Bulbank
UniCredit Group

ANNUAL REPORT 2003

Bulbank
40 YEARS

CONTENTS

FINANCIAL HIGHLIGHTS[1]

(Thousands of BGN, unless otherwise stated)

	2003	2002	Growth
Key figures			
Net profit	93,025	79,130	17.6%
Shareholders' equity (end of period)	559,148	513,249	8.9%
Total assets (end of period)	2,836,771	2,721,980	4.2%
Total assets at fixed exchange rate (end of period)	*3,004,867*	*2,721,980*	*10.4%*
Customer deposits (end of period)	2,177,781	2,049,957	6.2%
Customer deposits at fixed exchange rate (end of period)	*2,342,666*	*2,049,957*	*14.3%*
Customer loans (end of period)	916,634	563,935	62.5%
Customer loans at fixed exchange rate (end of period)	*934,968*	*563,935*	*65.8%*
Earnings per share (in BGN)	0.56	0.48	17.6%
Income			
Net interest income	97,974	91,112	7.5%
Net fee and commission income	44,771	41,059	9.0%
Gains from securities	11,901	12,642	-5.9%
Gains from foreign currencies	7,615	7,095	7.3%
Total revenues	173,663	158,192	9.8%
Total revenues at fixed exchange rate	*181,874*	*158,191*	*15.0%*
Operating Income	107,376	95,203	12.8%
Operating Income at fixed exchange rate	*115,587*	*95,203*	*21.4%*
Expenses			
Operating expenses	66,287	62,988	5.2%
HR costs	27,145	26,658	1.8%
Non-HR costs	29,568	26,160	13.0%
Depreciation	9,574	10,170	-5.9%
Net write-back of provisions	14,706	9,004	63.3%
Tax	29,057	25,077	15.9%
Ratios (%)			
Return on average assets (ROA)	3.4	2.9	0.5pp
Return on average equity (ROE)	18.0	16.2	1.8pp
Net interest margin	3.6	3.3	0.2pp
Capital/Asset ratio (end of period)	19.7	18.9	0.9pp
BIS total capital ratio (end of period)	34.8	40.5	-5.7pp
BIS tier 1 capital ratio (end of period)	30.1	36.4	-6.3pp
Risk weighted assets/Total assets ratio (end of period)	48.9	38.0	10.9pp
Cost/Income ratio	38.2	39.8	-1.6pp
Non-performing loans/Gross loans[2]	3.1	4.6	-1.5pp
Resources (number) - (end of period)			
Operating outlets	91	91	-
Employees	2,026	2,060	-34
Sales-people	373	239	134
Foreign exchange rate at period end (BGN/USD)	*1.5486*	*1.8850*	-17.8%
Average annual exchange rate over the period (BGN/USD)	*1.8067*	*2.0770*	-13.0%

[1] All financial data disclosed in this annual report are from the financial statements prepared in accordance with International Financial Reporting Standards (IFRS).

[2] Non-performing loans/Total gross loans. Non-performing are all those loans classified as sub-standard, doubtful and loss (provisioned more than 30%) as per the ruling Regulation 9 of the BNB.

STATEMENT TO THE SHAREHOLDERS

Ladies and Gentlemen,

It is our great pleasure to present the annual report and accounts of Bulbank for 2003.

The bank achieved another year of growth in revenues and profitability, operating in a positive market and macroeconomic environment in Bulgaria. Net profit grew 18% to BGN 93 mn, return on equity improved to 18% and return on assets increased to 3.4%, driven by sustained, rapid growth in lending and excellent performance in work-out and recoveries. The increased number of customers, enhanced productivity and growth in securities portfolio were further factors in the revenue increase. However, the overall profitability was put under pressure by the USD depreciation and lower interest rates. Costs were tightly controlled, further improving efficiency with cost/income down to 38.2%. Capital adequacy remained strong with the Tier 1 capital ratio above 30%, being a firm foundation for further expansion. A portion of non-core and unproductive assets were sold, an additional positive contribution to both profitability and efficiency.

The expansion in corporate business, being the main revenue contributor, was driven by growth in loans and number of customers. Retail expanded rapidly in terms of number of customers, transactions and types of services. Treasury operations' revenue increase was based on healthy exploitation of the favourable fixed income environment in the first half-year and on growth in the securities portfolio, in the context of a strict and conservative risk management approach.

The good 2003 performance was achieved simultaneously with delivery of our broad development and investment programme, the cost of which will be reflected in next year's financials with a significant increase in depreciation. The new centralised information system was implemented, providing sufficient infrastructure for enhanced service quality, growth in sales, risk control and productivity improvement. Core retail product portfolio establishment was completed. Personal investment products were launched that were innovative for the local market - mutual funds, life insurance and structured long term deposits. Pure credit cards were issued. Additional sales-force was established, trained and allocated with portfolios of clients, to provide most of our customers with clear reference contact and significant improvement in terms of service quality. A pilot was begun of an upgraded service model, organised on a sub-segment business line basis.

Human resource policy, an area of particular focus, was further developed. An Assessment Centre was created, supporting management and employees in best measuring and improving performance, skills and potential. The motivation system was enriched.

Thus the bank completed the 3-year change programme, commenced right after acquisition by UniCredito Italiano and Allianz in late 2000. Culture, organisation, commercial model, systems and financial structure changed substantially. Making use of strong support and flow of know-how from the main shareholder, Bulbank is now an integral part of UniCredit Group, moving towards best international practices. This benefits all shareholders and creates higher value for customers and the community. The bank shares the values of, and increasingly acts as, a socially responsible corporation, both internally and externally.

The plans for 2004 target high growth in commercial revenues leveraging on higher productivity and quality of service. Customer, productivity and people are our main focus. For this purpose "divisionalisation", including geographical regionalisation, will be completed in the first half of the year. E-banking will be fostered. Leasing services will be offered. A specialised personal credit centre has already opened in February. A separate private banking centre will open doors in the first quarter of 2004. A new service model will be implemented for small businesses. Selected new branches will be established. The risk management system will transform in order to respond to the growing loan portfolio and to the challenges of the Basle Accord II capital adequacy requirements. An Organisational Structure department and change management process will be established to facilitate further development. The forecast for the development of the local market is positive yet the banking revenues are expected to grow at a reduced rate compared to 2003. The environment will be closely monitored so as to make use of all available and potential opportunities, to protect from threats and maintain vigilance during the EU pre-accession period.

We would like to thank our customers, partners and shareholders for their support and to express our full commitment to the principles and targets set. We would like to express special gratitude to our people for their tremendous efforts, energy and performance during a period of substantial change. We take the opportunity to record great thanks to Mr. Roberto Nicastro, our former Chairman of the Supervisory Board, and Mr. Luigi Lovaglio, our former Deputy Chairman of the Management Board and COO, for their strong contributions to leading the development of Bulbank. Thanks also to Mr. Alois Steinbichler, former member of the Supervisory Board. We wish them all well in their new roles in other important positions within the UniCredit Group.

Paolo Fiorentino
Chairman of the Supervisory Board

Levon Hampartzoumian
Chairman of the Management Board and CEO

27 February 2004
Sofia

SUPERVISORY BOARD AND MANAGEMENT BOARD[1]

Supervisory Board		Starting date of mandate
Paolo Fiorentino	Chairman	25 September 2003
Fausto Alberto Galmarini	Deputy Chairman	3 October 2000
Dimitar Zhelev	Member	3 October 2000
Franco Benincasa	Member	19 October 2001
Ivan Stancioff	Member	19 October 2001
Massimiliano Moi	Member	8 January 2003
Jan Beliecki	Member	25 September 2003
Management Board		
Levon Hampartzoumian	Chairman and Cheif Executive Officer	31 August 2001
Alessandro Decio	Deputy Chairman and Cheif Operating Officer	22 October 2003
Kiril Stefanov	Member	3 October 2000
Stanislav Georgiev	Member	3 October 2000
Kalinka Kirova	Member	4 February 2003

In 2003, the following changes were made in the management bodies:

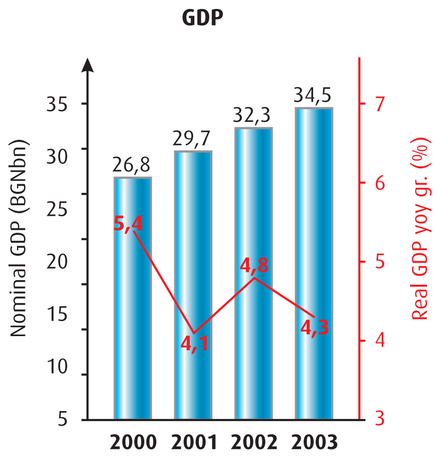
- On the Supervisory Board, Mr Paolo Fiorentino replaced Mr Roberto Nicastro, Mr Massimiliano Moi replaced Mr Alessandro Decio and Mr Jan Beliecki replaced Mr Alois Steinbichler.
- On the Management Board, Mr Alessandro Decio replaced Mr Luigi Lovaglio and Mrs Kalinka Kirova replaced Mr. Kiril Kalinov.

[1] As at the end of 2003.

BULGARIAN ECONOMY

2003 Overview of economy

In 2003, Bulgaria has further progressed on its key foreign policy aspirations towards EU and NATO membership. Crucial too, public support for these goals remained sufficiently strong. GDP grew by 4.3%[1] (4.9% in 2002) led by investments, consumption and exports. Individual consumption was particularly vibrant, supported by retail lending expansion, increasing employment, moderate growth in real income and a pick up in private current transfers. The largest growth stimuli, however, came from investments, supported by a sharp increase in newly extended corporate loans and improving fundamentals of the real sector. Negative net exports expanded due to a shift in domestic spending towards import. The unexpected rise in inflation in the last two months of the year brought 2003 year-end CPI to 5.6% (3.8% in 2002), moderately curbing income and household spending dynamics. Unemployment fell to a three year low of 13.5% in 2003 (16.3% in 2002).



Strong fiscal policy and improved debt servicing capacity were the major economic policy achievements in 2003. Stronger than expected import growth and improved collection of social insurance contributions enabled significant fiscal revenue overperformance. Prudent discretionary spending[2] continued, being instrumental for a balanced, general Government budget.

Despite deteriorating to 8.3% of GDP (4.6% in 2002), the current account imbalance posed a little risk to Currency Board stability. The trade deficit was broadly based, dominated by surges in import of investment goods and export related inputs, but also included acceleration in raw materials and purchases and consumer goods import. The current account deficit was comfortably counter-balanced by increasing FDI that amounted to USD 1.4 billion for 2003. Balance of payments was positive adding to Central Bank foreign reserves, further easing external accounts concerns.

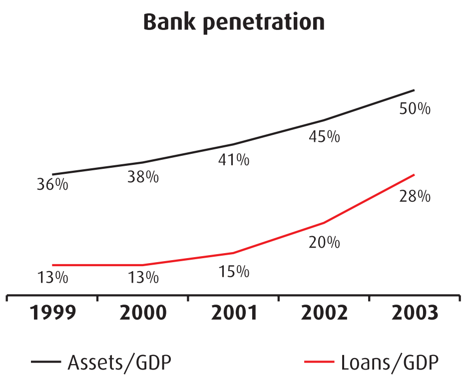
Selected economic indicators	1999	2000	2001	2002	2003	03/02 y/y gr.
Official exchange rate at the end of the period (BGN/USD)	1,95	2,10	2,22	1,88	1,55	-17,8%
Average Official exchange rate (BGN/USD)	1,82	2,12	2,18	2,08	1,73	-16,8%
Average Base interest rate	4,7	4,4	4,5	4,0	2,7	-32,5%
Inflation at the end of the period (%)	7,0	11,3	4,8	3,8	5,6	47,4%
Avarage inflation (%)	2,6	10,3	7,4	5,8	2,4	-58,6%
Nominal GDP (USD million)	13 062	12 599	13 599	15 546	19 980	28,5%
Real GDP growth (%)	2,3	5,4	4,1	4,9	4,3	-12,2%
GDP per capita (USD)	1 595	1 546	1 723	1 981	2 550	28,7%
Balance of payments (USD millions)	96	137	373	715	732	2,4%
Current account balance (USD millions)	(652)	(704)	(842)	(713)	(1 648)	131,3%
Foreign trade turnover (USD millions)	9 094	10 825	11 806	12 979	17 351	33,7%
Trade balance (USD millions)[3]	(1 081)	(1 176)	(1 581)	(1 594)	(2 474)	55,2%
Foreign direct investments (USD millions)	819	1 002	813	905	1 361	50,4%
Gross foreign debt at the end of the period (USD millions)	10 914	11 202	10 616	11 180	13 148	17,6%
Gross foreign debt/GDP at the end of the period (%)	84,2	88,9	78,3	71,9	66,1	-8,1%
Gross internal debt at the end of the period (BGN millions)	2 963	1 767	1 861	2 112	2 241	6,1%
BNB foreign currency reserves (USD millions)	3 222	3 460	3 580	4 747	6 705	41,3%
Budget deficit/GDP (%)	0,9	1	0,9	0,7	0	-100,0%
Unemployment rate at the end of the period (%)	16,0	17,9	17,3	16,3	13,5	-17,2%
Active commercial banks at the end of the period	34	35	35	35	35	-

Rating agencies continued to give credit to Bulgaria for its prudent fiscal policy and strengthening macroeconomic performance, confirming the improving prospects for the economy. Standard & Poor's upgraded Bulgaria's LT FC Rating from BB/Positive to BB+/Stable, just a notch below investment grade. In May Moody's assigned LT FC Rating of Ba2/Stable, two notches from investment grade. Further rating upgrades hinge on privatization progress, improvement in business climate, continuing tight fiscal policy and political stability.

1 All data regarding Bulgarian economy is produced by the Bulgarian National Statistical Institute (NSI).

2 All fiscal expenses, less expenses for defence, security and public debt servicing.

3 Exports (FOB)+Imports (FOB) Sources: BNB, NSI, Bulbank



Banking sector

In 2003, the banking sector expanded substantially, increasing loans and deposits by 49% and 22% respectively[1]. Thus banking penetration of the economy developed positively with Bank assets to GDP ratio of 50% and Loans to GDP ratio of 28%. The 26% increase in newly extended corporate loans contributed strongly to 18% growth of investment goods import and 14% growth in gross fixed capital. Similarly, the 104% growth in newly extended retail loans enabled the 19% increase in consumer goods import and the 7% increase in individual consumption. Loan quality remained satisfactory with NPL[2] ratio of 4.2%, despite the fast lending expansion over the last years. Interest rate spreads[3] dropped rapidly, yet were still high at 7.7%, reflecting enhanced price competition. Efficiency deteriorated further, with cost/income at 66%, as a result of shrinking margins, investments in new banking infrastructure and lax cost control. The last, large state-owned bank, DSK Bank, was acquired by the Hungarian OTP. Consequently, the banking sector is now largely dominated by international financial institutions.

Outlook for 2004

Strong macroeconomic performance is expected to continue in 2004, with GDP growth forecast at 4.8%. The pattern of growth will gradually change, with the gap between positive contribution of domestic demand and negative net exports narrowing, on the back of export acceleration driven by EU economic recovery. 2004 fiscal targets will maintain macroeconomic stability and provide adequate capacity for emerging external risks. The enlarging current account deficit remains the key risk factor for the country's macroeconomic performance. Prudent fiscal policies, market-based economic reforms and further reduction of the national debt will continue to be the policy-mix pursued by the Government. High on the agenda for 2004 are the reforms of the judicial system (a key EU accession commitment), accelerating the privatization programme and further improvement in the business climate.

The banking system is expected to continue expanding relatively fast. Despite the indirect limitations on fast lending growth imposed by the Central Bank (the BNB), outstanding loans are estimated to increase by some 20-25%. It is yet to be seen whether rapid loans growth of 2002 and 2003 will translate into deterioration in loan quality. Interest spreads will drop further due to aggressive pricing and expansion plans from a majority of banks. Profitability of the banking sector will remain relatively high.

[1] BNB preliminary data.

[2] Non-performing loans, including all loans classified as sub-standard, doubtful and loss under the criteria of the BNB.

[3] Difference between average weighted price on customer loans and deposits.

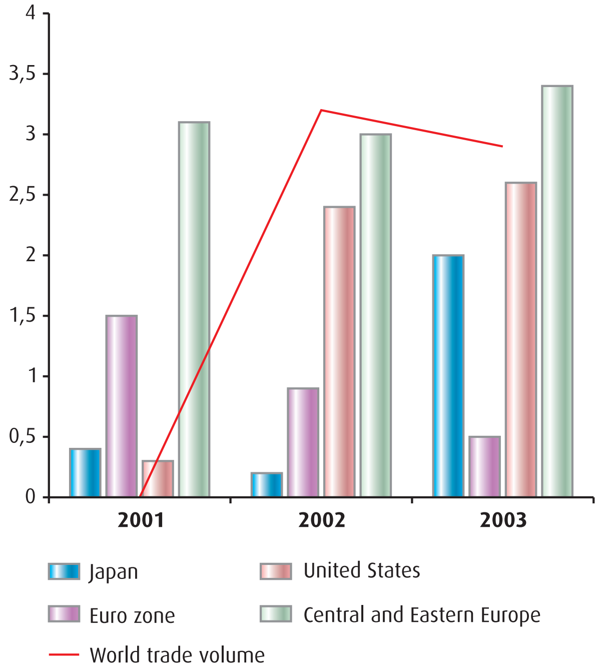
WORLD ECONOMY

2003 Overview

Despite adverse supply shocks and geopolitical uncertainties caused by the Iraq crisis in the first half of 2003, the world economy embarked on a path to recovery. As a result, global economic growth is up by an estimated 3.2% in 2003, compared with 3.0% in 2002.

Recovery continued to be led by the US economy, which is provisionally expected to have grown by 2.6% (2.4% previous year). Still, US economic performance appears burdened by a weak labour market and a deteriorating current account deficit, which reached 5.1% of GDP in 2003 from 4.6% in the previous year.

Growth of GDP (by region) and world trade (%)

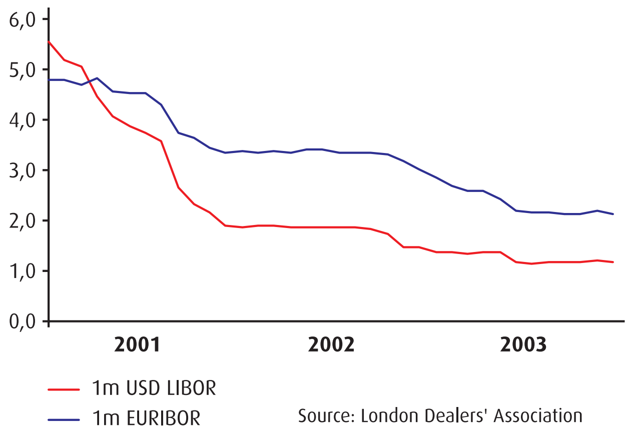


Economic growth in the Euro zone was constrained by continued disappointing private domestic demand, persistent underperformance by Germany and strong appreciation of the Euro in 2003. The region anticipates a rather gradual convalescence – growth of 0.5% in 2003 (0.9% in 2002) and a 2004 projection of 1.9%. Growth in EU accession countries remains solid and will continue to benefit from strong FDI inflows, although vague Euro area demand outlooks continue to be the main downside risk. CEE countries expected economic growth of 3.4% in 2003 (3.0% in 2002).

The economy of Japan performed better than expected, though its pace of recovery is still expected to remain moderate, 2.0% GDP growth in 2003 (from 0.2% in 2002).

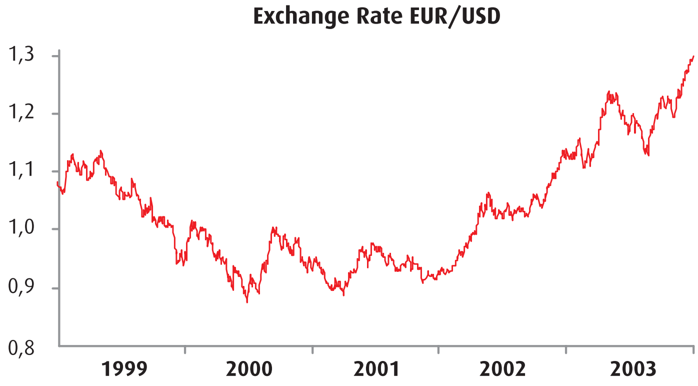
Industrial production and trade growth remained stagnant during 2002. Commodity markets were heavily influenced by geopolitical developments, recession and supply shocks. As a whole, world trade turnover growth in 2003 is estimated at 2.9% from 3.2% in 2002. Oil prices registered an annual increase of 14.2% (2.8% in 2002), reaching a 12-year record high during the war in Iraq.

Interest Rates (%)



Source: London Dealers' Association

With inflationary pressures remaining low (inflation in industrially developed countries is expected to be below 2% in 2003), monetary policies have been eased across the globe. Interest rates have been reduced in Europe and the USA. The combination of ample liquidity, monetary loosening and low inflationary pressure drove interest rates down further. Thus, in 2003 on average the 1 month USD LIBOR fell 32% versus 2002 (from 1.77% to 1.21%) and the 1 month EUR LIBOR dropped 29% (from 3.3% to 2.35%). However, the extent of macroeconomic stimuli varies substantially between the major industrialized countries – being significant in the US and the UK and restrained in the Euro area and Japan.



Source: UCI New Europe Research Division

The US dollar depreciated throughout the year, reflecting a combination of relatively low interest rates and continued investor concerns about large US deficits both on current account and public spending. It was matched by a substantial appreciation of the euro, the Canadian dollar, the yen, and sterling. At the end of the year euro was worth 1.26 US dollars, representing 17.8% annual appreciation. This had a major impact on world trade and on investment streams.

Equity markets strengthened in the second half of 2003, supported by improving corporate financial performance, recovery in business sentiments and abatement of the adverse effects of the war in Iraq. In 2003, the Dow Jones index increased 25%, whilst NASDAQ closed up 50%. The FTSE 100 registered a much more modest advance of 7%.

Outlook for 2004

With the global economic recovery gaining momentum and the balance of risks improving in 2003, global growth is expected to increase to 4.1% in 2004. The main underlying factors are anticipated to be the pick up of investment rates, the projected moderation of oil prices and a gradual equity market rebound. Monetary policies in the industrially developed countries are expected to be supportive of the recovery, against a backdrop of still weak inflationary pressure. Key concerns for 2004 are the enlarging current account deficits in the USA and emerging markets.

BULBANK ACTIVITY REVIEW

Financial results

Bulbank reports an increase of 17.6% in net profit to BGN 93 million, mainly attributable to growth in lending and securities, increased number of transactions, non-core asset divestment, tight cost control and provision write-back.

Total revenues are up 9.8% to BGN 174 million from BGN 158 million in 2002. Ignoring the effect of USD depreciation, they are up by 15%. Operating income total BGN 107 million, up 12.8% against 2002 (21.4% ignoring USD depreciation effect).

Thousands of BGN

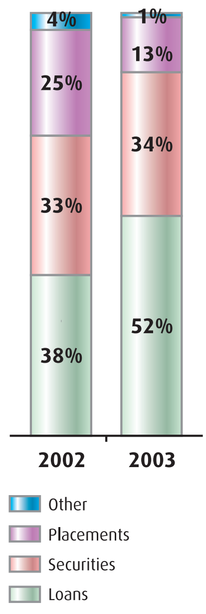
Summary operating income statement	2003	*2003 at fixed rate*	2002	Growth (%)	*Growth (%) at fixed rate*
Net interest income	97,974	*101,051*	91,112	7.5	*10.9*
Fees and commissions income	44,771	*48,221*	41,059	9.0	*17.4*
Gains from securities	11,901	*12,588*	12,642	(5.9)	*(0.4)*
Gains from foreign currencies	7,615	*8,372*	7,095	7.3	*18.0*
Other operating income	11,402	*11,642*	6,283	81.5	*85.3*
TOTAL REVENUES	**173,663**	***181,874***	**158,191**	**9.8**	***15.0***
Operating Expenses	(66,287)	*(66,287)*	(62,988)	5.2	*5.2*
OPERATING INCOME	**107,376**	***115,587***	**95,203**	**12.8**	***21.4***

Profitability and efficiency are improving compared to 2002: ROA is up to 3.4% versus 2.9%, ROE up to 18% versus 16.2%, EPS up to 56% versus 48% of share face value, cost/income ratio better at 38.2% versus 39.8%.

Net interest income is the main earnings contributor with 56% of total revenues. It grows 7.5% year on year (10.9% at fixed USD rate) to BGN 98 million. It is a result of several important counteracting factors. On the one hand, 2003 witnessed another sharp drop in market rates: BGN base rate dropped a third to 2.7%, 1 month USD LIBOR about the same to 1.2% and 1 month EURIBOR a little less to 2.35%. This in turn narrowed the spread on customer deposits, their price being generally preserved over the year, given the overall high levels on the local market. The fierce pricing competition in lending further squeezed loan-to-deposit spreads.

On the other hand, the bank increased and restructured its interest earning assets. Average loans went up by 65% and average securities portfolio by 11%, mainly at the expense of inter-bank placements, whose weight in total assets fell down to 22% at the end of the year from 41% a year earlier. Interest income on loans and securities rose 44% and 9% respectively and those on inter-bank placements dropped 46%. Thus, the interest income on loans accounted for 52% of total interest income, whereas securities and inter-bank placements comprised 34% and 13% respectively. Net interest margin[1] increased to 3.6% from 3.3% in 2002. The level of margin is influenced by the relatively low share of loans in total assets (31%)[2] and a prudent credit risk management policy.

Share in interest income



As regards currency denomination, net interest income in BGN increased 27%, while those in foreign currency shrank 7%, reflecting the market environment, currency structure of Bulbank's assets (25% of total assets area denominated in USD) and increased operations in the local market.

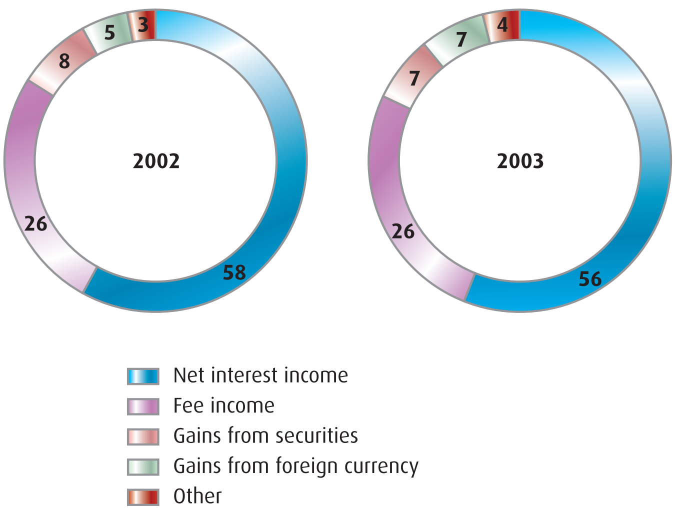
Fee income is up 9% to BGN 44.8 million, mainly attributable to fees and commissions from loans, and increasing fees from clean payments, cards and packages. Clean payments account for nearly 30% of total. New products launched in the last two years (packages, credit cards, assets under management) increased their share. Fee income accounts for 26% of total revenues.

Securities gains are down 6% to BGN 12 million, mainly due to the limited trading portfolio operations. Trading gains were mainly earned in the first half of the year, when the fixed income environment was favourable. Forex gains are up 7% to BGN 7.6 million, incorporating narrowing spreads.

[1] Interest income/average Assets

[2] Net loans/Assets at the end of 2003

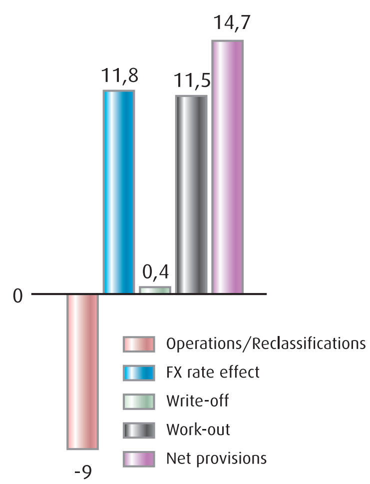
Revenue structure



In 2003, the bank started disposing of non-core assets. Income from sale of property amounts to almost BGN 7 million. All international representative offices of the bank were closed, in order to make effective use of the extensive worldwide network of UniCredit Group.

Operating costs remained under tight control, up 5.2% to BGN 66 million. Personnel costs slightly increased by 2%, incorporating a 2.5% drop in average number of staff. Other costs went up 13% attributable to the IT related costs, higher utilities prices and local taxes. Advertising and transaction related variable costs also increased. Depreciation is slightly down by 6%, yet is set to grow substantially over the next years due to the IT investments.

2003 net provisions (BGNmn)



Bulbank reports another year of net provision write-back. In 2003 the net write-back is BGN 14.7 million, up 63% compared with 2002, despite the fast growth in loan portfolio. This is mainly due to the successful work-out actions and USD depreciation.

Income tax increased by 16% to BGN 29 million, as a result of the 17% annual rise in the pre-tax profit. The effective tax rate in 2003 is 23.8%.

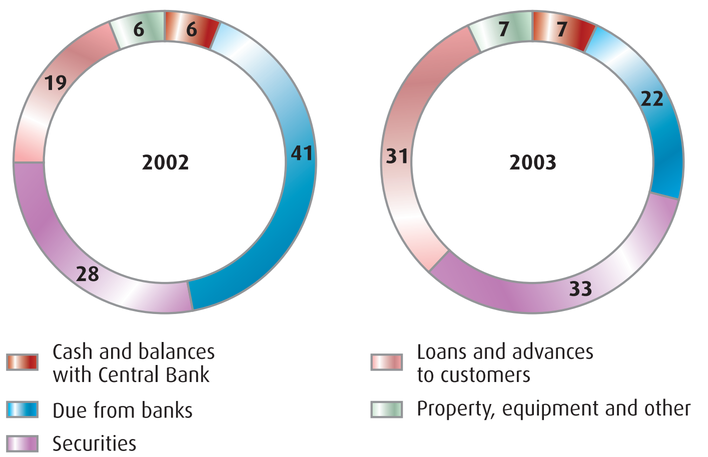
Balance sheet

The balance sheet total reaches BGN 2,837 million, up 4.2% compared with 2002 and 10.4% at a fixed exchange rate. The asset currency structure changed with the share of USD falling by 10 percentage points to 25% of total, in favour of BGN and EUR[1] with a total share of 73% at the end of 2003[2]. Interest earning assets are up to BGN 2,461 million, 85% of total assets, gross of provisions.

Millions of BGN

Summary Balance Sheet, adjusted[3]	2003	2002	Growth (%)	Growth (BGN mn)
Assets				
Cash and balances with Central Bank	209	154	36.1	56
Due from banks[4]	616	1,118	(44.9)	(502)
Securities[5]	935	771	21.3	164
Loans and advances to customers[6]	884	528	67.2	356
Property and equipment	175	137	27.3	38
Other assets	18	14	31.6	4
Total assets	**2,837**	**2,722**	**4.2**	**115**
Liabilities and shareholders' equity				
Customer deposits	2,178	2,050	6.2	128
Other liabilities	100	159	(37.1)	(59)
Total liabilities	**2,278**	**2,209**	3.1	69
Shareholders' equity	**559**	**513**	8.9	46
Total liabilities and shareholders' equity	**2,837**	**2,722**	**4.2**	**115**

Asset Structure



The structure of assets changed significantly. The loan portfolio experienced an impressive 63% growth reaching BGN 917 million (66% growth if the exchange rate effect is ignored) on a gross basis, from BGN 564 million in 2002. Thus, its share of total assets increased to 31% from 19% a year earlier[7]. Securities portfolio expanded by 21% to BGN 936 million, increasing its share in total assets to 33% from 28%, too. The inter-bank placements reduction turned out to be the main cause for the improvement of the interest-earning structure of assets. Inter-bank placements decreased by 45% to BGN 616 million, already comprising only 22% of total assets (41% in 2002 and 55% in 2001). Property and equipment is up 27%, incorporating the BGN 41 million IT related capital investments made in 2003. However, its share stays relatively small, 6% of total assets.

The bank continued to finance its operations through customer deposits and own funds. Customer deposits rose 6.2% in nominal terms (14.3% at fixed exchange rate) to BGN 2,178 million.

Shareholders' equity amounts to BGN 559 million, up 9% for the year (BGN 513 million in 2002) due to reinvestment of a part of 2002 net profit and growth in 2003 profit. The equity ratio rises to 19.7% from 18.9% in 2002. Total capital adequacy ratio under the Basle Accord is 34.8% (40.5% in 2002), and Tier1 ratio is 30.1% (36.4% in 2002). Risk weighted assets to total assets ratio is up to 43%. The bank is in full compliance with Regulation 8 of the BNB on Capital Adequacy: Tier1 capital ratio and total capital ratio being 20.4% and 38.3%, respectively.

1 The Bulgarian Lev is pegged to EUR under the ruling Currency Board Arrangement at BGN 1.95583 per EUR.

2 The remaining 2% of assets is denominated in currencies other than USD, EUR and BGN, mainly GBP and CHF.

3 Balance sheet from the financial statements is adjusted in order to give a clearer picture on the financial profile from the analytical point of view.

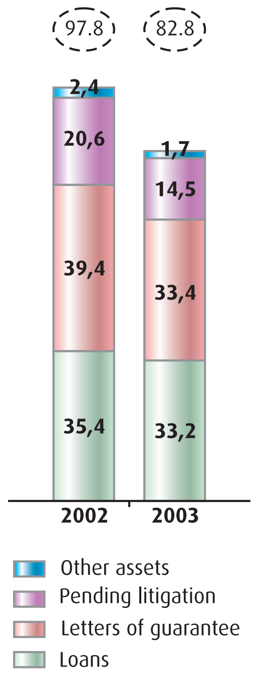
4 Excluding securities acquired at the primary market and commercial loans, added to this item in the financial statements.

5 Including securities acquired at the primary market, classified as Loans and advances to customers and Due from other banks in the financial statements.

6 Excluding securities acquired at the primary market, added to this item in the financial statements, and including commercial loans to financial institutions, classified as Due to other banks in the financial statements.

7 All calculations of share of total assets, unless otherwise stated, are on a net basis.

Provision stock (BGNmn)



Risk management

Bulbank continued to pursue a prudent risk management policy with respect to market, credit and operational risks.

Particular emphasis was laid in developing new tools to better manage credit risk given the sharp increase in the loan portfolio. New risk assessment and electronic underwriting tools were introduced for both corporate and retail lending (except for small businesses, where the underwriting tool will be introduced in 2004.). Additional effort is expected in 2004 and 2005 to further improve monitoring and to develop forecasting capabilities of probability of default to further improve asset risk profile and maximise profitability. All credit risks were properly provisioned. Gross asset provision coverage is 2.8% (3.5% in 2002). The amount of write-offs remained insignificant (BGN 0.4 million), given the stringent policy on repossession and work-out. As far as the loan portfolio is concerned, total provision coverage is 3.6%, NPL coverage is 75.3% and general provision coverage (on non-classified portfolio) is at 1.3%.

Bulbank pursues a conservative policy in managing foreign currency risks. The open position in USD and other currencies of 13.7% of the capital base at the end of the year thoroughly meets the requirements, set in Regulation 4 of the BNB. The open position in EUR is not considered high risk by the BNB, since the BGN is pegged to the EUR under the ruling Currency Board arrangement.

The interest rate risk has been a matter of particular focus, given the continuous volatility of base interest rates over the last 3 years and the highly competitive pricing environment in the local market. The interest rate positions are carefully monitored and managed. Bulbank uses standard derivative tools to hedge its foreign exchange and interest rate risks. VaR methodology is applied to determine the potential maximum loss.

The bank has traditionally been highly liquid. In spite of the active lending, the expected incoming cash flows exceeded outgoing. Liquid assets to deposits ratios denominated in BGN and in foreign currency are at satisfactory levels of 33.8% and 24.5%, respectively.

In terms of geographical concentration, Bulbank invests 56%[1] of its assets in Bulgaria (BGN 474 million increase in 2003 alone), thus getting closer to matching the level of external financing, predominantly generated from local sources, and making use of the improving credit risk profile of the country. Another 41% of total assets are placed in OECD countries, mainly Italy, Germany and USA.

With the introduction of the new IT system in 2003 and the organisational changes undertaken during the year, the bank also focused on internal control optimisation and proper monitoring of operational risks. New monitoring tools have been developed in accordance with the Group standards and practices. Basle Accord II introduction project was opened, also covering operational risk management as a constituent part of the future capital adequacy convention.

Commercial banking

Commercial banking is the main revenue contributor and the absolute focus for development. It generates BGN 124 million revenues[2] in 2003 representing 71% of the total. It is growing by 9.3% year on year despite the factors negatively influencing the bank's revenues, such as lower reference interest rates, USD depreciation and narrowing spreads. Bulbank counteracted them through active commercial initiatives and a consistent development policy. During the year the number of customers grew by sixty-five thousand[3], in all segments, thus increasing the customer base by 24% to three hundred and thirty-eight thousand. The loan portfolio increased substantially bringing the Loans to deposit ratio to 42%, up by 14 percentage points. A number of strategic new products were launched, mainly in retail banking, being the business area most unfavourably affected by the environment. The new IT system implementation allowed important changes in organisation, processes and branch layout. The size of the sales-force (people dedicated to portfolios of customers) increased significantly. All this substantially improved the capability of the bank to attract and retain clients, to increase its cross-selling and improve service quality. Targeted advertising campaigns were undertaken, mainly on retail products (mortgages, credit cards and assets under management) to support the strong commercial activity, especially on retail banking.

Corporate banking[4] generated BGN 94 million of revenues, up 12% on an annual basis. It was mainly driven by growth in loan portfolio (63% annual growth on average) and customer acquisition (up 17%

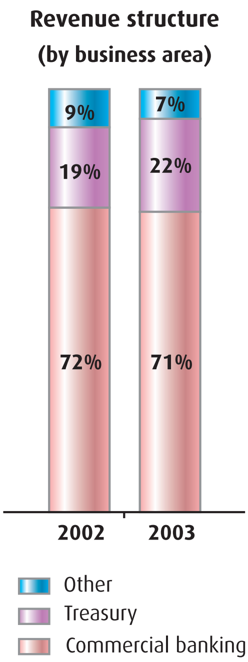
[1] Data as at end 2003.

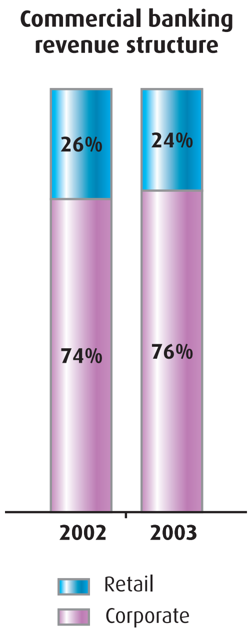
[2] Revenue split by business area is measured through applying internal transfer rates.

[3] New net customers, including gross new less gross left customers.

[4] Including the large corporate, mid corporate and small business segments. Small business segment is transferred to Retail in 2004.

year on year). This was supported by a strong development of the credit underwriting system through new tools, processes and intensive training. Bulbank strengthened its positions in the multinationals' segment. A couple of international projects were financed in syndication with other UCI subsidiaries. The bank was successful in selling payroll services to medium-size corporations acquiring in this way a significant number of new clients. The leasing business and a more active small business banking approach were prepared to leverage on the broad geographical coverage and distinctive corporate market positions of Bulbank.





Retail banking[1] was the main area of development, given the market potential, the bank's positions and its longer-term plans. It generated BGN 30 million of revenues, marking 1.2% growth only, mainly as a result of the external factors commented on elsewhere in this report. Spreads on deposits[2] dropped by 35%, compensated by 114% yearly growth of average loans and 26% of fee income. As regards lending products, special focus was placed on mortgages, which grew by 137% in the year. The number of bank cards increased 41% to one hundred and ninety-four thousand, including nearly 2,000 pure credit cards, a new product for the market. The number of POS terminals grew by 37% to 480 and the number of ATMs by 63% to 91. More than 4,000 new UNICO packages were sold, up 24% in the year. A great deal of effort was made in developing the sales-force, not only in terms of increasing the number of sellers, but also new segment coverage and improving selling skills. All this allowed the bank to acquire sixty-one thousand new customers.

In 2003, the bank, first on the market, launched state-of-the-art personal investment products, leveraging on the strong UniCredit Group expertise in this area. In January, Bulbank first offered international mutual funds (Pioneer mutual funds[3]) on the local market. The efforts were mainly focused on developing the market allowing fast growth of sales at the end of 2003 and the beginning of 2004. As a result Bulbank is already clear market leader with almost 30% market share. Structured term deposits were launched with a minimum guaranteed return and additional premium, linked to specific mutual funds performance. Several life insurance products with long-term saving schemes were successfully launched and distributed in co-operation with Allianz[4], an important partner of the bank.

Customer deposits

Customer deposits[5] increase by 6.2% or BGN 128 million to BGN 2,178 million. However, ignoring the negative impact of USD depreciation, they grow by 14.3% or nearly BGN 300 million.

USD still accounts for 35% of total deposits, compared with 48% in 2002. The trend for USD-to-EUR conversion of foreign currency deposits, observed at the end of 2002, progressed and the EUR denominated component's share aligned with the USD one – 35% at the end of the year (from 23% in 2002). This was a result of the depreciating USD (18% in 2003), interest rates in USD almost half those for EUR and the increasing importance of the EUR as a preferred foreign currency for business and individual consumption transactions. Bulbank holds a 24% market share in foreign currency deposits and 11% share in BGN denominated deposits.

Company deposits grew by 17%, accounting for 52% of total deposits. Their currency structure is dom-

[1] Including only individuals: private, affluent and family segments. Small business segment is transferred to Retail in 2004.

[2] As according to the internal profitability rules, the spread on deposits (loans) is equal to the difference between the bank price for the particular interest bearing (earning) instrument and the corresponding market reference interest rate.

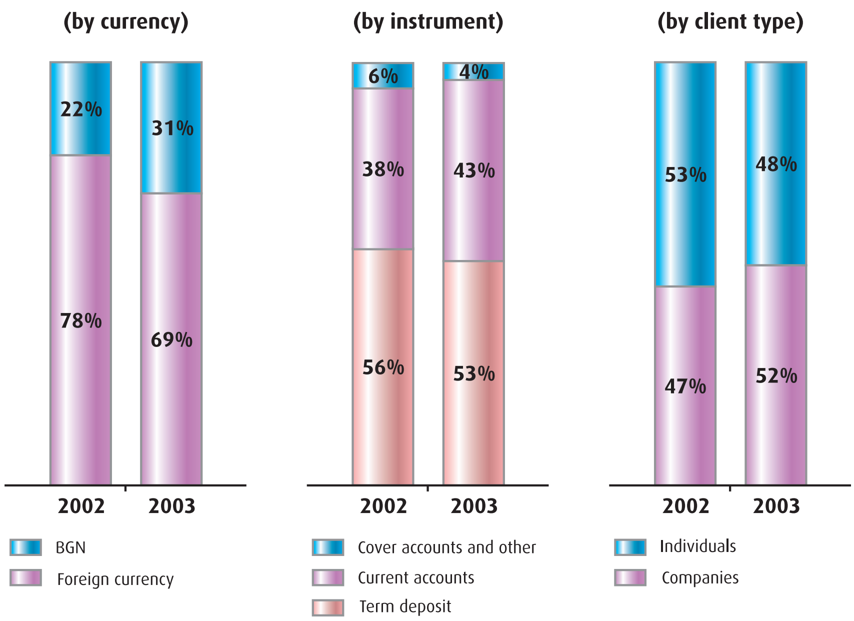
[3] Pioneer Investment Fund is part of UniCredit Group.

[4] Allianz Bulgaria Life products.

[5] Including other financial institutions less banks.

inated by BGN (43% of total) and EUR (44% of total), while USD deposits represent only 13%. Conversely, deposits from individuals dropped 3%, due to being denominated mainly in USD (59% of total). In order to protect its deposit base the bank started issuing USD denominated structured long-term deposits and preserved pricing and return to its clients despite the fall in international rates. At the end of the year Bulbank holds 20% market share of company deposits and 15% market share of personal deposits.

Deposit structure

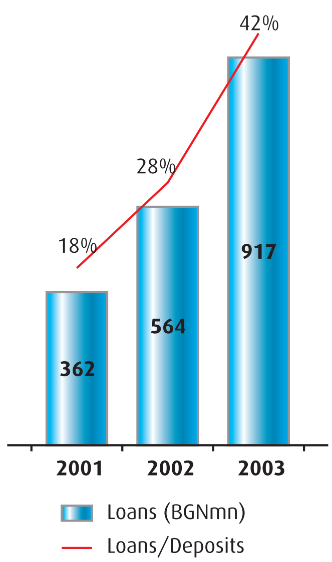


Term deposits still dominate, being 53% of total deposits (56% in 2002). Current accounts marked a growth of more than 23%, facilitated by customer acquisition and active lending.

Loan Portfolio

Loan portfolio marked a record 63% growth in 2003, up to BGN 917 million[1] on a gross basis from BGN 564 million a year earlier. Loans to deposit ratio increased to 42% from 28% and 18% in 2002 and 2001, respectively. This development was driven by strong commercial focus, supported by fast growth of the local lending market and improved investment opportunities.

Loans



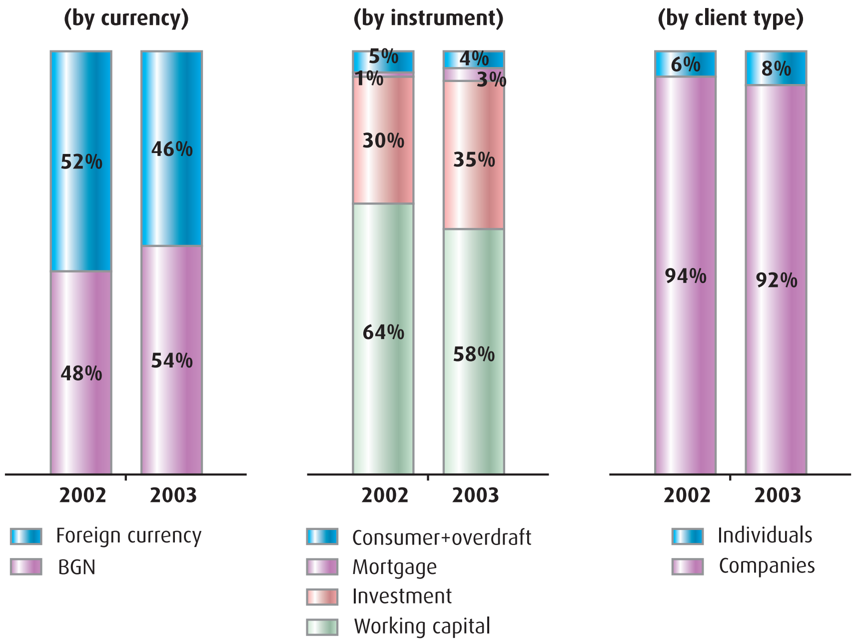
In 2003, the bank completed the first phase of its credit underwriting excellence project, initiated in the previous year. As a result, new risk measurement and underwriting electronic tools, for corporate and retail, were introduced. A new internal risk rating system was implemented. Underwriting, review and monitoring processes are in process of being redesigned. Credit officers and sales-people received intensive training. Thus the bank seriously improved its lending and risk management capacity, and also succeeded in diversifying the risk. The share of the 25 largest exposures dropped to 47% from 52% a year ago.

Loans to companies grew 60% to BGN 847 million, accounting for 92% of total. The predominant part is granted to large and mid-size companies. The largest loan accounts for 8.5% of total portfolio and 14% of equity. The average company loan amount is BGN 370 thousand, up 42% year on year. The share of working capital loans is more than 60% of total company loans. The currency structure is equally split between BGN and foreign currency (mainly EUR). Bulbank holds a 12% market share of company loans.

1 Including BGN 17 million loans to financial institutions.

Loans to individuals almost doubled to BGN 70 million, 8% of the total, gaining more than 3% of the market. The scoring system, introduced during the year, allowed for faster, risk controllable growth. Bulbank, contrary to the rest of the banking market, chose to maintain a conservative policy for growth in consumer financing, privileging instead growth in mortgage lending. Mortgage loans increased nearly 2.5 times to BGN 32 million, while consumer loans advanced less than twice to BGN 32 million, too. Personal loans are almost wholly granted in BGN. Overdrafts, mainly on cards, increased quickly, thus becoming a standard component of package products developed for our individual clients.

Loan portfolio structure



The industry structure of the portfolio is preserved, largely reflecting the structure and development of the Bulgarian economy. It is concentrated in manufacturing, commerce and tourism, overall more than 80% of total.

Millions of BGN

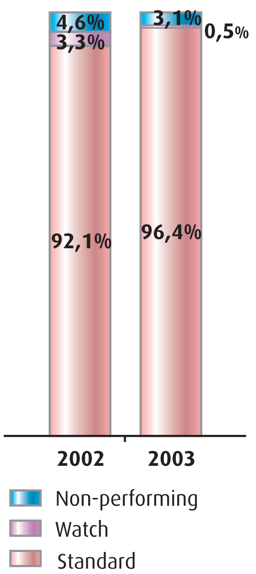
Industry structure	2003		**2002**	
	Amount	Share	Amount	Share
Processing and manufacturing	414	45%	254	45%
Commerce	210	23%	126	22%
Tourism	125	13%	77	14%
Households and individuals	61	7%	28	5%
Agriculture	34	4%	17	3%
Services	32	3%	33	6%
Transport	26	3%	14	2%
Construction	15	2%	15	3%
	917	**100%**	**564**	**100%**

The steadfast growth of portfolio did not adversely impact the quality. Non-performing loan ratio[1] improved to 3.1% from 4.6% a year ago. The main reason is the disproportionate growth of non-performing loans and total portfolio, up by 10% (by BGN 2 million to BGN 28 million) and 63% respectively. Another important point is the successful work-out activity of the bank, recovering over BGN 10 million of bad loans, mainly long standing items. There were no loan write-offs during the year. Watch loans to total loans ratio dropped to 0.5% from 3.3% in 2002. The share of standard loans in the portfolio improved to 96% from 92% a year ago. Consumer lending tends to be the most risky profile component.

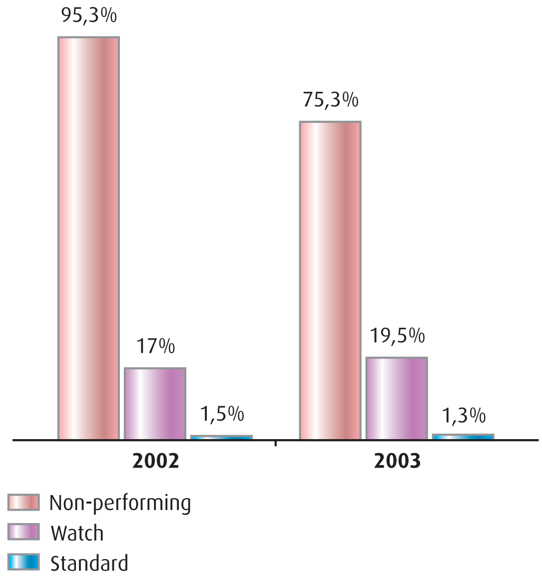
[1] Non-performing loans/Total gross loans. Non-performing are all those loans classified as sub-standard, doubtful and loss (provisioned more than 30%) as per the ruling Regulation 9 of the BNB.

Quality improvement predetermines a drop in provision coverage despite strict risk monitoring and prudent provisioning policy, both of which the bank has traditionally pursued. Total portfolio coverage fell to 3.6% from 6.3% a year ago. Non-performing loan coverage ratio is 75%. The standard loans risks are monitored on a case-by-case basis for individually significant loans (not provisioned) and on a pooling basis (industry based) for the smaller tickets. The standard loans coverage is 1.3% at the end of the year.

Loan portfolio structure (by risk)



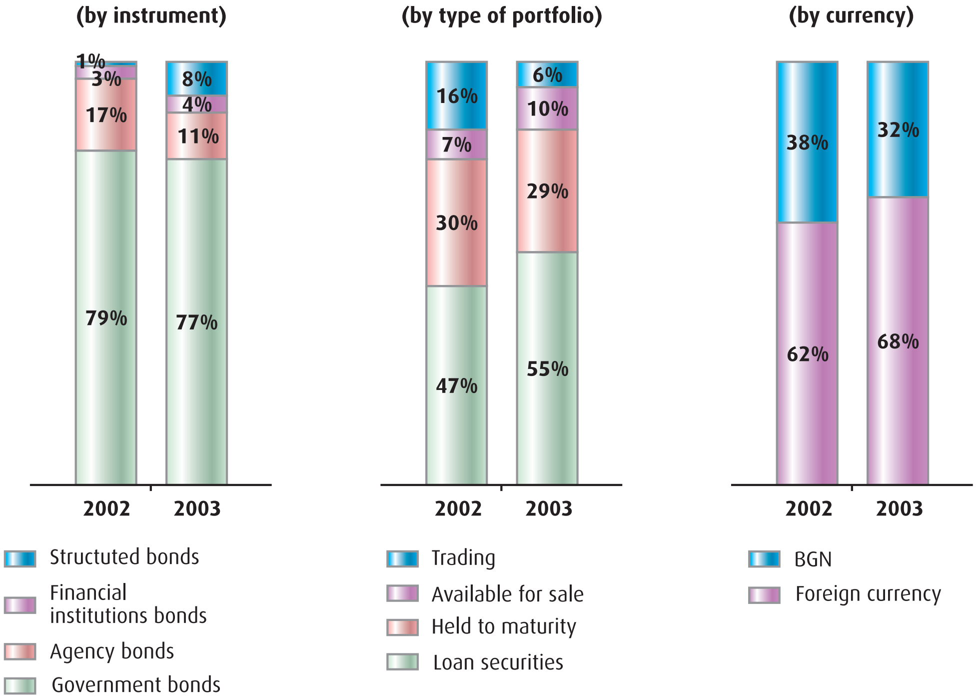
Loan provision coverage



Money market and capital market operations

In 2003 Bulbank continued to pursue a conservative, yet more active investment policy. The securities portfolio swelled to BGN 935 million[1], up 21%, at the expense of lower-yielding inter-bank placements. The foreign currency securities portfolio is the main contributor growing 33%. Government bonds retain their largest share (77% of total), increasing by 19% to BGN 717 million. OECD governmental agencies and high-rated financial institution bonds add an additional 15% to the total portfolio. The remaining part is comprised of structured bonds, being synthetic instruments with selected, underlying sovereign risk. Almost half of the portfolio (BGN 452 million) is invested in Bulgarian Government securities. The average risk of the securities is S&P "A+" and the average duration is 4 years.

Secutities portfolio



The trading portfolio was limited to 6% of total (16% at the end of 2002). Longer-term investments dominated the portfolio, of which loan securities portfolio[2] accounted for 55% of total and held-to-maturity securities represented 29% of total. Gains are slightly down to BGN 11.9 million (BGN 12.6 million in 2002), mainly because of narrower spreads and smaller revaluation. The trading income drop however is compensated by the portfolio interest income, which is up 9% year on year. The average coupon is 4.6%, down 14% on an annual basis.

Inter-bank placements are down significantly by 45% to BGN 616 million. These are only short-term deposits placed with highly ranked international banks. Inter-bank operations on the local money market were carried out on a limited scale, for short-term liquidity purposes only.

The equity investments remain almost unchanged at BGN 7.1 million. During the year the bank sold its shareholding in Euroclear bringing the number of equity participations down to 10. In February 2004, Bulbank acquired 100% of Unileasing, a small local leasing company, as part of its strategy for developing a leasing business.

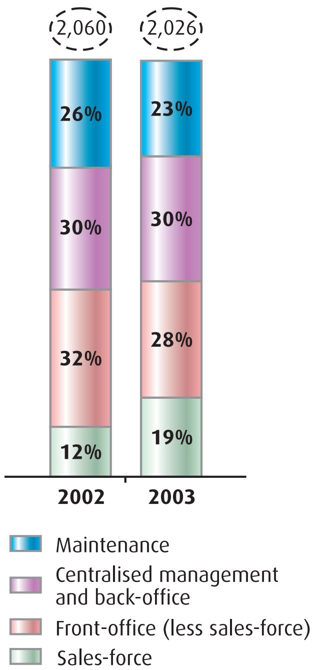
Information technology and organisation

In 2003, a new centralised IT system was implemented, as a result of nearly 3 years of development and implementation. More than BGN 60 million was invested. It covers all operating outlets of the bank ensuring direct access to and operation on a customer account at each point of sale. At present the bank uses one of the most advanced banking applications – ICBS for retail operations, OPICS for treasury operations, Trade Innovation for trade finance and international payments, Oracle Financials for general ledger, centralised purchasing and inventory management, cost control and budgeting. New credit underwriting electronic tools were developed. Other specialised systems were introduced or

[1] Including accrued interest.

[2] Loan portfolio securities, are those securities purchased on the primary market, that is direct financing of the issuer.

Structure of staff



upgraded assuring adequate support to different operational areas.

As a result, many back-office activities, control and support functions were centralised, thus turning branches into pure delivery channels. Teller and cashier positions were merged. Processing capacity of the bank was substantially improved. Introduction of new products is now fully facilitated. Monitoring and controlling areas also benefited, obtaining fast access to data, used for faster and appropriate decision making. IT security was upgraded.

This provided better customer service and workflow organisation. Leveraging on the new IT application a new branch model was introduced. The layout of the bank's lobbies changed to better facilitate servicing relationships, financial consulting and privacy. The number of sales people increased at the expense of back-office and maintenance positions. Clear distinction was introduced between customer relationship management and operations. In the middle of the year a pilot was launched on the new commercial model organisation (divisionalisation) introducing a new concept of regional commercial business management and sales specialisation by sub-segment. It will be completed in the first half of 2004.

Human resources

Bulbank human resources policy developed in line with the overall evolution of the bank, setting the following main goals:

- improvement and development of commercial and managerial skills
- regular performance appraisal on the basis of key corporate competencies and measurable targets
- development of a system for assessment of potential
- introduction of a fair, modern compensation and benefit system.

The 2003 achievements were:

- increase in the size of sales-force
- spread of managerial and sales forces training on a broader basis
- adoption of management skills assessment and career development practice
- upgrade of the incentive system
- support to the new business model introduction.

At the end of the year the total number of staff is 2,026 (2,060 at the end of 2002), including 90 people working on the new IT project. The sales-force (people dedicated to portfolios of customers) is up 58% to 378. The number of front desk officers grew to 948, 47% of total staff. Head office accounted for 29% of total staff.

Special emphasis was laid on the active upgrade of knowledge and skills on a broader basis. Training activity was focused on managerial skills development and professional growth, credit excellence and selling skills. The total number of people attending different forms of training during the year is 2,478 and the average training days per capita is 5.6. A second group of high potential young people started their managerial training in the "Young Talents" programme, designed and performed together with UniCredito Italiano and Bocconi University.

An assessment centre was established and a new system for appraisal of potential was introduced, incorporating the UniCredit competence model and adapted to the local cultural context.

The joint UniCredito-Bulbank Partnership Programme, opened 3 years ago, continued covering 12 important projects during the year.

Corporate social responsibility

Corporate social responsible behaviour is a primary priority of Bulbank. In 2003, the bank joined the Global Compact Initiative of Mr Kofi Annan, Secretary General of the United Nations, being fully committed to its principles. The goal of the initiative is to improve environmental, labour and human rights conditions globally.

The bank's sponsorship and charity were directed towards child healthcare projects, cultural and sport activities. Together with Unidea, UniCredit Foundation, the bank supported the Haemodialysis Clinic of Child Hospital and the School for visually impaired children in Sofia. Unidea expanded its scope of activity on a broader basis, providing support for social purposes matching the financing given by local sources.

Bulbank is one of the main drivers of Italian-Bulgarian cultural exchanges. In 2003, the Italian classical music and art was brought to Bulgaria through a concert of the famous Arena di Verona theatre soloists. The Splendour of the Baroque exhibition brought to Sofia some of the most beautiful baroque paintings from the famous collection of Rolo Banca, part of UniCredit Group. There are other numerous cultural events on the bank's list. The Inter Campus project continued, in conjunction with the Italian football club Inter, to support children from disadvantaged regions of Bulgaria.

Outlook for 2004

In 2004, Bulbank plans further expansion and development of its commercial business, organisation and infrastructure. Given its high capitalisation and in the context of a positive macroeconomic environment with still strong demand for loans, the bank plans to carry on restructuring its balance sheet, increasing the weight of customer loans yet at a lower pace than last year, whilst applying high risk management standards and norms. Strict limits are set on credit, interest rate and FX risks. An additional portion of the non-core assets will be sold.

A new commercial model, based on deeper segment-based servicing, will be introduced in the first half of the year aiming at stronger customer focus and a better span of control. A new regional structure will be introduced. E-banking will be developed, covering both corporate and retail. UniCredit Leasing[1], the leasing arm of the bank, is planned to realise fast growth in sales providing the bank's clients a new product to support their financing needs. In the corporate area, the main focus will be on selective lending growth, leasing, e-banking, cash management, derivatives and service quality. Special emphasis will be laid on small business development. In the personal banking area, sales in mortgages, assets under management, life insurance and credit cards are high on the agenda. Cross-selling activities will be accelerated. The new commercial model will introduce new sales management roles and expand the sales-force both in size and segment sub-specialisation. The bank plans to keep on investing in IT and delivery channels whilst continuously improving efficiency.

Human resource development is critically instrumental for goal achievement. Active training of salespeople is planned on a modular principle, specialised by positions and segments. A credit learning organisation principle will be introduced, as a part of a global UCI project, aiming to build up high credit risk management standards for managerial and sales positions. The compensation policy and the assessment system will be upgraded to best assess performance, role and potential, matching it with proper incentives and career path.

Service quality, corporate social responsibility and value creation to stakeholders will remain leading governance principles.

In 2004, the bank celebrates the 40th anniversary of its establishment, marking an eventful history and a successful growth path.

[1] The new name of Unileasing OOD, acquired in 2004.

BULBANK AD

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS

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REPORT OF THE AUDITORS
TO THE SHAREHOLDERS OF BULBANK AD

We have audited the accompanying balance sheet of Bulbank AD („the Bank") as at 31 December 2003 and the related statements of income, changes in shareholders' equity and cash flows for the year then ended. These financial statements set out on pages 25 to 49 are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Bulbank AD as at 31 December 2003, the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

27 February 2004
Sofia, Bulgaria

BULBANK AD

Income Statement

Thousands of BGN

	Notes	Year ended 31 December	
		2003	2002
Interest Income		119,192	112,749
Interest Expense		(21,218)	(21,637)
Net Interest Income	3	**97,974**	**91,112**
Fee and Commission Income		47,205	43,446
Fee and Commission Expense		(2,434)	(2,387)
Net Fee and Commission Income	4	**44,771**	**41,059**
Gains less Losses from Trading Securities	5	1,514	3,485
Gains less Losses from Investment Securities	6	10,387	9,157
Gains less Losses from Foreign Currencies	7	7,615	7,095
Other Operating Income	11	11,402	6,283
TOTAL REVENUES		**173,663**	**158,191**
Operating Expenses	8	(66,287)	(62,988)
OPERATING INCOME		**107,376**	**95,203**
Write-backs of provisions	10	14,706	9,004
PROFIT BEFORE TAX		**122,082**	**104,207**
Income Tax Expense	12	(29,057)	(25,077)
NET PROFIT		**93,025**	**79,130**

The accompanying Notes 1 to 33 are an integral part of these financial statements.

BULBANK AD

Balance Sheet

Thousands of BGN

	Notes	As at 31 December	
		2003	2002
ASSETS			
Cash and Balances with Central Bank	13	209,382	153,793
Due from Other Banks	14	757,176	1,170,164
Trading Securities	15	58,034	124,357
Derivative Financial Instruments	16	12,721	5,948
Loans and Advances to Customers	17	1,247,441	832,007
Investment Securities, Held-to-maturity	18	268,535	233,673
Investment Securities, Available-for-sale	19	105,328	59,737
Other Assets	21	3,031	4,729
Property and Equipment	22	175,123	137,572
TOTAL ASSETS		**2,836,771**	**2,721,980**
LIABILITIES			
Due to Other Banks	23	13,625	60,318
Derivative Financial Instruments	16	2,906	-
Due to Customers	24	2,177,781	2,049,957
Other Liabilities	25	21,936	16,734
Deferred Income Tax	26	13,498	21,784
Other Provisions	27	47,877	59,938
TOTAL LIABILITIES		**2,277,623**	**2,208,731**
SHAREHOLDERS' EQUITY			
Share Capital	29	166,370	166,370
Retained Earnings		332,990	298,317
Revaluation Reserves		59,788	48,562
TOTAL SHAREHOLDERS' EQUITY		**559,148**	**513,249**
TOTAL EQUITY AND LIABILITIES		**2,836,771**	**2,721,980**

Levon Hampartzoumian,
Chairman of the Management Board
and Chief Executive Officer

Alessandro Decio,
Deputy Chairman of the Management Board
and Chief Operating Officer

25 February 2004

The accompanying Notes 1 to 33 are an integral part of these financial statements.

BULBANK AD

Statement of Changes in Shareholders' Equity

Thousands of BGN

	Share Capital	Retained Earnings	Fixed Assets Revaluation Reserve	Investment Securities Revaluation Reserve	Shareholders' Equity
Balance as of 1 January 2002	166,370	274,076	48,673	1,360	**490,479**
Available-for-Sale Investments - Net Fair Value Losses (Note 19)	-	-	-	(84)	**(84)**
Available-for-Sale Investments - Transfer to Net Profit	-	-	-	(1,360)	**(1,360)**
Transfer of Revaluation Reserves on Realised Surplus	-	20	(27)	-	**(7)**
Net Profit for the Year	-	79,130	-	-	**79,130**
Dividend Distribution	-	(54,902)	-	-	**(54,902)**
Other Distribution	-	(7)	-	-	**(7)**
Balance as of 31 December 2002	**166,370**	**298,317**	**48,646**	**(84)**	**513,249**
Balance as of 1 January 2003	166,370	298,317	48,646	(84)	**513,249**
Available-for-Sale Investments - Net Fair Value Losses (Note 19)	-	-	-	(403)	**(403)**
Available-for-Sale Investments - Transfer to Net Profit	-	-	-	110	**110**
Transfer of Revaluation Reserves on Realised Surplus	-	1,564	(1,564)	-	**-**
Net Profit for the Year	-	93,025	-	-	**93,025**
Dividend Distribution	-	(59,893)	-	-	**(59,893)**
Fixed Assets Revaluation			13,083		**13,083**
Other Distribution	-	(23)		-	**(23)**
Balance as of 31 December 2003	**166,370**	**332,990**	**60,165**	**(377)**	**559,148**

The accompanying Notes 1 to 33 are an integral part of these financial statements.

BULBANK AD

Cash Flow Statement

Thousands of BGN

	Notes	Year ended 31 December	
		2003	2002
Cash Flows from Operating Activities			
Interest, Fee and Commission Receipts		164,027	152,078
Interest, Fee and Commission Payments		(22,574)	(25,791)
Net Trading and Other Income		30,918	24,967
Personnel Expenses and Other Operating Expenses		(56,138)	(53,584)
Income Tax Paid		(34,588)	(29,078)
Operating Cash Flow before Changes in Operating Assets and Liabilities		**81,645**	**68,592**
Net (Increase)/Decrease in Operating Assets			
Statutory Reserves with the Central Bank		(34,300)	17,775
Due from Other Banks		(102,473)	(44,376)
Loans and Advances to Customers		(437,787)	(406,946)
Trading Securities		66,119	93,985
Other Assets		1,484	(11,279)
Net Increase/(Decrease) in Operating Liabilities			
Due to Other Banks		(44,917)	15,482
Due to Customers		289,214	146,317
Other Liabilities		3,862	(11,482)
NET CASH USED IN OPERATING ACTIVITIES		**(187,153)**	**(131,932)**
Cash Flows from Investing Activities			
Investment Securities (Debt Securities)		(114,657)	(91,369)
Proceeds on Sale of Equity Securities		85	10
Purchase of Property, Equipment and Software	22	(40,796)	(31,103)
Proceeds on Sale of Property and Equipment	22	6,781	1,002
NET CASH USED IN INVESTING ACTIVITIES		**(148,587)**	**(121,460)**
Cash Flows from Financing Activities			
Dividends Paid		(59,928)	(62,683)
NET CASH USED IN FINANCING ACTIVITIES		**(59,928)**	**(62,683)**
Effect of exchange rate changes on cash and cash equivalents		(89,485)	(105,978)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(475,153)**	**(422,053)**
CASH AND CASH EQUIVALENTS AS AT 1 JANUARY	31	**1,114,212**	**1,536,265**
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER	31	**639,059**	**1,114,212**

The accompanying Notes 1 to 33 are an integral part of these financial statements.

BULBANK AD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

Background

Bulbank AD (hereinafter, "Bulbank" or the "Bank") was incorporated in 1964 under the name of Bulgarian Foreign Trade Bank as a joint-stock company under the requirements of the Bulgarian Trade Act, and with a statutory specialisation in foreign trade payments and finance.

1. Accounting Policies

The principal accounting policies adopted in the preparation of these financial statements are set out below:

A. Basis of Presentation

The accompanying financial statements of Bulbank as of 31 December 2003 are prepared in accordance with International Financial Reporting Standards (hereinafter "IFRS") by the Management of the Bank. The financial statements are prepared under the historical cost convention as modified by the revaluation of available-for-sale investment securities, land and buildings, financial assets and financial liabilities held for trading and all derivative contracts, and are presented in thousands of Bulgarian Leva (hereinafter, "BGN"), unless otherwise stated. Where necessary, corresponding figures have been adjusted to conform with changes in the presentation of the current year.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

B. Foreign Currency Transactions

Transactions denominated in foreign currencies are recorded in the reporting currency at the official exchange rate set by the Bulgarian National Bank (hereinafter "BNB" or "Central Bank") at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are reported at the rates of exchange effective at the end of the reporting period. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss under "Gains less Losses from Foreign Currencies" caption in the income statement.

The exchange rates at 31 December 2003 of the main foreign currencies traded by the Bank against the BGN set by the BNB are as follows:

BGN per currency unit

	2003	2002
US Dollar (USD)	1.549	1.885
Euro (EUR)	1.956	1.956
Swiss Franc (CHF)	1.255	1.343
Pound Sterling (GBP)	2.775	3.018

C. Derivative financial instruments

Derivative financial instruments including currency options, interest rate swaps, credit default swaps and other derivative financial instruments are initially recognised in the balance sheet at cost (including transaction costs) and subsequently are remeasured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models and pricing models as appropriate. The positive fair value of the derivatives is carried as asset and the negative fair value is carried as liability. The changes in the fair value of derivatives are included in the income statement.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains and losses reported in income.

D. Offsetting financial instruments

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

E. Interest and discount income and expense

Interest income and expense are recognised in the income statement for all interest bearing instruments on an accrual basis. Interest income includes coupons earned on investment and trading securities. The discount and premium on Investment securities, Held-to-maturity are recognized as interest income and expense .

F. Fees and commissions

Fees and commissions on the financial services, provided by the Bank are generally recognised on an accrual basis when the service has been provided. Fees and commissions arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities, are recognised on completion of the underlying transaction.

G. Trading securities

Trading securities are securities which were acquired for generating profit from short term fluctuations. Trading securities are initially recognised at cost on a settlement date basis and subsequently re-measured at fair value based on quoted bid prices. All related realised and unrealised gains and losses are included in gains less losses from trading securities. Interest earned whilst holding trading securities is reported as interest income.

However, in a developing capital market, the prices with which transactions are realised can be different from quoted prices. While management has used available market information in estimating fair value, the market information may not be fully reflective of the value that could be realised in the current circumstances.

H. Sale and repurchase agreements

Securities sold subject to a linked repurchase agreements ('repos') are retained in the financial statements as trading securities and the counterparty liability is included in amounts due to other banks, or due to customers, as appropriate. Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to other banks or customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

I. Investment securities

The Bank classified its investment securities into the following two categories: held-to-maturity and available-for-sale assets. Investment securities with fixed maturity where management has both the intent and the ability to hold to maturity are classified as held-to-maturity. Investment securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as available-for-sale.

Management determines the appropriate classification of its investments at the time of the purchase.

Investment securities are initially recognised at cost (which includes transaction costs). Debt securities, available-for-sale are subsequently re-measured at fair value based on quoted bid prices or amounts derived from cash flow models. Unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in equity. Equity securities classified as available-for-sale investments comprise unlisted shares, for which fair values cannot be measured reliably and are recognised at cost less impairment. When the securities are disposed of or impaired, the related accumulated fair value adjustments are included in the income statement as gains less losses from investment securities.

Held-to-maturity investments are carried at amortised cost using the effective yield method, less any provision for impairment

A financial asset is impaired if its carrying value is greater than its estimated recoverable amount. The amount of the impairment loss for assets carried at amortised cost is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate. By comparison, the recoverable amount of an instrument measured at fair value is the present value of expected future cash flows discounted at the current market rate of interest for a similar financial asset.

Interest earned whilst holding investment securities is reported as interest income.

J. Loans and provisions for loan impairment

Loans originated by the Bank by providing money directly to the borrower or to a sub-participation agent at draw down, other than those that are originated with the intent of being sold immediately or in the short term which are recoded as trading assets, are categorised as loans originated by the Bank and are carried at amortised cost, which is defined as the fair value of cash consideration given to originate those loans as is determinable by reference to market prices at origination date. Debt securities acquired at the primary market and not held for trading are classified as loans. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction.

All loans and advances are recognised when cash is advanced to borrowers.

Impairment for loan loss is established if there is objective evidence that the Bank will not be able to collect all amounts due according to the original contractual terms of loans. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans.

The impairment for loan loss also covers losses where there is objective evidence that probable losses are present in components of the loan portfolio at the balance sheet date. These have been estimated based upon historical patterns of losses in each component, the credit ratings allocated to the borrowers and reflecting the current economic climate in which the borrowers operate. When a loan is uncollectable, it is written off against the related provision for impairments. Subsequent recoveries are credited to the provision for loan losses in the income statement.

If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited as a reduction of the provision for loan losses.

K. Property and equipment

All property and equipment is stated at historical cost less depreciation except land and buildings which are carried at fair value. The last revaluation of land and buildings has been made at the end of 2003 and the appraisal has been performed by a qualified independent valuer. In accordance with IAS 16 "Property, plant and equipment" the accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Depreciation is calculated on the straight line method to write off the cost of each asset to their residual values over their estimated useful life. Construction in progress is not depreciated until it is transferred into use. Land is also not depreciated.

The estimated useful life of assets is as follows:

	Years of Useful Life	
	2003	**2002**
Tangible fixed assets		
Buildings for own use	33	33
Furniture and installations	5 – 7	5 – 7
Office and data processing equipment	5 – 9	5 – 7
Motor vehicles	4	4
Intangible fixed assets	5	5

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining net operating income.

Repairs and maintenance are charged to the income statement when the expenditure is incurred.

Management of the Bank has approved an accounting policy under which all expenditures directly related to the implementation and roll-out of the new information system are capitalized setting up its book value.

L. Operating leases

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

M. Provisions

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

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date

N. Income taxes

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

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax.

The principal temporary differences arise from depreciation of property and equipment, provisions and certain accruals. The rates enacted or substantively enacted at the balance sheet date are used to determine deferred income tax.

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

2. Financial Risk Management

A. Strategy in using financial instruments

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

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

The Bank also trades in financial instruments where it takes positions in traded and over the counter instruments including derivatives to take advantage of short-term market movements in currency and interest rate prices. The Management places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions. With the exception of specific hedging arrangements, foreign exchange and interest rate exposures associated with these derivatives are normally offset by entering into counterbalancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

B. Credit risk

The Bank assumes exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and the geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

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

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

Derivatives

The Bank maintains strict control limits on net open derivative positions, i.e. the difference between purchase and sale contracts, by both amount and term. At any one time the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Bank (i.e. assets), which in relation to derivatives is only a small fraction of the contract or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the Bank requires margin deposits from counterparties.

Credit related commitments

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

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

Geographical concentration of assets and liabilities

The Bank's exposure to credit risk is concentrated in the areas specified in the table below. Operations connected to Bulgaria include all primary business segments. The predominant activity in Italy, Germany, USA and other OECD countries is related to corporate and treasury operations. The loan customers of the Bank are mainly Bulgarian, and all placements and current accounts with foreign banks are domiciled in OECD countries.

Thousands of BGN

As at 31 December 2003	**Total assets**	**Total liabilities**	**Commitments**
Bulgaria	1,583,643	2,209,670	367,715
Italy	311,977	1,997	7,856
Germany	206,866	1,384	2,114
USA	105,346	22,685	1,041
Other OECD countries	546,924	20,390	4,595
Other countries	78,984	3,984	55,839
	2,833,740	2,260,110	439,160
Unallocated assets/liabilities	3,031	17,513	-
	2,836,771	**2,277,623**	**439,160**
As at 31 December 2002			
Bulgaria	1,110,452	2,092,096	230,236
Germany	438,380	2,202	5,116
Italy	324,234	2,532	14,755
USA	161,045	8,660	2,311
Other OECD countries	607,850	12,563	6,605
Other countries	57,008	22,282	5,814
	2,698,969	2,140,335	264,837
Unallocated assets/liabilities	23,011	68,396	-
	2,721,980	**2,208,731**	**264,837**

The Bank's loan portfolio is exposed to different sectors of the Bulgarian economy. However, credit risk is well spread over a diversity of individual and commercial customers.

C. Market risk

The Bank assumes in a prudent manner exposures to market risks, arising from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Bank estimates the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Bank applies limits on the value of risk that may be accepted, which is monitored on a regular basis.

D. Currency risk

The Bank assumes exposures to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Bank applies limits on the level of exposure by currency which are monitored regularly.

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2003. Included in the table are the Bank's assets and liabilities at carrying amounts, categorized by currency.

Thousands of BGN

As at 31 December 2003	BGN	USD	EUR	Other currencies	Total (net)
Assets					
Cash and balances with Central bank	146,167	39,691	13,984	9,540	**209,382**
Due from other banks	1,520	469,015	254,732	31,909	**757,176**
Trading securities	34,650	-	23,384	-	**58,034**
Derivative financial instruments	-	2,862	9,859	-	**12,721**
Loans and advances to customers	582,378	119,983	544,512	568	**1,247,441**
Investment securities, held-to-maturity	32,717	86,993	148,825	-	**268,535**
Investment securities, available-for-sale	72,855	3,168	29,305	-	**105,328**
Other assets	2,238	79	714	-	**3,031**
Property and equipment	175,123	-	-	-	**175,123**
Total Assets	**1,047,648**	**721,791**	**1,025,315**	**42,017**	**2,836,771**
Liabilities					
Due to other banks	517	10,582	2,074	452	**13,625**
Derivative financial instruments	25	2,780	101	-	**2,907**
Due to customers	666,043	716,212	754,956	40,570	**2,177,781**
Other liabilities	17,181	3,879	805	70	**21,935**
Deferred tax	13,498	-	-	-	**13,498**
Other provisions	47,877	-	-	-	**47,877**
Total Liabilities	**745,141**	**733,454**	**757,936**	**41,092**	**2,277,623**
Net Position	**302,507**	**(11,663)**	**267,379**	**925**	**559,148**
Commitments	122,822	111,090	144,371	60,877	**439,160**
As at 31 December 2002					
Total Assets	**785,214**	**939,177**	**957,036**	**40,553**	**2,721,980**
Total Liabilities	**572,118**	**957,482**	**637,498**	**41,633**	**2,208,731**
Net Position	**213,096**	**(18,305)**	**319,538**	**(1,080)**	**513,249**
Commitments	141,805	71,587	45,271	6,174	**264,837**

E. Interest rate risk

The Bank applies limits on the overall interest rate exposure that may be undertaken, which is monitored regularly. The Management is satisfied that the Bank's position is such that exposure to movements in interest rates is minimised.

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

Thousands of BGN

As at 31 December 2003	Up to 1 month	1-3 months	3-12 months	Over 1 year	Non-interest bearing	Total
Assets						
Cash and balances with Central bank	-	-	-	-	209,382	**209,382**
Due from other banks	611,977	7,775	25,171	112,253	-	**757,176**
Trading securities	-	-	3,954	54,080	-	**58,034**
Derivatives	-	-	-	17	12,704	**12,721**
Loans and advances to customers	742,738	51,368	264,437	188,898	-	**1,247,441**
Investment securities, held-to-maturity	20,074	5,861	29,718	212,882	-	**268,535**
Investment securities, available-for-sale	-	9,866	-	88,400	7,062	**105,328**
Other assets	-	-	-	-	3,031	**3,031**
Property and equipment	-	-	-	-	175,123	**175,123**
Total Assets	**1,374,789**	**74,870**	**323,280**	**656,530**	**407,302**	**2,836,771**
Liabilities						
Due to other banks	12,696	929	-	-	-	**13,625**
Derivatives	-	-	-	268	2,638	**2,906**
Due to customers	1,839,608	130,414	197,056	10,703	-	**2,177,781**
Other liabilities	-	-	-	-	21,936	**21,936**
Deferred tax	-	-	-	-	13,498	**13,498**
Other provisions	-	-	-	-	47,877	**47,877**
Total Liabilities	**1 852,304**	**131,343**	**197,056**	**10,971**	**85,949**	**2,277,623**
Total interest sensitivity gap	**(477,515)**	**(56,473)**	**126,224**	**645,559**	**321,353**	**559,148**

The table below summarises the interest rate by major currencies for monetary financial instruments for 2003.

2003	BGN	EUR	USD
Assets			
Current accounts	-	1.26%	0.58%
Due from other banks	2.68%	2.45%	1.45%
Trading securities	6.26%	3.18%	5.03%
Loans and advances to customers	9.71%	7.84%	7.30%
Investment securities	6.60%	3.46%	4.89%
Liabilities			
Time deposits from other banks	2.37%	1.35%	0.80%
Current accounts of other banks	0.20%	0.31%	0.10%
Time deposits from customers	3.12%	1.63%	1.09%
Current accounts of customers	0.22%	0.42%	0.18%

Thousands of BGN

As at 31 December 2003	Up to 1 month	1-3 months	3-12 months	Over 1 year	Non-interest bearing	Total
Assets						
Cash and balances with Central bank	-	-	-	-	153,793	**153,793**
Due from other banks	1,027,053	111,306	31,805	-	-	**1,170,164**
Trading securities	12,687	1,805	15,384	94,481	-	**124,357**
Loans and advances to customers	23,459	44,622	528,264	235,662	-	**832,007**
Investment securities, held-to-maturity	13,256	4,209	35,888	180,320	-	**233,673**
Investment securities, available-for-sale	19,652	-	-	33,015	7,070	**59,737**
Other assets	-	-	-	-	10,677	**10,677**
Property and equipment	-	-	-	-	137,572	**137,572**
Total Assets	**1,096,107**	**161,942**	**611,341**	**543,478**	**309,112**	**2,721,980**
Liabilities						
Due to other banks	59,631	-	575	112	-	**60,318**
Due to customers	1,734,478	144,142	169,653	1,684	-	**2,049,957**
Other liabilities	-	-	-	-	16,734	**16,734**
Deferred tax	-	-	-	-	21,784	**21,784**
Other provisions	-	-	-	-	59,938	**59,938**
Total Liabilities	**1,794,109**	**144,142**	**170,228**	**1,796**	**98,456**	**2,208,731**
Total interest sensitivity gap	**(698,002)**	**17,800**	**441,113**	**541,682**	**210,656**	**513,249**

The table below summarises the interest rate by major currencies for monetary financial instruments for 2002.

2002	BGN	EUR	USD
Assets			
Current accounts	-	1.80%	1.00%
Due from other banks	-	3.02%	1.46%
Trading securities	6.51%	4.77%	4.15%
Loans and advances to customers	9.90%	8.70%	8.34%
Investment securities	6.73%	4.93%	4.32%
Liabilities			
Time deposits from other banks	-	-	1.01%
Current accounts of other banks	0.20%	0.31%	0.10%
Time deposits from customers	3.06%	1.33%	0.77%
Current accounts of customers	0.19%	0.29%	0.09%

F. Liquidity risk

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

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

Thousands of BGN

As at 31 December 2003	Up to 1 month	1-3 months	3-12 months	Over 1 year	Non-stated maturity	Total
Assets						
Cash and balances with Central bank	209,382	-	-	-	-	**209,382**
Due from other banks	582,081	4,718	23,228	147,149	-	**757,176**
Trading securities	-	-	3,954	54,080	-	**58,034**
Derivatives	-	-	-	-	12,721	**12,721**
Loans and advances to customers	114,151	49,674	270,369	813,247	-	**1,247,441**
Investment securities, held-to-maturity	3,293	-	29,718	235,524	-	**268,535**
Investment securities, available-for-sale	-	-	-	98,266	7,062	**105,328**
Other assets	-	-	-	-	3,031	**3,031**
Property and equipment	-	-	-	-	175,123	**175,123**
Total Assets	**908,907**	**54,392**	**327,269**	**1,348,266**	**197,937**	**2,836,771**
Liabilities						
Due to other banks	9,377	929	-	3,319	-	**13,625**
Derivatives	-	-	-	-	2,906	**2,906**
Due to customers	894,393	135,174	196,598	951,616	-	**2,177,781**
Other liabilities	-	-	-	-	21,936	**21,936**
Deferred tax	-	-	-	-	13,498	**13,498**
Other provisions	-	-	-	-	47,877	**47,877**
Total Liabilities	**903,770**	**136,103**	**196,598**	**954,935**	**86,217**	**2,277,623**
Net Liquidity Gap	**5,137**	**(81,711)**	**130,671**	**393,331**	**111,720**	**559,148**
As at 31 December 2002						
Total Assets	**1,215,287**	**161,199**	**334,456**	**873,466**	**137,572**	**2,721,980**
Total Liabilities	**1,060,251**	**152,720**	**174,651**	**805,998**	**15,111**	**2,208,731**
Net Liquidity Gap	**155,036**	**8,479**	**159,805**	**67,468**	**122,461**	**513,249**

G. Fair values of financial assets and liabilities

International Accounting Standards 32 “Financial Instruments: Disclosure and Presentation”, requires disclosure of information about fair value of the financial assets and liabilities. In the notes to the financial statements fair value for this purpose is defined as the amount for which an asset can be exchanged, or a liability settled, between knowledgeable, willing parties in an arm length transaction. Sufficient market experience, stability and liquidity do not currently exist for certain purchases and sales of loans and other financial assets or liabilities for which published market information is not readily available. Accordingly, their fair values cannot be readily determined. In the opinion of the Management, their reported carrying amounts are the most valid and useful reporting value in the circumstances.

Management has estimated that the fair value of certain balance sheet instruments is not materially different from their recorded values. These balance sheet instruments include cash, nostros and term deposits, placements with banks and other financial institutions, securities held for trading, debt securities classified as available-for-sale investments, deposits from banks and other financial institutions, current accounts and deposits from customers, and other short-term assets and liabilities which are of contractual nature.

3. Net Interest Income

Thousands of BGN

	2003	2002
Interest Income		
Banks	18,564	29,016
Loans and advances to customers	81,857	47,169
Investment securities	15,222	30,488
Trading securities	3,549	6,076
	119,192	112,749
Interest Expense		
Due to other banks	(614)	(600)
Due to customers	(20,595)	(21,018)
Other	(9)	(19)
	(21,218)	(21,637)
	97,974	**91,112**

4. Net Fee and Commission Income

Thousands of BGN

	2003	2002
Fee and commission income		
Lending	13,402	10,142
Clean payments	13,228	12,109
Card transactions	4,843	4,391
Cash operations	4,474	4,807
Opening and maintenance of accounts	4,359	3,983
Documentary operations	3,186	3,210
Packages	1,586	1,153
Electronic banking	323	294
Agency commissions	31	1,665
Other	1,773	1,692
	47,205	43,446
Fee and commission expense		
Card transactions	(1,600)	(1,423)
Maintenance of correspondent accounts	(480)	(549)
Other	(354)	(415)
	(2,434)	(2,387)
	44,771	**41,059**

5. Gains less Losses from Trading Securities

Thousands of BGN

	2003	2002
Gains less losses from trading operations	1,273	1,075
Market revaluation of securities, net	241	2,410
	1,514	**3,485**

6. Gains less Losses from Investment Securities

Thousands of BGN

	2003	2002
Gains less losses from operations	7,579	7,914
Market revaluation of securities, net	2,808	1,243
	10,387	**9,157**

7. Gains less Losses from Foreign Currencies

Thousands of BGN

	2003	2002
Foreign exchange transaction gains less losses	7,552	7,091
Net gains less losses on currency options trading	(646)	(7)
Foreign exchange revaluation gains less losses	709	11
	7,615	**7,095**

8. Operating Expenses

Thousands of BGN

	2003	2002
Staff costs (Note 9)	(27,145)	(26,658)
Depreciation (Note 22)	(9,574)	(10,170)
Deposit insurance	(8,263)	(8,323)
IT maintenance	(5,235)	(4,781)
External services	(4,419)	(3,189)
Post and telephone	(2,073)	(1,843)
Repairs and maintenance	(2,012)	(1,515)
Stationery	(1,502)	(1,288)
Levies and taxes	(1,147)	(860)
Heating and lighting	(1,084)	(1,056)
Advertising	(1,063)	(608)
Rents	(799)	(773)
Representative offices	(95)	(443)
Other	(1,876)	(1,481)
	(66,287)	**(62,988)**

9. Staff Costs

Thousands of BGN

	2003	2002
Wages and salaries, including incentive schemes	(20,843)	(20,874)
Social security cost	(6,302)	(5,784)
	(27,145)	**(26,658)**

The average number of persons employed by the bank during the year was 2,057 (2,110 in 2002).

10. Write-backs of provisions

Thousands of BGN

	2003	2002
On-balance sheet (Note 30)		
Due from other banks	33	40
Loans and advances to customers	2,269	653
Other assets	470	141
	2,772	834
Off-balance sheet – contingent liabilities and commitments (Note 30)	11,934	8,170
	14,706	**9,004**

11. Other Operating Income

Thousands of BGN

	2003	2002
Other operating income		
Disposal of property and equipment	6,781	294
Write-off of long-term dormant positions	2,830	4,797
Vaults	654	694
Court proceeds	187	140
Armoured car transportation services	178	127
Rental services	106	126
Other	1,035	429
	11,771	6,607
Other operating expense		
Charities and contributions	(134)	(126)
Other	(235)	(198)
	(369)	(324)
	11,402	**6,283**

12. Income Tax Expense

Taxation is payable at a statutory rate of 23.5% on adjusted profits under the annual tax return prepared under the Bulgarian tax law. Deferred tax is calculated using a tax rate of 19.5% to be effective from 1st of January 2004.

The breakdown of tax charges in the income statement is as follows:

Thousands of BGN

	2003	2002
Current tax	37,199	29,317
Deferred tax (Note 26)	(8,142)	(4,240)
	29,057	**25,077**

The tax on the Bank's profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

Thousands of BGN

	2003	2002
Profit before tax	122,082	104,207
Theoretical tax calculated at tax rate of 23.5%	28,689	24,489
Expenses not deductible for tax purposes	368	588
	29,057	**25,077**

13. Cash and Balances with Central Bank

Thousands of BGN

	2003	2002
Cash in hand	48,588	29,538
Precious metals	2	2
Current account with Central Bank	12,940	-
Statutory minimum required reserve with Central bank	147,852	124,253
	209,382	**153,793**

The balances held with the Central Bank are operational, serving inter-bank domestic commercial transactions of the Bank in Bulgarian Leva. In accordance with the regulations, those funds maintained with the Central Bank did not earn interest during 2003 and 2002.

Commercial banks in Bulgaria are required to maintain a minimum reserve with the Central Bank. The minimum reserve is based on a percentage of Bulgarian Leva and foreign currency funds attracted, excluding deposits due to local banks. The minimum reserve was established at 8% of deposits. The obligatory reserves denominated in Euro are held in a special reserve account while the BGN denominated component of the reserves is held on the current account maintained with the Central Bank. The Bank has access to 50% of its BGN reserve held with the Central Bank on a daily basis, but is to pay overdraft interest if the average monthly balance on the current account is less than the required reserve, until the required reserve level is restored.

14. Due from Other Banks

Thousands of BGN

	2003	2002
Time deposits (OECD countries)	610,352	1,095,805
Current accounts	5,256	21,777
Loans and advances, including securities	141,550	52,541
Overdrafts	208	264
Gross Total	**757,366**	**1,170,387**
Less provisions for impairment (Note 30)	(190)	(223)
	757,176	**1,170,164**

Due from other banks include interest receivable amounting to BGN 2,121 thousand for 2003 and BGN 3,273 thousand for 2002.

15. Trading Securities

Thousands of BGN

	2003	2002
Government bonds (Bulgaria)	34,650	94,806
Government bonds (Other countries)	23,384	29,551
	58,034	**124,357**

Trading securities include interest receivable amounting to BGN 1,665 thousand for 2003 and BGN 1,869 thousand for 2002.

16. Derivative Financial Instruments

The Bank utilises interest rate swaps representing commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of interest rates (for example, fixed rate for floating rate) and no exchange of principal takes place. The Bank's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, the notional amount of the contracts and the liquidity of the market.

Credit derivatives are agreements where the Bank buys or sells credit protection.

Currency forwards represent commitments to purchase or sale foreign and domestic currency, including undelivered spot transactions.

Currency options, are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date, a specific amount of a foreign currency at a predetermined price. In consideration for the assumption of foreign exchange risk, the seller receives a premium from the purchaser. Options may be either exchange-traded or negotiated between the bank and a customer (OTC).

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The fair values of outstading derivative instruments held are set out in the following table.

Thousands of BGN

	Contract /notional amount	Fair values Assets	Fair values Liabilities
Year ended 31 December 2003			
Currency forwards	13,993	7	32
Currency options	58,593	2,522	2,522
Credit default swap	81,903	1,875	-
Interest rate swap	44,740	8,317	268
Future contracts	5,867	-	84
	205,096	**12,721**	**2,906**
Year ended 31 December 2002			
Currency options	58,675	320	-
Interest rate swap	19,519	5,628	-
	78,194	**5,948**	**-**

17. Loans and Advances to Customers

The detail of the balances of this caption by type of customer is as follows:

Thousands of BGN

	2003	2002
Loans and advances		
Private enterprises	778,296	487,646
State owned enterprises	52,555	23,600
Private individuals	70,271	33,627
	901,122	544,873
Government and other debt securities		
Bulgarian Government debt securities	177,112	167,094
Other Government debt securities (OECD countries)	202,385	155,486
	379,497	322,580
Gross Total	**1,280,619**	**867,453**
Less provisions for impairment (Note 30)	(33,178)	(35,446)
	1,247,441	**832,007**

Loans and advances to customers include interest receivable amounting to BGN 9,280 thousand for 2003 and BGN 5,468 thousand for 2002.

The breakdown, by industry, of the commercial loan portfolio, before provisions, is as follows:

Thousands of BGN

	2003	2002
Processing and manufacturing	414,682	254,356
Commerce	209,804	126,351
Tourism	125,143	76,683
Households	61,545	27,776
Agriculture	33,785	17,305
Transport	26,463	13,751
Construction	15,005	14,847
Services	14,683	13,654
Other	12	150
	901,122	**544,873**

The ten largest loan exposures amount to BGN 272,530 thousand or 30% of the commercial loan portfolio, (2002: BGN 153,028 thousand or 28% of the commercial loan portfolio).

18. Investment Securities, Held-to-Maturity

Thousands of BGN

	2003	2002
Government Bonds (OECD countries)	33,425	71,451
Agency Bonds	53,791	73,798
Corporate Bonds	66,346	5,864
Government Bonds (non OECD countries)	18,101	17,669
Government Bonds (Bulgaria)	96,872	64,891
	268,535	**233,673**

Investment securities, held-to-maturity include interest receivable amounting to BGN 5,156 thousand for 2003 and BGN 6,473 thousand for 2002.

Corporate bonds represent investments in financial institutions with the lowest credit rating of AA-.

19. Investment Securities, Available-for-Sale

Thousands of BGN

	2003	2002
Debt Securities, at fair value	98,266	52,667
Equity Securities, at cost (Note 20)	7,062	7,070
	105,328	**59,737**

Investment securities, available-for-sale include interest receivable amounting to BGN 2,430 thousand for 2003 and BGN 1,199 thousand for 2002.

The movement of investment securities is as follows:

Thousands of BGN

	2003	2002
Balances at the beginning of the year	293,410	221,077
Disposals (sale and redemption)	(164,726)	(193,463)
Purchases	265,356	281,217
Exchange rate adjustment	(19,884)	(15,337)
Carrying value adjustment	(293)	(84)
Balances at the end of the year	**373,863**	**293,410**

20. Equity Securities

The list of the equity securities at 31 December 2003 is as follows:

Thousands of BGN

	2003		2002	
	Carrying value	Share in %	Carrying value	Share in %
Orel-G Holding	5,105	19.3	5,105	19.3
ZPAD Bulstrad	1,212	8.6	1,212	8.6
Bankservice	357	7.1	357	7.1
BZOK Zakrila	200	10.0	200	10.0
POK Saglasie	159	6.0	159	6.0
SWIFT	12	-	20	-
Free Trade Zone	12	5.7	12	5.7
Central Depository	3	3.0	3	3.0
Bulgarian Stock Exchange	1	0.4	1	0.4
Bulgarhydroponik	1	24.8	1	24.8
	7,062		**7,070**	

Through 2003 Bulbank has sold its participation in Euroclear and realised capital gain of BGN 63 thousand.

21. Other Assets

Thousands of BGN

	2003	2002
Settlements	2,601	3,376
Prepayments	746	1,121
Materials	557	918
Receivables on overpaid taxes	-	434
Other	628	1,141
Gross Total	**4,532**	**6,990**
Less provisions (Note 30)	(1,501)	(2,261)
	3,031	**4,729**

22. Property and Equipment

Thousands of BGN

	Land and Buildings	Equipment	Software	Construction in progress	Total
Movement, incl. revaluation					
Balance at 1 January 2002	114,219	31,659	5,372	560	**151,810**
Additions	26	5,781	1,118	24,178	**31,103**
Disposals	(10)	(764)	(228)	-	**(1,002)**
Transfers	-	-	534	(534)	**-**
Balance at 31 December 2002	114,235	36,676	6,796	24,204	**181,911**
Additions	50	1,951	-	38,795	**40,796**
Disposals	(5,616)	(1,284)	(2,264)	-	**(9,164)**
Transfers	-	1,737	8,350	(10,087)	**-**
Revaluation	(1,292)	-	-	-	**(1,292)**
Balance at 31 December 2003	**107,377**	**39,080**	**12,882**	**52,912**	**212,251**
Accumulated depreciation					
Balance at 1 January 2002	14,585	18,688	1,731	-	**35,004**
Charge for the year	4,609	4,679	882	-	**10,170**
Disposals	-	(709)	(126)	-	**(835)**
Balance at 31 December 2002	19,194	22,658	2,487	**-**	**44,339**
Charge for the year	3,386	5,198	990	-	**9,574**
Disposals	(927)	(1,111)	(433)	-	**(2,471)**
Revaluation	(14,314)	-	-	-	**(14,314)**
Balance at 31 December 2003	**7,339**	**26,745**	**3,044**	**-**	**37,128**
Net Book Value					
Balance at 31 December 2002	**95,041**	**14,018**	**4,309**	**24,204**	**137,572**
Balance at 31 December 2003	**100,038**	**12,335**	**9,838**	**52,912**	**175,123**

At the end of 2003 the Bank performed revaluation of land and buildings based on professional and independent appraisal. The revaluation was recorded in accordance with IAS 16 "Property, Plant and Equipment".

The total net amount of increase in the carrying value due to this revaluation is BGN 13,023 thousand. The amount of BGN 10,483 thousand is credited to revaluation reserve and BGN 2,540 thousand to deferred tax account (see Note 26).

23. Due to Other Banks

	2003	2002
	Thousands of BGN	
Current accounts		
Foreign banks	1,719	1,516
Local banks	7,119	11,020
	8,838	12,536
Time deposits – local banks	3,596	9,050
Transfers in transit	489	575
Loans and advances	-	112
Settlements	702	38,045
	4,787	47,782
	13,625	**60,318**

The main decrease in settlements (BGN 37, 497 thousand for 2002) is due to the change in the principle of processing outgoing international customer transfers, related to the implementation of a new IT application tool.

24. Due to Customers

	2003	2002
	Thousands of BGN	
By type of customer		
Private individuals	1,051,661	1,083,564
Companies and other entities	1,126,120	966,393
	2,177,781	**2,049,957**
By type of instrument		
Current accounts	945,841	769,030
Time deposits	1,144,074	1,155,053
Cover accounts	70,901	89,026
Transfers in transit	16,965	36,848
	2,177,781	**2,049,957**

Due to customers include interest payable amounting to BGN 3,855 thousand for 2003 and BGN 2,776 thousand for 2002.

The decrease in transfers in transit account is due to the introduction of the Real Time Interbank Gross Settlement System (RINGS) by the Central Bank for processing domestic payments in local currency.

25. Other Liabilities

	2003	2002
	Thousands of BGN	
Deposit insurance premium	8,263	8,323
Transfers, subject to further execution	5,512	3,174
Accrued staff cost	4,749	4,175
Tax payable	3,156	894
Dividends payable	133	168
Other	123	-
	21,936	**16,734**

26. Deferred Income Tax

Deferred income taxes are calculated on all temporary differences under the liability method using an anticipated statutory tax rate of 19.5%.

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

Thousands of BGN

	2003	2002
Deferred income tax liabilities		
Property and equipment	15,540	15,111
Provision for due from banks	-	7,989
Provision for loans and advances to customers	-	640
	15,540	23,740
Deferred income tax assets		
Other provisions	(189)	-
Other liabilities	(242)	-
Accrual on deposit insurance premium	(1,611)	(1,956)
	(2,042)	(1,956)
	13,498	**21,784**

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

Thousands of BGN

	2003	2002
Property and equipment	485	(368)
Provision for due from banks	(7,989)	(2,331)
Provision for loans and advances to customers	(640)	(768)
Other provisions	(189)	(794)
Accruals	187	128
Other temporary differences	4	(107)
	(8,142)	**(4,240)**

The movement on the deferred income tax account is as follows:

Thousands of BGN

	2003	2002
Balances at 1 January	21,784	26,024
Decrease of the net tax liability – in Income Statement	(8,142)	(4,240)
Increase of the tax liability due to revaluation of fixed assets	2,863	-
Decrease of the net tax liability due to change in the tax rate	(3,007)	-
Balance at 31 December	**13,498**	**21,784**

In 2003 the Tax Authorities carried out a full-scope tax audit at the Company for the years 1997 to 2001.

The tax authorities may at any time inspect the books and records within 5 years subsequent to the reported tax year, and may impose additional tax assessments and penalties. The Company's management is not aware of any circumstances which may give rise to a potential material liability in this respect.

27. Other Provisions

Provisions on letters of guarantee and letters of credit relate to claimed financial guarantees and letters of credit, which are in process of dispute with the relevant counterparties. The provisions on outstanding and probable court proceedings relate to court claims made against the bank, which are also subject to dispute. The timing of utilising these provisions is uncertain and depends on the future developments on the relevant cases.

Thousands of BGN

	2003	2002
Provisions on letters of guarantee and letters of credit	33,326	39,321
Provisions on outstanding and probable court proceedings	14,551	20,617
	47,877	59,938

28. Contingent Liabilities and Commitments

Off-balance sheet commitments. The following table indicates the contractual amounts of the Bank's off-balance sheet financial instruments before provisions that commit it to extend credit to customers or to cover customer's liability. Provisions in respect of this disclosure are disclosed in Note 27.

Thousands of BGN

	2003	2002
Letters of credit and letters of guarantee	205,106	152,778
Credit commitments	234,054	112,059
	439,160	**264,837**

Assets pledged. Assets are pledged as collateral related to deposits of budgetary organisations. Mandatory reserve deposits are also held with the Central Bank in accordance with statutory requirements. These deposits are limited to the Bank's use in day to day operations.

Thousands of BGN

	Asset		Related Liability	
	2003	2002	2003	2002
Balances with Central bank (Note 13)	147,852	124,253	-	-
Securities related to deposits of budgetary organisations	416,806	298,564	406,653	298,229
	564,658	**422,817**	**406,653**	**298,229**

29. Shareholders' Equity

Share Capital

As at 31 December 2003, the share capital of Bulbank AD consisted of 166,370,160 fully subscribed and paid registered shares of BGN 1 face value each with the same voting and dividend rights.

A summary table with the structure of shareholding at 31 December 2003, is as follows:

	2003		2002	
Shareholder	Number of Shares	Shareholding %	Number of Shares	Shareholding %
UniCredito Italiano SpA	141,743,445	85.2	141,743,445	85.2
International Finance Corporation	8,817,618	5.3	8,817,618	5.3
Allianz AG	8,318,295	5.0	8,318,295	5.0
Simest SpA	4,159,254	2.5	4,159,254	2.5
Financial institutions	1,531,384	0.9	1,531,384	0.9
Businesses and non-commercial organisations	1,441,250	0.9	1,441,250	0.9
Private individuals	358,914	0.2	358,914	0.2
	166,370,160	**100.0**	**166,370,160**	**100.0**

30. Provisions

The table below summarises the provisions for on-balance sheet and off-balance sheet positions:

Thousands of BGN

	2003	2002
On-balance sheet		
Due from banks (Note 14)	190	223
Loans and advances to customers (Note 17)	33,178	35,446
Other assets (Note 21)	1,501	2,261
	34,869	37,930
Off-balance sheet (Note 27)	47,877	59,938
Total Provisions	**82,746**	**97,868**

The movement of provisions is as follows:

Thousands of BGN

	2003	2002
On-balance sheet		
Balance at 1 January	37,930	38,785
Provision increase/(decrease) - (Note 10)		
Provision increase	11,607	12,798
Provision decrease	(14,379)	(13,632)
	(2,772)	(834)
Write-offs	(289)	(21)
Balances at 31 December	**34,869**	**37,930**
Off-balance sheet		
Balance at 1 January	59,938	68,108
Provision increase/(decrease) - (Note 10)		
Provision increase	967	2,475
Provision decrease	(12,901)	(10,645)
	(11,934)	(8,170)
Write-offs	(127)	(21)
Balances at 31 December	**47,877**	**59,938**

31. Cash and Cash Equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition including: cash, balances with the Central Bank excluding the statutory minimum required reserve, and amounts due from other banks:

Thousands of BGN

	2003	2002
Cash in hand (Note 13)	48,588	29,538
Demand deposits with banks	5,256	21,717
Time deposits with banks up to 90 days	585,215	1,062,957
	639,059	**1,114,212**

32. Related Party Transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The Bank is subject to such influence by UniCredito Italiano SpA. A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits, securities purchased and other transactions. These transactions were carried out on commercial terms and conditions and at market rates. The volumes of related party transactions with UniCredito Italiano Group members as well as with members of Management Board and Supervisory Board outstanding at the year end are as follows:

Thousands of BGN

	UniCredito Italiano Group		Management Board and Supervisory Board	
	2003	2002	2003	2002
Loans and short term placements	237,767	298,517	76	110
Securities purchased	9,773	-	-	-
Interest income earned	5,759	8,661	8	9
Deposits	151	-	799	932
Operating expenses	1,846	893	-	-
Commission expenses	112	-	-	-
Derivatives at fair value (asset)	2,529	-	-	-
Derivatives at fair value (liability)	251	-	-	-
Letters of Guarantee issued in favour of Bulbank	16,506	13,497	-	-
Letters of Guarantee issued by Bulbank	349	1,120	-	-

In 2003, the total remuneration of the members of the Management Board was BGN 1,377 thousand (2002: BGN 1,563 thousand). The remuneration of the members of the Supervisory Board was BGN 14 thousand. Only one of the members of the Management Board owns 1,482 ordinary shares with nominal value of BGN 1,482.

33. Post Balance Sheet Events

On February 10, 2004 the Bank acquired the leasing company Unileasing OOD, with total net assets of BGN 57 thousand, and its wholly owned subsidiary Unileasing Auto OOD.

GENERAL INFORMATION

Basic information for Bulbank

Establishment *April 1 1964*

Major shareholders

Shareholder	December 31 2003	
	Number of shares	Share in %
UniCredito Italiano SpA	141 743 445	85.2
International Financial Corporation	8 817 618	5.3
Alianz AG	8 318 295	5.0
Simest SpA	4 159 254	2.5

Scope of activities

The bank holds a full banking license from the Bulgarian National Bank, thereby entitled to conduct all types of banking transactions permitted by the laws of Bulgaria. It is an universal bank providing a wide range of services to business, private individuals and institutions:

- Loans
- Deposits and savings accounts, icluding structured products
- Clean payments
- Documentary payments and trade finance
- Foreign exchange operations
- Securities trading and custody
- Asset management, including sales of mutual funds
- Life insurance products
- Cash management
- Derivatives
- Bank cards
- Mass payments
- Electronic services
- Financial advisory

Market position

Bulbank is the largest Bulgarian bank by:

- assets
- equity
- customer deposits
- cross-border payments

Standard & Poor's Credit Rating

Counterparty credit rating	BB+ / Stable / B (equal to the sovereign rating of Bulgaria)
Long term CD	BB+
Short term CD	B

Financial highlights for the period 1999-2003

(Thousands of BGN, unless otherwise stated)

	2003	2002	2001	2000	1999
Key figures					
Net profit	93 025	79 130	68 912	160 065	71 582
Shareholders' equity (end of period)	559 148	513 249	490 479	602 776	544 220
Total assets (end of period)	2 836 771	2 721 980	2 731 686	2 559 476	2 326 968
Earnings per share (in BGN)	0,56	0,48	0,41	0,96	0,43
Income					
Net interest income	97 974	91 112	99 613	97 301	66 024
Net fee and commission income	44 771	41 059	30 359	28 957	28 939
Gains from securities	11 901	12 642	8 226	19 037	23 291
Gains from foreign currencies	7 615	7 095	5 046	3 262	44 888
Total revenues	173 663	158 192	145 086	149 688	177 825
Profit before tax	122 082	104 207	87 480	204 725	108 955
Expenses					
Operating expenses	66 287	62 988	55 775	59 662	41 134
HR costs	27 145	26 658	27 722	30 452	21 177
Non-HR costs	29 568	26 160	28 053	29 210	19 957
Depreciation	9 574	10 170	10 675	10 274	10 429
Provisions increase/(decrease)	(14 706)	(9 004)	(8 844)	29 944	23 399
Tax	29 057	25 077	18 568	44 660	37 372
Ratios (%)					
Return on average assets (ROA)	3,4	2,9	2,5	6,5	3,2
Return on average equity (ROE)	18,0	16,2	13,5	29,5	14,1
Capital/Asset ratio (end of period)	19,7	18,9	18	23,6	23,4
BIS total capital ratio (end of period)	34,8	40,5	36,9	37,7	54,5
BIS tier 1 capital ratio (end of period)	30,1	36,4	33,2	33,5	51,5
Risk weighted assets/Total assets ratio (end of period)	48,9	38,0	42,1	42,5	40,4
Cost/Income ratio[1]	38,2	39,8	46	46,7	29
Resources (number) - (end of period)					
Points of sale	91	91	98	105	80
Employees	2 026	2 060	2 050	2 084	1 928
Foreign exchange rate at period-end (BGN/USD)	1,549	1,885	2,2193	2,10191	1,9469
Average annual exchange rate over the period (BGN/USD)	1,807	2,077	2,185	2,12314	1,8214

[1] Cost/Income ratio includes depreciation in the nominator.

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[1] Remote work places are one- or two-men distant outlets.

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2. Airport-Burgas
3. Assenovgrad
4. Botevgrad
5. Customs Plovdiv
6. Customs Sofia
7. Dimitrovgrad
8. Dupnitsa
9. Gotse Delchev
10. Janko Sakazov, Sofia
11. Karlovo
12. Kazanlak
13. Kneja
14. Levski
15. Lom
16. Maritsa, Plovdiv
17. Montana
18. Nadejda, Sofia
19. Nova Zagora
20. Panagyurishte
21. Peshtera
22. Petrich
23. Port Burgas
24. Radnevo
25. Rodopi, Plovdiv
26. Rodopski izvor, Sofia
27. Sevlievo
28. Shipka, Varna
29. Silistra
30. Sozopol
31. Sungurlare
32. Svilengrad
33. Svishtov
34. Trakia, Plovdiv
35. Troyan
36. Tsarevo
37. Velingrad

Remote work places[1]

1. Balkan, Sofia
2. Customs, Rousse
3. Danube Bridge, Rousse
4. Dragoman
5. KAT Haskovo
6. KAT Pazardjik
7. Malko Tarnovo
8. Municipality Haskovo
9. Nesebar
10. Regional Police Department, Dimitrovgrad
11. Regional Police Department, Haskovo
12. Regional Police Department, Pazardjik
13. Regional Police Department, Vidin
14. SOMAT, Vidin
15. Sopharma
16. Terminal, Rousse
17. Terminal, Sofia
18. VITRADE Vidin
19. Western industrial zone, Rousse

Total number of outlets - 91.