact its financial statements.

IFRIC 9 – Embedded Derivatives

The IFRIC 9 is issued in March 2009 and becomes effective for annual periods ending on or after 30 June 2009. These amendments apply to the assessment of embedded derivatives and their separation from the host contracts when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. The Bank does not reclassify any financial instruments with embedded derivatives and, therefore, this amendment will have no impact on the Bank's financial statements.

IFRIC 12 – Service Concession Arrangements

The IFRIC issued IFRIC 12 in November 2006. This interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. The Bank is not an operator and, therefore, this interpretation has no impact on it. IFRIC 12 has not been yet endorsed by EU.

IFRIC 13 Customer Loyalty Programmes

IFRIC Interpretation 13 was issued in June 2007 and becomes effective for annual periods beginning on or after 1 July 2008. This Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. The Bank expects that this interpretation will have no impact on the Bank's financial statements as no such schemes currently exist.

IFRIC 15 - Agreements for the Construction of Real Estate

IFRIC 15 was issued in July 2008 and becomes effective for financial years beginning on or after 1 January 2009. The interpretation is to be applied retrospectively. It clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognised if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. Furthermore, the interpretation provides guidance on how to determine whether an agreement is within the scope of IAS 11 *Construction Contracts* or IAS 18 *Revenue*. This interpretation will have no impact on the Bank's financial statements. IFRIC 15 has not yet been endorsed by the EU.

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2.5. Future changes in accounting policies (continued)

Standards, interpretations and amendments issued but not yet effective (continued)

IFRIC 16 - Hedges of a Net Investment in a Foreign Operation

IFRIC 16 was issued in July 2008 and becomes effective for financial years beginning on or after 1 October 2008. The interpretation is to be applied prospectively. IFRIC 16 provides guidance on the accounting for a hedge of a net investment. As such it provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the group the hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. This interpretation will have no impact on the Bank's financial statements. IFRIC 16 has not yet been endorsed by the EU.

IFRIC 17 – Distributions of Non-cash Assets to Owners

IFRIC 17 was issued on 27 November 2008 and is effective for annual periods beginning on or after 1 July 2009 and must be applied prospectively. IFRIC 17 applies to all non-reciprocal distributions of non-current assets to owners. It provides guidance when to recognise a liability, how to measure it and the associated assets, and when to derecognise the asset and liability and consequences of doing so. The Bank is in the process of assessing the impact of IFRIC 17 on its financial statements. This interpretation has not yet been endorsed by the EU.

IFRIC Interpretation 18 - Transfers of Assets from Customers.

The interpretation was issued in January 2009 and is effective for transfers of assets from customers received on or after 1 July 2009. IFRIC 18 applies to the accounting for transfers of items of property, plant and equipment by entities that receive such transfers from their customers and addresses the following issues: (a) Is the definition of an asset met?; (b) If the definition of an asset is met, how should the transferred item of property, plant and equipment be measured on initial recognition?; (c) If the item of property, plant and equipment is measured at fair value on initial recognition, how should the resulting credit be accounted for?; (d) How should the entity account for a transfer of cash from its customer? The Bank does not expect this Interpretation to impact its financial statements. IFRIC 18 has not yet been endorsed by the EU.

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3. Net interest income

Interest income and expenses at 31 December 2008 and 31 December 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Interest income		
Funds provided to banks		
In BGN	561	84
In foreign currency	5,785	17,131
	<u>6,346</u>	<u>17,215</u>
Loans and advances to clients		
In BGN	50,021	31,249
In foreign currency	68,199	45,044
	<u>118,220</u>	<u>76,293</u>
Securities for trading		
In BGN	1,721	2,653
In foreign currency	62	5,190
	<u>1,783</u>	<u>7,843</u>
Available-for-sale investments		
In BGN	2,338	575
In foreign currency	13	-
	<u>2,351</u>	<u>575</u>
Total interest income	<u>128,700</u>	<u>101,926</u>
Interest expenses		
Deposits from banks		
In BGN	(1,686)	(47)
In foreign currency	(2,687)	(4,322)
	<u>(4,373)</u>	<u>(4,369)</u>
Deposits from clients		
In BGN	(17,847)	(9,111)
In foreign currency	(44,372)	(41,066)
	<u>(62,219)</u>	<u>(50,177)</u>
Debt securities		
In foreign currency	(366)	(710)
	<u>(366)</u>	<u>(710)</u>
Subordinated term debt		
In foreign currency	(1,382)	(68)
	<u>(1,382)</u>	<u>(68)</u>
Total interest expenses	<u>(68,340)</u>	<u>(55,324)</u>
Interest income, net	<u>60,360</u>	<u>46,602</u>

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4. Net fees and commissions income

Fees and commissions, net, at 31 December 2008 and 31 December 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Fees and commissions income		
Opening and servicing of client accounts	787	714
Transfer operations	7,134	5,498
Cash operations	2,702	1,320
Loans	5,654	3,848
Off-balance sheet commitments (guarantees, etc)	1,112	869
Card-related services	3,262	2,492
Servicing of budget accounts	18,966	11,735
Other	176	85
Total fees and commissions income	<u>39,793</u>	<u>26,561</u>
Fees and commissions expenses		
Opening and servicing of client accounts	(76)	(110)
Transfer operations	(277)	(259)
Cash operations	(47)	-
Card-related services	(1,144)	(786)
Servicing of budget accounts	(268)	(246)
Other	(288)	(76)
Total fees and commissions expenses	<u>(2,100)</u>	<u>(1,477)</u>
Net fees and commissions income	<u>37,693</u>	<u>25,084</u>

5. Net foreign currency gain

Net foreign currency gain at 31 December 2008 and 31 December 2007 comprises the following:

	<u>2008</u>	<u>2007</u>
Gains from transactions in foreign currency	7,740	4,248
Losses from transactions in foreign currency	(5,746)	(2,332)
Net gain from transactions in foreign currency	1,994	1,916
Net gain from translation of foreign currency	12,230	829
Net foreign currency gain	<u>14,224</u>	<u>2,745</u>

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6. Net gain/(loss) from held-for-trading and available-for-sale financial instruments

Net gain from transactions with securities at 31 December 2008 and 31 December 2007 includes the following:

	<u>2008</u>	<u>2007</u>
<i>Gains/(losses) from securities for trading</i>		
Gains from securities for trading	143	158
Losses from securities for trading	(1)	(1,121)
Positive revaluation of securities for trading	2,322	4,274
Negative revaluation of securities for trading	(4,070)	(6,780)
Other expenses on securities for trading	(13)	(13)
Total losses from securities for trading	<u>(1,619)</u>	<u>(3,482)</u>
Gain/(Loss) from derivative financial instruments	(11,747)	2,254
<i>Profits/losses from available-for-sale investments</i>		
Profit from sale of available-for-sale investments	70	11,356
Other income from available-for-sale investments	-	988
Other expenses on available-for-sale investments	(1)	(1,109)
Total profits from available-for-sale investments	<u>69</u>	<u>11,235</u>
Net profit/(loss) from transactions with securities	<u>(13,297)</u>	<u>10,007</u>

7. Other operating income, net

Other operating income/(expenses) at 31 December 2008 and 31 December 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Dividends received	27	9
Profit from sale of buildings, assets for resale and other assets	143	22,458
Other income	3,282	682
Other expenses	-	(323)
Total operating income, net	<u>3,452</u>	<u>22,826</u>

The biggest share in other income at 31 December 2008 belongs to the income originating from a partial account for distribution of a trustee of Fintex AD – a receivable, which the Bank has written entirely off balance sheet against provisions set aside in previous periods – BGN 1,767 thousand, and receivables uncalled by creditors of CIBANK and written off on the grounds of expiry of their period of limitation, amounting to BGN 730 thousand.

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8. Impairment of loans and advances to clients, net

Impairment expenses at 31 December 2008 and 31 December 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Loans and advances to clients, net	(21,659)	(12,312)
Total	<u>(21,659)</u>	<u>(12,312)</u>

The movements in allowance for impairment of loans and advances to clients are as follows:

	Allowance for impairment of loans and receivables on an individual basis	Allowance for impairment of loans and receivables on a collective basis	Total
Balance at 31 December 2006	17,327	-	17,327
Accrued for the year	17,129	629	17,758
Reversed over the year	(5,446)	-	(5,446)
Receivables written off against provisions	(3,928)	-	(3,928)
Balance at 31 December 2007	<u>25,082</u>	<u>629</u>	<u>25,711</u>
Accrued for the year	34,899	653	35,552
Reversed over the year	(13,264)	(629)	(13,893)
Receivables written off against provisions	(2,482)	-	(2,482)
Balance at 31 December 2008	<u>44,235</u>	<u>653</u>	<u>44,888</u>

The allowance for impairment of loans and advances to clients at 31 December 2008, net, amounts to BGN 21,659 thousand. Currently in the year of 2008, by virtue of decisions of the Management Board of the Bank bad debts and receivables amounting to BGN 2,482 thousand, of which 99.20% relate to receivables from corporate clients, are written off against allowance for impairment accrued.

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9. Provisions on loan engagements and guarantees, net

Provisions on loan engagements and guarantees at 31 December 2008 and 31 December 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Expenses on provisions on loan engagements and guarantees	57	-
Total expenses on provisions, net	<u>57</u>	<u>-</u>

10. Impairment of available-for-sale investments

Impairment of available-for-sale investments at 31 December 2008 and 31 December 2007 is as follows:

	<u>2008</u>	<u>2007</u>
Expenses on impairment of available-for-sale financial assets	(4,637)	-
Total impairment of available-for-sale investments, net	<u>(4,637)</u>	<u>-</u>

At 31 December 2008, the Bank has revalued debentures of the Icelandic Kaupthing Bank, owned by it, with a nominal value of BGN 5,000 thousand, at the price of 7.25/100 BGN.

11. General administrative expenses

The general administrative expenses at 31 December 2008 and 31 December 2007 include the following:

	<u>2008</u>	<u>2007</u>
Costs of personnel:		
Remunerations	20,295	15,838
Social security expenses	5,118	3,583
Expenses on training of personnel	823	720
Total costs of personnel	<u>26,236</u>	<u>20,141</u>
Other operating expenses:		
Hired services	8,498	9,775
Depreciation / amortisation	4,663	5,424
Advertising expenses	5,133	6,624
Telecommunications	2,411	2,085
VAT not refundable	3	15
Consumables	4,438	3,632
Rental expenses	8,420	3,769
Guarantee Fund for deposits from clients	5,410	4,547
Other expenses	1,586	907
Total other operating expenses	<u>40,562</u>	<u>36,778</u>
Total administrative expenses	<u>66,798</u>	<u>56,919</u>

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12. Income tax expenses

Corporate income tax

Current income tax expenses represent the amount of tax payable under the Bulgarian law, calculated by applying the legal tax rate of 10.00% for 2008 and 10.00% for 2007. Income tax benefits or expenses originate from the change in the carrying amount of deferred tax assets and deferred tax liabilities.

	<u>2008</u>	<u>2007</u>
Current income tax expense	(955)	(3,341)
Deferred income tax expenses related to origination and reversal of temporary differences	146	595
Deferred income tax benefits related to origination and reversal of temporary differences	<u>(165)</u>	<u>-</u>
Total tax expense	<u>(974)</u>	<u>(2,746)</u>

The reconciliation between the income tax expense and the accounting profit before taxes is as follows:

	<u>2008</u>	<u>2007</u>
Accounting profit	9,281	38,033
Taxes based on the effective tax rate (10% - 31 December 2008; 10% - 31 December 2007)	928	3,803
Tax effect of costs not recognised for tax purposes	52	45
Tax effect of non taxable income	<u>(6)</u>	<u>(1,102)</u>
Tax expenses	<u>974</u>	<u>2,746</u>
Effective tax rate	10.50%	7.22%

The reported tax effect due to non-taxable income, amounting to BGN 1,102 thousand for 2007, mostly comprises profits from transactions with securities of companies, which have been carried out on the regulated market of the Bulgarian stock exchange Sofia, which are exempt from taxation according to the provisions of the effective tax law.

At 31 December 2008 and 31 December 2007 deferred tax assets and liabilities by types are as follows:

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12. Tax expenses (continued)

	<u>2008</u>	<u>2007</u>
Deferred tax (assets):		
Impairment of fixed assets	(49)	(49)
Impairment of assets for resale	-	(18)
Other liabilities (unused leaves)	(175)	(132)
Other liabilities (pension provisions and provisions for liabilities settled due to the expiry of their period of limitation)	(15)	-
Depreciation of fixed assets (accounting expenses)	(491)	(53)
Provisions related to off-balance sheet commitments	(6)	-
Revaluation of available-for-sale investments	(160)	-
	<u>(896)</u>	<u>(252)</u>
Deferred tax (assets)		
	2008	2007
Deferred tax liabilities:		
Revaluation of land and buildings	197	315
Depreciation of fixed assets	627	-
Revaluation of available-for-sale investments	160	-
Deferred tax liability	<u>984</u>	<u>315</u>
Deferred tax liability, net	<u>88</u>	<u>63</u>

A change in the deferred tax liabilities amounting to BGN 118 thousand, originating from the revaluation of a building sold in 2008, is reported in equity.

Any other changes in the deferred tax assets and liabilities are reported in the income statement.

13. Earnings per share

	<u>2008</u>	<u>2007</u>
Net profit after tax	8,307	35,287
Average weighted number of shares	<u>6,972,056</u>	<u>6,972,056</u>
Earnings per share (in BGN)	1.19	5.06

The basic earnings per share are determined by dividing the net profit for the period, subject to distribution among the holders of ordinary shares, by the average weighted number of outstanding ordinary shares for the period ended 31 December 2008

The average weighted number of shares is equal to the sum of the outstanding ordinary shares at the beginning of the period and the outstanding ordinary shares issued throughout the period, where prior to that each number of shares shall be multiplied by the average time factor. The last capital increase was made in 2006 and registered on 22 March 2006.

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14. Cash in hand and in current accounts with the Central Bank

At 31 December 2008 and 31 December 2007 cash and balances with the Central Bank are as follows:

	<u>2008</u>	<u>2007</u>
Cash in hand		
In BGN	30,860	27,218
In foreign currency	21,258	19,235
	<u>52,118</u>	<u>46,453</u>
Cash in transit		
In BGN	5,433	1,316
In foreign currency	1,592	933
	<u>7,025</u>	<u>2,249</u>
Statutory minimum reserves in BGN at the BGN current account with BNB	36,570	39,782
Minimum mandatory reserves in foreign currency	117,350	166,246
	<u>153,920</u>	<u>206,028</u>
Total	<u>213,063</u>	<u>254,730</u>

Current account balance with BNB and statutory minimum reserves

The current account with BNB is used for direct participation in the monetary market and the market of government securities, as well as for the purposes of bank settlement in the country.

The BGN statutory minimum reserve of the Bank kept with BNB are included in the current account balance with BNB, and those in foreign currency are presented separately. Trade banks in Bulgaria are obliged to maintain a minimum reserve with BNB. The statutory minimum reserve, which is interest-free, is calculated as a percentage of the borrowings in BGN and in foreign currency, as set from time to time by BNB. These reserves are regulated on a monthly basis, and if any deficit is noted “penalty interest” is accrued thereon. Daily deviations within the one-month regulation period are allowed.

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15. Nostro accounts, funds provided to banks

At 31 December 2008 and 31 December 2007 the Nostro accounts and funds provided to banks include:

	<u>2008</u>	<u>2007</u>
Nostro accounts		
Local correspondents in BGN	40	87
Local correspondents in foreign currency	-	254
Foreign correspondents in foreign currency	17,761	8,469
	<u>17,801</u>	<u>8,810</u>
Funds provided to local banks in domestic currency	19,303	14,028
Funds provided to local banks in foreign currency	-	2,663
Funds provided to foreign banks in foreign currency	69,784	550,758
	<u>89,087</u>	<u>567,449</u>
Total	<u>106,888</u>	<u>576,259</u>

The bigger part of funds provided in foreign currency are to a foreign related bank and amounts to BGN 68,946 thousand at 31 December 2008. The funds provided in foreign currency to a foreign non-related bank amounting to BGN 159,746 thousand at 31 December 2007 are collateral and relate to deposits received in other currencies from the same bank amounting to BGN 137,956 thousand, as disclosed in note 22.

At 31 December 2007 the amount of deposits open with related banks total to BGN 289,690 thousand. The interest rate on deposits provided ranges between 4% and 4.75%.

The balances of funds provided to local and foreign banks represent short-term interest-bearing deposits. Interest rate on these deposits at 31 December 2008 ranges between 4.00% and 4.21%, 2.00% and 1.50% for deposits in BGN, USD, EUR and GBP, respectively. All funds provided to banks are with a maturity of up to 3 months, at remaining maturity, as disclosed in note 22.

16. Held-for-trading financial assets

Financial assets for trading at 31 December 2008 and 31 December 2007 include:

	<u>2008</u>	<u>2007</u>
Bulgarian securities:		
Mid-term government securities in BGN	-	32,409
Long-term government securities in BGN	-	30,442
Long-term government bonds in foreign currency	-	2
Corporate bonds of local issuers in foreign currency	-	993
	<u>-</u>	<u>63,846</u>
Foreign securities:		
Foreign government securities	-	-
Other foreign corporate debt securities	-	4,231
	<u>-</u>	<u>4,231</u>
Total	<u>-</u>	<u>68,077</u>

At 31 December 2008, the Bank does not own held-for-trading financial assets.

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16. Held-for-trading financial assets (continued)

Bulgarian securities

At 31 December 2007 government securities in BGN comprise mid-term and long-term interest-bearing securities for trading, issued by the Republic of Bulgaria, with a nominal value of BGN 32,831 thousand and BGN 29,415 thousand, respectively. The interest rate on these securities ranges between 2.75% and 7.50%.

At 31 December 2007 the Bulgarian long-term government bonds of the Bank in foreign currency include ZUNK bonds in USD and had the following characteristics (the amounts in the respective currency are stated in thousands of units):

	Original currency	31 December 2007		
		Nominal value in original currency	Net market value at the year-end	Book value
ZUNK bonds (issue 97/94)	USD	2	99.00%	2
Total				2

Corporate bonds of local issuers in foreign currency

At 31 December 2007 corporate bonds of local issuers in foreign currency comprise mid-term bonds denominated in EUR and issued in the local and international debenture markets by Bulgarian legal entities. They are not secured and the funds attracted as a result of their issue are targeted to finance the companies' activities. Bonds are interest-bearing with a floating interest coupon, payable once in every quarter and equal to the three-month EURIBOR plus 2.75%, but not less than 6.00% p.a. Bonds are not assigned a credit rating. The amount of issue is EUR 5 million and is payable at once at the maturity.

Foreign securities

At 31 December 2007 the foreign corporate bonds owned by the Bank comprise corporate bonds of a foreign financial institution with a nominal value in original currency of EUR 2,000,000 (carrying amount in BGN – BGN 4,231 thousand).

Securities for trading, pledged as collateral

At 31 December 2007 the Bank has an open transaction under a repo agreement with a local bank, as disclosed in note 22. The transaction is secured by mid-term government securities in BGN, at a carrying amount of BGN 7,621 thousand.

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16. Held-for-trading financial assets (continued)

Securities for trading, pledged as collateral (continued)

The Bank serves accounts of the State Budget of the Republic of Bulgaria. This requires the existence of blocked government securities in an amount close to the amount of state budget funds served. At 31 December 2008 the Bank does not have held-for-trading financial assets, pledged as collateral in relation to the budget accounts.

At 31 December 2007 the government securities in BGN and foreign currency, with a book value of BGN 31,745 thousand, are pledged as collateral in relation to the budget accounts.

17. Loans and advances to clients

Analysis by types of clients

	<u>2008</u>	<u>2007</u>
Individuals and households		
In BGN	315,523	199,468
In foreign currency	94,695	46,739
	<u>410,218</u>	<u>246,207</u>
Private companies and sole traders:		
In BGN	286,282	244,268
In foreign currency	737,599	537,772
	<u>1,023,881</u>	<u>782,040</u>
State-owned companies		
In BGN	13,109	14,201
In foreign currency	437	-
	<u>13,546</u>	<u>14,201</u>
State Budget		
In BGN	982	482
In foreign currency	109	112
	<u>1,091</u>	<u>594</u>
	1,448,736	1,043,042
Less: Adjustment for impairment on an individual basis	<u>(44,235)</u>	<u>(25,082)</u>
Adjustment for impairment on a collective basis	<u>(653)</u>	<u>(629)</u>
Total	<u>1,403,848</u>	<u>1,017,331</u>

Receivables on mortgage and consumer loans to individuals with an approximate carrying amount of BGN 5,891 thousand at 31 December 2008 are pledged in favour of debenture holders on debenture loans granted, as disclosed in note 26.

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17. Loans and advances to clients (continued)

Analysis by industries

	<u>2008</u>	<u>2007</u>
Industry	180,021	150,328
Agriculture and Forestry	42,449	13,497
Trade and services	149,308	130,057
Transport and communications	15,300	3,483
Construction	312,646	159,899
Retail trade	190,418	150,755
Other sectors and retail trade	558,594	435,023
	<u>1,448,736</u>	<u>1,043,042</u>
Less: Adjustment for impairment	<u>(44,888)</u>	<u>(25,711)</u>
Total	<u>1,403,848</u>	<u>1,017,331</u>

The group „other sectors” includes consumer and mortgage loans to individuals. At 31 December 2008 these loans amount to BGN 410,218 thousand, and at 31 December 2007 to BGN 246,207 thousand.

The agreed interest rates on loans extended in Bulgarian levs are floating. The amount of floating interest rates on loans in Bulgarian levs is calculated on the basis of the bank interest rate, set by the Management Board of the Bank, and an agreed surcharge determined in accordance with the Bank’s interest rate policy. At 31 December 2008 the bank interest rate is 6.40%.

Interest rates on loans extended in foreign currency (mainly in EUR) are floating (connected either to EURIBOR or the bank interest rate plus a surcharge), or fixed, and range between 9.95% and 18%.

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18. Available-for-sale investments

Available-for-sale investments at 31 December 2008 and 31 December 2007 comprise:

	<u>2008</u>	<u>2007</u>
Bulgarian securities:		
Mid-term government securities in BGN	34,413	-
Long-term government securities in BGN	31,126	-
Long-term government bonds in foreign currency	2	-
Corporate bonds of local issuers in BGN and in foreign currency	6,064	5,054
Shareholdings in local companies	424	424
Corporate bonds of Bulgarian companies	156	164
	<u>72,185</u>	<u>5,642</u>
Foreign securities:		
Corporate bonds of foreign companies (banks)	8,577	5,118
	<u>8,577</u>	<u>5,118</u>
Total	<u><u>80,762</u></u>	<u><u>10,760</u></u>

Bulgarian securities

At 31 December 2008 government securities in BGN comprise mid-term and long-term interest-bearing securities for trading, issued by the Republic of Bulgaria, with a nominal value of BGN 32,831 thousand and BGN 29,415 thousand, respectively. The interest rate on these securities ranges between 2.75% and 7.50%.

At 31 December 2008 and 31 December 2007 the Bulgarian long-term government bonds of the Bank in foreign currency include ZUNK bonds in USD. Their nominal amount in original currency is USD 2 thousand and a net market value at 31 December 2008 of 89.24%. Their book value at 31 December 2008 amounts to BGN 2 thousand.

Corporate bonds of local issuers in foreign currency

At 31 December 2008 corporate bonds of local issuers in BGN and in foreign currency comprise mid-term bonds issued in the local and international debenture markets by Bulgarian legal entities (banks and trade companies). Bonds are interest-bearing with a floating interest coupon, payable once in every quarter and are not secured.

Foreign securities

At 31 December 2008 the foreign corporate bonds owned by the Bank comprise corporate bonds of the European Investment Bank with a nominal value in original currency of BGN 8,000,000 (carrying amount in BGN – BGN 7,945 thousand) and of the Icelandic Kaupthing Bank with a nominal value in original currency of BGN 5,000,000 (carrying amount in BGN – BGN 363 thousand – at 31 December 2008 these bonds are impaired).

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18. Available-for-sale investments (continued)

Available-for-sale investments, pledged as collateral

At 31 December 2008 the Bank has an open transaction under a repo agreement with a local bank, as disclosed in note 22. The transaction is secured by mid-term government securities in BGN, at a carrying amount of BGN 3,287 thousand.

The Bank serves accounts of the State Budget of the Republic of Bulgaria. This requires the existence of blocked government securities in an amount close to the amount of state budget funds served. At 31 December 2008 government securities in BGN and in foreign currency classified as available-for-sale investments with a book value of BGN 18,398 thousand are pledged as collateral in relation to the state budget accounts. The bonds of the European Investment Bank are also pledged as collateral in relation to the state budget accounts.

At 31 December 2007 the Bank does not have available-for-sale investments, pledged as collateral.

19. Other assets

	<u>2008</u>	<u>2007</u>
Prepayments	3,542	3,977
Materials	453	287
Advances to suppliers	442	903
Receivables on contracts	1,699	2,290
Other assets	262	196
Assets for resale	-	181
Total	<u><u>6,398</u></u>	<u><u>7,834</u></u>

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20. Fixed assets

Book or revalued amount:	Land and buildings	Office equipment	Motor vehicles	Fixtures & Fittings	Other assets	FTA in progress	Intangible assets	Total
At 31 December 2007	15,967	7,707	4,358	11,854	603	141	2,892	43,522
Additions	1,641	1,939	1,035	2,203	1	538	941	8,298
Disposals	(1,566)	(54)	(131)	(337)	-	(538)	-	(2,626)
At 31 December 2008	16,042	9,592	5,262	13,720	604	141	3,833	49,194
Accumulated depreciation:								
At 31 December 2007	3,378	4,505	3,205	8,475	521	-	1,476	21,560
Depreciation for the year	632	1,541	509	1,283	70	-	628	4,663
Disposals	(433)	(49)	(70)	(314)	(10)	-	-	(876)
At 31 December 2008	3,577	5,997	3,644	9,444	581	-	2,104	25,347
Net book value at 31 December 2007	<u>12,589</u>	<u>3,202</u>	<u>1,153</u>	<u>3,379</u>	<u>82</u>	<u>141</u>	<u>1,416</u>	<u>21,962</u>
Net book value at 31 December 2008	<u>12,465</u>	<u>3,595</u>	<u>1,618</u>	<u>4,276</u>	<u>23</u>	<u>141</u>	<u>1,729</u>	<u>23,847</u>

At 31 December 2008 the Bank's management hired an independent valuer to make an assessment of the fair value of the buildings. Based on the assessment made it has been established that the fair value does not differ significantly from the carrying amount at 31 December 2008 and the revaluation has not been reported in the financial statements. Upon assessing the market values of buildings the following valuation methods have been used – the cost approach, the income approach and the market comparables approach.

If the Bank had assessed the buildings at cost of acquisition, the carrying amount of the properties at 31 December 2008 would have been BGN 11,416 thousand.

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20. Fixed assets (continued)

The movement in fixed assets in 2007 is presented in the table below:

Book or revalued amount:	Land and buildings	Office equipment	Motor vehicles	Fixtures & Fittings	Other assets	FTA in progress	Intangible assets	Total
At 31 December 2006	27,371	5,603	4,566	9,973	603	491	1,265	49,872
Additions	667	2,979	111	2,746	-	272	1,631	8,406
Disposals	(12,071)	(875)	(319)	(865)	-	(622)	(4)	(14,756)
At 31 December 2007	15,967	7,707	4,358	11,854	603	141	2,892	43,522
Accumulated depreciation:								
At 31 December 2006	3,585	3,804	2,889	7,338	432	-	998	19,046
Depreciation for the year	992	1,582	485	1,793	89	-	483	5,424
Disposals	(1,199)	(881)	(169)	(656)	-	-	(5)	(2,910)
At 31 December 2007	3,378	4,505	3,205	8,475	521	-	1,476	21,560
Net book value at 31 December 2006	23,786	1,799	1,677	2,635	171	491	267	30,826
Net book value at 31 December 2007	12,589	3,202	1,153	3,379	82	141	1,416	21,962

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21. Deposits from banks

	<u>2008</u>	<u>2007</u>
Current accounts:		
In BGN	3,034	1,215
In foreign currency	311	5,069
	<u>3,345</u>	<u>6,284</u>
Deposits:		
In BGN	22,914	-
In foreign currency	117,402	138,884
	<u>140,316</u>	<u>138,884</u>
Total	<u>143,661</u>	<u>145,168</u>

At 31 December 2008, the Bank attracted deposits, both in BGN and in foreign currency – EUR, from local banks and a related foreign bank at the total amount of BGN 140,250 thousand; the interest rates applied range from 4.17% to 6.00% for BGN and from 2.50% to 3.00% for EUR, respectively.

At 31 December 2007, the Bank attracted deposits in foreign currency from a foreign bank amounting to BGN 137,956 thousand and interest rates ranging from 5.10% to 5.384%. Deposits from the foreign bank are secured and relate to amounts provided as funds on deposit accounts of a foreign correspondent in foreign currency at the amount of BGN 159,746 thousand at 31 December 2007.

22. Payables under repo agreements

At 31 December 2008 and 31 December 2007 payables under repo agreements are as follows:

	<u>2008</u>	<u>2007</u>
In BGN	3,300	8,015
Total	<u>3,300</u>	<u>8,015</u>

At 31 December 2008, the Bank has a payable under a repo agreement with a local bank, which is secured by available-for-sale securities with a carrying amount of BGN 3,287 thousand (see note 16), maturing immediately after the end of the reporting period. The price of the financing obtained is 4.00%.

At 31 December 2007, the Bank has a payable under a repo agreement with a local bank, which is secured by securities for trading with a carrying amount of BGN 7,621 thousand (see note 16), maturing immediately after the end of the year. The price of the financing obtained is 4.70 %.

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23. Deposits from clients

At 31 December 2008 and 31 December 2007 deposits by types of clients include:

	<u>2008</u>	<u>2007</u>
Deposits from individuals :		
In BGN	189,924	273,969
In foreign currency	707,145	710,492
<i>Interest paid in advance on deposits from individuals</i>	<u>(9,247)</u>	<u>(10,747)</u>
	887,822	973,714
Deposits from corporate clients:		
In BGN	339,192	218,765
In foreign currency	160,081	340,154
<i>Interest paid in advance on deposits from corporate clients</i>	<u>(441)</u>	<u>(741)</u>
	498,832	558,178
Deposits from the State budget:		
In BGN	38,992	40,190
In foreign currency	1,608	1,584
	<u>40,600</u>	<u>41,774</u>
Total	<u>1,427,254</u>	<u>1,573,666</u>

At 31 December 2008 and 31 December 2007 deposits from clients by groups of products are as follows:

	<u>2008</u>	<u>2007</u>
Current accounts:		
In BGN	210,499	198,754
In foreign currency	54,704	124,207
	<u>265,203</u>	<u>322,961</u>
Term deposits:		
In BGN	330,533	304,864
In foreign currency	774,169	873,909
<i>Interest paid in advance on deposits</i>	<u>(9,688)</u>	<u>(11,488)</u>
	1,095,014	1,167,285
Saving deposits:		
In BGN	27,076	29,306
In foreign currency	39,961	54,114
	<u>67,037</u>	<u>83,420</u>
Total	<u>1,427,254</u>	<u>1,573,666</u>

The amount of BGN 9,688 thousand at 31 December 2008, representing prepayments in the form of interest paid in advance on deposit products offered by the Bank to its clients, is stated in decrease of deposits from clients. According to the terms of the deposit contract, the client has the right to withdraw in advance the interest accrued on the deposit at the time of its opening.

The amount of BGN 11,488 thousand at 31 December 2007, representing prepayments in the form of interest paid in advance on deposit products offered by the Bank to its clients, is stated in decrease of deposits from clients.

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23. Deposits from clients (continued)

At 31 December 2008 the Bank applies the following annual interest rates on deposits from clients in BGN:

Demand deposits	from 0.20% to 3.50%
Saving deposits bearing differentiated interest rates	from 0.00% to 4.25%
Eurodeposits (from 1-month to 36-month)	from 4.80% to 8.00%
Child's deposit account „Dreams”	from 5.25% to 9.00%
Top deposit with advanced payment of interest (12-month to 36-month)	from 6.50% to 22.50% for the period
Growing deposit (36-month)	from 4.25% to 12%
New Year deposit – to 16 January 2009 (from 1-month to 12-month)	from 5.10% to 8.80%
Promotional deposit „Si major”- to 16 January 2009 – 6-month	from 7.70% to 9.50%
Saving deposit „Student Scholarship”(from 24-month to 15-year)	from 5.50% to 6.50%

The Bank changes the upper interest rates in order to reflect the significant changes which have occurred in the Bulgarian banking market.

At 31 December 2008 the Bank applies the following annual interest rates on deposits from clients in foreign currency:

	<u>USD</u>	<u>EUR</u>	<u>CHF</u>
Demand deposits	from 1.20% to 20.00%	from 1.50% to 2.80%	0.50%
Saving deposits bearing differentiated interest rates	from 0.00% to 2.75%	from 0.00% to 3.25%	1.50%
Eurodeposits (from 1-month to 36-month)	from 2.75% to 5.00%	from 4.10% to 8.00%	-
Child's deposit account „Dreams”	from 2.90% to 7.00%	from 4.25% to 8.00%	-
Top deposit with advanced payment of interest (from 12 to 36 month)	from 4.50% to 13.50% for the entire period	from 5.25% to 16.50% for the entire period	-
Saving deposit „Student Scholarship” (from 24-month to 15-year)	from 2.95% to 3.45%	from 3.25% to 3.85%	-
Growing deposit (36-month)	from 3.25% to 8.00%	from 4.00% to 11.00%	-

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23. Deposits from clients (continued)

New Year deposit – to 16 January 2009 (from 1-month to 12-month)	from 2.90% to 8.80%	from 4.60% to 6.80%	-
Promotional deposit „Si major”- to 16 January 2009 – 6-month deposit	-	from 5.70% to 7.50%	-

24. Other liabilities

At 31 December 2008 and 31 December 2007 other liabilities of the Bank include:

	<u>2008</u>	<u>2007</u>
Unprocessed but ordered bank transfers	-	212
Payables to personnel	1,814	1,325
Other liabilities	670	8,361
Total	<u>2,484</u>	<u>9,898</u>

25. Derivative financial instruments

At 31 December 2008, the Bank has open transactions with FX derivative financial instruments within the overall management of its positions in foreign currency and fixed-yield security portfolios, which do not meet the requirements for hedging accounting and thus, they have been reported as derivatives for trading. The transaction parameters are as follows:

	<i>Currency</i>	<i>Maturity</i>	<i>Nominal value in original currency</i>
			<u>2008</u>
Currency swap	USD	16 January 2009	41,004,000
Currency swap	USD	20 January 2009	37,602,600
Currency swap	USD	17 February 2009	43,750,000
Total			<u>122,356,600</u>

26. Debt securities and subordinated term debt

On 29 September 2004, the Management Board of the Bank took a decision to issue mortgage debentures under the terms of private placement with a total amount of principal of EUR 2,000 thousand. The debenture loan was registered with the Central Depository on 6 October 2004 with a total amount of principal of EUR 2,000 thousand, split into 2 thousand ordinary, interest-bearing, dematerialized, registered, freely transferable, mortgage debenture with a nominal value of EUR 1,000 each. The maturity of the debenture loan is five years from the final date for subscription of debentures.

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26. Debt securities and subordinated term debt (continued)

The principal of the debenture loan is repaid on maturity – five years as from the final date for subscription of debentures. The annual interest is at the rate of the six-month EURIBOR + 3.90% but not less than 6.90% per annum. The EURIBOR rate is as at the date of the previous coupon payment. Interest is paid over each six-month period where the first payment has been effected six months following the date of conclusion of the debenture loan (6 October 2004). The debenture loan is secured by a first-ranking special pledge in favour of the debenture holders over mortgage loans as per the Bank's portfolio, where the loans are secured by one or more first-ranking mortgages to the benefit of the Bank over immovable properties under Art. 2, Para 2 of the Mortgage Debenture Act.

The residue balance of the debenture loan at 31 December 2008 and 31 December 2007 is respectively BGN 3,991 thousand and BGN 3,963 thousand.

According to a loan agreement under the conditions of a subordinated term debt, concluded on 19 November 2007 with KBC Branch Dublin (in its capacity of a creditor), it has been agreed for the Bank (in its capacity of a borrower) to be provided with an amount at the total of EUR 15,000 thousand with a utilisation term of 5 months from signing of the agreement; with a possibility for two-time utilisation within the said 5-month period; a term for repayment of the principal of a utilised tranche – 10 years counted as from the relevant utilisation date (but not less than 5 years). The agreement provides that the creditor may not require repayment of the loan before maturity, including of any principal, interest and other potential income, as well as that it may not declare its receivables under the agreement as early-maturing ones. The payables of the borrower to the agreement are not secured anyhow.

The interest rate payable on the loan for each interest period is the annual rate determined by the creditor, which shall be the sum of EURIBOR and the applicable margin. As from the date of the agreement up to and including the fifth anniversary following each drawing, the applicable margin is 3.25% per annum, and thereafter – 4.50% per annum. Each interest period continues for one, three or six months, at the borrower's choice, where one month means the period of time beginning on a particular day of a calendar month and ending on the same day of the next calendar month.

A part of the loan funds, at the amount of EUR 10,000 thousand, have been utilised at the date of preparation of these financial statements. These funds are fully at the disposal of CIBANK, which may use them without any limitations whatsoever, including for covering its operating losses.

According to a loan agreement under the conditions of a subordinated term debt, concluded on 17 December 2008 with KBC Branch Dublin (in its capacity of a creditor), it has been agreed for the Bank (in its capacity of a borrower) to be provided with an amount at the total of EUR 15,000 thousand with a utilisation term of 5 months from signing of the agreement; with a possibility for two-time utilisation within the said 5-month period; a term for repayment of the principal of a utilised tranche – 10 years counted as from the relevant utilisation date (but not less than 5 years). The agreement provides that the creditor may not require repayment of the loan before maturity, including of any principal, interest and other potential income, as well as that it may not declare its receivables under the agreement as early-maturing ones. The payables of the borrower to the agreement are not secured anyhow.

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26. Debt securities and subordinated term debt (continued)

The interest rate payable on the loan for each interest period is the annual rate determined by the creditor, which shall be the sum of EURIBOR and the applicable margin. As from the date of the agreement up to and including the fifth anniversary following each drawing, the applicable margin is 3.00% per annum, and thereafter – 5.00% per annum. Each interest period continues for one, three or six months, at the borrower's choice, where one month means the period of time beginning on a particular day of a calendar month and ending on the same day of the next calendar month.

A part of the loan funds, at the amount of EUR 10,000 thousand, have been utilised at the date of preparation of these financial statements. These funds are fully at the disposal of CIBANK, which may use them without any limitations whatsoever, including for covering its operating losses.

Early repayment of amounts borrowed as a subordinated term debt, as well as any amendments to the agreements may be effected only subject to preliminary written approval by the Bulgarian National Bank.

The balance of the subordinated term debt at 31 December 2008 and 31 December 2007 is BGN 39,231 thousand and BGN 19,626 thousand, respectively.

27 Share capital

At 31 December 2008 and 31 December 2007 the share capital of the Bank amounts to BGN 69,721 thousand, split into 6,972,056 ordinary shares of a nominal value of BGN 10 each. All shares are paid in full and bear equal voting rights.

In the end of 2007, after the approval of the Bulgarian National Bank and the Commission for Protection of Competition, a transaction has been finalized for the sale of 75.00% (5,233,806 shares) of the capital of the Bank to the Belgium group KBC. KBC Group is a solid and fast developing financial group, the second-ranking banking and insurance company in Belgium, and a key participant in the financial markets of Central and Eastern Europe. At 31 December 2008 the Belgium group KBC owns 77.75% (5,420,697 shares) of the capital of the Bank.

The other owner of the capital of the Bank is an individual holding 22.25% (1,551,334 shares).

28. Statutory reserves and revaluation reserve

Revaluation reserve

Revaluation reserve is formed as a result of revaluation of land and buildings.

In 2008 the Bank sold its own building, for which a revaluation reserve was formed from previous revaluations. Upon the sale of the building, the associated revaluation reserve was taken to retained profits from prior years, net of taxes.

Unrealized profits and losses, generated from available-for-sale investments, are recognized directly in equity in revaluation reserves.

Statutory reserves

Under the Commercial Act the Bank should set aside not less than 1/10 of its profit to a Reserve fund until the fund reaches 1/10 or more of the capital set out under its Articles of Association.

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28. Statutory reserves and revaluation reserve (continued)

Statutory reserves (continued)

If the amount in the Reserve Fund falls below the minimum level, the Bank should fill in the difference so that to reinstate the minimum level within a 2-year period. According to the provisions of the banking law, the banks are not allowed to pay dividends before making the necessary contributions to the Fund. At 31 December 2008 and 31 December 2007 the Reserve Fund amounts to BGN 118,341 thousand and BGN 77,665 thousand, respectively.

Statutory reserves include also a premium of BGN 5,000 thousand from issue of shares in prior periods, and are undistributable reserves as well.

Statutory reserves include also other reserves of the amount of BGN 1,348 thousand at 31 December 2008 and 31 December 2007, which are undistributable additional reserves.

29. Contingent liabilities and commitments

The contingent liabilities of the Bank are related to commitments on loans, credit lines, letters of credits and guarantees, intended to meet the requirements of the Bank's clients.

Contingent liabilities to grant loans and credit lines for the Bank are the contractual obligations to provide certain amount over a certain period of time irrevocably to the client, in accordance with the arrangements of the loan agreement, in respect to the utilisation, as well as the obligation to continuously maintain available amounts up to those agreed in the credit line agreements. With the expiry of the fixed expiry date of the obligation regardless of whether utilised or not, the contingent liability of the Bank lapses.

Guarantees oblige the Bank, if necessary, to make payment on behalf of the client – if the client defaults on his obligations over the term of the contract. In such cases within one week loan agreement is drafted in respect of the paid contingent liabilities and the terms for its servicing are negotiated through an agreement.

The off-balance sheet contingent liabilities and commitments of the Bank are as follows:

	<u>2008</u>	<u>2007</u>
Guarantees	33,088	26,743
Unutilized credit liens	<u>140,534</u>	<u>33,099</u>
Total contingent liabilities and commitments	<u>173,622</u>	<u>59,842</u>

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30. Additional information about cash and cash equivalents in the cash flow statement

At 31 December 2008 and 31 December 2007 cash and cash equivalents comprise the following:

	<u>2008</u>	<u>2007</u>
Cash and balances with the Central Bank	213,063	254,730
Nostro accounts, funds and advances provided to banks with a maturity of up to 3 months	106,888	576,259
<i>Blocked minimum statutory reserves with BNB</i>	<i>(153,920)</i>	<i>(206,028)</i>
Total cash and cash equivalents	<u>166,031</u>	<u>624,961</u>

31. Related party transactions

The Bank is controlled by KBC Bank which owns 77.75% of the ordinary shares. The ultimate parent company is KBC Group N.V.

Where parties maintain such relationship that any one of the parties holds the controlling power over the other or has significant influence in operation and/or financing policies over the other the parties are deemed as related parties. In the ordinary course of business there are banking transactions made with related parties. These include loans and deposits. Such transactions have been effected on a commercial base, under trade conditions and at market rates.

Amounts owed to and from companies of the group of KBC Bank and income and expenses related thereto are as follows:

KBC Bank	<u>2008</u>	<u>2007</u>
Nostro accounts and deposits from banks	86,117	290,090
Interest income	2,735	224
	<u>2008</u>	<u>2007</u>
Loro accounts of banks and subordinated term debt	156,726	24,158
Interest expense	3,109	70
Other companies of the group of KBC Bank	<u>2008</u>	<u>2007</u>
Receivables from clients	1	-
Interest income	196	-
Other companies of the group of KBC Bank	<u>2008</u>	<u>2007</u>
Funds attracted from clients	194,929	90,732
Deposit-related interest expenses	7,928	276

Emoluments of the members of the Supervisory Board, Management Board and the Executive Directors paid during the year comprise remunerations paid under extra-labour relationships – management contracts. The total amount of emoluments at 31 December 2008 is BGN 999 thousand and at 31 December 2007 - BGN 1,231 thousand.

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32. Risk management disclosure

The Bank is exposed to the following types of risk:

- credit risk;
- market risk;
 - price risk*
 - currency risk*
 - interest rate risk*
- liquidity risk

Risk management policy

The risk management policy of the Bank aims at identifying and analyzing the risks to which the Bank is exposed, establishing the respective limits, controlling and monitoring the risks, complying with the limits. Risk management policies and systems are reviewed on a regular basis in order to reflect the changes in the market conditions, offered products and services. Through its training and management standards the Bank promotes the development of a disciplined control environment where all employees understand very well their roles and responsibilities.

In their substance, the Bank's activities mainly relate to the use of financial instruments. The Bank accepts deposits from clients at fixed or floating interest rates and for different periods of time, aiming at achieving interest margins above the average through investing cash in assets of high quality.

In parallel, the Bank aims at increasing the interest rate margins by achieving levels exceeding the average ones before providing, through granting of loans to corporate clients and individuals of good creditworthiness. Such exposures are related to both the loans and other receivables from clients and guarantees and other financial commitments, such as letters of credit.

32.1 Credit risk

The Bank is exposed to risk arising out of its credit activity, as well as in the cases where the Bank acts as an agent in the name of a third party or issues guarantees. Credit risk could arise for the Bank as a result of the debtor's failure to make the necessary payments on a transaction. Credit risk management is carried out through regular analyses of the contractors' creditworthiness. In order to further mitigate the credit risk, the Bank accepts collateral and guarantees on its credit transactions.

The Bank strictly complies with the requirements of the Credit Institutions Act. The Act provides for the limits for the maximum amount of credit exposure to one person or to a group of related parties, which may not exceed 25% of the Bank's equity.

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32. Risk management disclosure (continued)

32.1 Credit risk (continued)

For the purposes of monitoring the credit exposure, the Bank has established an advisory body to the Management Board – a Committee for monitoring, evaluation, classification and providing the risk exposures, the function of which is to monitor and classify the risk exposures of individual groups. The Committee holds meetings at least once in a month. After passing a decision, the Committee makes a proposal to the Management Board about the amount of impairment for each watched exposure.

The main credit risk to which the Bank is exposed arises out of the loans granted to clients. The amount of credit exposure in this case is determined by the carrying amount of the assets. At the same time, the Bank is exposed to off-balance sheet credit risk as a result of commitments for granting loans and issuing guarantees.

The maximum exposure of the Bank to credit risk at 31 December 2008 and at 31 December 2007 is as follows:

	2008		2007	
	<i>Gross maximum exposure</i>	<i>Net maximum exposure</i>	<i>Gross maximum exposure</i>	<i>Net maximum exposure</i>
Exposure				
Central Bank	-	-	-	-
Banks	106,888	106,888	576,259	576,259
Other financial institutions	93,180	93,180	36,809	36,809
Corporate clients	944,247	910,764	759,433	738,340
Individuals	410,218	398,813	246,206	241,588
Other	1,091	1,091	594	594
Total balance sheet items	1,555,624	1,510,736	1,619,301	1,593,590
Commitments	173,679	173,622	59,842	59,842
Total off-balance sheet positions	173,679	173,622	59,842	59,842

At 31 December 2008, the financial assets, depending on: a) the term of delay; b) the borrower's financial position; c) the target utilization of the loan granted, are grouped in two major classification groups with sub-groups. The first group „Standard risk exposures” includes exposures where no delay of payment of principals or interest due has occurred, or if occurred, delay does not exceed 30 days - “regular exposures”, and exposures where a delay of payment of loan amounts due has occurred, which exceeds 30 days but not more than 60 days - “watched exposures”. The second group „Problematic risk exposures” includes the following two subgroups: “non-regular exposures” – the risk exposures on loans and other receivables where significant violations in their performing have been noted, or for which there is information that the financial position of the debtor is not stable. The term of delay of payment on these exposures is more than 61 but up to 90 days. The second subgroup of this group - “non-performing exposures” comprise exposures where significant violations in their performing have been noted, or where, due to the worsened financial position of the debtor its liabilities have been classified as bad debts. The term of delay of payment exceeds 90 days.

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32. Risk management disclosure (continued)

32.1 Credit risk (continued)

As of 31 December 2008 the credit quality of the loan portfolio by types of loans is as follows::

	<u>Gross exposure</u>	<u>%</u>
<i>Standard risk exposures, subcategory performing exposures</i>	1,294,169	89%
- Individuals and households (retail)	388,379	27%
- Corporate	904,808	62%
- State budget	982	0%
<i>Standard risk exposures, subcategory watch exposures</i>	70,000	5%
- Individuals and households (retail)	4,369	0%
- Corporate	65,522	5%
- State budget	109	0%
<i>Non-performing risk exposures subcategory substandard exposures</i>	35,094	2%
- Individuals and households (retail)	4,878	0%
- Corporate	30,216	2%
- State budget		
<i>Non-performing risk exposures subcategory non-performing exposures</i>	49,473	3%
- Retail	12,592	1%
- Corporate	36,881	3%
- State budget		
	<u>1,448,736</u>	

There is credit risk concentration (balance sheet and off-balance sheet), arising out of financial instruments, towards clients of similar economic characteristics and therefore, changes in economic and other conditions would have a similar impact on their ability to meet their contractual relations. The Bank sets the respective industry limits on the basis of its total credit exposure as at the previous month.

The main concentration of credit risk occurs depending on the industry of activity and type of clients, in view of the Bank's investments, loans and advances, and commitments for granting loans and issuing guarantees.

Note 17 shows in detail the credit risk concentration by economic industries.

According to its policy, the Bank requires from its clients, prior to granting the approved loans, to ensure eligible collaterals. Bank guarantees and letters of credit are also subject to a strict preliminary investigation. Contracts set forth the cash limits of bank liabilities. In general, collaterals provided on guarantees and letters of credit amounts to 100%.

Generally, collaterals on loans, guarantees and letters of credit comprises cash, plant and equipment, mortgages, government securities listed on a stock exchange, or other properties.

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32. Risk management disclosure (continued)

32.1 Credit risk (continued)

Loans and advances which are neither overdue nor impaired are depicted in the table below:

	<u>2008</u>	<u>2007</u>
Individuals		
Credit cards and overdrafts	6,043	4,608
Consumer loans	212,106	127,721
Mortgage loans	145,329	92,636
Corporate clients		
Large corporate clients	699,072	622,397
Small and medium-sized enterprises	129,269	85,914
Other corporate clients	-	-
Total	<u>1,191,819</u>	<u>933,276</u>

During the reporting year, the loans granted for which no provisions for impairment were set aside have grown compared with the previous year. The main reason behind this trend is the young age of portfolio.

Loans which are overdue but not impaired are presented in the table below.

	<u>2008</u>	<u>2007</u>
Individuals		
Credit cards and overdrafts	433	425
Consumer loans	15,564	5,449
Mortgage loans	13,279	6,101
Corporate clients		
Large corporate clients	133,220	15,721
Small and medium-sized enterprises	9,854	1,362
Other corporate clients	-	-
Total	<u>172,350</u>	<u>29,058</u>

At 31 December 2008 and 2007 there are no financial assets which would have been overdue or impaired, if their terms had not been renegotiated.

The book value of loans, which have been provided on an individual basis at 31 December 2008 and 2007, is BGN 84,567 thousand and BGN 80,712 thousand, respectively. These amounts do not include cash flows from utilisation of collateral provided on these loans.

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32. Risk management disclosure (continued)

32.1 Credit risk (continued)

2008	Book value before impairment	Book value before impairment	Book value before impairment	Total highly liquid collateral
	30 to 60 days	60 to 90 days	over 90 days	
Credit cards and overdrafts	-	53	353	89
Consumer loans	-	1,585	7,225	412
Mortgage loans	-	3,240	5,008	6,005
Large corporate clients	-	29,588	34,144	22,187
Small and medium-sized enterprises	-	628	2,743	2,242
Total	-	35,094	49,473	30,935

2007	Book value before impairment	Book value before impairment	Book value before impairment	Total highly liquid collateral
	30 to 60 days	60 to 90 days	over 90 days	
Credit cards and overdrafts	168	33	273	95
Consumer loans	1,288	624	2,733	364
Mortgage loans	1,286	1,070	1,792	2,581
Large corporate clients	38,613	16,728	12,713	30,477
Small and medium-sized enterprises	147	2,352	892	2,584
Total	41,502	20,807	18,403	36,101

The table below shows the net exposure of the 10th biggest loans and advances to clients of the Bank.

Client	Agreed amount - limit	Net exposure at 31.12.2008	Client	Agreed amount - limit	Net exposure at 31.12.2007
Company	52,807	41,608	Company	39,108	39,150
Company	41,072	41,206	Company	29,337	28,826
Company	40,000	40,089	Company	31,293	24,636
Company	39,117	35,848	Company	23,500	23,518
Company	31,293	31,839	Company	26,404	20,481
Company	53,213	27,901	Company	39,117	19,568
Company	26,404	23,024	Company	19,108	17,219
Company	25,426	22,576	Company	15,647	15,615
Company	22,101	21,712	Company	15,725	15,475
Company	24,421	18,202	Company	18,189	14,757

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32. Risk management disclosure (continued)

32.1 Credit risk (continued)

The table below presents the Bank's portfolio by types of collateral:

	<u>2008</u>	<u>2007</u>
Secured by cash and government securities	46,667	43,125
Secured by mortgage	628,531	411,666
Other collateral	<u>773,538</u>	<u>588,251</u>
Expenses on forming impairment loss provisions	<u>(44,888)</u>	<u>(25,711)</u>
Total	<u>1,403,848</u>	<u>1,017,331</u>

32.2 Market risk

All market instruments are exposed to market risk. Instruments are recognised at fair value and any changes in market conditions affect the net operating income. Exposures to market risk are managed by the Bank in accordance with the risk limits set by the management.

Market risk is the risk that the value of the Bank's trade portfolio might be reduced due to adverse changes in prices of the instruments constituting it. This may be due to changes in interest rates, liquidity, volatility, exchange rates, etc.

The Bank's investment portfolio comprises mainly government securities, and therefore, the sensitivity to market risk is immaterial.

Price risk

All market instruments are exposed to market risk, being the risk of impairment as a result of future changes in market conditions. Instruments are recognized at fair value and any changes in market conditions affect directly the net income from trade operations or equity.

The Bank manages its own financial instruments and responds to the changing market conditions. The market risk exposure is managed in accordance with the risk limits set by the management through purchases and sales of instruments or through opening of offset positions. The Bank calculates value at risk (VaR) for its portfolios of shares and debentures. And finally, the Bank's investment portfolio, if compared with the assets, is not large; moreover, the biggest share of securities constituting it belongs to those issued by the Bulgarian state, which further limits the effect of price risk.

Currency risk

The Bank is exposed to currency risk when trading in financial instruments denominated in foreign currency.

After the introduction of the Currency Board in the Republic of Bulgaria, the Bulgarian lev was pegged to the Euro. Since the currency in which the Bank prepares its financial statements is the Bulgarian lev, any changes in the exchange rates of BGN to foreign currencies, other than Euro, will have an impact on the financial statements.

In the course of trading in foreign currency, foreign currency gains and losses arise, which are reported in the income statement. Such exposures are the monetary assets and liabilities of the Bank denominated in foreign currency, other than the Bank's functional currency.

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32. Risk management disclosure (continued)

32.1 Market risk (continued)

Currency risk (continued)

Generally, collaterals on loans, guarantees and letters of credit comprises cash, plant and equipment, mortgages, government securities listed on a stock exchange, or other properties and bank cross-guarantees.

The table below presents the sensitivity of profit before taxes and equity for the significant positions by types of foreign currencies of the Bank at 31 December 2008 and 31 December 2007:

	Changes in the exchange rate in % 2008	Effect on profit before taxes 2008	Changes in the exchange rate in % 2007	Effect on profit before taxes 2007
USD	+10%	-1,399	+10%	-2,465
	-10%	+1,399	-10%	+2,465
GBP	+10%	51	+10%	+ 129
	-10%	-51	-10%	- 129
Other currencies	+10%	44	+10%	+29
	-10%	-44	-10%	-29

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32. Risk management disclosure (continued)

32.2 Market risk (continued)

Foreign currency analysis

At 31 December 2008:

	BGN	EUR	USD	Other currencies	Total
Assets					
Cash in hand and balances with the Central Bank	72,863	135,339	4,196	665	213,063
Nostro accounts, funds provided to banks	19,342	42,536	43,192	1,818	106,888
Held-for-trading financial assets	-	-	-	-	-
Loans and advances to clients	593,400	794,101	16,347	-	1,403,848
Available-for-sale investments	79,763	997	2	-	80,762
Other assets	9,004	44	71	-	9,119
Fixed assets	23,847	-	-	-	23,847
Total assets	798,219	973,017	63,808	2,483	1,837,527
Liabilities					
Deposits from banks	25,948	117,655	58	-	143,661
Payables under repo agreements	3300	-	-	-	3,300
Derivative financial instruments	-	-	11,860	-	11,860
Deposits from clients	567,309	624,156	234,270	1,519	1,427,254
Other liabilities	2,457	23	4	-	2,484
Provisions on loan engagements and guarantees	-	43,222	-	-	43,222
Deferred tax liabilities, net	15	42	-	-	57
Deposits from banks	88	-	-	-	88
Total liabilities	599,117	785,098	246,192	1,519	1,631,926
Net assets	199,102	187,919	(182,384)	964	205,601

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32. Risk management disclosure (continued)

32.2 Market risk (continued)

Foreign currency analysis (continued)

At 31 December 2007:

	BGN	EUR	USD	Other curren cies	Total
Assets					
Cash in hand and balances with the Central Bank	68,316	180,587	4,778	1,049	254,730
Nostro accounts, funds provided to banks	14,115	313,440	245,010	3,694	576,259
Held-for-trading financial assets	62,851	5,224	2	-	68,077
Loans and advances to clients	448,385	551,096	17,850	-	1,017,331
Available-for-sale investments	10,757	3	-	-	10,760
Other assets	8,304	125	98	4	8,531
Fixed assets	21,962	-	-	-	21,962
Total assets	634,690	1,050,475	267,738	4,747	1,957,650
Liabilities					
Deposits from banks	1,215	143,937	16	-	145,168
Payables under repo agreements	8,015	-	-	-	8,015
Deposits from clients	532,211	766,401	272,959	2,095	1,573,666
Other liabilities	9,830	51	17	-	9,898
Debt securities and subordinated term debt	-	23,589	-	-	23,589
Deferred tax liabilities, net	63	-	-	-	63
Total liabilities	551,334	933,978	272,992	2,095	1,760,399
Net assets	83,356	116,497	(5,254)	2,652	197,251

Interest rate risk

The Bank's activity is subject to risk from fluctuations in interest rates, insofar the interest-bearing assets (including investments) and interest-bearing liabilities mature or are subject to changes in interest rates at different times and to a different extent. In the cases of assets and liabilities bearing floating interest rates, the Bank is exposed to risk from changes in basic interest points that are used for determining the interest rates, being the difference between the characteristics of the floating interest indices, such as SOFIBOR, the basic interest rate, the six-month LIBOR or different interest rates. The main goal of the risk management policy is to optimise the net interest income and to achieve market interest rates corresponding to the Bank's strategy.

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32. Risk management disclosure (continued)

32.2 Market risk (continued)

Interest rate risk (continued)

The interest rate management procedures as regards the balance between the funds attracted and granted are applied in view of the Bank's sensitivity to changes in interest rates. The Bank applies the method of disbalance between interest-sensitive liabilities and interest-sensitive assets when measuring the changes in net interest income due to changes in interest rates.

In conclusion, the prevailing part of the Bank's assets and liabilities bear floating interest rates, which makes the balance less sensitive to changes in the effective interest rates.

The table below summarises the interest-bearing and interest-free assets and liabilities at 31 December 2008:

	With fixed interest rate	With floating interest rate	Interest free	Total
Assets				
Cash in hand and balances with the Central Bank	-	-	213,063	213,063
Nostro accounts, funds provided to banks	88,246	18,414	228	106,888
Held-for-trading financial assets	-	-	-	-
Loans and advances to clients	69,659	8,971	2,132	80,762
Available-for-sale investments	267,711	1,131,581	4,556	1,403,848
Other assets	-	-	9,119	9,119
Fixed assets	-	-	23,847	23,847
Total assets	425,616	1,158,966	252,945	1,837,527
Liabilities				
Deposits from banks	143,595	-	66	143,661
Payables under repo agreements	3,300	-	-	3,300
Deposits from clients	1,399,897	-	27,357	1,427,254
Other liabilities	-	-	2,484	2,484
Derivative financial instruments	-	-	11,860	11,860
Debt securities and subordinated term debt	-	43,028	194	43,222
Provisions on loan engagements and guarantees	-	-	57	57
Deferred tax liabilities, net	-	-	88	88
Total liabilities	1,546,792	43,028	42,106	1,631,926
Difference in interest rates	(1,121,176)	1,115,938	210,839	205,601

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32. Risk management disclosure (continued)

32.2 Market risk (continued)

Interest rate risk (continued)

The table below summarises the interest-bearing and interest-free assets and liabilities at 31 December 2007:

	With fixed interest rate	With floating interest rate	Interest free	Total
Assets				
Cash in hand and balances with the Central Bank	-	-	254,730	254,730
Nostro accounts, funds provided to banks	566,091	6,228	3,940	576,259
Securities for trading	61,689	979	5,409	68,077
Available-for-sale	5,000	5,000	760	10,760
Loans and advances to clients	544,950	469,207	3,174	1,017,331
Other assets	-	-	8,531	8,531
Fixed assets	-	-	21,962	21,962
Total assets	1,177,730	481,414	298,506	1,957,650
Liabilities				
Deposits from banks	144,238	-	930	145,168
Payables under repo agreements	8,000	-	15	8,015
Deposits from clients	1,540,951	-	32,715	1,573,666
Other liabilities	-	-	9,898	9,898
Debt securities and subordinated term debt	-	23,470	119	23,589
Deferred tax liabilities, net	-	-	63	63
Total liabilities	1,693,189	23,470	43,740	1,760,399
Difference in interest rates	(515,459)	457,944	254,766	197,251

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32. Risk management disclosure (continued)

32.2 Market risk (continued)

Interest rate risk (continued)

The table below presents the average effective interest rates of assets and liabilities for 2008 and 2007, as follows:

	<u>2008</u>	<u>2007</u>
	%	%
Assets		
Financial assets at fair value through profit or loss	0.00	0.00
Available-for-sale interest-bearing financial assets	4.87	4.73
Receivables from banks	1.40	4.25
Loans to clients, incl.:		
- corporate clients	8.63	8.58
- individuals	9.38	6.73
Liabilities		
Payables to banks	3.05	5.03
Deposits from clients, incl.		
- current accounts of other financial institutions	6.75	4.89
- saving deposits from clients	3.16	1.85
- term deposits from clients	5.63	5.04
Payables on subordinate term debt	6.31	6.13

The table below shows the sensitivity of net interest income and equity at 31 December 2008 to possible reasonable changes in interest rates, all other indicators in the income statement being constant:

			<u>Sensitivity of equity</u>				
<i>Assets</i>	<i>Increase in basis point</i>	<i>Sensitivity of net interest income in BGN'000</i>	<i>from 0 to 6 months</i>	<i>from 6 months to 1 year</i>	<i>from 1 year to 5 years</i>	<i>over 5 years</i>	<i>Total</i>
			BGN	+100	4,564	-	(45)
EUR	+100	5,618	-	-	(9)	-	(9)
USD	+100	241	-	-	-	-	-
Other currency	+100	8	-	-	-	-	-

			<u>Sensitivity of equity</u>				
<i>Liabilities</i>	<i>Decrease in basis point</i>	<i>Sensitivity of net interest income in BGN'000</i>	<i>from 0 to 6 months</i>	<i>from 6 months to 1 year</i>	<i>from 1 year to 5 years</i>	<i>over 5 years</i>	<i>Total</i>
			BGN	-100	-	-	-
EUR	-100	(387)	-	-	-	-	-
USD	-100	-	-	-	-	-	-
Other currency	-100	-	-	-	-	-	-

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32. Risk management disclosure (continued)

32.2 Market risk (continued)

Interest rate risk (continued)

The table below shows the sensitivity of net interest income and equity at 31 December 2007 to possible reasonable changes in interest rates, all other indicators in the income statement being constant:

<i>Assets</i>	<i>Increase in basis point</i>	<i>Sensitivity of net interest income in BGN'000</i>	<i>Sensitivity of equity</i>				<i>Total</i>
			<i>from 0 to 6 months</i>	<i>from 6 months to 1 year</i>	<i>from 1 year to 5 years</i>	<i>over 5 years</i>	
BGN	+100	1,798	-	-	45	-	45
EUR	+100	2,509	-	-	-	-	-
USD	+100	9	-	-	-	-	-
Other currency	+100	16	-	-	-	-	-

<i>Liabilities</i>	<i>Decrease in basis point</i>	<i>Sensitivity of net interest income in BGN'000</i>	<i>Sensitivity of equity</i>				<i>Total</i>
			<i>from 0 to 6 months</i>	<i>from 6 months to 1 year</i>	<i>from 1 year to 5 years</i>	<i>over 5 years</i>	
BGN	-100	-	-	-	-	-	-
EUR	-100	(211)	-	-	-	-	-
USD	-100	-	-	-	-	-	-
Other currency	-100	-	-	-	-	-	-

Liquidity risk

The liquidity risk arises in relation to ensuring sufficient funds for the Bank's activities and for the management of its positions. This type of risk has two dimensions – the risk that the Bank might not be in position to meet its obligations when called upon and the risk that the Bank might not be able to realise its assets at a proper price and within acceptable terms.

The Bank has access to various financing instruments. Funds are attracted through a set of instruments, including deposits and current accounts, other borrowings regulated by normative acts, as well as equity. Thus, the Bank is more flexible in financing its activities and is less dependant on one source of financing, which in turn reduces the cost of financing. The Bank's goal is to maintain the balance between the timing of borrowings and to achieve flexibility in using funds with different maturity structures. The Bank assesses the liquidity risk on an ongoing basis, by identifying and tracing the changes in the financial needs for achieving the goals underlying its overall strategy. In addition, the Bank has a portfolio of liquid assets as a part of its liquidity risk management system.

The interrelation between the assets and liabilities' maturity is an indicator for the existence of liquidity risk and the amount of any funds that might be necessary to cover unpaid liabilities.

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32. Risk management disclosure (continued)

32.2 Market risk (continued)

Liquidity risk (continued)

The table below summarises the financial liabilities of the Bank at 31 December 2008 by remaining agreed maturity of undiscounted cash flows. The Bank does not expect that these liabilities will be paid within the established deadlines, since the terms of deposits from clients do not reflect the actual expectations for their repayment. Term deposit contracts are renewed automatically, if the client does not terminate its contract on the maturity date.

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32. Risk management disclosure (continued)

32.2 Market risk (continued)

Liquidity risk (continued)

	On demand	within 1 month	From 1 to 3 months	From 3 months to 6 months	From 6 to 12 months	Over 1 year	Total
Payables to banks	3,345	140,540	-	-	-	-	143,885
Derivative financial instrument	-	1,931	-	-	-	-	1,931
Subordinate term debt	-	-	-	-	-	54,095	54,095
Deposits from clients	265,203	19,283	163,599	185,925	166,351	727,079	1,527,440

The table below summarises the financial liabilities of the Bank at 31 December 2007 by remaining agreed maturity of undiscounted cash flows.

	On demand	within 1 month	From 1 to 3 months	From 3 months to 6 months	From 6 to 12 months	Over 1 year	Total
Payables to banks	6,287	47,141	92,764	-	-	-	146,192
Derivative financial instrument	-	-	-	-	-	-	-
Subordinate term debt	-	-	-	-	-	27,449	27,449
Deposits from clients	322,961	102,283	20,892	222,951	232,286	749,594	1,650,967

Termless deposits are presented in column “within 1 month”, although in fact a significant part thereof comprise “basic deposits”, which remain with the Bank for a longer period of time. Generally, term deposits are renewed by the client on their maturity dates and in practice, they also remain with the Bank for a longer period of time.

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32. Risk management disclosure (continued)

32.2 Market risk (continued)

Liquidity risk (continued)

Maturity structure of contingent liabilities and commitments at 31 December 2008:

	Within 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 3 years	From 3 to 5 years	Over 5 years	Total
Unutilised credit lines	412	3,089	5,619	29,779	33,728	16,571	51,336	140,534
Guarantees	9,339	722	862	8,960	10,479	1,395	1,331	33,088
Total	9,751	3,811	6,481	38,739	44,207	17,966	52,667	173,622

Maturity structure of contingent liabilities and commitments at 31 December 2007:

	Within 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 3 years	From 3 to 5 years	Over 5 years	Total
Unutilised credit lines	1,069	2,188	2,056	12,248	12,804	2,077	657	33,099
Guarantees	9,171	830	4,458	1,826	8,639	139	1,680	26,743
Total	10,240	3,018	6,514	14,074	21,443	2,216	2,337	59,842

The table below shows the quick liquidity ratio for 2008 and 2007:

Levels of ratio:

	2008	2007
Average ratio for the period	1.415	1.371
The highest value for the period	1.478	1.397
The lowest value for the period	1.385	1.333

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33. Maturity analysis of assets and liabilities

The maturity structure by remaining term and carrying amount of the assets at 31 December 2008 is prepared according to the management's expectations for their repayment or recovery:

	Termless/ within 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 3 years	From 3 to 5 years	Over 5 years	Without maturity	Total
Assets									
Cash in hand and balances with the Central Bank	213,063	-	-	-	-	-	-	-	213,063
Nostro accounts, funds provided to banks	106,888	-	-	-	-	-	-	-	106,888
Securities for trading	-	-	-	-	-	-	-	-	-
Available- for-sale investments	5,637	-	502	7,001	25,639	23,505	17,899	579	80,762
Loans and advances to clients	37,013	11,153	73,962	109,828	296,045	258,931	616,916	-	1,403,848
Other assets	9,119	-	-	-	-	-	-	-	9,119
Fixed assets	-	-	-	-	-	-	-	23,847	23,847
Total assets	371,720	11,153	74,464	116,829	321,684	282,436	634,815	24,426	1,837,527

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33 Maturity analysis of assets and liabilities (continued)

	Termless/ within 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 3 years	From 3 to 5 years	Over 5 years	Without maturity	Total
Liabilities									
Deposits from banks	50,582	93,079	-	-	-	-	-	-	143,661
Payables under repo agreements	3,300	-	-	-	-	-	-	-	3,300
Deposits from clients	283,604	253,910	271,160	288,787	294,793	35,000	-	-	1,427,254
Other liabilities	2,484	-	-	-	-	-	-	-	2,484
Liabilities for trading	11,860	-	-	-	-	-	-	-	11,860
Debt securities and subordinated term debt	-	-	-	3,991	-	-	39,231	-	43,222
Provisions on loan engagements and guarantees	57	-	-	-	-	-	-	-	57
Deferred tax liabilities, net	-	-	-	-	-	-	-	88	88
Total liabilities	351,887	346,989	271,160	292,778	294,793	35,000	39,231	88	1,631,926
Net difference in maturity	19,833	(335,836)	(196,696)	(175,949)	26,891	247,436	595,584	24,338	205,601

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33 Maturity analysis of assets and liabilities (continued)

The maturity structure by remaining term and carrying amount of the assets at 31 December 2007 is prepared according to the management's expectations for their repayment or recovery:

	Termless/ within 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 3 years	From 3 to 5 years	Over 5 years	Without maturity	Total
Assets									
Cash in hand and balances with the Central Bank	254,730	-	-	-	-	-	-	-	254,730
Nostro accounts, funds provided to banks	465,767	110,492	-	-	-	-	-	-	576,259
Securities for trading	2,563	-	15	-	16,339	18,836	30,324	-	68,077
Available- for-sale investments	5,054	-	-	-	-	-	5,118	588	10,760
Loans and advances to clients	13,557	8,571	62,947	62,739	320,498	203,335	345,684	-	1,017,331
Other assets	8,531	-	-	-	-	-	-	-	8,531
Fixed assets	-	-	-	-	-	-	-	21,962	21,962
Total assets	750,202	119,063	62,962	62,739	336,837	222,171	381,126	22,550	1,957,650

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33 Maturity analysis of assets and liabilities (continued)

	Termless/ within 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 3 years	From 3 to 5 years	Over 5 years	Without maturity	Total
Liabilities									
Deposits from banks	52,422	92,746	-	-	-	-	-	-	145,168
Payables under repo agreements	8,015	-	-	-	-	-	-	-	8,015
Deposits from clients	525,199	235,557	255,405	267,572	289,933	-	-	-	1,573,666
Other liabilities	9,898	-	-	-	-	-	-	-	9,898
Debt securities	-	-	-	-	3,963	-	19,626	-	23,589
Deferred tax liabilities, net	-	-	-	-	-	-	-	63	63
Total liabilities	595,534	328,303	255,405	267,572	293,896	-	19,626	63	1,760,399
Net difference in maturity	154,668	(209,240)	(192,443)	(204,833)	42,941	222,171	361,500	22,487	197,251

34. Fair values of financial instruments

The table below compares the carrying amounts and book values, by categories, of all financial instruments of the Bank, included in the financial statements for 2008 and 2007:

	<i>Carrying amount</i>		<i>Fair value</i>	
	2008	2007	2008	2007
Financial assets				
Cash and balances with the Central Bank	213,063	254,730	213,063	254,730
Receivables from banks	106,888	576,259	106,871	576,306
Financial assets at fair value through profit or loss	-	68,077	-	68,077
Loans to clients	1,403,848	1,017,33	1,398,43	1,008,567
Available-for-sale financial assets	80,762	10,760	80,762	10,760
Financial liabilities				
Payables to banks	143,661	145,168	143,667	144,427
Derivative financial instruments	11,860	-	11,860	-
Deposits from clients	1,427,254	1,573,66	1,426,203	1,573,518
Payables on subordinated term debt	43,222	23,589	43,222	23,589

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35. Capital management

According to Art. 7 of Ordinance No. 8 of BNB on Capital Adequacy of Credit Institutions, the Bank is obliged to maintain equity, which shall be at any time either higher or equal to the sum of capital requirements for each type of risk, multiplied by 1.5.

The Bank calculates the total capital adequacy ratio as a percentage ratio between equity and risk-weighted assets. The Bank's assets are weighted for credit, market and operational risks. The total capital adequacy ratio may not be lower than 12%, and the Tier I capital adequacy ratio– not lower than 6%.

Below is presented a table for the capital management, as follows:

	<u>2008</u>	<u>2007</u>
Primary capital:		
Own equity	69,721	69,721
Reserve Fund	132,997	84,013
Decrease:		
Carrying amount of intangible assets	(1,729)	(1,416)
Specific provisions for credit risk when the standard approach is applied	<u>(2,079)</u>	<u>-</u>
Total primary capital:	198,910	152,318
Secondary capital:		
Property revaluation reserve	1,772	2,840
Subordinated term debt	39,117	19,558
Specific provisions for credit risk when the standard approach is applied	<u>(2,079)</u>	<u>-</u>
Total secondary capital:	38,810	22,398
Total primary and secondary capital:		
Decrease:		
Carrying amount of investments in shares which represent more than 10% of the capital of a bank or financial institution	<u>-</u>	<u>-</u>
Capital base:	237,720	174,716
Minimum required paid-in capital:	10,000	10,000
Tier I capital adequacy ratio:	13.03%	12.01%
Total capital adequacy ratio:	15.58%	13.78%

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36. Events after the balance sheet date

If after the balance sheet date events are noted, which have existed at the balance sheet date and which might lead to additional impairment of loans and advances, these are reported in the financial statements as adjusting events. After the balance sheet date there was deterioration in the market conditions as a result from the global financial crises. The Bank is exposed to higher risk of potential losses as a result of the negative development of the credit risk of some of the companies – borrowers operating on the Bulgarian market. As of 28th of February 2009 the credit quality of the loan portfolio by types of loans is as follows:

	<u>Gross exposure</u>	<u>%</u>
<i>Standard risk exposures, subcategory performing exposures</i>	1,206,356	83%
- Individuals and households (retail)	386,605	27%
- Corporate	818,784	56%
- State budget	967	0%
<i>Standard risk exposures, subcategory watch exposures</i>	117,171	8%
- Individuals and households (retail)	7,880	1%
- Corporate	109,181	8%
- State budget	110	0%
<i>Non-performing risk exposures subcategory substandard exposures</i>	58,111	4%
- Individuals and households (retail)	3,479	0%
- Corporate	54,632	4%
- State budget	-	
<i>Non-performing risk exposures subcategory non-performing exposures</i>	71,981	5%
- Individuals and households (retail)	17,663	1%
- Corporate	54,318	4%
- State budget	-	
	1,453,619	